

9.2.5 **AUDIT, RISK AND IMPROVEMENT COMMITTEE - ADOPTION OF TERM OF REFERENCE AND REAPPOINTMENT OF COMMITTEE MEMBERS**

File No: **07.00125**

RECOMMENDATION:

That Council:

- a) Adopt the Term of Reference and Internal Audit Charter for the ARIC.
- b) Acknowledges the reappointment of Michael O'Connor and Michael Quirk to the Audit, Risk and Improvement Committee for a 4-year term.
- c) Appoint Michael O'Connor as Chairperson of the Audit, Risk and Improvement Committee.
- d) Appoint a Councillor representative and an alternate.

REPORT:

Compliant Terms of Reference and Internal Audit Charter

The Office of Local Government developed model terms of reference and internal audit charter which have been provided as **attachments 1 & 2** for your consideration and adoption.

Review the structure of the committee

The NSW Government released in December 2023 the guidelines for the Audit, Risk and Improvement Committees. With these guidelines now in force, Council is required to transition from the current Audit and Risk Management Committee to the Audit, Risk and Improvement Committee by 1 July 2024.

The Guidelines outline the eligibility criteria for committee members, the chairperson and the Council member. Of particular note the Council member cannot be the Mayor.

It is requested that Council:

1. Acknowledges the reappointment of Michael O'Connor and Michael Quirk to the Audit, Risk and Improvement Committee for a 4-year term.
2. Appoint Michael O'Connor as Chairperson of the Audit, Risk and Improvement Committee.
3. Appoint a Councillor representative and an alternate.

FINANCIAL IMPLICATIONS:

Funding for this item is contained within existing budgets

BATHURST COMMUNITY STRATEGIC PLAN – OBJECTIVES AND STRATEGIES:

Objective 6: Community leadership and collaboration.

Strategy 6.8 Implement opportunities for organisational improvement.

COMMUNITY ENGAGEMENT:

01 **Inform** - to provide the public with balanced and objective information to help them understand the problem, alternatives, opportunities and/or solutions.

ATTACHMENTS:

1. Terms of Reference [9.2.5.1 - 13 pages]
2. BRC Internal Audit Charter [9.2.5.2 - 11 pages]



Audit, Risk and Improvement Committee Terms of Reference

DRAFT

May 2024

REVIEW OF THIS DOCUMENT

Document is to be reviewed annually and must be reviewed by the Audit Risk and Improvement Committee (ARIC) and approved by Council within 6 months of a new term of Council. Any substantive changes are to be approved by Council resolution. Minor administrative changes can be approved by the General Manager.

1. Purpose

Council has established an Audit, Risk and Improvement Committee (ARIC) in compliance with Section 428A of the Local Government Act 1993 (the Act), the Local Government (General) Regulation 2021 and the Office of Local Government's *Guidelines for Risk Management and Internal Audit for Local Government in NSW (November 2023)*. These terms of reference set out the ARIC's objectives, authority, composition and tenure, roles and responsibilities, reporting and administrative arrangements.

2. Objective

The objective of Council's ARIC is to provide independent assurance to Council by monitoring, reviewing and providing advice about Council's governance processes, compliance, risk management and control frameworks, external accountability obligations and overall performance.

3. Independence

ARIC is to be independent to ensure it has no real or perceived bias or conflicts of interest that may interfere with its ability to act independently and to provide Council with robust, objective and unbiased advice and assurance.

ARIC is to have an advisory and assurance role only and is to exercise no administrative functions, delegated financial responsibilities or any management functions of Council.

ARIC will provide independent advice to Council that is informed by Council's internal audit and risk management function activities and information and advice provided by staff, relevant external bodies and subject matter experts.

The ARIC Chair must always ensure it maintains a direct reporting line to and from Council's internal audit function and act as a mechanism for internal audit to report to Council and the General Manager on matters affecting the performance of the internal audit function.

4. Authority

Council authorises the General Manager to approve when it is deemed necessary the following requirements for ARIC for the purposes of exercising its responsibilities to:

- have the resources necessary to properly exercise its functions,
- access staff, information, and records of Council that ARIC considers necessary for the exercise of its functions.

Unless authorised by the General Manager, information and documents provided and pertaining to ARIC are confidential and are not to be made publicly available.

5. Composition and Tenure

ARIC consists of an independent Chair and two independent members who have voting rights and one non-voting Councillor, as required under the Local Government (General) Regulation 2021.

Council is to appoint the Chairperson and members of ARIC. Once appointed Council's ARIC members are:

1. [name] Independent Chair (voting)
2. [name] Independent Member (voting)
3. [name] Independent Member (voting)
4. [name] Councillor (non-voting) **Note:** The appointed Councillor cannot be the Mayor.

ARIC must meet the independence and eligibility criteria prescribed in the Guidelines for Risk Management and Internal Audit for Local Government NSW.

Members will be appointed for up to a four-year term with tenure of the inaugural ARIC to be staggered. Members can be reappointed for one further term, but the total period of continuous membership cannot exceed eight years. This includes any term as Chair of ARIC.

Members who have served an eight-year term (either as a member or as Chair) must have a two-year break from serving on ARIC before being appointed again. To preserve ARIC knowledge of Council, ideally, no more than one member should retire from ARIC because of rotation in any one year.

The terms and conditions of each member's appointment to ARIC are to be set out in a letter of appointment. New members will be inducted to their role and receive relevant information and briefings on their appointment to assist them to meet their responsibilities.

Prior to approving the reappointment or extension of the Chair's or an independent member's term, Council is to undertake an assessment of the Chair's or independent member's performance. Reappointment of the Chair or an independent member is also to be subject to that person still meeting the independence and eligibility requirements.

Members of ARIC must possess and maintain a broad range of skills, knowledge and experience relevant to the operations, governance and financial management of Council, the environment in which Council operates, and the contribution that ARIC makes to Council. At least one member of the committee must have accounting or related financial management experience with an understanding of accounting and auditing standards in a local government environment. All members should have sufficient understanding of Council's financial reporting responsibilities to be able to contribute to ARIC's consideration of Council's financial statements.

6. Role and Responsibilities

As required under Section 428A of Act, ARIC is to review and provide independent advice to Council regarding the following aspects of Council's operations:

- compliance,
- risk management,
- fraud control,
- financial management,
- governance,
- implementation of the strategic plan, delivery program and strategies,
- service reviews,
- collection of performance measurement data by Council, and
- internal audit.

ARIC must also provide information to Council for the purpose of improving the Council's performance of its functions.

ARIC's specific audit, risk and improvement responsibilities under section 428A of the Act are outlined in Schedule 1 of this Terms Of Reference.

ARIC has no power to direct external audit or the way it is planned and undertaken but will act as a forum for the consideration of external audit findings.

ARIC is directly responsible and accountable to Council for the exercise of its responsibilities. In carrying out its responsibilities, ARIC must at all times recognise that primary responsibility for the management of Council rests with the governing body (Council) and the General Manager. The responsibilities of ARIC may be revised or expanded in consultation with, or as required by Council from time to time.

7. Responsibilities of Members

i. Independent Members

The ARIC Chair and members of ARIC are expected to understand and observe the requirements of Office of Local Government's *Guidelines for Risk Management and Internal Audit for Local Government NSW*.

ARIC Members are also expected to:

- make themselves available as required to attend and participate in meetings,
- contribute the time needed to review and understand information provided to it,
- apply good analytical skills, objectives and judgment,
- act in the best interests of Council,
- have the personal courage to raise and deal with tough issues, express opinions frankly, ask questions that go to the fundamental core of the issue and pursue independent lines of inquiry,
- maintain effective working relationships with Council,
- have strong leadership qualities (Chair),
- lead effective ARIC meetings (Chair), and
- oversee the Council's internal audit function (Chair).

ii. Councillor Non-Voting Member

To preserve the independence of ARIC, the Councillor member of ARIC is to be a non-voting member. Their role is to:

- provide insights into local issues and the strategic priorities of Council that would add value to ARIC's consideration of agenda items,
- relay to ARIC any concerns Council may have regarding Council and issues being considered by ARIC,
- advise Council (as necessary) of the work of ARIC and any issues arising from it, and
- assist Council to review the performance of ARIC.

Issues or information the Councillor member raises with or provides to ARIC must relate to the matters listed in Schedule 1 and issues being considered by ARIC.

The Councillor member of ARIC must conduct themselves in a non-partisan and professional manner. The Councillor member of ARIC must not engage in any conduct that seeks to politicise the activities of ARIC or the internal audit function or that could be seen to do so.

If the Councillor member of ARIC engages in such conduct or in any other conduct that may bring ARIC and its work into disrepute, the ARIC Chair may recommend to Council that the Councillor member be removed from membership of ARIC. Where the Council does not agree to the ARIC Chair's recommendation, Council must give reasons for its decision in writing to the ARIC Chair.

iii. Conduct

All ARIC members are required to comply with Council's adopted Code of Conduct.

Complaints alleging breaches of Council's Code of Conduct by an independent committee member are to be dealt with in accordance with the Office of Local Government Procedures for the Administration of Model Code of Conduct for Local Councils in NSW. The General Manager must consult with Council before taking any discipline action against an independent committee member in response to a breach of Council's Code of Conduct.

iv. Conflicts of Interest

Once a year, ARIC must provide written declarations to Council stating that they do not have any conflicts of interest that would preclude them from being members of ARIC.

Independent ARIC members are 'designated persons' for the purposes of Council's Code of Conduct and must also complete and submit returns of their interests.

ARIC members must declare any pecuniary or non-pecuniary conflicts of interest they may have in a matter being considered at the meeting or as soon as they become aware of the conflict of interest. Where a committee member declares a conflict of interest, they must remove themselves from committee deliberations on the issue. Details of conflicts of interest declared at meetings must be appropriately minuted.

v. Standards

ARIC is to conduct their work in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and the AS ISO 31000:2018 Risk Management Guidelines, where applicable.

8. Work Plans

The work of ARIC is to be thoroughly planned and executed. ARIC must develop a Strategic Work Plan every four years to ensure that the matters listed in Schedule 1 are reviewed by ARIC and considered by the internal audit function when developing their risk based program of internal audits. The Strategic Work Plan is to be reviewed when required to ensure it remains appropriate.

ARIC may, in consultation with Council, vary the Strategic Work Plan at any time to address new or emerging risks. Council may also, by resolution, request ARIC to approve a variation to the Strategic Work Plan. Any decision to vary the Strategic Work Plan must be made by ARIC.

ARIC must also develop an Annual Work Plan to guide its work, and the work of the Internal Audit Function over the forward year.

ARIC may, in consultation with Council, vary the Annual Work Plan to address new or emerging risks. Council may also, by resolution, request ARIC to approve a variation to the Annual Work Plan. Any decision to vary the Annual Work Plan must be made by ARIC.

When considering whether to vary the Strategic or Annual Work Plans, ARIC must consider the impact of the variation on the Internal Audit Function's existing workload and the completion of pre-existing priorities and activities under the work plan.

9. Assurance Reporting

ARIC must regularly report to Council to ensure that it is kept informed of matters considered by ARIC and any emerging issues that may influence the strategic direction of Council or the achievement of Council's goals and objectives.

ARIC must provide to the General Manager and Council:

- an update of its activities and opinion after every ARIC meeting,

- an annual assessment on ARIC's work and its opinion on how Council is performing,
- a comprehensive assessment every Council term of the matters listed in Schedule 1.

ARIC may at any time report to Council or the General Manager on any other matter it deems sufficiently important to warrant their attention. The Mayor and the ARIC Chair may also meet at any time to discuss issues relating to the work of ARIC.

Should Council require additional information, a request for the information may be made to the ARIC Chair by resolution. The ARIC Chair is only required to provide the information requested by Council where the Chair is satisfied that it is reasonably necessary for Council to receive the information for the purposes of performing its functions under the Act.

Individual Councillors are not entitled to request or receive information from ARIC.

10. Administrative Arrangements

i. Meetings

ARIC will meet at least 4 times per year, which includes a meeting to review Council's financial statements.

ARIC may hold additional meetings when significant unexpected issues arise, or if the Chair is asked to hold an additional meeting by an ARIC member, General Manager or Council.

ARIC meetings can be held in person, by telephone or videoconference. Proxies are not permitted to attend meetings if a committee member cannot attend.

A quorum will consist of a majority of independent voting members. Where the vote is tied, the Chair has the casting vote.

The ARIC Chair will decide on the agenda for each ARIC meeting. Each ARIC meeting is to be minuted to preserve a record of the issues considered and the actions and decision taken by ARIC.

The General Manager, Director Corporate Services & Finance, Manager Corporate Governance and the Manager Financial Services should attend ARIC meetings as non-voting observers. The external auditor (or their representative) is to be invited to each ARIC meeting as an independent observer.

The ARIC Chair may request any Councillors, any staff member/ contractor of Council, or any subject matter expert to attend ARIC meetings. Where requested to attend a meeting, persons must attend the meeting where possible and provide any information requested. Observers have no voting rights and can be excluded from a meeting by the ARIC Chair at any time.

ARIC can hold closed meetings whenever it needs to discuss confidential or sensitive issues with only voting members of the committee present.

ARIC must meet with the Manager Corporate Governance and Council's external auditor at least once per year each.

ii. Dispute Resolution

ARIC members and Council's management should maintain an effective working relationship 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 ARIC and the General Manager or other Senior Executives, the dispute is to be resolved by Council.

Unresolved disputes regarding compliance with statutory or other requirements are to be referred to the Department Chief Executive of the Office of Local Government in writing.

iii. Secretariat

The General Manager will nominate a staff member to provide secretariat support to ARIC. The secretariat will ensure the agenda for each meeting and supporting papers are circulated after approval from the Chair at least one week before the meeting and ensure that minutes of the meeting are prepared and maintained. Minutes must be approved by the Chair circulated within ten days after the meeting to each member.

iv. Resignation and Dismissal of Members

Where the Chair or committee member is unable to complete their term or does not intend to seek reappointment after the expiry of their term, they should provide a minimum 6 months' notice to the Chair and Council prior to their resignation to allow Council to ensure a smooth transition to a new Chair or committee member.

Council can, by resolution, terminate the appointment of the Chair or an independent member before the expiry of their term where that person has:

- breached Council's Code of Conduct,
- performed unsatisfactorily or not to expectations,
- declared, or is found to be in, a position of a conflict of interest which is unresolvable,
- been declared bankrupt or found to be insolvent,
- experienced an adverse change in business status,
- been charged with a serious criminal offence,
- been proven to be in a serious breach of their obligations under any legislation, or
- experienced an adverse change in capacity or capability.

The position of Councillor member on ARIC can be terminated at any time by Council, by resolution.

v. Review Arrangements

At least once every Council term, Council must review or arrange for an external review of the effectiveness of ARIC.

Schedule 1: ARIC Roles & Responsibilities

1. Audit

i. Internal Audit

(Section 428A(2)(i) of the *Local Government Act 1993*)

Principle: Council has an effective Internal Audit function and receives maximum value from its Internal Audit activities.

ARIC's role is to:

- provide overall strategic oversight of internal audit activities,
- act as a forum for communication between Council, General Manager, Senior Executive Leadership Team, the Manager Corporate Governance and external audit,
- coordinate, as far as is practicable, the work programs of internal audit and other assurance and review functions,
- Review and advise the General Manager and Council:
 - on whether Council is providing the resources necessary to successfully deliver the Internal Audit Function,
 - if Council is complying with internal audit requirements, including conformance with the International Professional Practices Framework,
 - if Council's Internal Audit Charter is appropriate and whether the Internal Audit policies and procedures and audit/risk methodologies used by Council are suitable,
 - of the Strategic four-year Work Plan of internal audits to be undertaken by Council's Internal Audit Function and annual plan,
 - if Council's Internal Audit Functions are effective, including the performance of the Manager of Corporate Governance, to the extent of the internal audit function of their role,
 - of the findings and recommendations of Internal Audits conducted, and corrective actions needed to address issues raised, of the implementation by Council of these corrective actions.

ii. External Audit

(Section 428A(2)(i) of the *Local Government Act 1993*)

Principle: Council receives maximum value from its External Audit activities.

ARIC's role is to:

- act as a forum for communication between Council, General Manager and Executive Leadership Team, the Internal Audit Function and External Audit,
- provide input and feedback on the external audit services provided,
- review all external plans and reports in respect of planned or completed audits and monitor Council's implementation of audit recommendations,
- provide advice to Council and or General Manager on action taken on significant issues raised in relevant external audit reports and better practice guides.

2. Risk

i. Risk Management Framework

(Section 428A(2)(b) of the *Local Government Act 1993*)

Principle: Council has an effective Risk Management Framework that successfully identifies and manages the risks it faces.

ARIC's role is to review and advise the General Manager and Council on the following:

- if Council has in place a current and appropriate risk managed framework that is consistent with the Australian Risk Management Standard,
- whether Council is providing the resources necessary to successfully implement its Risk Management Framework,
- whether Council's Risk Management Framework is adequate and effective for identifying and managing the risks Council faces, including those associated with individual projects, programs and other activities,
- if risk management is integrated across all levels of Council and across all processes, operations, services, decision-making, functions and reporting,
- of the adequacy of risk reports and documentation, for example Council's risk register and risk profile,
- whether a sound approach has been followed in developing risk management plans for major projects or undertakings,
- if Council has taken steps to embed a culture which is committed to ethical and lawful behaviour,
- if there is a positive risk culture with Council and strong leadership that supports effective risk management,
- of the adequacy of staff training and induction in risk management,
- how Council's risk management approach impacts on Council's insurance arrangements,
- of the effectiveness of Council's management of its assets, and
- of the effectiveness of business continuity arrangements, including business continuity plans, disaster recovery plans and periodic testings of these plans.

ii. Internal Control Framework

(Section 428A(2)(b) of the *Local Government Act 1993*)

Principle: Council has an effective Internal Control Framework that successfully identifies and manages the risks it faces.

ARIC's role is to review and advise the General Manager and Council on the following:

- whether Council's approach to maintaining an effective internal audit framework, including over external parties such as contractors and advisors, is sound and effective,
- whether Council has in place relevant policies and procedures 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 Council's monitoring and review of controls is sufficient, and
- if internal and external audit recommendations to correct internal controls weaknesses are implemented appropriately.

iii. Compliance Framework

(Section 428A(2)(a) of the *Local Government Act 1993*)

Principle: Council has an effective compliance framework that ensures it is complying with its legal obligations and other governance and contractual requirements when undertaking its functions.

ARIC's role is to advise the General Manager and Council of the adequacy and the effectiveness of Council's compliance framework including:

- if Council has appropriately considered legal and compliance risks as part of the Council's 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.

iv. Fraud and Corruption Control Framework

(Section 428A(2)(c) of the *Local Government Act 1993*)

Principle: Council has an effective fraud and corruption framework in place that minimises the incidence of fraud and corruption.

ARIC's role is to review and advise the General Manager and Council of the adequacy and effectiveness of Council's fraud and corruption prevention framework and activities including whether Council has:

- appropriate processes and systems in place to capture and effectively investigate fraud-related information,
- a fraud and corruption policy
- clearly defined responsibilities for managing fraud and corruption
- risk-based preventative and detective controls,
- policies, systems, and processes to respond to, investigate and report suspected fraud and corruption,
- employee awareness / education measures,
- robust third-party management systems,
- appropriate processes and systems in place to capture and effectively investigate fraud-related information,
- regular review of the fraud and corruption control framework and reporting, and
- implemented applicable guidance and other better practices by the Independent Commission Against Corruption.

v. Financial Management Framework

(Section 428A(2)(d) of the *Local Government Act 1993*)

Principle: Council has an effective financial management framework, sustainable financial position, and positive financial performance.

ARIC's role is to review and advise the General Manager and Council on the following:

External Accountability and Financial Reporting Framework including:

- if Council is complying with accounting standards and external accountability requirements,
- the appropriateness of Council's accounting policies and disclosures,
- the implications for Council of the findings of external audits and performance audits and Council's responses and implementation of recommendations,
- whether Council's financial statements preparation procedures and timelines are sound,
- the accuracy of Council's annual financial statements prior to external audit including:
 - management compliance/ representations,
 - significant accounting and reporting issues,
 - the methods used by Council to account for significant or unusual transactions and areas of significant estimates or judgements,
 - appropriate management signoff on the statements.
- if effective processes are in place to ensure financial information included in Council's annual report is consistent with signed financial statements.

Financial Management Framework including:

- 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:
 - appropriate authorisation and approval of payments and transactions,
 - adequate segregation of duties,
 - timely reconciliation of accounts and balances,
 - review of unusual and high value purchases.

Financial Position and Performance including:

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

Grants and Tied Funding Procedures including:

- if Council grants and tied funding procedures are sound.

vi. **Governance Framework**

(Section 428A(2)(e) of the *Local Government Act 1993*)

Principle: Council has an effective Governance Framework to ensure it is appropriately directing and controlling the management of Council.

ARIC's role is to review and advise the General Manager and Council regarding its governance framework, including Council's:

- decision-making processes,
- implementation of governance policies and procedures,
- reporting lines and accountability,
- assignment of key roles and responsibilities,
- committee structure,
- management oversight responsibilities,
- human resources and performance management activities,
- reporting and communication activities,
- Information and Communication Technology (ICT) governance, and
- management and governance of the use of data, information and knowledge.

3. Improvement

i. **Strategic Planning**

(Section 428A(2)(f) of the *Local Government Act 1993*)

Principle: Council has an effective framework that ensures it achieves its strategic plans and objectives under the Integrated Planning and Reporting (IP&R) framework.

ARIC's role is to review and advise the General Manager and Council:

- 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 process against objectives, and
- whether Council is successfully implementing and achieving its IP&R objectives and strategies.

ii. **Service Reviews and Business Improvement**

(Section 428A(2)(f) of the *Local Government Act 1993*)

Principle: Council has an effective framework to ensure it is delivering services and conducting its business and functions to an expected standard.

ARIC's role is to:

- act as a forum for communication and monitoring of any audits conducted by external bodies and the implementation of corrective actions (for example, NSW government agencies, Commonwealth government agencies, insurance bodies).
- review and advise the General Manager and Council:
 - if Council has robust systems to set objectives and goals to determine and deliver appropriate levels of service to the community and business performance,
 - if appropriate reporting and monitoring mechanisms are in place to measure service delivery to the community and overall performance, and
 - how Council can improve its service delivery and Council's performance of its business and functions generally.

iii. Performance Data and Measurement

(Section 428A(2)(h) of the *Local Government Act 1993*)

Principle: Council's performance management framework ensures Council can measure its performance and if it is achieving its strategic goals.

ARIC's role is to review and advise the General Manager and Council:

- if Council has a robust system to determine appropriate performance indicators to measure the achievement of its strategic objectives,
- if the performance indicators Council uses are effective, and
- of the adequacy of performance data collection and reporting.



Internal Audit Charter

BATHURST REGIONAL COUNCIL

May 2024

Introduction

Council has established the internal audit function as a key component of Council's governance and assurance framework and in compliance with the Office of Local Government's *Guidelines for Risk Management and Internal Audit for Local Government in NSW (November 2023)*. This charter provides the framework for the conduct of the internal audit function in Council and has been approved by the Council taking into account the advice of the Council's Audit, Risk and Improvement Committee (ARIC).

Purpose of internal audit

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

The mission of Internal Audit is to enhance and protect organisational value by providing an independent and objective review and advisory service to provide advice to the Council, General Manager and ARIC about Council's governance processes, risk management and control frameworks and its external accountability obligations. It also assists Council to improve its business performance.

The scope of Internal Audit work embraces the wider concept of corporate governance and risk, recognising that controls exist in the Council to manage risks and promote effective and efficient governance and performance.

Internal Audit services may include:

- Assurance Services – objective examination of evidence for the purpose of providing an independent assessment of risk management, control and governance processes.
- Advisory Services – advisory and related activities, the nature and scope of which are agreed upon with the governing body and/or senior management and ARIC. Advisory services are intended to add value and improve business operations.

Internal Audit will offer a service catalogue, including:

- Internal audit engagements with a compliance, financial or performance improvement focus.
- Management requested services where business areas within the Council may request Internal Audit services, usually in response to an issue or an emerging risk.
- Multi-stage audit engagements at key project milestones.
- Continuous auditing of controls using technology.

Independence

- Council's Internal Auditor is to be independent of Council so they can provide an unbiased assessment of Council's operations and risk and control activities.
- The Internal Auditor reports functionally to the Council's ARIC on the results of completed audits, and for strategic direction and accountability purposes, and reports administratively to the General Manager to facilitate day-to-day operations. Internal audit activities are not subject to direction by the Council and Council's management has no role in the exercise of Council's internal audit activities.
- The ARIC is responsible for communicating any internal audit issues or information to the Council. Should the Council require additional information, a request for the information may be made to the ARIC Chair by resolution. The ARIC Chair is only required to provide the information requested by the Council where the Chair is satisfied that it is reasonably necessary for the Council to receive the information for the purposes of performing its functions under the *Local Government Act*. Individual Councillors are not entitled to request or receive information from the Internal Auditor or the ARIC.

- The General Manager must consult with the Chair of the ARIC before appointing or making decisions affecting the engagement of the Internal Auditor. If the Internal Auditor is dismissed for reasons other than the end of contract, the General Manager must report the reasons for their dismissal to the Council.
- Where the Chair of the ARIC has any concerns about the treatment of the Internal Auditor or any action taken that may compromise their ability to undertake their functions independently, they can report their concerns to the Council.
- The Internal Auditor is to confirm at least annually to the ARIC the independence of internal audit activities from Council.

Role

The role of Internal Audit is to support Council's ARIC to review and provide independent advice to the Council in accordance with Section 428A of the Local Government Act 1993. This includes conducting internal audits of Council and monitoring the implementation of corrective actions.

Internal audit also play an active role in:

- developing and maintaining a culture of accountability and integrity,
- facilitating the integration of risk management into day-to-day business activities and processes, and
- promoting a culture of high ethical standards.

Internal Audit has no direct authority or responsibility 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 functions or activities (except in carrying out its own functions).

Authority and Confidentiality

Council authorises the Internal Auditor to have full, free and unrestricted access to all functions, premises, assets, personnel, records and other documentation and information that the Internal Auditor considers necessary to undertake their responsibilities.

All records, documentation and information accessed while undertaking internal audit activities are to be used solely for the conduct of those activities. The Internal Auditor is 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.

Information and documents pertaining to internal audits are not to be made publicly available. Internal Audit may only release Council information to external parties that are assisting internal audit to undertake its responsibilities with the written 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.

Head of internal audit function

Council's internal audit function is to be led by a member of Council's staff with sufficient skills, knowledge and experience to ensure it fulfils its role and responsibilities to Council and ARIC. The head of internal audit function must be independent, impartial, unbiased and objective when performing their work and free from any conflicts of interest.

Responsibilities of the head of internal audit function include:

- managing the day-to-day activities of the Internal Auditor,
- managing Council's internal audit budget,
- supporting the operation of Council's ARIC,
- approving internal audit project plans, conducting, or supervising audits and assessments and providing independent advice to the ARIC,

- monitoring Council's implementation of corrective actions that arise from the findings of audits,
- implementing the ARIC's annual work plan and four-year strategic work plan,
- ensuring Council's internal audit activities comply with the *Guidelines for Risk Management and Internal Audit for Local Government in NSW*,
- contract management and oversight of supplementary external providers (where appropriate).

Members of the internal audit function are responsible to the head of internal audit. Individuals that perform internal audit activities for Council must have:

- an appropriate level of understanding of Council's culture, systems and processes,
- the skills, knowledge and experience necessary to conduct internal audit activities in Council,
- effective interpersonal and communication skills to ensure they can engage with Council staff effectively and collaboratively,
- honesty, integrity and diligence.

Internal auditor

Council has contracted an external third-party provider to undertake its internal audit activities. To ensure the independence of the external provider, the Head of Internal Audit will ensure that 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 the internal audit, and
- can meet Council's obligations under the *Guidelines for Risk Management and Internal Audit for Local Government in NSW*.

The Head of Internal Audit must consult with ARIC and the 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. ARIC must develop a strategic internal audit plan every four years to ensure that all matters listed in Schedule 1 are reviewed by ARIC and considered by the internal audit function when developing their risk-based program of internal audits. The strategic work plan must be reviewed at least annually to ensure it remains appropriate.

ARIC must also develop an annual workplan to guide the work of the internal audit function over the forward year.

The Internal Audit Workplan is to include an allocation of capacity to the performance of unplanned audits. These unplanned audits will be in response to special requests from the General Manager to address emerging risk areas or specialist advice. These adjustments are to be reported at the next meeting of the ARIC.

On completion of each internal audit engagement, the Internal Auditor shall issue a draft report to relevant management to confirm the factual accuracy of the contents of the report.

The written report should show the results of the audit and the opinion of the auditor as to:

- Irregularities, system weaknesses and other shortcomings;
- Explanations advanced by responsible officers; and
- Remedial Actions taken or proposed.

Attachment 9.2.5.2

The responsible officers will be invited to provide written responses to audit recommendations contained in the draft audit report. Such responses should be provided no later than ten working days after receiving the request and shall be included in the final report. The Internal Auditor's reporting timelines to the ARIC will not be affected by an officer's failure to provide a timely response.

The Internal Auditor is to provide the findings and recommendations of internal audits to ARIC at the end of each audit, ARIC, with a confirmed management response. Each report is to include a response from the relevant manager.

Internal audit reports will be given an overall conclusion as follows;

Rating	Description
Good Practice	<ul style="list-style-type: none">➤ Overall control environment representative of good practice, well-designed, effective, efficient, and functioning properly.➤ No improvement opportunities identified.
Satisfactory	<ul style="list-style-type: none">➤ Satisfactory overall control environment➤ Small number of lower risk improvement opportunities identified, which require corrective action.
Improvement opportunity	<ul style="list-style-type: none">➤ Adequate control environment in most areas.➤ Medium risk improvement opportunities identified, which require corrective action.
Unsatisfactory	<ul style="list-style-type: none">➤ Some key controls do not exist, or are not properly implemented, and there are medium/high risk improvement opportunities.➤ Control environment is impaired.

Where an internal audit has given an overall conclusion rating of Improvement Opportunity or Unsatisfactory the relevant Director or Manager is to provide ARIC with a report of the actions to be taken in response to the internal audit recommendations identified including a timeline for implementation.

Conduct and Standards

Internal Audit personnel must comply with Council's adopted Code of Conduct. Complaints about breaches of Council's 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 ARIC before any disciplinary action is taken against the Head of Internal Audit in response to a breach of Council's Code of Conduct. Declaration and management of conflicts of interest will occur in line with the requirements of the Code of Conduct.

Internal Audit will govern itself by adherence 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 their work in accordance with the IPPF. While the IPPF applies to all internal audit work, technology audits may also apply the *Information Systems 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 meetings

The Internal Auditor will attend meetings of ARIC as an independent non-voting observer. The Internal Auditor can be excluded from meetings by the committee at any time.

The Internal Auditor must meet separately with ARIC at least once per year.

The Internal Auditor can meet with the Chair of ARIC at any time, as necessary, in 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 facilitate coordination.

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

Dispute resolution

Internal audit should maintain an effective working relationship with 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 internal audit and management, the dispute is to be resolved by the General Manager and/or the ARIC. Disputes between internal audit and the ARIC are to be resolved by the Council.

Unresolved disputes regarding compliance with statutory or other requirements are to be referred to the Departmental Chief Executive of the Office of Local Government in writing.

Review arrangements

Council's ARIC must review the performance of the internal audit function each year and report its findings to Council.

The Internal Auditor is to provide a report to ARIC at the meeting subsequent to the end of the financial year, reporting on:

- The performance of internal audit for the financial year as measured against agreed key performance indicators; and
- The approved internal audit plan of work for the previous financial year showing the current status of each audit.
- Details of internal audits deferred during the previous financial year including reasons why the deferral was necessary and when they are planned to be completed.

A strategic and quality assurance review 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 on the performance of the internal audit function and reported to the governing body.

This charter is to be reviewed annually by ARIC and once each Council term by Council. Any substantive changes are to be approved Council.

Schedule 1: Internal Audit Responsibilities

1. Audit

Internal Audit

(Section 428A(2)(i) of the *Local Government Act 1993*)

Principle: Council has an effective Internal Audit function and receives maximum value from its Internal Audit activities.

ARIC's role is to:

- Conduct internal audits as directed by the Council's audit, risk and improvement committee.
- Implement the Council's annual and four-year strategic Internal Audit Workplans.
- Monitor the implementation by the Council of corrective actions.
- Assist the 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

(Section 428A(2)(i) of the *Local Government Act 1993*)

Principle: Council receives maximum value from its External Audit activities.

ARIC's role is to:

- Provide input and feedback on the financial statement and performance audit coverage proposed by external audit and provide feedback on the audit services provided.
- Review all external plans and reports in respect of planned or completed audits and monitor the Council's implementation of audit recommendations.
- Provide advice on action taken on significant issues raised in relevant external reports and better practice guides.

2. Risk

Risk Management Framework

(Section 428A(2)(b) of the *Local Government Act 1993*)

Principle: Council has an effective Risk Management Framework that successfully identifies and manages the risks it faces.

Internal Audit's role is to review and advise the General Manager and Council on the following:

- if Council has in place a current and appropriate risk managed framework that is consistent with the Australian Risk Management Standard,
- whether Council is providing the resources necessary to successfully implement its Risk Management Framework,
- whether Council's Risk Management Framework is adequate and effective for identifying and managing the risks Council faces, including those associated with individual projects, programs and other activities,
- if risk management is integrated across all levels of Council and across all processes, operations, services, decision-making, functions and reporting,
- of the adequacy of risk reports and documentation, for example Council's risk register and risk profile,
- whether a sound approach has been followed in developing risk management plans for major projects or undertakings,
- if Council has taken steps to embed a culture which is committed to ethical and lawful behaviour,
- if there is a positive risk culture with Council and strong leadership that supports effective risk management,
- of the adequacy of staff training and induction in risk management,
- how Council's risk management approach impacts on Council's insurance arrangements,
- of the effectiveness of Council's management of its assets, and
- of the effectiveness of business continuity arrangements, including business continuity plans, disaster recovery plans and periodic testings of these plans.

Internal Control Framework

(Section 428A(2)(b) of the *Local Government Act 1993*)

Principle: Council has an effective Internal Control Framework that successfully identifies and manages the risks it faces.

Internal Audits's role is to review and advise the General Manager and Council on the following:

- whether Council's approach to maintaining an effective internal audit framework, including over external parties such as contractors and advisors, is sound and effective,
- whether Council has in place relevant policies and procedures 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 Council's monitoring and review of controls is sufficient, and
- if internal and external audit recommendations to correct internal controls weaknesses are implemented appropriately.

Compliance Framework

(Section 428A(2)(a) of the *Local Government Act 1993*)

Principle: Council has an effective compliance framework that ensures it is complying with its legal obligations and other governance and contractual requirements when undertaking its functions.

ARIC's role is to advise the General Manager and Council of the adequacy and the effectiveness of Council's compliance framework including:

- if Council has appropriately considered legal and compliance risks as part of the Council's 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 Control Framework

(Section 428A(2)(c) of the *Local Government Act 1993*)

Principle: Council has an effective fraud and corruption framework in place that minimises the incidence of fraud and corruption.

ARIC's role is to review and advise the General Manager and Council of the adequacy and effectiveness of Council's fraud and corruption prevention framework and activities including whether Council has:

- appropriate processes and systems in place to capture and effectively investigate fraud-related information,
- a fraud and corruption policy
- clearly defined responsibilities for managing fraud and corruption
- risk-based preventative and detective controls,
- policies, systems, and processes to respond to, investigate and report suspected fraud and corruption,
- employee awareness / education measures,
- robust third-party management systems,
- appropriate processes and systems in place to capture and effectively investigate fraud-related information,
- regular review of the fraud and corruption control framework and reporting, and
- implemented applicable guidance and other better practices by the Independent Commission Against Corruption.

Financial Management Framework

(Section 428A(2)(d) of the *Local Government Act 1993*)

Principle: Council has an effective financial management framework, sustainable financial position, and positive financial performance.

ARIC's role is to review and advise the General Manager and Council on the following:

External Accountability and Financial Reporting Framework including:

- if Council is complying with accounting standards and external accountability requirements,
- the appropriateness of Council's accounting policies and disclosures,
- the implications for Council of the findings of external audits and performance audits and Council's responses and implementation of recommendations,

- whether Council's financial statements preparation procedures and timelines are sound,
- the accuracy of Council's annual financial statements prior to external audit including:
- management compliance/ representations,
- significant accounting and reporting issues,
- the methods used by Council to account for significant or unusual transactions and areas of significant estimates or judgements,
- appropriate management signoff on the statements.
- if effective processes are in place to ensure financial information included in Council's annual report is consistent with signed financial statements.

Financial Management Framework including:

- 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:
- appropriate authorisation and approval of payments and transactions,
- adequate segregation of duties,
- timely reconciliation of accounts and balances,
- review of unusual and high value purchases.

Financial Position and Performance including:

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

Grants and Tied Funding Policies and Procedures including:

- if Council grants and tied funding policies and procedures are sound.

Governance Framework

(Section 428A(2)(e) of the *Local Government Act 1993*)

Principle: Council has an effective Governance Framework to ensure it is appropriately directing and controlling the management of Council.

ARIC's role is to review and advise the General Manager and Council regarding its governance framework, including Council's:

- decision-making processes,
- implementation of governance policies and procedures,
- reporting lines and accountability,
- assignment of key roles and responsibilities,
- committee structure,
- management oversight responsibilities,
- human resources and performance management activities,
- reporting and communication activities,
- Information and Communication Technology (ICT) governance, and
- management and governance of the use of data, information and knowledge.

3. Improvement

Strategic Planning (Section 428A(2)(f) of the *Local Government Act 1993*)

Principle: Council has an effective framework that ensures it achieves its strategic plans and objectives under the Integrated Planning and Reporting (IP&R) framework.

ARIC's role is to review and advise the General Manager and Council:

- 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 process against objectives, and
- whether Council is successfully implementing and achieving its IP&R objectives and strategies.

Service Reviews and Business Improvement

(Section 428A(2)(f) of the *Local Government Act 1993*)

Principle: Council has an effective framework to ensure it is delivering services and conducting its business and functions to an expected standard.

ARIC's role is to:

- act as a forum for communication and monitoring of any audits conducted by external bodies and the implementation of corrective actions (for example, NSW government agencies, Commonwealth government agencies, insurance bodies).
- review and advise the General Manager and Council:
- if Council has robust systems to set objectives and goals to determine and deliver appropriate levels of service to the community and business performance,
- if appropriate reporting and monitoring mechanisms are in place to measure service delivery to the community and overall performance, and
- how Council can improve its service delivery and Council's performance of its business and functions generally.

Performance Data and Measurement

(Section 428A(2)(h) of the *Local Government Act 1993*)

Principle: Council's performance management framework ensures Council can measure its performance and if it is achieving its strategic goals.

ARIC's role is to review and advise the General Manager and Council:

- if Council has a robust system to determine appropriate performance indicators to measure the achievement of its strategic objectives,
- if the performance indicators Council uses are effective, and
- of the adequacy of performance data collection and reporting.