



# Internal Audit Charter

## *Local Government Act 2009*

# 1. CHARTER STATEMENT

The Internal Audit function is an independent and objective review and advisory service, established within Council to provide assurance to the Audit and Risk Committee and management that Council's controls are designed to manage Council's risks and achieve objectives by operating in an efficient, effective and ethical manner.

## 2. PRINCIPLES

The Internal Audit Unit's mandate and responsibilities are established and governed in accordance with section 105 of the *Local Government Act 2009* and section 207 of the *Local Government Regulation 2012*, which require each local government to establish an efficient and effective internal audit function.

This charter establishes and defines the extent of authority and responsibilities conferred on the Internal Audit Unit by Council and explains the role of the Internal Audit function as it applies to the Townsville City Council.

## 3. SCOPE

The scope of responsibilities of the Internal Audit Unit under this Charter includes the operations and activities of the Council of the Townsville City Council, and its controlled entities. This charter sets out the objectives, authority, responsibilities, reporting and administrative arrangements associated with Council's Internal Audit Unit. This charter applies to all Council activities and workers.

## 4. RESPONSIBILITY

The Chief Executive Officer and management are responsible for ensuring that the charter contained herein is understood and adhered to by all personnel.

## 5. DEFINITIONS

**Council Activities** – means all the activities and entities of the Council.

**Internal Auditing** - As defined in The Institute of Internal Auditors *International Professional Practices Framework (IPPF)*, "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 process."

**Manager** – includes persons appointed to positions including with the title, Team Manager, General Manager, Lead, Principal, Director and Chief.

**Workers** – includes employees, contractors, volunteers and all others who perform work on behalf of Council.

All other definitions are as per the *Local Government Act 2009* and associated sub-ordinate legislation.

## 6. CHARTER

### 6.1 OBJECTIVE

Internal audit is an independent, objective assurance and consulting activity that seeks to add value and improve Council's operations. The primary objectives of the Council's Internal Audit Unit are to evaluate Council's systems of internal control in order to provide assurance to Council, Executive Management and the Audit and Risk Committee that:

- Council is achieving its goals and objectives efficiently, effectively and in an ethical manner;
- financial and operating information produced is accurate, timely and complete;

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- there is compliance with relevant laws, regulations and other external requirements and with Council policies, directives and other internal requirements; and,
- Council's assets and liabilities are competently managed and protected against loss or other negative consequences.

The Internal Audit Unit assists management and Council in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed and by promoting effective control at reasonable cost.

## 6.2 ORGANISATION STRUCTURE

The Senior Internal Auditor reports functionally to the Audit and Risk Committee and administratively to the Chief Executive Officer.

The Senior Internal Auditor is responsible for allocating available resourcing of the Internal Audit Unit to enable it to discharge its responsibilities under this Charter and is accountable for the efficient and effective operation of the internal audit function.

Internal Audit is to meet with the Audit and Risk Committee on a quarterly basis or more frequently if required by the Committee.

To ensure a broad range of audit coverage and adequate consideration of the audit findings and recommendations, Internal Audit is to have full and independent access to the Chief Executive Officer.

## 6.3 AUTHORITY

The Internal Audit Unit is authorised to review all areas of Council and to have full, free, and unrestricted access to all Council's activities, records (either manual or electronic), property, and personnel. Council activities include entities over which Council has a direct management or sponsorship of control.

All employees shall cooperate fully by making available any material and information requested by Internal Audit. Internal Audit will work with the Investigation Unit where required to assess any suspected situation involving improper activity or non-compliance with applicable policies, plans, procedures, laws or regulations, of which they have knowledge.

It is the policy of Council that all audit activities 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 Senior Internal Auditor is required to report any major restrictions on the scope of the internal audit work, impairments to the units functions, resourcing issues and any conflicts of interest to the Chief Executive Officer and the Audit & Risk Committee.

## 6.4 INDEPENDENCE AND OBJECTIVITY

Maintaining appropriate independence and objectivity is essential to the effectiveness of the internal audit function. Accordingly, the Internal Audit Unit will maintain operational and managerial independence from the functions and activities it reviews.

Internal Auditors have no direct responsibility or authority over any of the activities reviewed.

Internal Auditors should not develop or install procedures, prepare records, make management decisions, or engage in any other activity which could be reasonably construed to compromise their independence and objectivity. However, in connection with the complementary objectives of this audit function the Internal Audit Unit will recommend policies and procedures for review by appropriate management and may provide advice as appropriate.

The operation of the Internal Audit function does not in any way discharge the responsibility that any officer or employee of Council has in the ongoing effectiveness and efficiency of Council's system of internal control.

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## 6.5 SCOPE OF INTERNAL AUDIT ACTIVITIES

The scope of Internal Audit activity encompasses the examination and evaluation of the adequacy and effectiveness of Council's system of internal control. It includes, but is not necessarily limited to gaining assurance in, the following areas:

### Compliance

- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- Reviewing the systems established to gain assurance that compliance with those policies, plans, procedures, laws and regulations is appropriate.
- Reviewing the means of safeguarding assets and, where appropriate, verifying the existence of such assets.
- Reviewing compliance with Council's guidelines for ethical business conduct and see that the standards of individual and Council performance are met.

### Performance

- Reviewing and appraising the efficiency with which resources are employed, identify opportunities to improve performance, and recommend solutions to problems where appropriate.

### Advisory

- Participating (in an advisory role) in the planning and design of major systems as required.
- Providing advice to management on audit and policy related matters.

### Other

- Conducting special audit projects as directed by the Audit and Risk Committee.
- Though not generally provided by Internal Audit, providing consultancy services if required and directed by the Audit and Risk Committee and conducted in accordance with guidance from the Institute of Internal Auditors.
- Coordinating audit work with External Auditors to gain assurance of the completeness of audit coverage, reduction of redundant effort and the effective use of audit resources.
- Following up the implementation of extreme and high risk audit actions by reviewing responses provided by management in the External & Internal Audit Actions Plan. Internal Audit will select samples of completed audit actions and review evidence to gain assurance over adequate completion of the agreed audit action by Management.
- Providing audit support to the Chief Executive Officer on relevant matters.

The scope of Internal Audit functions extends to include all Directorates, programs, sub-programs, and functions, funded schemes and entities over which Council has direct management or sponsorship of financial control.

## 6.6 DETECTING AND REPORTING IRREGULARITIES

The Internal Audit Unit is not legally or professionally responsible for preventing irregularities (which include fraud, corruption, other illegal acts and errors).

The responsibility for prevention of irregularities rests with Council and management through the implementation and continued operations of an adequate internal control system. The Internal Audit Unit is responsible for examining and evaluating the adequacy and the effectiveness of actions taken by management to fulfil this obligation.

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 Internal Audit Unit has a responsibility to report irregularities to the Chief Executive Officer and the Audit and Risk Committee.

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The Chief Executive Officer is responsible for reporting any irregularities according to the provisions of the *Local Government Act 2009*, the *Crime and Corruption Act 2001* and any other statutory regulations that may come into force from time to time.

## 6.7 INTERNAL AUDIT PLANNING

The Internal Audit Unit will adopt a consultative, risk-based approach to allocating resources and planning.

Three (3) Year and Annual Internal Audit plans:

- Internal Audit will review the risk profiles for each area within Council and undertake an environmental scan to gain an understanding of key risks to Council to enable more audit attention to be directed to areas of greater risk;
- The environmental scan will consider:
  - Councils Enterprise Risk and associated control assessment outcomes,
  - risk mitigation activities,
  - relevant audit activities at Federal and State Government audit offices,
  - advice such as white papers, factsheets and reports from professional bodies (I.e. IIA, CPA/CA)
  - other Local Government audit activities
  - advice from the Senior Leadership Team/Audit and Risk Committee members,
- The environmental scan will be used for topic development to create a list of possible projects for inclusion in the Internal Audit plan which is to then be prioritised.
- Available resourcing is to be applied to the prioritised listing to determine the number of projects to be delivered as part of the Internal Audit plan.
- The general direction of Council's internal audit activities over the medium term is to be documented in a Three (3) Year Internal Audit plan supported by a summary assurance map. This plan and associated summary assurance map shall be reviewed and endorsed by the Audit and Risk Committee;
- A detailed assurance map is to be prepared for Management in partnership with Legal Services – Governance Risk and Compliance section which details information provided by the business including; risks, the risk rating for each risk and any entity wide assurance undertaken;
- A draft scoping document is to be prepared to support each project on the plan for Audit and Risk Committee. This document is to be refined and signed as acknowledged by each Senior Leadership Team member before commencing the project;
- The audit delivery type of each project should be noted in the scoping document;
- Consideration should be given to rotation of projects (through outsourcing) where Internal Audit has completed audits multiple times;
- At the beginning of each financial year, by reference to the Three (3) Year Audit plan, an Annual Audit plan is prepared and forwarded to the Audit and Risk Committee for review and endorsement; and
- The Annual Audit plan will include a variety of projects including financial, information and communication technology, compliance, and operational audits, as required.

Any proposed amendments to the approved plan should be submitted to the Audit and Risk Committee for review and endorsement. In the case of additional or replacement projects, these should be submitted using the scoping template for projects.

## 6.8 AUDIT STANDARDS

The Internal Audit function will be carried out in accordance with appropriate standards from:

The Institute of Internal Auditors who are recognised as the global leader in Internal Auditing who provide the International Professional Practices Framework (IPPF) which includes; core principles, the definition of internal auditing, code of ethics, professional standards and guidance materials; and Australia's Auditing and Assurance Standards Board's (AUASB) which issues Australian Auditing Standards.

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## 6.9 REPORTING ACCOUNTABILITY

### 6.9.1 INTERNAL AUDIT PROJECT REPORT

A draft audit report is to be prepared as soon as practicable following the completion of an audit of programmed activities. Draft reports are to be communicated to the third tier of management (i.e. General Managers or Managers reporting directly to Directors) responsible for the area subject to review.

The Manager/General Manager receiving the draft audit report is afforded a period of ten (10) working days to review the draft report and provide a response. The review will generally involve ensuring the content is factually accurate and review of any observations and findings. The review may require consultation with Internal Audit where appropriate. The response will indicate what actions were taken or are planned in regard to the specific findings in the draft audit report. The timetable for the anticipated completion of these actions will be included. The Internal Audit Unit will escalate to the Chief Executive Officer any reports not responded to within the ten (10) working days allocated.

A final audit report will be prepared and issued by the Internal Audit Unit and will include comments and the action plans agreed to by the Manager/General Manager. Should agreement not be reached on actions to be undertaken, this will be clearly outlined in the report with the proposals by Management and Internal Audit to be noted. In addition, the report will include the terms of reference where applicable, the scope of the work undertaken and standards adopted. Background information and detailed tables and analysis should be included as appendices to the report where relevant.

The final report will be communicated to the Manager/General Manager, relevant Director and the Chief Executive Officer and will be supplied to the Audit and Risk Committee via the next available meeting. The report will provide an indication as to whether the person receiving the report should take action or secure action in relation to the report, or solely receive the report for information.

Internal Auditors may advise the Auditor-General via his Queensland Audit Office representatives, about any audit findings.

### 6.9.2 AUDIT CERTIFICATIONS

Where a specific audit certification is required to be given by an Internal Auditor to satisfy acquittal requirements for special purpose grants, etc., no formal audit report will be issued.

In the event that audit findings warrant reporting, a written communication (i.e. letter, memo, email etc.) to the responsible officer concerned will serve as the official notification of audit findings.

### 6.9.3 MANAGEMENT LETTERS

Where matters are referred to the Internal Audit Unit for special consideration and review, Internal Audit shall determine whether a formal internal audit report is warranted. Factors affecting such determination would ordinarily include the importance of the review, the results and level of risk associated with audit findings and the extent and timing of resources to be utilised.

In the event the matter under review does not warrant a formal audit report, a written communication (i.e. letter, memo, email etc.) to the responsible officer concerned will serve as the official notification of audit findings.

### 6.9.4 AUDIT AND RISK COMMITTEE

To enhance independence, the Internal Audit function reports functionally to the Audit and Risk Committee and administratively to the Chief Executive Officer for all matters relating to audit activities.

Functional reporting includes:

- review and endorsement of the Internal Audit; policy, charter, plan and any amendments to the plan
- reviewing reports on the results of internal audit engagements, audit-related activities, audit team capability, audit performance and other important matters
- monitoring compliance with standards (i.e. the Institute of Internal Auditors attribute and performance standards) together with quality and improvement arrangements
- meeting privately with the Senior Internal Auditor regularly without management present

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- making enquiries of the Senior Internal Auditor to determine any scope or budget limitations that may impede execution of internal audit responsibilities
- the Audit and Risk Committee will be provided with prior notice of any proposed changes to the structure of the Internal Audit Unit.
- the Audit and Risk Committee shall receive prior notice of the appointment or termination of the Senior Internal Auditor and/or Internal Auditors. The Chief Executive Officer will consult the Audit and Risk Committee, via the Committee Chair, in relation to the performance of the Senior Internal Auditor.
- Internal Audit shall provide a quarterly progress report to the Audit and Risk Committee. However, any findings deemed to be significant in the operation of Council shall be brought to the attention of the Chief Executive Officer and the Audit and Risk Committee immediately.
- Internal Auditors are granted full access to the Audit and Risk Committee for any matter that may compromise the independence and objectivity of the Internal Audit Unit or the auditors within.
- the Internal Audit Unit will provide specialised support to the Audit and Risk Committee as required.

## 6.10 MANAGEMENT RESPONSIBILITY FOR CORRECTIVE ACTION

The third tier of management (i.e. General Manager) is responsible for ensuring that corrective actions on findings made or deficiencies reported by auditors (Internal and External) are either planned or completed within timeframes outlined in the Internal Audit final report.

All Council external and internal agreed audit actions will be captured and managed via the Council's approved audit issues management platform, External and Internal Audit Actions Plan.

The responsible Manager/General Manager is accountable for ensuring at least quarterly updates on the progress in addressing agreed actions are provided via the External and Internal Audit Actions Plan.

A progress summary of the whole of Council External and Internal Audit Actions Plan will be presented quarterly to the Audit and Risk Committee by Legal Services Governance Risk and Compliance section for review. Additionally, the External and Internal Audit Actions Plan will be available for review by the Internal Audit Unit and the Senior Leadership team for the purpose of oversight and progress updates as required.

In instances where the responsible Manager/General Manager foresees difficulties in implementing the agreed actions within the agreed time frame (the audit action due date) or where there is a material change proposed to the original agreed audit action, the Manager/General Manager must propose a change request (and/or extension of due date) to their relevant Director. Where the Director is in support of the proposed change, the Director must recommend the change for approval to the Chief Executive Officer. Any audit action changes, following approval by the Chief Executive Officer, will be informed for noting to the Audit and Risk Committee.

The Manager/General Manager is responsible for providing updates to the audit action via the External and Internal Audit Actions Plan (the update must include the cause of delay or material change and a proposed revised implementation schedule).

Changes to the audit action (parent action) in the External and Internal Audit Actions Plan will be made by Legal Services – Governance Risk and Compliance section following the required approval. Any updates and changes to the sub audit actions (child actions) in the Performance PLUS - External and Internal Audit Actions Plan will be made by the assigned owner or the Manager/General Manager.

Upon completion of an agreed action, the Manager/General Manager must provide a completion update and status change via the External and Internal Audit Actions Plan and provide links to evidence of completion.

## 6.11 QUALITY ASSURANCE

In order to ensure that the quality of Internal Audit work is consistently maintained at a high standard, Internal Audit should establish and maintain a quality assurance program. This program is to include:

- Develop a comprehensive work reporting arrangement;
- Maintain a regular review of audit plans, reports and working papers;
- Maintain an Internal Audit Manual outlining Internal Audit work practices;

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- Maintain with the Legal Services – Governance Risk and Compliance section a post audit survey tool to collect stakeholder feedback and report findings annually to Audit and Risk Committee as part of continuous improvement;
- Maintain effective communication links with the Audit and Risk Committee members, Senior Leadership Team, External Auditors; and
- Undertake a Quality Assurance program in accordance with The Institute of Internal Auditors' International Professional Practices Framework (IPPF).

An external independent assessment of the Internal Audit Unit will be undertaken at least every five (5) years in accordance with The Institute of Internal Auditor's Standards. The results of this review will be reported to the Audit and Risk Committee and the Chief Executive Officer.

## 6.12 ADMINISTRATIVE ARRANGEMENTS

Administrative arrangements for Internal Audit will rest with the Chief Executive Officer and include;

- Internal Audit resourcing and annual budget
- provision of corporate services to Internal Audit including office accommodation, computers and equipment
- human resource administration

## 6.13 REVIEW

This Charter will be reviewed every 4 years. Any proposed material changes will be reviewed and endorsed by the Audit and Risk Committee. Recommended changes are made to the Council for adoption.

## 7. LEGAL PARAMETERS

*Local Government Act 2009*

*Local Government Regulation 2012*

## 8. ASSOCIATED DOCUMENTS

Internal Audit Policy

The Institute of Internal Auditors' International Professional Practices Framework (IPPF)

Audit and Risk Committee Policy

Audit and Risk Committee Terms of Reference

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