



TOWN OF
VICTORIA PARK



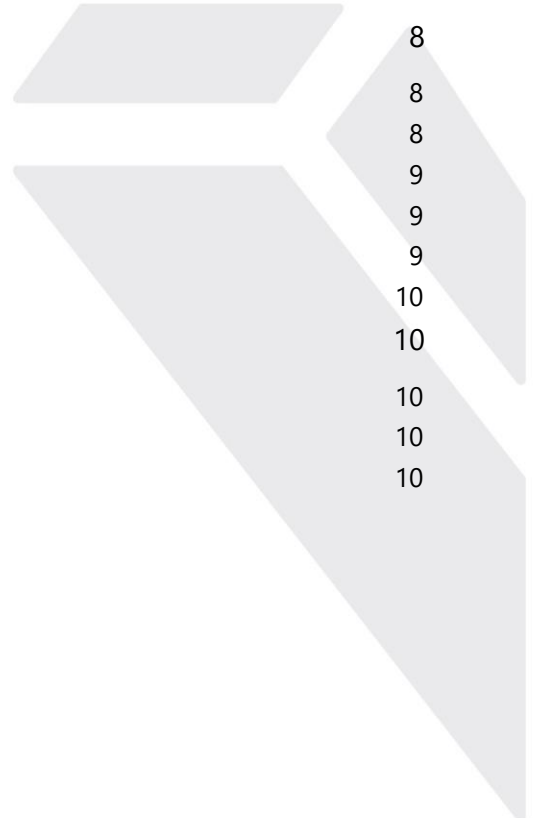
INTERNAL AUDIT GUIDELINES



WE'RE OPEN
VIC PARK

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Introduction

The Town of Victoria Park (the Town) has established an Internal Audit Function as a key component of the Town's governance and assurance framework, in compliance with the *Local Government Act 1995* and associated regulations. This guideline provides information around the conduct of the Internal Audit Function at the Town and has been approved by Council taking into account the advice and recommendations of the Council's established Audit and Risk Committee.

Purpose of internal audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Town's operations. It helps Council and the Town to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes¹.

Internal audit provides an independent and objective review and advisory service to provide advice to Council, the Audit and Risk Committee and the Chief Executive Officer about the Town's governance processes, risk management and control frameworks and its external accountability obligations. It also assists the Town to improve its business performance.

Independence

The Internal Audit Function is to be independent of the Town's business operations so it can provide an unbiased and objective assessment of the Town's operations and risk and control activities.

The International Standards for the Professional Practice of Internal Auditing defines independence and objectivity as follows:

- **Independence** – Free from interference in determining the scope of internal auditing, performing work and communicating results.
- **Objectivity** – An unbiased mental attitude that requires internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgement on audit matters to others.

The Internal Audit Function reports formally to Council through the Audit and Risk Committee on the results of completed audits, and for strategic direction and accountability purposes. The Internal Audit Function reports administratively to the Chief Executive Officer to facilitate its day-to-day operations.

¹ As defined by the International Standards for the Professional Practice of Internal Auditing (2017)

Authority

Designated Town employees and other third parties involved in the Internal Audit Function are to have full, free and unrestricted access to all functions, premises, assets, personnel, records and other documentation and information that is considered necessary for the Internal Audit Function to be adequately and successfully completed.

All records, documentation and information accessed while undertaking internal audit activities are to be used solely for the conduct of those activities. All parties involved in the Internal Audit Function are 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 Town, including where internal audit services are performed by an external third-party engaged for this purpose.

Role of Internal Audit Function

The Internal Audit Function is to support Council, the Audit and Risk Committee and the Town's administration to review and provide independent advice in accordance with the *Local Government Act 1995* and other relevant legislation. This includes conducting internal audits of the Town's operations and monitoring the implementation of corrective actions.

The Internal Audit Function plays an active role in:

- conducting internal audits as directed by Council on the recommendation of the Audit and Risk Committee
- implementing Council's adopted three-year Internal Audit Program annual internal audit work plans
- monitoring the implementation by the Town of corrective actions
- assisting the Town to develop and maintain a culture of accountability and integrity
- facilitating the integration of risk management into day-to-day business activities and processes
- promoting a culture of high ethical standards
- reviewing all external plans and reports in respect of planned or completed audits and monitor the Town's implementation of audit recommendations
- providing advice on action taken on significant issues raised in relevant external audit reports and better practice guides.

The Internal Audit Function has no direct authority or responsibility for the activities it reviews. It also has no responsibility for developing or implementing procedures or systems and does not prepare records or engage in the Town's administrative functions or activities (except in carrying out its own functions).

Employee responsibilities

The Chief Executive Officer, in consultation with the Audit and Risk Committee and Council, is to develop and maintain policies and procedures to guide the operation of the Internal Audit Function.

The Town's Chief Executive Officer is to appoint employees with sufficient skills, knowledge and experience to ensure the Internal Audit Function fulfils its role and responsibilities to Council and Audit and Risk Committee. The employee must be independent, impartial, unbiased and objective when performing their work and free from any conflicts of interest.

Responsibilities of the designated employee(s) include:

- managing the day-to-day activities of the Internal Audit Function
- managing the Town's allocated internal audit budget
- supporting the operation of the Council, the Audit and Risk Committee and the Town's administration
- overseeing internal audit project plans, conducting or supervising internal audits and assessments (depending upon resourcing)
- monitoring the Town's implementation of corrective actions that arise from the findings of audits
- implementing Council's annual work plan and three-year Strategic Internal Audit Plan
- ensuring the internal audit activities comply with legislation and any relevant guidelines
- contract management and oversight of external providers
- ensuring the external provider completes internal audits in line with the annual internal audit work plan and three-year Internal Audit Program
- forwarding audit reports by the external provider to the Audit and Risk Committee.
- acting as a liaison between the external provider and the Audit and Risk Committee.

Internal audit methodology

The work of the Internal Audit Function is to be thoroughly planned and executed. Council, through the Audit and Risk Committee is to develop a three-year Internal Audit Program so that the matters listed in Schedule 1 are reviewed by the Committee and considered by the Internal Audit Function when developing their risk-based program of internal audits. The plan must be reviewed at least annually to ensure it remains appropriate.

The three-year Internal Audit Program is developed based upon the risks within the Risk Management System (that is audits are selected based on their relationship to strategic risks or higher rated operational risks. Where there is a large movement between inherent and residual risk rating this is also considered for inclusion as this represents a high reliance on controls to mitigate the risk).

In addition to the risk basis for developing the three-year Internal Audit Program the following steps may also been undertaken:

- Consideration of previous reviews performed, their timing and results.
- Review of documents such as the Corporate Business Plan.
- Regulatory requirements or third-party reports or audit findings.
- Consideration of previous Strategic Internal Audit Plans.
- Presentation to the Town's C-Suite.

The Audit and Risk Committee must also develop an annual work plan to guide the work of the Internal Audit Function over the forward year. The Annual Internal Audit Plan is the first year of the three-year Internal Audit Program. The second and third years of the three-year Internal Audit Program will form the basis for subsequent annual internal audit plans, subject to changes that may reflect changing business priorities and emerging risks.

The reviews proposed within the annual internal audit plan include the following details:

- The scope, time and resource allocation and reporting for each planned audit project to be completed during the year.
- The time allocation for each team member of the Internal Audit Function against planned audit projects,

other audit work (including risk-based planning, business support, investigations and management requests and follow up) and non-operational time (including leave, training and administration).

- The extent of external resources and specialist skills required to complete the planned audit projects.

All internal audit activities are to be performed in a manner that is consistent with relevant professional standards including the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and Australian Standard *AS ISO 31000:2018 – Risk Management*.

Project management

Internal audit projects can range in depth from high level reviews to detailed audit testing and can involve financial, operational, information systems or other areas. Projects may originate from the Annual Internal Audit Plan or from other sources such as specific requests from the Audit and Risk Committee or C-Suite.

Generally, all projects regardless of source, scope or nature will follow five stages (Planning, Process, Documentation, Reporting and Monitoring) as outlined below:

Planning

The following steps should be undertaken during the planning stage of an audit project:

1. The Internal Audit Function will notify the Chief(s) and other relevant managers and staff of timing and the draft terms of reference of the proposed audit. Ideally at least one month's notice should be given to ensure that relevant staff will be available to assist during the audit process.
2. Prior to commencement of the audit, background information should be collected and potential risk areas considered, in addition to those identified during the annual planning process.
3. Prior to commencement of fieldwork, an opening meeting should be held with the Chief/ Manager(s) responsible for the area subject to audit and other relevant staff as appropriate. This meeting allows expectations, responsibilities and practicalities in relation to the audit process to be discussed and provides an opportunity to gain management buy in to the audit process. At the opening meeting the Internal Audit Function will provide the auditees with an outline of the audit process as well as the objectives of the audit, the proposed scope and timing and identified risk areas. The auditees will be encouraged to comment on the audit workplan and provide input in relation to scope and risks. This input will be taken into account and appropriate amendments to scope will be made however the final decision in relation to the scope will remain with the Internal Audit Function. In addition, the opening meeting should include discussion of the practical aspects of the audit such as the availability of staff and other resources.
4. Following the opening meeting the audit terms of reference should be amended as appropriate and finalised.
5. An audit work program should be developed. This program should outline the procedures to be performed to achieve the objectives of the audit project.

Audit Process

The internal auditors appointed for the audit should identify, analyse, evaluate and record sufficient information to achieve the objectives of the audit project, as well detailing approximate timings for project milestones. The information identified should be reliable and relevant and support the findings and conclusions.

The extent and detail of audit testing will depend on the scope and objectives of the audit. Generally, however the following guidelines will apply:

1. The auditors understanding of the policies, procedures, processes and controls should be confirmed with the auditees through discussions, observation and conducting walk throughs as appropriate. This understanding should be documented through narrative, flow charting, for example, depending upon their complexity.
2. The key potential risks for each process should be considered and controls in place to mitigate these risks should be identified and documented. Key potential risks are identified by considering “what could go wrong” and result in error, loss of revenue, litigation, fines or additional expenditure or effect business continuity.
3. Where appropriate, testing should be performed on the key controls identified above to ensure that the controls are operating effectively to reduce risks. Testing is generally done on a sample basis and must be documented.
4. Any significant risks identified without adequate controls and any controls shown by testing to not be operating effectively should be noted and raised as potential issues. In addition, any improvements identified that could be made to existing controls or alternative controls that could be implemented to improve effectiveness or reduce risk are raised. Finally, any potential improvements identified that could result in increases to the efficiency of processes without compromising effectiveness are raised.
5. The Internal Audit Function should ensure that all issues and recommendations are discussed with the auditees as they are identified.

Documentation

Internal auditors must ensure that the work they performed is adequately documented. A workpaper file should be compiled with all relevant information required to satisfy the scope and objectives of the audit plan, demonstrate completion of the audit programme and support the findings and conclusions of the audit.

There are no set work paper templates as internal audit reviews at the Town tend to be unique and as such there is little benefit to templates. However, all work papers must meet the required standard.

A hardcopy of workpaper files should be retained in the Town’s record-keeping system and in accordance with the *General Destruction Authority for Local Government Records*, as determined by the State Records Office.

Reporting

The Internal Audit Function is to provide the findings and recommendations of internal audits to the Audit and Risk Committee at the end of each audit. Each report is to include a response from the relevant senior manager of the Town. Weaknesses and areas for improvement identified during the course of an audit should be documented within a finding’s summary document or alternatively within the draft internal audit report. The

internal audit report should consider the following:

1. Findings are rated by likelihood and consequence in line with those defined within the Town's risk management framework.
2. Findings, recommendations and proposed actions should be discussed with management and relevant staff before the finalisation of the report. The Internal Audit Function must ensure that it listens objectively to any concerns expressed by auditees, discuss alternative solutions and resolve in a professional manner any arising conflicts with auditees. Consideration should be given to practicality and cost versus benefit, however independence and objectivity must be maintained as audit issues are to be reported in an appropriate and transparent manner.
3. Management should complete within the draft report, proposed actions designed to address the identified issues, the individual to complete the action and the due date.
4. Proposed actions should be reviewed by the Internal Audit Function to ensure that the proposed action will adequately address the issue.
5. If the action is not adequate then discussions should be held with the relevant Manager and an alternative action discussed.
6. Generally the draft report and findings will only be given to relevant Managers and staff responsible for the area and/or completion of the actions however they will be provided to the Chief Executive Officer and C-Suite where requested or where the Internal Audit Function believes it is required.
7. The final internal audit report will be reviewed by the Chief Executive Officer and reported to Audit and Risk Committee.

Monitoring

The Internal Audit Function is to establish an ongoing monitoring system to follow up the Town's progress in implementing corrective actions. Agreed actions are monitored as follows:

1. Low rated actions are reported to the Town's Chief Executive Officer through C-Suite meetings.
2. Medium rated actions and above are reported to the Chief Executive Officer and the Town's Chiefs and then to Audit and Risk Committee and Council.
3. Follow up should be performed by the Internal Audit Function with an emphasis on overdue items or close to their due date. Updates of actions are requested from management after the report has been through Council.

The Internal Audit Function is to ensure that the Audit and Risk Committee is advised at each of the committee's meetings of the internal audit activities completed during that quarter, progress in implementing the annual work plan and progress made implementing corrective actions.

Professional standards of conduct

Employees involved with the Internal Audit Function must comply with the Town's *Code of Conduct for Employees*.

Internal and External auditors must also comply with the Code of Ethics for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

Schedule 1 – Internal audit planning considerations

The Internal Audit Function may consider the following matters when planning its activities as part of either the formulated three-year Internal Audit Program and annual work plans that are to be adopted by Council, through the Audit and Risk Committee:

Risk

Risk management

Review and advise:

- if the Town has in place a current and appropriate risk management framework that is consistent with the Australian risk management standard
- whether the Town's risk management framework is adequate and effective for identifying and managing the risks the Town faces, including those associated with individual projects, programs and other activities
- if risk management is integrated across all levels of the Town and across all processes, operations, services, decision-making, functions and reporting
- of the adequacy of risk reports and documentation, for example, the Town's risk register and risk profile
- whether a sound approach has been followed in developing risk management plans for major projects or undertakings
- whether appropriate policies and procedures are in place for the management and exercise of delegations
- if the Town has taken steps to embed a culture which is committed to ethical and lawful behaviour
- if there is a positive risk culture within the Town and strong leadership that supports effective risk management
- how the Town's risk management approach impacts on the Town's insurance arrangements
- of the effectiveness of the Town's management of its assets
- of the effectiveness of business continuity arrangements, including business continuity plans, disaster recovery plans and the periodic testing of these plans.

Internal controls

Review and advise:

- whether the Town's approach to maintaining an effective Internal Audit Function, including use of external parties such as contractors and advisors, is sound and effective
- whether the Town has in place relevant policies 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 the Town's monitoring and review of controls is sufficient
- if internal and external audit recommendations to correct internal control weaknesses are implemented appropriately.

Compliance

Review and advise of the adequacy and effectiveness of the Town's compliance framework, including:

- if the Town has appropriately considered legal and compliance risks as part of the Town's risk management framework
- how the Town manages its compliance with applicable laws, regulations, policies, procedures, codes, and contractual arrangements
- whether appropriate processes are in place to assess compliance.

Fraud and corruption

Review and advise of the adequacy and effectiveness of the Town's fraud and corruption prevention framework and activities, including whether the Town has appropriate processes and systems in place to capture and effectively investigate fraud-related information.

Financial management

Review and advise:

- if the Town is complying with accounting standards and external accountability requirements
- of the appropriateness of the Town's accounting policies and disclosures
- of the implications for the Town of the findings of external audits and performance audits and the Management responses and implementation of recommendations
- whether the Town's financial statement preparation procedures and timelines are sound
- the accuracy of the Town's annual financial statements prior to external audit, including:
 - management compliance/representations
 - significant accounting and reporting issues
 - the methods used by the Town 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 the Town's report is consistent with signed financial statements
- if the Town'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
- if policies and procedures for management review and consideration of the financial position and performance of the Town are adequate
- if the Town's grants and tied funding policies and procedures are sound.

Governance

Review and advise of the adequacy of the Town’s governance framework, including the Town’s:

- decision-making processes
- implementation of governance policies and procedures
- reporting lines and accountability
- assignment of key roles and responsibilities
- committee structure
- reporting and communication activities
- information and communications technology (ICT) governance
- management and governance of the use of data, information and knowledge.

Improvement

Strategic planning

Review and advise:

- of the adequacy and effectiveness of the Town’s integrated, planning and reporting (IP&R) processes
- if appropriate reporting and monitoring mechanisms are in place to measure progress against objectives
- whether the Town is successfully implementing and achieving its IP&R objectives and strategies.

Service reviews and business improvement

Review and advise:

- if the Town 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
- how the Town can improve its service delivery and the Town’s performance of its business and functions generally

Performance data and measurement

Review and advise:

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

Version History

Version	Action	Date	Authority	Resolution number	Report number
1	Adopted		Council		