

# Internal Audit Charter

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## 1. Introduction

The Auditor-General has established the internal audit function of the Audit Office of NSW as a key component of the Audit Office's governance framework.

This charter provides the framework for the conduct of the internal audit function in the Audit Office and has been approved by the Auditor-General, taking into account the advice of the Audit and Risk Committee.

## 2. Purpose of internal audit

Internal audit is an independent, objective assurance and advisory service 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 governance, risk management, control processes.<sup>1</sup>

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

- provide assurance to the Auditor-General and the Audit and Risk Committee that the Audit Office's financial and operational controls, designed to manage the Audit Office's risks and achieve its objectives, are operating in an efficient, effective, compliant and ethical manner, and
- assist management in improving the Audit Office's business performance.

## 3. Vision for the internal audit function

'Our vision for the internal audit function is that it is a trusted source of insight and assurance to management and those charged with governance about our system of internal control, programs and operations, which in turn supports the Audit Office's accountability for its use of public resources'.

## 4. Ethics and professionalism

Internal auditors will apply and uphold the following principles outlined in Domain II – Ethics and Professionalism of the Global Internal Audit Standards:

- demonstrating integrity
- maintaining objectivity
- demonstrating competency
- exercising due professional care
- maintaining confidentiality.

The standards require that internal auditors adhere to the organization's ethical expectations. Consistent with this, internal auditors are expected to adhere to the Audit Office's Ethical and Lawful Framework, which includes the Code of Conduct, Statement of Business Ethics, and policies related to conflicts of interest and professional independence.<sup>2</sup> The Audit Office's values form a core part of our Ethical and Lawful Framework.

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<sup>1</sup> As defined by the Global Internal Audit Standards, Institute for Internal Auditors (IIA) (2024).

<sup>2</sup> In the case of any inconsistency, the requirements of the Audit Office's Ethical and Lawful Framework, which aligns with the NSW Public Service Commission's Code of Conduct, takes precedence over ethical and professional behaviour requirements in the IIA's Global Internal Audit Standards.

## 5. Chief Audit Executive

The term Chief Audit Executive refers to the person who heads the internal audit function and is responsible for providing strategic leadership, managing and ensuring the quality performance of internal audit services, including in accordance with the Global Internal Audit Standards.

At the Audit Office, the Chief Audit Executive is the relevant director in the Governance unit with responsibility for the internal audit function.

## 6. Independence and objectivity

Independence is essential to the effectiveness of the internal audit function. Internal audit activity must be independent, and internal auditors must be objective in performing their work. Internal auditors must have an impartial, unbiased attitude and avoid any conflicts of interest.

The internal audit function is responsible on a day-to-day basis to the Chief Audit Executive.

The internal audit function, through the Chief Audit Executive, reports functionally to the Audit and Risk Committee on the results of completed audits, and for strategic direction and accountability purposes. The Chief Audit Executive reports administratively to the Auditor-General to facilitate day-to-day operations. The Chief Audit Executive has direct access to the Auditor-General to discuss audit and risk issues when required.

The Chief Audit Executive will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Chief Audit Executive determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to the Auditor-General and to the Audit and Risk Committee.

The Auditor-General will ensure that the internal audit function is appropriately positioned and adequately resourced, taking into account any recommendations made by the Audit and Risk Committee. The Chief Audit Executive will determine and manage the necessary human, financial and technological resources required to implement the annual internal audit plan and the strategic plan for the internal audit function.

Internal auditors are to have no direct operational responsibility or authority over any of the activities audited. Where the person occupying the role of Chief Audit Executive or persons delegated to perform internal audit activity, are responsible for an activity to be audited, the audit will be conducted, managed and reported independently of these people. In these cases, the Auditor-General will nominate an independent person to oversee the audit.

Internal auditors will:

- disclose any impairment of independence or objectivity, in fact or appearance, to the Chief Audit Executive in the first instance
- exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined
- make balanced assessments of all available and relevant facts and circumstances
- take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgements.

## 7. Authority and confidentiality

Internal auditors are authorised to have full, free and unrestricted access to all functions, premises, assets, personnel, records, and other documentation and information that the Chief Audit Executive

considers necessary to enable the internal audit function to meet its responsibilities<sup>3</sup>. When responding to requests, Audit Office staff and contractors should cooperate with the internal audit function and must not knowingly mislead the internal audit function or *wilfully* obstruct any audit activity.

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 Chief Audit Executive and individual internal audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

All internal audit documentation is to remain the property of the Audit Office, including where internal audit services are performed by an external third-party provider

## 8. Roles and responsibilities

The internal audit function must evaluate and contribute to improving governance, risk management, and control processes using a systematic and disciplined approach.

In the conduct of its activities, the internal audit function will play an active role in:

- developing and maintaining a culture of accountability and integrity
- facilitating the integration of risk management into day-to-day business activities and processes
- promoting a culture of cost-consciousness, self-assessment and adherence to high ethical standards.

## 9. Internal audit activities

Internal audit activities will encompass the following areas:

### a) Audit activities

Audit activities including audits with the following orientation:

#### 9.1.1 Risk management

- evaluate the effectiveness of, and contribute to the improvement, of risk management processes
- provide assurance to the Auditor-General and the Audit and Risk Committee on the effectiveness of the risk management framework including the design and operational effectiveness of internal controls
- provide assurance that risk exposures relating to governance, operations, and information systems are correctly evaluated, including:
  - reliability and integrity of financial and operational information
  - effectiveness, efficiency and economy of operations
  - safeguarding of assets
- evaluate the design, implementation, and effectiveness of the Audit Office's ethics-related objectives, programs, and activities
- assess whether information technology governance of the Audit Office sustains and supports the Audit Office's strategies and objectives.

#### 9.1.2 Compliance

- compliance with applicable laws, regulations and Government policies and directions

#### 9.1.3 Performance improvement

<sup>3</sup> Subject to any overriding legislative restrictions on the provision of information.

- the efficiency, effectiveness, and economy of the Audit Office's business systems and processes

## **b) Advisory services**

The internal audit function can advise the Audit Office's management on a range of matters including:

### **9.2.1 New programs, systems and processes**

- providing advice on developing of new programs and processes and/or significant changes to existing programs and processes including the design of appropriate controls

### **9.2.2 Risk management**

- assisting management to identify risks and develop risk treatment and monitoring strategies as part of the risk management framework

### **9.2.3 Fraud and corruption control**

- evaluating the potential for the occurrence of fraud and corruption and how fraud and corruption risk is managed
- assisting management to investigate fraud and corruption, identify the risks of fraud and corruption and develop fraud and corruption prevention and monitoring strategies
- develop, implement, and maintain a fraud and corruption control framework to prevent, detect and manage fraud and corruption audit support activities.

## **c) Audit support activities**

The Chief Audit Executive manages the internal audit function, and with the support of that function is responsible for:

- assisting the Audit and Risk Committee to discharge its responsibilities
- monitoring the implementation of agreed recommendations
- disseminating across the Audit Office better practice and lessons learnt arising from its audit activities.

## **10. Scope of internal audit activity**

Internal audit reviews may cover all programs and activities of the Audit Office together with associated entities, as provided for in relevant business agreements, memorandum of understanding or contracts. Internal audit activity encompasses the review of all financial and non-financial policies and operations.

## **11. Standards**

Internal audit activities will be conducted in accordance with this Charter, the Internal Audit and Risk Management Policy for the General Government Sector and with relevant professional standards including the Global Internal Audit Standards, issued by the IIA.

In the conduct of internal audit work, internal audit staff will:

- comply with relevant ethical and professional standards of conduct
- possess the knowledge, skills and technical proficiency relevant to the performance of their duties - this includes consideration of current activities, trends and emerging issues, to enable relevant advice and recommendations
- be skilled in dealing with people and communicating audit, risk management and related issues effectively
- exercise due professional care in performing their duties.

The IIA states that while conformance with the requirements of the Global Internal Audit Standards is expected, on occasions conformance may not be possible yet the intent of a standard may still be achieved.<sup>4</sup> The standards allow for conformance strategies that consider the circumstances and conditions that are unique to internal auditing in the public sector, such as the applicability of laws and regulations, the implications of governance and organisational structures, and funding processes.<sup>5</sup>

## 12. Relationship with external audit

Internal and external audit activities will be coordinated to help ensure the adequacy of overall audit coverage and to minimise duplication of effort. Periodic meetings and contact between internal and external audit shall be held to discuss matters of mutual interest and facilitate coordination.

External audit will have full and free access to all internal audit plans, working papers and reports.

## 13. Annual and strategic planning

The Chief Audit Executive will prepare a risk based annual internal audit work plan in a form and in accordance with a timetable agreed with the Audit and Risk Committee.

The Chief Audit Executive will also develop and lead the implementation of a strategy for the internal audit function outlining the vision, objectives and supporting initiatives for the function. The Internal Audit Strategy should align with the expectations of the Auditor-General, Audit and Risk Committee, senior management, and other key stakeholders. It will be periodically reviewed.

## 14. Reporting

The Chief Audit Executive will attend monthly meetings with the Auditor-General regarding:

- the internal audit functions' purpose, authority, and responsibility
- the internal audit functions' plan and performance relative to its plan
- the internal audit functions' conformance with the principles of ethics and professionalism in the Global Internal Audit Standards, and action plans to address any significant conformance issues
- significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by the Audit and Risk Committee
- results of audit engagements or other activities
- resource requirements
- any response to risk by management that may be unacceptable to the Audit Office of NSW.

The Chief Audit Executive will report to the Audit and Risk Committee as scheduled on:

- audits completed
- progress in implementing the annual audit work plan
- the implementation status of agreed internal and external audit recommendations
- the results of the annual internal audit quality assurance and improvement program.

The internal audit function will also report to the Audit and Risk Committee at least annually on the overall state of internal controls in the Audit Office and any systemic issues requiring management attention based on the work of the internal audit function (and any other assurance providers), and adherence to the Internal Audit Strategy.

The Chief Audit Executive is able to have in-camera discussions with the Audit and Risk Committee. The internal audit service provider is separately able to have in-camera discussions with the Audit and Risk Committee.

<sup>4</sup> Institute of Internal Auditors, Global Internal Audit Standards, 2024, p 8.

<sup>5</sup> Institute of Internal Auditors, Global Internal Audit Standards, p 116.

## 15. Administrative arrangements

Any change to the role of the Chief Audit Executive or to the external service provider undertaking the internal audit function will be approved by the Auditor-General in consultation with the Audit and Risk Committee. The Auditor-General will also seek the views of the Audit and Risk Committee when undertaking the performance assessment of the Chief Audit Executive.

## 16. Quality improvement

The Chief Audit Executive will maintain a quality improvement program. This will include arranging for an internal review, at least annually, and a periodic external independent review, at least every five (5) years, of the efficiency and effectiveness of the operations of the internal audit function, and identify any areas for improvement in accordance with IIA standards.

The results of the reviews will be reported to the Audit and Risk Committee who will provide advice to the Auditor-General on those results.

## 17. Review of the charter

This charter will be reviewed at least annually by the Audit and Risk Committee, unless changes in requirements or significant contextual factors warrant an earlier review. Factors that should be taken into account during the review of this charter, and in considering whether an earlier review may be warranted, include:

- changes in the Audit Office's organisation strategy, or significant changes in the maturity of its governance, risk management, and control processes
- changes in key Audit Office policies and NSW Government policies that relate to internal audit and risk management, or other relevant laws and/or regulations
- changes the Audit Office's leadership team or the Chief Audit Executive
- results of internal and external assessments of the internal audit function.

Any substantive changes will be formally approved by the Auditor-General on the recommendation of the Audit and Risk Committee.



## Document information

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<b>Title:</b>	Internal Audit Charter
<b>Owner:</b>	Governance
<b>Person responsible:</b>	Chief Audit Executive
<b>Approver:</b>	Auditor-General
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## Document history

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3.4	13/12/2024	To incorporate updates based on the Internal Audit Strategic Plan, and the new Internal Audit Global Internal Audit Standards.

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