

Internal Audit Charter

1 October 2021

Introduction

Internal audit at Ahpra is established by authority of the Agency Management Committee and its responsibilities are defined in this Internal Audit Charter (Charter) endorsed by the Finance Audit and Risk Management (FARM) Committee and approved by the Agency Management Committee.

This Charter provides the framework for performance of internal audit activities at Ahpra.

Mission and Purpose

The purpose of internal audit is to enhance and protect organisational value by providing stakeholders with risk-based, objective and reliable assurance, advice and insight.

Internal audit provides independent and objective assurance to:

- The FARM Committee and Agency Management Committee that financial and non-financial controls are operating in an efficient, effective, economical and ethical manner.
- Assist management to improve business performance.

Definition of internal audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes¹.

Internal audit structure

Internal audit at Ahpra operates under an outsourced model where internal audit services are procured from independent internal audit service providers (Internal Audit Service Providers). The Internal Audit Service Providers have responsibility for effectively managing the internal audit activity in accordance with this Charter and the internal audit plan (Internal Audit Plan) that is endorsed by the FARM Committee and approved by the Agency Management Committee.

The facilitation of the internal audit activities is the responsibility of the Chief Financial Officer and day-to-day liaison with Internal Audit Providers and relevant stakeholders will be performed by the National Director Organisational Risk and Resilience.

Relationship with other assurance activities

Ahpra's assurance framework has adopted the three lines of defence integrated assurance model. The three lines are:

- 1st line of defence – Management has ownership, responsibility and accountability for assessing, controlling and mitigating risks.
- 2nd line of defence – Enables the identification of emerging risks in daily operation of the business. It does this by providing compliance and oversight in the form of frameworks, policies, tools, and techniques to support risk and compliance management.
- 3rd line of defence – Internal audit, through a risk-based approach, provides assurance to the FARM

¹: 'International Professional Practices Framework' issued by the Institute of Internal Auditors.

Committee and management, on how effectively Ahpra assesses and manages its risks, including the manner in which the first and second lines of defence operate. Internal audit does not absolve management and staff from any of their risk management and control responsibilities.

Internal audit will establish and maintain an open relationship with the external auditor and other assurance providers. Internal audit will plan its activity to ensure the adequacy of overall assurance coverage and to minimise duplication of assurance effort.

Conflict of interest

Conflict of interest can be actual or perceived and is a situation in which an internal auditor, who is in a position of trust, has a competing organisational, professional or personal interest. Such competing interests can make it difficult to fulfil duties impartially. A conflict of interest can exist even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit function and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

The Internal Audit Service Provider should not provide internal audit services where they have had responsibility of the design and implementation of recommended controls within the previous 12 months².

When engaging Internal Audit Service Providers, the Chief Financial Officer shall take steps to identify, evaluate the significance and manage any perceived or actual conflict of interest that may impinge upon internal audit work.

The Internal Audit Service Provider will routinely report to the FARM Committee on any other engagements the Provider may be undertaking for Ahpra.

Instances of perceived or actual internal audit conflict of interest are to be immediately reported by the Internal Audit Service Provider to the Chief Financial Officer and the chair of the FARM Committee. The Chief Financial Officer and chair of the FARM Committee will assess the conflict of interest and develop a strategy to manage the conflict of interest, which may include terminating the contractual relationship with the relevant Internal Audit Service Provider.

Independence

Internal audit is required to be independent and objective, with independence essential to its effectiveness. Internal audit has no direct authority or responsibility for the activities it reviews. Internal audit has no responsibility for the management of business activities, or for development or implementation of operational systems or procedures.

For effective independence, internal audit reporting arrangements are:

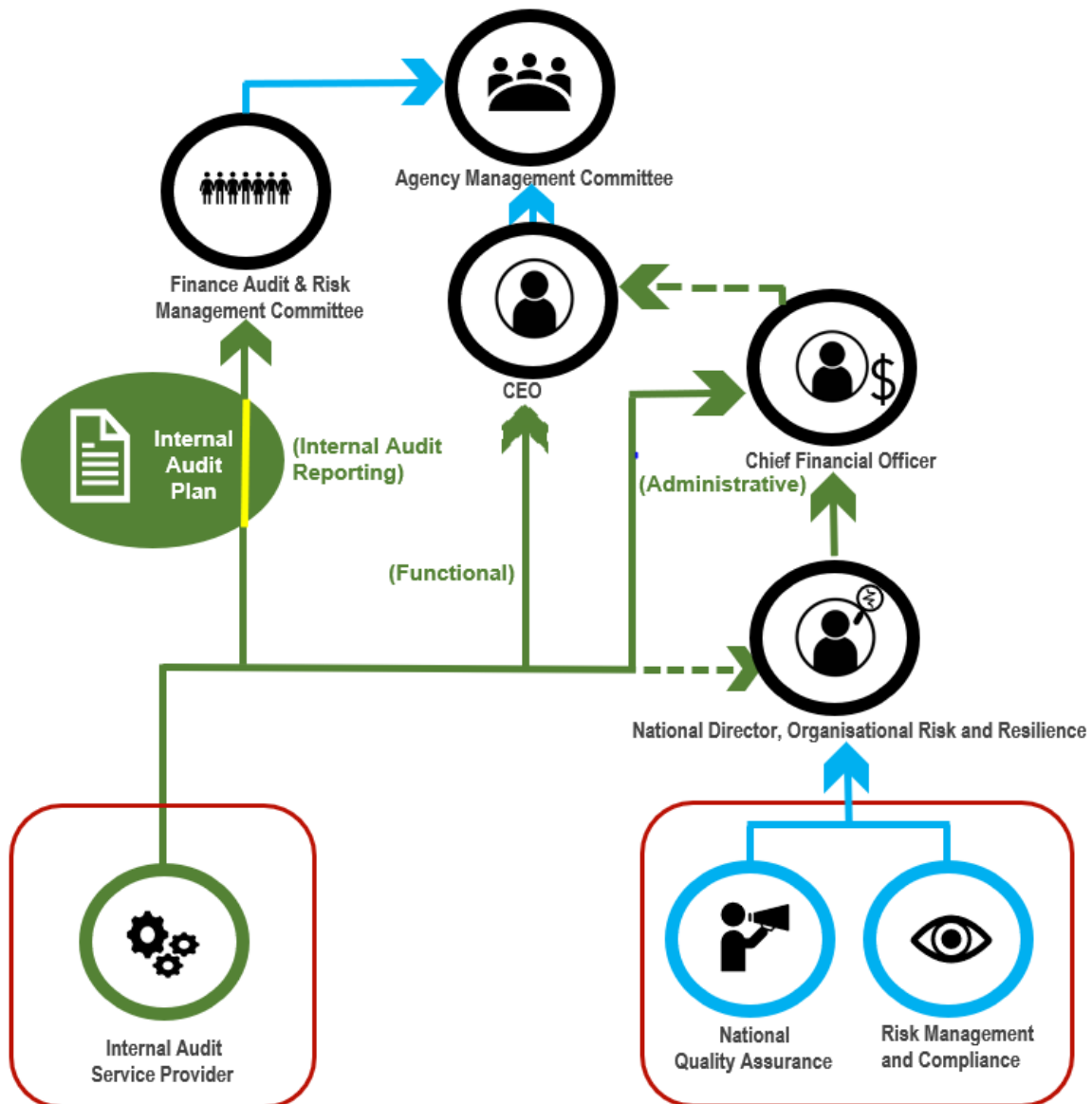
- Functionally to the Chief Executive Officer and with direct access to the FARM Committee through the Chair.
- Administratively to the Chief Financial Officer (*with day to day liaison with the Internal Audit Provider and relevant stakeholders performed by the National Director, Organisational Resilience*)

The Internal Audit Service Providers are to have direct and unrestricted access to senior management and the FARM Committee and achieve this through a dual reporting relationship.

² Period recommended by IIA-A

Internal Audit is positioned within Ahpra as follows:

Figure 1: Internal Audit



Authority and confidentiality

All internal audit work is undertaken under the authority of the FARM Committee.

The Internal Audit Service Providers will be provided full, free and unrestricted access to all Ahpra records, data, personnel, and assets at the time they are relevant for performance of internal audit engagements to enable it to fulfil its responsibilities in line with its approved internal audit plan.

All records, documentation and information accessed in the course of undertaking internal audit work are to be used solely for the performance of these activities. Internal auditors are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work, in accordance with contractual arrangements.

Role

In the performance of its activities, internal audit will play an active role in:

- Developing the Internal Audit Plan

- Developing and maintaining a culture of accountability, integrity and adherence to high ethical standards.
- Facilitating integration of controls and risk management into day-to-day business activities and processes.
- Promoting a culture of cost-consciousness and self-assessment.
- Providing “value-added services and proactive strategic advice well beyond the effective and efficient execution of the audit plan”³

Internal audit will support Ahpra by:

- Reviewing achievement of objectives.
- Assessing if decisions are properly authorised.
- Evaluating the reliability and integrity of information.
- Ensuring assets are safeguarded.
- Assessing compliance with laws, regulations, policies and contracts.
- Considering the efficiency, effectiveness, economy and ethics of business activities.
- Reviewing and mitigating opportunities for fraud and corruption.
- Following-up previous audits to assess if remedial action has been effectively implemented.
- Providing two-way exchange of feedback with FARMC about any emerging key risks or issues of accessibility in delivering outcomes.

Management may request internal audit services in response to emerging business issues or risks. Internal audit will attempt to satisfy these requests, subject to the assessed level of risk, avoidance of conflicts of interest, availability of resources, and endorsement of the FARM Committee.

Reporting to the FARM Committee

The FARM Committee supports the Agency Management Committee in exercising its governance responsibilities. Internal audit will report to the FARM Committee on:

- Overall performance of internal audit, including a report on agreed key performance indicators
- Internal audit work completed.
- Progress implementing the Internal Audit Plan.
- Progress on status of internal audit, and other relevant external and regulatory body recommendations.
- Identifying any emerging key risks, behaviours or accessibility issues affecting delivery of audit.
- Reporting annually to summarise achievements for the year, and to demonstrate value delivered.

Professional standards

Internal audit will perform its work in accordance with the ‘International Professional Practices Framework’ (IPPF) issued by the IIA which incorporates:

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

This mandatory guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of internal audit performance. Further, internal audit must also “provide insight and foresight, not just hindsight.”⁴

Vendor Performance evaluation

In monthly meetings with management, performance feedback may be provided to the Internal Audit Service Providers. At least once every three years a formal survey evaluating satisfaction with the internal audit vendor and IA program overall will be undertaken by AManC Chair, FARM Committee and Ahpra

³ PwC 2017, Internal Audit Advisory: *Confident and informed decision making for your third line of defence*

⁴ Richard Chambers, 2017, *Trusted advisors: Key attributes of outstanding internal auditors*

executives and the results will be provided to the vendor to address issues and or/in the spirit of continuous improvement.

At the end of the internal audit contract, the contract management close out phase will be completed including a final performance review and documenting lessons learned.

Resourcing

The FARM Committee will be advised of any resource limitations to the ability of internal audit to fulfil its responsibilities. Any assessment of the internal audit operational budget is to be supported by appropriate and objective analysis and benchmarking.

Responsibilities

Internal audit is responsible for, but not limited to:

Internal audit

- Establishing a 'best in class' internal audit function.

Internal Audit Plan

- Developing a risk-based Internal Audit Plan that considers organisation risks and issues, including those identified by management, and submit the plan to the FARM Committee for review and endorsement and approval by the Agency Management Committee.
- Ensuring any changes to the Internal Audit Plan are reviewed and endorsed by the FARM Committee and approved by the Agency Management Committee.

Internal audit engagements

- Performing internal audit work contained in the approved Internal Audit Plan and produce a written report for each audit containing an overall conclusion and recommendations for improvement.
- Ensuring action plans for recommendations are obtained from management and included in audit reports, including a responsible position and timetable for completion with appropriate resources and timeframes.
- Where management responses to any recommendation are not considered adequate, there will be consultation between internal audit and management of the area audited to reach a mutually agreeable resolution. If agreement is not reached, the matter will be referred to the Chief Executive Officer for resolution. If agreement is still not reached, it will be referred to the FARM Committee for consideration and if required, escalated to the Agency Management Committee as the final arbiter.
- Providing final audit reports to management of the area audited, the Chief Executive Officer, and the FARM Committee. Copies may be provided to management of other areas where relevant. Copies may be provided to the external auditor if requested.

Audit recommendations

- The internal audit program will include a validation of the appropriateness of closed medium and high-risk management actions.

The National Quality Assurance Framework includes the following internal audit responsibilities:

- Monitoring progress by management to implement internal audit recommendations to closure, together with recommendations contained in reports by other relevant external and regulatory bodies.
- proposing revised due dates for consideration by the National Executive, for endorsement; and all delayed high and medium rated recommendations and actions to then be provided to the FARM Committee for approval.
- Ensuring management provides updates to internal audit quarterly on progress to implement action plans. Timing will generally align to FARM Committee meetings.
- Following-up and obtain evidence that management action plans are effectively implemented by management before recommending closure to the FARM Committee.

Management and staff obligations

An executive sponsor will be nominated for each audit.

Management and staff are obligated to professionally and constructively contribute to internal audit work, and the implementation of action plans in response to improvement opportunities and recommendations contained in internal audit reports.

Escalation

Management has a maximum of 15 working days from when they receive a draft internal audit report to provide their responses and action plans for audit recommendations, which should contain matters including but not limited to:

- Agreed, partially agreed or not agreed.
- If not agreed, state the reasons why not agreed.
- Action to be taken – these do not need to include lengthy comments or explanations; the action to be taken is all that is required.
- Responsible position.
- Resources to be committed to address the audit recommendation.
- Timing.
- Interim control arrangements to be relied upon where there is a long lead time, such as waiting for an ICT solution to close-out an audit recommendation.

Where an audit recommendation rated high or above is not implemented and closed-out by its due date, the audit sponsor (or the Ahpra Chief Executive Officer) will be required to attend the next FARM Committee meeting and present details on why the audit recommendation has not been fully implemented and closed-out, and how the resulting risk is being addressed in the interim.

Quality assurance and improvement

The Chief Financial Officer is responsible for developing and maintaining a quality assurance and improvement program of their internal audit activities that includes:

- Ongoing internal assessments.
- Periodic internal assessments to be performed annually.
- Independent external assessments performed at least once every five years by a qualified, independent assessor or assessment team from outside Ahpra.

Results of the quality assurance and improvement program will be reported to the FARM Committee annually.

Internal Audit evaluation

Internal audit performance will be evaluated, and the results reported to the FARM Committee. This will include:

- Results of the quality assurance and improvement program.
- Results of internal audit performance measures previously approved by the FARM Committee.
- Feedback from management of areas where internal audit work has been performed.

Feedback on internal audit performance will be sought annually from members of the FARM Committee and the National Executive of Ahpra.

Review of the Charter

This Charter will be reviewed annually, with any changes endorsed by the FARM Committee and approved by the Agency Management Committee.

Approval of the Charter

Endorsed:

Finance Audit and Risk Management Committee

8 November 2021

Approved:

Agency Management Committee

16 November 2021

Name of Document:	Internal Audit Charter
Document Sponsor:	Chief Financial Officer
Version:	Version 4.0
Created:	March 2014
Date of last approval	August 2018
Date of next review:	June 2023
Approved:	Agency Management Committee
Approval Date:	16 November 2021

Reviews and approvals

Name	Position	Date	Review/endorse/approve
RB	Director, Deloitte Risk Advisory (Internal Auditors)	June 2020	Feedback
LD	CFO	September 2020	Reviewed
MJ	Manager, QA	April 2021	Reviewed against IIA checklist
FARMC		June 2021	Reviewed – provided feedback
RB/ EV	Deloitte	August 2021	Reviewed - feedback
JP	ND OR&R	August 2021	Review and update
JT	FARMC member	September 2021	Review and update
LN	FARMC member	September 2021	Review and update
KJ	FARMC member	September 2021	Review and update
MG	Corporate Counsel	October 2021	Review and update