



Standing Committee (Audit and Risk)

Item 11.3 refers

Attachment 4

**Terms of Reference
– Internal Audit**

Creating opportunities



Terms of Reference – Internal Audit

Introduction

The City of Belmont's Terms of Reference for internal audit defines the activity's purpose, authority and responsibility.

This Terms of Reference (commonly referred to as an internal audit charter) adopts best practice to support stakeholders' objectives.

Best practice documents referenced include:

- The Office of the Auditor General's report "Western Australian Public Sector Audit Committees – Better Practice Guide", tabled to parliament on 25 June 2020. This report was prepared as a resource for State and local government audit committees.
- The Government of Western Australia, Department of Treasury, Treasurer's Instructions, Part XII, Internal Audit.
- The Institute of Internal Auditors International Professional Practices Framework.
- ASX Corporate Governance Principals and Recommendations, Principal 7, Recognise and Manage Risk, 4th Edition February 2019.

The Institute of Internal Auditors (IIA) International Professional Practices Framework includes the following mandatory guidance for members, which are adopted by this internal audit activity.

- Core Principals for the Professional Practice of Internal Auditing.
- Definition of Internal Auditing.
- Code of Ethics.
- International Standards for the Professional Practice of Internal Auditing.

These mandatory requirements are supported by non-mandatory, but recommended guidance statements and other papers.

The City of Belmont's Standing Committee (Audit and Risk) has its own Terms of Reference which provides for oversight of external audit, internal audit, financial management, legislative compliance and risk management. Those terms of reference provide for reviewing internal audit's planning, resourcing, and reporting.

Mission

The mission of internal audit is to enhance and protect organisation value by providing risk based and objective assurance, advice and insight.

Purpose

International Standard for the Professional Practice of Internal Auditing (IS) 1000, requires the purpose, authority and responsibility for the internal audit activity to be formally defined in an internal audit charter, which is presented to senior management and the board for approval.

Please note when international standards use the term “board” (as above) the meaning in this Terms of Reference is Council and Standing Committee (Audit and Risk).

The IIA defines internal auditing as “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.”

The internal audit will provide assurance and consulting activities as requested by the Chief Executive Officer (CEO) and the Standing Committee (Audit and Risk). Assurance audits will include financial, compliance, performance and information technology audits. Consulting services may include counsel, advice, facilitation and training.

Authority

The internal audit activity is authorised to access City of Belmont records, personnel and physical properties and employees should provide assistance as reasonably requested.

The internal audit activity has no line management authority outside its own activities.

Responsibilities

The internal audit activity will adopt all IIA standards and key standards are listed below.

1. IS 1110 requires the internal audit activity to be independent.

To promote independence the Internal Auditor has dual reporting relationships and is functionally accountable to the CEO and the Standing Committee (Audit and Risk). The following documents will be submitted to the CEO for approval and the Standing Committee (Audit and Risk) for a recommendation to Council for endorsement.

- Terms of Reference – Internal Audit.
 - Annual and longer term risk based internal audit plans.
 - Internal audit activity budget and resource plans.
2. IS 1300 requires the internal audit activity to develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and includes internal and external assessments. External assessments must be conducted at least once every five years.
 3. IS 2010 requires the internal activity establish a risk based plan to determine the priorities of the activity consistent with the organisation goals.

The internal audit activity will produce agile annual plans and more static three year forward plans. Agile annual plans will allow changes to priorities as risks change during the year. Changes will be approved initially by the CEO.

Audit planning will use assurance mapping to identify other assurance functions coverage and residual high risk gaps.

4. IS 2020 requires the internal audit activity to communicate plans and resource requirements to senior management and the board for approval, including impact of resource limitations.
5. IS 2060 requires the internal activity to report periodically to senior management and the board on performance relative to plan.
6. IS 2100 requires the internal audit activity to evaluate and contribute to the improvement of the organisation's governance, risk management and control processes using a systematic, disciplined, and risk based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.
7. IS 2120 requires the internal audit activity to evaluate the effectiveness and contribute to the improvement of risk management processes. Risk exposures include:
 - Achievement of the organisation's strategic objectives.
 - Reliability and integrity of financial and operational information.
 - Effectiveness and efficiency of operations and programs.
 - Safeguarding assets.
 - Compliance with laws, regulations, policies, procedures and contracts.
8. IS 2200 requires the internal audit activity to develop and document a plan for each engagement, including the engagements objectives, scope, timing and resource allocations.

Audit scope includes consideration of relevant systems, records, personnel and physical property.

9. IS 2240 requires the internal audit activity to develop and document work programs that achieve engagement objectives.
10. IS 2440 requires the internal audit activity to communicate results to appropriate parties.

Final engagement audit reports will be issued to the CEO and the Standing Committee (Audit and Risk) as directed.

11. IS 2500 requires internal audit to establish and maintain a system to monitor the disposition of results communicated to management.

Management should reply to internal audit reports within 30 days and the audit log of outstanding recommendations reported to the CEO and the Standing Committee (Audit and Risk) as directed.

Approved by

Chief Executive Officer

Date

Endorsed by

Standing Committee (Audit and Risk)

Date

Endorsed by

Council – Ordinary Council Meeting

Date

REVIEW HISTORY

| Description of Change | Date Revised | Date Approved by CEO | Next Review Due |
|-----------------------|--------------|----------------------|-----------------|
| Document creation | | | |
| Document review | | | |