

# **Attachment D**

**Internal Audit Charter**

# Internal Audit Charter

## Purpose

The Council of the City of Sydney has established the Internal Audit unit as a key component of the City's governance and assurance framework, in compliance with the *Local Government (General) Regulation 2021* and the Office of Local Government 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 Audit unit and has been approved by Council taking into account the advice of the City's Audit Risk and Compliance Committee.

## Purpose of Internal Audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the City's operations. It helps the City 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 and objective review and advisory service to provide advice to the Council through its Audit Risk and Compliance Committee and the CEO about the council's governance processes, risk management and control frameworks and its external accountability obligations. It also assists the council to improve its business performance.

## Independence

The City's Internal Audit unit is to be independent of the City so it can provide an unbiased assessment of the City's operations and risk and control activities.

The Internal audit unit reports functionally to the Audit Risk and Compliance Committee on the results of completed audits and, for strategic direction and accountability purposes, and reports administratively to the Director Legal & Governance to facilitate day-to-day operations. Internal audit activities are not subject to direction by the City and the City's management has no role in the exercise of the City's internal audit activities. For abundant clarity, it is noted that staff employed in the internal audit unit are required to comply with all applicable City policies and procedures, including the Code of Conduct, WHS obligations and employment policies.

The Audit Risk and Compliance Committee 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. Individual councillors are not entitled to request or receive information from the committee.

The Chief Executive Officer must consult with the chair of the City's Audit Risk and Compliance Committee before appointing or making decisions affecting the employment of the Chief Internal Auditor. If the Chief Internal Auditor is dismissed, the Chief Executive Officer must report the reasons for their dismissal to the governing body.

Where the chair of the City's Audit Risk and Compliance Committee has any concerns about the treatment of the Chief Internal Auditor, or any action taken that may compromise their ability to

undertake their functions independently, they can report their concerns to the Council.

The Chief Internal Auditor is to confirm at least annually to the Audit Risk and Compliance Committee the independence of internal audit activities from the City.

## Authority

Council authorises the Internal Audit unit to have full, free and unrestricted access to all functions, premises, assets, personnel, records and other documentation and information that the Chief Internal Auditor considers necessary for the Internal Audit unit to undertake its responsibilities.

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

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

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

## Role

The Internal Audit unit is to support the City's Audit Risk and Compliance Committee to review and provide independent advice to the City in accordance with section 428A of the *Local Government Act 1993*. This includes conducting internal audits of the City and monitoring the implementation of corrective actions.

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

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

The Internal Audit unit has no direct authority or responsibility for the activities it reviews. The Internal Audit unit has no responsibility for developing or implementing procedures to systems and does not prepare records or engage in the City's functions or activities (except in carrying out its own functions).

## Chief Internal Auditor

The City's Internal Audit unit is to be led by a member of the City's staff with sufficient skills, knowledge and experience to ensure it fulfils its role and responsibilities to the Council and to the Audit Risk and Compliance Committee. The Chief Internal Auditor must be independent, impartial, unbiased and objective when performing their work and free from any conflicts of interest.

Responsibilities of the Chief Internal Auditor include:

- managing the day-to-day activities of the Internal Audit unit
- managing the City's internal audit budget

- supporting the operation of the City's Audit Risk and Compliance Committee
- approving internal audit project plans, conducting or supervising audits and assessments and providing independent advice to the Audit Risk and Compliance Committee
- monitoring the City's implementation of corrective actions that arise from the findings of audits
- implementing the Audit Risk and Compliance Committee annual work plan's four-year Strategic Internal Audit plan
- ensuring the City's internal audit activities comply with the Office of Local Government's *Guidelines for risk management and internal audit for local government in NSW* and the Institute of Internal Auditors' professional standards, and
- contract management and oversight of the external internal audit providers.

## Internal Audit unit

Members of the Internal Audit unit are responsible to the Chief Internal Auditor. Individuals who perform internal audit activities for the City must have:

- an appropriate level of understanding of the City's culture, systems and processes
- the skills, knowledge and experience necessary to conduct internal audit activities
- effective interpersonal and communication skills to ensure they can engage with City staff effectively and collaboratively, and
- honest, integrity and diligence.

The City has a panel of external third-party providers to undertake many of its internal audit activities. To ensure the independence of the external providers, the Chief Internal Auditor is to ensure the external providers:

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

The Chief Internal Auditor must consult with the Audit Risk and Compliance Committee and Chief Executive Officer regarding the appropriateness of the skills, knowledge and experience of any external provider before they are engaged by the City.

## Performing internal audit activities

The work of the Internal Audit unit is to be thoroughly planned and executed. The City's Audit Risk and Compliance Committee must develop a strategic work plan every four years to ensure that the matters listed in Schedule 1 are reviewed by the committee and considered by the Internal Audit unit function when developing their risk-based program of internal audits. The strategic work plan must be reviewed at least annually to ensure that it remains appropriate.

The committee must also develop an annual work plan to guide the work of the internal audit function over the forward year.

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

31000:2018 Risk Management.

The Chief Internal Auditor is to provide the findings and recommendations of internal audits to the Audit Risk and Compliance Committee at the end of each audit. Each report is to include a response from the relevant senior manager.

The Chief Internal Auditor is to establish an ongoing monitoring system to follow up the City's progress in implementing corrective actions.

The Chief Executive Officer, in consultation with the Audit Risk and Compliance Committee, is to develop and maintain policies and procedures to guide the operation of the City's Internal Audit unit.

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

## **Conduct**

Internal audit staff must comply with the City's code of conduct. Complaints about breaches of the City's code of conduct by internal audit staff 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 Chief Executive Officer must consult with the City's Audit Risk and Compliance Committee before any disciplinary action is taken against the Chief Internal Auditor in response to a breach of the City's code of conduct.

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

## **Administrative arrangements**

### **Audit Risk and Compliance Committee meetings**

The Chief Internal Auditor will attend Audit Risk and Compliance Committee meetings as an independent non-voting observer. The Chief Internal Auditor can be excluded from meetings by the committee at any time.

The Chief Internal Auditor must meet separately with the Audit Risk and Compliance Committee at least once per year.

The Chief Internal Auditor can meet with the chair of the Audit Risk and Compliance Committee at any time, as necessary, between committee meetings.

### **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 Audit unit should maintain an effective working relationship with the City and the

Audit Risk and Compliance Committee 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 Audit unit and the City, the dispute is to be resolved by the Chief Executive Officer and/or the Audit Risk and Compliance Committee. Disputes between the Internal Audit unit and the Audit Risk and Compliance Committee are to be resolved by Council.

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

### **Review arrangements**

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

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

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

### **Audit**

#### **Internal audit**

- Conduct internal audits as directed by the City's Audit Risk and Compliance Committee.
- Implement the City's annual and four-year strategic internal audit work plans.
- Monitor the implementation by the City of corrective actions.
- Assist the City 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**

- 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.
- Review all external plans and reports in respect of planned or completed audits and monitor the City's implementation of audit recommendations.

### **Risk**

#### **Risk management**

Review and advise:

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

of the effectiveness of business continuity arrangements, including business continuity plans, disaster recovery plans and the periodic testing of these plans.

### **Internal controls**

Review and advise:

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

### **Compliance**

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

- if the City has appropriately considered legal and compliance risks as part of the City's risk management framework
- how the City 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 the City's fraud and corruption prevention framework and activities, including whether the City's has appropriate processes and systems in place to capture and effectively investigate fraud-related information.

### **Financial management**

Review and advise:

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



## **Governance**

Review and advise of the adequacy of the City's governance framework, including the City's:

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

## **Improvement**

### **Strategic planning**

Review and advise:

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

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

Review and advise:

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

### **Performance data and measurement**

Review and advise:

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