

## Internal Audit Charter

### 1. Introduction

(QLD) Financial and Performance Management Standard 2009, the Subordinate Legislation made under the Financial Accountability Act 2009, requires that:

- The internal audit function of a statutory body must operate under an internal audit charter.
- The internal audit charter must
  - be consistent with the auditing and ethical standards set by the professional entities that govern the conduct of auditing in the State;
  - be approved by the accountable officer (The Vice Chancellor) or the statutory body (Audit, Risk and Compliance Committee of the University Council – the Committee); and
  - be readily available to the officers of the statutory body.

The International Standards for the Professional Practice of Internal Auditing (Attribute Standards 1000) requires that:

- the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing); and
- the chief audit executive (The Manager, Internal Audit) must periodically review the internal audit charter and present it to senior management and the board for approval.

This Internal Audit Charter has been developed with due consideration of the above compliance requirements. The Manager, Internal Audit reviews the Internal Audit Charter in consultation with the Vice Chancellor and the Chair of the Committee at least annually or following a significant change in legislation, organisational structure or scope or responsibilities of the Internal Audit function, with formal approval provided by the Committee of the University Council.

### 2. Purpose, value and the core principles of the Internal Audit Function

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the University's operations. It helps the University accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal auditing provides assurance on the University's governance, risk management, and control processes to help the University achieve its strategic, operational, financial, and compliance objectives. It is a catalyst for improving the University's effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business process. With commitment to integrity and accountability, internal auditing provides value to the Committee and the Vice Chancellor as an objective source of independent advice.

Internal Audit function must demonstrate the following Core Principles for the Professional Practice of Internal Auditing, which taken as a whole, describe internal audit effectiveness:

- demonstrating integrity;
- demonstrating competence and due professional care;
- being objective and free from undue influence (independent);

- aligning with the strategies, objectives, and risks of the organisation;
- being appropriately positioned and adequately resourced;
- demonstrating quality and continuous improvement;
- communicating effectively;
- providing risk-based assurance;
- being insightful, proactive, and future focused; and
- promoting organisational improvements.

The existence of the internal audit function does not diminish the responsibilities of the Vice Chancellor and management team to implement and maintain effective systems of internal control.

### **3. Scope of Internal Audit Activity**

Internal audit activity encompasses the review of all financial and non-financial policies and operations of the University. Internal audit reviews may cover any of the programs and activities of the University, excluding that of the controlled entities including JCU Singapore.

### **4. Authority and Confidentiality**

The Internal Audit staff are authorised, during the course of internal audit engagement activities as approved by the Committee, to obtain full, free and unrestricted access to University personnel, records, and properties.

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 Manager, Internal Audit and individual internal audit staff (including contractors and external service providers performing work on behalf of Internal Audit) are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

### **5. Organisational Relationships**

Internal Audit is an independent assurance provider within Legal and Assurance, a broader assurance function within the Office of the Chief of Staff. The Manager, Internal Audit reports administratively to the Vice Chancellor through the University General Counsel, and functionally for operations to the Vice Chancellor and the Committee of the University Council. The Manager, Internal Audit has free and unrestricted access to the Chief of Staff, the Vice Chancellor and the Committee in relation to audit matters, including:

- regular meeting with the Vice Chancellor, for any time the Manager, Internal Audit believes it to be warranted; and
- meeting with the Chair of the Committee at least twice per year, without the presence of management.

Administrative reporting includes:

- budgeting and management accounting;
- human resource administration, including performance development and review;
- internal communications and information flows;
- operational planning performance metrics as they relate to normal University activity (ie not audit activity); and
- administration of Internal Audit activities' policies and procedures.

All Internal Audit staff and service providers report directly to the Manager, Internal Audit. Within the constraints of the independent Internal Audit budget allocated, the Manager, Internal Audit is authorised to:

- exercise autonomy in applying Internal Audit resources;
- appoint external service providers to co-source internal audit activities (routine and ad hoc); and
- determine scope and apply procedures necessary to accomplish the objective(s) of each individual engagement.

The functional oversight role of the Committee includes:

- approving the Internal Audit Charter;
- approving the Internal Audit Strategy and the risk based Internal Audit Annual Work Plan including any significant revisions as required;
- receiving communications from the Manager, Internal Audit on the results of internal audit activities (Independent Assurance Reports and Management Letters) or other matters that the Manager, Internal Audit determines are necessary, including private meetings with the Manager, Internal Audit without management being present; and
- making appropriate inquiries of management and the Manager, Internal Audit to determine whether there are inappropriate scope or resource limitations.

The Vice Chancellor's functional responsibilities include:

- approving all decisions regarding the performance evaluation, appointment, or removal of the Manager, Internal Audit (including approving the position description of the Manager, Internal Audit); and
- approving the annual remuneration of the Manager, Internal Audit.

The Manager, Internal Audit must confirm to the Committee, at least annually, the organisational independence of the internal audit activity.

## **6. Roles, Responsibilities and Standards**

The Internal Audit function is responsible for developing and implementing the University's Internal Audit Strategy and a risk based Internal Audit Annual Work Plan.

The **primary role** of the Internal Audit function is to provide objective and relevant **assurance services** to the University (and its stakeholders) in light of the University Plan and risk profile. The internal audit assurance activities include engagements with the following orientation:

- Financial
  - auditing the financial statements of externally funded grants including research, capital and other special purpose grants/programs; and
  - auditing the special purpose financial statements of discrete business operations, if required.

In performing financial statement audits, the Manager, Internal Audit or the co-sourced service partner(s) typically provide audit opinion and a reasonable level of assurance to parties outside the University, depending on the purpose for which the financial statements are prepared. Engagements of this nature shall be conducted in accordance with the Australian Auditing Standards, as appropriate.
- Compliance
  - Compliance has traditionally been a focus area for Internal Audit activities. The objective of a compliance engagement is to enable the Manager, Internal Audit to express an opinion on whether the University or an organisational area has complied in all material aspects, with requirements as measured by the suitable criteria which include:
    - Federal and State legislation and regulatory requirements;
    - Federal and State Governments policies and administrative reporting guidelines;
    - University policies, procedures and Code of Conduct;
    - contracts to which the University is a party;
    - strategic plans, or operational programs;
    - ethics related objectives and programs;
    - Information Technology governance standards; and
    - other standards and good practice control models.
- Performance (improvement)
  - Also known as operational engagement, performance (improvement) engagement is designed to assess the economy, efficiency and effectiveness of the University's business systems and processes.

A compliance and performance (improvement) engagement is conducted either as an audit, which provides reasonable assurance, or as a review which provides limited assurance.

Internal Audit observes the International Professional Practices Framework (**IPPF**). IPPF is the conceptual framework that organises authoritative guidance promulgated by the Institute of Internal Auditors (IIA). The IIA provides internal audit professionals worldwide with authoritative guidance organised in the IPPF as mandatory guidance and recommended guidance. The mandatory elements of the IPPF are:

- Core Principles for the Professional Practice of Internal Auditing;
- Definition of Internal Auditing;
- Code of Ethics; and
- International Standards for the Professional Practice of Internal Auditing (**the Standards**).

The **secondary role** of the Internal Audit function is to provide objective and relevant **advisory/consulting services**, without assuming management responsibility. Internal Audit advises University management on a range of matters including:

- development of new programs and processes;
- risk management; and
- fraud control.

The Manager, Internal Audit should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the University's operations. Accepted consulting engagements must be included in the Internal Audit Annual Work Plan. Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding must be documented.

Internal Audit should apply the principle that issue prevention activities are more beneficial and could be more cost-effective than issue detection activities. Accordingly, Internal Audit will act proactively in providing ad hoc advice or formal consulting services to utilise its control and risk evaluation skills in preventing control weaknesses and breakdowns, as well as detecting control weaknesses and breakdowns in assurance activities.

The **tertiary role** of the Internal Audit function is to conduct the following **audit support activities**:

- assisting the Committee to discharge its responsibilities, including facilitating Committee reports to the University Council;
- monitoring the implementation of audit recommendations made by Internal Audit and QAO;
- managing the contracts with and assessing the performance of the co-sourced service partners;
- performing any appropriate special tasks or projects requested by the Vice Chancellor, the Committee, and the Chancellor; and
- disseminating better practice and lessons learnt arising from the internal audit activities across the University.

## **7. Integrity, Independence and Objectivity**

Internal auditors are expected to apply and uphold the principle of integrity, to establish trust and thus provides basis for reliance on their judgement. They must perform their work with honesty, diligence and responsibility.

The Internal Audit activity must be independent, and internal auditors must be objective in performing their work. Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made.

- All Internal Audit activities shall remain free of interference by any element in the University, including matters of audit selection, scope, procedures, frequency, timing, or report content in order to maintain the necessary independent and objective mental attitude.
- Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.
- Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests, or by others, in forming judgments.

If independence or objectivity is impaired in fact or in appearance, the details of the impairment must be disclosed to appropriate parties including the Committee. The nature of the disclosure will depend upon the impairment.

## **8. Proficiency, Due Professional Care, and Quality Assurance and Improvement Program (QAIP)**

JCU's Internal Audit staff will each have a University degree in a discipline preferably relating to accounting and business, but not necessarily limited to these, and must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development. It is a requirement for all permanent Internal Audit staff to undertake continuing professional development and maintain membership of one or more of the following professional bodies:

- The Institute of Internal Auditors - Australia;
- CPA Australia;
- the Institute of Chartered Accountants in Australia; or
- the Information Systems Audit and Control Association.

Internal Audit also recognises on-the-job training as a crucial part of a staff member's professional development. Internal Audit may also engage in providing opportunities for professional and placement training opportunities for appropriate personnel.

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility. Internal Audit staff are responsible and accountable for maintaining the strict confidentiality of the information they receive during the course of their work.

The Manager, Internal Audit must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and include both internal and external assessments.

- Internal assessments include:
  - ongoing monitoring of the performance of the internal audit activity; and
  - periodic self-assessments or assessments by other persons within the University with sufficient knowledge of internal audit practices.
- External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the University. The Manager, Internal Audit must discuss with the Committee the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.
- The Manager, Internal Audit must communicate the results of the QAIP to the Committee and the Vice Chancellor.

## **9. Planning and Relationship with Other Assurance Providers**

The Manager, Internal Audit must undertake internal audit planning appropriate to the size and functions of the University. Internal Audit will establish and maintain an open relationship with the

external auditor and any other assurance providers. The planning process should include sufficient consultation with the following key stakeholders:

- The Chair of the Audit, Risk and Compliance Committee;
- The Vice Chancellor and President;
- University Executives;
- Queensland Audit Office;
- Other internal assurance providers:
  - Chief of Staff;
  - University General Counsel;
  - Director, Quality, Planning and Analytics;
  - Manager, Work Health and Safety; and
  - Chief Digital Officer.

The Manager, Internal Audit must give due consideration to the following aspects, in order to provide optimal audit coverage to the University and minimise duplication of assurance effort:

- key business risks;
- any key risks or control concerns identified by management;
- assurance gaps and emerging needs; and
- scope of work of other assurance providers, internal and external.

The planning must include the preparation of:

- an Internal Audit Strategy that provides the overall strategy for the Internal Audit function for a period of at least one year; and
- a risk based Internal Audit Annual Work Plan, that sets out the internal audit activities intended to be carried out during the year, including budgeting and sourcing plan.

The Internal Audit Strategy and the annual Internal Audit Work Plan must be discussed with the Vice Chancellor and be formally reviewed and approved by the Committee. Any significant deviation from the formally approved Internal Audit Strategy and Annual Work Plan must be communicated to the Committee for its approval including any impact of resource limitations.

## **10. Reporting and Monitoring**

The actual reporting process for each engagement will vary slightly depending on the type of the engagement, the nature of the findings, and the impact of recommendations. However, the Manager, Internal Audit must ensure that the Internal Audit reporting process complies with the minimum legislative and the Standards requirements. For each separately programmed audit and review, the following process should be followed unless it is not necessary as per agreement with auditees:

- Internal Auditor(s) conducting the fieldwork will discuss or clarify via email any preliminary, reportable findings and recommendations with relevant operational management or staff.
- Manager, Internal Audit will review and issue the first draft report to the relevant Deputy Vice Chancellors (DVCs) or other appropriate senior management for formal management comments - a formal exit interview will be offered to the relevant DVC(s) or other appropriate Senior Management or their nominees to discuss the first draft report in detail.
- Manager, Internal Audit will duly consider management comments received and when considered as appropriate, incorporate them into the draft report for DVC(s)' acceptance, to ensure that the report is free from factual errors, audit opinion is fair, and recommendations are practical.
- Manager, Internal Audit will submit the draft report to the Vice Chancellor for comments. Residual disagreement in opinion or corrective actions required, if any under rare circumstances, will be highlighted in the covering letter to the Vice Chancellor for consideration and final management decision-making.
- Manager, Internal Audit will include the comments made by the Vice Chancellor and approve the final report.
- Manager, Internal Audit will distribute:
  - a copy of the final report to the relevant DVC(s) or other appropriate senior management, and any operational management who has agreed to undertake any management actions in response to audit recommendation(s), and
  - a copy of the final report to the Committee at its next meeting for consideration.

The Manager, Internal Audit must establish and maintain an audit recommendation follow-up process to monitor Management's implementation of the audit recommendations made by Internal Audit and QAO. When the Manager, Internal Audit believes that Management has accepted a level of risk that may be unacceptable to the University, the Manager, Internal Audit must discuss the matter with the Chief of Staff, appropriate DVC and/or Vice Chancellor, as appropriate. If the Manager, Internal Audit determines that the matter has not been resolved, this must be communicated to the Committee.

At each Committee meeting, the Manager, Internal Audit will submit a report to the Committee outlining the outcome of all internal audit activities undertaken since the previous reporting period, with the following appendices:

- Progress Report on Scheduled Internal Audit Activities;
- Report on Audit Recommendation Follow up (twice a year);
- Report on Grant Audit Certifications Issued;
- Assurance Reports and Management Letters issued; and
- any other significant operational risks and issues that require consideration and approval by Committee as per the Standards.

<b>Version History</b>	<ul style="list-style-type: none"> <li>• 18/02/2020, minor changes to address recommendations made by IIA Australia and reflect changes to some position titles</li> <li>• 15/10/2018, minor changes to reflect position title and recognise the assurance provider role by Director ICT re cyber risks from 2018</li> <li>• 30/09/2017 review to align with the changes to the Standards</li> <li>• 22/07/2016, minor change to reflect a new position title</li> <li>• 30/10/2015, minor change to reflect new position titles</li> <li>• 13/08/2014, major review to reflect new organisational relationship and better practices</li> </ul>
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