



Charter:  
Internal Audit 2020

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## **Introduction**

This Internal Audit Charter is a formal statement of purpose, authority and responsibility for an internal auditing function for the Uralla Shire Council.

1. It establishes the internal audit function for the Uralla Shire Council (the Council) and recognises the importance of such an independent and objective service to the organisation.
2. It outlines the legal and operational framework under which internal audit will operate.
3. It authorises the Internal Auditor to promote, direct and conduct a broad range of internal audits across the Council and where permitted, external bodies.
4. The Uralla Shire Council's internal audit function is exercised by a common arrangement with Armidale Regional Council and Glen Innes Severn Council. The jointly appointed Internal Auditor is to exercise functions for the three councils<sup>1</sup>.
5. Each Council's audit charter is to be adopted by the respective Council's governing body.

## **Purpose and Mission**

The purpose of the Uralla Shire Council's internal audit function is to provide independent, objective assurance and consulting services designed to add value and improve Uralla Shire Council's operations. The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. The internal audit function helps Uralla Shire Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and governance processes.

## **Standards for the Professional Practice of Internal Auditing**

The internal audit function will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing ([Annex 1](#)), the Code of Ethics ([Annex 2](#)), the International Standards for the Professional Practice of Internal Auditing (the Standards), and the Definition of Internal Auditing (included in Annex 2).

The Internal Auditor will report periodically to senior management and to the Audit, Risk and Improvement Committee (ARIC) regarding:

1. The internal audit function's purpose, authority, and responsibility.
2. The internal audit function's plan and performance relative to its plan.
3. The internal audit function's conformance with The Institute of Internal Auditors' Code of Ethics and Standards and action plans to address any significant conformance issues.
4. Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the ARIC.
5. Results of audit engagements or other activities.
6. Resource requirements.
7. Any response to risk by management that may be unacceptable to the Council.

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<sup>1</sup> As per guidance provided in the Local Government Amendment (Governance and Planning) Act 2016 No 38 (Schedule 1 Amendment of Local Government Act 1993 No 30)

## **Authority**

The Internal Auditor will report functionally to ARIC and administratively (i.e., day-to-day operations) to the General Manager.

To establish, maintain, and assure that the Council's internal audit function has sufficient authority to fulfil its duties, the ARIC will:

1. Endorse the internal audit's charter before sending to Council for final approval.
2. Recommend the risk-based internal audit plan.
3. Advise Council of the resources needed to conduct the internal audit plan.
4. Receive communications from the Internal Auditor on the internal audit's performance relative to its plan and other matters.
5. Make appropriate inquiries of management and the Internal Auditor to determine whether there is inappropriate scope or resource limitations.
6. The Internal Auditor will have unrestricted access to, and communicate and interact directly with, the ARIC, including in private meetings without management present.
7. Review, at least quarterly, of the internal audits undertaken and progress made implementing corrective action.

The Council support the internal auditor to:

1. Have full, free and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
2. Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives and issue reports.
3. Obtain assistance from the necessary personnel of the Council, as well as other specialised services from within or outside the Council, in order to complete the engagement. The scope and cost of which will be agreed upon with the Council prior to any engagement.

## **Independence and Objectivity**

The Internal Auditor will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing and report content.

If the Internal Auditor determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to ARIC. Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

1. Performing any operational duties for the Council or its affiliates.

2. Initiating or approving transactions external to the internal audit function.
3. Directing the activities of any Council employee not employed by the internal audit function, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Internal Auditor has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

The work of Internal Audit does not relieve the staff of the Uralla Shire Council from their accountability to discharge their responsibilities. All Uralla Shire Council staff are responsible for risk management and the operation and enhancement of internal control. This includes responsibility for implementing remedial action endorsed by management following an internal audit.

Internal auditors will:

1. Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
2. Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
3. Make balanced assessments of all available and relevant facts and circumstances.
4. Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The Internal Auditor will confirm to ARIC in the Annual Report, the organisational independence of the internal audit function.

The Internal Auditor will disclose to ARIC any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

### **Scope of Internal Audit Activities**

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the ARIC, management, and relevant outside parties on the adequacy and effectiveness of governance, risk management and control processes for the Council. Internal audit assessments include evaluating whether:

1. Risks relating to the achievement of the Council's strategic objectives are appropriately identified and managed.
2. The actions of the Council's officers and contractors are in compliance with the Council's policies, procedures and applicable laws, regulations and governance standards.
3. The results of operations or programs are consistent with established goals and objectives.
4. Operations or programs are being carried out effectively and efficiently.
5. Established processes and systems enable compliance with the policies, procedures, laws and regulations that could significantly impact the Council.
6. Information and the means used to identify, measure, analyse, classify and report such information are reliable and have integrity.
7. Resources and assets are acquired economically, used efficiently, and protected adequately.

The Internal Auditor also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal auditor may perform **advisory** and related client service activities, the nature, scope and cost of which will be agreed with the Council, provided the internal audit does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

### **Internal Audit Methodology**

Internal Audit shall use the most appropriate methodology for each internal audit engagement, depending on the nature of the activity and the pre-determined parameters for the engagement. Generally, internal audits will include:

1. Planning.
2. Reviewing and assessing risks in the context of the audit objectives.
3. Examination and evaluation of information.
4. Communicating results and receiving feedback.
5. Following up on implementation of audit recommendations.

### **Responsibility**

The internal auditor has the responsibility to:

1. Submit, at least annually, to senior management and the ARIC a risk-based internal audit plan for review and approval.
2. Communicate to senior management and ARIC the impact of resource limitations on the internal audit plan.
3. Review and adjust the internal audit plan, as necessary, in response to changes in the Council's business, risks, operations, programs, systems, and controls.
4. Communicate to senior management and ARIC any significant interim changes to the internal audit plan.
5. Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results and the communication of engagement results including receiving feedback from Council and with applicable conclusions and recommendations to appropriate parties.
6. Follow up on engagement findings and corrective actions and report at least quarterly to senior management and ARIC any corrective actions not effectively implemented.
7. Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
8. Communicate to senior management and ARIC if the internal audit function needs to obtain external knowledge, skills, and other competencies needed to meet specific requirements of the internal audit charter.
9. Ensure trends and emerging issues that could impact the Council are considered and communicated to senior management and ARIC as appropriate.
10. Ensure emerging trends and successful practices in internal auditing are considered.

11. Establish and ensure adherence to policies and procedures designed to guide the internal audit function.
12. Ensure adherence to the Council's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and ARIC.
13. Ensure conformance of the internal audit function with the Standards and the following qualifications:
  - a. If the internal audit function is prohibited by law or regulation from conformance with certain parts of the Standards, the Internal Auditor will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
  - b. If the Standards are used in conjunction with requirements issued by other authoritative bodies, the Internal Auditor will ensure that the internal audit function conforms to the Standards, even if the internal audit function also conforms to the more restrictive requirements of other authoritative bodies.

### **Knowledge, Skills, and Technical Proficiency**

Internal Audit staff shall –

1. Possess the knowledge, skills, and technical proficiency essential to the performance of internal audits.
2. Be skilled in dealing with people and in communicating audit issues effectively.
3. Maintain their technical competence through a program of continuing education.

### **Due Professional Care**

Internal Audit staff shall –

1. Exercise due professional care in performing internal audit engagements.
2. Conduct themselves in a professional manner.
3. Conduct their activities in a manner consistent with the concepts expressed in the Standards, the Code of Ethics ([Annex 2](#)) and Council's Code of Conduct.

### **Reporting Arrangements**

The internal auditor shall at all times report to ARIC. At each ARIC meeting the internal auditor shall submit a report summarising all audit activities undertaken during the period, indicating:

1. Internal audit engagements completed or in progress.
2. Outcomes of each internal audit engagement undertaken.
3. Remedial action taken or in progress.

On completion of each internal audit engagement, the internal auditor shall issue a report to Council detailing the objective and scope of the audit and the resulting issues based on the outcome of the audit. Internal Audit shall seek from the General Manager an agreed and endorsed action plan outlining remedial action to be taken, along with an implementation timetable and the person responsible. Responsible officers shall have a maximum of twenty eight (28) working days to provide written management responses and action plans in response to issues and recommendations contained in internal audit reports.



The Internal Auditor shall make available all internal audit reports to the ARIC. However, the work of Internal Audit is solely for the benefit of the Council and is not to be relied on or provided to any other person or organisation, except where this is formally authorised by the Council governing body.

In addition to the normal process of reporting on works undertaken, the Internal Auditor shall draw to the attention of the ARIC all matters that, in their opinion, warrant reporting.

### **Planning Requirements**

The Internal Audit function uses a risk-based rolling program of internal audits to establish an annual Internal Audit Plan to reflect a program of audits over a 12 month period. This approach is designed to be flexible, dynamic and opportune in order to meet the changing needs and priorities of the Council.

The Internal Auditor shall prepare an annual Internal Audit Plan for review and approval by the ARIC, showing the proposed areas for audit. The annual Internal Audit Plan shall be based on an assessment of the goals, objectives and business risks of the Council, and shall also take into consideration any special requirements of the ARIC and Council's senior management.

The Internal Auditor has discretionary authority to adjust the Internal Audit Plan as a result of receiving special requests from Council's senior management to conduct reviews that are not on the plan, with these to be approved at the next meeting of the ARIC.

### **Quality Assurance and Improvement Program**

The ARIC shall oversee the development and implementation of a quality assurance and improvement program that covers all aspects of the internal audit. The program will include an evaluation of the internal audit's conformance with the Standards and an evaluation of whether internal auditors apply The Institute of Internal Auditors' Code of Ethics.

The program will also assess the efficiency and effectiveness of the internal audit function and identify opportunities for improvement. The Internal Auditor will communicate to senior management and ARIC on the internal audit's quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every four years by a qualified, independent assessor or assessment team from outside the Council.

### **Coordination with External Audit**

The Internal Auditor shall periodically consult with the external auditor, to discuss matters of mutual interest, to co-ordinate audit activity, and to reduce duplication of audit effort.

### **Review of the Internal Audit Charter**

The Internal Auditor shall periodically review the Internal Audit Charter to ensure it remains up-to-date and reflects the current scope of internal audit work and complies with the Model Internal Audit Charter.

### **Conflict of Interests**

Internal auditors are not to provide audit services for work for which they may previously have been responsible. Whilst the Standards provide guidance on this point and allow this to occur after 12 months, each instance should be carefully assessed.

When engaging internal audit contractors, the Internal Auditor shall take steps to identify, evaluate the significance, and manage any perceived or actual conflicts of interest that may impinge upon internal audit work.

Instances of perceived or actual conflicts of interest by the internal audit staff and contractors are to be immediately reported to the ARIC.

Any changes to this Internal Audit Charter will be approved by the ARIC.

**Approval/Signatures**

_____	_____
Internal Auditor	Date
_____	_____
Audit, Risk and Improvement Committee Chair	Date
_____	_____
General Manager	Date

## **ANNEX 1. Internal Audit Core Principles**

The Core Principles for the Professional Practice of Internal Auditing, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively. How an internal auditor, as well as an internal audit activity, demonstrates achievement of the Core Principles may be quite different from organization to organization, but failure to achieve any of the Principles would imply that an internal audit activity was not as effective as it could be in achieving internal audit's mission (see Mission of Internal Audit).

**Demonstrates integrity.**

**Demonstrates competence and due professional care.**

**Is objective and free from undue influence (independent).**

**Aligns with the strategies, objectives, and risks of the organization.**

**Is appropriately positioned and adequately resourced.**

**Demonstrates quality and continuous improvement.**

**Communicates effectively.**

**Provides risk-based assurance.**

**Is insightful, proactive, and future-focused.**

**Promotes organizational improvement.**

The Institute of Internal Auditors, *Core Principles*, accessed 2 December 2019, <<https://global.theiia.org/standards-guidance/mandatory-guidance/Pages/Core-Principles-for-the-Professional-Practice-of-Internal-Auditing.aspx>>.

## **ANNEX 2. Internal Audit Code of Ethics**

### **Introduction to the Code of Ethics**

The Code of Ethics states the principles and expectations governing the behaviour of individuals and organizations in the conduct of internal auditing. It describes the minimum requirements for conduct, and behavioural expectations rather than specific activities.

The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing.

**Definition of Internal Auditing.** Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about governance, risk management, and control.

The Institute's Code of Ethics extends beyond the **Definition of Internal Auditing** to include two essential components:

1. Principles that are relevant to the profession and practice of internal auditing.
2. Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

"Internal auditors" refers to Institute members, recipients of or candidates for IIA professional certifications, and those who perform internal audit services within the Definition of Internal Auditing.

### **Applicability and Enforcement of the Code of Ethics**

This Code of Ethics applies to both entities and individuals that perform internal audit services.

For IIA members and recipients of or candidates for IIA professional certifications, breaches of the Code of Ethics will be evaluated and administered according to The IIA's Bylaws, the Process for Disposition of Code of Ethics Violation, and the Process for Disposition of Certification Violation. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable, and therefore, the member, certification holder, or candidate can be liable for disciplinary action.

## **Code of Ethics — Principles**

Internal auditors are expected to apply and uphold the following principles:

### **1. Integrity**

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

### **2. Objectivity**

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

### **3. Confidentiality**

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

### **4. Competency**

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

## **Rules of Conduct**

### **1. Integrity**

Internal auditors:

1.1. Shall perform their work with honesty, diligence, and responsibility.

1.2. Shall observe the law and make disclosures expected by the law and the profession.

1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.

1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

### **2. Objectivity**

Internal auditors:

2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.

2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.

2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

### **3. Confidentiality**

Internal auditors:

3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.

3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

### **4. Competency**

Internal auditors:

4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.

4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

The Institute of Internal Auditors, *Code of Ethics*, accessed 2 December 2019,  
<<https://global.theiia.org/standards-guidance/mandatory-guidance/Pages/Code-of-Ethics.aspx>>.