

 City of Mount Gambier	<b>COUNCIL POLICY</b> <b>INTERNAL AUDIT</b>	Version No:	1.0
		Issued:	12 December 2023
		Next Review:	December 2027

## 1. INTRODUCTION:

1.1 Internal controls are essential to support the City of Mount Gambier (COMG) to carry out its activities in an efficient and orderly manner to achieve its objectives, to ensure adherence to legislation and council policies, to safeguard the Council's assets, and to secure the accuracy and reliability of council records.

## 2. PURPOSE:

2.1 **Legislative Compliance** - In compliance with Section 99, 125A and 126 of the Local Government Act 1999 (Act) and best practice principles in internal audit, this Council Policy seeks to provide:

- **Definition** - Of internal audit as it applies to the COMG;
- **Internal Audit Principles** - A clear set of internal audit principles;
- **Roles and Responsibilities** - The roles and responsibilities for multiple stakeholder groups including: Elected Members, the Audit and Risk Committee, the CEO, Executive Leadership Team (ELT) team and the Financial Services team and broader functions of Council.

2.2 **Internal Audit Function** - The purpose of this Policy is, through the establishment of an internal audit function, to support better decision-making through a good understanding of the adequacy and effectiveness of the systems of internal controls to mitigate Council's risks.

## 3. SCOPE:

The scope of this Council Policy applies to the following:

3.1 **Programs/Activities** - Internal audit reviews cover all programmes and activities of the Council together with associated entities as provided for in relevant business agreements, memorandum of understanding and contracts.

3.2 **Review** - Internal audit activity encompasses the review of all financial and non-financial policies and operations as required.

## 4. DEFINITIONS:

Key Term – Acronym	Definition
<b><i>Internal Auditing</i></b>	Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve Council's operations. It helps the Council accomplish objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
<b><i>Internal Control</i></b>	Can be broadly defined as a process supported by the Organisation's policies, procedures and practices which collectively provide a reasonable assurance the achievement of objectives in the following categories: <ul style="list-style-type: none"> <li>• Effectiveness and efficiency of operations;</li> <li>• Reliability and accuracy of financial data; and</li> </ul>

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Key Term – Acronym	Definition
	<ul style="list-style-type: none"> <li>Compliance with policies, procedures, legislation and regulations.</li> </ul>
<b>Internal Control Framework</b>	Refers to policies, practices and procedures of Council which are designed to provide assurance that the activities and functions of council are carried out in an effective and efficient manner, with records being maintained accurately and the assets of council being protected and secured.
<b>Audit Type/Scope of Audits</b>	<p><b>Audit Type:</b></p> <ul style="list-style-type: none"> <li>Operational;</li> <li>Strategic</li> <li>Compliance/Legislative;</li> </ul> <p><b>Audit Scope</b> - May include but is not limited to the following:</p> <ul style="list-style-type: none"> <li>Financial;</li> <li>Human Resources;</li> <li>Assets;</li> <li>Information Technology; and</li> <li>Special investigations.</li> </ul>

## 5. ROLES AND RESPONSIBILITIES:

Title	Roles and Responsibilities
<b>Council</b>	Council has ultimate responsibility that appropriate policies, practices and procedures of internal control are implemented and maintained in accordance with the relevant sections of the Local Government Act 1999.
<b>Audit &amp; Risk Committee</b>	<p>Is responsible as per the current terms of reference, the Committee shall:</p> <p><b>12.4.1 Monitor and Review</b> - <i>The effectiveness of the Council's internal audit function in the context of the Council's overall risk management system.</i></p> <p><b>12.4.2 Program</b> - <i>Consider and make recommendation on the program of the internal audit function and the adequacy of its resources and access to information to enable it to perform its function effectively and in accordance with the relevant professional standards.</i></p> <p><b>12.4.3 Reports</b> - <i>Review all reports on the Council's operations from the internal auditors.</i></p> <p><b>12.4.4 Findings and Recommendations</b> - <i>Review and monitor management's responsiveness to the</i></p>

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Title	Roles and Responsibilities
<p><b>Audit &amp; Risk Committee</b></p>	<p><i>findings and recommendations of the Internal Auditor; and</i></p> <p><b>12.4.5 Direct Access</b> - Provide the internal Auditor with the right of direct access to the Mayor of the Council and to the Chairperson of the Committee.</p> <p><b>Local Government Act 1999 From 30/11/23 Section 126 subsection 4</b> - The functions of a council audit and risk committee include —</p> <p>(g) —</p> <p>(i) if the council has an internal audit function—</p> <p>(A) providing oversight of planning and scoping of the internal audit work plan; and</p> <p>(B) reviewing and commenting on reports provided by the person primarily responsible for the internal audit function at least on a quarterly basis; or</p> <p>(ii) if the council does not have an internal audit function, reviewing and commenting on an annual report provided by the chief executive officer in relation to the policies and processes adopted by the council to evaluate and improve the effectiveness of its internal control practices and procedures; and</p> <p>(h) reviewing and evaluating the effectiveness of policies, systems and procedures established and maintained for the identification, assessment, monitoring, management and review of strategic, financial and operational risks on a regular basis;</p>
<p><b>Chief Executive Officer</b></p>	<p><b>Local Government Act 1999 From 30/11/23 Section 99</b></p> <p>(ia) to ensure that effective policies, systems and procedures are established and maintained for the identification, assessment, monitoring, management and annual review of strategic, financial and operational risks;</p> <p>(ib) to report annually to the relevant audit and risk committee on the council's internal audit processes;</p> <p><b>Local Government Act 1999 From 30/11/23 Section 125A</b></p> <p>The chief executive officer of a council that has an internal audit function must, before appointing a person to be primarily responsible for the internal audit function, or assigning such responsibility to an employee of the council, consult with the relevant audit and risk committee on the appointment or assignment of responsibility.</p>

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Title	Roles and Responsibilities
	<p><b>Local Government Act 1999 From 30/11/23 Section 126</b></p> <p><i>(ii) if the council does not have an internal audit function, reviewing and commenting on an annual report provided by the chief executive officer in relation to the policies and processes adopted by the council to evaluate and improve the effectiveness of its internal control practices and procedures; and</i></p>
<b>Employees</b>	are accountable for assisting internal auditors in the conduct of their work through the provision of accurate and timely information to audit requests, providing responses to audit reports and updates on the implementation status of actions arising from audits.
<b>Manager Financial Services</b>	<p>is responsible for the development and continuous improvement of the following:</p> <ul style="list-style-type: none"> <li>• <b>Systems and Processes</b> - Council's internal audit systems and processes;</li> <li>• <b>Plans</b> - the development of internal audit plans,</li> <li>• <b>Resources</b> - the engagement and management of internal audit providers (internal and external);</li> <li>• <b>Monitoring</b> - the monitoring of the implementation status of audit actions; and</li> <li>• <b>Reporting</b> - to the Chief Executive Officer and Audit and Risk Committee regarding the Council's internal audit function.</li> </ul> <p><b>Local Government Act 1999 From 30/11/23 Section 125A</b></p> <p><i>(2) Despite any other law or instrument to the contrary, the person primarily responsible for the internal audit function— (a) must ensure that any reports they prepare relating to the internal audit function are provided directly to the audit and risk committee; and (b) may report any matters relating to the internal audit function directly to the audit and risk committee.</i></p>

## 6. POLICY STATEMENTS:

**6.1 Legislative Compliance** - In compliance with Sections 99, 125A and 126 of the Local Government Act 1999 (Act), Council should refer to this policy (Policy) when undertaking the internal audit function.

**6.2 Internal Audit Program** - The individual audits proposed for selection within the program will be selected adopting a risk-based approach considering the following:

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- **Benchmarking** - Other SA Council policies and internal audit plans.
- **Strategic Risk Rating** - Activities will be selected based on inherent and residual risk rating and Council's risk appetite (once adopted);
- **Status/Strategic Work Plan (SWP)**- Work either currently being undertaken or planned in the current SWP will be considered when including activities in the proposed internal audit program;
- **External Audit** - Reports and management letters;
- **Scheme/LGRS Audits** - Feedback from audits;
- **Internal Financial Controls Action Plan** - Controls/activities as referenced by the "Better Practice Model" and further where action plans have been developed following self-assessment reviews; and
- **Emerging issues** - issues that arise outside the formalised work plan but are considered of high risk or in response to an emerging matter.

### 6.3 Independence:

- **Independence** - is essential to the effectiveness of the internal audit function.
- **Manager Financial Services (MFS) (or such equivalent position)** - Is responsible, on a day to day basis, for the internal audit function of Council. In achieving operational independence of the internal audit function the CEO has ensured that the MFS has dual reporting lines. These reporting lines require that the MFS must:
  - **Administrative Reporting** - Report administratively to the CEO to facilitate day to day operations of the internal audit function and;
  - **Strategic Direction** - Report to the Audit and Risk Committee for strategic direction and accountability of the internal audit function.
- **Finance Activities** - Where the MFS has responsibility for an activity that is scheduled for review, the Manager Organisational Development will manage the internal audit to ensure that the independence of the function is not compromised.
- **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 does not prepare records or engage in original line processing functions or activities (except as noted below).
- **Other Functional Responsibilities** - The work of internal audit does not in any way relieve managers of their responsibilities for the development, implementation and maintenance of management control systems in their areas.
- **External Auditors** - Current external auditors not to be engaged for any internal audit work.

### 6.4 Authority and Confidentiality:

- **Access To Information** - Subject to compliance with Council's security policies, internal auditors are authorised to have full, free and unrestricted access to all functions, premises, assets, personnel, records, and other documentation or information that the MFS or the CEO considers necessary to enable the internal auditors to undertake the audit assignment.

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- **Confidentiality** - 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 MFS is responsible and accountable for maintaining the confidentiality of the information the internal auditors receive during the course of their fieldwork.
- **Consultation/Disclosure** - Where necessary, MFS may consult with and disclose audit matters to other entities (e.g. ICAC, OPI etc.) and the external auditors, normally this will only occur where these matters affect other entities, or as directed by the Audit and Risk Committee or the CEO.

#### 6.5 Standards:

- **Professional Standards** - Internal audit activities will be conducted in accordance with intent of relevant professional standards deemed appropriate and applicable including:
  - **International Professional Practices Framework (IPPF)** - issued by the Institute of Internal Auditors;
  - **Accounting Bodies** - Standards relevant to internal audit issued by the Australian Society of Certified Practising Accountants and the Institute of Chartered Accountants in Australia;
  - **Statement on Information Systems Auditing Standards** - issued by the Information Systems and Control Association; and
  - Standards issued by Standards Australian and the International Standards Organisation.

### 7. RELATIONSHIP TO INTERNAL CONTROLS AND RISK MANAGEMENT FRAMEWORK:

- 7.1 **Risk Management Framework** - This council policy incorporates principles of risk management while application of the policy will occur consistent with the council Risk Management Framework.
- 7.2 **Independent Appraisal** - Internal audit provides an independent appraisal of key internal controls within the organisation. These controls are key mitigations of inherent risk and therefore inform the risk management process and the calculation of residual risk.
- 7.2 **Line of Defence** - Monitoring activities form an important component of Council's lines of defence for managing risk. The Better Practice Model – Internal Financial Controls for South Australian Councils identifies monitoring activities as being within the second line of defence for Councils, with the internal audit function as the third (As shown below).

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Source: SALGFMG Better Practice Model –Internal Financial Controls for South Australian Councils published April 2017

## 8. TRAINING / EDUCATION:

- 8.1 It is the responsibility of Council Administration to provide adequate training and support for staff.
- 8.2 Training will be provided to relevant staff as part of the induction process and be refreshed as and when required.

## 9. REPORTING:

- 9.1 **Executive Leadership Team (ELT Reporting)** - An information report will be provided to ELT on a quarterly basis that details progress compared to the plan and the scope of individual projects.
- 9.2 **Audit and Risk Committee** - A number of reports will be brought to the Audit and Risk Committee to include the following:
  - **Individual Internal Audit Reports** - Will be brought to the Council Executive and Audit and Risk Committee as required to detail the scope of the internal audit prior to commencement of the audit activity, with a further report to be brought to the Council Executive and Audit and Risk Committee to provide the internal audit report that will detail the findings and agreed actions.
  - **Quarterly Internal Audit Updates** – A report that will provide an overview of the internal audit function at least on a quarterly basis.
  - **CEO Annual Report** - on the council's internal audit processes, reporting as required with regard to the internal audit plan and proposed scope of each internal audit.

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#### 10. REVIEW & EVALUATION:

This policy will be reviewed:

- every four years; or
- the frequency dictated in legislation; or
- earlier in the event of changes to legislation or related policies and procedures; or
- if deemed necessary by the General Manager Corporate and Regulatory Services.

#### 11. AVAILABILITY OF COUCIL POLICY:

This Policy will be available for inspection at Council's principal office during ordinary business hours and on the Council's website [www.mountgambier.sa.gov.au](http://www.mountgambier.sa.gov.au). Copies will also be provided to interested members of the community upon request, and upon payment of a fee in accordance with Council's Schedule of Fees and Charges.



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File Reference:	AF18/53
Applicable Legislation:	Local Government Act 1999 Sections 99, 125A, 126
Reference: Strategic Plan - Beyond 2015	Goal 5 Our Commitment
Related Policies:	Risk Management Framework Internal Controls Policy F225 Fraud, Corruption, Misconduct and Maladministration Prevention Policy
Related Procedures:	Better Practice Model - Financial Internal Control for South Australian Councils (SALGFMG) TBC
Related Documents:	Internal Audit Plan 2024-2026

#### DOCUMENT DETAILS

Responsibility:	General Manager Corporate and Regulatory Services
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