



Norfolk Island Regional Council
Internal Audit Charter

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1. Introduction

Internal audit provides independent, objective assurance and consulting activity which is designed to add value and improve Council's operations. Internal audit helps the Norfolk Island Regional Council to accomplish its objectives by taking a systematic, disciplined approach to evaluation and improving the effectiveness of risk management, control and governance processes.¹

2. Purpose

This Internal Audit Charter is a formal statement of purpose, authority and responsibility for the internal audit function at the Norfolk Regional Council. The Charter:

- Recognises the importance of the independence and objectiveness of this service to the Norfolk Island Regional Council;
- Outlines the legal and operational framework within which Internal Audit will operate;
- Authorises the Internal Audit Officer to promote, direct or perform a broad range of internal audits across Council operations; and
- Acknowledges that due to the size of Council's operations additional measures or safeguards will be put in place to ensure the ongoing integrity of the internal function where it is necessary for it to carry out additional responsibilities.

This Charter was developed utilising guidance materials contained within the NSW Division of Local Government Internal Audit Guidelines (2010) and standards information developed by the Institute of Internal Auditors.

3. Role and Authority

The Internal Audit Officer is authorised to promote, direct or perform internal audit work which supports the achievement of Council's business objectives.

Audits may consider the functions, processes, controls and governance frameworks of Council's operations.

Audit work may be in the following forms, or another appropriate form.

- Reviews
- Previews
- Consultancy advice
- Evaluations
- Appraisals
- Assessments and investigations

The organisation will provide maximum cooperation to internal auditors to access all functions, property, personnel, records, information, accounts, files, monies and other documentation essential for them to perform specific audits.

¹ *International Professional Practices Framework (IPPF) 2013. The Institute of Internal Auditors*

4. Objectivity, Independence and Organisational Status

Best practice standards require internal audit functions in companies and local government organisations to have independence from the operating environment around them and direct access and reporting lines to the General Manager and Audit Committee. This means in practice that they do not work on or have responsibility for other work and have direct reporting lines.

Such an arrangement is not always consistently possible in an organisation the size of Norfolk Island Regional Council, nor many other Councils across NSW. To enable the internal audit function to assume the greatest possible degree of independence and objectivity and in turn to produce high quality outcomes the following principles and operating protocols will be observed:

- Internal audit officers will have no executive or managerial powers, authorities, functions or duties for any operation areas except relating to internal audit.
- Internal audit officers will have the ability to report directly to the General Manager.
- Internal audit officers must be independent of the activities they review for a period of at least two years since their last involvement. If their involvement falls within this time zone and internal audit is required an alternative, additional or external resource will need to be sourced.
- Internal audit officers will not be responsible for the detailed development or implementation of new or changed operation systems.
- All Council staff are responsible for risk management and the operation and enhancement of internal controls, including the implementation of agreed audit actions. The work of Internal Audit does not relieve Council staff of these responsibilities.
- Internal Audit contractors will report to the General Manager any situations where they feel their objectivity may be impaired. Similarly, the Internal Audit Officer should report any such situations to the Audit Committee.

5. Scope of Work

The scope of services provided by Internal Audit will include:

- The examination and evaluation of the adequacy and effectiveness of systems of internal control, risk management, governance and the status of ethical behaviour.
- Assessment of the economic and efficient use of resources.
- The examination of compliance with policies, procedures, plans, legislation and regulations.
- Assessment of the reliability and integrity of information and systems security.
- Any special investigations as approved by the Audit Committee or General Manager.

6. Internal Audit Methodology

Internal Audit will use the most appropriate methodology for each internal audit engagement, depending on the nature of the activity and the engagement parameters. Generally, internal audits will include:

- Planning.
- Reviewing and assessing risks in the context of the audit objectives.
- Examination and evaluation of information.
- Communicating findings and results.
- Following up on the implementation of audit recommendations.

7. Operating Principles

Internal Audit shall observe to the maximum extent possible:

- The Code of Ethics and International Professional Practices Framework (IPPF) Standard issued by the Institute of Internal Auditors (Australia).
- Other auditing standards relevant to specific engagements.

8. Professional Care and Conduct

Internal Audit staff shall:

- Possess the knowledge, skills and technical proficiency essential to perform internal audits.
- Be skilled in communicating audit issues effectively.
- Maintain technical competence through continuing education.
- Exercise due professional care.
- Conduct their activities in a manner consistent with the concepts expressed in the IPPF Standards and Code of Ethics.

9. Reporting Arrangements

The Internal Audit Officer will report directly to the General Manager and Audit Committee. At each Audit Committee meeting, the Internal Audit Officer shall ensure reporting which summarises all audit activities undertaken during the reporting period, indicating:

- Progress against the Audit Committee's plan schedule of work.
- Progress against the Audit Committee's recommendations and actions arising from meetings.
- Internal audit engagements completed or in progress.
- Outcomes of each internal audit engagement undertaken.
- Remedial action taken or in progress.

On completion of each internal audit engagement, Internal Audit shall issue a report to its audit customers. This report will detail the objectives and scope of the audit and issues based on the audit outcomes.

Internal Audit requires the responsible senior executive to endorse a remedial action plan which includes an implementation timetable and nominates the responsible officer.

Responsible officers shall provide written management responses and action plans within a timely manner which address issues and recommendations contained in internal audit reports.

The Internal Audit Officer shall provide all internal audit reports to the Audit Committee.

The work of Internal Audit is solely for the benefit of the Norfolk Island Regional Council. It will not be relied on or provided to any other person or organisation, except where this is formally authorised by the Audit Committee or the General Manager.

In addition to the normal process of reporting on work undertaken by Internal Audit, the Internal Audit Officer may also draw to the attention of the Audit Committee other matters within the scope of internal audit work that warrant reporting.

10. Planning Requirements

Internal Audit uses a risk-based rolling program of internal audits to establish an annual Internal Audit Plan. This approach is designed to be flexible and dynamic to meet the changing needs and priorities of Norfolk Island Regional Council.

The Internal Audit Officer shall prepare an annual Internal Audit Plan for approval by the General Manager and Audit Committee. The annual Internal Audit Plan shall be based on an assessment of the goals, objectives and business risks of Norfolk Island Regional Council. It shall also consider any special requirements of the Audit Committee and senior executives.

The Internal Audit Officer has discretionary authority to adjust the Internal Audit Plan to conduct reviews that are not on the plan. Such adjustments are to be reported to the Audit Committee.

10. Quality Assurance and Improvement Program

The Internal Audit Officer shall oversee the development and implementation of a quality assurance and improvement program for Internal Audit consistent with such initiatives being applied to other operational areas of the organisation. This provides assurance that internal audit work conforms to the Standards and is focused on continuous improvement.

11. Co-ordination with External Audit

The Internal Audit Officer shall periodically consult with the external auditor. This consultation will provide opportunity to:

- discuss matters of mutual interest;
- co-ordinate audit activity; and
- reduce duplication of audit effort.

12. Co-ordination with Corporate Governance and Risk Management

The Internal Audit Officer shall consult with Council officers as necessary to achieve synergies between Internal Audit, Risk Management and Governance activities and to reduce duplication of efforts.

13. Conflicts of Interest

Internal auditors are not to perform audit services of work for which they were previously responsible for a period of two years after the cessation of their involvement.

When engaging internal audit contractors, the Internal Audit Officer shall ensure appropriate management of perceived or actual conflicts of interest that may impinge upon the internal audit work.

Contractor instances of conflicts of interest, either perceived or actual, are to be immediately reported to the Internal Audit Officer.

Internal Audit Officer perceived or actual instances of conflict of interest are to be immediately reported to the Audit Committee.

14. Evaluation of Internal Audit

The Internal Audit Officer shall develop measures (key performance indicators) to periodically evaluate the performance of Internal Audit. These measures must be approved by the Audit Committee.

Internal Audit shall also be subject to periodic quality review. Such review shall be in line with the Standards of Professional Practice in Internal Audit. It will be commissioned by and report to the Audit Committee.

15. Review of the Internal Audit Charter

The Internal Audit Coordinator shall periodically review the Internal Audit Charter to ensure it reflects the current scope of internal audit work and changes to legislative requirements and guidelines.

Any changes to this Internal Audit Charter must be approved by the Audit Committee.

Clause Number	Item (Description of Amendment)	Date of Audit Committee Resolution