

Internal Audit Charter

Adopted 28 April 2025



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1. Introduction

Latrobe City Council (Council) has a dedicated internal audit function as a key component of the Council's governance framework in accordance with best practice. This function is outsourced following a periodic tender process.

This Charter provides the framework for the conduct of the Internal Audit function at Council

Council's procurement requirements provide the framework for the appointment of the outsourced internal audit services provider.

In accordance with section 54 (2) (d) of the *Local Government Act 2020*, Council's Audit and Risk Committee must oversee the Internal Audit function of Council.

2. Purpose of Internal Audit

The role of Internal Audit is to provide an independent and objective review and advisory service to provide assurance to the Council, Audit and Risk Committee, Chief Executive Officer and Management that financial and operational controls are:

- designed to manage Council's risks and achieve the organisation's objectives;
- operating in an efficient, effective, ethical, and well-governed manner; and
- assisting management in improving the organisation's business performance.

3. Independence

To be effective, the Internal Audit function must be able to operate without being influenced or inhibited in the discharge of its duties.

Independence is essential to the effectiveness of Internal Audit. It is obtained primarily through organisational status and objectivity. The Internal Audit Provider has no direct authority or responsibility for the activities it reviews. The Internal Audit Provider has no responsibility for developing or implementing procedures or systems and does not prepare records or engage in original line processing functions or activities.

The Internal Audit Provider reports functionally to the Audit and Risk Committee and administratively to the General Manager Regional City Strategy & Transition and is accountable for the efficient and effective operation of Internal Audit. (The General Manager Regional City Strategy & Transition may nominate an officer to undertake administrative function associated with internal audit, however this does not eliminate

administrative oversight and responsibility for internal audit by the General Manager.)

The Internal Audit Provider has direct access to the Chief Executive Officer, the Chairperson and other members of the Audit and Risk Committee.

It is the responsibility of the Internal Audit Provider to avoid any actual or perceived conflicts of interest which may undermine its independence and/or objectivity. Immediately upon becoming aware of any perceived, potential or actual conflicts of interest that may compromise objectivity or independence, the Internal Audit Provider must disclose them to Council via the General Manager Regional City Strategy & Transition (or nominated officer).

4. Authority and Confidentiality

For the effective discharge of their duties, Internal Audit Provider team members are authorised to have full, free and unrestricted access to all functions, premises, assets, personnel, records and other documentation and information that the Internal Audit Provider considers necessary to enable Internal Audit to meet its responsibilities.

The Internal Audit Provider must ensure that members of the internal Audit team follow all Council's policies and procedures when on site at Council premises and/or accessing Council records or systems. Such procedures include but are not limited to document/record management, computer systems, and building security.

All records, documentation and information accessed in the course of undertaking internal audit activities are to be used solely for the conduct of these activities. The Internal Audit Provider, including their individual team members, are responsible and accountable for maintaining the confidentiality of the information they receive during their work.

Internal Audit reports are deemed to be confidential reports of the Council. However, under its legislation, the Victorian Auditor-General's Office and its appointed auditors have access to all relevant Council documents including internal audit reports.

5. Roles and Responsibilities

Internal Audit is one element of the governance framework established by the Council in the conduct of its activities. Internal Audit will play an active role in:

- Developing and maintaining a culture of effective corporate governance, accountability and integrity;
- Facilitating the integration of risk management into day-to-day business activities and processes; and
- Promoting a culture of cost-consciousness, self-assessment, and adherence to high ethical standards.

The Internal Audit Provider is required to attend all meetings of the Audit and Risk

Committee and other meetings as requested by the General Manager Regional City Strategy & Transition (or nominated officer) or Audit and Risk Committee Chairperson. At Audit and Risk Committee meeting, the Internal Audit Provider will report on

- Matters arising from previous meetings;
- Internal Audits completed;
- Progress against the delivery of the annual internal audit plan;
- Provision of other services (if any)

While the Internal Audit Provider is responsible for examining and evaluating the adequacy and effectiveness of controls and other risk management activities within agreed scopes of work, the Internal Audit Provider is not primarily responsible for the detection of fraud. That is management's responsibility. However, the Internal Audit Provider's activities may identify instances of fraud or areas of high risk of fraud.

The Internal Audit Provider must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

6. Scope of internal audit activities

Internal Audit activities may include, but are not necessarily limited to:

6.1 Strategic Internal Audit Plan

The Internal Audit Provider will propose to the Audit and Risk Committee a three-year Strategic Internal Audit Plan, setting out the reviews to be performed and hours allocated to each. An Annual Internal Audit Plan will be prepared, including objectives, scope, cost and value-to-be-added of each review.

The development of the Strategic Internal Audit Plan and the Annual Internal Audit Plan will consider, at a minimum, Council's strategies, risk profile, compliance obligations, new developments affecting Council, quality assurance requirements, and assurance reviews, as well as specific instructions from management and the Audit and Risk Committee.

The plan and program will consider Council's financial and operational resourcing during development and delivery of the Plan. Any variation to the agreed plan will be subject to Audit and Risk Committee agreement and shall be noted in the minutes of the Audit and Risk Committee meeting to ensure transparency to Council.

6.2 Assurance Reviews

These reviews may cover:

- Compliance with legislative requirements, Council policies, directives and

- procedures;
- The adequacy and effectiveness of internal financial and operational controls including IT systems and associated controls; and
- The effectiveness of controls against Council's Strategic Risks.

6.3 Advisory Services

Internal Audit is a valuable resource and the Internal Audit Provider can advise Council and management on a range of matters including;

- New or changing systems and processes and controls particularly the design of appropriate controls
- Risk management including assisting management to identify risks and develop risk mitigation and monitoring strategies as part of the enterprise risk management framework; and assessing, monitoring and reporting on the implementation of risk mitigation strategies as a part of projects within the annual internal audit plan.
- Fraud Control including assisting management to identify the risks of fraud and develop fraud prevention and monitoring strategies.

In addition to the above, the Internal Audit Provider may be required to carry out special reviews from time to time at the direction of the General Manager City Strategy & Transition (or nominated officer) or the Audit and Risk Committee. Any such reviews will be authorised in accordance with Council delegations or, in the case of a request by the Audit and Risk Committee, as set out in the Charter of the Committee.

6.4 Audit Support Activities

From time to time, the Internal Audit Provider may also be responsible for:

- Assisting the Audit and Risk Committee to discharge its responsibilities
- Monitoring the implementation of agreed recommendations; and
- Disseminating across Council better practice issues and lessons learnt from its audit activities.

6.5 Other Services

The Internal Audit Provider may provide 'other services' to the Council. The provision of other services shall only occur with approval of the General Manager Regional City Strategy & Transition (or nominated officer) and following consultation with the Audit and Risk Committee Chairperson. Matters to be considered include:

- The scope and scale of the other services; and
- Potential conflicts between the provision of the other services and Internal Audit.

A listing of any other services provided are to be reported by the Internal Audit Provider to the next scheduled Audit and Risk Committee meeting.

7. Sub-contractors

The use of any sub-contractors by the Internal Audit Provider shall be clearly outlined in the scope of any work to be undertaken and approved by the GM Regional City Strategy & Transition prior to any works commencing.

8. Professional Standards

The Internal Audit Provider's activities will be conducted in accordance with relevant professional standards including:

- Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors Inc;
- Standards relevant to internal audit issued by the Auditing and Assurance Standards Board, CPA Australia, and the Institute of Chartered Accountants.
- The Statement on Information Systems Auditing Standards issued by the Information Systems and Control Association; and
- Standards issued by Standards Australia and the International Standards Organisation (if applicable).

In the conduct of internal audit work, the Internal Audit Provider team members will:

- Comply with relevant professional standards of conduct;
- Possess the knowledge, skills and technical proficiency relevant to the performance of their duties;
- Be skilled in dealing with people and communicating audit, risk management and related issues effectively; and
- Exercise due professional care in performing their duties.

9. Relationship with External Audit

Internal and external audit activities should, where possible, be coordinated to help ensure the adequacy of overall audit coverage and to minimise duplication of effort. Periodic contact between internal and external audit should be held to discuss matters of mutual interest.

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

10. Project planning, fieldwork and reporting

10.1 Audit Scope

The Internal Audit Provider will provide a draft audit scope ahead of each review, that includes:

- Name of the audit
- Commencement date
- Auditor in charge
- Council's contact
- A brief introduction summarising the engagement
- Objectives and scope
- Review approach
- Key milestones
- Key personnel
- Documentation requirements
- Resources required and acknowledgement.

The scope will be provided to the relevant General Manager and or Manager for review and input, and endorsed by the Audit and Risk Committee before the commencement of the review.

10.2 Entry meeting

The Internal Audit Provider will conduct an entry meeting at the commencement of the audit, setting out the key steps and timelines, including:

- Entry meeting with Scoping meeting with process owner
- Memorandum of audit planning completed
- Documentation/files to be provided prior to audit fieldwork
- Field work to commence
- Issue of draft report and follow up meeting for management comments
- Provision of management comments to internal audit
- Final report with management comments for Audit Committee papers
- Audit and Risk Committee

10.3 Close out meeting

At the end of each audit the Internal Audit Provider will hold a close-out meeting with management to discuss outcomes of the audit.

After the close-out meeting a draft report highlighting significant findings, their effect and recommendations shall be prepared and forwarded to the relevant manager for discussion and drafting of management comments including implementation plans to address any issues identified.

10.4 Management comments

Responses to the recommendations should clearly state:

- Whether management agree or disagree with the recommendation
- The proposed course of action
- The officer responsible for implementing the recommendation
- The due date for implementation

10.5 Final audit report

As a guide, audit reports should cover:

- Effectiveness of applicable frameworks, policies, systems of internal control and actual operations;
- Compliance with any regulatory requirements;
- Areas for action by management and commentary on the extent to which action plans have been implemented; and
- Management responses.

The final report approved by the relevant General Manager or Manager shall then be finalised by the Internal Audit Provider and presented to the next Audit and Risk Committee meeting.

11. Operational Matters

11.1 Urgent Issues

Any issue which the Internal Audit Provider believe to be urgent should be reported to an appropriate level of management, being either the Manager Governance, General Manager Regional City Strategy & Transition, or the Chief Executive Officer, for action. If it is not appropriate to report the issues to Council officers, an immediate approach should be made to the Chairperson of the Audit and Risk Committee. In the absence of the Chairperson, any other member of the Audit and Risk Committee.

The same protocol applies to issues that management wish to raise urgently in relation to the internal audit, but which are not appropriate to be raised with Internal Audit Provider team members.

11.2 General Practices

Internal audit reports are presented to the Audit and Risk Committee and important issues should be dealt with on that level. For day-to-day issues, such as timing of visits, access to staff and records and similar matters, the Internal Audit Provider should liaise with the Audit, Risk and Compliance team.

In preparing audit and review reports, the Internal Audit Provider should first liaise with the responsible manager to eliminate errors of fact and to allow comments to be made. Copies of all completed reports should be provided to the Manager Governance in a timely manner.

It is important that, whilst errors of fact are eliminated, the opinions of the Internal Audit Provider are brought forward to the Audit and Risk Committee regardless of whether management agrees that remedial action is possible or desirable.

11.3 Project Time Estimates

The estimates of hours contained in the annual audit plan should be considered a strong indication of the size and importance of any project. If the Internal Audit Provider consider that the time allocated is insufficient, the matter of additional hours should be first agreed with the Manager Governance. Failing such agreement being reached, the Internal Audit Provider should first approach the General Manager Regional City Strategy & Transition and, if appropriate, the Chairperson of the Audit and Risk Committee to clarify the position.

The Manager Governance may approve minor changes to hours. Material changes to hours should be referred to the General Manager Regional City Strategy & Transition.

If there is a fundamental disagreement between the General Manager Regional City Strategy & Transition and the Internal Audit Provider as to the appropriate scope of the work to be undertaken, or the suitability of processes proposed by the Internal Audit Provider, the matter should be immediately referred to the Chairperson of the Audit and Risk Committee, and the commencement of work deferred until the matter is resolved.

12. Performance Management

Performance of the Internal Audit services will be monitored on an ongoing basis with a formal review to be undertaken at least annually by Council's Audit and Risk Committee and Management and include identification of any opportunities for improvement. If necessary, Audit and Risk Committee will recommend to Council the termination of the Internal Audit Provider.

13. Review of the Internal Audit Charter

This Internal Audit Charter will be reviewed every two years or earlier if there is a material change from Audit and Risk Committee, Council or the Internal Audit Provider required.

Council's Audit and Risk Committee Charter has a responsibility to review the Internal Audit Charter to determine that it provides an appropriate functional and organisational framework to enable Council's Internal Audit function to operate effectively and without limitations.

14. Document Control

Author Louise Van der Velden	Owner General Manager Regional City Strategy & Transition	ECM Document Number:
Approved Date: 28 April 2025	Approved By: Council	Next Review By: February 2027