

Internal Audit Charter

August 2011

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Version History

Version	Author	Approved by	Date Approved	TRIM ref:
1.0	Gary Humphrys	Commission	March 2008	
2.0	Alison Smith	Commission	04.09.09	
3.0	Alison Smith	ARMC	28.07.09	D/09/048624-1 (ARMC Minutes)
4.0	Steve Ward	Endorsed by ARMC Commission	10 August 2011 October 2011	D/11/038228

1 Purpose and Context of Charter

- 1.1 The Internal Audit Charter provides the functional and organisational framework within which Internal Audit operates. This document sets out the nature, role, status, authority and responsibility of Internal Audit.
- 1.2 This document should be read in conjunction with the Audit and Risk Management Committee Charter.
- 1.3 This Charter has been developed and revised in the context of the following:
 - *Financial Accountability 2009*;
 - *Financial and Performance Management Standard 2009*;
 - Queensland Treasury's *Audit Committee Guidelines: Improving Accountability and Performance*, December 2009; and
 - *International Professional Practices Framework, Institute of Internal Auditors, January 2009*.
- 1.4 Division 5 of the *Financial and Performance Management Standard 2009* (Standard) describes the requirements for Internal Audit and audit committees.

Section 29 of the Standard provides that each statutory body must establish an internal audit function if directed by the appropriate Minister or the statutory body considers it appropriate to establish the function.

Section 29 further provides that a statutory body that has established an internal audit function must develop and implement systems for ensuring the internal audit function operates efficiently, effectively and economically.

Section 30 of the Standard requires that the internal audit function of a statutory body must operate under an internal audit charter.

Division 5 of the standard also sets out requirements in relation to the internal audit charter, planning and reports by the internal audit function, consideration of reports and, relationship with authorised auditors.

- 1.5 The *International Professional Practices Framework for Internal Audit* came into effect on 1 January 2009. This framework sets out the following mandatory standard in relation to Internal Audit Charters:

The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.

Definition: The definition of internal audit set out in the International Professional Practices Framework is:

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

2 Objectives of Internal Audit

- 2.1 Internal Audit's primary objective is to provide an independent and objective assurance to the Commission, via the Audit and Risk Management Committee (ARMC), on the state of risks, internal controls and organisational governance and to provide management with recommendations to enhance current systems, processes and practices.
- 2.2 Internal Audit assist the Chief Executive Officer (CEO) and the Commission to accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of business risk management, control and governance processes.
- 2.3 The risk management and internal control systems and governance frameworks encompass all policies, processes, practices and procedures established by management or the Commission to provide reasonable assurance¹ that:
- established corporate objectives and strategies are achieved;
 - risk exposure is identified and adequately monitored and managed;
 - resources are acquired economically, adequately protected and efficiently and effectively managed;
 - significant financial, managerial and operating information is accurate, relevant, timely and reliable; and
 - there is an adequate level of compliance with policies, standards, procedures and applicable laws and regulations.

In addition, a review (including systems reviews) might highlight opportunities for improving management control and the identification of the Commission's risk profile. These will be communicated to the appropriate level of management through the normal reporting process.

3 Independence

- 3.1 Internal Audit must be, and must be seen to be independent of the activities and processes it appraises in order to ensure it is able to perform its duties in an objective manner and to provide impartial advice to management and the Commission.
- 3.2 Staff of any Government agency or commercial organisation contracted to supply internal audit services have no line responsibility or authority over any of the activities or operations they review and are not authorised to:

¹ Any review or evaluation of a system of controls will never provide absolute assurance. Procedures which are adequate at the time of the review may become inadequate due to changed conditions or because the degree of compliance subsequently deteriorates. Accordingly, audit assessments can provide no assurance that breaches of a system of control or loss (whether through fraud, misappropriation or other failure) will not occur in the future.

- perform any operational duties for the organisation except within the contracted Internal Audit program;
- direct the activities of any employee not employed by the supplier of internal audit services; and
- engage in any other activity which could compromise their objectivity.

3.3 The chief audit executive of any Government agency or commercial organisation contracted to supply internal audit services to the Queensland Water Commission (QWC) must provide the ARMC with annual confirmation, in writing, of the organisational independence of the internal audit activity.

4 Authority and Accountability

4.1 Auditors from any Government agency or commercial organisation contracted to supply internal audit services to the QWC are required to report to the ARMC. The ARMC oversees any tendering processes related to the contracting out of internal audit services and makes recommendations to the Commission regarding the appointment or dismissal of Internal Audit suppliers.

Internal Audit responsibilities include:

- Seeking confirmation of the proposed direction for Internal Audit (ie. strategy) ;
- discussing and setting objectives, scope, timing and resourcing of Internal Audit activity (ie. annual plan);
- regularly advising of progress against plan and of any significant matters affecting the achievement of the annual work program; and
- reporting on key risk and internal control issues arising from Internal Audit activity.

In QWC these responsibilities are undertaken by a contracted third party supplier of internal audit services.

4.2 The chief audit executive of any Government agency or commercial organisation contracted to supply internal audit services to the QWC must have direct access to the Chair of the ARMC and vice versa.

The chief audit executive will report administratively to the CEO and functionally to the ARMC.

5 Access

5.1 Contracted Internal Audit suppliers have full, free and unrestricted access to all records, documentation and physical property as may be required to fulfil their responsibilities, including the strategies, policies and priorities established by the Commission and senior management.

- 5.2 Contracted Internal Audit suppliers also have the authority to seek any information they require to fulfil their responsibilities from any officer, employee, consultant or contractor related to the Commission or Department of Environment and Resource Management officer providing support for the internal audit function of QWC under a Service Level Agreement.
- 5.3 QWC employees are expected to make themselves available and provide such information and explanations as are required for the conduct of Internal Audit work.

6 Coverage and Reporting

- 6.1 Contracted Internal Audit services will normally include, but are not restricted to, the following types of activity:
- risk management and control monitoring, review and advisory services;
 - risk-based business process reviews;
 - ad hoc special project request from the CEO, the Commission or ARMC;
 - special investigative reviews of frauds;
 - financial, operational, procedural and compliance reviews; and
 - systems appraisals and reviews including, information systems reviews.
- 6.2 Allocation of internal audit resources is based on an annual internal audit plan that takes into account:
- qualitative risk assessments of operations performed in consultation with management;
 - Commission strategy and business objectives;
 - any special tasks or projects requested by the CEO, the Commission or the ARMC, having regard to the internal audit service provider's primary responsibilities;
 - discussion with and input from the CEO; and
 - discussion with and input from the Commission's external auditor.
- 6.3 Some examples of the factors considered in assessing risk exposure are:
- the adequacy of risk management practices within the Commission generally;
 - the extent of compliance with, relevance of, and financial effect of established policies, plans, procedures, laws and regulations;

- the extent to which resources and interests are accounted for and safeguarded from losses of all kinds, such as inefficient administration, poor value for money or fraud;
 - the suitability, reliability and integrity of financial and other management information and the means used to identify, measure, classify and report such information;
 - the security and integrity of information systems, including systems under development, to ensure that controls over data processing and associated operational procedures offer adequate protection against error, fraud and loss; and
 - the follow-up actions taken by management to remedy previously identified significant risk and internal control exposures.
- 6.4 The annual internal audit plan will be developed by the contracted suppliers of internal audit services in conjunction with the CEO and supported by the General Manager, Strategic Governance and Risk. The plan will include consideration of recommendations from the Queensland Audit Office (QAO) and any other external auditors. The internal audit plan is approved by the ARMC.
- 6.5 The ARMC may make alterations to the annual internal audit plan.
- 6.6 Any proposed changes, other than delays of fewer than 3 months to the agreed timing of a review, to the current year internal audit program must be approved by the ARMC. Similarly any proposed changes to the annual internal audit plan must be approved by the ARMC.
- 6.7 Before a review is started, an audit plan will be agreed with the contracted Internal Audit supplier and the relevant management team. This audit plan will include the terms of reference and audit scope document that forms the basis for detailed work programs.
- 6.8 An Internal audit summary report will be issued for every review performed. All reports issued will contain at a minimum:
- the scope of the review;
 - relevant administrative information (for example title of the review, area under review, reviewer, date of the review);
 - a grading of the issues/findings raised (ie. significant, important, minor); and
 - a summary of the control issues/finding that arose during the review, together with appropriate recommendations and agreed management actions.

- 6.9 All draft reports will be discussed with management before the report is issued as a final report to the ARMC. These management discussions include discussions with:
- line managers, ie. the QWC General Manager or Director accountable for the system, process or control that was the subject of the internal audit review;
 - the senior executive accountable for oversight of the Commission's annual internal audit program; and
 - the CEO.
- 6.10 All final internal audit reports will be provided to the ARMC at each quarterly meeting accompanied by complete details of all significant findings in the final reports. A verbal update of any internal audit reviews still in progress will also will be reported to the ARMC at each quarterly meeting.
- 6.11 The ARMC may request that a contracted supplier of internal audit services undertake additional reviews to address specific operational problems or issues that will not form part of the agreed annual internal audit program. In these instances, the Chair may ask the supplier to issue a memorandum rather than a report.
- 6.12 QWC will also maintain a register of issues/findings raised during audit reviews. The resolution of these will be monitored and, if required, reviews may be scheduled to follow up on the closure of issues.
- 6.13 The status of issues/findings previously reported to the ARMC will be reported at each ARMC meeting.

7 Relationship with Assurance Functions and External Audit

- 7.1 In order to achieve cost-effective and efficient coverage, the internal audit providers need to liaise regularly with the external auditor, including:
- meeting with them to discuss and co-ordinate work to minimise duplication of effort;
 - providing them with copies of all reports arising from Internal audit activity; and
 - providing access to all internal audit working papers and documentation that may assist the external auditor in carrying out their duties
- 7.2 It is the sole responsibility of the external auditor to determine the extent to which they can rely on the reports, working papers and other documentation for their external audit or other purposes.
- 7.3 Internal Audit service providers will consider the work performed by the other assurance functions when planning for each review.

8 Operating Standards

8.1 Internal Audit service providers are expected to promote the highest possible professional standards and service levels. In doing so, they will have regard to:

- The procedures and standards for internal audit within their own organisation;
- The *International Professional Practices Framework for Internal Audit* and any other standards for the professional practice of internal auditing issued by the Institute of Internal Audit – Australia; and
- any other standards relevant to the maintenance of their professional standing.

8.2 In addition, Internal Audit service providers are expected to:

- have a broad knowledge of operations;
- remain informed about significant issues affecting or likely to affect those operations, including statutory requirements and State Government initiatives, and be responsive to changing organisational needs;
- maintain their technical competence and build on their professional qualifications and skills through continuing education, which may include membership and participation in professional bodies, participation in research projects, and attendance at relevant conferences, seminars, external courses and in-house training programs;
- exercise honesty, objectivity and discipline in the performance of their duties and responsibilities;
- maintain a healthy level of ‘professional scepticism’;
- maintain their independence;
- be prudent in the use of information acquired in the course of their duties and, where necessary, preserve the confidentiality of such information; and
- maintain a constructive relationship with other staff encountered in the course of their duties.

9 Review of Charter

9.1 The Internal Audit Charter is to be reviewed and where necessary updated on an annual basis by the internal audit service provider and the ARMC to ensure it remains consistent with its strategy and objectives, relevant legislative requirements and guidelines.

9.2 Any review of this charter should take into consideration the impact of any service agreement with a third party for the provision of technical audit services.

10 Approval of Charter

10.1 The Charter is to be endorsed by the Chair of the ARMC and approved by the Commissioner.

10.2 Following approval, the Charter will be published on the Commission’s intranet and web site to promote awareness of this governance mechanism within the Commission.

This Charter is endorsed by the Chair of the Audit and Risk Management Committee and approved by the Commissioner.

Peter Dowling.....
Chair

Mary Boydell.....
Commissioner

Dated.....

Dated.....