

---

## INTERNAL AUDIT CHARTER

Version No: V3  
Approved By: ARC  
Approved Date: 12/12/2017  
Next Review Date: Dec 2020

---

*The Financial Management Act (1994)* and the *Department of Treasury and Finance (DTF)* Standing Directions require Westernport Region Water Corporation (WPW) (the Corporation) to establish, maintain and resource an internal audit function.

This Charter sets out the functions and objectives of the Internal Audit program at Westernport Water in line with the requirements of the Victorian Government.

### 1. Role

- 1.1. The internal audit function shall be conducted by the Internal Audit Service Provider ('Internal Auditor').
- 1.2. The Internal Audit Service Provider is a contractor employed by Westernport Water to undertake Internal Audit requirements.
- 1.3. The Internal Auditor is responsible for forming an opinion as to the adequacy of internal controls operating within the Organisation's activities. The Internal Auditor shall report directly to the Chair of the Audit and Risk Committee in respect to all internal audit matters.
- 1.4. The Audit and Risk Committee Secretariat performs the duty of the *Responsible Officer* and is responsible for the implementation and maintenance of this Charter and associated procedures.
- 1.5. The Internal Auditor shall coordinate its activities through the Audit and Risk Committee Secretariat. This includes, but is not limited to, the setting of detailed scopes, the timing of delivery, and the review and agreement of audit recommendations.

### 2. Scope

- 2.1. Internal Audit has been established as a function to:
  - Provide independent appraisals to management; and
  - Contribute to the quality and performance of Westernport Water by ensuring that accountabilities, operational procedures and practices throughout are sound and consistent, and adequate to safeguard its assets and facilitate its operations.
  - Conduct detailed reviews of all requirements over a four year cycle based on an assessment of the Compliance Register.
- 2.2. In order to effectively fulfil the obligations of the position, the Internal Auditor will be authorised to have free and complete access to all records and documentation related to any audit investigation.

### 3. Accountabilities

- 3.1. The Internal Auditor is accountable for the conduct of audits based on a pre-determined audit plan. A three year (rolling) strategic audit plan is to be directed and approved by the Audit and Risk Committee annually.
- 3.2. The Internal Auditor is also accountable for undertaking any audit which may, from time to time, be provided for in Westernport Water's policies and procedures, for example post-audit of capital expenditure proposals or the review of new ICT systems for the inclusion of audit trails and control checks.

- 3.3. The Internal Auditor, after each assignment has been completed and the findings discussed with the General Manager Corporate and People and any other relevant General Manager, will furnish a report to the Chair of the Audit and Risk Committee on any weakness revealed by their examination, and the recommendations for improvements.
- 3.4. Relevant managers are responsible for the continued improvement of their own systems and controls, together with the timely implementation of accepted recommendations made by the Internal Auditor. The establishment of internal audit in no way relieves managers of any of their responsibility for internal control and checks in functions they manage.
- 3.5. Any material recommendations not accepted by management must be brought to the attention of the Chair of the Audit and Risk Committee and the Managing Director, by the Internal Auditor.
- 3.6. The Internal Auditor will be available to conduct special audits if requested by the Board Chair, the Audit and Risk Committee or the Managing Director.
- 3.7. The Internal Auditor will report directly to the Chair of the Board and the External Auditors on any matter of suspected unlawful act or acts, misconduct, misappropriation or concealment by management.
- 3.8. A written response to the internal audit report is required within two weeks from the date of issue. Responses are to be collated in consultation with and under the direction of the appropriate General Manager and submitted to the General Manager Corporate and People, who will then forward the written response to the Internal Auditor.

#### **4. Internal Auditing Scope**

- 4.1. Regular audits are to be conducted in line with the three year (rolling) strategic audit plan. Additional audits may be conducted when required as determined by the Audit and Risk Committee, or the Board. The three year strategic audit plan is to be developed with reference to Westernport Water's Risk Register, Risk Management Strategy and Business Continuity Plans.
- 4.2. Annual compliance audits are to be conducted in accordance with the requirements of *Standing Directions of the Minister for Finance* to enable the annual attestations to occur.
- 4.3. Audit Scopes will be provided to the Audit and Risk Committee as part of the final report issued by the Internal Auditor. Audit Scopes will be approved by management, not the Audit and Risk Committee.
- 4.4. The inclusion of audit scope items will be based on, but not limited to, Westernport Water's risk profile, compliance and legislative obligations, and assessment of key controls in the delivery of Westernport Water's Strategic and Corporate Plans.
- 4.5. Internal Audit will summarise the headline issues targeted for each audit. Detailed scopes will be developed, in conjunction with the relevant General Managers, within appropriate lead times to ensure the accurate and efficient conduct of each audit.

4.6. Liaison with the Board's External Auditors is to be maintained to ensure coordination of auditing activities, with the objective of providing a broader audit service, and the achievement of a reduction in professional external audit time.

## **5. Accountability & Authority**

The authority and responsibility of the Internal Auditor extends throughout Westernport Water in respect of all activities. These activities embrace:

- 5.1. Examination of procedures which form part of Westernport Water's information systems, testing the effectiveness of controls and internal checks, and assessing the validity and suitability of the information procedures.
- 5.2. Operational audits of complete functions or areas of activity.
- 5.3. Review of security controls, and appraisal of the adequacy of protective measures for Westernport Water's funds and other assets.
- 5.4. Ascertainment that the accounting and other data developed within the organisation is reliable.
- 5.5. Consultation with the ICT Manager, system designers and programmers, with respect to both new and existing ICT systems, for the inclusion of audit trails and control checks.

## **6. Performance**

The Internal Auditor is to maintain professional auditing standards, which include but are not limited to:

- 6.1. The preservation of relative independence. The Internal Auditor carrying out the audit should be in a position to express an opinion with complete honesty and objectivity;
- 6.2. The exercise of due care in the performance of the examination and the preparation of reports;
- 6.3. The proper study and evaluation of existing internal controls as a basis for reliance thereon, and for the determination of the extent and nature of procedures and tests to be carried out;
- 6.4. The establishment of internal audit programs which will be based on an evaluation of Westernport Water's systems, properly documented by the use of system narratives, flow charts, control questionnaires, etc.; and
- 6.5. The collation of sufficient competent evidential material, obtained through inspection, observation, enquiries and confirmation, which will provide a reasonable basis for an opinion.

To enable the Internal Auditor to meet their objectives and scope the following steps will be undertaken during the examination of an area:

- 6.6. Ascertain the objectives and functions of the department and the system of internal control and accounting procedures;
  - 6.7. Determine if the system is functioning so as to properly record and summarise the transactions which take place; and
  - 6.8. Decide, after evaluation of the system, the extent if any weaknesses are present that require corrective measures.
- 6.9. Internal audit procedures and investigative reporting will be conducted directly with the operatives and managers concerned, and for this purpose, in addition to the right to access all records related to an audit review, the Internal Auditor has the right of direct approach to any management level.

## **7. Review Date**

This Charter will be reviewed by the *Responsible Officer* every three years and recommended to the Audit and Risk Committee for approval. This Charter will continue in operation until replaced by a subsequent version or rescinded.