

# Internal Audit Charter

16 March 2022

Version 13

## Document information

<b>Document name:</b>	Internal Audit Charter	<b>Type of document:</b>	Policy
<b>Status:</b>	Active	<b>Version number:</b>	13
<b>Date originally created:</b>	3 March 2010	<b>File reference:</b>	ADM/6182p02
<b>Superseded policy:</b>	N/A	<b>Compliance:</b>	All staff
<b>Related policies/ documents:</b>	TPP20-08 – Internal Audit and Risk Management Policy for the General Government Sector, Audit and Risk Committee Charter, Risk Management Framework	<b>Publication date:</b>	16 March 2022
<b>Review date:</b>	Annually	<b>Policy owner:</b>	Chief Operating Officer
<b>Distribution:</b>	Public	<b>Feedback:</b>	Legal, Governance and Risk Branch

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# 1. Introduction

The Ombudsman has established the internal audit program as a key component of the Office's governance framework.

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

# 2. Purpose of internal audit

Internal audit is 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.

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

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

# 3. Independence

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

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 in carrying out its own functions.

The internal audit function is responsible on a day to day basis to the Chief Audit Executive. Where an internal audit is to be conducted which involves reviewing components under the direct responsibility of the Chief Audit Executive, appropriate measures will be put in place to protect the independence of the internal audit function.

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, and reports administratively to the Ombudsman to facilitate day to day operations. The Chief Audit Executive has direct access to the Ombudsman to discuss audit and risk issues when required.

The following dual reporting line is prescribed where the dotted line represents the 'administrative' reporting line and the bold line represents the 'functional' reporting line:



\*Note: Internal audit is responsible for providing assurance to the Ombudsman and the Audit and Risk Committee on the effectiveness of the risk management framework. The Chief Risk Officer (CRO) is responsible for the oversight and promotion of risk management within the Office, designing the Office’s risk management framework and for the day-to-day activities of embedding the framework in the Office. The CRO reports to the Chief Operating Officer, so that independence of risk management from line management is maintained.

## 4. 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. When responding to requests, 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 Office, including where internal audit services are performed by an external third party provider.

## 5. Roles and responsibilities

The internal audit function shall evaluate and contribute to the improvement of 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 and
- promoting a culture of cost-consciousness, self-assessment and adherence to high ethical standards.

Internal audit activities will encompass the following areas:

**Audit assurance activities** including audits with the following orientation:

### *Risk Management*

- evaluate the effectiveness, and contribute to the improvement, of risk management processes
- provide assurance to the Ombudsman 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 the Office's governance, operations, and information systems are correctly evaluated, including:
  - reliability and integrity of financial and operational information
  - effectiveness, efficiency and economy of operations and
  - safeguarding of assets
- evaluate the design, implementation and effectiveness of the Office's ethics-related objectives, programs and activities
- assess whether the information technology governance of the Office sustains and supports the Office's strategies and objectives.

### *Compliance*

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

### *Performance improvement*

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

### **Consulting advisory services**

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

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

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

#### *Risk management*

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

#### *Fraud and corruption control*

- evaluate the potential for the occurrence of fraud and how the Office manages fraud risk
- assisting management to investigate fraud, identify the risks of fraud and develop fraud 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**

The internal audit function is also responsible for:

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

## 6. Scope of internal audit activity

Internal audit reviews may cover all programs and activities of the 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.

## 7. Standards

Internal audit activities will be conducted in accordance with this Charter policy, the Internal Audit and Risk Management Policy for the General Government Sector and with relevant professional standards including International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

Internal audit will govern itself by adherence to the Institute of Internal Auditors' mandatory guidance, which includes the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The mandatory guidance constitutes the fundamental requirements for the professional practice of internal auditing, and the principles against which to evaluate the effectiveness of Internal Audit performance.

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

- comply with relevant 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.

## 8. 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.

## 9. 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.

## 10. Reporting

The Chief Audit Executive will report to each meeting of the Audit and Risk Committee on:

- audits completed
- progress in implementing the annual audit work plan, and
- the implementation status of agreed internal and external audit recommendations.

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 Office and any systemic issues requiring management attention based on the work of the internal audit function and other assurance providers.

## 11. Administrative arrangements

Any change to the role of the Chief Audit Executive or external service provider will be approved by the Ombudsman in consultation with the Audit and Risk Committee.

The Chief Audit Executive will arrange for an internal review, at least annually, and a periodic independent review, at least every five (5) years, of the efficiency and effectiveness of the operations of the internal audit function. The results of the reviews will be reported to the Audit and Risk Committee, who will provide advice to the Ombudsman on those results.

## 12. Review of the charter

This charter will be reviewed at least annually by the Audit and Risk Committee. Any substantive changes will be formally approved by the Ombudsman on the recommendation of the Audit and Risk Committee.

## 13. Ombudsman approval



Paul Miller  
**NSW Ombudsman**