



Department of the Premier and Cabinet
Government of Western Australia

INTERNAL AUDIT CHARTER

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1. INTRODUCTION

The necessity for the establishment of an Internal Audit Charter, that is not inconsistent with them, arises from the statutory requirements of the Financial Administration and Audit Act 1985 (FAAA) and the supporting Treasurer's Instructions (TI's).

The TI's define Internal audit as; *"---an independent appraisal activity within an organisation for the review of operations as a service to management. It is a control which functions by measuring and evaluating the effectiveness of other controls.---"*

The TI definition, above, dates from October 1987 and as far as is known there is no intention to change it in the near future.

However, TI 1206 requires Internal Audit to be conducted in a manner consistent with the conceptual standards of the Institute of Internal Auditors Inc (the Institute); in June 1999, the Institute approved the following new definition:

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the 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 Institute has broadened the scope of the industry standard definition to incorporate concepts found necessary of emphasis after the business failures of the late 1980's and early 1990's.

The TI's provide that as long as the basic internal audit requirements are met the role and focus of Internal Audit can be extended or integrated with other management review processes.

It is within this context that the responsibility to the Director General for, among other things, the development and management of policy, planning and standards for the conduct and implementation of internal audit operations across the Department has been integrated with the duties of the Manager, Corporate Governance and Review, (the Manager).

Internal Audit services to the Department are to be contracted. The Department will use a single firm (primary contract) to deliver the core services; however, it reserves the right to use other contractors from time to time to conduct other specific audits or reviews.

The Manager, Corporate Governance and Review is responsible for the management of the audit contracts and co-ordination of the audits. He also has the obligations of the "officer in charge" as required by TI 1204.

2. SCOPE AND OBJECTIVES

Internal Audit is to encompass all of the outcomes, outputs and corporate performance matters of the Department. It is to provide for audits of key functions and operations as well as other reviews as determined by the Director General.

The objective is to ensure that the Director General is provided with adequate timely information, advice or assurances in respect to compliance and the effectiveness, efficiency and economy of the Department's operations.

Consistent with TI 1202 audits and reviews will provide the Director General with assurances in regard to:

- the accounting and financial management information and control systems and activities;
- such other of the operational and management activities or information and control systems as stipulated by the Director General in order to provide:
 - assurances with regard to compliance with relevant statutory and administrative requirements
 - regular advice as to whether or not key controls are in place and are being observed;
 - advice as to whether public and other property, moneys and resources are safeguarded and being effectively, efficiently and economically used;
 - advice as to the reliability and integrity of management information including key performance indicators;
 - management oriented evaluation of operations and activities in respect to the achievement of corporate outcomes, outputs and objectives;
 - advice on action to improve operational effectiveness, efficiency and economy; and
 - periodical reviews of implementation and action agreed in previous reports.

3. ACTIVITIES

Activities, consistent with TI 1203, shall include as a minimum, the following:

- periodic compliance testing of key controls over accounting and financial management information and control systems;
- determining whether systems of internal control are adequate and are functioning effectively and economically;
- ascertaining the extent to which public and other property, money and resources under the control of the Department are accounted for, utilised and safeguarded from losses of all kinds;
- assessing the relevance, reliability and adequacy of management and key performance indicator data;
- promoting effective control at reasonable cost;
- assessing the value obtained from moneys expended and evaluating alternative future expenditure;
- recommending changes in procedures and systems to improve efficiency, and prevent waste and extravagance;
- ascertaining the extent of compliance with statutory and administrative requirements;
- determining whether established policies, plans and procedures are effective in securing their intended purpose;
- advising on the appropriateness of systems of control and other accounting and operational matters;
- special investigations, appraisals, inspections and examinations as required by the Director General;
- reviewing management systems and operations to assess the extent to which corporate outcomes, outputs and objectives are achieved, and the adequacy of controls over activities leading to such achievement; and
- drawing attention to any failure to take prompt remedial action in regard to any identified shortcomings.

4. METHODOLOGY

Internal Audit services to the Department, in the main, are to be contracted.

The Manager, Corporate Governance and Review, in respect to Internal Audit:

- is responsible to the Director General for the development and management of policy, planning and standards for the conduct and implementation of internal audit operations across the Department;
- facilitates reviews and audits of the Departments operations, including the engagement, evaluation and management of contracts and staff;
- has the obligations of the "officer in charge" as required by TI 1204; and
- undertakes strategic reviews and special investigations for the Director General.

In respect to contracted internal audit services these will be met through a non-exclusive primary contract which is to address core audit requirements. Secondary contracts may be let for other specific audits and reviews.

The core audit requirements include:

- Financial audits;
- Contract management audits;
- Management performance audits;
- Operational audits;
- Compliance and substantive audits;
- Control self-assessment services;
- Information systems audits.

The contractor is required to:

- in conjunction with the Manager, Corporate Governance and Review, prepare the three year Strategic Audit Plan;
- annually assist the Manager, Corporate Governance and Review with the development of the annual audit plan;
- scope, plan and conduct each audit as approved by the Manager, Corporate Governance and Review; and
- provide ad-hoc audit advisory services as required.

These plans do not preclude any other audits or reviews as considered necessary by the Director General.

The Director General, at his discretion, may vary the strategic and annual plans and change priorities. The Internal Audit Committee is to be advised of any variations at the meeting following the variation.

Within the context of and consistent with prescribed standards (TI 1206) the contractor is to use an audit methodology which is appropriate for the system or activity to be reviewed.

The contractor is to prepare an audit plan documenting the intended approach and objectives, milestones and the resource requirements for each audit to be carried out. The plan is to be submitted to the Manager, Corporate Governance and Review for endorsement.

The Manager, Corporate Governance and Review is to consult and liaise with the relevant manager in respect to the audit plan and secure their agreement.

This is a consultative process only the Manager, Corporate Governance and Review, the Director General's discretion notwithstanding, retains the right to determine the final scope and objectives of the audit.

Plans and quotations for the conduct of unscheduled audits or reviews are to be approved by the Director General.

In the first instance, during the course of an audit or review the auditor is to discuss any queries of a material nature with the Manager, Corporate Governance and Review for his assessment of the most appropriate course of action.

On completion of each audit and having consulted the relevant manager, a draft audit report is to be sent to the relevant manager for comment and completion of the action plan in respect to any recommendations. The manager is to provide a written response within ten (10) days of receipt of the draft.

The manager's comments and completed action plan is to be incorporated into the final report.

A copy of the draft report is also to be sent to the Manager, Corporate Governance and Review.

The final report documenting the results of the audit, recommendations and the agreed action plan is to be sent to the Manager, Corporate Governance and Review for distribution to the Director General, the relevant Divisional Head and the relevant manager.

In the interests of fairness, equity and natural justice, if a manager disputes the auditor's findings or recommendations the auditor is to attempt to resolve the matter with the manager.

If there is no consensus the auditor is to advise the Manager, Corporate Governance and Review who, at his discretion, is to discuss the matter with the relevant manager or the relevant Divisional Head.

If there is no resolution the auditor's report is to be submitted accompanied with the written objection from the relevant manager.

The relevant manager must submit the written objection to the Manager, Corporate Governance and Review within five (5) working days of being requested to do so by the Manager, Corporate Governance and Review.

If no written objection is received within the prescribed timeframe the report is to be submitted to the Director General.

The reports are to include:

- the scope and objectives of the audit or review;
- a presentation of the findings and conclusions, supported by documented evidence including:
 - documentation of any consultation with the relevant manager or other sources of information, skills or expertise used to assist with the execution of the audit or review; and
 - a statement of any significant information which has been omitted and the grounds for such omission.
- recommendations including the diagnosis of causes of problems;
- the relevant manager's comments, action plans and where applicable written objections; and
- identification of areas that may require further audit or review.

The Manager, Corporate Governance and Review shall follow up each report after a reasonable period of time and report to the Director General on the progress against the action plan and any failure to respond to audit recommendations.

5. INDEPENDENCE

Consistent with the requirements of TI 1204:

- the Manager, Corporate Governance and Review (the Manager) shall have independent status in the Department, remain operationally independent of any division or unit of the Department, and report on operational matters directly to the Director General;
- the Manager shall receive operational directions only from the Director General or the Audit Committee;
- the Manager shall forthwith draw to the Director General's attention all matters which in the Manager's opinion warrants reporting in this manner;
- the Manager shall have no executive or management powers, responsibilities or duties, except those associated with the Governance and Review role;
- while the Manager may provide advice and consult on departmental governance, risk management, audit and performance matters he shall not be involved in day to day operational matters; and
- the Manager is to maintain objectivity at all times and will not be responsible for the management of or the development, implementation or maintenance of operational or administrative systems and processes.

For administrative matters only the Manager is to report to the Assistant Director General, Corporate and Business Services.

6. AUTHORISATION & ACCESS

The Manager, Corporate Governance and Review and the Internal Audit Contractors shall have full and free access to all Department activities, public and other moneys, accounts, documentation, records, information, information systems and technologies, communication systems and technologies, public and other property, and personnel at any reasonable time, subject to security arrangements.

All Departmental officers, contractors and volunteers shall provide the Manager, Corporate Governance and Review and the Internal Audit contractors with assistance, by way of information, advice or explanation on such matters which may be the subject review.

7. STANDARDS

Audits are to be conducted in a manner consistent with the concepts of the "Standards for Professional Practice of Internal Auditing" and Statements on Internal Auditing Standards (issued by the Institute of Internal Auditors) except where and to the extent that these standards may be inconsistent with Treasurer's Instructions.

Where applicable, regard shall be had for auditing standards, practice statements and guidelines issued by the Australian Society of Certified Practising Accountants, Institute of Chartered Accountants and Information Systems Audit and Control Association, and any other Australian and International Auditing Standards.

The internal audit function itself may be audited, as the Auditor General sees fit.

External audit activities remain the prerogative of the Auditor General, and internal audit activities shall not extend to the co-ordination of internal and external audits. Internal audit shall consult with officers of the Office of the Auditor General to reduce duplication of audit activity.

All due care, audit skill and judgement are to be used in gathering, evaluating and reporting information and evidence.

The Manager, Corporate Governance and Review and the Audit Contractors are to keep confidential, except for communication as authorised by the Director General, any information, findings, recommendations or other matter acquired during or resulting from audits, reviews or investigations.