



# Cherbourg Aboriginal Shire Council Policy INTERNAL AUDIT

Endorsed by Council:

26<sup>th</sup> October 2022

## 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 *Section 207 of the Local Government Regulation 2012* which state that a local government must establish an efficient and effective internal audit function.

## POLICY STATEMENT

Key responsibilities of the internal audit function include the review of Council's risks, internal controls, governance, performance and compliance.

The operation of the internal audit function strives to be consistent with the International Standards for the Professional Practice of Internal Auditing. This includes adhering to the Core Principles for the Professional Practice of Internal Auditing.

Council will appoint, and may from time to time vary the appointment of, an internal auditor who may be an external service provider. That internal audit service is currently provided by Sunshine Coast Regional Council's internal audit team on a pro bono basis.

## PURPOSE & OBJECTIVES

This Internal Audit Policy provides the strategic framework for the conduct of the internal audit function in Council and is endorsed by the Council's Audit and Risk Committee.

The objectives of this Policy are to:

- a) 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.
- b) embed a culture of continuous improvement practices across Council.
- c) ensure adequate controls are in place to minimise risk for Council assets, employees and operations.
- d) comply with legislative requirements, including the Queensland *Local Government Act 2009* and associated *Local Government Regulation 2012*.

## SCOPE

This Policy applies to:

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

## OUTCOMES

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 strategic and 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, reports, 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.

## INTERNAL AUDIT'S STANDING WITHIN COUNCIL

Administratively, the Internal Audit function resides within the Chief Executive Officer. In practice, the function is managed on a day-to-day basis by the Council's Governance Advisor with support from the Manager of Corporate Services, with reporting responsibility to the Audit and Risk Committee.

## CODE OF ETHICS

Internal Auditors must adhere to the Institute of Internal Auditors Code of Ethics which governs the behaviour of individuals in the conduct of internal auditing. Internal auditors are expected to apply and uphold the following principles:

- **Integrity** – The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
- **Objectivity** – Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
- **Confidentiality** – Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- **Competency** – Internal auditors apply the knowledge, skills and experience needed in the performance of internal audit services.

The Internal Auditor must have an impartial, unbiased attitude and avoid any conflict of interest. The Internal Auditor must declare and disclose any Conflict of Interest to Council, including any potential conflict of interest.

## **POLICY REVIEW**

This Policy will be reviewed every two years.

## **POLICY PRINCIPLES**

### ***Independence and objectivity***

The internal audit function must be independent from Council and Internal Auditors must be objective in performing their internal audit work.

Objectivity is essential in performing the audit role. Accordingly, internal audit engagements shall be performed with an unbiased and impartial attitude. Furthermore, internal audit shall not be involved in the day-to-day operations of Council, nor in the designing, installing, or maintaining of systems, procedures or controls, but instead will advise, make recommendations on these matters and provide advice or assurance to management that controls contribute to Council's intended objectives.

### ***Audit approach***

A risk based internal audit approach shall be implemented each financial year to determine the priorities of the Internal Audit activity, consistent with Council's strategic goals and based on Council's strategic risks.

An annual Internal Audit Plan will be endorsed by the Audit and Risk Committee each year in consideration of the most significant current risks, significant interim changes and any impacts of resource limitations facing Council.

### ***Authority, access and confidentiality***

The Internal Auditor (as appointed by Council) has no powers, authorities, functions or duties except those relating to the internal audit function. Therefore, the audits and evaluations do not in any way relieve other persons in Council of the responsibilities assigned to them.

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, records, assets and personnel.

All Council Officers must cooperate fully in making available any material, system or information requested by the Internal Auditor.

Information acquired by internal audit in the course of their duties must remain strictly confidential.

### ***7.5 Reporting responsibility and communication***

The internal audit function will report to the Audit and Risk Committee which allows the Internal Audit activity to fulfil its responsibilities. Where required, Internal Auditors will communicate, report and interact directly with the Committee.

Internal Auditors must communicate the results of the audit and or their engagement. Communication must be accurate, objective, clear, concise, constructive, complete, and timely. If a final communication contains a significant error or omission, the Internal Auditor must communicate corrected information to all parties who received the original communication.

Internal audit reports will comply with section 207 of the *Local Government Regulation 2012* and 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 by Council staff. 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.

### **7.6 Management's responsibility for corrective action**

The operational Manager is responsible for ensuring that corrective action on recommendations made or deficient conditions reported by Internal Audit or the Queensland Audit Office relating to Internal or External audits is taken within the agreed timeframes.

Recommendations are considered outstanding until they are implemented and or hold a status of 'complete'. All recommendations are tracked and reported to the Audit and Risk Committee on a regular basis.

If the operational Manager foresees difficulties implementing the recommendations within the agreed time frame, the Manager should advise the CEO regarding the cause of delay and the revised implementation schedule. The CEO is ultimately responsible for effective and timely action and responses on all Internal Audit observations and recommendations.

## **ROLES AND RESPONSIBILITIES**

Internal audit plays an active role in:

- a) developing and maintaining a culture of accountability and integrity
- b) facilitating the integration of risk management into day-to-day business activities and processes, and
- c) promoting a culture of cost-consciousness, self-assessment and adherence to high ethical standards.

The scope of Internal audit activities shall be sufficiently comprehensive to ensure the effective and regular review of key activities which may extend to all areas of Council. As such, Internal Audit shall include, but not be limited to the following key areas:

- Audit of Council's activities, processes, control frameworks, compliance obligations and to recommend any business process improvement requirements.
- Advisory services to offer professional objective and independent advice to Council on a range of matters including for new services, systems and processes and risk management.
- Detecting and reporting irregularities so that Council can take action and report such irregularities in accordance with legislative requirements.
- Risk assessment and management, including the identification and assessment of risks to which Council's operations are exposed.

When an external service provider undertakes the Internal Audit activity, the provider will make Council aware that Council has overall responsibility for maintaining an effective Internal Audit function.

## **RELEVANT LEGISLATION, POLICIES AND STANDARDS**

- *Local Government Act 2009*

- *Local Government Regulation 2012*
- *Audit and Risk Committee Charter*
- *Risk Management Policy*
- *International Standards for the Professional Practice of Internal Auditing*

## DEFINITIONS

**Audit and Risk Committee** is an advisory Committee of Council established in accordance with section 105(2) of the Local Government Act 2009 charged with monitoring assurance, oversight and advice to Council in relation to making recommendations about matters that the Committee considers need action or improvement.

**Charter** means a document which outlines role, responsibilities, operational requirements and reporting obligations of the Audit and Risk Committee.

**Code of Ethics** means The Code of Ethics of the Institute of Internal Auditors and are the principles relevant to the profession and practice of internal auditing and the rules of conduct that describe the behaviour expected on internal auditors. The Code of Ethics applies to all parties and entities that provide internal audit services and functions. The purpose of the Code of Ethics is to promote and ethical culture in the global profession of internal auditing.

**Conflict of Interest** means any relationship, that is, or appears to be, not in the best interests of the organisation. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

**Core Principles for the Professional Practice of Internal Auditing** means that the internal audit function:

- Demonstrates integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive, and future-focused, and
- Promotes organisational improvement.

**Internal Audit** refers to an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. Internal audit assists an organisation accomplish its objectives by bringing a systemic disciplined approach to evaluate and improve the effectiveness of risk management, control and good governance processes.

**Objectivity** means an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made.

## INTERNAL AUDIT TERMS OF REFERENCE

### 1. 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*.

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 to.
- 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.

### 2. 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 pro bono external service provider must be approved by the Audit and Risk Committee.

The term of appointment of an internal auditor shall be reviewed by the CEO at least every two years.

### 3. 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 Internal 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.

#### **4. Internal 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 Plan is to state:

- a) the way in which Council's operational risks have been evaluated,
- b) the most significant operational risks identified from the evaluation, and
- c) the control measures that Council has adopted, or is to adopt, to manage the most significant operational risks.

The Internal Audit Plan will be endorsed by the Audit and Risk Committee and reviewed annually.

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.

#### **5. Engagement Planning**

Internal Auditors must develop and document a plan for each engagement / audit, including the engagement's objectives, scope, timing and resource allocations. In planning the engagement, Internal Auditors must consider:

- a) The strategies and objectives of the activity being reviewed and the means by which the activity controls its performance.
- b) The significant risks to the activity's objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level.

- c) The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant control framework or model, and
- d) The opportunities for making significant improvements to the activity's governance, risk management and control processes.

As part of this process, Internal Auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

## **6. Audit Methodology**

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

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

## **7. 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, if required.

## **8. Authority**

Internal Auditors, in the course of their duties, have full, free and unrestricted access to all records, 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.

## **9. Audit Reports, Communication and Recommendations**

Internal Auditors must communicate the results of the audit and or their engagement. Communication must include the audit objective scope and results. Communication must be accurate, objective, clear, concise, constructive, complete and timely.

Therefore, 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.

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.

## **10. 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.

### **11. 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.

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