PENRITH CITY COUNCIL
INTERNAL AUDIT CHARTER

In this charter the following words and terms have these meanings:

Council	The Mayor and Councillors who have been elected or appointed to civic office
General Manager	Appointed by Council and responsible for the operation of the organisation and implementation of Council's decisions
'The organisation'	All operations and obligations which are the responsibility of the General Manager
Management	Managers and the Leadership Team
Internal Audit	The function which provides internal audit services to Penrith City Council
Chief Audit Officer (CAO)	The most senior person employed by the organisation working within the Internal Audit function
Audit, Risk & Improvement Committee (ARIC)	The independent advisory committee which assists the Council to fulfil its oversight responsibilities

BACKGROUND

This charter identifies the purpose, authority and responsibility of Internal Audit. Internal Audit operates on the basis agreed by the General Manager as described in this Charter. This charter is intended to conform to the Internal Audit Guidelines issued by the Office of Local Government, Department of Premier and Cabinet (OLG). Pursuant to s23A of the Local Government Act, this Charter should not be changed without considering the recommendations of those guidelines. The Charter is approved by the General Manager on the advice of the Audit, Risk & Improvement Committee (ARIC).

The Internal Audit function must report to the General Manager or such other person as the General Manager delegates this responsibility to. The OLG guidelines recommend that this responsibility be split and that Internal Audit should report functionally to the ARIC and administratively to a person such that "the delegation does not directly or indirectly interfere with the ability of the Internal Auditor to conduct an internal audit function free from interference". The guidelines further recommend that the Chief Audit Officer (CAO) confirms "at least annually, the organisational independence of the internal audit activity".

PURPOSE

Internal Audit provides an independent and objective advisory service. It is expected that Internal Audit will add value by providing information to management, the ARIC and the Council, on the quality of the organisation's operations, with particular emphasis on risk management, governance, regulatory compliance and systems of control.

It functions by conducting independent appraisals, leading to reports on its findings and recommendations, addressed, as appropriate, to:

- the ARIC;
- the General Manager; and
- managers who need to know and are capable of ensuring that appropriate action is taken.

Internal Audit may use consultants, contract personnel or staff seconded from within the organisation to perform audit work, provided such appointments do not impair the objectivity of the audit process.

The General Manager requires Internal Audit to function with objectivity and integrity at all times. Internal Audit will meet or exceed the *Code of Ethics* and the *International Standards for the Professional Practice of Internal Auditing* issued by The Institute of Internal Auditors.

Management retains primary responsibility for assessing risks and implementing control systems. Internal Audit provides assurance to management and the ARIC that internal controls are adequate and operating effectively. The work of Internal Audit does not relieve the staff of Penrith City Council from their accountability to discharge their responsibilities.

MISSION OF INTERNAL AUDIT

The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

CORE PRINCIPLES

The Core Principles, taken as a whole, articulate internal audit effectiveness. Internal auditors will possess and demonstrate the Core Principles for the Professional Practice of Internal Auditing:

- Demonstrates integrity

- Demonstrates competence and due professional care

- Is objective and free from undue influence (independent)

- Aligns with the strategies, objectives, and risks of the organisation

- Is appropriately positioned and adequately resourced

- Demonstrates quality and continuous improvement

- Communicates effectively

- Provides risk-based assurance

- Is insightful, proactive, and future-focused

- Promotes organisational improvement

AUTHORITY

The CAO is authorised to direct a comprehensive program of internal audit work, including operational reviews, assurance reviews, consulting and investigations, in the context of the achievement of business objectives and the management of risk.

For the purpose of its approved audit work, Internal Audit has unrestricted access at all times to all the records, accounts, files, information systems, personnel, property, assets (including monies) and operations of Council. Access to data and sensitive information system applications will be on a 'read only' basis. The CAO and individual internal audit staff are responsible and accountable for treating all documents and information with due professional care and maintaining confidentiality.
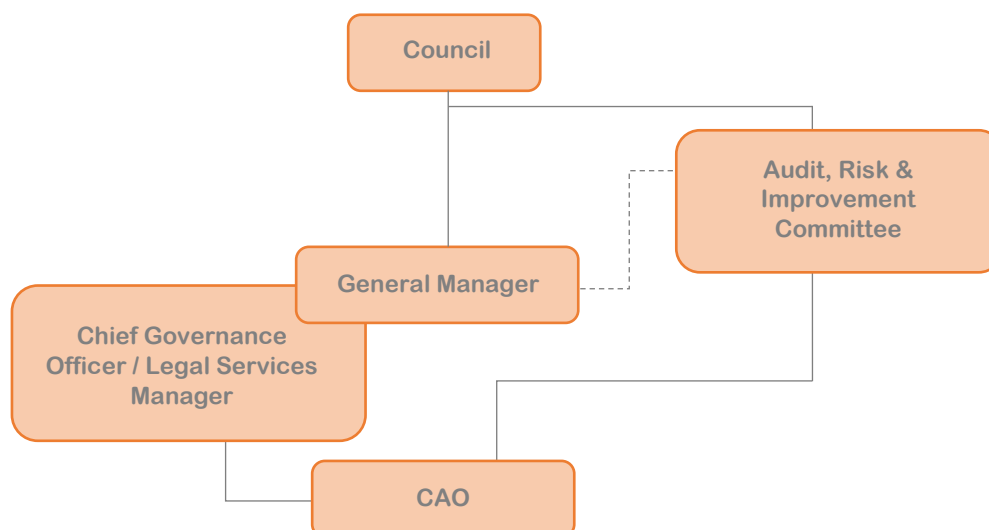
The CAO has direct access to the Mayor, General Manager, Leadership Team, external auditors and the ARIC. This includes unrestricted authorisation for the CAO to express any concerns and / or provide professional opinions, whether those opinions are supported by Management or not. Any matter that is covered by the Penrith City Council Code of Conduct shall be dealt with in accordance with the Code.

INDEPENDENCE

Penrith City Council's internal audit function is to be independent of the organisation so it can provide an unbiased assessment of operations and risk and control activities.

Internal Audit shall report:

- functionally to the ARIC (i.e., results of completed audits and for strategic direction and accountability purposes);
- administratively to the Chief Governance Officer (as the General Manager's delegate) on resourcing matters;
- administratively to the Legal Services Manager (as the General Manager's delegate) on day-to-day operations, and
- to the ARIC Chair, in accordance with the ARIC Charter.

The above reporting arrangements are in place to promote Internal Audit's organisational independence, meaning the CAO reports to a level within the organisation that allows Internal Audit to fulfil its responsibilities. The Chief Audit Officer is to confirm at least annually to the ARIC the independence of internal audit activities from the organisation.

Objectivity requires an unbiased mental attitude. As such, all Internal Audit staff shall perform their tasks in such a manner that they have an honest belief in their work product, that no significant quality compromises are made and their judgement has not been subordinated to that of others. Internal Audit generally does not perform line tasks as this would impair its objectivity; neither has it any direct responsibility for, nor authority over, the activities it reviews.

SCOPE & RESPONSIBILITIES

The scope of Internal Audit's work aligns with the organisation's objectives and risks. Internal Audit activity will normally focus on areas of high risk for Council, and in doing so will identify the key control systems upon which Council is most reliant. Internal Audit is to support the ARIC to review and provide independent advice to the Council in accordance with section 428A of the *Local Government Act 1993*.

In doing so, Internal Audit must evaluate and contribute to the improvement of Council's governance, risk management, and internal control processes using a systematic and disciplined approach, including:

- Evaluating the design, implementation, and effectiveness of Council's ethics-related objectives, programs and activities.

- Assessing whether the information technology governance supports Council's strategies and objectives.

- Evaluating risk exposures and internal controls (design & effectiveness) relating to Council's governance, operations, and information systems regarding the:

  - reliability and integrity of financial and operational information;

- effectiveness and efficiency of operations and programs;

- safeguarding of assets; and

- compliance with laws, regulations, policies, procedures, and contracts.

- Evaluating the potential for the occurrence of fraud and corruption and how Council manages fraud and corruption risks.

- Monitoring the implementation of corrective actions.

In addition, Internal Audit may also undertake or contribute to any special investigations as requested by the General Manager or the ARIC.

In the conduct of its activities, Internal Audit will play an active role in supporting Council's values of Respect, Accountability and Innovation, and will promote a culture of risk awareness, self-assessment and adherence to high ethical standards.

Internal Audit is required to keep the ARIC informed of significant matters that relate to its Charter, the extent to which the Committee's recommendations are being adopted and of internal audit work. A report is to be provided to the ARIC at each of its meetings on progress with the Internal Audit Annual Plan (IAAP), the status of internal audit recommendations, and other relevant matters.

The CAO shall arrange a private meeting with the ARIC at least annually. In addition, the CAO will arrange a private meeting with the Chair of the ARIC several times a year. These meetings are for the purpose of having frank and open discussions regarding Internal Audit's observations, particularly in relation to governance matters. These meetings and other informal communications will ensure there is a direct/functional reporting line from Internal Audit to the ARIC.

Internal Audit shall advise the ARIC and Council at least annually on its performance against any objectives or key performance indicators, its opinion on the adequacy of this charter (including details of any item requiring updating), and whether there has been any compromise of Internal Audit's independence since the last report. A strategic review of the PCC 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 function and reported to the governing body.

Internal Audit shall obtain and forward to the ARIC in the form of a Balanced Scorecard:

- feedback from areas audited, including customer satisfaction (usefulness of audit recommendations and value add); and
- an independent mandatory quality assurance review of Internal Audit at least once every five years, in line with standard 1312.

The CAO shall periodically prepare a multi-year Strategic Internal Audit Plan (SIAP) in consultation with Management. The plan will primarily be based on the risks of Council. At the start of each financial year, the IAAP will become active, having been taken from the SIAP. The plans shall be presented to the ARIC for consideration immediately prior to the start of each financial year. Throughout the year and where possible, the IAAP will be presented to the ARIC in advance of any significant changes (if not possible, the CAO shall contact the ARIC Chair to advise of the changes).

Internal Audit is not relieved of its responsibilities in areas of the organisation's business which are subject to review by others, but should always assess the extent to which it can rely upon the work of others and co-ordinate its audit planning with other review agencies.

Responsibilities of the CAO include the following:

- Managing the day-to-day activities of the internal audit function

- Supporting the operation of the ARIC

- Maintaining a professional and experienced Internal Audit function, primarily through the engagement of suitably qualified professionals that have sufficient knowledge, skills, experience and professional certifications to meet the requirements of this Charter.

- Approving internal audit project plans, conducting or supervising audits and assessments and providing independent advice to the ARIC

- Fulfilling the annual work plan and four-yearly strategic plan

- Ensuring that internal audits are performed with proficiency and due professional care, and in accordance with the requirements of the International Standards for the Professional Practice of Internal Auditing, and Penrith City Council Internal Audit Manual.

- Contract management and oversight of supplementary external providers

- Perform the necessary planning and coordination to ensure that other assurance providers (e.g. consultants, regulators, external auditors) are identified and consulted with when developing internal audit activity plans – this may be achieved through assurance mapping.

- Periodic meetings and contact with External Audit to coordinate audit activity, avoid duplication of effort, and discuss matters of mutual interest.

- Establishing a follow-up process to monitor and ensure that Management actions have been effectively implemented, or that Management has accepted the risk of not taking action, and provide meaningful reporting to the ARIC.

- Keeping the ARIC informed of emerging trends and successful practices in Internal Audit.

- Keeping the General Manager and the ARIC abreast of any significant matters relating to the potential for the occurrence of fraud or corruption, how fraud and corruption risks are managed within Council and its external entities (to the extent possible), and any investigations into suspected fraudulent or corrupt activities.

- Periodically engaging with the Leadership Team in order to provide an update on internal audit activity, including any significant audit reports / findings, and the results of the follow-up of agreed Management actions.

INTERNAL AUDIT FUNCTION

Penrith City Council's internal audit function is to be led by a member of staff with sufficient skills, knowledge and experience to ensure it fulfils its roles and responsibilities to the

Council and its ARIC. The Chief Audit Officer (CAO) must be independent, impartial, unbiased and objective when performing their work and free from any conflicts of interest.

Where the CAO has or is expected to have roles and/or responsibilities that fall outside of Internal Auditing, safeguards will be in place to limit impairments to independence or objectivity. The range of responsibilities that may conflict with the CAO's independence relate to the implementation of the Enterprise Risk Management Framework, the Business Continuity Planning Framework and the Insurance and Claims Management functions. Any reviews of those areas will be conducted by externally sourced consultants. Another safeguard is the quality review process, which requires audit working papers and reports prepared by an internal auditor to be reviewed by the CAO prior to issuance of any client communications.

Internal audit team

Members of the PCC internal audit function (1 Senior Internal Auditor) are responsible to the CAO. Individuals that perform internal audit activities for PCC must have:

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

Outsourced internal audit services

PCC employs an outsourced delivery model, whereby approximately 50% of the Internal Audit Annual Plan is delivered by an outsourced provider. The benefit of this model is that it provides the CAO options to strengthen independence and/or access subject matter experts. To ensure the independence of the external provider, the CAO is to ensure 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 the council's external audit
- is not the auditor of any contractors of the council that may be possibly subject to the internal audit, and
- is able to meet the council's obligations under the Guidelines on risk management and internal audit for local councils in NSW.

The CAO will procure third party internal audit services on an annual basis, in accordance with PCC's Procurement Policy and Standards.

METHODOLOGY

Internal audit engagements will be conducted in accordance with the Institute of Internal Auditors *International Professional Practices Framework (IPPF)*, and the Penrith City Council Internal Audit Manual. A tailored methodology will be used for individual engagements depending on the nature of the activity and pre-determined parameters, such as planned timeframe and available resource. However, internal audits will generally include the following stages:

- *Engagement planning* – develop and document a plan, including objectives, scope, key risks, timing and resource allocations, and obtain Management feedback prior to performing the engagement;

- *Performing the engagement* - identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives and scope;

- *Communicating results* – prepare and disseminate draft and final internal audit reports, including the engagement's objectives and scope, as well as applicable findings, conclusions, recommendations and action plans; and

- *Monitoring progress* – establish and maintain a follow-up system/process to monitor and ensure that Management actions have been effectively implemented or that Management has accepted the risk of not taking action.

Internal Audit has the capability to perform data analytics using specialised software. Data analytics will be included in the scope of an engagement where it is possible and useful for achieving the objectives and scope of the engagement. Internal Audit staff will develop their data analytics skills on an ongoing basis by attending training and other professional development activities.

INTERNAL AUDIT PLANNING

Internal Audit is responsible for developing a risk-based Strategic Internal Audit Plan (SIAP), considering Council's Enterprise Risk Management Framework. The SIAP will be a multi-year plan based on a documented risk assessment, which is to be reviewed and updated annually as part of the process of preparing an Internal Audit Annual Plan (IAAP). The risk assessment will be based on consultation, analysis and research, including, but not limited to, the following factors:

- Complexity of activities

- Financial materiality

- Risk and control assessments

- Sensitivity (potential for public relations and legal problems)

- Extent of change

- Confidence in management

- Senior management concerns

The risk assessment will be documented in an "Audit Universe", which lists all of the auditable areas of Council, and will be updated annually as part of the planning process.

The SIAP and IAAP must be endorsed by the ARIC at a meeting prior to commencement, in order to facilitate the timely completion of internal audit work.

Additionally, the CAO will prepare an "Assurance Map", the purpose of which is to share information and coordinate activities with other internal and external providers of assurance and consulting services, and inform the "Audit Universe", thereby minimising the duplication of work.

Internal Audit has discretionary authority to adjust the IAAP in consultation with the ARIC Chairman in order to be responsive to changes in Council's business, risks, operations, programs, systems, and controls. This may also be deemed necessary as a result of receiving special requests for audits or reviews from Management. Such changes are endorsed retrospectively at the next meeting of the ARIC.

ETHICS

Internal audit personnel are required to comply with the Penrith City Council 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 council's ARIC before any disciplinary action taken against the CAO.

The Institute of Internal Auditor's *Code of Ethics* states the principles and expectations governing the behaviour of individuals and organisations in the conduct of internal auditing. The purpose of the Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing. The *Code of Ethics* applies to both entities and individuals that perform internal audit services.

Internal Audit shall abide by the Institute of Internal Auditors *Code of Ethics*, specifically the principles of integrity, objectivity, confidentiality and competency.

Internal Audit staff are required to complete an annual *Code of Ethics Declaration* under the *International Professional Practices Framework*, and this will be reported to the ARIC.

REPORTING ARRANGEMENTS

As a minimum, Internal Audit is responsible for reporting:

- the Draft IAAP, prior to the start of the audit year to which it relates, and any subsequent revisions;
- to each ARIC meeting on the progression / status of the IAAP;
- to each ARIC meeting on the outcomes of each internal audit engagement completed since the previous meeting;
- to each ARIC meeting progress in closing off outstanding audit issues, implementing recommendations and analysis of trends and recommendations which are at risk of not being implemented as agreed;
- to each ARIC meeting on the progress of Internal Audit generally, in the form of a Balanced Scorecard Report, including performance, administrative, resourcing and technical issues;
- to the first ARIC meeting of the financial year, the Internal Audit Annual Report covering the previous financial year, ensuring that it is subsequently presented to a meeting of the Policy Review Committee of Council;
- each council term a strategic review of the PCC internal audit function to the ARIC and Policy Review Committee of Council;
- annually in closed session to the ARIC members;
- annually on the review of the ARIC Charter;
- annually on the review of the Internal Audit Charter to the ARIC and each council term to the Policy Review Committee of Council; and
- annually on any Internal Audit quality assurance assessments and activities, including ethics-related declarations.

PERFORMANCE & CONTINUOUS IMPROVEMENT

Quality Assurance

A Quality Assurance and Improvement Program (QAIP) is maintained for Internal Audit. The QAIP aligns to the *International Standards for the Professional Practice of Internal Auditing* contained in the *International Professional Practices Framework* issued by the Institute of Internal Auditors. The ARIC is to receive a copy of the QAIP at least annually. The QAIP comprises:

- Internal assessments – ongoing
- Internal assessments – periodic
- External assessments

The results of the QAIP are reported to the ARIC and the Policy Review Committee as part of the Internal Audit Annual Report.

Internal Assessments

The CAO is responsible for performing an annual internal review of the performance of Internal Audit over the financial year. The key performance indicators identified in the Appendix to the Charter are used to evaluate the performance of Internal Audit.

Ongoing assessments include work paper review and sign-off, performance evaluations, actual versus budget analysis and client feedback survey after internal audit engagements (in-house and service provider).

Independent External Review of Internal Audit

The CAO is responsible for arranging an independent external review of the function at least once every 5 years, taking into account any advice from the ARIC regarding potential reviewers. This timeframe is recommended by the *International Professional Practices Framework*, however the review may be performed more frequently at the request of the ARIC.

MANAGEMENT RESPONSIBILITY

In relation to specific findings and recommendations outlined in audit reports, Internal Audit operates under the auspices of 'no surprises'. Managers will receive advance notification of potential findings and recommendations. Internal Audit will seek comments and an endorsed timetable for the implementation of recommendations from the responsible Manager.

In normal circumstances, responses to draft audit reports are required within 10 working days of the responsible Manager receiving the draft report. Where responses have not been received within this timeframe, the audit recommendations will be provided to the ARIC and a timetable for the implementation of recommendations will be pursued separately. Managers are responsible for the timely implementation of audit recommendations, and for providing quarterly updates to the CAO on the status of outstanding recommendations and underlying reasons for any delays. Where a manager requests a change to the target implementation date for completing an audit recommendation, approval must be obtained from the relevant Director and provided to the CAO. Commentary on the progress towards

the implementation of recommendations is reported by the CAO to the ARIC at its quarterly meetings.

Charter History:

This Charter is document 8110066 in Penrith City Council's Information Management System.
Agreed by General Manager and Audit, Risk & Improvement Committee on 6 May 2018
Revision agreed by the General Manager and the Audit, Risk & Improvement Committee on 4 September 2019
Revision agreed by the General Manager and the Audit, Risk & Improvement Committee on 9 December 2020
Revision agreed by the General Manager and the Audit, Risk & Improvement Committee on 15 March 2022
The previous version of this charter is document 4545446

APPENDIX – INTERNAL AUDIT KEY PERFORMANCE INDICATORS

1.   Audit, Risk and Improvement Committee

No	Measure	Mechanisms	Target Outcome
1.1	Level of satisfaction with quality, type and volume of information presented and reported. *Links to IIA standard 1100*	Annual satisfaction survey to all members of the Committee. (*The survey will cover as a minimum the audit mandate, audit coverage, the adequacy of reporting, an overall level of satisfaction and the perception of trend of the internal audit activity i.e. better, same, declining).*	Improved trend for 'overall level of satisfaction' (or sustained positive ratings) indicated by each survey. Satisfaction rating for each part of the survey to be scored as "Good" or higher.
1.2	Perspective on IA effectiveness, professionalism and competence *Links to IIA standards 1200 and 1300*	Risk & Audit Coordinator to provide a "staff profile" to the Audit, Risk and Improvement Committee each year (covering elements such as auditing and work experience, qualifications, auditing certifications, years of auditing experience and professional outreach). Risk & Audit Coordinator to present a Professional Development Plan to the Committee each year based on development priorities and plans and to report on progress against this plan.	IA staff to achieve majority of priorities in Professional Development Plan that is agreed with the Audit, Risk and Improvement Committee and have demonstrated reasonable progress with others.

2.   *Executive & Audit Stakeholders/Customers*

No	Measure	Mechanisms	Target Outcome
2.1	Levels of customer satisfaction with individual audits, with respect to: ➢ Value added ➢ Usefulness of recommendations *Links to IIA standard 2000*	Customer Satisfaction Survey distributed to all relevant stakeholders after each audit.	Average rating of 3.5 or higher (out of 5) for the two key questions on the survey concerning "value add" and "usefulness of recommendations". (Each 'other' question on the survey points to the possible causes).
2.2	Executive experience of IA. *Links to IIA standard 2000 and 2100*	Executive experience survey conducted annually.	Average rating of 3.5 or higher (out of 5) for overall satisfaction with Internal Audit
2.3	Feedback (formal and informal) from staff in relation to advice and information provided by IA and improved understanding of the role. *Links to IIA standard 2000 and 2100*	Number of referrals to IA for informal or formal advice on risk/control related matters. Consultancy/advisory services provided by IA.	Generally positive feedback on value and usefulness of information.

3. *Internal Audit Processes*

No	Measure	Mechanisms	Target Outcome
3.1	Completion of approved audit programme. *Links to IIA standard 2200, 2300, 2400, 2500*	Number of audits finalised as per the endorsed IAAP.	90%
3.2	Duration of audits. *Links to IIA standards 2200, 2300, 2400, 2500*	Number of audits completed and taken to draft report stage in 10 weeks or less (measured from the start date of fieldwork to the date of issue of the draft audit report).	90%
3.3	Finalisation of draft audit reports. *Links to IIA standards 2200, 2300, 2400, 2500*	Number of audit reports finalised and distributed to Audit, Risk and Improvement Committee within 3 weeks (15 working days) of issue of the draft report (in line with service standard of 10 days for management to respond to draft audit reports).	90%

No	Measure	Mechanisms	Target Outcome
3.4	Compliance with IIA's International Professional Practices Framework (IPPF) *Links to IIA standards 2400 and 2600*	Self-assessment External assessment An annual assertion on compliance with the IIA Standards provided by the CAO to the Audit, Risk and Improvement Committee	"Generally conforms" rating of compliance with IIA Standards by the external review. External review conducted at least every five years.

4.   Innovation, Professional Development and Capability

No	Measure	Mechanisms	Target Outcome
4.1	Training hours per member of IA *Links to IIA standards 1200, 1300 and 2000*	Log of training/professional development.	80 hours CPE every 2 years as per IIA requirements with a minimum of 20 hours in any one year.

No	Measure	Mechanisms	Target Outcome
			Training undertaken through >2 types of learning mechanisms.
4.2	Range of knowledge skills, technical expertise and competency within IA *Links to IIA standards 1200, 1300 and 2000*	Skills assessment against the IIA competency model. Log of training/professional development. Learning needs analysis. Professional Development Plan (PDP) for each member of IA.	Increasing trend in coverage of skills, knowledge and expertise within IA when assessed against the IIA competency model. Areas of training attended align with PDP.
4.3	Consideration and development of innovative methods to deliver elements of the IA framework and through IA recommendations/advice. *Links to IIA standards 1200, 1300 and 2000*	IA recommendations IA advice Implementation of initiatives as part of the IA work programme	Demonstration of considerations and innovative solutions provided through recommendations and issues raised in audit reports. CAO report to Audit, Risk and Improvement Committee outlining initiatives under development or consideration.