Ombudsman
New South Wales

Internal Audit Charter

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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.

Consistent with the 'Global Internal Audit Standards' this document details the internal audit function's authority, role and responsibility (mandate) as well as its organisational position, reporting relationships, scope of work, and range of services.

Chief Audit Executive describes the person responsible for effectively managing all aspects of the internal audit function and ensuring the quality performance of internal audit services in accordance with the 'Global Internal Audit Standards' issued by the Institute of Internal Auditors. The Chief Audit Executive is accountable to the Ombudsman for the internal audit function's implementation of and conformance with requirements of this Charter.

The Chief Audit Executive at NSW Ombudsman is the Director, Strategy, Governance, Risk & Data.

2. Purpose of internal audit

Internal auditing strengthens the organisation's ability to create, protect and sustain value by providing the Audit and Risk Committee and management with independent, risk-based and objective assurance, advice, insight and foresight.

Internal auditing enhances the Ombudsman's:

- successful achievement of its objectives.
- governance, risk management, and control processes.
- decision-making and oversight.
- reputation and credibility with its stakeholders.
- ability to serve the public interest.

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

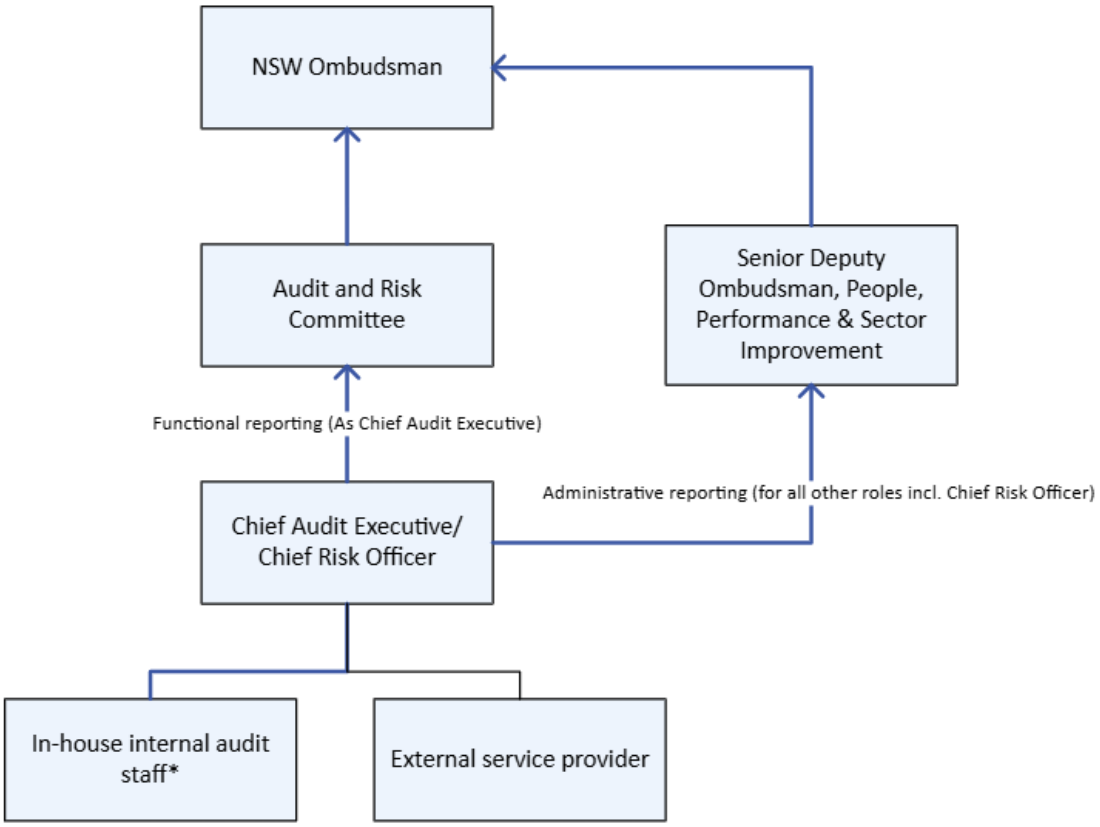
the Chief Audit Executive, appropriate measures will be put in place to protect the independence of the internal audit function.

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 Senior Deputy Ombudsman, People, Performance & Sector Improvement to facilitate day to day operations. The Chief Audit Executive has direct access to the Ombudsman to discuss audit and risk issues when required.

An external service provider is engaged to deliver internal audit services to the NSW Ombudsman's Office. The service provider is responsible for the development and delivery of the internal audit strategy and plan, and reports to the Chief Audit Executive.

The Chief Audit Executive meets with the Audit and Risk Committee in 'in-camera' sessions (at least annually) to provide an independent view of the state of the overall control environment at the Office and to discuss any matters arising from the internal audit work. [1]

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:



[1] The Audit and Risk Committee also meets annually in camera with the external auditors. If an external service provider has been engaged to provide internal audit services, the Committee also meets annually in camera with the service provider.

* Note: In-house staff that are considered part of the "internal audit staff" are:

- Manager, Governance, Risk and Assurance.
- Senior Risk & Governance Officer.
- Senior Audit & Quality Assurance Officer.
- Governance & Risk Officer.

The Chief Audit Executive will meet with the Ombudsman as required. Right of direct access to the Ombudsman by the Chief Audit Executive is preserved for any time the Chief Audit Executive believes it to be warranted.

The external service provider will report through the Chief Audit Executive. In exceptional circumstances, and with the prior approval of the Ombudsman, the external service provider may be provided with direct access to the Audit and Risk Committee Chair.

3.1 Roles additional to managing internal audit function

The Chief Audit Executive currently has responsibilities, in addition to their role managing the internal audit function, in the following areas:

- Risk management (and as the Ombudsman's Chief Risk Officer).
- Quality Assurance.
- Data analytics.
- Communications and media.
- Governance.
- Strategy.

In order to ensure the independence of the Chief Audit Executive, the following safeguards are in place:

- If an area that falls under the responsibility of the Chief Audit Executive is subject to internal audit, the Ombudsman will appoint an alternate member of the Executive Leadership Team (or the Ombudsman) to act as a project sponsor for that internal audit. The results of that internal audit and the draft internal audit report will be initially presented to the project sponsor appointed by the Ombudsman (or to the Ombudsman if applicable), so that the management response to the proposed findings and recommendations can be taken into account by the internal auditor and reflected in the final report. The final internal audit report will be presented to the project sponsor or the Ombudsman, as applicable, before provision to the Audit and Risk Committee.
- Periodic independent review of the effectiveness of the safeguard measures described above, by the Audit and Risk Committee.
- Chief Audit Executive annual declaration to the Ombudsman and Audit and Risk Committee relating to any impact on their independence of their performance of roles additional to that of Chief Audit Executive.

3.2 Conflicts of interest and impairment to objectivity

External service providers must not provide internal audit services to the Ombudsman in relation to areas in respect of which they or their firm have previously provided consultancy services to the Ombudsman, unless the prior formal approval of the Ombudsman has been obtained by the Chief Audit Executive. In order to seek the Ombudsman's approval, the Chief Audit Executive will prepare a briefing paper which includes the nature and timing of the prior consultancy services, and how the perceived, potential and/or actual conflict of interest of the external service provider will be appropriately managed.

The approval of the Ombudsman must be obtained before an external service provider engaged to perform internal audits, is subsequently engaged to provide consultancy services to the Ombudsman.

Instances of perceived, potential or actual conflict of interest by internal audit staff or external service providers must be promptly reported to the Chief Audit Executive and brought to the attention of the Ombudsman and the Audit and Risk Committee Chair. These will be handled in accordance with the Ombudsman's *Code of Ethics and Conduct*.

4. Authority and confidentiality

4.1 Authority

All internal audit work is undertaken under the authority of the Ombudsman.

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 auditors to meet their internal audit responsibilities. When responding to requests, Office staff and contractors should cooperate with the internal auditors and must not knowingly mislead the internal auditors or wilfully obstruct any internal audit activity.

4.2 Confidentiality

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 Ombudsman, including where internal audit services are performed by an external 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, integrity and adherence to high ethical standards
- developing and delivering an internal audit strategy and plan focusing on the key risks to the organisation, to be submitted to the Audit and Risk Committee for endorsement and then to the Ombudsman for approval
- maintaining adequate resources to meet the requirements of this charter, including communicating the impact of any resource limitations to the Audit and Risk Committee
- 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

Subject to compliance with section 3.2 of this charter in relation to the engagement of external service providers, 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 contained in final internal audit reports
- disseminating across the Office better practice and lessons learnt arising from its audit activities.

The internal audit function will have an internal audit manual that operationalises these requirements.

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, memoranda of understanding or contracts. Internal audit activity encompasses the review of both financial and non-financial policies and operations.

7. Professional Standards

Internal audit activities will be conducted in accordance with this charter, the Internal Audit and Risk Management Policy for the General Government Sector (TPP20-08) and with relevant professional standards, including mandatory guidance contained in the International Professional Practices Framework (IPPF), 'Global Internal Audit Standards' and 'Topical Requirements' issued by the Institute of Internal Auditors.

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.

The Chief Audit Executive is accountable for the adherence of internal audit staff and internal audit service providers (including external service providers) to these professional standards.

8. Relationship with external audit and other providers

8.1 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 representatives of 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.

8.2 Other assurance providers

Internal audit will coordinate with other assurance providers within the Ombudsman to ensure adequacy of overall assurance coverage and minimise duplication of assurance efforts.

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

10.1 At each Audit and Risk Committee meeting

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

- Internal audits completed
- progress in implementing the annual internal audit work plan, and
- the implementation status of agreed internal audit and external audit recommendations.
- If relevant:
    - any disagreement with senior management or other stakeholders on the scope, findings or other aspects of an engagement that may affect the ability of the internal audit function to execute its responsibilities
    - any incidents where independence may have been impaired, and the actions or safeguards employed to address the impairment.

10.2 Annually reported to the Audit and Risk Committee

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.

Further, the Chief Audit Executive will also:

- report on achievements via an annual report to summarise work and achievements for the year to demonstrate value delivered
- provide an annual assertion on Internal Audit independence and compliance with professional standards
- report on themes in the internal audit reports
- report on the performance of the internal audit function, including:
    - results of the quality assurance and improvement program.
    - results of internal audit performance measures approved by the Ombudsman (which are recorded in the Internal audit manual).
    - feedback from Audit and Risk Committee members.
    - feedback from the project sponsor and senior management responsible for areas where internal audit work has been performed.

11. Administrative arrangements

11.1 Changes to the Chief Audit Executive or service provider

Any change to the role (including appointment, replacement or dismissal) of the Chief Audit Executive or external service provider will be approved by the Ombudsman in consultation with the Audit and Risk Committee.

11.2 Performance assessment

11.2.1 Internal Quality Assurance and Improvement Program

Internal audit will maintain a quality assurance and improvement program (QAIP) that covers all aspects of internal audit activity in order to support continuous improvement of the function. The results of the QAIP and conformance with the IIA Code of Ethics and Standards will be reported by the Chief Audit Executive to the Ombudsman and the Audit and Risk Committee at least annually.

11.2.2 External Quality Assurance and Improvement Program

At least every five (5) years there will be a periodic independent review of the efficiency and effectiveness of the operations of the internal audit function against the relevant professional standards. The outcome of the review will be reported to the Ombudsman and to the Audit and Risk Committee.

12. Management Obligations

An Executive Sponsor will be nominated as the management owner of each internal audit.

Management and staff are obligated to professionally and constructively contribute to internal audit work, and to the implementation of all recommendations and opportunities for improvement made by the internal auditors, which have been formally accepted and agreed by management.

12.1 Internal audit report obligations

The project sponsor should respond to the recommendations contained in a draft internal audit report within ten business days of receipt of the report. The response should be sent to the Chief Audit Executive and should address:

- Whether recommendations are agreed, partially agreed or not agreed.
- If not agreed, why not. If partially agreed, why not agreed in full.
- Succinct outline of the action to be taken in response to each of the agreed and partially agreed recommendations
- The role title of the officer responsible for implementation of the action and the date by which the action will be completed
- Interim control arrangements to be relied upon where there is a long lead time before the recommendation can be implemented (for example because implementation of a technology solution requires additional funding and/or will take a long time.)

In exceptional circumstances, a longer time period for management response to a draft internal audit report may be agreed between the Chief Audit Executive and the project sponsor.

Where a formal management response has not been received within 10 business days (or within the extended period agreed by the project sponsor with the Chief Audit Executive), the internal audit report will be provided to the Audit and Risk Committee in its meeting pack for the next Committee meeting. In these circumstances, the Chief Audit Executive will follow up the outstanding response with the project sponsor and may raise the issue with the Ombudsman.

Where management's response to an audit recommendation is not considered adequate, the Chief Audit Executive will consult with the project sponsor. If agreement is not reached, the Chief Audit Executive will raise the matter with the Ombudsman for resolution.

12.2 Audit recommendation reporting

Internal audit staff will request regular updates from the project sponsor and management on their progress in implementing the actions agreed in response to the recommendations of internal audit. The Chief Audit Executive will brief the Audit and Risk Committee at each meeting, on the status of internal audit action implementation.

Where an audit action in response to an internal audit recommendation rated high or above is not implemented and closed-out by its due date, the project sponsor may be requested by the Chief Audit Executive to attend the next Audit and Risk Committee meeting in order to brief the Committee on why the audit action has not been fully implemented and closed-out, and how the associated risk is being addressed in the interim.

Where the project sponsor decides to accept a risk arising from their decision not to accept an audit recommendation, a 'management acceptance of risk' form is to be completed by the project sponsor at the request of the Chief Audit Executive.

The Ombudsman's Internal Audit Manual will contain further information relating to this topic.

13. Review of the charter

This charter will be reviewed at least annually by the Audit and Risk Committee. The charter will be reviewed by the Committee whenever any substantive change is made to the Model Internal Audit Charter in TPP20-08 or any equivalent government policy. Any substantive changes to this charter will be formally approved by the Ombudsman on the recommendation of the Audit and Risk Committee.

14. Ombudsman approval

Paul Miller
NSW Ombudsman