



# ERGON ENERGY

## INTERNAL AUDIT CHARTER

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### 1 Introduction

Internal auditing can best be defined as an independent, objective assurance and consulting activity designed to add value and improve an organisation's operation. 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 processes.

The Ergon Energy Internal Audit Charter is established by the authority of the Ergon Energy Audit and Financial Risk Committee (AFRC). The scope of the Internal Audit function within Ergon Energy covers all operations including any activities which are part of, subsidiaries or controlled by Ergon Energy.

### 2 Role

The role of Internal Audit within Ergon Energy is to provide an independent, objective assurance and consulting activity, which is designed to add value and improve its operations.

Internal Audit assists the AFRC, Chief Executive and management accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In addition it provides an advisory service to management, based on the outcome of its experience in reviewing and appraising operations and systems.

The Internal Audit Unit is differentiated from other review bodies within Ergon Energy due to its independent position and unique reporting arrangements. Close liaison is encouraged with other review groups with a view to avoiding duplication of effort and maximising the use of available resources.

The scope of the Internal Audit function within Ergon Energy covers all operations including any activities which are part of, subsidiaries or controlled by Ergon Energy. Internal Audit will manage the internal audit program in accordance with this Charter.

### 3 Internal Audit Resourcing

Internal Audit services are provided by an in-house team headed by the Manager Internal Audit supported by internal audit staff in Brisbane and Townsville.

Additional specialist audit services support may also be engaged as required. All internal audits conducted by external support services will be undertaken under the control of the Manager Internal Audit and the results reported to the AFRC through the normal processes.

### 4 Responsibilities of Management

The AFRC, in conjunction with the Ergon Energy Chief Executive, is responsible for determining the scope of internal audit work and for deciding the action to be taken on the outcome of or findings from their work. The AFRC, in conjunction with the Chief Executive, is responsible for ensuring the Internal Audit function has:

- the co-operation and support of management and the Board;
- direct access and freedom to report to senior management, including the AFRC Chair and Chief Executive; and

Management is responsible for support in the co-ordination of the work of internal audit by ensuring that members of the Internal Audit function have unrestricted access to all personnel, records and property of the organisation and are entitled to such information and explanations as they may require for audit purposes.

Management is responsible for maintaining internal control, including proper accounting records and other management information suitable for running the business.

### **5 Responsibilities of Internal Audit**

Internal Audit is responsible for operating under the guidelines established by the AFRC. Such guidelines will be developed in conjunction with the Chief Executive and General Counsel / Company Secretary.

The Internal Audit Protocol document sets out the key processes and protocols applicable for interactions between Internal Audit, management and the AFRC in relation to longer term audit planning, the conduct and reporting of specific audit assignments, ongoing monitoring of the implementation of audit recommendations and conduct of special investigations.

Internal Audit is responsible for conducting their work in accordance with relevant Australian Auditing Standards and will have regard to suitable requirements of The Institute of Chartered Accountants in Australia, Certified Practising Accountants, (CPA Australia), Institute of Internal Auditors, or other appropriate bodies.

Internal Audit will maintain professional audit staff with sufficient knowledge, skills, qualifications and experience to meet the requirements of this Charter

Internal Audit is not responsible for any of the activities that they audit. Internal Audit staff will not assume responsibility for the design, installation, operation or control of any procedures within the organisation and will not act as the custodian of any of the processes that they audit.

The Manager Internal Audit is accountable to the AFRC and management to:

- Provide an annual assessment of the adequacy of the effectiveness of Ergon's processes for controlling its activities and managing its risks;
- Report significant issues related to the processes for controlling the activities of Ergon, including potential improvements to those processes and related management actions;
- Periodically provide reports on the status and results of the annual internal audit plan;
- Co-ordinate efforts with other control and monitoring functions (eg risk management, safety, environment, external audit, legal etc.); and
- Annually report to the AFRC regarding Internal Audit's performance against the requirements of this Charter.

### **6 Status of Internal Audit in the Organisation**

The Unit is headed by the Manager Internal Audit who is accountable for the efficient functioning of the Unit, including resourcing and development of the Unit's policies and procedures. The Manager Internal Audit reports for administrative purposes to the General

Counsel / Company Secretary but retains unrestricted access to the Chief Executive to discuss any matter relating to the finances or operations of Ergon Energy.

Internal Audit also ensures its independence by reporting to the AFRC on progress against the Internal Audit Plan and resolution of issues raised in reports. The Manager Internal Audit also has access to the Board of Directors through the AFRC Chair.

The AFRC must approve the appointment, replacement, reassignment or dismissal of the Manager Internal Audit.

## 7 Scope and Authority of Internal Audit Work

There are no restrictions placed upon the scope of internal audit's work. Members of the Internal Audit function engaged on internal audit work are entitled to receive whatever information or explanations they consider necessary to fulfil their responsibilities. In this regard, Internal Audit may have access to any records, personnel or physical property.

Internal audit work will normally include but is not restricted to:

- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- examining and evaluating the adequacy and effectiveness of internal control mechanisms, appraising information technology systems and related risk areas and assessing the quality of performance in carrying out assigned responsibilities;
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports;
- reviewing processes in place to identify, assess and manage risk within the organisation;
- reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;
- undertaking special reviews or examinations as requested by the AFRC, Chief Executive and senior management; and
- the management of or conducting investigations into allegations of fraud and other complaints received through FairCall or other sources.

## 8 Planning and Reporting

Internal Audit will submit to the AFRC for approval a detailed annual internal audit plan. This plan, prepared in conjunction with senior management, should outline the recommended scope of their work in the period. The plan will be developed with reference to a longer-term strategic outlook for internal audit work and have regard to the business plans and strategic outlook of the organisation as a whole.

Internal Audit planning will consider the full risk universe impacting Ergon Energy and the company / business unit risk registers including the Risk Assurance Map, developed and maintained by management and the Business Risk & Compliance Unit. These will be used to identify potential audit topics and that key risks are being adequately addressed.

Internal Audit plans should have an adequate balance between reviews of a risk based nature and financial compliance audits of core processing systems, which will assist in the delivery of value add services.

Internal Audit will carry out the work as agreed, report the outcome and findings, and will make recommendations on the action to be taken, including comparison to best practice, by means of regular reports to management and quarterly or, if deemed prudent, more frequent reports to the AFRC. The latter reports will normally be by means of a brief presentation to the AFRC accompanied by a summary in writing. Supporting detail or full reports will be available to the AFRC on request.

Copies of internal audit reports on review of operational risk areas/activities will also be provided to the Board Operational Risk Committee (ORC).

### **9 Relationship with the External Auditors/Other Regulatory Bodies**

Internal Audit will co-ordinate their work with others as directed by the AFRC, Chief Executive and, as appropriate, management. The work of the external auditors will be considered and the external auditors will be notified of the activities of Internal Audit in order to minimise duplication of audit effort. This will be accomplished by:

- discussions during audit planning process;
- periodic meetings to discuss the audit plan progress;
- exchange of management letters/audit reports; and
- access by the external auditors to internal audit documentation and reports.

### **10 Independence and Conduct of Staff**

Internal Audit staff are expected to demonstrate a professional and objective approach to their duties evidenced by an independent attitude and maintaining the highest ethical standards in their behaviour.

Any instances of actual, potential or circumstances where a conflict of interest may be inferred in relation to their audit duties are to be reported to the Chief Executive.

Internal Audit staff are not authorised to perform any operational duties for the organisation or initiate/approve accounting transactions external to the internal audit function.

Internal Audit staff are required to treat information gathered during the conduct of audits and reviews with the highest level of confidentiality. In addition to the conditions of the Use of Systems Agreement and Code of Conduct which apply to all Ergon Energy employees, Internal Audit staff have a further responsibility imposed by their position and role in the organisation in regards to probity and ethical conduct. Breaches of this trust will be the subject of serious disciplinary action including possible termination of employment.

### **11 Assessing Internal Audit Performance**

The Internal Audit Unit will be the subject of an external review at least once every five years to ensure compliance with expected standards and to identify any areas of its operations and performance requiring improvement. The review will include a survey of senior management and AFRC members' views on the level of service and quality of work performed by Internal Audit. Results of the external assessment will be communicated to the Chief Executive and AFRC.