

# **Audit, Risk & Improvement Committee**

## **Internal Audit Charter**

Version #3

Guidelines for Risk Management and Internal Audit for Local Government in NSW – November 2023



**murray river  
council**

## 1. INTRODUCTION:

Murray River Council has established the Audit, Risk & Improvement Committee (ARIC or Committee) as a key component of Council's Governance Framework and in compliance with the Guidelines for Risk Management and Internal Audit in Local Councils in NSW (Guidelines).

This Charter provides the guidelines for the conduct of the internal audit function at Council and has been approved by the elected Council, taking into account the advice of the ARIC.

## 2. PURPOSE:

The internal audit function is an independent, objective assurance and consulting activity designed to add value and improve Council's operations. It helps Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. As defined by the International Standards for the Professional Practice of Internal Auditing - 2017 (the Standards).

The internal audit function provides an independent and objective review and advisory service to provide advice to the elected Council, the Chief Executive Officer (CEO) and the ARIC about Council's governance processes, risk management and control frameworks and its external accountability obligations.

It also assists Council to improve its business performance.

## 3. INDEPENDENCE:

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

The internal audit function reports functionally to Council's ARIC on the results of completed audits, and for strategic direction and accountability purposes, and reports administratively to the CEO, and/or his delegate, to facilitate day-to-day operations.

Internal audit activities are not subject to direction by the elected Council and Council's management has no role in the exercise of Council's internal audit activities.

The ARIC is responsible for communicating any internal audit issues or information to Council. Should Council require additional information, a request for the information may be made to the Chair by resolution. The Chair may only provide the information requested by 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 1993 (the Act).

Individual Councillors are not entitled to request or receive information from the Committee.

## 4. DELEGATIONS

The CEO has made the following delegations in relation to the internal audit function of Council:

Be responsible for the coordination of the business, meetings and outcomes of meetings of Council's Audit, Risk and Improvement Committee.	Director Corporate Services (DCS) Manager Governance & Risk (MGR)
That the Internal Auditors conduct audits on behalf of the ARIC on Council's business units, processes and work practices.	Internal Auditor/s

## 5. INTERNAL AUDITOR/S

The CEO must consult with the ARIC Chair before appointing or changing the conditions of the Internal Auditor/s, as set out in their contractual agreement with Council. Where dismissal occurs, the CEO must report to the Council advising the reasons why the contract was terminated.

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

The Internal Auditor/s are to confirm at least annually to the ARIC the independence of internal audit activities.

**5.1 INTERNAL AUDITOR/S RESPONSIBILITIES: (SCHEDULE 1)**

**AUDIT**

**Internal Audit**

- ▶ Conduct internal audits as directed by Council's Audit, Risk and Improvement Committee;
- ▶ Implement Council's annual and 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; and
- ▶ Promote a culture of high ethical standards.

**External Audit**

- ▶ Provide input and feedback on the financial statements and performance audit coverage proposed by external audit and provide feedback on the audit services provided;
- ▶ Review and monitor all external plans and reports in respect of planned or completed audits;
- ▶ Council's implementation of audit recommendations; and
- ▶ 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's 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; 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 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; 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 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; 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 Council has appropriate processes and systems in place to capture and effectively investigate fraud-related information.

### Financial Management

Review and advise:

- ▶ If Council is complying with accounting standards and external accountability requirements;
- ▶ Of the appropriateness of Council's accounting policies and disclosures;
- ▶ Of the implications for Council of the findings of external audits and performance audits and Council's responses and implementation of recommendations;
- ▶ Whether Council's financial statement preparation procedures and timelines are sound;
- ▶ The accuracy of the Council's annual financial statements prior to external audit, including:
  - Management compliance/representations;
  - Significant accounting and reporting issues;
  - The methods used by Council to account for significant or unusual transactions and areas of significant estimates or judgements;
  - Appropriate management signoff on the statements.
- ▶ If effective processes are in place to ensure financial information included in Council's report is consistent with signed financial statements;
- ▶ If 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 Council are adequate
- ▶ 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; and
- ▶ Management and governance of the use of data, information and knowledge.

## **IMPROVEMENT**

### **Strategic Planning**

Review and advise:

- ▶ Of the adequacy and effectiveness of Council's IP&R processes;
- ▶ If appropriate reporting and monitoring mechanisms are in place to measure progress against objectives; and
- ▶ 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; and
- ▶ how Council can improve its service delivery and Council's performance of its business and functions generally

### **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; and
- ▶ of the adequacy of performance data collection and reporting.

## 6. AUTHORITY

Council authorises the internal audit function to have full, free and unrestricted access to all functions, premises, assets, personnel, records and other documentation and information that the internal audit function considers necessary to enable it to fulfil its responsibilities.

All records, documentation and information accessed while undertaking internal audit activities are to be used solely for the conduct of these activities. The internal audit function and any individual Council employees involved in an audit are responsible and accountable for maintaining the confidentiality of the information they have access to during an audit.

All internal audit documentation is to remain the property of Council.

Information and documents pertaining to an internal audit are not to be made publicly available. The internal audit function may only release Council information to external parties that are assisting the internal audit function to fulfil 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.

## 7. ROLES

The internal audit function 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 (the Act). This includes conducting internal audits of Council and monitoring the implementation of corrective actions.

The internal audit function is to also play an active role in:

- ▶ Developing and maintaining a culture of accountability and integrity;
- ▶ Facilitating the integration or risk management into day-to-day business activities and processes; and
- ▶ Promoting a culture of high ethical standards.

The internal audit function has no direct authority or responsibility for the activities it reviews nor any responsibility for developing or implementing procedures or systems and does not prepare records or engage in Council functions or activities (except in carrying out its own functions).

### 7.1 INTERNAL AUDIT COORDINATOR

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

Responsibilities of the IA Coordinator and/or their delegate, include:

- ▶ Managing the day-to-day activities of the ARIC;
- ▶ Managing Council's internal audit budget;
- ▶ Supporting the operation of Council's ARIC;
- ▶ Approving internal audit project plans, conducting or supervising audits and assessments and providing independent advice to the ARIC;
- ▶ Monitoring Council's implementation of corrective actions that arise from the findings of audits;
- ▶ Fulfilling the Committee's Annual Workplan and four-yearly Strategic Workplan;
- ▶ Ensuring Council's internal audit activities comply with the Framework (the Guidelines); and
- ▶ Contract management and oversight of supplementary external providers (where appropriate).

### 7.2 INTERNAL AUDITORS

Council is to contract an external third-party provider to undertake its internal audit activities.

To ensure the independence of the external provider, the IA 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 Council's external audit;
- ▶ Is not the auditor of any contractors of Council that may be possibly subject to the internal audit; and
- ▶ Is able to meet the Council's obligations under the Framework (the Guidelines).

The IA Coordinator must consult with the ARIC and Chief Executive Officer (CEO) regarding the appropriateness of the skills, knowledge and experience of any external provider before they are engaged by Council.

## **8. PERFORMING INTERNAL AUDIT ACTIVITIES**

The work of the internal audit function is to be thoroughly planned and executed.

Council's ARIC must develop a strategic plan every four years to ensure that all matters listed in Internal Audit Functions Responsibilities (Schedule 1) are reviewed by the Committee and the internal audit function over each Council term. The Strategic Workplan must be reviewed at least annually to ensure it remains appropriate.

The Committee is to also develop an Annual Workplan 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 Standards and Australian Standard 4360: Risk Management.

The Internal Auditor/s are 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 Director.

The IA Coordinator is to establish an ongoing monitoring system to follow up Council's progress in implementing corrective actions.

**The Internal Auditor/s will sign off on actions when they are fully implemented.**

The CEO or his delegate, in consultation with the ARIC, is to develop and maintain policies and procedures to guide the operation of Council's internal audit function.

The internal audit function is to ensure that 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 Workplan and progress made implementing corrective actions.

## **9. CONDUCT**

Internal audit personnel are required to comply with Council's Code of Conduct (Committees) Policy (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 Murray River Council Code of Conduct Procedures.

The CEO must consult with Council's ARIC before any disciplinary action taken against the Internal Auditor/s in response to a breach of Council's Code of Conduct.

Internal Auditor/s are also required to comply with the Code of Ethics for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

## **10. ADMINISTRATIVE ARRANGEMENTS**

### **10.1 ARIC MEETINGS**

The internal audit function and other relevant Council employees will attend ARIC meetings as an independent non-voting observer.

The internal audit function and other relevant employees can be excluded from meetings by the Committee at any time.

The internal audit function must meet separately with the ARIC at least once per year.

The Internal Auditor/s can meet with the ARIC Chair at any time, as necessary, in between committee meetings.

## 10.2 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 may 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.

## 10.3 DISPUTE RESOLUTION

The internal audit function 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 via discussion and negotiation.

In the event of a disagreement between the internal audit function and Council, the dispute is to be resolved by the CEO and/or the ARIC.

Disputes between the internal audit function and 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.

## 11. EVALUATION AND REVIEW

Council's ARIC must review the performance of the Internal Auditor/s each year and report its findings to the Council.

A strategic review of the ARIC must be conducted each Council term that considers the views of an external party with a strong knowledge of internal audit on the performance of the Internal Auditor/s 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.

This Charter was reviewed by:

Person/Position	Signature/ Resolution:	Date:
Internal Auditor/s		
ARIC		
CEO/ Executive Leadership Team		
Council		

## 12. ASSOCIATED DOCUMENTS, DEFINITIONS & ACRONYMS

External:

- ▶ OLG - Local Government Act 1993
- ▶ Guidelines for Risk Management and Internal Audit in Local Councils in NSW – November 2023
- ▶ International Standards for the Professional Practice of Internal Auditing – 2017
- ▶ Australian Standard 4360: Risk Management.



Internal:

- ▶ MRC Policy – Code of Conduct (Committees) Policy
- ▶ MRC Procedure – Code of Conduct Procedure

Definitions:

Term	Definition
ARIC or the Committee	
CEO	
The Framework (the Guidelines)	
Internal Auditor/s	Suitably qualified contractors engaged by Council to undertake Internal Audits on Council's processes, practises, documentation and other matters undertaken by Council within the individual business units
Internal Audit Coordinator	An employer of Council that is suitably experienced in the working of Council and an ARIC.

### 13. DOCUMENT CONTROL

Version No.	Details	Dates	CM9 Reference	Resolution No.
1	Initial Issue	6 Sept 2018 to 25 Nov 2019		TBA
2	Changes to Item 7 3rd Paragraph – added to end – “The Council may by resolution request copies of specific internal audit reports” Last sentence to read – “the internal audit activity will validate those assertions before recommending closure of the issue to the Audit & Risk Committee”	25 Nov 2019 to DRAFT		N/A
3	Based on the OLG - Model Internal Charter Local Government ARICs Nov 2023	DRAFT		

Council reserves the right to review, vary or revoke this policy at any time  
This Charter is scheduled for review in before 2028

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