

# Annexure A

## Model Internal Audit Charter<sup>43</sup>

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The Internal Audit functions of NSW agencies are required to have a charter that is consistent with the content of the 'model charter'. The Chief Audit Executive is required to review, in consultation with the Accountable Authority and the Audit and Risk Committee, their existing Internal Audit Charter against this model. In doing so it is important that each agency consider carefully its particular circumstances, as there may be additional agency specific requirements that must also be addressed.

The purpose of this Internal Audit Charter is to address the role, responsibilities, authorisation, activities and reporting relationships of the Internal Audit function. The charter should be reviewed on a regular basis to ensure that it is consistent with changes in the financial, risk management and governance arrangements of the agency, and reflects developments in Internal Audit professional practices.

### Introduction

The [Accountable Authority] has established the [name of internal audit unit] as a key component of the [agency]'s governance framework.

This charter provides the framework for the conduct of the internal audit function in the [agency] and has been approved by the [Accountable Authority] taking into account the advice of the Audit and Risk Committee.

### Purpose of internal audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an agency's operations. It helps an agency accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.<sup>44</sup>

Internal audit provides an independent and objective review and advisory service to:

- provide assurance to the [Accountable Authority], and the Audit and Risk Committee, that the [agency]'s financial and operational controls, designed to manage the agency's risks and achieve the entity's objectives, are operating in an efficient, effective and ethical manner, and
- assist management in improving the agency's business performance.

### Independence

Independence is essential to the effectiveness of the internal audit function. Internal audit activity shall be independent, and internal auditors shall be objective in performing their work. Internal auditors shall have an impartial, unbiased attitude and avoid any conflicts of interest.

The internal audit function has no direct authority or responsibility for the activities it reviews. The internal audit function has no responsibility for developing or implementing procedures or systems and

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<sup>43</sup> This Model Internal Audit Charter is a modified version of the model charter set out in the Australian National Audit Office (ANAO) Better Practice Guide *Public Sector Internal Audit: An Investment in Assurance and Business Improvement*. Copyright Commonwealth of Australia reproduced by permission.

<sup>44</sup> As defined by the International Standards for the Professional Practice of Internal Auditing (IIA) (2017). Where relevant, sections of this Charter also incorporate other elements of the International Standards for the Professional Practice of Internal Auditing.

does not prepare records or engage in original line processing functions or activities [except in carrying out its own functions].

The internal audit function is responsible on a day to day basis to the Chief Audit Executive.

The internal audit function, through the Chief Audit Executive, reports functionally to the Audit and Risk Committee on the results of completed audits, and for strategic direction and accountability purposes, and reports administratively to the [Accountable Authority]<sup>45</sup> to facilitate day to day operations. The Chief Audit Executive has direct access to the Accountable Authority to discuss audit and risk issues when required.

The following dual reporting line is prescribed where the dotted line represents the 'administrative' reporting line and the bold line represents the 'functional' reporting line:



\*Note: Internal audit is responsible for providing assurance to the Accountable Authority and the Audit and Risk Committee on the effectiveness of the risk management framework. However, all agencies are encouraged to nominate a CRO who is responsible for the oversight and promotion of risk management within the agency, designing the agency's risk management framework and for the day-to-day activities of embedding the framework in the agency. The CRO or risk management function should report to either the Accountable Authority or a direct report to the Accountable Authority, such as a member of the executive with responsibility for governance or planning, so that independence of risk management from line management is maintained.

### Authority and confidentiality

Internal auditors are authorised to have full, free and unrestricted access to all functions, premises, assets, personnel, records, and other documentation and information that the Chief Audit Executive considers necessary to enable the internal audit function to meet its responsibilities.<sup>46</sup> When responding to requests, agency staff and contractors should cooperate with the internal audit function and must not knowingly mislead the internal audit function or wilfully obstruct any audit activity.

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

All internal audit documentation is to remain the property of the audited [agency], including where internal audit services are performed by an external third party provider.

<sup>45</sup> Where a Shared Arrangement has been established in compliance with the *Internal Audit and Risk Management Policy for the General Government Sector*, the appropriate Accountable Authority should be identified.

<sup>46</sup> Subject to any overriding legislative restrictions on information.

## **Roles and responsibilities**

The internal audit function shall evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

In the conduct of its activities, the internal audit function will 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 cost-consciousness, self-assessment and adherence to high ethical standards.

Internal audit activities will encompass the following areas:

**Audit activities** including audits with the following orientation:

### *Risk Management*

- evaluate the effectiveness, and contribute to the improvement, of risk management processes
- provide assurance to the Accountable Authority and the ARC on the effectiveness of the risk management framework including the design and operational effectiveness of internal controls
- provide assurance that risk exposures relating to the agency's governance, operations, and information systems are correctly evaluated, including:
  - reliability and integrity of financial and operational information
  - effectiveness, efficiency and economy of operations and
  - safeguarding of assets
- evaluate the design, implementation and effectiveness of the agency's ethics-related objectives, programs and activities
- assess whether the information technology governance of the agency sustains and supports the agency's strategies and objectives.

### *Compliance*

- compliance with applicable laws, regulations and Government policies and directions.

### *Performance improvement*

- the efficiency, effectiveness and economy of the entity's business systems and processes.

## **Advisory services**

The internal audit function can advise the [agency]'s management on a range of matters including:

### *New programs, systems and processes*

- providing advice on the development of new programs and processes and/or significant changes to existing programs and processes including the design of appropriate controls.

### *Risk management*

- assisting management to identify risks and develop risk treatment and monitoring strategies as part of the risk management framework

### *Fraud and corruption control*

- evaluate the potential for the occurrence of fraud and how the agency manages fraud risk
- assisting management to investigate fraud, identify the risks of fraud and develop fraud prevention and monitoring strategies
- develop, implement and maintain a fraud and corruption control framework to prevent, detect and manage fraud and corruption.

## **Audit support activities**

The internal audit function is also responsible for:

- managing the internal audit function
- assisting the Audit and Risk Committee to discharge its responsibilities
- monitoring the implementation of agreed recommendations
- disseminating across the entity better practice and lessons learnt arising from its audit activities.

### **Scope of internal audit activity**

Internal audit reviews may cover all programs and activities of the [agency] together with associated entities, as provided for in relevant business agreements, memorandum of understanding or contracts. Internal audit activity encompasses the review of all financial and non-financial policies and operations.

### **Standards**

Internal audit activities will be conducted in accordance with this Charter, the Internal Audit and Risk Management Policy for the General Government Sector and with relevant professional standards including International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

In the conduct of internal audit work, internal audit staff will:

- comply with relevant professional standards of conduct
- possess the knowledge, skills and technical proficiency relevant to the performance of their duties. This includes consideration of current activities, trends and emerging issues, to enable relevant advice and recommendations
- be skilled in dealing with people and communicating audit, risk management and related issues effectively
- exercise due professional care in performing their duties.

### **Relationship with 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.

### **Planning**

The Chief Audit Executive will prepare a risk-based annual internal audit work plan in a form and in accordance with a timetable agreed with the Audit and Risk Committee.

### **Reporting**

The Chief Audit Executive will report to each meeting of the Audit and Risk Committee on:

- audits completed
- progress in implementing the annual audit work plan, and
- the implementation status of agreed internal and external audit recommendations.

The internal audit function will also report to the Audit and Risk Committee at least annually on the overall state of internal controls in the [agency] and any systemic issues requiring management attention based on the work of the internal audit function [and other assurance providers].

### **Administrative arrangements**

Any change to the role of the Chief Audit Executive [and, where the internal audit function uses an outsourced service delivery model, the external service provider] will be approved by the [Accountable Authority] in consultation with the Audit and Risk Committee.

The Chief Audit Executive will arrange for an internal review, at least annually, and a periodic independent review, at least every five (5) years, of the efficiency and effectiveness of the operations of the internal audit function. The results of the reviews will be reported to the Audit and Risk Committee who will provide advice to the Accountable Authority on those results.

**Review of the charter**

This charter will be reviewed at least annually by the Audit and Risk Committee. Any substantive changes will be formally approved by the [Accountable Authority] on the recommendation of the Audit and Risk Committee.