

7.5 Internal Audit Policy and Audit, Risk and Improvement Committee Charter

REPORT BY THE EXECUTIVE MANAGER, HUMAN RESOURCES
TO 19 SEPTEMBER 2018 ORDINARY MEETING
GOV400066, COR400001

RECOMMENDATION

That Council:

1. **receive the report by the Executive Manager, Human Resources on the Internal Audit Policy and Audit, Risk and Improvement Committee Charter;**
2. **adopt the Internal Audit Policy;**
3. **adopt the Audit, Risk and Improvement Committee Charter;**
4. **nominate the Council representative and alternate representative on the Audit, Risk and Improvement Committee;**
5. **advertise for expressions of interest for independent Audit, Risk and Improvement Committee Members; and**
6. **receive a further report following the expressions of interest to consider any applications for independent members and to appoint the independent members.**

Executive summary

Mid-Western Regional Council does not have an Audit Risk and Improvement Committee or an Internal Audit function. At the Council meeting of 16 May 2018, Council endorsed the implementation of an internal audit function and an Audit, Risk and Improvement Committee in 2018/19. This report follows the request for a report to be brought back to Council with a recommended Internal Audit Policy and Committee Charter.

Disclosure of Interest

Nil.

Detailed report

Audit, Risk and Improvement Committee

In 2016, the Local Government Amendment (Governance and Planning) Act 2016 passed Parliament. The amendment focused on improvements to the governance, strategic planning and performance frameworks under which Council's operate.

One of the changes was the insertion of a new Section 428A of the Local Government Act 1993 which states:

(1) A Council must appoint an Audit, Risk and Improvement Committee.

(2) *The Committee must keep under review the following aspects of the Council's operations:*

- a. *Compliance,*
- b. *Risk management,*
- c. *Fraud control,*
- d. *Financial management,*
- e. *Governance,*
- f. *Implementation of the strategic plan, delivery program and strategies,*
- g. *Service reviews*
- h. *Collection of performance management data by the Council,*
- i. *Any other matters prescribed by the regulations.*

(3) *The Committee is also to provide information to the Council for the purpose of improving the Council's performance of its functions.*

Internal Audit Guidelines 2010

In September 2010, the Division of Local Government developed Internal Audit Guidelines which were designed to develop and implement internal audit and risk management frameworks. The guidelines are the primary source for guidance for the establishment of the internal audit function and an Audit Committee as regulations for the new Section 428A are yet to be developed.

The Internal Audit Guidelines outline the scope of internal audit which should include:

- Reliability and integrity of financial and operational information
- Effectiveness and efficiency of operations and resource usage
- Safeguarding of assets
- Compliance with laws, regulations, policies, procedures and contracts
- Adequacy and effectiveness of the risk management framework

The 2016 changes to the Act broaden this scope to include:

- IP&R including the CSP, Delivery program and Council strategies
- Internal Service Reviews
- Collection of performance measurement data by Council

Benefits of establishing an Internal Audit Function

According to the current guidelines Council should have an internal audit function because:

- It supports good internal governance
- To ensure consistency with other levels of government
- To improve the effectiveness of risk management, control and governance processes
- Helps to instil public confidence in an organisation's ability to operate effectively

The NSW Auditor General's report recommended that the Office of Local Government should introduce the requirement for Council's to establish internal audit functions.

"Internal audit is another important element of an effective governance framework as it supports a risk and compliance culture. Internal audit provides assurance that a Council's governance practices and internal control environment are effective, and identifies where performance can improve."

NSW Auditor General's Report

In April 2018 the NSW Auditor General produced the first report on the statutory financial audits of Councils, to NSW Parliament. Amongst other things, the report highlighted findings and observations related to audit committees and internal audit. In particular:

"The combined benefit of an audit committee and internal audit function is that Councillors can obtain general assurance that internal controls and risk management are working effectively. The 36 councils that do not have an audit committee and internal audit function are operating without important safeguards and generally accepted checks and balances."

The report recommended that *"Councils should early adopt the proposed requirement to establish an audit, risk and improvement committee. An effective audit, risk and improvement committee is an important part of good governance"*.

Community Plan implications

Theme	Good Governance
Goal	An effective and efficient organisation
Strategy	Prudently manage risks association with all Council activities

Strategic implications

Council Strategies

The recommendations are supported by Council's Community Plan and Delivery Program that includes strategies to ensure that Council is providing accountable and transparent decision making for the community; pursuing excellence in service delivery; prudently managing risks associated with all Council activities and pursuing efficiencies and ongoing business improvement.

Council Policies

The recommendations are supported by Council's Fraud Control Policy which seeks to establish a robust internal audit program incorporating internal audit guidelines in order to give the policy effect.

Legislation

Section 428A of the Local Government Act states that a Council must appoint an Audit, Risk and Improvement Committee six months after the next ordinary election.

Financial implications

Currently Council has \$41,844 allocated in 2018-19 to internal audit and the risk committee and approximately \$22,000 in later years. It is anticipated that a more realistic cost would be closer to \$45,000 per annum. It is recommended that the final costs of establishing the Audit, Risk and

Improvement committee and internal audit function are reported back to Council through the QBR and budgeting process once final costs are confirmed.

Budget Year	Operating Performance Ratio	Own Source Revenue	Building & Infrastructure Renewal
2018/19	✓	-	-
Future Years	✗	-	-

Associated Risks

If Council continues to operate without an internal audit function and an Audit, Risk and Improvement Committee there is a greater chance that internal controls may not be working effectively to mitigate fraud and other risks throughout the organisation.

MICHELE GEORGE
EXECUTIVE MANAGER, HUMAN RESOURCES

28 August 2018

Attachments: 1. ARIC Charter
2. Internal Audit Policy

APPROVED FOR SUBMISSION:

BRAD CAM
GENERAL MANAGER

ADOPTED	REFERENCE
EMT	REVIEW DATE
DATE ADOPTED: Click here to enter a date.	FILE NUMBER

Purpose

The Audit, Risk and Improvement Committee (ARIC) is established to provide the elected Council with advisory assurance in respect of Mid-Western Regional Council's risk profile, management controls and compliance frameworks.

Membership

Voting Members

- One Councillor elected by the Council. All other Councillors are welcome to attend as observers with no voting rights unless appointed as an alternate voting member.
- Two independent members appointed by Council.

Attendees (Non-voting)

- General Manager
- Executive Manager Human Resources
- Manager Governance
- Chief Financial Officer
- Internal Auditor
- Other officers may attend by invitation as requested by the Committee
- Councillors and independent members will be appointed for the term of the Council (usually 4 years).
- Independent members will be eligible for re-appointment.
- Council will also appoint an alternate Councillor member to the Committee who will act as a stand-in as required.
- Other councillors are encouraged by way of open invitation to attend the Committee meetings as observers (non-voting).
- The Chair of the Committee will be an independent member and be elected by the Committee for a two year term.
- A Deputy Chairperson will be an independent member and be elected by the committee.
- Where the Committee is unable to decide who the Chair is to be then the decision will be made by Council.
- The members of the Committee, taken collectively, will have a broad range of skills and experience relevant to the operations of Council.
- At least one member of the Committee shall have accounting or related financial management experience, with understanding of accounting and auditing standards in a public sector environment.

Role of the Committee

The Committee has no delegated powers, except those expressly provided by Council.

The Committee shall:

- Report to Council and provide appropriate advice and recommendations on matters relevant to this Charter.
- Assist Council by providing independent advice to Council on it fulfilling its responsibilities by ensuring that management has an appropriate governance and business framework in place across Council.
- Specifically the AIRC should advise the Council on the following matters:
 - Effectiveness of Council's Enterprise Risk Management Framework in terms of identifying and managing Council's financial and business risks.
 - Effectiveness of key controls including policy, procedure and governance processes.
 - Legislative compliance by the organisation
 - Effectiveness of external accountability mechanisms.
- At all times recognise that the primary responsibility for the management of Council rests with the Council and the General Manager as defined by the Local Government Act.
- Assist Council to ensure that the services and facilities provided by the Council are managed efficiently and effectively.
- Identify strategies to assist with the continuous improvement of the provision of services and facilities to the community.
- Promote continuous improvement across business processes with a focus on efficiencies and savings.
- The focus of the Committee should only be on matters of significance and materiality.

Responsibilities of the Committee

Internal Audit

- Act as a forum for communication between the Council, General Manager, senior management, internal audit and external audit.
- Review the scope of the Internal Audit Plan.
- Recommend for approval to Council the Internal Audit Plan after consultation with the General Manager.
- Consider the adequacy of Internal Audit resources/funding to carry out its responsibilities including completion of the approved Internal Audit Plan.
- Monitor the status of planned activities of Internal Audit as set out in the adopted Internal Audit Plan.
- Review audit reports and consider significant issues identified and action taken on issues raised.
- Monitor the implementation of internal audit recommendations by management.
- Monitor and assess the performance and effectiveness of Internal Audit.
- Make recommendations on the appointment or removal of the internal auditor.
- Providing strategic advice and guidance to Council on identifying, recommending and supporting initiatives that will provide cost savings to Council.
- Co-operatively engaging with other relevant bodies to further promote efficiencies and

continuous improvement across Mid-Western Regional Council.

External Audit

- Act as a forum for communication between the Council, General Manager, senior management, internal audit and external audit.
- Provide input and feedback on the financial statements and performance by external audit and the external audit services provided.
- Consider significant issues raised in relevant external audit reports and provide independent advice on appropriate action to be taken.

Enterprise Risk Management

- Provide advice on the adequacy of Council's current risk management framework, and associated procedures for effective identification and management of Council's financial and business risks,

Members of the committee are encouraged to undertake all relevant training as identified

Meeting Frequency

- The ARIC will meet at least four times per year, with one of these meetings to include review and endorsement of the annual audited financial reports and external audit opinion.
- The need for any additional meetings will be decided by the Chair of the Committee. Reasons could include:
 - Requirements by the NSW Audit Office
 - Committee members may make requests to the Chair for additional meetings.
- A forward meeting plan, including meeting dates and agenda items, will be agreed by the Committee each year. The forward meeting plan will cover all Committee responsibilities as detailed in this Audit Committee Charter.

Independence and Access

- The Committee is to liaise closely with senior management and Internal and External Auditors to carry out its responsibilities. Whilst the primary responsibility for financial and other reporting, internal control and compliance with laws, regulations and ethics within Council rests with the General Manager, the Committee will assist the General Manager through its monitoring and review role.
- The Committee will have, subject to the requirements of the Act, access to relevant information associated with its responsibilities.
- Members of the Committee are encouraged to proactively discuss relevant issues with the General Manager, the External Auditor and/or the Internal Auditor as they arise from time to time.
- The full Committee will meet separately with the External Auditor on at least one

occasion each financial year.

Reporting

- The Committee shall report to the Council at the first opportunity (dependant on meeting schedules) after each meeting held.
- The Committee may receive and consider reports on:
 - Audit Plans
 - Financial statements
 - Quarterly Management performance against annual plan
 - Special Investigations
 - Reports arising from action items
 - Audit reports prepared quarterly by the Internal Auditor
- Each year the Committee Chair will provide an annual report to Council including information on the Committee's principal activities during the year.

Meeting Practice

The ARIC Committee will establish its own meeting practice ensuring meetings are conducted in accordance with the Local Government Act, comply with Councils Policies but are conducive to open debate.

Attendance and Quorum

A quorum will consist of a majority of Committee members. Meetings can be held in person, by telephone or by video conference.

Voting

As the Committee has an advisory role, its recommendations are made by consensus and no recommendation is deemed to be a decision of Council, unless the matter is referred to the Council for determination. If consensus is not achieved and if required, the matter shall be referred to Council for determination.

Chairperson Role

- The Chairperson shall be an Independent Member
- Should the elected Chairperson be absent, the Deputy Chair shall be the Chairperson
- The agenda will be set by the Chairperson in consultation with the General Manager. Items shall be submitted to the nominated secretary 14 days before the next scheduled meeting date.
- If a Committee member wishes to raise an urgent/late item that is not on the agenda, the Chairperson shall determine the appropriate manner for dealing with the matter in accordance with Council's adopted Code of Meeting Practice.

Administrative Support and Facilitator

Council will ensure appropriate administrative support is available to the Committee. A Facilitator shall be appointed by the General Manager who is responsible for coordinating the preparation of agendas, invitations and minutes of the Committee.

Agenda

The Agenda shall be set by the Chair of the Committee in consultation with the General Manager and will be sent to each member at least one week before each meeting of the Committee, specifying the time and place at which and the date on which the meeting is to be held and the business proposed to be transacted at the meeting.

Minutes

- Minutes of all ordinary/extraordinary Committee meetings will be kept in the Councils Electronic Documents Management System.
- The Facilitator is responsible for recording the minutes, which shall contain:
 - Description of the meeting (i.e. name of Committee, ordinary meeting, etc.), date, time and venue at which the meeting was held.
 - A list of persons present.
 - Notification of endorsement of minutes from previous the meeting.
 - Whether there was business arising from the minutes.
 - Notation of reports or correspondence.
 - Items of general business.
 - Time meeting closed, date and venue for next meeting.
- All minutes must be approved by the Chairperson in consultation with the General Manager and distributed to all members.

Procedure for Changing the Charter

The Charter can only be changed by Council resolution at any time. The following procedures shall apply for the Committee to propose an amendment of the Charter to Council.

- a) Proposed changes to the Charter shall be submitted to the Committee Facilitator at least 21 days before any Committee meeting so that notice may be given to all members at least 14 days in advance of any meeting.
- b) Proposed changes will require a majority vote of the Committee membership.
- c) Amendments to the Charter will only be effective after a resolution of approval by the Council.

Term of Office

- The Committee shall be appointed for the term of Council within nine calendar months of the Council taking office after an election.
- Council may also dissolve or amend the Committee in anyway by adopting a resolution at any time.

Conflicts of Interest

Committee members must declare any conflict of interest and take appropriate action in accordance with the Code of Conduct at the start of each meeting or before discussion of the relevant agenda item or topic. Details of any conflicts of interest should be appropriately minuted.

Independent members are deemed to be designated persons under Section 441 of The Act and will be required to complete a pecuniary interest return in accordance with Section 449 of the Act.

Induction and Training

New members will receive relevant information and briefings on their appointment to assist them to meet their Committee responsibilities.

Vacancy

If for any reason a vacancy in the Committee membership occurs, the position shall be filled by appointment by Council.

Performance

The Chair of the Committee, in consultation with the Mayor and General Manager, will initiate a review of the performance of the Committee every four years.

Confidentiality

Independent members will be required to sign a Declaration of Confidentiality.

Review of the Charter

- This Charter shall be reviewed every four years by Council to ensure it remains current, professional and meets legislative requirements.
- Any Proposed amendments to the Charter can only be implemented following the approval by Council.

ADOPTED		VERSION NO	1
COUNCIL MEETING MIN		REVIEW DATE	20/09/2021
DATE:	20/09/18	FILE NUMBER	CLICK HERE TO

Objective

The objective of this policy is to establish an effective and efficient internal audit function that will provide independent, objective assurance and appropriate services designed to add value and improve Council's operations.

An effective internal audit function will seek to achieve the following outcomes in undertaking the annual audit program set by the Audit Risk and Improvement Committee:

- Assess and evaluate Council's processes, procedures and internal control environment to assist with the management of operational risks;
- Appraise the relevance, reliability and integrity of management, business systems, financial and operating records and reports;
- Assist the General Manager and Council in the effective discharge of their responsibilities by providing them with analyses, appraisals, recommendations and information concerning the activities reviewed;
- Review compliance with Council policies and procedures, legislative requirements and regulations; and
- Provide outcomes that will generally improve practices across Council.

Legislative requirements

Local Government Act 1993

Local Government Act Regulations

Related policies and plans

- Audit Risk and Improvement Committee Charter
- Risk Management Policy
- Fraud Control Policy

Policy

Independence and Objectivity

The internal audit function must be independent and objectivity must be exercised in the conduct of internal audit work.

Internal audit engagements shall be performed with an unbiased and impartial attitude. Internal audit shall not be involved in the day to day operations of Council.

Authority and access

Internal audit shall have direct and unrestricted access to Council and management. It is authorised to review all areas of Council with full, free and unrestricted access to Council's operations, data and records, assets and personnel.

Reporting responsibility

The internal audit function will report functionally to the Audit Risk and Improvement Committee with administratively reporting to the General Manager.

Internal audit reports will be prepared and presented to the Audit Risk and Improvement Committee via the General Manager's office on completion of an audit, and progress reports will be presented bi-annually to the Audit Risk and Improvement Committee. These reports will state the control measures that Council has adopted that were assessed by internal audit; the method in which the internal audit was conducted; the observations and recommendations of internal audit and management responses to audit recommendations.

Internal Audit Resourcing

The internal audit function will be undertaken by a suitably qualified and experienced external service provider and specialist audit services support will be engaged as required. All work undertaken by the external service provider within the Council will be approved by the Audit Risk and Improvement Committee.

The term of appointment of an internal auditor other than a staff member shall be reviewed by the General Manager at least every two years.

Scope and Objective of Internal Audit

The internal audit coverage may extend to all areas of the organisation and include financial, accounting, administrative, computing and other operational activities.

The extent and frequency of internal audits will depend upon varying circumstances such as results of previous audits, relative risk associated with activities, materiality, the adequacy of the system of internal control and the resources available.

An annual audit plan will be endorsed by the Audit Risk and Improvement Committee.

The objective of Internal Audit is to provide Council with independent advice in relation to:

- Reviewing and appraising the adequacy and effectiveness of the system of internal controls;
- Appraising the relevance, reliability and integrity of management, financial and operating data and reports;
- Reviewing the systems established to ensure compliance with those policies, plans, procedures, statutory requirements and regulations which could have a significant impact on operations;
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Appraising the economy, efficiency and effectiveness with which resources are employed;

- Reviewing operations or programs to ascertain whether results are consistent with Council's established objectives and goals and whether the operations or programs are being carried out as planned;
- Assessing the adequacy of established systems and procedures;
- Conducting special assignments and investigations into any matter or activity affecting the probity, interests and operating efficiency of the organisation; and
- The improvement and effectiveness of risk management, legal compliance, internal control and governance systems to provide value and accountability to ratepayers.

Audit Methodology

Internal audits will be conducted in accordance with the Standards for the Professional Practice Internal Auditing. For all audits undertaken, the manager for the activity under review shall be advised and given the opportunity to discuss:

- The objectives, risks and scope of the audit to be conducted, prior to the commencement of such audit; and
- The findings and proposed recommendations on the completion of an audit, and, where appropriate, provide comments.

Independence

To be effective, the Internal Audit function must be able to operate without being influenced or restricted when undertaking its responsibilities. For this purpose the Internal Audit reports directly to the Audit Risk and Improvement Committee via the General Manager with respect to all audit investigation findings.

Authority

Internal Auditors, in the course of their duties, have full, free and unrestricted access to all records, monies, materials, assets, property and personnel and are permitted to examine all transactions, review all policies, procedures and functions in Council.

Information acquired by Internal Audit in the course of an audit must remain confidential and must not be used for purposes outside the scope of the audit review.

All members of management and staff must fully co-operate with internal audit in relation to matters subject to review.

Audit Reports and Recommendations

At the completion of an audit, internal audit will discuss their findings and recommendations with the appropriate officers concerned to ensure that internal audit and management agree on the findings and jointly develop any recommendations considered necessary. A final report will then be issued to the Audit Risk and Improvement Committee.

At the request of the Audit Risk and Improvement Committee (in consultation with the General Manager), internal audit may be required to provide a report summarising significant issues arising out of audits undertaken during the year. It may also be required to provide independent verification that any high risk issues have been addressed, and to undertake an assessment of the implementation of audit recommendations. The report may include: reference to areas where weaknesses were encountered; suggested remedial measures and any general observations or recommendations considered appropriate; and a summary of management actions taken or not taken in response to audit recommendations.

The General Manager will co-ordinate the review of the implementation of internal audit recommendations and report progress and any associated issues to the Risk Audit and Improvement Committee on at least a quarterly basis.

Relationship between Internal Audit and External Audit

Internal audit will collaborate with the appointed external auditor with respect to all internal audit engagements conducted, as required, to facilitate the audit coverage and avoid duplication of work.

Both the internal auditor and external auditor may approach the Audit and Risk Committee Chairperson directly on any matter.

Management

The internal audit function will be guided by the standards of the Institute of Internal Auditors and will be active in implementing modern auditing techniques.

A comprehensive set of audit working papers shall be prepared during each assignment. The working papers shall include planning rationale, process documentation, details of auditing procedures, results of testing, discussion records, a report on each process audited and correspondence with senior and line management, etc.

The Executive Manager of Human Resources (on behalf of the General Manager) will liaise with the internal audit function (contractor) in relation to the conduct of internal audits, reporting arrangements and the administration of any contractual arrangements.