

LOCKHART RIVER ABORIGINAL SHIRE COUNCIL
POLICY DOCUMENT



INTERNAL AUDIT POLICY	
ADOPTION DATE:	July 2019
REVISION DATE:	June 2020
DIVISION	Finance
RESPONSIBLE OFFICER:	Director Finance and Admin
Note: P – Primary Author, S – Secondary Author	

POLICY OBJECTIVE:

The primary objective of the internal audit function is to provide an independent and objective review and advisory service to:-

- provide reasonable assurance to the Council that the entity'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.

DEFINITIONS:

<i>Term</i>	<i>Definition</i>
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RELEVANT LEGISLATION:

Local Government Act 2009 (Chapter 4 Part 3)

Local Government Regulation 2012 (s.207)

Criminal Code Act 1899

POLICY STATEMENT:

The internal audit function is established in accordance with section 105(1) of the Local Government Act 2009.

This charter defines the function, scope, operating and reporting parameters for the internal audit function.

INDEPENDENCE:

Independence is essential to the effectiveness of the internal audit function. It is obtained primarily through organisational status and objectivity.

Objectivity is essential in performing the audit role. Accordingly, internal audit 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 administration and management of the audit activities. In addition, they shall not be responsible for the designing, installing, or maintaining of systems, procedures, or controls, but will advise on these matters and provide advice or assurance to management that completed systems will contribute to the achievement of the intended objectives.

To be effective, the internal audit function must be able to operate without being influenced or restricted when undertaking its responsibilities. For this purpose the Internal Auditor reports functionally to the team comprising the Mayor and the Chief Executive Officer.

The Internal Auditor shall have full, free, and unrestricted access to the Mayor and the Chief Executive Officer regarding:-

- any matters requiring direct discussion with the Mayor or Chief Executive Officer;
- all internal auditing and fraud or corruption matters;
- any matters impacting on the independence or effectiveness of the internal audit function, or where internal audit may not receive the co-operation of all levels of management in light of its functions and activities; or
- adequacy of resources for the internal audit function, relative to the size of its responsibilities.

Management of the day-to-day activities of the internal audit function is carried out by the Chief Executive Officer.

Authority and confidentiality

The Internal Auditor is authorised to direct a broad, comprehensive program of internal auditing within the Council in accordance with this charter and established management policies and directives.

The Internal Auditor in the course of their duties, has full, free, and unrestricted access to all records, monies, materials, assets, property, and personnel and are permitted to examine all transactions, review all policies, procedures, and functions in the Council. Council functions include entities over which Council has direct management, sponsorship, financial control or controlling interest, directly or indirectly.

Information acquired by internal audit in the course of their duties must remain confidential and must not be used for purposes outside the scope of the audit review.

All members of management and staff must fully co-operate with the Internal Auditor in relation to matters subject to review. The Internal Auditor for his part will provide a professional service that will be conscious of, and sensitive to, the work constraints and responsibilities of others, and seek consensus on issues wherever possible.

Roles and Responsibilities

In the conduct of its activities, internal audit will 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 cost-consciousness, self-assessment and adherence to high ethical standards.

Internal audit activities will encompass the following areas:-

AUDIT ACTIVITIES:

Audit activities including audits with the following orientation:-

Control framework

- review whether management's approach to maintaining an effective internal control framework, including over external parties such as contractors and advisors, is sound and effective;
- review whether management has in place relevant policies and procedures and that these are periodically reviewed and updated;

- determine whether the appropriate processes are in place to assess whether policies and procedures are complied with;
- review whether appropriate policies and procedures are in place for the management and exercise of delegations;
- consider how management identifies any required changes to the design or implementation of internal controls; and
- review whether management has taken steps to embed a culture which is committed to ethical and lawful behaviour.

External accountability

- review a draft of the Council's general purpose financial statement before the statement is certified by the Mayor and Chief Executive Officer under section 212 (5) of the Local Government Regulation 2012 and given to the auditor-general for auditing, and satisfy itself that the statement complies with applicable Australian Accounting Standards;
- satisfy itself that the general purpose financial statement is supported by appropriate management sign-off and the adequacy of internal controls;
- review the external audit opinion and report, including whether appropriate action has been taken in response to audit recommendations and adjustments;
- review the processes in place designed to ensure that financial information included in the Council's annual report is consistent with the signed financial statements;
- satisfy itself that the Council has appropriate mechanisms in place to review and implement, where appropriate, relevant State Government reports and recommendations.

Legislative compliance

- determine whether management has appropriately considered legal and compliance risks as part of the Council's risk assessment and management arrangements; and
- review the effectiveness of the system for monitoring the Council's compliance with relevant laws, regulations and associated government policies.

Corporate management and accountability

- contributing to the corporate management process by assessing and reporting the relevance, reliability and adequacy of management data and performance indicators and reviewing operations/projects 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.

Performance improvement

- the efficiency, effectiveness, and ethical conduct of the Council's systems and processes.

ADVISORY SERVICES:

Internal audit can advise management and the Council 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 including the design of appropriate controls.

Risk management

- review whether management has in place a current and comprehensive risk management framework, and associated procedures for effective identification and management of the Council's financial and business risks, including fraud;
- review whether a sound and effective approach has been followed in developing strategic risk management plans for major projects or undertakings;
- review the impact of the Council's risk management framework on its control environment and insurance arrangements;

- review whether a sound and effective approach has been followed in establishing the Council's business continuity planning arrangements, including whether disaster recovery plans have been tested periodically; and
- review the Council's fraud control plan and satisfy itself that the Council has appropriate processes and systems in place to capture and effectively investigate fraud related information.

AUDIT SUPPORT ACTIVITIES:

Internal audit is also responsible for:-

- monitoring the implementation of agreed recommendations;
- disseminating across the entity better practice and lessons learnt arising from its audit activities;
- preparing the internal audit strategic plan and internal audit annual work plan, ensuring that there is adequate coverage and that the plans are based on the Council's operational risks;
- prepare internal audit progress and other audit reports and provide advice to the Council on significant issues identified in the reports and action taken on issues raised, including identification and dissemination of good practice;
- monitor management's implementation of internal audit recommendations;
- review the internal audit charter to ensure appropriate organisational structures, authority, access and reporting arrangements are in place and recommend any changes to the Audit Sponsor;
- discuss the scope of the total audit activities with the external auditors, after reference to the letter of engagement and proposed external audit program and plan;
- review all external plans and reports in respect of planned or completed audits and monitor management's implementation of audit recommendations; and
- provide advice to the Council on action taken on significant issues raised in relevant external audit reports and better practice guides.

RESPONSIBILITY FOR DETECTING AND REPORTING IRREGULARITIES:

The internal audit function is not legally or professionally responsible for preventing irregularities. Irregularities include fraud, other illegal acts and errors. In order to facilitate the fraud/corruption prevention function, the Head of internal audit should be informed of any special investigation, fraud, theft, or other suspected cases of misappropriation.

The responsibility for prevention of irregularities rests with Council 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, the Internal Auditor 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 Internal Auditor has a responsibility to report significant irregularities to the Mayor and the Chief Executive Officer. The Chief Executive Officer is responsible for reporting any irregularities according to the provisions of the Local Government Act 2009, the Criminal Code Act 1899 and any other statutory regulations that may come into force from time to time.

PLANNING

The Internal Auditor will prepare annually, for the Mayor's and the CEO's consideration, an internal audit strategic plan covering a three-year rolling period and an internal audit annual work plan in a form agreed with the Committee. The internal audit strategic plan outlines the broad strategic

direction of internal audit over the medium term and provides an important link between the internal audit charter and the detailed internal audit annual work plan.

The internal audit function shall generally undertake projects in accordance with the approved annual work plan but shall also conduct such further unscheduled projects as the Mayor and the Chief Executive Officer consider desirable. The Internal Auditor may also spontaneously initiate and conduct any other audit, review, or investigation deemed necessary. The nature and scope of each project will be left to the professional judgement of the Internal Auditor. Any significant changes in the internal audit strategic plan or internal audit annual work plan should be approved by the Mayor and the CEO.

REPORTING

Before 30 June each year, the Internal Auditor will provide to the Mayor and the CEO for their consideration:

- the internal audit strategic plan;
- the internal audit annual work plan; and
- the internal audit charter.

In preparing the internal audit annual work plan, internal audit must:

- evaluate the Council's operational risks; and
- have regard to the relevant accounting documents.

The internal audit annual work plan must state:-

- the way in which the operational risks have been evaluated;
- the most significant operational risks identified from the evaluation;
- the control measures that the Council has adopted, or is to adopt, to manage the most significant operational risks; and
- the way in which the Council has had regard to the relevant accounting documents in preparing the plan.

As soon as practicable, after 30 June each year, the Internal Auditor will provide an internal audit progress report containing:-

- details of all audits completed during the preceding year stating;
 - the control measures that the Council has adopted that were assessed by the internal audit;
 - the way in which the internal audit was carried out;
 - the observations of the person carrying out the audit, including for example, whether the person considers that the control measures have been successful in managing the risks to which they relate;
 - any recommendations of the person who conducted the audit about any action that may be taken to improve the success of the control measures, or alternative control measures that the Council may adopt for managing the risks that the Council's operations are exposed to and the legal action that may be taken to give effect to the alternative control measures;
 - a summary of the Chief Executive Officer's response to the internal audit including the action the Council intends to take in response to the recommendations and when the action is intended to be taken; and
- a summary of the actions taken by the Council in response to the recommendations in the internal audit progress reports for the preceding two financial years.

The Internal Auditor audit will report to each meeting of the Committee comprising the Mayor and the CEO:-

- audits completed since the last meeting;

- progress in implementing the internal audit strategic plan and internal audit annual work plan;
- the status of the implementation of external audit, Parliamentary Committee and other relevant external body recommendations; and
- at least twice during the year after an internal audit is carried out:-
 - a summary of the recommendations stated in the report;
 - a summary of the actions that have been taken by the Council in response to the recommendations; and
 - a summary of any actions that have not been taken by the Council in response to the recommendations.

The Internal Auditor will also:-

- review a draft of the local government's general purpose financial statement for the preceding financial year and provide a report to the Committee before the statement is certified under section 212(5) of the Local Government Regulation 2012 and given to the auditor-general for auditing; and
- review the auditor-general's report about the local government's general purpose financial statement for the preceding financial year and provide a report to the Committee.

REPORTING ACCOUNTABILITY:

The manager of the area/department subject to audit, the Chief Executive Officer, and the Mayor will be issued with a draft audit report after finalisation of an audit. The manager and/or the Chief Executive Officer will respond in writing within five (5) working days or such longer period as may be determined between the manager and/or Chief Executive Officer and the Internal Auditor.

This response will indicate what actions were taken or are planned in regard to the specific findings and recommendations in the audit report and a timetable for the anticipated completion of these actions will be included. Findings and recommendations must be given proper consideration. There must not be excessive delays in correcting reported defects. If no response is received, the auditor will note that fact in the report and release the report. The auditor may specify that a recommendation and/or response is not necessary.

For each audit carried out, a final audit report will be prepared and issued to the Chief Executive Officer and to the Mayor, by the Internal Auditor and will include comments and action plans by the appropriate manager and/or Chief Executive Officer. This report will include the auditor's opinion, wherever appropriate, on whether the internal control measures have been successful in managing the identified risks. For non-audit reports, consulting engagements or reviews, different criteria may apply.

The Internal Auditor or the internal audit function may advise the Auditor-General of Queensland, or their representative, about any audit findings.

The internal audit function shall retain a complete file of each audit report and each report of other examinations, investigations, surveys, and reviews made on behalf of the Council. The file should include audit work papers and other supportive material directly pertaining to the audit report.

MANAGEMENT'S RESPONSIBILITY FOR CORRECTIVE ACTION:

The manager of the area/department subject to audit is responsible for seeing that corrective action on recommendations made or deficient conditions reported by auditors are either planned or taken within thirty (30) working days from receipt of the final audit report, or as otherwise agreed.

If the manager foresees difficulties implementing the recommendations within the timeframe, the manager should advise the Internal Auditor regarding the cause of the delay and the revised implementation schedule.

ADMINISTRATIVE ARRANGEMENTS

CONFLICTS OF INTEREST:

The Internal Auditor is not to provide audit services for work which he may previously have been responsible. Instances of perceived or actual conflicts of interest are to be immediately reported to the Mayor and the CEO.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM:

The Internal Auditor shall develop and implement a quality assurance and improvement program, to provide assurance that internal audit work confirms to the Standards and is focused on continuous improvement.

EVALUATION OF INTERNAL AUDIT:

The Internal Auditor shall develop performance measures for consideration and endorsement by the Mayor and CEO, as a means for the performance of internal audit to be periodically evaluated.

REVIEW OF POLICY:

At least once per annum the Internal Auditor, the Mayor and the CEO will review this charter.

Any substantive changes to the charter will be recommended by the review team and formally approved by the Council.

IMPLEMENTATION:

Policy to be implemented by the Director of Administration and Finance

Policy commences immediately on adoption by Council

Policy applies to all employees of the Council.

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