

INTERNAL AUDIT POLICY



Approved by:	Council (Audit and Risk Subcommittee)		
Sponsor:	Chief Financial Officer		
Department responsible:	Finance		
Date approved:	16 March 2015	Last reviewed:	July 2024
Next review date:	July 2027		

1. PURPOSE

- 1.1. The purpose of this policy is to provide an outline of the Dunedin City Council's (DCC's) commitment to internal audit as a part of overall risk management practices.
- 1.2. This Policy sets out the nature, roles and responsibilities, scope, and authority of internal audit within the DCC.

2. SCOPE

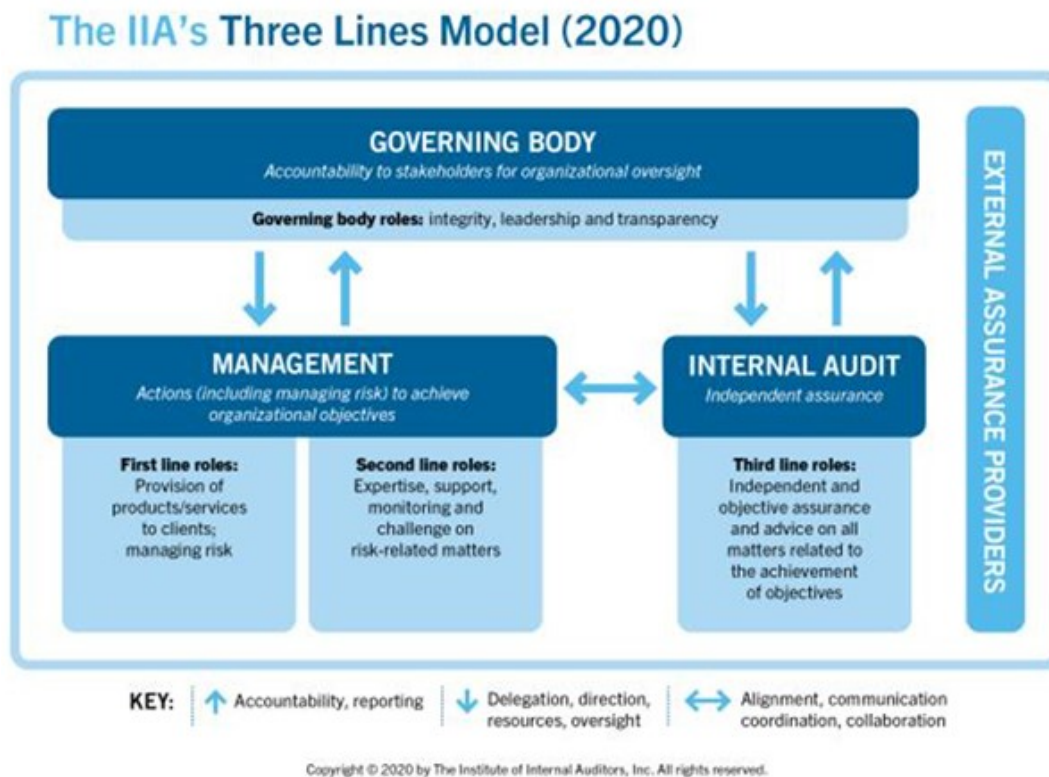
- 2.1 This Policy applies to:
 - a) all employees of DCC, including temporary employees and contractors.
 - b) any person who is involved in the operation of the DCC, including elected members, volunteers, and those people with honorary or unpaid staff status.
 - c) every business department, service, or activity of the DCC.

3. DEFINITIONS

- 3.1 **Internal Auditor:** refers to the organisation, or in-house resource, appointed as Internal Auditor by the DCC.
- 3.2 **Internal audit:** refers to an instance of, or the function of, auditing the internal processes and controls of the Council.
- 3.3 **External Auditor:** refers to the organisation appointed by the Office of the Auditor General to conduct the statutory audits of the DCC's annual report and long-term plan (LTP) / 10 Year Plan.
- 3.4 **Management:** refers to DCC employees that are responsible for supporting audit activities. This can include involvement in scoping/interviewing processes, commenting on observations and findings from the Internal Auditors, implementing audit recommendations by set target dates. This may be members of the Executive Leadership Team, Wider leadership Team or other identified staff.

4. POLICY

- 4.1 The DCC recognises the internal audit function as an important part of the Institute of Internal Auditors three lines model for effective risk management.



- 4.2 The role of internal audit is to provide an independent appraisal of the adequacy and effectiveness of the processes and controls in place for the management of strategic and operational risk.
- 4.3 Internal audit assists with the identification of measures to achieve greater effectiveness, efficiency, and economy and to remedy practices that expose the DCC to risk and vulnerability. It brings a systematic and disciplined approach to evaluating and improving the effectiveness of the DCC's risk management, control, and governance processes.
- 4.4 The appointment or removal of the Internal Auditor will follow the Audit and Risk Subcommittee's recommendation to Council.
- 4.5 The Internal Auditor is accountable to Council via the Audit and Risk Subcommittee.
- 4.6 The Internal Auditor reports to the Audit and Risk Subcommittee of the Council. Communication and liaison will ordinarily be through the Chair of the Audit and Risk Subcommittee, Assurance Manager, or the Chief Financial Officer.
- 4.7 Internal audit will be tendered on a three-year cycle unless unusual circumstances exist.
- 4.8 The Internal Auditor will be required to be independent and provide no other significant advisory services to Council other than for:

- a) The review of policies and procedures, financial and administrative systems, organisational structures, and other related administrative activities.
 - b) The development of control procedures for new or significantly modified departmental manuals or computer-based financial or administrative systems.
 - c) Carrying out a full organisation-wide risk assessment or updating organisational risk assessments as and when required.
- 4.9 The Internal Auditor will have direct access to the Chief Executive Officer and the Audit and Risk Subcommittee of Council whenever required.
- 4.10 There are no restrictions placed upon the scope of internal audit. The Internal Auditor will have access to any records, personnel, or physical property of the DCC and receive whatever information or explanations they consider necessary to fulfil their obligations under the letter of engagement / terms of agreement / memorandum of audit plan.
- 4.11 Internal audit has operational support from the Assurance Manager and members of the Executive leadership Team and strategic support from the Audit and Risk Subcommittee.

Responsibilities of the Audit and Risk Subcommittee

- 4.12 The Audit and Risk Subcommittee (the Subcommittee) is responsible for the development, oversight and modification of internal audit functions, policies, and procedures.
- 4.13 The Subcommittee sets the internal audit work plan in conjunction with the Internal Auditor. This plan shall be informed by organisational risk assessments of the Internal and External Auditors and the need to ensure compliance with DCC policies and relevant legislation.
- 4.14 The Subcommittee recommends the appointment of the Internal Auditor to Council. In discharging this responsibility, due regard will be given to ensuring that the Internal Auditor has personnel who are sufficiently skilled and experienced in the local government sector.
- 4.15 The Subcommittee receives the reports of the Internal Auditor, considers management responses to internal audit recommendations arising from the reports, and monitors the implementation of agreed recommendations.
- 4.16 The decision to set aside any recommendations of the Internal Auditor rests with the Subcommittee.
- 4.17 The Subcommittee shall meet with the Internal Auditor independent of management at least annually.

Responsibilities of Management

- 4.18 The Chief Executive Officer, Chief Financial Officer and Assurance Manager shall assist the Audit and Risk Subcommittee to identify and recommend the scope of internal audit work and shall recommend actions to be taken on the outcomes or findings from such work.

- 4.19 Management is responsible for maintaining internal controls, including setting appropriate policies, and monitoring compliance with these, and maintaining proper accounting records and other appropriate management information to assist with effective stewardship.
- 4.20 Management shall ensure that the internal audit function has:
- a) Operational cooperation from staff throughout the organisation.
 - b) Access to staff, information and systems as requested by the Internal Auditor.
 - c) Direct access and freedom to report to senior management.
 - d) Unrestricted and independent access to the Audit and Risk Subcommittee.
- 4.21 Management must ensure that the capability and capacity exist to implement and monitor internal audit recommendations.

Responsibilities of the Internal Auditor

- 4.22 The Internal Auditor is responsible for carrying out the assignments in the agreed internal audit work plan.
- 4.23 The Internal Auditor will report to Management and the Audit and Risk Subcommittee in accordance with the work plan and agreed audit timetables. Where appropriate the Internal Auditor will initiate contact with the Chief Executive Officer, Chief Financial Officer, Assurance Manager and Chair of the Subcommittee independently of the reporting timeframes.
- 4.24 The Internal Auditor is responsible for conducting its work in accordance with best practice and will have regard to relevant standards and requirements of the Institute of Internal Auditors' International Professional Practices Framework (IPPF) including the International Standards on Auditing New Zealand.
- 4.25 The Internal Auditor is required to carry out the internal audit function in a manner that ensures its integrity, objectivity, confidentiality, and competency are not open to question. They shall comply with all relevant standards of professional behaviour required by the Institute of Internal Auditors NZ Professional and Ethical Standards (IIA Code of Ethics).
- 4.26 The Internal Auditor will make comment and recommendations as to the adequacy of the design, installation, and operation of systems and procedures, and benchmark organisational policies against best practice. The Internal Auditor shall not be held responsible for the performance of any DCC activities or controls that are audited. Nor is it responsible for the design, installation, operation, or control of any DCC procedures or systems.

Relationship with External Auditor and other Regulatory Bodies

- 4.27 The Internal Auditor will coordinate with the External Auditors and others as directed by the Audit and Risk Subcommittee and Management to ensure that duplication of audit work is minimised. This will be accomplished by:
- a) Consideration by the Subcommittee and Management of opportunities for synergies when the internal audit work plan is set.

- b) Provision of the internal audit work plan and the Internal Auditor's reports and other documentation to the External Auditors.
- c) Provision of the External Auditor's management letters, including Management feedback to the Internal Auditor
- d) Exchange of organisational risk assessments.
- e) Access to operational and systems documentation.

Scope of Internal Audit Work

4.28 The Internal Auditor will complete the reviews identified and agreed in the annual internal audit work plan. The work plan will set the scope for each review, which could include:

- a) Reviewing systems established by Management to ensure that major risks to the achievement of the organisation's objectives are being appropriately addressed by the controls inherent in these systems.
- b) Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- c) Assessing compliance with policies, plans, procedures, laws, and regulations that could have a significant impact on operations and reports.
- d) Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets.
- e) Appraising the economy and efficiency with which resources are employed.
- f) Reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals, and whether the operations or programmes are being carried out as effectively and efficiently as planned.
- g) Investigating and reporting on alleged violations of policies and procedures, errors, fraud, or misuse of DCC assets.
- h) Assessing and reporting on the identified organisational and internal control risks to the DCC within the scope of each assignment

4.29 To the extent that the internal audit engagement specifies, the Internal Auditor will provide advice and assistance to the DCC when requested, by serving as a consulting resource for:

- a) The review of policies and procedures, financial and administrative systems, organisational structures, and other related administrative activities.
- b) Carrying out a full organisation-wide risk assessment or reviewing organisational risk assessments as and when required.

Planning and Reporting

- 4.30 The Internal Auditor will work with senior management, the Chief Executive Officer and the Audit and Risk Subcommittee to agree on a three-year internal audit work plan which sets out the recommended scope of internal audit for the period.
- 4.31 The work plan should have due regard to the key areas of internal controls for strategic and operational risk identified within the risk management framework, include monitoring compliance to policies and procedures associated with the Fraud, Bribery and Corruption Prevention Policy, and an appropriate level of forensic audit.
- 4.32 The three-year plan will be reviewed annually and inform an annual work plan. All plans will be developed with reference to the longer-term strategic context for internal audit, be prepared in consultation with senior management, and have regard to the business plans, risks, and strategic outlook of the organisation.
- 4.33 The internal audit process will be undertaken as follows:
- a) The Internal Auditor will undertake the field work for the assignment and prepare a draft report on their findings.
 - b) The draft report will be presented to Management within the agreed timeframes.
 - c) Management will provide feedback to the Internal Auditor in a timely manner and where appropriate the report will be amended.
 - d) The Internal Auditor will provide Management with the final updated report in a fixed format for initial reporting to the Audit and Risk Subcommittee and as a word document for subsequent reporting and monitoring.
- 4.34 The key elements of the final internal audit report will be as follows:
- a) Internal audit reports are addressed to the Audit and Risk Subcommittee.
 - b) Each assignment will be reported separately in writing.
 - c) The report will set out the scope of the work completed and report on the issues identified, summarising the concerns, the control implications, the assessed degree of risk/priority and the recommendations for improvement.
- 4.35 The Internal Auditor's completed written report on each audit assignment will be presented to the Audit and Risk Subcommittee by the Internal Auditor when appropriate. This will include Management comments, responsible officer, and target completion date.
- a) In upcoming agendas, the progress/status of implementing recommendations should be reported to the Audit and Risk Subcommittee.
- 4.36 In addition to the individual audit assignment reports, the Internal Auditor will report annually to the Audit and Risk Subcommittee against the agreed internal audit programme detailing:

- a) Progress against the work plan.
- 4.37 The Internal Auditor will raise any serious concerns about unresolved issues relating to assignments or the Management team itself directly with the Chair of the Audit and Risk Subcommittee.
- 4.38 The Internal Auditor will review the Corporate Risk Register annually and report any relevant findings to the Audit and Risk Subcommittee. The review will take into consideration the observations of completed the internal audits and highlight any implications for the organisation's risk status.

Associated Documents:	Fraud, Bribery and Corruption Prevention Policy Fraud, Bribery and Corruption Prevention Procedure Risk Management Policy Risk Management Framework
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