

# Internal Audit Charter

Lockhart Shire Council has established the Internal Audit function as a key component of the Council's governance and assurance framework, in compliance with the *Local Government (General) Regulation 2021* and the Departmental Chief Executive's *Guidelines for risk management and internal audit for local government in NSW*.

This charter provides the framework for the conduct of internal audit function at Lockhart Shire and has been approved by the governing body taking into account the advice of the Council's Audit, Risk and Improvement Committee (ARIC).

## Purpose of internal audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps Lockhart Shire Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes<sup>1</sup>.

The mission of Internal Audit is to enhance and protect organisational value. This is achieved by providing an independent and objective review and advisory service to the Council, General Manager and ARIC about the Council's governance processes, risk management and control frameworks and its external accountability obligations. It also assists Lockhart Shire to improve its business performance.

Internal Audit services may include:

- Assurance Services – objective examination of evidence for the purpose of providing an independent assessment of risk management, control and governance processes.
- Advisory Services – advisory and related client activities, the nature and scope of which are agreed upon with the client and which are intended to add value and improve business operations.

## Independence

Council's internal audit function is to be independent of Lockhart Shire Council so it can provide an unbiased assessment of the Council's operations and risk and control activities.

The internal audit function reports functionally to the Council's ARIC on the results of completed audits, and for strategic direction and accountability purposes, and reports administratively to the Director Corporate and Community Services to facilitate day-to-day operations. Internal audit activities are not subject to direction by the Lockhart Shire Council and Council's management has no role in the exercise of the internal audit activities.

The ARIC is responsible for communicating any internal audit issues or information to the Council. Should the Council require additional information, a request for the information may be made to the chair by resolution. The chair is only required to provide the information requested by the Council where the chair is satisfied that it is reasonably necessary for the Council to receive the information for the purposes of performing its functions under the Local Government Act. Individual Councillors are not entitled to request or receive information from the committee.

The General Manager must consult with the chair of the ARIC before appointing or making decisions affecting the employment of the Internal Audit Coordinator. If the Internal Audit Coordinator is dismissed, the General Manager must report the reasons for their dismissal to the Council.

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<sup>1</sup> As defined by the International Standards for the Professional Practice of Internal Auditing (2017)

Where the chair of the ARIC has any concerns about the treatment of the Internal Audit Coordinator, or any action taken that may compromise their ability to undertake their functions independently, they can report their concerns to the Council.

The Internal Audit Coordinator is to confirm at least annually to the ARIC the independence of internal audit activities from the Lockhart Shire Council.

## Authority

Lockhart Shire Council authorises the internal auditor to have full, free and unrestricted access to all functions, premises, assets, personnel, records and other documentation and information that the Internal Audit Coordinator considers necessary for the internal auditor to undertake its responsibilities.

All records, documentation and information accessed while undertaking internal audit activities are to be used solely for the conduct of those activities. The head of internal audit function and individual internal audit staff are responsible and accountable for maintaining the confidentiality of the information they receive when undertaking their work.

All internal audit documentation is to remain the property of Lockhart Shire Council, including where internal audit services are performed by an external third-party provider.

Information and documents pertaining to Internal Audit are not to be made publicly available. The Internal Audit Coordinator may only release Lockhart Shire Council information to external parties that are assisting the internal auditor to undertake its responsibilities with the approval of the General Manager, except where it is being provided to an external investigative or oversight agency for the purpose of informing that agency of a matter that may warrant its attention.

## Role

The Internal Audit Coordinator is to support the Council's audit, risk and improvement committee to review and provide independent advice to the Lockhart Shire Council in accordance with section 428A of the *Local Government Act 1993*. This includes conducting internal audits of Lockhart Shire Council and monitoring the implementation of corrective actions.

The Internal Audit Coordinator is to also play an active role in:

- developing and maintaining a culture of accountability and integrity
- facilitating the integration of risk management into day-to-day business activities and processes, and
- promoting a culture of high ethical standards.

The Internal Audit Coordinator has no direct authority or responsibility for the activities it reviews. The Internal Audit Coordinator has no responsibility for developing or implementing procedures or systems and does not prepare records or engage in Lockhart Shire Council functions or activities (except in carrying out its own functions).

## Internal Audit Function

Council's internal audit function is to be led by a member of Bland Shire Council's staff with sufficient skills, knowledge and experience to ensure it fulfils its role and responsibilities to the Lockhart Shire Council and the ARIC. The head of internal audit function (known as Internal Audit Coordinator) must be independent, impartial, unbiased and objective when performing their work and free from any conflicts of interest.

Responsibilities of the Internal Audit Coordinator include:

- contract management
- managing the internal audit budget
- ensuring the external provider completes internal audits in line with the audit, risk and improvement committee's annual work plan and four-year strategic work plan
- forwarding audit reports by the external provider to the audit, risk and improvement committee
- acting as a liaison between the external provider and the audit, risk and improvement committee
- monitoring the Council's implementation of corrective actions that arise from the findings of audits and reporting progress to the audit, risk and improvement committee, and
- assisting the audit, risk and improvement committee to ensure the Council's internal audit activities comply with the *Guidelines for risk management and internal audit for local government in NSW*.

As the internal audit function will be provided on behalf of the six Audit Alliance councils, the Internal Audit Coordinator will be required to liaise with the General Manager and senior staff for the councils of Bland, Coolamon, Cootamundra-Gundagai, Junee, Lockhart and Temora during the establishment and delivery of each internal audit process.

Lockhart Shire Council, on behalf of the Audit Alliance, is to contract an external third-party provider to undertake its internal audit activities. To ensure the independence of the external provider, the Internal Audit Coordinator is to ensure the external provider:

- does not conduct any audits on specific Council operations or areas that they have worked on within the last two years
- is not the same provider conducting the Council's external audit
- is not the auditor of any contractors of the Council's that may be subject to the internal audit, and
- can meet the Council's obligations under the Guidelines for risk management and internal audit for local government in NSW.

The Internal Audit Coordinator must consult with the General Manager regarding the appropriateness of the skills, knowledge and experience of any external provider before they are engaged.

## Performing internal audit activities

The work of the internal audit function is to be thoroughly planned and executed. The ARIC must endorse a strategic work plan every four years to ensure that the matters listed in Schedule 1 are reviewed by Internal Audit when developing the program of internal audits. The strategic work plan must be reviewed at least annually to ensure it remains appropriate.

The ARIC must endorse an annual work plan to guide the work of the internal audit function over the forward year.

All internal audit activities are to be performed in a manner that is consistent with relevant professional standards including the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and Australian risk management standards.

The internal auditor is to provide the findings and recommendations of internal audits to the audit, risk and improvement committee at the end of each audit. Each report is to include a response from the relevant staff member responsible for the function.

The Internal Audit Coordinator is to assist each Council to establish an ongoing monitoring system to follow up progress in implementing corrective actions. The Internal Audit Coordinator will report these matters to the ARIC at each regular meeting.

The General Manager, in consultation with the ARIC, is to develop and maintain policies and procedures to guide the operation of the Council's internal audit processes.

The Internal Audit Coordinator is to ensure that the audit, risk and improvement committee is advised at each of the committee's meetings of the internal audit activities completed during that quarter, progress in implementing the annual work plan and progress made implementing corrective actions.

## Conduct and Standards

Internal audit personnel must comply with the Council's code of conduct. Complaints about breaches of Council's code of conduct by internal audit personnel are to be dealt with in accordance with the *Procedures for the Administration of the Model Code of Conduct for Local Councils in NSW*. The General Manager must consult with the audit, risk and improvement committee before any disciplinary action is taken against the Internal Audit Coordinator in response to a breach of the code of conduct.

Internal auditors must also comply with the Code of Ethics for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

## Administrative arrangements

### Audit, Risk and Improvement Committee meetings

The Internal Audit Coordinator will:

- Will attend ARIC meetings as an independent non-voting observer. The Internal Audit Coordinator can be excluded from meetings by the committee at any time.
- Must meet separately with the ARIC at least once per year.
- Can meet with the Chair of the ARIC at any time, as necessary, between committee meetings.

### Relationship with external audit

Internal and external audit activities will be coordinated to help ensure the adequacy of overall audit coverage and to minimise duplication of effort.

Periodic meetings and contact between internal and external audit shall be held to discuss matters of mutual interest and to facilitate coordination.

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

### **Dispute resolution**

Internal Auditors and the Internal Audit Coordinator should maintain an effective working relationship with Council, Council Staff and ARIC and will seek to resolve any differences they may have in an amicable and professional way by discussion and negotiation.

In the event of a disagreement between the Internal Audit and Lockhart Shire Council, the dispute is to be resolved by the General Manager and, if required, by the ARIC. Disputes between Internal Audit and the ARIC are to be resolved by the Council.

Unresolved disputes regarding compliance with statutory or other requirements are to be referred to the Departmental Chief Executive in writing.

### **Review arrangements**

The Council's ARIC must review the performance of the Internal Audit function each year and report its findings to the Council. A strategic review of the performance of the internal audit function must be conducted each council term that considers the views of an external party with a strong knowledge of internal audit and reported to the Council.

This charter is to be reviewed annually by the committee and once each council term by the Council. Any substantive changes are to be approved by the Council.

### **Further information**

(NB. Sections to be updated following Council endorsement and recruitment to specified positions)

For further information on Council's internal audit activities, contact Joshua Jongma on [council@Lockhart.nsw.gov.au](mailto:council@Lockhart.nsw.gov.au).

## **Schedule 1 – internal audit function responsibilities**

### **Audit**

#### **Internal audit**

- Conduct internal audits as directed by Lockhart Shire’s audit, risk and improvement committee.
- Implement the Council’s annual and four-year strategic internal audit work plans.
- Monitor the implementation by the Lockhart Shire Council of corrective actions.
- Assist the Lockhart Shire Council to develop and maintain a culture of accountability and integrity.
- Promote a culture of high ethical standards.

#### **External audit**

- Review external plans and reports in respect of planned or completed audits and monitor Council’s implementation of audit recommendations.

### **Risk**

#### **Risk management**

Review and advise:

- if Lockhart Shire Council has in place a current and appropriate risk management framework that is consistent with the Australian risk management standard
- whether the Council’s risk management framework is adequate and effective for identifying and managing the risks Lockhart Shire faces, including those associated with individual projects, programs and other activities
- if risk management is integrated across all levels of the Lockhart Shire Council and across all processes, operations, services, decision-making, functions and reporting
- of the adequacy of risk reports and documentation, for example, the Council’s risk register and risk profile
- whether a sound approach has been followed in developing risk management plans for major projects or undertakings
- whether appropriate policies and procedures are in place for the management and exercise of delegations
- if the Lockhart Shire Council has taken steps to embed a culture which is committed to ethical and lawful behaviour
- if there is a positive risk culture within the Lockhart Shire Council and strong leadership that supports effective risk management
- of the adequacy of staff training and induction in risk management
- how Council’s risk management approach impacts on its insurance arrangements
- of the effectiveness of Council’s management of its assets, and
- of the effectiveness of business continuity arrangements, including business continuity plans, disaster recovery plans and the periodic testing of these plans.

## **Internal controls**

Review and advise:

- whether the Council's approach to maintaining an effective internal audit framework, including over external parties such as contractors and advisors, is sound and effective
- whether the Lockhart Shire Council has in place relevant policies and procedures and that these are periodically reviewed and updated
- whether appropriate policies and procedures are in place for the management and exercise of delegations
- whether staff are informed of their responsibilities and processes and procedures to implement controls are complied with
- if the Council's monitoring and review of controls is sufficient, and
- if internal and external audit recommendations to correct internal control weaknesses are implemented appropriately.

## **Compliance**

Review and advise of the adequacy and effectiveness of the Council's compliance framework, including:

- if the Lockhart Shire Council has appropriately considered legal and compliance risks as part of Council's risk management framework
- how the Lockhart Shire Council manages its compliance with applicable laws, regulations, policies, procedures, codes, and contractual arrangements, and
- whether appropriate processes are in place to assess compliance.

## **Fraud and corruption**

Review and advise of the adequacy and effectiveness of Council's fraud and corruption prevention framework and activities, including whether the Lockhart Shire Council has appropriate processes and systems in place to capture and effectively investigate fraud-related information.

## **Financial management**

Review and advise:

- if the Council's financial management processes are adequate
- the adequacy of cash management policies and procedures
- if there are adequate controls over financial processes, for example:
  - appropriate authorisation and approval of payments and transactions
  - adequate segregation of duties
- timely reconciliation of accounts and balances
  - review of unusual and high value purchases
- if policies and procedures for management review and consideration of the financial position and performance of the Lockhart Shire Council are adequate
- if the Council's grants and tied funding policies and procedures are sound.

## **Governance**

Review and advise of the adequacy of the Lockhart Shire Council governance framework, including the Council's:

- decision-making processes
- implementation of governance policies and procedures
- reporting lines and accountability
- assignment of key roles and responsibilities
- committee structure
- management oversight responsibilities
- human resources and performance management activities
- reporting and communication activities
- information and communications technology (ICT) governance, and
- management and governance of the use of data, information and knowledge.

## **Improvement**

### **Strategic planning**

Review and advise:

- of the adequacy and effectiveness of the Council's integrated, planning and reporting (IP&R) processes
- if appropriate reporting and monitoring mechanisms are in place to measure progress against objectives, and
- whether Lockhart Shire Council is successfully implementing and achieving its IP&R objectives and strategies.

### **Service reviews and business improvement**

Review and advise:

- if the Lockhart Shire Council has robust systems to set objectives and goals to determine and deliver appropriate levels of service to the community and business performance
- if appropriate reporting and monitoring mechanisms are in place to measure service delivery to the community and overall performance, and
- how the Lockhart Shire Council can improve its service delivery and the Council's performance of its business and functions generally.

### **Performance data and measurement**

Review and advise:

- if the Lockhart Shire Council has a robust system to determine appropriate performance indicators to measure the achievement of its strategic objectives
- if the performance indicators the Lockhart Shire Council uses are effective, and
- of the adequacy of performance data collection and reporting.