**Model internal audit charter
for local government**

[Council/joint organisation] has established the [name of internal audit function] as a key component of the [council’s/joint organisation’s] governance and assurance framework, in compliance with the Departmental Chief Executive’s *Guidelines for risk management and internal audit for local government in NSW*. This charter provides the framework for the conduct of the [name of internal audit function] in the [council/joint organisation] and has been approved by the governing body taking into account the advice of the [council’s/joint organisation’s] audit, risk and improvement committee.

**Purpose of internal audit**

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the [council’s/joint organisation’s] operations. It helps the [council/joint organisation] accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes[[1]](#footnote-1).

Internal audit provides an independent and objective review and advisory service to provide advice to the governing body, [general manager/executive officer] and audit, risk and improvement committee about the [council’s/joint organisation’s] governance processes, risk management and control frameworks and its external accountability obligations. It also assists the [council/joint organisation] to improve its business performance.

**Independence**

[Council’s/joint organisation’s] [name of internal audit function] is to be independent of the [council/joint organisation] so it can provide an unbiased assessment of the [council’s/joint organisation’s] operations and risk and control activities.

[Name of internal audit function] reports functionally to the [council’s/joint organisation’s] audit, risk and improvement committee on the results of completed audits, and for strategic direction and accountability purposes, and reports administratively to the [general manager/executive officer] to facilitate day-to-day operations. Internal audit activities are not subject to direction by the [council/joint organisation] and the [council’s/joint organisation’s] management has no role in the exercise of the [council’s/joint organisation’s] internal audit activities.

The audit, risk and improvement committee is responsible for communicating any internal audit issues or information to the governing body. Should the governing body require additional information, a request for the information may be made to the chair by resolution. The chair is only required to provide the information requested by the governing body where the chair is satisfied that it is reasonably necessary for the governing body to receive the information for the purposes of performing its functions under the Local Government Act. Individual [councillors/board members] are not entitled to request or receive information from the committee.

[Detail any delegations made by the general manager/executive officer regarding their internal audit responsibilities].

The [general manager/executive officer] must consult with the chair of the [council’s/joint organisation’s] audit, risk and improvement committee before appointing or making decisions affecting the employment of the [head of internal audit function]. If the [head of internal audit function] is dismissed, the [general manager/executive officer] must report the reasons for their dismissal to the governing body.

Where the chair of the [council’s/joint organisation’s] audit, risk and improvement committee has any concerns about the treatment of the [head of internal audit function], or any action taken that may compromise their ability to undertake their functions independently, they can report their concerns to the governing body.

The [head of internal audit function] is to confirm at least annually to the audit, risk and improvement committee the independence of internal audit activities from the [council/joint organisation].

**Authority**

[Council/joint organisation] authorises the [name of internal audit function] to have full, free and unrestricted access to all functions, premises, assets, personnel, records and other documentation and information that the [head of internal audit function] considers necessary for the [name of the internal audit function] to undertake its responsibilities.

All records, documentation and information accessed while undertaking internal audit activities are to be used solely for the conduct of those activities. The [head of internal audit function] and individual internal audit staff are responsible and accountable for maintaining the confidentiality of the information they receive when undertaking their work.

All internal audit documentation is to remain the property of [council/joint organisation], including where internal audit services are performed by an external third-party provider.

Information and documents pertaining to the [name of the internal audit function] are not to be made publicly available. The [name of the internal audit function] may only release [council/joint organisation] information to external parties that are assisting the [name of the internal audit function] to undertake its responsibilities with the approval of the [general manager/executive officer], except where it is being provided to an external investigative or oversight agency for the purpose of informing that agency of a matter that may warrant its attention.

**Role**

The [name of internal audit function] is to support the [council’s/joint organisation’s] audit, risk and improvement committee to review and provide independent advice to the [council/joint organisation] in accordance with section 428A of the *Local Government Act 1993*. This includes conducting internal audits of [council/joint organisation] and monitoring the implementation of corrective actions.

The [name of internal audit function] is to also play an active role in:

* developing and maintaining a culture of accountability and integrity
* facilitating the integration of risk management into day-to-day business activities and processes, and
* promoting a culture of high ethical standards.

[Name of internal audit function] has no direct authority or responsibility for the activities it reviews. [Name of internal audit function] has no responsibility for developing or implementing procedures or systems and does not prepare records or engage in [council/joint organisation] functions or activities (except in carrying out its own functions).

**[Head of internal audit function]**

Option 1: In-house internal audit function

[Council’s/joint organisation’s] [name of internal audit function] is to be led by a member of [council’s/joint organisation’s] staff with sufficient skills, knowledge and experience to ensure it fulfils its role and responsibilities to the [council/joint organisation] and the audit, risk and improvement committee. The [head of internal audit function] must be independent, impartial, unbiased and objective when performing their work and free from any conflicts of interest.

Responsibilities of the [head of internal audit function] include:

* managing the day-to-day activities of the [name of internal audit function]
* managing the [council’s/joint organisation’s] internal audit budget
* supporting the operation of the [council’s/joint organisation’s] audit, risk and improvement committee
* approving internal audit project plans, conducting or supervising audits and assessments and providing independent advice to the audit, risk and improvement committee
* monitoring the [council’s/joint organisation’s] implementation of corrective actions that arise from the findings of audits
* implementing the audit, risk and improvement committee’s annual work plan and four-year strategic work plan
* ensuring the [council’s/joint organisation’s] internal audit activities comply with the *Guidelines for risk management and internal audit for local government in NSW*, and
* contract management and oversight of supplementary external providers (where appropriate).

[Details of any dual responsibilities and independence safeguards]

[Details of any shared arrangements]

Option 2: Outsourced internal audit function

[Council’s/joint organisation’s] [name of internal audit function] is to be led by a member of [council’s/joint organisation’s] staff with sufficient skills, knowledge and experience to ensure it fulfils its role and responsibilities to the [council/joint organisation] and the audit, risk and improvement committee. The [head of internal audit function] must be independent, impartial, unbiased and objective when performing their work and free from any conflicts of interest.

Responsibilities of the [head of internal audit function] include:

* contract management
* managing the internal audit budget
* ensuring the external provider completes internal audits in line with the audit, risk and improvement committee’s annual work plan and four-year strategic work plan
* forwarding audit reports by the external provider to the audit, risk and improvement committee
* acting as a liaison between the external provider and the audit, risk and improvement committee
* monitoring the [council’s/joint organisation’s] implementation of corrective actions that arise from the findings of audits and reporting progress to the audit, risk and improvement committee, and
* assisting the audit, risk and improvement committee to ensure the [council’s/joint organisation’s] internal audit activities comply with the *Guidelines for risk management and internal audit for local government in NSW*.

[Details of any dual responsibilities and independence safeguards]

[Details of any shared arrangements]

**[Name of internal audit team]**

Option 1: In-house internal audit team

Members of the [name of internal audit function] are responsible to the [head of internal audit function].

Individuals that perform internal audit activities for [council/joint organisation] must have:

* an appropriate level of understanding of the [council’s/joint organisation’s] culture, systems and processes
* the skills, knowledge and experience necessary to conduct internal audit activities in the [council/joint organisation]
* effective interpersonal and communication skills to ensure they can engage with [council/joint organisation] staff effectively and collaboratively, and
* honesty, integrity and diligence.

[Details of any dual responsibilities and independence safeguards]

[Details of any shared arrangements]

Option 2: Out-sourced internal audit team

[Council/joint organisation] is to contract an external third-party provider to undertake its internal audit activities. To ensure the independence of the external provider, the [head of internal audit function] is to ensure the external provider:

* does not conduct any audits on specific [council/joint organisation] operations or areas that they have worked on within the last two years
* is not the same provider conducting the [council’s/joint organisation’s] external audit
* is not the auditor of any contractors of the [council/joint organisation] that may be subject to the internal audit, and
* can meet the [council’s/joint organisation’s] obligations under the *Guidelines for risk management and internal audit for local government in NSW*.

The [head of internal audit function] must consult with the audit, risk and improvement committee and [general manager/executive officer] regarding the appropriateness of the skills, knowledge and experience of any external provider before they are engaged by the [council/joint organisation].

[Details of any shared arrangements].

**Performing internal audit activities**

The work of the [name of internal audit function] is to be thoroughly planned and executed. The [council’s/joint organisation’s] audit, risk and improvement committee must develop a strategic work plan every four years to ensure that the matters listed in Schedule 1 are reviewed by the committee and considered by the internal audit function when developing their risk-based program of internal audits. The strategic work plan must be reviewed at least annually to ensure it remains appropriate.

The committee must also develop an annual work plan to guide the work of the internal audit function over the forward year.

All internal audit activities are to be performed in a manner that is consistent with relevant professional standards including the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and [current Australian risk management standard].

The [head of internal audit function] is to provide the findings and recommendations of internal audits to the audit, risk and improvement committee at the end of each audit. Each report is to include a response from the relevant senior manager.

The [head of internal audit function] is to establish an ongoing monitoring system to follow up [council’s/joint organisation’s] progress in implementing corrective actions.

The [general manager/executive officer], in consultation with the audit, risk and improvement committee, is to develop and maintain policies and procedures to guide the operation of the [council’s/joint organisation’s] [name of internal audit function].

The [head of internal audit function] is to ensure that the audit, risk and improvement committee is advised at each of the committee’s meetings of the internal audit activities completed during that quarter, progress in implementing the annual work plan and progress made implementing corrective actions.

**Conduct**

Internal audit personnel must comply with the [council’s/joint organisation’s] code of conduct. Complaints about breaches of [council’s/joint organisation’s] code of conduct by internal audit personnel are to be dealt with in accordance with the *Procedures for the Administration of the Model Code of Conduct for Local Councils in NSW*. The [general manager/executive officer] must consult with the [council’s/joint organisation’s] audit, risk and improvement committee before any disciplinary action is taken against the [head of internal audit function] in response to a breach of the [council’s/joint organisation’s] code of conduct.

Internal auditors must also comply with the Code of Ethics for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

**Administrative arrangements**

Audit, risk and improvement committee meetings

The [head of internal audit function] will attend audit, risk and improvement committee meetings as an independent non-voting observer. The [head of internal audit function] can be excluded from meetings by the committee at any time.

The [head of internal audit function] must meet separately with the audit, risk and improvement committee at least once per year.

The [head of internal audit function] can meet with the chair of the audit, risk and improvement committee at any time, as necessary, between committee meetings.

External audit

Internal and external audit activities will be coordinated to help ensure the adequacy of overall audit coverage and to minimise duplication of effort.

Periodic meetings and contact between internal and external audit shall be held to discuss matters of mutual interest and to facilitate coordination.

External audit will have full and free access to all internal audit plans, working papers and reports.

Dispute resolution

[Name of internal audit function] should maintain an effective working relationship with the [council/joint organisation] and the audit, risk and improvement committee and seek to resolve any differences they may have in an amicable and professional way by discussion and negotiation.

In the event of a disagreement between the [name of internal audit function] and the [council/joint organisation], the dispute is to be resolved by the [general manager/executive officer] and/or the audit, risk and improvement committee. Disputes between the [name of internal audit function] and the audit, risk and improvement committee are to be resolved by the governing body.

Unresolved disputes regarding compliance with statutory or other requirements are to be referred to the Departmental Chief Executive in writing.

Review arrangements

The [council’s/joint organisation’s] audit, risk and improvement committee must review the performance of the internal audit function each year and report its findings to the governing body. A strategic review of the performance of the [name of internal audit function] must be conducted each council term that considers the views of an external party with a strong knowledge of internal audit and reported to the [governing body/board].

This charter is to be reviewed annually by the committee and once each council term by the governing body. Any substantive changes are to be approved by the governing body.

### Further information

For further information on [council’s/joint organisation’s] internal audit activities, contact [name] on [email address] or by phone [phone number].

Reviewed by [head of internal audit function]

[sign and date]

Reviewed by chair of the [council’s/joint organisation’s] audit, risk and improvement committee

[sign and date]

Reviewed by [general manager/executive officer]

[sign and date]

Reviewed by [council/joint organisation] in accordance with a resolution of the governing body

[sign and date]

[resolution reference]

**Schedule 1 – internal audit function responsibilities**

*[Note: each council/joint organisation is to determine the responsibilities of its internal audit function in relation to each matter listed in section 428A of the Local Government Act 1993 and list them in Schedule 1 to the council’s/joint organisation’s internal audit charter. Suggested responsibilities are provided below and further detailed in core requirement 3 and Appendix 2 of these Guidelines.]*

**Audit**

Internal audit

* Conduct internal audits as directed by the [council’s/joint organisation’s] audit, risk and improvement committee.
* Implement the [council’s/joint organisation’s] annual and four-year strategic internal audit work plans.
* Monitor the implementation by the [council/joint organisation] of corrective actions.
* Assist the [council/joint organisation] to develop and maintain a culture of accountability and integrity.
* Facilitate the integration of risk management into day-to-day business activities and processes.
* Promote a culture of high ethical standards.

External audit

* Provide input and feedback on the financial statement and performance audit coverage proposed by external audit and provide feedback on the audit services provided.
* Review all external plans and reports in respect of planned or completed audits and monitor the [council’s/joint organisation’s] implementation of audit recommendations.
* Provide advice on action taken on significant issues raised in relevant external audit reports and better practice guides.

**Risk**

Risk management

Review and advise:

* if the [council’s/joint organisation’s] has in place a current and appropriate risk management framework that is consistent with the Australian risk management standard
* whether the [council’s/joint organisation’s] risk management framework is adequate and effective for identifying and managing the risks the [council/joint organisation] faces, including those associated with individual projects, programs and other activities
* if risk management is integrated across all levels of the [council/joint organisation] and across all processes, operations, services, decision-making, functions and reporting
* of the adequacy of risk reports and documentation, for example, the [council’s/joint organisation’s] risk register and risk profile
* whether a sound approach has been followed in developing risk management plans for major projects or undertakings
* whether appropriate policies and procedures are in place for the management and exercise of delegations
* if the [council/joint organisation] has taken steps to embed a culture which is committed to ethical and lawful behaviour
* if there is a positive risk culture within the [council/joint organisation] and strong leadership that supports effective risk management
* of the adequacy of staff training and induction in risk management
* how the [council’s/joint organisation’s] risk management approach impacts on the [council’s/joint organisation’s] insurance arrangements
* of the effectiveness of the [council’s/joint organisation’s] management of its assets, and
* of the effectiveness of business continuity arrangements, including business continuity plans, disaster recovery plans and the periodic testing of these plans.

Internal controls

Review and advise:

* whether the [council’s/joint organisation’s] approach to maintaining an effective internal audit framework, including over external parties such as contractors and advisors, is sound and effective
* whether the [council/joint organisation] has in place relevant policies and procedures and that these are periodically reviewed and updated
* whether appropriate policies and procedures are in place for the management and exercise of delegations
* whether staff are informed of their responsibilities and processes and procedures to implement controls are complied with
* if the [council’s/joint organisation’s] monitoring and review of controls is sufficient, and
* if internal and external audit recommendations to correct internal control weaknesses are implemented appropriately.

Compliance

Review and advise of the adequacy and effectiveness of the [council’s/joint organisation’s] compliance framework, including:

* if the [council/joint organisation] has appropriately considered legal and compliance risks as part of the [council’s/joint organisation’s] risk management framework
* how the [council/joint organisation] manages its compliance with applicable laws, regulations, policies, procedures, codes, and contractual arrangements, and
* whether appropriate processes are in place to assess compliance.

Fraud and corruption

Review and advise of the adequacy and effectiveness of the [council’s/joint organisation’s] fraud and corruption prevention framework and activities, including whether the [council/joint organisation] has appropriate processes and systems in place to capture and effectively investigate fraud-related information.

Financial management

Review and advise:

* if the [council/joint organisation] is complying with accounting standards and external accountability requirements
* of the appropriateness of the [council’s/joint organisation’s] accounting policies and disclosures
* of the implications for the [council/joint organisation] of the findings of external audits and performance audits and the [council’s/joint organisation’s] responses and implementation of recommendations
* whether the [council’s/joint organisation’s] financial statement preparation procedures and timelines are sound
* the accuracy of the [council’s/joint organisation’s] annual financial statements prior to external audit, including:
	+ management compliance/representations
	+ significant accounting and reporting issues
	+ the methods used by the [council/joint organisation] to account for significant or unusual transactions and areas of significant estimates or judgements
	+ appropriate management signoff on the statements
* if effective processes are in place to ensure financial information included in the [council’s/joint organisation’s] report is consistent with signed financial statements
* if the [council’s/joint organisation’s] financial management processes are adequate
* the adequacy of cash management policies and procedures
* if there are adequate controls over financial processes, for example:
	+ appropriate authorisation and approval of payments and transactions
	+ adequate segregation of duties
	+ timely reconciliation of accounts and balances
	+ review of unusual and high value purchases
* if policies and procedures for management review and consideration of the financial position and performance of the [council/joint organisation] are adequate
* if the [council’s/joint organisation’s] grants and tied funding policies and procedures are sound.

Governance

Review and advise of the adequacy of the [council/joint organisation] governance framework, including the [council’s/joint organisation’s]:

* decision-making processes
* implementation of governance policies and procedures
* reporting lines and accountability
* assignment of key roles and responsibilities
* committee structure
* management oversight responsibilities
* human resources and performance management activities
* reporting and communication activities
* information and communications technology (ICT) governance, and
* management and governance of the use of data, information and knowledge.

**Improvement**

Strategic planning

Review and advise:

* of the adequacy and effectiveness of the [council’s/joint organisation’s] integrated, planning and reporting (IP&R) processes
* if appropriate reporting and monitoring mechanisms are in place to measure progress against objectives, and
* whether the [council/joint organisation] is successfully implementing and achieving its IP&R objectives and strategies.

Service reviews and business improvement

Review and advise:

* if the [council/joint organisation] has robust systems to set objectives and goals to determine and deliver appropriate levels of service to the community and business performance
* if appropriate reporting and monitoring mechanisms are in place to measure service delivery to the community and overall performance, and
* how the [council/joint organisation] can improve its service delivery and the [council’s/joint organisation’s] performance of its business and functions generally

Performance data and measurement

Review and advise:

* if the [council/joint organisation] has a robust system to determine appropriate performance indicators to measure the achievement of its strategic objectives
* if the performance indicators the [council/joint organisation] uses are effective, and
* of the adequacy of performance data collection and reporting.
1. As defined by the International Standards for the Professional Practice of Internal Auditing (2017) [↑](#footnote-ref-1)