



Internal Audit Charter

Introduction

Moreton Bay Regional Council (**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 (Act)*.

This charter provides the framework for the conduct of the internal audit activity in Council and has been approved by Council on the recommendation of the Audit Committee.

The Head of Internal Audit is responsible for the management of the internal audit function as a whole and is the person occupying the position of Principal Internal Auditor. Council has adopted a co-sourced model for the provision of internal audit services with assistance being provided by a panel of contractors and consultants delivering audit advisory services.

Purpose and Mission of Internal Audit

The International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (**IIA**) defines internal auditing as:

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation 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 consulting service to:

- provide assurance to Council, the Chief Executive Officer (**CEO**) and management that Council's financial and operational controls designed to manage Council's risks and achieve Council's objectives are operating in an efficient, effective and ethical manner, and
- assist management in improving Council's business performance.

The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight¹.

Independence

To be effective, the internal audit function must be able to operate without being influenced or inhibited in the discharge of its duties. Independence is essential to the effectiveness of internal audit. It is obtained primarily through organisational status and objectivity. Therefore, internal audit has no direct authority or responsibility for the activities it reviews. Internal audit has no responsibility for developing or implementing procedures or systems and does not prepare records or engage in original line processing functions or activities.

¹ International Professional Practices Framework issued by the IIA.

The Head of Internal Audit reports functionally to the Director Finance and Corporate Services and the Audit Committee and administratively to the Director Finance and Corporate Services and is accountable for the efficient and effective operation of the internal audit function.

The Head of Internal Audit has direct access to the CEO, and the Chair and other members of the Audit Committee.

Internal audit independence is reinforced by periodic meetings between the Head of Internal Audit and the Audit Committee (as needed) without other parties being present.

Where the person occupying the role of Head of Internal Audit may be responsible for a non-audit activity, there are independence safeguards in place:

- When responsible for non-audit activities, the Head of Internal Audit is not the Head of Internal Audit when managing or performing those activities, and
- Review of non-audit activities must be managed and performed independently of the Head of Internal Audit and reported direct to the Audit Committee.

All internal audit activities are to remain free of influence by any organisational elements. This will include such matters as scope of audit programs, the frequency and timing of examinations and the content of audit reports. The Head of Internal Audit is required to report any major restrictions on the scope of the internal audit, impairments, resource issues and any conflicts of interest to the CEO.

The Head of Internal Audit must confirm to the Audit Committee, at least annually, the organisation independence of the internal audit activity.²

Authority and Confidentiality

Internal Audit has no direct responsibility or 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.

All reviews are undertaken under the authority of the CEO, endorsed by the Audit Committee and adopted by Council.

Subject to strict adherence to the law and the observance of confidentiality and safeguarding records and information, Internal Audit staff are authorised to have unrestricted access to all Council's activities, records, data, property and personnel as required to enable it to meet its responsibilities.

All records, documentation and information accessed in the course of undertaking internal audit activities are to be used solely for the conduct of these activities. The Head of Internal Audit and individual internal audit staff (including contractors and external service providers performing work on behalf of internal audit) are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

All employees shall cooperate fully in making available any material or information reasonably requested by the Internal Auditors. Further, all employees are expected to bring to the attention of the Head of Internal Audit any suspected situation involving improper activity or non-compliance with applicable policies, directives, plans, procedures, laws or regulations, of which they have knowledge.

Internal Audit reports are deemed to be confidential reports of Council. However, under its legislation, the Queensland Audit Office (**QAO**) or its nominated contractors have access to all relevant Council documents including internal audit reports.

² International Standards for the Professional Practice of Internal Auditing - Standard 1110.

Roles and responsibilities

Internal audit's responsibilities are influenced by the governance arrangements established by Council. In the conduct of its activities, internal audit will play an active role in:

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

Internal audit has a primary responsibility to consult on governance, risk management and control issues and is required to report inadequately addressed risks and non-effective control processes to management and/or the Audit Committee. Reporting will be escalated to a level consistent with the internal audit assessment of the risk.

While internal audit is responsible for examining and evaluating the adequacy and effectiveness of the controls over risks, internal audit is not primarily responsible for the detection of fraud. That is management's responsibility. However, internal audit's activities may identify instances of fraud or areas of high risk of fraud.

Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

Scope of internal audit activities

Internal audit activity encompasses the review of all financial and non-financial policies and operations. Internal audit reviews may cover any of the programs and activities of Council and any associated entity (where applicable).

Internal audit activities will encompass the following areas:

Assurance activities

Internal audit assurance activities include audits with the following orientation:

Compliance

- Compliance with legislative requirements, Council policies, directives and procedures;
- Adequacy and effectiveness of internal financial and operational controls including information technology system controls and information security;
- Recording, control and use of Council assets; and
- Efficiency, effectiveness, and adherence to ethical standards and conduct in respect of Council's business activities, systems and processes in line with Council's statutory responsibilities, stated objectives and strategic plan.

Performance improvement

- Improve the economy, efficiency and effectiveness of Council's operations in areas such as improving service delivery, better contract and project management, eliminating waste, reducing costs or increasing revenue.

Consulting services

Internal audit is a valuable resource and can consult with Council and management on a range of matters including:

New programs, systems and processes

- Providing advice on the development of new programs and processes and/or significant changes to existing programs and processes particularly including the design of appropriate controls; and
- Internal audit should be consulted prior to making changes to existing or new systems in order to ensure that there are controls in place to provide reasonable assurance that there is appropriate compliance.

Risk management

- Assisting management to identify risks and develop risk mitigation and monitoring strategies as part of the enterprise risk management framework; and
- Monitoring and reporting on the implementation of risk mitigation strategies as a part of its annual internal audit plan.

Fraud and corruption control

- Assisting management to identify the risks of fraud and corruption and develop fraud and corruption prevention and monitoring strategies; and
- Monitoring and reporting on the implementation and maintenance of Council's Fraud and Corruption Control Plan.

In addition to the above, Internal Audit may be required to carry out special reviews from time to time at the direction of the CEO or the Audit Committee.

Internal audit support activities

Internal audit is also responsible for:

- assisting the Audit Committee to discharge its responsibilities;
- providing secretariat support to the Audit Committee;
- monitoring the implementation of agreed internal and external audit recommendations;
- disseminating across Council better practice and lessons learnt from its audit activities; and
- managing the audit function including business and audit planning.

Responsibility for detecting and reporting irregularities

Internal Audit is not legally or professionally responsible for preventing irregularities (which include fraud, other illegal acts and errors). In order to facilitate the fraud/corruption prevention function, the Head of Internal Audit should be informed, as appropriate, of any special investigation, fraud, theft or other suspected cases of misappropriation.

The responsibility for prevention of irregularities rests with Council 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.

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.

The Head of Internal Audit has a responsibility to report irregularities to the CEO and the Audit Committee.

The CEO is responsible for reporting any irregularities according to the provisions of the Act, the *Crime and Corruption Act 2001* and any other statutory regulations that may come into force from time to time. In this regard, the Manager Legal Services will fulfil the liaison officer's role to the Crime and Corruption Commission.

Follow-up activities

In addition to the follow-up activities of Divisional Directors, the Internal audit activity will also be responsible for appropriate follow-up of audit engagement findings and recommendations.

Standards

Internal Audit activities will be conducted in accordance with the following professional standards:

- International Standards for the Professional Practice of Internal Auditing issued by the IIA;
- Standards relevant to internal audit issued by CPA Australia and the Institute of Chartered Accountants in Australia;
- IS Audit and Assurance Standards issued by ISACA (previously known as the Information Systems Audit and Control Association); and
- Standards issued by Standards Australia and ISO International Standards (if applicable) issued by ISO (International Organisation for Standardisation).

Internal audit activities are conducted in accordance with the Act and the Local Government Regulation 2012 (**Regulation**) as well as supporting Council values, policies, directives and procedures.

In the conduct of internal audit work, internal audit staff and staff of the co-source service provider will:

- comply with relevant professional standards of conduct;
- possess the knowledge, capability, skills and technical proficiency relevant to the performance of their duties;
- be skilled in dealing with people and communicating audit, risk management and related issues effectively; and
- exercise due professional care in performing their duties.

Council recognises the need for internal audit staff to be professionally trained and qualified and will facilitate their ongoing professional and technical development by sponsoring attendance in professional workshops, seminars and conferences.

In the conduct of its activities, Council's Internal Audit function will play an active role in:

- helping to develop and maintain a culture of accountability and integrity across Council, and
- promoting a culture of self-assessment and adherence to high ethical standards.

Relationship with external audit and other assurance activities

Internal Audit and External Audit are two (2) distinct functions and perform their own unique roles.

The external audit of Council is performed by the QAO or its nominated contractors. The QAO is governed by the *Auditor-General Act 2009*, which mandates the functions and powers necessary to carry out independent audits of the Queensland public sector and related entities.

The external auditors are responsible for certifying Council's annual financial statements as to the accuracy and integrity of information, conformity with legislative and regulatory requirements, and assessing the adequacy of Council's internal control environment and associated impact on Council's financial statements.

Internal audit will establish and maintain an open relationship with the external auditor and any other assurance providers. Consistent with the internal audit strategy, internal audit will plan its activity to help ensure the adequacy of overall audit coverage and to minimise duplication of assurance effort.

From time to time the QAO may also undertake performance audit activities, which may include performance-based audits of elements of Council's operations.

Council may also be subjected to a range of other external audit and compliance reviews from other integrity agencies.

Regular meetings and contact between internal and external audit shall be held to discuss matters of mutual interest.

External audit has full and free access to all internal audit strategies, plans, working papers and reports.

To ensure that the Head of Internal Audit is aware of all matters associated with its functional responsibilities, the Head of Internal Audit is to be supplied with copies of all relevant correspondence received from External Audit.

Planning

The Head of Internal Audit will prepare prior to the end of each financial year, for the Audit Committee's consideration, a risk-based annual internal audit plan and a strategic three (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; and
- 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 Head of Internal Audit will communicate the impact of resource limitations and any significant changes in the strategy and plan to the Audit Committee.

It is to be noted that responsibility for the existence of an effective internal control system rests entirely with Council managers who are responsible for reporting on the effectiveness, or otherwise, of the internal control system.

Reporting Accountability

Internal Audit Report:

- A first draft report to be prepared and issued under the authority of the Head of Internal Audit to the responsible Manager, Divisional Director (**Management**) and other key stakeholders as soon as possible after the completion of an audit project, and at least five (5) days prior to the formal exit meeting.
- A formal exit meeting to be conducted with Management and other key stakeholders, summarising the scope of the review, the work done, issues raised during the audit, overall audit assessment and any other matters relevant to the audit. Agreement to be reached between Management and Internal Audit to ensure that the recommendations in the final report are sufficient to address the risks identified during the audit and the timeframes to implement these recommendations are realistic and achievable given current and future workloads.
- A final draft report will be prepared and issued to Management by the Head of Internal Audit to confirm accuracy and agreement to the findings raised and must be responded to by Management within five (5) working days of issue.; and
- The final report to be sent to Management, endorsed by the CEO and be presented to the Audit Committee at its next scheduled meeting. Where extreme risk issues have been identified in an Internal Audit, the Audit Committee Chairperson may be informed in advance of the meeting.

The Head of Internal Audit will report to each meeting of the Audit Committee on:

- matters arising from previous meetings;
- audits completed;
- the implementation status of agreed internal and external audit recommendations;
- update in relation to revised implementation dates of recommendations and/or extension requests;
- progress in implementing the annual internal audit work plan; and
- resource issues impacting on internal audit's ability to complete the approved internal audit work plan.

Management's Responsibility for Corrective Action

Management is responsible for seeing that action is either planned or taken within 30 working days (or earlier) from receipt of the final audit report on recommendations made or deficient conditions reported by the internal auditors. Recommendations are considered outstanding until they are implemented and/or hold a status of 'no further action required'. Any recommendations that have not been actioned within the agreed timeframe will follow the 'Follow Up and Escalation Procedure.'

If Management foresees difficulties implementing the recommendations within the time frame, the Manager, in consultation with their Divisional Director, should advise the Head of Internal Audit regarding the cause of delay and the revised implementation schedule.

Upon implementation of the recommendation/s, a written report should be sent by the responsible officer to Management and a copy be sent to the Head of Internal Audit.

Follow Up and Escalation Procedure

Internal Audit will provide reminders to Management when recommendations are due for completion. These are to be issued approximately four (4) weeks in advance of the due date.

Management is to contact the Head of Internal Audit to seek an extension to the timeframe for completing the recommendation when they are unable to implement them within the agreed timeframe. This to occur when the recommendation becomes due for implementation:

- First extension requests are to be determined by the Head of Internal Audit
- Second and subsequent extension requests are to be referred to the CEO for determination and will be considered as 'Overdue Recommendations'. The CEO to determine if Management should present at the Audit Committee in relation to their relevant 'Overdue Recommendation'
- A report detailing all 'Overdue Recommendations' to be provided to the relevant Director after each Audit Committee Meeting for review and follow up, and
- An Audit Summary Report of all outstanding audit recommendation will be tabled quarterly at Executive Management meetings by the Director Finance and Corporate Services.

Directors Attendance at Audit Committee Meetings

Directors and/or their nominees are required to attend Audit Committee meetings to talk to (or be in antecedence for):

- The presentation of each Internal Audit Report that is relevant to their respective Division, as well as
- Their respective sections of the Implementation of Recommendations list regarding the progress/status of same.

Quality Assurance and Improvement Program

The Head of Internal Audit will maintain a Quality Assurance and Improvement Program that covers all aspects of the Internal Audit function. This includes:

- Internal assessments
- Ongoing monitoring of the performance of internal audit activity, and
- Periodic reviews performed through self-assessment.

Internal Audit will reserve the right to obtain a copy of all working papers associated with co-sourced reviews, and to perform a peer review of the working papers and report.

The results of the Quality Assurance and Improvement Program to be reported at least annually to the CEO and the Audit Committee.

The program also includes the review of the internal audit function by an external party on Internal Audit's effectiveness at least every five (5) years.

Annual Code of Ethics and Conflicts of Interest Declaration

The Head of Internal Audit will arrange on an annual basis for all internal audit staff, including internal audit service providers who may be engaged by Council, to make a declaration of conformance to the Code of Ethics issued by the IIA together with a declaration that there are no conflicts of interest. Where a conflict of interest should occur, a statement that these have been reported to the relevant officers and are being appropriately managed should be included in the declaration.

Review of the Charter

This charter will be reviewed on an annual basis or earlier if decided by the Audit Committee. Any substantive changes will be formally approved by Council on the recommendation of the Audit Committee.

Internal Audit Charter		Official Version: A14489206	
Document Control			
Version	Committee Consideration	Council Adoption	Word Version Reference
V1	Audit – 22 July 2008 (P.08/1954)	General Meeting – 5 August 2008 (GM-08/2285)	C1355862
V2	Audit – 22 April 2009 (P.09/1011) (for further review and resubmission)	General Meeting – 28 April 2009 (09/1066)	C1356290
V3	Audit – 14 October 2009 (P.09/3017)	General Meeting – 20 October 2009 09/3063)	A821919
V4	Audit – 21 April 2010 (P.10/1015) (Independence - reporting lines)	General Meeting – 27 April 2010 (10/1020)	C1359057
V5	Audit – 29 August 2012 (P.12/1490)	General Meeting – 4 September 2012 (12/1499)	A6720625
V6	Audit – 21 August 2013 (P. 13/1527)	General Meeting – 27 August 2013 (13/1534)	A8438726
V7	Audit - 16 November 2016 (P.16/2508)	General Meeting - 22 November 2016 (16/2512)	A841685
V8	Audit - 4 October 2017 (P.17/1894)	General Meeting - 10 October 2017 (17/1898)	A15851986
V9	Audit - 26 September 2018 (P.18/2022)	General Meeting - 9 October 2018 (18/2026)	A17510233
V10	Audit - 7 August 2019 (P. 19/1680)	General Meeting - 20 August 2019 (19/1807)	A18891924