



Internal Audit Charter

Internal Audit Charter

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1 Overview

The Internal Audit function is a key component of Nambawan Super Limited's (NSL) governance framework. Internal auditing is an independent, objective, assurance and consulting activity designed to add value and improve NSL's operations. It helps NSL accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Internal Audit reviews are conducted by NSL whereas External Audit is conducted annually by the external auditor appointed through a tender process. The Internal Audit Department is responsible for the management of the internal audit function within NSL. This charter provides the framework for the Internal Audit function within NSL and its subsidiaries

2 Purpose

The Internal Audit Function assists the Board and the Audit and Risk Committee (A&RC) in the effective execution of its roles and responsibilities by providing independent analysis, advice, assurance and recommendations concerning the operations and processes of the business. As such, internal audit programs are developed to provide in-depth and quality analysis to identify improvements to meet strategic business objectives.

3 Scope

Internal audit reviews shall cover all programmes and activities of NSL including associated entities such as the Fund Administrator (Kina Investment and Superannuation Services "KISS") and Investment Manager (Kina Funds Management Ltd "KFM" etc.). Internal audit activity encompasses the review of all financial and nonfinancial policies and operations including, Information Communication and Technology (ICT) based reviews.

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4.1 Authority and Confidentiality

Subject to compliance with NSL security policies, internal auditors are authorised to have full, free and unrestricted access to all functions, systems, premises, assets, personnel, records, and other documents or information that the Internal Audit Manager or their alternative considers necessary to enable the Internal Audit Department to meet its responsibilities.

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 Internal Audit Manager or an alternative and individual Internal Audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

Where necessary, IA may consult with and disclose audit matters to other relevant stakeholders normally only where these matters affect other agencies, or as directed by A&RC or the CEO of NSL.

4.2 Standards

- (a) Audit activities will be conducted with (a) proficiency and due professional care, in accordance with the relevant professional standards deemed appropriate and applicable including:
 - (i) International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors;
 - (ii) International Financial Reporting Standards;
 - (iii) ISO 3100 Risk Management Standards;

- (iv) Superannuation (General Provisions) Act 2000;
- (v) Companies Act 1997;
- (vi) CPA - PNG Code of Business Ethics and Conduct;
- (vii) Generally Accepted Accounting Practices in Papua New Guinea

- (b) In the conduct of internal audit work, IA staff and service providers will:
- (i) Comply with relevant professional standards of conduct;
 - (ii) Possess the knowledge, skills and technical proficiency relevant to the performance of their duties;
 - (iii) Be skilled in dealing with people and communicating audit, risk management, compliance and related issues effectively;
 - (iv) Further their technical competence through a programme of continuous professional development; and
 - (v) Exercise due professional care in performing their duties.

Where an engagement does not conform to relevant standards, communication of the results of that engagement must disclose the principle or rule which was not adhered to, reasons for non-conformance and the impact of non-conformance on the results of the engagement.

4.3 Annual Planning

Internal Audit plans will be prepared, in conjunction with any relevant external assistance, on a risk-based integrated internal audit approach and methodology.

A strategic approach will identify and prioritise NSL's internal and external risks. The approach will focus internal audit activities on those risks that are deemed to have inadequate controls. The three (3) year Internal Audit Plan shall be presented for the ARC consideration and endorsement. The first year of the Internal Audit Plan forms the basis of the Annual Internal Audit Plan in a format agreed with the Committee. Internal Audit Plans are approved by the ARC on the recommendation of the CEO. Resource requirements and the impact of resource limitations will also be communicated to the ARC during the planning stage.

4.4 Engagement Planning and Execution

- (a) The internal auditors must develop and document a plan for each engagement setting out objectives, scope, timing and resourcing.
- (b) In planning the engagement, internal audit must consider:
- (i) The strategies, objectives and controls of the activity being reviewed.
 - (ii) The significant risks associated with the activity being reviewed.
 - (iii) The adequacy of the governance, risk management and control processes in place compared to a relevant framework or model.
 - (iv) Opportunities for improvement.
- (a) Internal Audit must also consider the following for the execution of each engagement:
- (i) Define the objectives for the engagement.
 - (ii) Set an appropriate scope to meet the objectives.
 - (iii) Gather appropriate resources required to deliver the engagement within set timeline.
 - (iv) Prepare and document audit work program.
 - (v) In performing the engagement, ensure sufficient documentation is maintained.
 - (vi) Identify appropriate, sufficient and reliable information in order to achieve the objectives.

- (vii) Undertake sufficient control testing and evaluation to support an audit opinion with relevant documentation.
- (viii) Provide adequate supervision in each engagement.
- (ix) Communicate the results of each engagement, as well as the objective and scope, in a clear, constructive and timely manner.
- (x) Where a final report contains a significant error or omission, the corrected information must be circulated to all staff who received the original communication.
- (xi) Consider the use of the words 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing' to ensure it is appropriate and supported by the results of the quality and assurance program.
- (xii) Report the results to appropriate parties, including auditees, relevant senior management and the A&RC.
- (xiii) Ensure the overall opinion for each engagement is supported with sufficient, relevant, reliable and useful information.
- (xiv) Monitor the dissemination of results to management.
- (xv) Where management has accepted a level of risk that may be unacceptable to the organisation, IA must discuss the matter with senior management. If the matter is not resolved, this must be communicated to the ARC.

Internal Audit Model

- (a) The Internal Audit Function is delivered in-house and may be supported by external professional services on a per engagement basis. External providers are made aware that NSL retains all responsibility for maintaining an effective Internal Audit function.
- (b) The in-house team is headed by the Manager Internal Audit or an alternative who is accountable for its efficient functioning including resourcing and development of the function's policies and procedures. The Manager Internal Audit is also responsible for ensuring internal audit resources are appropriate, sufficient and effectively deployed in order to achieve the approved audit plan.
- (c) Internal Audit reports for administrative purposes to the CEO, and functionally to the A&RC. Through the Chair of the A&RC, Internal Audit retains unrestricted access to the A&RC to discuss any matter relating to the finances or operations of NSL or any associated entity.
- (d) Manager Internal Audit should also discuss Internal Audit's mission and compliance with the relevant standards with senior management and the A&RC.

5 Roles and Responsibilities

5.1 Individual Independence and Objectivity

All individual members of the Internal Audit team must maintain an impartial, unbiased attitude and avoid conflicts of interest at all times.

5.2 Organisational Independence and Objectivity

- (a) Organisational independence is essential to the effectiveness of the Internal Audit function. The Internal Audit function shall have no direct authority or responsibility for the activities it reviews. The Internal Audit function shall also have no responsibility for developing or implementing procedures or systems and shall not prepare records or engage in original line processing functions or activities (except as noted below). The work of Internal Audit shall not in any way relieve managers of their responsibilities for the development, implementation and maintenance of management control systems in their areas.
- (b) The Internal Audit Manager or an alternative is responsible for the day to day operations of the Internal Audit function of NSL to ensure it continues to add value to the organisation. In achieving

organisational independence, the Internal Audit function has dual reporting lines. These reporting lines require that Internal Audit must:

- (i) Report administratively to the Chief Executive Officer to facilitate day to day operations of the Internal Audit function
 - (ii) Report and communicated directly to the A&RC for strategic direction and accountability of the Internal Audit function.
- (c) In the conduct of its activities, Internal Audit will play an active role in:
- (i) Developing and maintaining a culture of accountability and integrity;
 - (ii) Facilitating the integration of risk management into day-to-day business activities and processes;
 - (iii) Promoting a culture of cost-consciousness, self-assessment and adherence to high ethical standards;
 - (iv) Promoting culture of performance and achievement of outcomes.
- (d) The Manager Internal Audit will confirm the independence of the Internal Audit Function annually to A&RC. Should the independence or objectivity of the Internal Audit function be impaired, either in fact or appearance, this will be disclosed directly to the A&RC Chair.
- (e) Internal Audit activities will encompass the following areas:

5.3 Audit Activities

Internal Audit will perform audit activities with the following orientations:

5.3.1 Compliance

- (a) Compliance with legislative requirements, policies and procedures including assurance in respect of the representation or transmittal letter (as provided in the Annual Report);
- (b) The adequacy and effectiveness of internal financial and operational controls including IT system controls; and
- (c) The recording, control and use of NSL assets.

5.3.2 Performance Improvement

- (a) The efficiency, effectiveness, and ethical conduct of NSL business systems and processes.
- (b) Assessing and monitoring the successful implementation of recommendations for control improvements accepted by NSL.

5.3.3 Governance

Assessing the state of organisational governance in NSL and recommending strategies for improvement.

5.1.4 Promoting Best Practice

Identifying and promulgating best practice within NSL.

5.4 Advisory Services

In providing advisory services, Internal Audit needs to maintain operational independence. It is the responsibility of NSL management to accept or reject advice provided by Internal Audit, to implement the advice where considered appropriate and be accountable for decisions taken. Internal Audit can advise NSL staff on a range of matters, including:

5.4.1 New Programmes, Systems and Processes

Providing advice on the development of new programmes and processes and/or significant changes to existing programmes and processes, including the design of appropriate controls, compliance, governance and risk management.

5.4.2 Risk Management

- (a) Assisting management to identify risks and develop risk mitigation and monitoring strategies as part of the risk management framework.
- (b) Co-ordinating the annual NSL Risk Management Plan.
- (c) Monitoring and reporting on the implementation of risk mitigation strategies.

5.4.3 Fraud Control

- (a) Assisting NSL to identify and manage the risks of fraud and develop fraud prevention and monitoring strategies.
- (b) Co-ordinating the NSL Fraud Control Plan.

Appropriate safeguards will be put in place to ensure that any advisory services provided by IA, outside the annual plan does not impair IA independence or objectivity.

5.5 Audit Support Services

Internal Audit is also responsible for:

- (a) Assisting the A&RC to discharge its responsibilities;
- (b) Assist in providing secretarial support to the A&RC where required; Monitoring the implementation of agreed recommendations arising from internal and external audit reports and other regulating bodies such as the Bank of Papua New Guinea, Internal Revenue Commission and relevant authorities;
- (c) Liaising with external auditors regarding audits conducted where required;
- (d) Disseminating across the entity best practice and lessons learnt arising from its audit activities;
- (e) Managing the audit function;
- (f) Developing a flexible annual audit plan using appropriate risk based methodology and submitting the plan for approval by A&RC;
- (g) Maintaining a quality assurance program;
- (h) Issuing periodic reports to the A&RC;
- (i) Keeping the A&RC informed of emerging trends and successful practices in Internal Auditing; and
- (j) Reporting on its performance against Key Performance Indicators.

6 Reporting

- (a) The Internal Audit Manager or his/her alternative will report to each meeting of the Audit and Risk Committee on:
 - (i) Audits completed, including the results of each audit;
 - (ii) Progress to Annual Internal Audit Plan;
 - (iii) Significant risk and control issues, including fraud risks, governance risks or other matters that require the attention of the A&RC;
 - (iv) Any reports relating to Advisory Services provided such as special request reviews; and

- (v) The status of the implementation of agreed internal and external audit, and other relevant external body recommendations.

IA will report to the A&RC, at least once annually on the overall state of internal controls in NSL and any systemic issues requiring management attention based on the work of Internal Audit (and other assurance service providers).

- (b) IA will also communicate the results of the quality assurance program to senior management and the Board. The disclosures will include:
 - (i) The scope and frequency of the internal and external assessments
 - (ii) The qualifications and independence of the assessment team
 - (iii) Conclusions of the assessment team
 - (iv) Corrective action plans

7 Evaluation of Internal Audit

- (a) Internal Audit will be subject to review to ensure compliance with expected standards and to identify any areas of its operations and performance requiring improvement.
- (b) The review will include discussions with senior management, executives, external audit and the Bank of Papua New Guinea to understand their views and identify improvements on the level of service and quality of work performed by Internal Audit.
- (c) In accordance with the International Standards for the Professional Practice of Internal Audit, promulgated by the Institute of Internal Auditors, an external assessment of Internal Audit must be carried out at least once every five years by a qualified, independent reviewer or review team from outside the organisation.

8 Relationship with the External Auditors

- (a) Internal and external audit activities will be coordinated to help ensure the adequacy of overall audit coverage and to minimise duplication of effort.
- (b) Periodic meetings and contact between Internal Audit and the External Auditor shall be held to discuss matters of mutual interest.
- (c) The External Auditor will have full and free access to all Internal Audit plans, working papers and reports upon prior approval.

9 Role of the Audit and Risk Committee

The role of the A&RC is to provide assurance to the Board of NSL in the achievement of NSL's vision and mission with specific reference to governance, risk management, audit and compliance. The A&RC oversees the implementation and effectiveness of corporate governance across NSL.

10 Administrative Arrangements

Any change to the position of the Internal Audit Manager or his/her alternative (e.g. change of level paid or substituting external audit advice for internal audit) will be approved by the CEO in consultation with the A&RC

11 Review of the Charter

The charter will be endorsed by the A&RC and approved by the Board. The Internal Audit Charter shall be reviewed every two years or as deemed necessary by the A&RC.

12 References

International Standards for the Professional Practice of Internal Auditing (Standards)


13 Document Control

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