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## **INTERNAL AUDIT COMMITTEES**

### **Purpose**

The purpose of this circular is to highlight essential components of an effective internal audit function and act as a reminder to councils of some of the key recommendations contained in the Department's *Internal Audit Guidelines*.

### **Background**

In 2008 pursuant to section 23A of the *Local Government Act 1993*, the Department released *Internal Audit Guidelines* for local government in NSW via Circular number 08-64. Copies of these Guidelines can be found on the 'Publications' page of the Department's website at [www.dlg.nsw.gov.au](http://www.dlg.nsw.gov.au).

The Guidelines advise all councils to develop an internal audit committee to act as an independent and objective oversight of council systems and processes.

To ensure that councils receive the maximum benefit from the implementation of an internal audit framework, it is important the Guidelines are properly put into practice. The Department is monitoring their implementation in the sector and actively promoting their adoption by councils.

### **Internal Audit Committee Membership**

In the course of monitoring the implementation of the Internal Audit Guidelines, it has come to the Department's attention that some councils are establishing internal audit committees where members of staff are voting members of the committee. In particular, the Department is aware of instances where the council's general manager is a member of the committee and is responsible for preparation of the agenda and materials presented to the committee for consideration.

The Department's *Internal Audit Guidelines* make it clear that it is not good practice for a general manager or staff members of a council to be members of a council's internal audit committee or be entitled to vote at such meetings. This exclusion is to ensure that the key traits of an internal audit committee of independence and objectivity are preserved. The Guidelines emphasise the importance of the committee being composed of members external to the council and its operations.

Suggested committee membership is set out in section 4.3 of the Guidelines and in Appendix 2 – Sample Audit Committee Charter.

In line with good practice, the Guidelines recommend that the chair of the internal audit committee is a person who is independent of and external to the council.

Independent members of the internal audit committee should have relevant personal qualities, skills and experience and where possible include at least one member with a strong financial and/or audit background. In selecting and appointing independent members for the committee, care should be taken to ensure that the selection is undertaken in a transparent and unbiased manner. This could include calling for expressions of interest from interested persons. The selection process could be undertaken by way of the formation of a small committee of councillors, supported by the internal auditor, which makes a recommendation to council for approval of the appointment.

### **Administrative Support for Internal Audit Committees**

The role of the internal auditor should be defined in a comprehensive internal audit charter. The Guidelines provide details of the recommended content for an internal audit charter. A sample charter is contained in Appendix 3 to the Guidelines.

To ensure that the internal auditor is able to be most effective, it is essential that their independence is maintained and that they are free from interference in determining the scope of internal auditing, performing work and communicating results.

It is recommended that wherever possible the internal auditor should report directly to the audit committee and administratively to the general manager. The preparation of internal audit committee papers should be the responsibility of the internal auditor in consultation with the chair of the internal audit committee.

### **Conclusion**

Internal audit is an essential component of good governance for all councils. The combination of an effective audit committee and internal audit function provides a formal means by which councillors and members of the public can obtain assurance that the council has in place a robust system of controls, processes, and procedures to manage the risks to its operations.

All councils are encouraged to properly implement the Department's Internal Audit Guidelines. Those councils that have an existing internal audit function should review the framework they have in place to ensure that it complies with the Department's Guidelines.



**Garry Payne AM**  
**Director General**