



MANSFIELD SHIRE

INTERNAL AUDIT CHARTER

Endorsed by the Mansfield Shire Audit and Risk Committee

15 February 2021



INTERNAL AUDIT CHARTER

Introduction

Mansfield Council has identified the conduct of internal audits as a key component of the Council's governance framework in accordance with the *Local Government Act 2020*.

This charter provides the framework for the conduct of the internal audit function in the Council and was endorsed by the Council on the recommendation of the Audit and Risk Committee.

The council's Internal Audit function is outsourced to independent professional contractors. This service is provided under the terms of a three year contract and subject to review by the Audit and Risk Committee.

Purpose of Internal Audit

Internal audit provides an independent and objective review and advisory service to:

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

Objectives and Core Principles

The objectives of the Internal Audit function are to:

- a) develop and conduct internal audits, based on an internal audit plan that is focused on the key operational and financial risks facing the organisation.
- b) establish an integrated approach to risk and internal control through coordination of assurance activities.
- c) foster awareness of risk and internal control – encouraging a management culture that seeks continual improvement in the management of risks and the effectiveness of internal controls established within business processes.
- d) exhibit operational efficiency – by being cost effective both in terms of cost and quality of work performed, and
- e) work with other assurance functions – coordinate with Council's own audits (including peer audits), assurance functions and external audit to increase the effectiveness and efficiency of the audit effort.



Internal auditors will possess and demonstrate the Core Principles for the Professional Practice of Internal Auditing:

- a) demonstrates integrity
- b) demonstrates competence and due professional care
- c) is objective and free from undue influence (independent)
- d) aligns with the strategies, objectives and risks of the organisation
- e) is appropriately positioned and adequately resourced
- f) demonstrates quality and continuous improvement
- g) communicates effectively
- h) is insightful, proactive and future-focused; and
- i) promotes organisational improvement

Independence

To be effective, the Internal Auditor must be able to operate without being influenced or inhibited in the discharge of its duties. The Internal Auditor will be given full and free access at all reasonable times to all records and documents of the organisation. Officers will provide audit staff with information, advice or explanations which may be requested and assistance as required for audit purposes.

Independence is essential to the effectiveness of Internal Audit. The Internal Auditor has no executive or managerial powers, authorities, functions or duties, other than in the execution of the internal audit function.

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.

The Internal Auditor reports to the Manager Business & Performance and the Audit and Risk Committee. The Internal Auditor has direct access to the Chief Executive, and the Chair and other members of the Audit and Risk Committee.

Authority and Confidentiality

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

For the effective discharge of their duties, internal audit staff are authorised to have full, free and unrestricted access to all functions, premises, assets, personnel, records, and other documentation and information considered necessary to enable internal auditor 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 Internal Auditor



and staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

Internal audit reports are deemed to be confidential reports of the Council. However, the Victorian Auditor General's Office and its appointed auditors have access to all relevant Council documents including internal audit reports.

Roles and Responsibilities

Internal audit's responsibilities are influenced by the governance arrangements established by the Council.

In the conduct of its activities, the Internal Auditor will play an active role in:

- developing and maintaining a culture of effective corporate governance, 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.
- attend Audit and Risk Committee meetings as required (at least once per year)

Internal audit is responsible for examining and evaluating the adequacy and effectiveness of the controls over risks. Internal audit's activities may identify instances of fraud or areas of high risk of fraud, error or mistake. Council has the primary responsibility for the detection of fraud.

Scope of internal audit activities

Internal audit activities will include, but will not be limited to, the following areas:

Compliance

Internal audit can provide assurance that Council is compliant with relative legislation, regulations, standards and Council direction through:

- compliance with legislative requirements, Council Plan, policies, directives and procedures;
- adequacy and effectiveness of internal financial and operational controls including information technology system controls.
- efficiency, effectiveness, and adherence to ethical standards in respect of Council's business activities, systems and processes in line with the Council's statutory responsibilities, stated objectives and strategic plans.



Advisory services

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

1. 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.
 - internal audit should be consulted prior to making changes to existing or new systems in order to ensure controls are sound.
 - internal audit review on new systems to ensure sound controls have been implemented.
2. Risk management
 - assisting management to identify risks and develop risk mitigation and monitoring strategies as part of the enterprise risk management framework; and
 - assessing, monitoring and reporting on the implementation of risk mitigation strategies as a part of its annual internal audit plan.
3. Fraud Control
 - assisting management to identify the risks of fraud and develop fraud prevention and monitoring strategies; and
 - monitoring and reporting on the implementation and maintenance of the Council's Fraud 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 Chief Executive Officer or the Audit and Risk Committee.

Follow-up activities

The Risk Officer and relevant Department Manager will be responsible for appropriate follow-up of audit engagement findings and recommendations.

Standards

Internal audit activities will be conducted in accordance with the:

- *Local Government Act 1989*
- *Local Government Act 2020*
- Local Government Regulations 2015
- Relevant professional standards including:
 - International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA);
 - Standards relevant to internal audit issued by CPA Australia and Chartered Accountants Australia and New Zealand (CAANZ);
 - 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).

In addition to the above, Internal Audit may be required to carry out special projects at the direction of the Chief Executive Officer or the Audit and Risk Committee.

All Internal audit activities will support the Council Plan, values, policies, directives and procedures.

In the conduct of internal audit work, internal audit staff 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.

Planning

The Internal Auditor appointed, with assistance from Council staff, will undertake an internal risk assessment and prepare a three (3) year audit plan.

In accordance with s. 207(2) of the *Local Government (General) Regulations 2015*, the internal audit plan will include statements about:

- the way in which the operational risks have been evaluated;
- the most significant operational risks identified from the evaluation; a
- the control measures that Council has adopted, or is to adopt, to manage the most significant operational risks.

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 to the Audit and Risk Committee

The Internal Auditor will report annually to the Audit and Risk Committee on:

- summary of audits completed;
- progress in implementing the approved annual internal audit work plan
- the overall state of internal controls in the Council and any systemic issues requiring management attention based on the work of internal audit and other assurance providers



The Risk Officer will report quarterly:

- the status of the implementation of agreed internal audit and external audit recommendations; and
- resource issues impacting on internal audit's ability to complete the approved internal audit work plan.

The internal audit reporting process and related protocols are briefly described hereunder:

- Prior to the commencement of each audit, Internal Audit will seek the inputs of the Department Manager (or their delegate where applicable) during the planning and scoping phase and develop a work plan to inform the scheduling of the audit, the approach to be taken and the methodology for reporting;
- Scope will be agreed with the Audit & Risk Committee prior to commencement of each audit.
- Issues arising during the course of the review will be discussed with the person in charge of the area and where appropriate the Manager and/or the Divisional Director;
- A formal exit interview will be conducted with the responsible Manager as a part of the audit process 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;
- Reports will include details of all issues raised, recommendations made, the designated officer to undertake corrective action and the expected date for completion of corrective action;
- A draft report will be issued to confirm accuracy and agreement to the findings raised and must be responded to by the Department Manager within 14 days; and
- The final report be acknowledged by the Department Manager, endorsed by the Chief Executive Officer and the major issues reported to the Audit and Risk Committee, and in accordance with the Local Government (General) Regulations 2015. This report must include:
 - a summary of the recommendations stated in the report
 - a summary of the actions that have been taken by the local government in response to the recommendations
 - a summary of any actions that have not been taken by the local government in response to the recommendations.



Evaluation of Internal Audit

Performance of the Internal Auditors will be evaluated by the Audit and Risk Committee on an annual basis.

Review of the Charter

This Charter will be reviewed every three years or earlier if decided by the Audit and Risk Committee. Any substantive changes will be formally approved by the Council on the recommendation of the Audit and Risk Committee.

Charter Endorsement

This Charter of the Mansfield Shire Internal Audit is endorsed by the Mansfield Shire Audit and Risk Committee and certified by the Chief Executive Officer on 18 May 2021.

This **Internal Audit Charter** is made by resolution of Council dated 18 May 2021.

SIGNED by the
Mayor of the
Mansfield Shire
Council:)

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Dated:.....

in the presence
of:)

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(Witness)

Dated:.....