

COUNCIL POLICY

Council Policy Title:	Internal Audit Policy and Audit Committee Charter
Council Policy ref. no:	16.1
Responsible Department:	Corporate & Community Services
Date of adoption/review:	22 April 2015

1. INTRODUCTION

The internal audit policy provides a framework for Council, the Audit Committee and the Chief Executive Officer to independently appraise, examine and evaluate the activities of the Council in effectively discharging their responsibilities and accountabilities to customers and constituents.

This policy provides for the implementation of the internal audit function ensuring compliance with laws and regulations that impact upon the organisation. It also provides for the development of adequate and effective controls to be given particular attention to areas of risk in establishing a quality financial, management and reporting system that complements, however does not duplicate the external audit process undertaken by the Auditor General.

2. OBJECTIVES/PURPOSE

The objective of the internal audit process is to provide independent advice and assurance to Council and management that the policies, operations, systems and procedures for which they are responsible:

- comply with relevant legislation and standards (compliance);
- are carried out with optimum use of resources (economy and efficiency);
- achieve the objectives specified in Council and Operational Plans (effectiveness).
- pro-active Risk Management to minimise Council's risk exposure.

Internal Audit will undertake reviews of Council's activities and furnish the Audit Committee and management with reports containing analyses, appraisals, recommendations, comments and observations.

3. POLICY

3.1 Scope of Internal Audit

The scope of internal audit is to include both compliance by Council and operational performance of Council (including any controlled entities) and may include, but is not restricted to:

- Monitoring risks to which the local government's operations are exposed.
- Preparing of audit plans to lessen the identified risks.

- Evaluating the extent of compliance with legislation, policies and procedures.
- Monitoring, evaluating and reporting on compliance and probity issues surrounding the management of tendering arrangements, including contract compliance, the annual performance statement and co-operative performance indicators.
- Reviewing policies, systems and procedures and evaluating the adequacy of controls.
- Recommending improvements to systems and procedures.
- Advising on appropriate systems of control and other operational matters.
- Assessing the accuracy and appropriateness of reports and other information provided to Councillors.
- Reviewing revenues and expenditure of Council and its controlled entities.
- Advising revenue enhancement and cost reduction.
- Reviewing Business Continuity and Fraud Control.
- Evaluating Council operations and service delivery.
- Making recommendations to achieve operational best practice.

3.2 Operating Principles

3.2.1 Organisational Arrangements

The Internal Auditor (as appointed by Council) is responsible to Council through the Audit Committee and the Chief Executive Officer, for the effective management of an independent Internal Audit function. The independent status within Council is essential to effective internal auditing and shall be maintained at all times.

The Internal Auditor has no managerial powers, authorities, functions or duties except those relating to the Internal Audit function. Accordingly Internal Audit activities do not in any way relieve other personnel from their responsibilities.

The Internal Auditor has the right of access to Council's properties, works, all records, accounts, correspondence, minutes and other documents that may be necessary in the conduct of a review. Council personnel may be requested to provide relevant information within a specified timeframe to enable a review to be efficiently completed.

Internal Audit shall not be responsible for detailed development, implementation of, or variation to financial and administrative systems, but should be advised of any approved development or change to such systems.

The Internal Auditor will promote its image as a service function carrying out its responsibilities through constructive co-operation with Executive Management and personnel at all levels within Council.

3.2.2 Code of Ethics

Internal Auditors are expected to adopt professional ethical standards in order to meet their responsibility to the Council. The Council accepts that a suitable Code of Ethics and Rules of Conduct is one based on the Institute of Internal Auditors Australia.

Principles

Internal auditors are expected to apply and uphold the following principles:

Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Competency

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

3.2.3 Rules of Conduct

Integrity

Internal auditors:

- (a) Shall perform their work with honesty, diligence and responsibility.
- (b) Shall observe the law and make disclosures expected by the law and the profession.
- (c) Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- (d) Shall respect and contribute to the legitimate and ethical objectives of the organisation.

Objectivity

Internal auditors:

- (a) Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- (b) Shall not accept anything that may impair or be presumed to impair their professional judgement.
- (c) Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

Confidentiality

Internal auditors:

- (a) Shall be prudent in the use and protection of information acquired in the course of their duties.
- (b) Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

Competency

Internal Auditors:

- (a) Shall engage only in those services for which they have the necessary knowledge, skills and experience.
- (b) Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- (c) Shall continually improve their proficiency and the effectiveness and quality of their services.

3.2.4 Audit Planning and Control

Internal Audit planning shall be risk based and aligned to the Council Plan. The risk based methodology will indicate where longer term strategic or cyclic activities are involved. In addition, the internal audit plan will take cognizance of the results of the previous year, advice and requests from Council, the Audit Committee and Management.

The Internal Audit Annual Work Plan shall be approved by Council upon the recommendation of the Audit Committee.

3.2.5 Reporting the Results of Audit

Matters arising during audits, including matters for possible inclusion in reports will, on completion of the audit, be discussed with the Manager in charge of the area and where appropriate with the responsible General Manager.

Matters that can be promptly resolved without the need for formal reporting will be done so and if necessary followed up. Details of such matters will be retained in audit working papers.

Reports will include the Manager's response to audit recommendations that will include recommendation acceptance, the responsible officer to undertake the corrective action and the expected date that the corrective action will be completed.

Managers are required to respond to all issues within 30 days of the formal report being issued. This is an initial response only and further work associated with particular recommendations will be negotiated with the appropriate General Manager as required.

The final draft report will be provided to Executive for final review and approval prior to being included in an Audit Committee Report.

The Audit Report including management responses and actions will be presented to Council's Audit Committee as soon as possible after the completion of the review.

Recommendations as approved will be included as actions in the relevant Business Plans of the particular unit(s) and incorporated into the Interplan system.

3.2.6. Organisational Reporting of Audit Activity

The Internal Audit function is directly responsible to the Chief Executive Officer and will report the results of audit reviews via the Audit Committee. The detailed reporting process will be as determined by the Chief Executive Officer on the advice of the Audit Committee.

3.2.7 Relations with External Audit

A professional relationship will be maintained with Council's External Auditors. A close liaison will result in a cost effective use of audit resources ensuring the best value to Council.

Internal Audit will consult with External Audit, where necessary.

3.2.8 Confidentiality

All the work of internal audit will be confidential to the Council and Audit Committee and will not be disclosed to third parties, except for the external auditors unless specifically authorised by Council.

3.2.9 Other Projects

The Audit Committee will be advised of the Internal Auditor's participation in non-assurance roles to assess whether it impairs the internal auditor's independence or interferes with the delivery of the internal audit program.

3.2.10 Key Performance Indicators

The Internal Auditor will provide regular Performance Indicator reports for the information of the Audit Committee.

4. IMPLEMENTATION AND REVIEW

This policy will be implemented by Colac Otway Shire and will be subject to periodic review.

5. RELATED LEGISLATION

Local Government Act 1989

Audit Committees – a Guide to Good Practice for Local Government – Local Government Victoria, January 2011

5. ATTACHMENT

Audit Committee Charter –

ADOPTED/AMENDMENT OF POLICY

Policy Review Date	Reason for Amendment
27 June 2007	Adoption by Council
28 October 2009	Review
16 December 2009	Review
27 June 2012	Review
24 April 2013	Review
23 April 2014	Review
22 April 2015	Review

AUDIT COMMITTEE CHARTER

1. PURPOSE

The Colac Otway Shire Council (Council) Audit Committee is a formally appointed independent Advisory Committee of Council for the purposes of the *Local Government Act 1989* (the Act).

The Audit Committee is to:

- 1.1 Assist the Council in its oversight responsibilities by monitoring, reviewing and advising on:
 - The truth and fairness of the view given by the annual financial and performance statements of the Council.
 - The Council's accounting policies and practices in accordance with current and emerging, accounting standards.
 - The external auditor's performance.
 - The independence and performance of the internal audit function.
 - Compliance with legal and regulatory requirements and policies.
 - Compliance with Council policy framework.
 - Internal controls, the control environment and the overall efficiency and effectiveness of financial operations.
 - The Council's overall risk management policy and programs.
- 1.2 Provide a forum for communication between the Council, management and the internal and external auditors.

2. AUTHORITY

The Audit Committee does not have:

- executive powers;
- authority to implement actions in areas over which management has responsibility;
- any delegated financial responsibility; and
- any management functions and is therefore independent of management.

However Council authorises the Audit Committee, within the scope of the responsibilities to:

- 2.1 Perform activities within its role and responsibilities.
- 2.2 Require the attendance of council officers at meetings as appropriate.
- 2.3 Have unrestricted access to management, employees and information it considers relevant to its roles and responsibilities.
- 2.4 Monitor the work and assess the performance of the internal and external auditors.

3. ORGANISATION

3.1 Membership

- 3.1.1 The Committee will be comprised of two Councillors and two independent members, all of whom shall be appointed by Council.
- 3.1.2 The Council members of the Committee will be appointed annually by Council and the independent members will be appointed for a three year term.
- 3.1.3 Each Committee member should be capable of making a valuable contribution to the committee and have skills and experience appropriate to the Council's operations.

The independent members will be able to demonstrate a background in financial reporting, accounting or business management.
- 3.1.4 Independent members will be eligible for reappointment by Council after the initial three year term.
- 3.1.5 The Chairperson of the Audit Committee shall be appointed by the Committee on an annual basis. The Chairperson is to be from the independent members of the Committee.
- 3.1.6 If Council proposes to remove an independent member of the Committee, it must give written notice to the member of its intention to do so and provide that member with the opportunity to be heard at a Council meeting.

3.2 Remuneration Arrangements

- 3.2.1 Remuneration will be paid to any externally appointed member of the Committee. The basis of the fee may be an annual fee, a set fee per meeting, or some other basis negotiated with the Chief Executive Officer.
- 3.2.2 A Letter of Offer must be signed by externally appointed Committee members and Council. The Letter of Offer must describe any remuneration arrangements and be signed prior to appointment.
- 3.2.3 The Chief Executive Officer will review the remuneration annually in accordance with the terms of appointment.

3.3 Meetings

- 3.3.1 The Audit Committee shall meet at least four times each year and at least once in each quarter.
- 3.3.2 Meetings should be arranged to coincide with the relevant Council reporting deadlines, including coinciding with the finalisation of the Financial Statements and the draft Annual Report to the Minister.
- 3.3.3 Additional meetings shall be convened at the discretion of the Chairperson or at the written request of any member of the Committee.

- 3.3.4 The Chief Executive Officer should attend all meetings, except where the Committee chooses to meet in camera.
- 3.3.5 The Mayor must be invited to attend every meeting of the Committee, but does not have voting rights. A copy of the agenda shall be provided to the Mayor where not a member of the Committee where requested.
- 3.3.6 Council staff may be requested to attend either regularly or from time to time at the discretion of the Committee.
- 3.3.7 Representatives of the external auditor should be invited to attend at the discretion of the Committee.
- 3.3.8 The Committee may invite any other external party to a meeting in order to carry out the duties and functions of the Committee.
- 3.3.9 A standing invitation exists for all Councillors to attend Audit Committee meetings as observers but voting rights and discussion remains with Audit Committee members. Copies of agendas shall be provided to a Councillor where requested.
- 3.3.10 The internal auditor (as appointed by Council) should attend all meetings where internal audit reports are presented or as requested by the committee.
- 3.3.11 The number of members required to form a quorum is set at three committee members.
- 3.3.12 The chairperson of the Committee shall have a casting vote.
- 3.3.13 Detailed and summary minutes of each Audit Committee meeting will be prepared.

4. **CONFLICTS OF INTEREST**

- 4.1 In accordance with section 79 of the *Local Government Act 1989*, members of the Committee are required to disclose all conflicts of interests and may not be eligible to vote on a matter or attend a meeting at which the subject of the conflict will be considered, depending on the nature of the conflict.
- 4.2 Members of the Committee are to be aware of the provisions of the Act concerning conflicts of interest.
- 4.3 Failure to comply with provisions of the Act with regard to conflicts of interest may result in termination of the member's appointment
- 4.4 Members of the Audit Committee are required to lodge appropriate declaration of interest returns.

5. CONFIDENTIALITY

- 5.1 All Audit Committee meetings and agendas are considered confidential.
- 5.2 All members are to be aware of their responsibilities with regard to the confidential of information about Council's affairs pursuant to Section 77 of the Act.
- 5.3 Failure to comply with provisions of the Act with regard to confidentiality may result in termination of the member's appointment.

6. RESPONSIBILITIES

The Audit Committee will carry out the following responsibilities:

6.1 Financial Report

- 6.1.1 Review significant accounting and reporting issues, including complex or unusual transactions and highly judgemental areas and recent accounting, professional and regulatory pronouncements and legislative changes and understand their effect on the financial report.
- 6.1.2 Review with management and the external auditors the results of the audit, including any difficulties encountered.
- 6.1.3 Review the annual financial report and consider whether it is complete, consistent with information known to audit committee members and reflects appropriate accounting principles.
- 6.1.4 Review with management and external auditors all matters required to be communicated to the audit committee under the Australian Auditing Standards.
- 6.1.5 Review interim financial reports and consider whether they are complete and consistent with the information known to Audit Committee members.

6.2 Internal Control

- 6.2.1 Overview the scope of internal and external auditors review of internal controls over financial reporting and obtain reports on significant findings and recommendations, together with management's responses.
- 6.2.2 Consider the effectiveness of Council's internal control system, including IT security and control.

6.3 Risk Management

- 6.3.1. Monitor the systems, frameworks, processes and risk profile to ensure that material strategic and operational risks to the Council are dealt with appropriately.
- 6.3.2 Monitor the process of review of the Council's risk profile.
- 6.3.3 Consider the adequacy of actions taken to ensure that the material business risks have been dealt with in a timely manner to mitigate exposures to the Council.

- 6.3.4 Receive half yearly updates on activities to mitigate any Extreme or High Risks identified in Council's Risk Register.

6.4 Fraud Prevention/Awareness

- 6.4.1 Review the adequacy of Council's fraud prevention policies, procedures and plans, including fraud awareness programs and processes for reporting and investigations.
- 6.4.2 Review the circumstances surrounding any instances of fraud or corruption and any identified internal control weaknesses and monitor management's actions to address the issues.
- 6.4.3 Provide advice to the Chief Executive Officer and Council in relation to the management and reporting of fraudulent or corrupt actions.

6.5 Business Continuity

- 6.5.1 Monitor processes and practices of the Council to ensure for effective business continuity.
- 6.5.2 Review the processes and practices related to Disaster Recovery Planning.

6.6 Internal Audit

- 6.6.1 Review with management and the internal auditor the charter, activities, staffing, financial resourcing and organisational structure of the internal audit function.
- 6.6.2 Review and recommend the 3 year strategic and annual audit plan for approval by the Council and all major changes to the plan and ensure the plan is linked with and covers Councils material business risks.
- 6.6.3 Monitor processes and practices to ensure that the independence of the audit function is maintained.
- 6.6.4 As part of the audit committee's annual assessment of performance, determine level of satisfaction with internal audit function having consideration of the Institute of Internal Auditor's 'International Standards for the Professional Practice of Internal Auditing'.
- 6.6.5 Monitor that the internal auditor's annual plan is linked with and covers the material business risks.
- 6.6.6 Provide an opportunity for the audit committee to meet with the internal auditor to discuss any matters that the audit committee or internal auditor believes should be discussed privately.
- 6.6.7 Review all audit scopes and reports and provide advice to the Council and Chief Executive Officer on significant issues identified in audit reports and action taken on issues raised including identification and dissemination of good practice.

6.6.8 Ensure that there are no unjustified restrictions or limitations on the internal auditor and review the appointment, replacement, dismissal and performance of the internal auditor.

6.6.9 Review High and Medium Risk Rating recommendations from previous Internal Audit reports.

6.7 External Audit

6.7.1 Review the external auditor's proposed audit scope and approach, including any reliance on internal auditor activity.

6.7.2 Provide an opportunity for the audit committee to meet with the external auditors, to discuss any matters that the audit committee or the external auditors believe should be discussed privately.

6.7.3 Review all audit reports and provide advice to the Council and CEO on significant issues identified in audit reports and action taken on issues raised including identification and dissemination of good practice.

6.7.4 Review the performance of the external auditors and their agents.

6.8 Compliance

6.8.1 Review the systems and processes to monitor effectiveness of the system for monitoring compliance with legislation and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.

6.8.2 Keep informed of the findings of any examinations by regulatory agencies and any auditor (internal or external) observations and monitor management's response to these findings.

6.8.3 Obtain regular updates from management about compliance matters.

6.9 Reporting Responsibilities

6.9.1 Report regularly to the Council about audit committee activities, issues and related recommendations through circulation of minutes and annual report. Additional updates may be appropriate should issues of concern arise.

6.9.2 Monitor that open communication between the internal auditor, external auditors and the Council occurs.

6.9.3 Report to Council, describing the audit committee's composition, responsibilities and how they were discharged and any other information required by regulation, including approval of non-audit services.

6.9.4 Consider the findings and recommendations of relevant Performance Audits undertaken by the Victorian Auditor-General and to ensure the Council implements relevant recommendations.

6.10 Other Responsibilities

- 6.10.1 Perform other activities related to this Charter as requested by the Council.
- 6.10.2 Review and assess the adequacy of the Audit Committee Charter annually, requesting Council approval for proposed changes and ensure appropriate disclosure as might be required by legislation or regulation.
- 6.10.3 Confirm annually that all responsibilities outlined in this Charter have been carried out.
- 6.10.4 Institute and oversee any investigations as requested by Council.
- 6.10.5 Evaluate the audit committee's performance annually.

7. REPORTING

The Colac Otway Shire Audit Committee will:

- 7.1 Report to Council as soon as practicable following the conduct of each meeting in the form of minutes or otherwise.
- 7.2 Report bi-annually to Council, summarising the activities and performance of the Committee during the previous year. The bi-annual report to Council shall include a forward plan and retrospective overview having regard to the Charter.

8. REVIEW

The Colac Otway Shire Audit Committee will:

- 8.1 Review the Audit Committee Charter on an annual basis and any recommendations for amendments will be submitted to Council for approval.
- 8.2 Evaluate its own performance (both of individual members and collectively) on an annual basis. This will include an assessment of the extent to which the Committee has discharged its responsibilities as set out in this Charter. The results of this evaluation will be reported to Council.
- 8.3 Obtain feedback on the Committee's performance and operations from key people such as the external auditor and senior management.
- 8.4 Obtain feedback from the Council on the effectiveness of the committee.