Wollongong City Council has established an Internal Audit function as a key component of Council's governance and assurance framework, in compliance with the Office of Local Government's draft *Guidelines for Risk Management and Internal Audit for Local Government in NSW*. This charter provides the framework for the conduct of the internal audit function at Wollongong City Council and has been approved by the governing body.

Role

Internal Audit plays an active role in:

→ developing and maintaining a culture of accountability and integrity, and

→ facilitating the integration of risk management into day-to-day business activities and processes

Internal Audit has no direct authority 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 Council's functions or activities (except in conducting its own functions).

Internal Audit also plays a role in supporting the Council's Audit, Risk and Improvement Committee (ARIC) in its responsibility to review Council's operations and to provide independent advice to Council on improving performance as per section 428A of the *Local Government Act 1993*. This includes monitoring the conducting of internal audits and monitoring the implementation of corrective actions arising from internal audits.

Purpose of internal audit

Internal audit is an independent, objective assurance activity designed to add value and improve the Council's operations. It helps Council accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

Internal audit provides an independent and objective review and advice to the governing body, General Manager and the ARIC regarding Council's governance processes, risk management and control frameworks and its external accountability obligations.

Independence

Council's Internal Audit Function is independent of the Council so it can provide an unbiased assessment of Council's operations and risk and control activities.

The Internal Audit function reports functionally to the Council's ARIC on the results of completed audits and reports administratively to the General Manager (or their delegate) to facilitate day-to-day operations. Internal audit activities are not subject to direction of the governing body and management has no role in the exercise of the Council's internal audit activities.

The ARIC 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 1993*. Individual Councillors may not request or receive information from the Committee, General Manger or Governance and Risk Manager.

The General Manager may consult with the Chair of the ARIC before making decisions affecting the employment of the head of internal audit function. If the head of internal audit function is dismissed, the General Manager must report the reasons for their dismissal to the governing body.

Where the Chair of the ARIC has any concerns about treatment or action taken against the Internal Audit function and its officers that may compromise their ability to undertake their functions independently, they can report their concerns to the governing body.

The Governance and Risk Manager is to confirm at least annually to the ARIC that the internal audit activities remain independent of Council.

Authority

Council authorises the Internal Audit function to have full, free and unrestricted access to all functions, premises, assets, personnel, records and other documentation and information that is necessary for internal audit 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 Governance and Risk Manager and individual internal audit staff or contractors 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 including where internal audit services are performed by an external third-party provider. This includes full workpapers (as opposed to summaries) of each audit which should be provided to the Governance and Risk Manager within 14 calendar days of the Final Report being issued.

Information and documents pertaining to Internal Audit are not to be made publicly available. The Internal Audit Function may only release council information to external parties that are assisting Internal Audit to undertake its responsibilities with the approval of the General Manager 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.

Governance and Risk Manager

The Governance and Risk Manager leads Council's internal audit function and has sufficient internal audit, skills, internal audit qualifications, knowledge and experience to ensure they fulfil their role and responsibilities to Council and the ARIC. The Governance and Risk Manager must be independent, impartial, unbiased and objective when performing their work and free from any conflicts of interest.

Responsibilities of the Governance and Risk Manager include:
→ contract management.
→ managing the internal audit budget.
→ ensuring the external provider completes internal audits in line with the ARIC's four-year work plan.
→ providing advice and comment on internal audit activities and reports to management and the Internal Audit Provider.
→ forwarding audit reports by the external provider to the ARIC.
→ acting as a liaison between the external provider and the ARIC.
→ monitoring Council's implementation of corrective actions that arise from the findings of audits and reporting progress to the ARIC, and
→ assisting the ARIC to ensure Council's internal audit activities comply with the *Guidelines for Risk Management and Internal Audit for Local Government in NSW*.

Where internal audits are to be undertaken on areas under the control of the Governance and Risk Manager appropriate safeguards will be implemented, including:

→ In development of the Internal Audit Plan the Governance and Risk Manager will not be involved in the decision on areas to audit in the Governance and Risk Unit. This will be decided between the head of the outsourced Internal audit firm and the General Manager.

→ The General Manager (or his delegate) will oversee the Internal Audit Process (Terms of Reference through to Final Report) of those audits directly related to areas of the Governance and Risk Manager's responsibility.

→ Any corrective actions identified as part of internal audits related to the Governance and Risk Manager's areas of responsibility are reviewed by the Manager Governance and Customer Service and sign off as complete will be conducted by General Manager (or his delegate) on receipt of evidence to show adequate implementation.

Internal Audit Provider

Council may contract an external third-party provider to undertake its internal audit activities. To ensure the independence of the external provider, the Governance and Risk Manager is to ensure the external provider:

→ does not conduct any audits on specific Council operations or areas that they have worked on within the last two years.

→ is not the same provider conducting Council's external audit.

→ is not the auditor of any contractors of Council that may be subject to an internal audit.

→ does not have any conflicts of interest with Council and/or its related and affiliated entities or entities it has significant influence over. Examples include members of the of the audit firm sitting on affiliated Board's, Audit Committees, or having close relationships with senior management of Council; and

→ can meet Council's obligations under the *Guidelines for Risk Management and Internal Audit for Local Government in NSW.*

The Governance and Risk Manager may consult, with the ARIC and General Manager regarding the appropriateness of the skills, knowledge and experience of any external provider before they are engaged by Council.

Performing internal audit activities

The work of Internal Audit is to be thoroughly planned and executed.

Internal audit must develop a strategic internal audit plan every four years and consider the matters listed in Schedule One when developing their risk-based program of internal audits. The strategic work plan must be reviewed at least annually to ensure it remains appropriate. Internal audit must also develop an annual work plan to guide the work of Internal Audit over the forward year. Both the strategic and annual plans should be reviewed and approved by Council's ARIC.

The Governance and Risk Manager will:

• Provide the findings and recommendations of internal audits to the ARIC at the next quarterly meeting after the report is finalised. Each report is to include a response from the relevant Senior Manager or Director.

• Establish an ongoing monitoring system to follow up Council's progress in implementing corrective actions.

• Develop and maintain policies and procedures to guide the operation of internal audit.

• Ensure that the ARIC is advised at each meeting 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 (including any service providers) must comply with Council's Code of Conduct. Complaints about breaches of the 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 must consult with the Council's ARIC before any disciplinary action is taken against personnel in the Internal Audit function in response to a breach of the code of conduct. Declarations and management of conflicts of interest will occur in line with the requirements of the Code of Conduct.

Management is not to exert pressure and or attempt to unduly influence Internal Audit staff or the internal audit service provider to change or omit findings of internal audit reports. Such behaviour will be dealt with under the Code of Conduct and reported to the General Manager and/or ARIC. Retribution is strictly prohibited against the internal audit service provider or Council staff member who reports the issue.

Internal Audit will adhere to mandatory guidance contained in the 'International Professional Practices Framework' (IPPF) issued by the Institute of Internal Auditors (IIA):

- 'Core Principles for the Professional Practice of Internal Auditing'.
- 'Definition of Internal Auditing'.
- 'Code of Ethics'.
- 'International Standards for the Professional Practice of Internal Auditing'.

This mandatory guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of Internal Audit performance.

Internal Audit, including service providers, will perform its work in accordance with the IPPF. While the IPPF applies to all internal audit work, technology audits may also apply the Information System Audit and Control Association (ISACA) standards contained in the 'Information Technology Assurance Framework' (ITAF). Where relevant the current Australian risk management standard will be applied.

Administrative arrangements

Audit, Risk and Improvement Committee (ARIC) meetings

The Governance and Risk Manager will attend ARIC meetings as an independent non-voting observer. The Governance and Risk Manager must meet separately with the independent members of the ARIC at least twice per year.

The Governance and Risk Manager can meet with the Chair of the ARIC 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 and reports.

Dispute resolution

Internal Audit should maintain an effective working relationship with the council and the ARIC 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 Internal Audit Function and the council, the dispute is to be resolved by the General Manager and if deemed required, the ARIC. Disputes between Internal Audit and the ARIC are to be resolved by the governing body.

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

Review arrangements

Council's ARIC must review the performance of the Internal Audit function each year and report its findings to the governing body. A review of the performance of the 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 Council.

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.

Schedule 1 – internal audit function responsibilities

Audit

Internal audit
→ Conduct audits in line with internal audit work plans.
→ Monitor the implementation of internal audit findings and recommendations.
→ Assist Council 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

→ Review all external plans and reports in respect of planned or completed audits and monitor the implementation of audit recommendations.
→ Provide advice on action taken on significant issues raised in relevant external audit reports and better practice guides where requested.

Risk

Risk management

Review and advise:
→ if a current and appropriate risk management framework is in place that is consistent with the Australian risk management standard.
→ whether the risk management framework is adequate and effective for identifying and managing the risks
→ if risk management is integrated across all levels of the organisation and across all processes, operations, services, decision-making, functions and reporting
→ of the adequacy of risk reports and documentation
→ if Council has taken steps to embed a culture which is committed to ethical and lawful behaviour.
→ if there is a positive risk culture within Council and strong leadership that supports effective risk management.
→ 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 approach to maintaining an effective internal audit framework is sound and effective
→ whether relevant policies and procedures are in place 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 monitoring and review of controls within Council 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 compliance framework, including:

→ if legal and compliance risks have been appropriately considered as part of the risk management framework

→ how council 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 fraud and corruption prevention framework and activities, including whether Council better has appropriate processes and systems in place to capture and investigate fraud-related information effectively.

Financial management

Review and advise:

→ if Council is complying with accounting standards and external accountability requirements

→ of the appropriateness of Council's accounting policies and disclosures

→ whether council's financial statement preparation procedures and timelines are sound

→ if Council's financial management processes are adequate

→ the adequacy of cash management policies and procedures

→ if there are adequate controls over financial processes, for example:
  o appropriate authorisation and approval of payments and transactions
  o adequate segregation of duties
  o timely reconciliation of accounts and balances
  o review of unusual and high value purchases

→ if policies and procedures for management review and consideration of the financial position and performance of Council are adequate

Governance

Review and advise of the adequacy of the governance framework, including:

→ decision-making processes

→ implementation of governance policies and procedures

→ reporting lines and accountability

→ assignment of key roles and responsibilities

→ management oversight responsibilities

Improvement

Strategic planning

Review and advise:

→ of the adequacy and effectiveness of council'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 is successfully implementing and achieving its IP&R objectives and strategies.

Service reviews and business improvement

Review and advise:

→ if Council has robust systems to set objectives and goals to determine and deliver appropriate levels of service to the community and business performance
→ how Council can improve its service delivery
→ if Council has a robust system to determine appropriate performance indicators to measure the achievement of its strategic objectives and if the performance indicators it uses are effective.

APPROVAL AND REVIEW	
Responsible Division	Governance and Customer Service
Date adopted	8 May 2023
Date of previous adoptions	4 June 2019
Date of next review	8 May 2026
Responsible Manager	Governance and Risk Manager