

INTERNAL AUDIT POLICY

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INTERNAL AUDIT POLICY

1. INTRODUCTION

Although there is no specific requirement under the Local Government Act, 1993 for internal audit in local Councils, the Department of Local Government recommends that the Council seriously consider the establishment of an internal audit function. This Policy was reviewed and updated in accordance with the Internal Audit Guidelines released by the Department of Local Government in October 2008. These guidelines propose oversight of council systems and processes through an audit committee. The combination of an effective audit committee and internal audit function provide a formal means by which councillors can obtain assurances that risk management is working effectively.

In addition, the Independent Commission Against Corruption (ICAC) believes that “corruption may flourish in organisations which neglect or undermine the internal audit function”, and in such cases “the organisation will lose the benefit of independent review in ensuring the integrity of systems and procedures”. The ICAC further states the need for internal audit to have the cooperation and support of management, with internal auditors reporting directly to the Chief Executive (*ICAC Report Trips and Traps - Travel in the NSW Public Sector*, February 1994).

The Internal Audit function has been established within the Blue Mountains City Council to review all aspects of the Council operations, activities, programs and procedures and to report objectively thereon, with the Internal Auditor reporting to the General Manager through the Public Officer.

1.1 Statutory Obligations of the General Manager

Section 355 in Part 2 of Chapter 12 of the Local Government Act, 1993 states that the General Manager “is generally responsible for the efficient and effective operation of the Council organisation and for ensuring the implementation, without undue delay, of decisions of the Council”. Furthermore, the General Manager has the following particular functions:

- a) The day-to-day management of the Council;
- b) The exercise such of the functions of the Council as are delegated by the Council to the General Manager;
- c) To appoint staff in accordance with an organisation structure and resources approved by the Council;
- d) To direct and dismiss staff;
- e) To implement the Council EEO plan;

- f) To ensure that effective measures are taken to secure the effective, efficient and economical management of financial operations within each Group of the Council administration; and
- g) Authorising and recording procedures are established to provide effective control over the Council assets, liabilities, revenue and expenditure and secure the accuracy of the accounting records, including a proper division of accounting responsibilities among the Council staff.

The Internal Audit (IA) function has been established to assist the Council General Manager in achieving these statutory functions.

2. INTERNAL AUDIT FUNCTION AND SCOPE

2.1 Definition of Internal Audit

The Institute of Internal Auditor's states that *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 effectiveness of risk management, control, and governance processes* (IIA August 1999).

2.2 The Council's Internal Auditor is responsible to the General Manager/or their Delegate for:

- (a) The development of a dynamic comprehensive Audit Policy with relevant associated Policy and supporting programs, for the efficient and effective performance of the internal Audit function;
- (b) The development of annual IA Plans;
- (c) Monitoring management controls to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned and authorised by the Council;
- (d) Monitoring compliance with relevant legislation, Department of Local Government directives and other regulatory instruments;
- (e) Anticipating, identifying, and assessing risks to the assets, activities and interests of the Council;
- (f) The examination and review of major computer-based operations, including any proposal for the acquisition, use or enhancement of computer facilities at the development stage of any such proposal, and the Internal Auditor shall be involved in the development/acquisition of any new major computerised financial system;
- (g) Investigating actual and potential lapses of control and incidents of risk over the financial and other operations and activities of the Council;
- (h) Examining and reviewing the Council performance indicators/measures, and provide guidance in the derivation and implementation of new performance measures and indicators;
- (i) Carrying out any assignment specifically directed by the General Manager or Internal Audit Steering Committee (IASC); and
- (j) Making recommendations for the improvement of control, the responses to risk, and the attainment of the Council objectives.

3. AUTHORITY

- 3.1 Authority is vested in the Internal Auditor to enable the internal audit function to be performed efficiently, conveniently and to the satisfaction of the Internal Auditor with every assistance from officers and employees of the Council and without any impediment.
- 3.2 For the purpose of performing any internal audit function, the Internal Auditor is authorised, without restriction -
- (a) To have access to any office, store or other premises or property owned or used by the Council in its operations and activities;
 - (b) To have access to, and be presented with, any books, accounts, files, documents or papers pertaining to the operations or activities of the Council and to take copies thereof;
 - (c) To have access to any of the Council PC or laptop computers, including the data and other files stored electronically on such computers, network or back-up media, and to:
 - obtain details of any software stored on the computer, network or back-up media, or
 - to remove the computer or back-up for analysis (subject to not affecting operational needs), or
 - to take electronic or printed copies of data files and/or data stored in or generated from such files;
 - (d) For the purpose of counting or inspection, to be presented with any moneys, certificates, value documents or other assets of the Council for which a memorandum shall be signed by the Internal Auditor acknowledging receipt; and
 - (e) To be supplied with all relevant information and explanations as requested and to be given every assistance in the performance of the duties entrusted.

4. DUTIES AND OBLIGATIONS

- 4.1 It is the duty of the Internal Auditor to carry out the IA functions in the most professional manner, maintaining independence from line management and not compromising impartial and unbiased judgement.
- 4.2 At all times, confidentiality shall be preserved and the utmost discretion exercised by the Internal Auditor to ensure that information of a private, confidential or sensitive nature, known through the performance of the Internal audit function, is not divulged, except where necessary in performance of that function.
- 4.3 Due regard shall be had for the care, security and safekeeping of any books, accounts, files, documents, papers, or other items whilst in the possession of the Internal Auditor for the purpose of audit and these shall be returned to their customary holder as soon as possible.
- 4.4 Recognised professional standards, practices and procedures for internal audit shall be applied to all aspects of the audit function.
- 4.5 Prior to the commencement of an audit, the Internal Auditor shall, as a matter of courtesy, inform the functional head of the Group, Section or Office of the impending

audit, unless a surprise audit is authorised, and at the time of commencement of the audit, report to the officer-in-charge of the Group, Section or Office.

- 4.6 The Internal Auditor shall exhibit good conduct and a professional and courteous manner in performing the audit functions.

5. CODE OF ETHICS

5.1 Internal Auditors are expected to adopt professional ethical standards in order to meet their responsibility to the Council. The Council accepts that a suitable code of ethics is one based on the *Institute of Internal Auditors* Code of Ethics, as adopted by the Institute's Board of Directors in June 2000. On this basis, the Council code of ethics for Internal Auditors is as follows:

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

a) Integrity:

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

b) 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.

c) 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.

d) Competency:

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

6. RULES OF CONDUCT

6.1 Integrity

Internal auditors:

- a) Shall perform their work with honesty, diligence, and responsibility;
- b) Shall observe the law and make disclosures expected by the law and the profession;
- c) 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 organisation; and
- d) Shall respect and contribute to the legitimate and ethical objectives of the organisation.

6.2 Objectivity

Internal auditors:

- a) Shall not participate in any activity or relationship that may impair or be resumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation;
- b) Shall not accept anything that may impair or be presumed to impair their professional judgment; and
- c) Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

6.3 Confidentiality

Internal auditors:

- a) Shall be prudent in the use and protection of information acquired in the course of their duties; and
- b) 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 organisation.

6.4 Competency

Internal auditors:

- a) Shall engage only in those services for which they have the necessary knowledge, skills, and experience;
- b) Shall perform internal auditing services in accordance with the Standards for the Professional Practice of Internal Auditing; and
- c) Shall continually improve their proficiency and the effectiveness and quality of their services.

Excerpts from the Code of Ethics adopted by The IIA Board of Directors, June 17 2000.

7. STANDARDS

7.1 The Internal Auditor shall comply with the following:

- a) Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors;
- b) Auditing Practice Statements appropriate to internal auditing as issued by the Australian Society of Certified Practising Accountants and the Institute of Chartered Accountants in Australia; and
- c) Statement on Information Systems Auditing Standards issued by the Information Systems and Control Association.

7.2 The Internal Auditor is required to:

- a) Comply with professional standards of conduct;
- b) Possess the knowledge, skill, and technical proficiency essential to the performance of internal audits;

- c) Be skilled in dealing with people and in communicating audit issues effectively;
- d) Maintain technical competence through a program of continuing education; and
- e) Exercise due professional care in performing internal audits.

8. ANNUAL INTERNAL AUDIT PLAN

- 8.1 Three months prior to the commencement of each financial year, the Internal Auditor shall submit to the General Manager and the IASC, for approval, a detailed Audit Plan showing the areas and locations of audit work proposed for the ensuing year. The Annual Audit Plan shall be consistent with and flow from Internal Audit Policy and any associated Policy and where appropriate shall include any planned special assignments.
- 8.2 Any significant changes necessitated to the approved plan shall be submitted, together with reasons for such changes, to the General Manager, for information.

9. INTERNAL AUDIT REPORTS

- 9.1 During, or on conclusion of the audit, the Internal Auditor shall consult with the functional head of the Group for the purpose of discussing the results of the audit prior to the finalisation of the formal audit report.
- 9.2 A draft audit report shall be submitted to the relevant Group Manager which will show the results of the Audit. Explanations as to the matters raised and suggested remedial action or recommendations for improvements shall be included in the report.
- 9.3 The Group Manager shall give a formal reply where possible for inclusion in the Audit report - or at least a verbal reply for inclusion.
- 9.4 The Internal Auditor shall submit a quarterly report to the IASC, giving clear indication of the level of performance achieved by the Council and the results of any appraisal, inspection, investigation, examination, review or special assignment carried out. Where appropriate, it shall also include recommendations for improvements in operating performance or control.
- 9.5 As soon as practical after the end of each financial year the Internal Auditor shall submit an Annual Report to the General Manager, summarising the audits undertaken during the year and the results of these audits. The report shall include reference to areas where weaknesses were consistently encountered; suggested remedial measures and any general observations or recommendations considered appropriate.

10. IMPLEMENTATION FOLLOW-UP

- 10.1 Within six months of any audit report, the Internal Auditor will follow-up to determine the current status regarding implementation of audit recommendations (except for recommendations that have been considered by management and a decision made not to implement).
- 10.2 A follow-up report shall be provided to the General Manager bi-annually on the status of all recommendations that should have been implemented.

11. RELATIONSHIP WITH THE COUNCIL EXTERNAL AUDITORS

- 11.1 The Internal Auditor shall liaise closely and cooperate with the Council External Auditors in the preparation of the Internal Audit work schedule and other audit matters so that the resources of the Internal Auditor shall be used to the best effect.
- 11.2 The Internal Auditor shall be the Council primary contact with the External Auditors in relation to audit follow-up, and shall ensure that formal and informal External Audit recommendations are implemented or at least addressed as appropriate.
- 11.3 Internal Audit Plans, working papers, flow charts, and reports shall be readily available to the Council External Auditors.
- 11.4 A meeting will be held bi-annually between the Internal Auditor as the representative of the Council and the Council External Auditors for the purpose of discussing audit matters.

12. INTERNAL AUDIT PERFORMANCE

12.1 Quantitative

- a) Achievement of the Annual Audit Plan;
- b) Number of compliance audit requests from management completed; and
- c) Number of management audit/review requests from management completed.

12.2 Qualitative

- a) Appropriate and useful recommendations;
- b) Professionalism of the Internal Auditor; and
- c) Professional Development of the Internal Auditor.

12.2 Other

- a) Feedback from the IASC;
- b) Feedback from the General Manager
- c) Feedback from auditees;
- d) Feedback from the Council external auditors; and
- e) Internal Professional Performance Review System.

13. PROFESSIONAL DEVELOPMENT

- 13.1 The Internal Auditor shall obtain and maintain membership of the LGA Internal Audit Network for Internal Auditors and maybe a member of the Institute of Internal Auditors.
- 13.2 The Internal Auditor shall engage in various professional development courses aimed at enhancing their knowledge and expertise relevant to the audit duties and functions.
- 13.3 The Internal Auditor shall engage in suitable in-house training on relevant computer software to ensure retention and updating of skills needed to effectively use relevant Council computer programs and software.

- 13.4 The Internal Auditor shall maintain an involvement with appropriate government fraud control organisations, such as the [NSW Public Sector] Corruption Prevention Network Inc.
- 13.5 The Internal Auditor shall produce an agreed professional development/staff training plan, in accordance with the Council policy for staff training, and in consultation with the Internal Audit Committee.

14. CO-SOURCING

Subject to appropriate budgetary requirements, the Internal Auditor may seek appropriate external assistance for complex and unique assignments. Such co-sourcing to be endorsed by the General Manager or the Audit Committee.

15. THE INTERNAL AUDIT COMMITTEE

15.1 The Internal Audit Committee comprises:

- a) General Manager (Chair) or Nominee;
- b) Chief Financial Officer;
- c) Executive Officer;
- d) Group Manager, C&C;
- e) Group Manager, E&CS;
- f) Group Manager, BMCS;
- g) Human Resources Manager;
- h) Manager, Assets & Contract Management;
- i) Risk Management Co-ordinator;
- j) Internal Auditor; and
- k) External Auditor.

The Executive Officer shall act as Chair if the General Manager is unavailable.

15.2 The functions of the Internal Audit Committee are to:

- a) Advise on the content of the Internal Audit program;
- b) Advise on the broad allocation of Audit resources;
- c) Assess the effectiveness of the Audit program; and
- d) Determine relevant Audits for relevant activities, e.g. Probity Audits, Audit Management/ISO, Risk Management.

15.3 More specifically, the Committee shall have responsibility for:

- a) Agreeing on the annual and comprehensive long-term Audit Plan as developed by the Internal Auditor.
- b) Receiving and discussing the Internal Auditor's quarterly Reports.
- c) Ensuring the maintenance of appropriate internal working papers.

d) Allocating responsibility for following-up audit recommendations.

15.4 The Committee shall meet each three months.

15.5 Review of Policy is to be on an annual basis. This process is to be undertaken by the Internal Auditor who, notwithstanding whether any amendments are proposed, is to then present the revised Policy to the Audit Committee for review and approval.

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