

Council Policy

Internal Audit



Council Policy	
Legal Authority	<i>Local Government (Audit) Regulations 1996</i> <i>Local Government (Financial Management) Regulations 1996</i>
Department	Audit and Risk Committee Governance and Legal

1. Title

Internal Audit Policy

2. Purpose

This policy sets out the nature, role, responsibility, status, scope and authority of Internal Audit within the City.

The role of Internal Audit at the City of Kwinana is to assist the Council and senior management meet the Council's objectives by providing an independent appraisal of the adequacy and effectiveness of the processes and controls in place for the management of strategic and operational risk.

Internal audit assists with the identification of measures to achieve greater effectiveness, efficiency and economy and to remedy practices that expose the City of Kwinana to risk and vulnerability. It brings a systematic and disciplined approach to evaluating and improving the effectiveness of the City of Kwinana's risk management, control and governance processes.

3. Scope

This policy applies to:

- All employees of the City of Kwinana, including temporary employees and contractors.
- Any person who is involved in the operation of the City of Kwinana, including Elected Members, volunteers and those people with honorary or unpaid staff status.
- Every business department, service or activity of the City of Kwinana.

Principles of the policy are:

- The Internal Auditor reports to the Audit and Risk Committee. Communication and liaison will ordinarily be through the Chair of the Audit and Risk Committee and the Manager Governance and Legal.
- The Internal Auditor is accountable to the Council via the Audit and Risk Committee.
- Internal Audit will be tendered on a three year cycle unless unusual circumstances exist.
- The appointment or removal of the Internal Auditor will follow the Audit and Risk Committee's recommendation to Council.
- The Internal Auditor will be required to be independent and provide no other significant advisory services to the Council other than those set out in section 5.5.

- The Internal Auditor will have direct access to the Chief Executive Officer and the Audit and Risk Committee whenever required.
- There are no restrictions placed upon the scope of Internal Audit. The Internal Auditor may have access to any records, personnel, or physical property of the City of Kwinana and receive whatever information or explanations they consider necessary to fulfil their obligations.
- Internal Audit has operational support from City of Kwinana Executive and strategic support from the Audit and Risk Committee.

4. Definitions

Council, refers to either the staff or Elected Members or both depending on the context.

Internal Auditor, refers to the organisation appointed as Internal Auditor by the City of Kwinana.

Internal Audit, refers to an instance of, or the function of, auditing the internal processes and controls of the Council.

External Auditor, refers to the organisation appointed by the Office of the Auditor General to conduct the statutory audits of the City of Kwinana's Annual Report and Long Term Financial Plan (LTFP).

5. Policy statement

5.1 Responsibilities of the Audit and Risk Committee

- 5.1.1 The Audit and Risk Committee is responsible for the development, oversight and modification of Internal Audit functions, policies and procedures.
- 5.1.2 The Audit and Risk Committee recommends the budget allocation for internal audit as part of the annual plan development process.
- 5.1.3 The Audit and Risk Committee sets the Internal Audit work plan in conjunction with the Internal Auditor. This plan shall be informed by the organisational risk assessments of the Internal and External Auditors and the need to ensure compliance with the City of Kwinana policies and relevant legislation.
- 5.1.4 The Audit and Risk Committee recommends the appointment of the Internal Auditor to Council. In discharging this responsibility, due regard will be given to ensuring that the Internal Auditor has personnel who are sufficiently skilled and experienced in the local government sector.
- 5.1.5 The Audit and Risk Committee receives the reports of the Internal Auditor, considers management's recommendations arising from the reports, and monitors the implementation of agreed recommendations.
- 5.1.6 The decision to set aside any recommendations of the Internal Auditor rests with the Audit and Risk Committee.
- 5.1.7 The Audit and Risk Committee shall meet with the Internal Auditor independent of management at least annually.

5.2 Responsibilities of Management

- 5.2.1 The Chief Executive Officer and Manager Governance and Legal shall assist the Audit and Risk Committee to identify and recommend the scope of Internal Audit work, and shall recommend action to be taken on the outcome or findings from such work.
- 5.2.2 Management is responsible for maintaining internal controls, including setting appropriate policies and monitoring compliance with these, and maintaining proper accounting records and other appropriate management information to assist with effective stewardship.
- 5.2.3 Management shall ensure that the Internal Audit function has:
- a) Operational co-operation from staff throughout the organisation;
 - b) Access to staff and systems as requested by the Internal Auditor;
 - c) Direct access and freedom to report to the Executive; and
 - d) Unrestricted and independent access to the Audit and Risk Committee.
- 5.2.4 The City Leadership must ensure that the capability and capacity exist to implement and monitor Internal Audit recommendations.

5.3 Responsibilities of the Internal Auditor

- 5.3.1 The Internal Auditor is responsible for carrying out the assignments in the agreed Internal Audit Plan and completing an annual organisational risk management assessment.
- 5.3.2 The Internal Auditor will report to the Executive and the Audit and Risk Committee in accordance with the Internal Audit Plan and agreed audit timetables. Where appropriate it will initiate contact with the Chief Executive Officer, the Manager Governance and Legal and the Chair of the Audit and Risk Committee independently of the reporting timeframes.
- 5.3.3 The Internal Auditor is responsible for conducting its work in accordance with best practice and will have regard to relevant standards and requirements of the Office of the Auditor General.
- 5.3.4 The Internal Auditor is required to carry out the Internal Audit function in a manner that ensures its integrity, objectivity, confidentiality, and competency are not open to question. They shall comply with the standards of professional behaviour required by the City of Kwinana Code of Conduct.
- 5.3.5 The Internal Auditor will make comment and recommendations as to the robustness of the design, installation, and operation of systems and procedures, and benchmark organisational policies against best practice. However, the Internal Auditor is not responsible for any activities that are audited. Nor is it responsible for the design, installation, operation, or control of any procedures or systems.

5.4 Relationship with External Auditor and other Regulatory Bodies

5.4.1 The Internal Auditor will coordinate with the External Auditors and others as directed by the Audit and Risk Committee and Executive to ensure that duplication of audit work is minimised. This will be accomplished by:

- a) Consideration by the committee and Management of opportunities for synergies when the Internal Audit Plan is set;
- b) Provision of the Internal Audit Plan and the Internal Auditor's reports and other documentation to the External Auditors;
- c) Provision of the External Auditor's management letters, including management feedback to the Internal Auditor;
- d) Exchange of organisational risk assessments; and
- e) Access to operational and systems documentation.

5.5 Scope of Internal Audit Work

5.5.1 The Internal Auditor will complete the reviews identified and agreed in the annual Internal Audit Plan. The Internal Audit Plan will set the scope for each review, but will include:

- a) Reviewing systems established by management to ensure that major risks to the achievement of the organisation's objectives are being appropriately addressed by the controls inherent in these systems;
- b) Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information;
- c) Assessing compliance with policies, plans, procedures, laws, and regulations that could have a significant impact on operations and reports;
- d) Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- e) Appraising the economy and efficiency with which resources are employed;
- f) Reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals, and whether the operations or programmes are being carried out as effectively and efficiently as planned;
- g) Investigating and reporting on alleged violations of policies and procedures, errors, fraud, or misuse of City of Kwinana assets;
- h) Assessing and reporting on the identified organisational and internal control risks to the City of Kwinana within the scope of each assignment; and
- i) Performing and reporting on follow-up reviews to determine the status of recommendations contained in previous reports.

5.5.2 To the extent that the Internal Audit engagement specifies, the Internal Auditor will provide advice and assistance to the City of Kwinana when requested, by serving as a consulting resource for:

- a) The review of policies and procedures, financial and administrative systems, organisational structures, and other related administrative activities.
- b) The development of control procedures for new or significantly modified departmental manuals or computer-based financial or administrative systems.
- c) Carrying out a full organisation wide risk assessment, or updating the organisational risk assessment as and when required.

5.6 Planning and Reporting

5.6.1 The Internal Auditor will work with Executive and the Audit and Risk Committee to agree on a three year Internal Audit Plan which sets out the recommended scope of Internal Audit for the period. The work plan should have due regard to the key areas of internal controls for strategic and operational risk identified within the risk management framework, include monitoring compliance to policies and procedures associated with the Fraud and Corruption Policy, and an appropriate level of forensic audit.

5.6.2 The three year plan will be reviewed annually and inform an annual Internal Audit Plan. All plans will be developed with reference to the longer-term strategic context for Internal Audit, be prepared in consultation with the Executive, and have regard to the business plans, risks, and strategic outlook of the organisation as a whole.

5.6.3 The key elements of Internal Audit reporting will be as follows:

- a) Internal Audit reports are addressed to the Audit and Risk Committee;
- b) Each assignment will be reported separately in writing. The report will set out the scope of the work completed and report on the issues identified, summarising the concerns, the control implication, the assessed degree of risk/priority and the recommendations for improvement. The process will be as follows:
 - (i) The Internal Auditor will undertake the field work for the assignment and prepare a draft report on their findings.
 - (ii) The draft report will be presented to management within agreed timeframes.
 - (iii) The Executive will provide feedback to the Internal Auditor in a timely manner and where appropriate the report will be amended.
 - (iv) The Internal Auditor will provide the Executive with the final updated report in a fixed format for initial reporting to the Audit and Risk Committee and as a word document for subsequent reporting and monitoring.
- c) The Internal Auditor's completed written report on each audit assignment will be presented to the Audit and Risk Committee, by the Internal Auditor when appropriate;

- d) Following the initial presentation Internal Audit reports will be included in agendas of the Audit and Risk Committee in a format that provides information about:
 - (i) The status of each recommendation.
 - (ii) Who is responsible for each agreed action.
 - (iii) The timeframe for implementation of the recommendation or agreed action.

- e) In addition to the individual audit assignment reports, the Internal Auditor will report annually to the Audit and Risk Committee against the agreed Internal Audit programme detailing:
 - (i) Progress against the work plan.
 - (ii) Key findings over the year.
 - (iii) Any resulting recommendations for the following audit period.
 - (iv) The timeframe for follow-up of implementation of recommendations from prior reports.

- f) The Internal Auditor will raise any serious concerns about unresolved issues relating to assignments or the Executive itself directly with the Audit and Risk Committee Chair;
- g) The Internal Auditor will formally review the corporate risk register(s) annually and report its findings to the Audit and Risk Committee. The review will be informed by the outcomes of the internal audit plan and will focus on the risk identified to the organisation and strategies to mitigate these risks and improve operational effectiveness.

6. References

Date of adoption and resolution No.	16 December 2020 - #316
Review dates and resolution No.	
Next review due date	December 2022
Related documents	<p>Acts/Regulations</p> <p><i>Local Government Act 1995</i></p> <p><i>Local Government (Audit) Regulations 1996</i></p> <p><i>Local Government (Financial Management) Regulations 1996</i></p> <p>Plans/Strategies/Policies/Processes</p> <p>Fraud and Corruption Policy</p> <p>Risk Management Strategy</p> <p>Risk Management Policy</p> <p>Code of Conduct - Staff</p>

Note: Changes to references may be made without the need to take the Policy to Council for review.