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## INTERNAL AUDIT CHARTER

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### 1. Purpose

*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 WPW in line with the requirements of the Victorian Government.

### 2. Role

- 2.1. The internal audit function shall be conducted by the Internal Audit Service Provider ("Internal Auditor").
- 2.2. The Internal Audit Service Provider is a contractor appointed by WPW to undertake Internal Audit requirements.
- 2.3. The Internal Auditor is responsible for forming an opinion as to the adequacy of internal controls operating within the Corporation's activities. The Internal Auditor shall report directly to the Chair of the Audit and Risk Committee (ARC) in respect to all internal audit matters.
- 2.4. The Corporate Secretary performs the duty of the *Responsible Officer* and is responsible for the implementation and maintenance of this Charter and associated procedures.
- 2.5. The Internal Auditor shall coordinate its activities through the Corporate Secretary. This includes, but is not limited to, the setting of detailed scopes, the timing of delivery, and the review and agreement of audit recommendations.

### 3. Independence and objectivity

- 3.1. Internal Audit has been established as a function to:
  - Provide independent appraisals to management; and
  - Contribute to the quality and performance of WPW 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 three year cycle based with reference to the Corporation's Strategic Risk Register and Risk Management Framework.

### 4. Authority and accountability

- 4.1. 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.
- 4.2. 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 (ARC) annually.

- 4.3. The Internal Auditor is also accountable for undertaking any audit which may, from time to time, be provided at the request of management and approved by the ARC.
- 4.4. The authority and accountability of the Internal Auditor extends throughout WPW in respect of the review and audit of functions or departments within the Corporation. The review and audit of all functions and departments may incorporate the non-exhaustive list of points outlined below;

- 4.4.1. Examination of procedures which form part of WPW's information systems, testing the effectiveness of controls and internal checks, and assessing the validity and suitability of the information procedures.
- 4.4.2. Operational audits of complete functions or areas of activity.
- 4.4.3. Review of security controls, and appraisal of the adequacy of protective measures for WPW's financial and asset management systems.
- 4.4.4. Ascertainment that the accounting and other data developed within the organisation is reliable.
- 4.4.5. Consultation with the Manager ICT, system designers and programmers, with respect to both new and existing ICT systems, for the inclusion of audit trails and control checks.

## 5. Responsibilities

- 5.1. The Internal Auditor, after each assignment has been completed and the findings discussed with the Corporate Secretary, General Manager Corporate and People and any other relevant General Manager, will develop a final report to the ARC on any findings revealed by their examination, and the recommendations for improvements.
- 5.2. The Internal Auditor will ensure attendance availability at the relevant ARC Committee meeting to present and discuss any findings or recommendations from their review.
- 5.3. 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.
- 5.4. Any material recommendations not accepted by management must be brought to the attention of the Chair of the ARC and the Managing Director, by the Internal Auditor.
- 5.5. The Internal Auditor will be available to conduct special audits if requested by the Board Chair, the ARC the Managing Director or a government department (i.e. Department of Environment, Land, Water & Planning).
- 5.6. The Internal Auditor will report directly to the Chair of the ARC, the Chair of the Board and the External Auditors on any matter of suspected unlawful act or acts, misconduct, misappropriation or concealment by management.
- 5.7. 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.
- 5.8. 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 ARC, or the Board. The three year strategic audit plan is to be developed with reference to WPW's Strategic Risk Register and Risk Management Framework.

- 5.9. Where applicable, compliance audits are to be conducted in accordance with the requirements of *Standing Directions under the Financial Management Act 1994* to enable the annual Financial Management Compliance Framework attestation to occur.
  - 5.10. 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.
  - 5.11. The audit scope will be based on, but not limited to, WPW's risk profile, compliance and legislative obligations, and assessment of key controls in the delivery of WPW's Strategic and Corporate Plans.
  - 5.12. 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.
  - 5.13. Liaison with the Board's External Auditors is 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.
6. Reporting and monitoring
- 6.1. An audit findings register will be maintained and monitored in the corporate reporting system.
  - 6.2. The Executive Team will review the open audit findings on a monthly basis. The Executive Team can close items recommended for closure with a risk ranking of Medium/Moderate or lower.
  - 6.3. High risk or above audit findings, as well as a statistical snapshot of all findings, are to be reported to the ARC quarterly.
  - 6.4. High risk or above audit findings require a follow-up review by the Internal Auditor to verify that the recommendation has been addressed. The timing of this follow-up review will be coordinated by the Corporate Secretary and the final report will be presented to the ARC.

7. Standards of audit practice

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

- 7.1. 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;
- 7.2. The exercise of due care in the performance of the examination and the preparation of reports;
- 7.3. 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;
- 7.4. The establishment of internal audit programs which will be based on an evaluation of WPW's systems, properly documented by the use of system narratives, flow charts, control questionnaires, etc.; and

- 7.5. 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 in order to:

- 7.6. Ascertain the objectives and functions of the department and the system of internal control and procedures;
- 7.7. Determine if the system is functioning sufficiently; and
- 7.8. Decide, after evaluation of the system, the extent of any weaknesses that may be present and any corrective measures that may be required.

#### 8. Annual Review

As recommended as a minimum requirement under the Standing Directions, this Charter will be reviewed by the *Responsible Officer* annually and recommended to the ARC for approval. This Charter will continue in operation until replaced by a subsequent version or rescinded.