



Charter Internal Audit

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Introduction

Lake Macquarie City Council (Council) has established the Internal Audit function as a key component of Council's governance and assurance framework, in compliance with 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 the Internal Auditor in Council and has been approved by the governing body taking into account the advice of Council's Audit, Risk and Improvement Committee ('ARIC' or 'the committee').

Purpose of internal audit

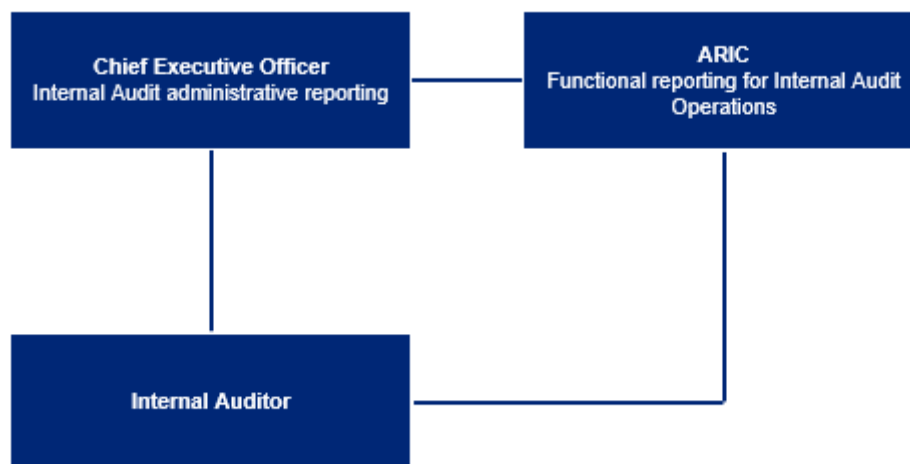
Internal audit is an independent, objective assurance and consulting activity designed to add value and improve Council's operations. It helps the business accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and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

Internal audit provides an independent, risk-based, and objective assurance and advisory service to provide advice to the Chief Executive Officer (CEO), ARIC and the governing body about Council's governance processes, risk management and control frameworks and its external accountability obligations. It enhances Council's decision-making and oversight, reputation and credibility with its stakeholders and ability to serve the public interest. It also assists the business to improve its performance.

Independence

Council's Internal Audit function is to be independent of Council so it can provide an unbiased assessment of operations and risk and control activities. Internal Audit is positioned at a level within Council that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence of the internal audit function.

Internal Audit is positioned within Council as follows:



The Internal Auditor reports functionally to Council's ARIC on the results of completed audits, and for strategic direction, and reports administratively to the CEO to facilitate day-to-day operations. Internal audit activities are not subject to direction by Council.

The ARIC is responsible for communicating any internal audit issues or information to the governing body. Should the governing body 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 governing body where the chair is satisfied that it is reasonably necessary for the governing body to

receive the information for the purposes of performing its functions under the *Local Government Act 1993*. Individual Councillors are not entitled to request or receive information from the ARIC.

The CEO must consult with the chair of Council's ARIC before appointing or making decisions affecting the employment of the Internal Auditor. If the Internal Auditor is dismissed, the CEO must report the reasons for their dismissal to the governing body.

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

The head of internal audit is to confirm at least annually to the ARIC the independence of internal audit activities from Council. If the governance structure does not support organisational independence, the head of internal audit will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence. The head of internal audit will disclose to the ARIC any interference internal audit encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the internal audit functions' effectiveness and ability to fulfill its obligations.

Authority

The Internal Auditor:

- has full, free and unrestricted access to all functions, premises, assets, personnel, records and other documentation and information the Internal Auditor considers necessary for the Internal Auditor to undertake its responsibilities
- may allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives
- may obtain assistance from the necessary personnel of Council and other specialised services from within or outside Council to complete internal audit services.

All records, documentation and information accessed while undertaking internal audit activities are to be used solely for the conduct of those activities. The Internal Auditor is responsible and accountable for maintaining the confidentiality of the information the Internal Auditor receives when undertaking internal audit work.

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

Information and documents pertaining to the Internal Auditor are not to be made publicly available. The Internal Auditor may only release Council information to external parties that are assisting the Internal Auditor to undertake its responsibilities with the approval of the CEO, 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.

Commitment to adhering to the Global Internal Audit Standards

Council's internal audit function will adhere to the mandatory elements of The Internal Auditors' International Professional Practices Framework, which are the Global internal Audit Standards and Topical Requirements. The head of Internal Audit will report annually to the governing body, CEO and ARIC regarding the internal audit function's conformance with the Standards, which will be assessed through a quality assurance and improvement program.

Role

The Internal Auditor is to support Council's ARIC to review and provide independent advice to Council in accordance with section 428A of the *Local Government Act 1993*. This includes conducting internal audits of Council and monitoring the implementation of corrective actions.

The Internal Auditor 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
- promoting a culture of high ethical standards.

Head of internal audit function

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

Ethics and professionalism

The head of internal audit will ensure that the internal audit function:

- conforms with the Global Internal Audit Standards, including the principle of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality
- understands, respects, meets, and contributes to the legitimate and ethical expectations of Council and be able to recognise conduct that is contrary to those expectations
- encourages and promotes an ethics-based culture in Council
- reports behaviour that is inconsistent with Council's ethical expectations, as described in policies and procedures.

Internal audit personnel must comply with 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 CEO must consult with Council's ARIC before any disciplinary action is taken against the Internal Auditor in response to a breach of Council's code of conduct.

Objectivity and conflict of interests

The head of internal audit will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the head of internal audit determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

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 fulfil duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit function and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

Internal audit will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

Internal audit will have no direct operational responsibility or authority over any of the activities they review. Accordingly, the internal audit function will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:

- assessing specific operations for which they had responsibility within the previous year
- performing operational duties for Council
- initiating or approving transactions external to the internal audit function
- directing the activities of any Council employee that is not employed by the internal audit function, except to the extent that such employees have been appropriately assigned to internal audit teams or to assist internal auditors.

Internal audit will:

- disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the head of internal audit, ARIC, management, or others
- exhibit professional objectivity in gathering, evaluating, and communicating information
- make balanced assessments of all available and relevant facts and circumstances
- take necessary precautions to avoid conflicts of interest, bias, and undue influence.

Managing the internal audit function

The head of internal audit has the responsibility to:

- annually develop a risk-based internal audit workplan that considers the input of the ARIC and senior management. Discuss the plan with the ARIC and senior management and submit the plan to the ARIC for review and approval.
- communicate the impact of resource limitations on the internal audit plan to the ARIC and senior management
- review and adjust the internal audit plan, as necessary, in response to changes Council's business, risks, operations, programs, systems, and controls
- communicate with the ARIC and senior management if there are significant interim changes to the internal audit plan
- ensure internal audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards and laws and/or regulations
- follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal audit services to the ARIC and senior management quarterly and for each engagement as appropriate
- ensure the internal audit function collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Global Internal Audit Standards and fulfill the internal audit role
- identify and consider trends and emerging issues that could impact Council and communicate to the ARIC and senior management as appropriate
- consider emerging trends and successful practices in internal auditing
- establish and ensure adherence to methodologies designed to guide the internal audit function

- ensure adherence to Council's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to the ARIC and senior management.
- coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the chief audit executive cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and if necessary escalated to the ARIC.
- manage Council's internal audit budget
- support the operation of Council's ARIC
- approve internal audit project plans, conduct, or supervise audits and assessments and provide independent advice to the ARIC
- ensure Council's internal audit activities comply with the Guidelines for Risk Management and Internal Audit for Local Government in NSW
- contract management and oversight of supplementary external providers (where appropriate).

Communication with the ARIC and senior management

The head of internal audit will report quarterly to the ARIC and monthly to senior management (where applicable) regarding:

- the internal audit function's role
- the internal audit plan and performance relative to its plan
- internal audit budget
- significant revisions to the internal audit plan and budget
- potential impairments to independence, including relevant disclosures as applicable
- results from the quality assurance and improvement program, which include the internal audit function's conformance with the Global Internal Audit Standards and action plans to address the internal audit function's deficiencies and opportunities for improvement
- significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the Council that could interfere with the achievement of Council's strategic objectives
- results of assurance and advisory services
- resource requirements
- management's responses to risk that the internal audit function determines may be unacceptable or acceptance of a risk that is beyond Council's risk appetite.

Quality assurance and improvement program

The head of internal audit will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include external and internal assessments of the internal audit function's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement. The program will assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the

assessment will include plans to address the internal audit function's deficiencies and opportunities for improvement.

Annually, the head of internal audit will communicate with the ARIC and senior management about the internal audit function's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments.

Scope and performance of internal audit activities

Council's ARIC must endorse a strategic work plan at least every four years to ensure the matters listed in Schedule 1 are reviewed by the committee and considered by the internal audit function when developing their risk-based program of internal audits. The strategic work plan must be reviewed at least annually to ensure it remains appropriate.

The committee must also endorse an annual work plan to guide the work of the internal audit function over the forward year. The Internal Auditor is to provide the findings and recommendations of internal audits to the ARIC at the end of each audit. Each report is to include a response from the relevant senior manager.

The scope of internal audit services covers the entire breadth of Council, including all of Council's activities, assets, and personnel. The scope of internal audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the ARIC and management on the adequacy and effectiveness of governance, risk management, and control processes for Council.

The nature and scope of advisory services may be agreed with the party requesting the service, provided the internal audit function does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management.

The CEO, in consultation with the ARIC, is to develop and maintain policies and procedures to guide the operation of Council's Internal Auditor.

The Internal Auditor is to ensure the ARIC 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.

Administrative arrangements

Audit, Risk and Improvement Committee (ARIC) meetings

The Internal Auditor will attend ARIC meetings as an independent non-voting observer. The Internal Auditor can be excluded from meetings by the committee at any time.

The Internal Auditor will have access to the chair of the ARIC to discuss audit and risk matters when required.

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

The Internal Auditor should maintain an effective working relationship with Council and the ARIC and 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 Auditor and Council, the dispute is to be resolved by the CEO and/or the ARIC pending on the nature of the difference. Disputes between the Internal Auditor and the ARIC are to be resolved by the CEO.

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

Review arrangements

Council's ARIC must review the performance of the internal audit function each year and report its findings to the governing body. A strategic review of the performance of the internal audit activities 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 governing body.

This charter is to be reviewed annually by the committee and once each Council term by the governing body. Any substantive changes are to be approved by the governing body. Circumstances may justify a follow-up discussion between the head of internal audit, ARIC, and senior management of the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include but are not limited to:

- a significant change in the Global Internal Audit Standards
- a significant reorganisation within the organisation
- significant changes in the internal audit function, ARIC, and/or senior management
- significant changes to Council's strategies, objectives, risk profile, or the environment in which Council operates
- new laws or regulations that may affect the nature and/or scope of internal audit services.

Further information

For further information on Council's internal audit activities, contact the Internal Auditor on internalauditor@lakemac.nsw.gov.au or by phone 0249210531.

Schedule 1 - Internal Audit Function Responsibilities

Audit

Internal audit

- Conduct internal audits as directed by Council's ARIC.
- Implement Council's annual and four-year strategic internal audit work plans.
- Monitor the implementation by Council of corrective actions.
- Assist Council to develop and maintain a culture of accountability and integrity.
- Facilitate the integration of risk management into day-to-day business activities and processes.
- Promote a culture of high ethical standards.

External audit

- Review all external plans and reports in respect of planned or completed audits and monitor Council implementation of audit recommendations.
- Provide advice on action taken on significant issues raised in relevant external audit reports and better practice guides.

Risk

Risk management

Review and advise:

- if Council has in place a current and appropriate risk management framework that is consistent with the Australian risk management standard
- whether Council's risk management framework is adequate and effective for identifying and managing the risks Council faces, including those associated with individual projects, programs and other activities
- if risk management is integrated across all levels of Council and across all processes, operations, services, decision-making, functions and reporting
- of the adequacy of risk reports and documentation, for example, 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 Council has taken steps to embed a culture which is committed to ethical and lawful behaviour
- if there is a positive risk culture within 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 Council's insurance arrangements
- of the effectiveness of Council's management of its assets
- 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 Council's approach to maintaining an effective internal audit framework, including over external parties such as contractors and advisors, is sound and effective
- whether 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 Council's monitoring and review of controls is sufficient
- if internal and external audit recommendations to correct internal control weaknesses are implemented appropriately.

Compliance

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

- if Council has appropriately considered legal and compliance risks as part of Council's risk management framework
- how Council manages its compliance with applicable laws, regulations, policies, procedures, codes, and contractual arrangements
- 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 Council has appropriate processes and systems in place to capture and effectively investigate fraud-related information.

Financial management

Review and advise:

- of the implications for Council of the findings of external audits and performance audits and Council's responses and implementation of recommendations
- the adequacy of cash management and credit card use 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
- whether Council's financial statement preparation procedures and timelines are sound
- if policies and procedures for management review and consideration of the financial position and performance of Council are adequate
- if effective processes are in place to ensure financial information included in Council's report is consistent with signed financial statements
- if Council's grants and tied funding policies and procedures are sound.

Governance

Review and advise of the adequacy of Council's governance framework, including 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
- management and governance of the use of data, information and knowledge.

Improvement

Strategic planning

Review and advise:

- on the adequacy of Council's integrated, planning and reporting (IP&R) processes and their effectiveness to integrate the community's aspirations into Council's vision and long-term strategy
- if appropriate reporting and monitoring mechanisms are in place to measure progress against objectives
- whether Council is successfully implementing and achieving its IP&R objectives and strategies.

Service reviews and business improvement

Review and advise:

- if 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.

Performance data and measurement

Review and advise:

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

Controlled Document Information

Authorisation Details

Folder No:	F2004/12078	TRIM Record No:	D11862348
Audience:	Council Wide - All of Council and Audit Risk and Improvement Committee members		
Department:	Executive Group		
Officer:	Internal Auditor - Marlice van der Westhuizen		
Review Timeframe: Max < 4 years	Annually	Next Scheduled Review Date:	21 November 2025
Authorisation:	Council		
Committee Business Paper TRIM No:	D11917697	Authorisation – Committee/Council Adoption Date:	24 February 2025

Related Document Information, Standards & References

Related Legislation:	(Legislation Name) Local Government Act 1993 Local Government (General) Regulation 2021	(Relationship/Context) Overarching guidance on functions of local government
Related Policies (Council & Internal):	(Policy Name) Code of Conduct Audit, Risk and Improvement Committee Charter Council policies	(Relationship/Context) Policies relevant to aspects of audit, risk management, financial accountability and performance improvement
Related Procedures, Guidelines, Forms, WHS Modules/PCD's, Risk Assessments, Work Method Statements:	(Document Name)	(Relationship/Context)
Standards COP's & Other References	(Standard, COP or Other References) Guidelines for risk management and internal audit for local government in NSW Global Internal Audit Standards and Topical requirements ISO31000:2018 – Risk Management Guidelines	(Relationship/Context) Specific guidance on leading practice relating to internal audit

Definitions

Term / Abbreviation	Definition
OLG	Office of Local Government

Consultation (update for each version created)

Key Departments, Teams, Positions, Meetings:	CEO, Deputy CEO, Directors, Chief Financial Officer, Internal Auditor, Integrity and Risk Management
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Version History

Version No	Date Changed	Modified By	Details and Comments
1	February 2018	Marilize van der Westhuizen	New document
2	July 2023	Marilize van der Westhuizen	Major update to align with the Office of Local Government Guidelines for Risk Management and Internal Audit for Local Government in NSW issued under section 23A of the Local Government Act 1993.
3	February 2025	Marilize van der Westhuizen	Annual review and update to align with the new Global Internal Audit Standards (2024)