

FMM 05.4 Establishing Internal Audit Unit and Charter

4.1 Introduction

An internal audit unit is a legally required function for all government departments, statutory bodies, and subnational agencies in PNG that receive public funds and are subject to Auditor-General oversight.

4.2 Mandated Policy

1. Section 4 of the PFMA empowers the Finance Departmental Head to direct agencies to establish internal audit units and ensure they are operating effectively. The Department of Finance, under this mandate, requires all agencies to:

- Establish an internal audit unit (IAU) or join with other agencies to establish an IAU under a shared services arrangement;
- Appoint a designated Head of Internal Audit; and
- Adopt and operate under an approved Internal Audit Charter.

2. The internal audit function in PNG must be established and operate in line with the following global standards:

- Standard 1000 – Purpose, Authority, and Responsibility
- Standard 1110 – Organisational Independence
- Standard 1130 – Impairments to Independence or Objectivity

3. The internal audit function must adopt a code of ethics and all members of Audit Committee and Internal Audit Units sign this code (refer to Appendix for the standard code).

4. Routine PFMA compliance inspections are the responsibility of the departmental head and the designated officers—not internal auditors.

4.2.1 Provincial Government Internal Audit Unit

5. Subject to this FMM, within a province, the Provincial Government established under the *Organic Law on Provincial Governments and Local-level Governments* in that province shall establish and continuously

operate IAU in compliance with this FMM for itself, all Local-level Governments within that province and all statutory bodies that are headquartered in that province. A shared services agreement must be in place across all agencies operating a shared IAU.

- 6. No Local-level Government or statutory body headquartered in a province shall establish or operate an Internal Audit Unit, unless the Finance departmental head has enabled that local-level government or statutory body from operating its own IAU and this will consider all relevant factors, including cost efficiency and transparency and the need to operate based on the individual circumstances and risks attributable to that LLG or Statutory Body.**
- 7. In the National Capital District (NCD), the National Capital District Commission (NCDC) shall establish and continuously operate an Internal Audit Unit in compliance with this FMM.**

4.2.2 Internal Audit Charter – Purpose and Content

- 8. The Internal Audit Charter is a formal, approved document that guides the IAU operations. It ensures the function is recognised, protected, and properly directed within the agency (a template is provided as a starting point as an Appendix to this FMM). It is required to include the following at a minimum:**

Purpose	State that internal audit provides independent and objective assurance and advisory services to improve the agency’s operations.
Authority	Confirms the unit’s right to full, free, and unrestricted access to records, personnel, and systems relevant to audit assignments.
Responsibility	Lists key responsibilities: risk-based audit planning, conducting audits, reporting findings, following up on implementation of the recommendations.
Organisational Position	Describes reporting lines—typically functionally to the Audit Committee and administratively to the agency head.

Independence & Objectivity	Clarifies that internal audit must be free from management interference in the scope or reporting of audits.
Standards for Practice	Commits the unit to operate in accordance with the IIA IPPF and relevant government policy (e.g. this FMM Volume 5).
Audit Committee Oversight	Notes the committee’s role in reviewing and approving the charter, annual plan, and significant audit outcomes.
Review of the Charter	Specifies that the charter must be reviewed at least once every three years (or earlier if needed).
Ethics	<p>All staff of the Internal Audit Unit shall:</p> <ul style="list-style-type: none"> • exercise honesty, objectivity, and diligence in the performance of their duties and responsibilities and shall not knowingly be a party to any illegal or improper activity; • exercise loyalty in all matters pertaining to the affairs of the agency; • not engage in acts or activities that are discreditable to the agency or the Internal Audit Unit; • not engage in acts or activities that are in conflict with the interests of the agency or which would prejudice their ability to carry out objectively duties and responsibilities; • not accept anything of value from an employee, client, customer, supplier, or associate, which might be perceived to impair professional judgment or independence; • undertake only those services, which they can reasonably expect to complete with professional competence; • comply with the policies of their agency, the Internal Audit Unit and the Standards for the Professional Practice of Internal Auditing; • not use confidential information for personal gain, in any manner;

	<ul style="list-style-type: none"> • make full disclosure and not distort reports or conceal unlawful or improper practices; and • strive for improvement in their proficiency and in the effectiveness and quality of their service.
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4.3 Non-mandatory Guidance

4.3.1 Role and Mandate of Internal Audit Units

The role and mandate of an Internal Audit unit is –

- The examination and evaluation of the accuracy and effectiveness of the Department’s system of internal control and the quality of performance in carrying out assigned responsibilities.
- Compliance with laws, by-laws, regulations, policies, and procedures;
- Achievement of operational or organisational objectives;
- Reliability of information and safeguarding of assets;
- Reviewing the reliability and integrity of financial and operating information and the means used to identify and report such information;
- Reviewing management systems to ensure compliance with policies, plans, procedures and regulations, and determining departmental compliance;
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such resources;
- Reviewing the economy, efficiency and effectiveness with which resources are employed; and
- Reviewing operations and programs to ascertain whether results are consistent with established objectives and goals and whether operations are being carried out as planned.

Additional Internal Audit Unit functions are:

- Provide advice on fraud prevention and detection and ethical agency conduct;
- Coordinating efforts with the Auditor-General;

- Reporting findings and recommendations to management, Senior Executive Management, the Secretary or Chief Executive Officer and the Audit Committee; and
- Performing all work in accordance with corporate policies, the policies and procedures of the Internal Audit Unit and the Code of Ethics of the Internal Audit Unit and in accordance with The Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing.

4.4 Quick Checklist

1. Has your agency formally established an internal audit unit?
2. Is there a Head of Internal Audit with adequate independence and qualifications?
3. Has your Internal Audit Charter been approved by both the Audit Committee and the Head of Agency?
4. Does the Charter clearly define purpose, authority, responsibilities, and standards (IPPF and PFMA)?
5. Has the charter been reviewed in the past three years?

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