

Internal Audit Charter



CCC EXHIBIT

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1 THE CHARTER

The Internal Audit Charter establishes the purpose, authority and responsibility conferred by the Director-General (as the Accountable Officer) on the Internal Audit Unit for the conduct of internal audit activities.

The effectiveness of DJAG's Internal Audit Unit is supported by the Internal Audit Charter (the Charter), pursuant to section 30 of the *Financial and Performance Management Standard 2009*. The Charter outlines the purpose, authority and responsibility conferred by the Director-General on the Internal Audit Unit for the conduct of Internal Audit activities.

2 LEGISLATIVE FRAMEWORK

Mandatory requirements applicable to Internal Audit functions within the Queensland Public Sector are contained in the:

- *Financial Accountability Act 2009* (the Act);
- *Financial and Performance Management Standard 2009* (the Standard); and
- *Financial Accountability Regulation 2009* (the Regulation).

The Internal Audit function is established pursuant to section 29 of the Standard. The Director, Internal Audit (Head of Internal Audit) is appointed pursuant to section 78 of the Act.

3 PURPOSE OF INTERNAL AUDIT

Internal Audit is an integral part of the corporate governance framework by which the Department maintains effective systems of accountability and control at all levels.

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

- Provide assurance to the Director-General that the Department's financial and operational controls, designed to manage risks and achieve Departmental objectives, are operating efficiently, effectively and economically; and
- Evaluate and improve the effectiveness of the Department's performance in achieving its objectives.

The existence of the Internal Audit function does not diminish the responsibilities of the Director-General and DJAG management to implement and maintain effective systems of internal control.

4 AUTHORITY AND CONFIDENTIALITY

To facilitate the conduct of the Internal Audit Plan, staff from the Internal Audit Unit will:-

- have full, free and unrestricted right of access to all premises and assets of the Department and the right to inspect all correspondence, files, records, accounts, data and other documents and forms held by the Department as are necessary to perform their duties properly and meet its responsibilities;
- have the right to require all staff of the Department to supply such information, explanations and documentation as is necessary for the proper performance of their duties; and
- receive full assistance from Departmental officers whilst carrying out their duties.

In accordance with the *Information Privacy Act 2009*, *Public Sector Ethics Act 1994* and the Code of Conduct for the Queensland Public Service, information acquired for the purpose of audit activities must not be used for any purposes other than the proper performance of audit activities. Internal Auditors are responsible and accountable for maintaining the confidentiality of information received during audit engagements. Unless an officer has a legal or professional duty to disclose information, an Internal Auditor must not convey any information that is not for public record relating to the affairs of the Department.

5 RESPONSIBILITY AND SCOPE OF INTERNAL AUDIT

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Department's governance, risk management, and internal control processes as well as the quality of performance in carrying out assigned responsibilities to achieve the Department's objectives. Internal Audit assurance services provided include:

- Financial and Compliance Audits;
- Performance and Business Improvement Audits;
- Information Systems Audits;
- Consulting Activities; and
- Project Consultation.

Accordingly, DJAG Internal Audit Unit's:

- Primary role is to provide objective and relevant assurance services to the Accountable Officer consistent with the Strategic and Annual Audit Plan and risk profile; and
- Secondary role is to provide objective and relevant advisory / consulting services, without assuming management responsibility.

The Internal Audit Unit assesses activities of the Department, which includes:

- Assessing whether the objectives of the Department are being achieved economically, efficiently and effectively, and in compliance with all relevant laws, standards, Departmental policies and procedures;
- Conducting reviews and/or providing advice regarding information technology, information systems, and the introduction of new computerised financial information systems, or those undergoing significant change;
- Evaluating the reliability and integrity of information and the means used to identify, record, measure, classify and report such information;
- Evaluating the means of safeguarding assets and verifying the existence of such assets;
- Monitoring and evaluating the effectiveness of governance processes;
- Monitoring and evaluating the effectiveness of the Department's risk management processes;
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the Department;
- Undertaking special and ad-hoc operations at the request of the Director-General, management, or the Audit and Risk Management Committee; and
- Reviewing and evaluating systems, procedures and internal controls and recommending improvements to existing processes, where appropriate.

6 INDEPENDENCE AND OBJECTIVITY

Independence¹ and objectivity² are essential to the effectiveness of the Internal Audit function.

The Internal Audit Unit has independent status within the Department. For that purpose, the Director Internal Audit reports to, and has direct access to the Director-General. The Director, Internal Audit reports both operationally and administratively to the Director-General and shall meet regularly to provide an update on audits in progress, emerging audit issues and advise the progress of any major project work being undertaken by the Unit.

¹ Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. (Source: Institute of Internal Auditors, *Standard 1100 Independence and Objectivity*)

² Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. (Source: Institute of Internal Auditors, *Standard 1100 Independence and Objectivity*)

The Internal Audit function is monitored by the Audit and Risk Management Committee and may meet separately and privately with the Chair and/or members as required.

Internal Audit will not implement internal controls, develop procedures, implement systems, prepare records or engage in any other activity that may impair professional judgement. The Internal Audit activity will remain free from interference by any element in DJAG, including matters of audit selection, scope, procedures, frequency, timing or report content. Internal Auditors must have an impartial, unbiased attitude and avoid any conflict of interest, actual or perceived.

Impairment to organisational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.

Internal auditors must refrain from assessing specific operations for which they were previously responsible. However, auditors may provide consulting services relating to operations for which they had previous responsibilities.

Assurance engagements for functions over which the Director, Internal Audit has responsibility must be overseen by a party outside the internal audit activity.

The internal audit activity may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement.

If independence or objectivity is impaired in fact or in appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

7 PROFICIENCY AND DUE PROFESSIONAL CARE

Engagements must be performed with proficiency and due professional care.

Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities.

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor.

Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development.

8 PROFESSIONAL STANDARDS

Audit activities will be conducted in accordance with relevant professional standards including:

- standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors; and
- IS Audit and Assurance Standards for the conduct of Information Systems and Technology audits issued by ISACA.

In the conduct of internal audit work, Internal Auditors will:

- Comply with relevant professional standards of conduct;
- Be skilled in liaising with people and communicating audit matters effectively;
- Provide the Director Internal Audit with information concerning actual or perceived conflicts of interest and bias.

At all times, Internal Auditors will be responsible for the on-going management and delivery of assigned audit engagements, including the preparation of high-quality, clear and succinct audit reports delivered on time and within budget.

9 AUDIT AND RISK MANAGEMENT COMMITTEE

In accordance with section 35 of the Standard, the Director-General has established an Audit and Risk Management Committee (ARMC). The ARMC forms part of the governance framework that ensures the Internal Audit Unit operates effectively, efficiently and economically. The Committee shall act as a forum to examine Internal Audit's activities including audit plans, the result of audits and the status of corrective actions taken by management.

At each ARMC meeting, the Director Internal Audit will report on:

- Audits completed;
- Progress against the Annual Internal Audit Plan;
- The status of the implementation of agreed Internal Audit recommendations; and
- The performance of the Internal Audit function.

10 REPORTING RELATIONSHIPS

In accordance with the Act, the Director Internal Audit's responsibilities, at a minimum, include:

- i. Provision of assessment and evaluation of the effectiveness and efficiency of departmental financial and operation systems, reporting processes and activities; and
- ii. Provision of assistance in risk management and identifying deficiencies in risk management.

In situations where management has accepted a level of risk that may be unacceptable to the Department, the Director Internal Audit must discuss the matter with senior management. Where the matter has not been resolved, the Director Internal Audit must communicate the matter to the Committee. This approach is consistent with that contained within *International Auditing Standard 2600 – Communicating the Acceptance of Risks*.

11 AUDIT PLANNING

The Internal Audit Unit is responsible for developing and implementing DJAG's Strategic Audit Plan and Annual Audit Plan.

In accordance with the section 31 of the *Financial and Performance Management Standard 2009*, Internal Audit shall prepare:

- a Strategic Audit Plan that provides an overall strategy for the Internal Audit function for a period of at least one year; and
- an Annual Audit Plan that details the audits intended to be conducted by the Internal Audit function during the year.

The Audit Plans will be developed based on a prioritisation of the audit universe using a risk-based methodology. Internal Audit shall consult with:

- the Director-General;
- the Audit and Risk Management Committee;
- Executive and line management of the areas to be audited under the plan; and
- the Queensland Audit Office.

The Director-General shall approve both the Strategic and Annual Audit Plans.

Any significant deviation from the approved Annual Audit Plan will be communicated to the Audit and Risk Management Committee through periodic progress reports.

12 REPORTING

At the conclusion of each audit a *Management Report* will be prepared and issued to management in accordance with section 32 of the *Financial and Performance Management Standard 2009*. The report will present the:

- audit objective and scope;
- facts, findings, conclusions and recommendations;
- management comments about the audit; and
- timetable for taking corrective action by identified responsible officers.

Reports will be distributed to management within fifteen (15) working days of the completion of field work and the review of all working papers. Management will have the opportunity to identify and correct any errors of fact or omission, and provide comment about the proposed report.

Management will have ten (10) days working days from receipt of the draft report to provide a response. Internal Audit will review the management response and finalise the audit report. Management's comments will be included in the final report.

Pursuant to section 33 of the Standard, the Director-General will consider all audit reports issued by Internal Audit via an *Executive Report*. This report contains a high level overview of the audit findings and recommendations and includes agreed remedial actions, risk ratings and priorities.

All reports relating to Departmental operations will be approved by the Director-General. Once approved, copies of the report will be distributed to senior managers, line managers, members of the ARMC and the QAO.

In addition, Internal Audit will report to the Director-General and / or ARMC on the following matters:

- Significant risk exposures and control issues, governance issues, and other matters requested by the Director-General or the ARMC; and
- Analysis of patterns, trends and systemic issues arising from Internal Audit work.

13 RELATIONSHIP WITH THE QUEENSLAND AUDIT OFFICE

Internal and external audit activities should, where possible, be coordinated to help ensure the adequacy of overall audit coverage and to minimise duplication of effort.

Periodic contact between internal and external audit is undertaken to discuss matters of mutual interest.

Working papers and audit reports prepared by Internal Audit are available for review by authorised Queensland Audit Office (QAO) auditors.

To assist Internal Audit in discharging its responsibilities, Departmental business units are to provide Internal Audit with copies of all relevant correspondence received from and / or distributed to the QAO.

14 RELATIONSHIP WITH OTHER INTERNAL AUDIT UNITS

During the audit planning phase and at other times as required, Internal Audit may consult with other agencies' Internal Audit Units in order to obtain the most cost-effective use of audit resources.

15 QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

In accordance with *International Auditing Standard 1300 – Quality Assurance and Improvement Program*, the Director Internal Audit is required to develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The Director Internal Audit will communicate with the ARMC regarding the quality assurance and improvement program.

This program will include both internal and external assessments of Internal Audit activities in accordance with the IIA's *International Standards for the Professional Practice of Internal Auditing* and *Code of Ethics*.

Internal assessments include ongoing monitoring of the performance of the internal audit activity and periodic reviews performed through self-assessment. Further, the work of each Internal Auditor shall be subject to review and feedback by the Director, Internal Audit as part of the ongoing quality assurance framework. Results of internal assessments will be reported to ARMC.

External assessments should be conducted at least once every five years by a qualified, independent reviewer or review team external to the Department. The Director, Internal Audit will implement appropriate follow-up actions to ensure that recommendations made in the report and action plans developed are implemented in a reasonable timeframe.

16 CONTRACTING OF INTERNAL AUDIT SERVICES

Internal Audit services may be provided to an agency under a negotiated Service Level Agreement. Any arrangement to provide such services will be based on full-cost recovery and negotiated between the agency and the Director Internal Audit prior to the commencement of the audit. An audit report will be distributed upon completion of the audit and tabled with senior management of the agency.

17 REVIEW OF CHARTER

The *Internal Audit Charter* is subject to an annual review or as needs arise.

Any amendments shall be reviewed and endorsed by the Audit and Risk Management Committee and approved by the Director-General.