

	<b>CENTRAL HIGHLANDS REGIONAL COUNCIL POLICY</b>	
	Internal Audit Charter	<b>POLICY REF NO</b> CHRCP: 0040

## 1.0 Introduction

- 1.1 The Central Highlands Regional Council has established the internal audit function as a key component of council's governance framework in accordance with Section 105(1) of the *Local Government Act 2009* (the Act).

The Internal Audit Charter (the charter) establishes the authority and responsibility conferred by council on internal audit and incorporates the internal audit duty requirements of section 207 of the Local Government Regulation 2012 (the Regulation). More specifically the charter defines the function, scope, operating and reporting parameters of the internal audit activity.

- 1.2 The charter establishes and defines the extent of authority and responsibilities conferred on internal audit by council and explains the role of the internal audit function as it applies to council.

## 2.0 Role and purpose of internal audit

- 2.1 The internal audit function is established to provide independent, objective assurance and consulting services designed to add value and improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

- 2.2 Accordingly audit planning must be sufficiently comprehensive to regularly audit/review all facets of council's operations, having regard to the functions and duties imposed on council.

- 2.3 The internal audit function reports to both the Chief Executive Officer (CEO) and the Audit Committee.

- 2.4 An effective audit function will provide the CEO and council with:

2.4.1 Management oriented appraisals of council functions and activities to determine their appropriateness in the context of council objectives (including, but not restricted to accounting and financial management information, performance monitoring and control systems),

2.4.2 Reviews of the reliability of accounting and financial management, an assessment of the systems of internal control, an evaluation of compliance with relevant legislation, local law, local law policies, council policies, operating guidelines and delegations and the protection of the assets and resources under the control of management,

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- 2.4.3 Independent and confidential advice on action to be taken to improve operational effectiveness, efficiency and economy,
- 2.4.4 Follow up appraisals, where appropriate, regarding action taken by operational management as a result of audit recommendations,
- 2.4.5 Review of program/support plan performance criteria and performance indicators for relevance, reliability and accuracy at such other times as may be appropriate,
- 2.4.6 Management-oriented evaluation of programs/support plans to determine that legislation, local law, local law policies, council policies, and program/support plan objectives and strategies remain appropriate and are being achieved; whether resources are optimally allocated across programs/support plans and optimally utilised within each program/support plan; and that the strategic management system ensures accountability of programs/support plans in line with the strategic direction as set by council in accordance with the corporate plan,
- 2.4.7 This charter also recognises the role that the internal audit function may be called upon to play as an appropriate entity under the *Public Interest Disclosure Act 2010*, and
- 2.4.8 It is the responsibility of the management and the CEO to ensure this charter is understood and adhered to by the organisation.

### 3.0 Independence and the position of internal audit function within council

- 3.1 Internal Audit has independent status within the council and for that purpose shall have further access to the Chief Executive Officer and Audit Committee.

Further the internal audit function:

- 3.1.1 Shall have no executive or managerial powers, functions, authorities or duties except those relating to the management of the audit function,
- 3.1.2 Shall not be involved in the day-to-day operation of Council, nor in the internal operational checking systems of Council except those relating to the administrative and management of the audit activities,
- 3.1.3 Shall not be responsible for installing or maintaining systems, procedures or controls, but will advise on these matters and provide independent assurance (in accordance with the agreed internal audit plan) to management that completed systems will contribute to the achievement of the intended corporate objectives, and
- 3.1.4 At the direction of the CEO, the internal audit or CHRC sponsor, will have an observer/adviser status on steering committees, formed to co-ordinate financial/information systems design and implementation.

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## 4.0 Authority

- 4.1 Internal Audit has neither direct responsibility, nor authority over, any of the activities, which it audits. Therefore, the audits and evaluations do not, in any way, relieve other persons in council of the responsibilities assigned to them.
- 4.2 Internal Audit shall generally undertake projects in accordance with programs/plans approved by the CEO but shall also conduct such further unscheduled projects as the CEO considers desirable. Due consideration should also be given to the views of the Audit Committee and the Executive Leadership Team in regard to suitable projects.
- 4.3 For the purpose of its function, Internal Audit is authorised to review all areas of council and to have full, free, and unrestricted access to all council's activities, records both manual and electronic), property, and personnel. Council activities include entities over which council has direct management, sponsorship or financial control. All employees shall co-operate fully in making available any material or information reasonably relevant to the subject of the audit.
- 4.4 Internal Audit shall have free and unrestricted access to the Chair of the Audit Committee.
- 4.5 All employees are expected to bring to the attention of the Manager Governance, Property and Information Management any suspected situation involving improper activity or non-compliance with applicable policies, plans, procedures, laws or regulations, of which they have knowledge. The Manager Governance, Property and Information Management through the General Manager Commercial and Corporate Services, will make the CEO aware of any such situations. Internal Audit has unrestricted access to people and information pertaining to the agreed internal audit plan.

## 5.0 Internal audit plan

The Internal Auditor in liaison with the Manager Governance, Property and Information Management, shall prepare, for the Audit Committee's consideration, a risk-based annual internal audit plan and a strategic 3-year rolling internal audit plan.

In accordance with section 207(2) of the Regulation, the internal audit plan will include statements about:

- 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.

The Internal Audit Plan must be prepared in alignment with council's annual budget allocation for internal audit activities.

## 6.0 Relationship to external audit

- 6.1 Internal Audit shall co-operate fully with the Auditor-General and the appointed external auditor in respect of any internal audits undertaken. Working papers together with any further explanations may be made available in order to enhance the effectiveness of the total audit coverage and to minimise duplication.

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- 6.2 To ensure that the Internal Auditor is aware of all matters associated with its functional responsibilities, the Internal Auditor is to be supplied with copies of all relevant correspondence received from the External Auditor and Queensland Audit Office.

### 7.0 Scope of internal audit activities

- 7.1 The scope of internal auditing is to determine whether the organisation's network of governance, risk management and control processes, as designed and represented by management, is adequate and functioning in an effective manner.

It includes the following:

- 7.1.1 Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information.
- 7.1.2 Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports and whether the organisation is in compliance. Internal Audit should also be pro- active in offering advice to management in regard to the implications of future legislation, policy and industry changes.
- 7.1.3 Reviewing the means of safeguarding assets and, where appropriate, verifying the existence of such assets.
- 7.1.4 Reviewing and appraising the economy and efficiency with which resources are employed, identify opportunities to improve operating performance, and recommend solutions where appropriate.
- 7.1.5 Contributing to the corporate management process by assessing and reporting the relevance, reliability and adequacy of management data and performance indicators and reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- 7.1.6 Contribute to the development of the Enterprise Risk Management (ERM) Framework to provide objective assurance to the council on the effectiveness of the organisation's ERM activities to ensure key business risks are being managed appropriately and that the system of internal control is operating effectively.
- 7.1.7 Offer advice on the development of annual internal audit plans.
- 7.1.8 Conduct audit projects of council activities as directed by the CEO.
- 7.1.9 Follow up the implementation of audit recommendations on a periodic basis.

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- 7.2 The scope of the internal audit function extends to include all departments, programs, sub-programs, functions, funded schemes and entities over which council has direct management, sponsorship or financial control.
- 7.3 Any dispute as to whether an activity falls within the scope of council's internal Audit function shall be determined by the CEO.

### 8.0 Responsibility for detecting and reporting irregularities

- 8.1 Internal Audit is not responsible for preventing irregularities (which include fraud, other illegal acts and errors). In order to facilitate the fraud/corruption prevention function, the Internal Auditor should be informed of any special investigation, fraud, theft or other suspected cases of misappropriation.
- 8.2 The responsibility for prevention of irregularities rests with the CEO and management through the implementation and continued operation of an adequate internal control system. Internal auditors are responsible for examining and evaluating the adequacy and the effectiveness of actions taken by management to fulfil this obligation.
- 8.3 However, in exercising due professional care, internal auditors should be alert to the possibility of irregularities and those conditions and activities where irregularities are most likely to occur. Due care implies reasonable care and competence, not infallibility, nor extraordinary performance. It requires internal auditors to conduct examinations and verifications to a reasonable extent.
- 8.4 The Internal Auditor has a responsibility to report irregularities and allegations of irregularities to the CEO and, at the next available meeting, to the Audit Committee . The CEO will be responsible for taking appropriate investigative action and this may include a request to the Internal Auditor to investigate the matter. The CEO will be responsible for all future reports to the Audit Committee until the matter has been resolved to the Audit Committee's satisfaction.
- 8.5 The CEO is responsible for reporting any irregularities according to the provisions of the *Local Government Act 2009*, the *Crime Corruption Act 2001* and the *Crime and Corruption Regulation 2015*, and any other statutory regulations that may come into force from time to time. In this regard the Manager Governance, Property and Information Management will fulfil the liaison officer's role to the Crime and Corruption Commission

### 9.0 Internal audit approach

- 9.1 Internal Audit will adopt an integrated risk-based approach to allocating resources and planning.
- 9.2 Risk profile for annual internal audit plans:
- 9.2.1 The annual internal audit plan projects may include financial, compliance, performance, due diligence, information systems, program evaluation, operational audits and other approaches as deemed appropriate, given the resources and also the priorities established through the risk assessment process and other more recent considerations

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### 9.3 Responsibilities and auditing standards:

9.3.1 Internal Audit will discharge its responsibilities in accordance with this document and the standards with the proviso that this document shall be overridden by the standards, should a conflicting interpretation arise.

### 9.4 Specific standards which are to be followed include:

9.4.1 Internal Audit staff must maintain an independent outlook and must ensure their independence to plan, investigate and report with honesty and objectivity,

9.4.2 Projects are to be performed by or under the control of a suitably skilled, experienced and competent person(s),

9.4.3 Findings and recommendations or suggestions are developed and documented with due care during the course of each engagement, such that the reporting process is expedited,

9.4.4 Regular quality assurance reviews of project plans, reports and working papers are carried out, and

9.4.5 Information acquired during the course of work must not be used and/or conveyed for purposes outside the scope of Audit's approved responsibilities.

## 10.0 Reporting accountability

### 10.1 Internal Audit report:

10.1.1 A draft report shall be prepared and issued by the Internal Auditor to the CEO and the relevant General Manager as soon as possible after the completion of an audit project. The draft report will include comments and action plans by the Manager/General Manager where appropriate.

10.1.2 The appropriate General Manager receiving the draft audit report should respond within ten (10) working days or such longer period as may be determined between the General Manager and the Internal Auditor. This response is to indicate what actions are to be taken or planned, a responsible officer and a timetable for the anticipated completion of these actions in regard to the specific findings and recommendations in the draft audit report.

10.1.3 A final audit report will be prepared and issued by the Internal Auditor to the CEO and will include the comments and action plans as per the response of the relevant General Manager. If a response is not received by the due date Internal Audit is required to issue the draft as the final audit report with a comment in relation to the non-response.

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10.1.4 As well as the final report to the CEO, copies will be provided to the relevant General Manager. An indication will be given as to whether the person receiving the report should be taking action or securing action in relation to the report, or merely receiving the report for information.

10.1.5 An internal high-level audit progress report and any completed internal audit reports will be submitted to the Manager Governance, Property and Information Management for tabling at the next available audit committee meeting at least two weeks before the meeting is set to occur; and

10.1.6 The internal auditors will present the findings, summarising the outcomes to the audit at the audit committee meeting.

10.2 The Manager Governance, Property and Information Management may also advise the Auditor-General, Queensland Audit Office, or the Auditor-General's delegate/contractor about any audit findings as appropriate or if requested.

10.3 A summary of audit recommendations, action taken, and action outstanding will be included in council's audit actions register. This register will be monitored by the Executive Leadership Team.

### 11.0 Reporting accountability

11.1 The appropriate General Manager is responsible for seeing that action is taken within the established timeframe. Recommendations are considered outstanding until they are implemented, or an explanation offered to the satisfaction of the CEO why no further action is required. Any recommendations that have not been actioned within the agreed timeframe will be reported to the audit committee.

11.2 If the appropriate General Manager foresees difficulties implementing the recommendations within the time frame, the General Manager should advise the CEO and Manager Governance, Property and Information Management regarding the cause of delay and the revised implementation schedule.

### 12.0 Quality assurance

12.1 In order to ensure that the quality of internal audit work is consistently maintained at a high standard, the Manager Governance, Property and Information Management should establish and maintain a quality assurance program.

This program may include:

12.1.1 Developing a comprehensive work reporting arrangement.

12.1.2 Maintaining a regular review of internal audit plans, reports and working papers.

12.1.3 Maintaining effective communication links with the audit committee, CEO, managers, external auditors and the Queensland Audit Office.

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12.1.4 A review of the internal audit charter every financial year, taking into consideration the views of the Audit Committee. If no changes are required to the charter, then only report that the review has taken place.

### 13.0 Term of the internal auditor

13.1 The initial term of appointment of Internal Auditor is for a period of 3 years. The term of appointment can be extended for a further one (1) year giving a maximum term of four (4) years.

13.2 The term should only be extended after the performance of the Internal Auditor has been reviewed.

### 14.0 Review of the internal audit charter

14.1 The CEO is to review and recommend, as necessary, changes to the charter.

14.2 Such a review will take place when any of the following occur:

14.2.1 The related legislation/documents are amended or replaced,

14.2.2 Other circumstances as determined by a resolution of Council, or

14.2.3 Periodic review – reviewed annually.

<b>Strategic Link</b>	Council's governance framework, section 105(1) of the <i>Local Government Act 2009</i> and section 207 of the Local Government Regulation 2012.
<b>Category</b>	Internal Audit
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<b>Related Documents</b>	Audit Committee Charter

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