

AUDIT & RISK COMMITTEE CHARTER



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1. PURPOSE OF CHARTER

The Audit & Risk Committee (the 'Committee') is an independent advisory committee to Council established under section 53 of the *Local Government Act 2020* (the Act).

The Committee Charter (the 'Charter') has been developed with regard to '*Audit Committees – A Guide to Good Practice for Local Government*', January 2011 issued by the Minister for Local Government and Victorian Auditor-General's report on *Audit Committee Governance* issued in August 2016 and under section 54 of the Act.

The Charter sets out the Committee's objectives, authority, composition and tenure, roles and responsibilities and reporting, administrative and governance arrangements.

The Committee's objective is to provide appropriate independent advice and recommendations to Council on matters relevant to the Committee's Charter in order to facilitate decision-making by Council in relation to the discharge of Council's accountability requirements.

The Committee is an Advisory Committee and does not have executive powers or authority to implement actions in areas over which management has responsibility and does not have any delegated financial responsibility. The Committee does not have any management functions and is therefore independent of management.

The Committee will provide oversight and guidance on the following matters:

- Council financial performance reporting;
- Compliance of Council policies and procedures with the Act, particularly the governance principles;
- The effectiveness of the management and reporting of Council's risk management and fraud and corruption prevention;
- The effectiveness of Council's system of internal controls;
- The effectiveness of the internal and external audit functions; and
- The provision of an effective means of communication between the external auditor, internal audit, management and the Council.

The Committees has an established Annual Work Program to enable it to discharge its responsibilities effectively pursuant to the requirements of the Charter and reviews the Annual Work Program at least once yearly.

2. COMMITTEE'S DUTIES AND RESPONSIBILITIES

The duties and responsibilities of the Committee include:

Financial Reporting

The Committee will:

2.1 Review Council's draft annual financial report and annual performance statement, focusing on:

- The reporting requirements of accounting policies and Approved Accounting Standards;
- Changes in accounting policies and Approved Accounting Standards (the 'Standards');
- The assumptions used and processes applied in making significant accounting estimates;
- Significant adjustments to the financial report (if any) arising from the audit process;
- Compliance with Standards and other reporting requirements of financial and non-financial information; and
- Significant changes to the content of reports, the operating results, financial position, and performance indicators in comparison to the previous year.

- 2.2 Review and recommend adoption of the Annual Financial and Performance Statements to Council and review any significant changes and the reasons for the changes that may arise subsequent to any such recommendation but before the financial report is signed.
- 2.3 Review the completeness of corporate governance processes as prescribed in the Governance and Management Checklist of the Local Government (Planning and Reporting) Regulations 2014.

External Audit

The Committee will:

- 2.4 Be briefed at least annually by the External Auditor on the audit strategy prior to the commencement of each year's audit process.
- 2.5 Discuss and review with the External Auditor the scope and the planning of the audit.
- 2.6 Discuss and review with the External Auditor issues arising from the external audit, including all significant Management Letter items and the potential impact of those items on Council's system of internal control.
- 2.7 Ensure significant findings and recommendations made by the external auditor and management's responses are received, discussed and appropriately actioned by management.
- 2.8 Review on an annual basis the performance of the External Auditor.

System of Internal Control

The Committee will:

- 2.9 Maintain an awareness of local government performance audits undertaken by VAGO and any other relevant reviews undertaken by Australian and Victorian public sector integrity bodies, including the Independent Broad-Based Anti-Corruption Commission (IBAC), the Local Government Inspectorate and the Victorian Ombudsman and consider relevant recommendations for action or implementation where appropriate.
- 2.10 Confirm that management are aware of these external reviews and have considered the relevant recommendations for action or implementation.
- 2.11 Review the adequacy and effectiveness of key systems and controls as a basis for providing a sound internal control framework.
- 2.12 Ensuring that key policies, procedures, systems and controls are reviewed regularly and updated where required.

Internal Audit

The Committee will:

- 2.13 Be kept informed by Council Officers of any process to appoint or terminate the Council's internal audit service provider.
- 2.14 Recommend to Council the approval of the Internal Audit Plan for the coming year.
- 2.15 Review the level of resources allocated to internal audit and the scope of its authority.
- 2.16 Review the scope of the Internal Audit Plan and the effectiveness of the function. This review should consider whether, over a period of three (3) years the Internal Audit Plan systemically addresses:
 - 2.16.1 Internal controls over significant areas of risk, including non-financial management control systems;
 - 2.16.2 Internal controls over revenue, expenditure assets and liability processes;
 - 2.16.3 The efficiency, effectiveness and economy of significant Council programs; and
 - 2.16.4 Compliance with regulations, policies, best practice guidelines, instructions and contractual arrangements.

- 2.17 Review the appropriateness of special internal audit assignments undertaken by internal audit at the request of Council or the Chief Executive Officer.
- 2.18 Review internal audit reports and monitor the implementation of recommendations by management.
- 2.19 Facilitate liaison between the Internal and External Auditors to promote compatibility, to the extent appropriate, between their audit programs.
- 2.20 Critically analyse and follow up any internal or external audit report that raises significant issues relating to risk management, internal control, financial reporting and other accountability or governance issues, and any other matters relevant under the Committee's Charter. Review management's response to, and actions taken as a result of, the issues raised.
- 2.21 Review on an annual basis the performance of the Internal Auditor, including adherence to appropriate, professional and quality standards, and where performance is not considered satisfactory, report to Council and make recommendations, which may, in extreme cases, include a recommendation that Council terminate the Internal Audit contract and undertake a tender process for the appointment of a new internal auditor.
- 2.22 Ensure that a representative(s) of the Committee and a member of Council's Executive Management Team (EMT) not directly involved in the management of the internal audit contract are included on the tender evaluation panel tasked with making recommendations to Council for the appointment of a new Internal Auditor.

Risk Management

The Committee will:

- 2.23 Monitor the risk exposure of Council by determining if management has appropriate risk management processes and adequate management information systems in place to report to Councils risk profile and changes to it.
- 2.24 Monitor reported related party transactions, monitor the implementation of recommendations arising from reports presented and review the effectiveness of Council's internal control systems.
- 2.25 Provide oversight of Council's Risk Management Framework and activities conducted by the Internal and External Auditors and any other assurance providers to give assurance over that framework.
- 2.26 Escalate to Council when the Committee feels that management is not responding as it should on concerns about the Risk Management Framework.

Ethical Behaviour

The Committee will:

- 2.27 Receive updates from management of any suspected cases of fraud, corruption or serious misconduct impacting Council without jeopardising the privacy of any parties (where appropriate).
- 2.28 Recommend any specific measures or investigations identified as necessary or desirable by the Committee to the Council and / or management.
- 2.29 Monitor any breaches of ethical standards and monitor the implementation of recommendations arising from reports presented to the Committee. Report any suspected fraud or corrupt behaviour to the Inspectorate or IBAC as appropriate.
- 2.30 Monitor and provide advice on fraud prevention systems and controls.
- 2.31 Receive reports on any subsequent investigation, including the investigation of any suspected cases of fraud, corruption, serious misconduct or breaches of conflict of interest.

- 2.32 Review the findings of any examinations by regulatory or other independent agencies, and any auditor (internal or external) observations and confirm that management have taken appropriate action as a result of the findings.
- 2.32a Review the Strategic Risk Register twice a year to provide a level of assurance that these risks are being managed appropriately.

Matters Referred to the Committee by Council

- 2.33 The Committee will address issues brought to its attention, including responding to requests from Council for advice.

3. COMMITTEE OPERATIONS

Meetings

The following requirements will apply to meetings of the Committee:

- 3.1 The Committee shall meet as required, but at least quarterly, each year.
- 3.2 The Chief Executive Officer and Internal Auditor should attend all meetings, except when the Committee chooses to meet in camera.
- 3.3 Other members of Council or Council staff may be invited to attend at the discretion of the Committee and Chief Executive Officer to advise and provide information when required.
- 3.4 The Committee, without management present, will meet separately with the Internal Auditor and the External Auditor as available, for every meeting, but not less than annually, to discuss any issues of relevant interest.
- 3.5 Representatives of the External Auditor will attend a meeting to consider the draft annual financial report and results of the external audit and may be invited to attend other meetings at the discretion of the Committee.
- 3.6 A schedule of meetings will be developed and agreed by members. As an indicative guide, meetings will be arranged to coincide with relevant Council reporting deadlines.
- 3.7 Additional meetings shall be convened at the discretion of the Chair or at the written request of any two members of the Committee; the Internal Auditor; or the External Auditor.
- 3.8 The agenda and supporting documentation will be circulated to members of the Committee at least one (1) week in advance or each meeting.
- 3.9 Minutes will be prepared within one (1) week of the meeting for approval by the Chair and shall be distributed to Committee members within two (2) weeks of the meeting. Any items designated as “Confidential” by the Committee (which must only be on the basis that the item is considered to be confidential pursuant to the Local Government Act 2020) will be noted in separate Confidential Minutes of the Committee.
- 3.10 The Chair will sign the minutes following confirmation of the minutes at a subsequent meeting.
- 3.11 The unconfirmed minutes will be reported to the Council within two months of the Committee meeting, with any Confidential Minutes reported to a Confidential Council meeting.
- 3.12 The Corporate Services Directorate shall provide secretarial and administrative support to the Committee.

Reporting

- 3.13 The Committee may report to Council on any matters of significance as determined by the Committee.
- 3.14 The Committee will undertake an annual assessment of its performance against the Audit and Risk Committee Charter and provide a copy of the annual assessment to the Chief Executive Officer for tabling at the next Council meeting.

- 3.15 The Committee Chair must provide a biannual report to the Chief Executive Officer which:
- 3.15.1 Summarises the activities of the Committee during the past six (6) months;
 - 3.15.2 Provides any findings and recommendations in relation to the functions of the Committee; and
 - 3.15.3 Requests that the Chief Executive Officer table this report at the next Council meeting.
- 3.16 The Chair is entitled to attend any Council Briefings meeting at any other time to bring any particular matters to the attention of Councillors which the Chair or Committee sees fit. Such meetings may be held with or without management present at the determination of the Chair following consultation with the Mayor.
- 3.17 The Committee Charter and details of its members will be published on Council's website.
- 3.18 Council's Annual Report will contain information on the composition of the Committee, the number of meetings held and attended by Committee members, audit processes, details of any remuneration paid to independent members during the reporting period and a summary of work completed by the Internal and External Auditors during the year.

4. COMMITTEE GOVERNANCE

Membership

- 4.1 The Committee will be comprised of five members:
- One (1) independent Chair; and
 - Two (2) independent members; and
 - Two (2) Councillors (one of whom is the Mayor)

All members will have full and equal voting rights unless a member is unable to vote due to a conflict of interest.

The following requirements will apply to members and the appointment thereof:

- 4.2 Council will appoint Committee members;
- 4.3 A quorum of any meeting will be at least two independent members (which may include the Chair) and at least one Councillor member;
- 4.4 Committee members can attend the meeting via dial-in or video conference, and will be included as part of the quorum; and
- 4.5 The Chair will be an independent member of the Committee and will have a casting vote on occasions where there is an equal tally of votes on a matter. In the absence of the appointed Chair from a meeting, the Committee will appoint an Acting Chair from the independent members present.

Terms of Appointment

- 4.6 New independent member appointments will be publicly advertised in the local newspapers, Council's website, online 'Directorships Opportunities' listing provided by the Australian Institute of Company Directors and other channels.
- 4.7 The Recruitment and Selection process for appointment to the Committee will consist of:
 - 4.7.1 In the case of the Councillor members:
Appointment and selection by the Council annually
 - 4.7.2 In the case of the Committee Chair:
Appointment by the Council on recommendation of the Committee annually
 - 4.7.3 In the case of the Independent members:
A selection panel will be formed comprising the Chair and two Councillor representatives and will

make a recommendation to the Council on a suitable candidate to be appointed. If the vacancy is the Chair then another independent member will serve on the selection panel.

4.8 Applications for membership will be assessed against appropriate criteria.

The criteria will fall within the areas of:

- 4.8.1 Level and breadth of senior business, management, finance and accounting and / or audit experience and qualifications;
 - 4.8.2 Level of familiarity with Local Government operations, including financial reporting, auditing requirements, risk management, business ethics and corporate governance; and
 - 4.8.3 Previous Audit and / or Risk Committee experience.
- 4.9 Independent members should also have the ability to provide Councillors, the Chief Executive Officer and Council's administration with well-rounded and professional advice concerning the adequacy of Council's administrative, operational, financial and accounting systems and controls, performance reporting regimes, and risk management processes.
- 4.10 Independent members shall be appointed for a term of up to three years. At the conclusion of their first term, existing members will be eligible to apply to be re-appointed with acceptance at the discretion of Council.
- 4.11 A person can only serve in the positions of independent member or Chair for a maximum of six consecutive years / two terms.
- 4.12 A person who has been an independent member for up to six years is eligible to serve as Chair providing that the total length of combined continued service in both roles does not exceed nine years / three terms.
- 4.13 The terms of each member should be arranged so that there is an orderly rotation of membership and avoidance of more than one member retiring at the same time.
- 4.14 In the event of an independent member resigning / retiring before the expiry of their term, the vacancy will be filled at the discretion of the Council. Further, should the resignation / retirement of two or three of the independent members coincide, the Council may extend one members' term by one year to ensure continuity.
- 4.15 If the Council proposes to remove a member of the Committee, it must give written notice to the members of its intention to do so and provide that member with the opportunity to be heard at a Council meeting.
- 4.16 Remuneration will be paid to each independent member of the Committee as determined by Council. Annual increases in the remuneration of Committee members will be limited to increases in the Consumer Price Index (CPI All Groups Melbourne) and adjusted annually on 1 July.
- 4.17 The Committee may from time to time ask the Chief Executive Officer for a Subject Matter Expert (SME) to attend a meeting. Any Councillors may attend meetings in an "ex officio" capacity.

Performance Evaluation

- 4.18 The Committee will evaluate its own performance on an annual basis using a self-assessment tool which will be reviewed, adopted and completed by the Committee.

Conduct

Members of the Committee are required to comply with the following Sections from the *Local Government Act 2020*: Sections, 123, 125 and Part 6 Division 2: Sections 126-131, among other things the following requirements:

- 4.19 Submit six monthly Interest Returns on the form specified by Council, noting this is in accordance with good governance practices rather than a legislative requirement under the Act
- 4.20 Declare and manage any conflicts of interest which arise in accordance with the Act;
- 4.21 Not misuse their position on the Committee for personal benefit or to the detriment of Horsham Rural City Council; and

4.22 Not disclose confidential information obtained through their role on the Committee.

Members of the Committee must be fully aware of their responsibilities with regard to the management of interests in relation to the discharge of their duties as a member of the Committee. Management of interests includes the proper management of any conflicts of interest as and when they may arise.

Members of the Committee must also be fully aware of the statutory definitions of general and material conflicts of interest as set out in Part 6 Division 2 of the Act.

Failure to comply with the provisions of the Act with regard to conflicts of interest may result in prosecution and the member's appointment being terminated by the Council.

[Review of Committee Charter](#)

The Committee will review the Charter on a biennial basis, or as required following relevant changes to the Act or other related Acts & Regulations, and recommend any changes to Council for approval.

The next review date will be September 2024