

# Nillumbik Shire Council Audit and Risk Committee Charter

May 2020

## **1. Purpose of this charter**

The purpose of this charter is to facilitate the operation of the Audit and Risk Committee (the Committee).

## **2. Introduction**

The Committee is an advisory committee formally appointed by the Nillumbik Shire Council (Council) pursuant to section 54 of the *Local Government Act 2020* (the Act) and is responsible to the Council. The Committee does not have executive powers or authority to implement actions in areas over which management of Nillumbik Shire Council (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's role is to report to the Council and provide appropriate advice and recommendations on matters relevant to its charter in order to facilitate decision making by the organisation comprising Council and management in relation to the discharge of its responsibilities.

## **3. Objectives**

The objectives of the Committee in relation to Council are to oversee:

1. The integrity of external financial reporting, including accounting policies;
2. The scope of work, objectivity, performance and independence of the external and internal auditors;
3. The establishment, effectiveness and maintenance of controls and systems to safeguard financial and physical resources;
4. The systems or procedures that are designed to ensure compliance with relevant statutory and regulatory requirements;
5. The process for recognising risks arising from operations and strategies, and to consider the adequacy of measures taken to manage those risks; and
6. The process and systems which protect against fraud and improper activities including the Protected Disclosures Act procedures.

The Committee seeks also to add to the credibility of council by promoting ethical standards through its work.

## **4. Authority**

The Committee is directly responsible to Council for its performance in discharging its responsibilities as set out in this charter.

The Committee, in relation to Council, has the authority to:

1. Review the internal and external auditor's annual audit plans and the outcomes/results of all audits undertaken.

2. Approve the annual internal audit plan.
3. Seek any information or advice it requires from Council members and management via the Chief Executive Officer and external parties.
4. Formally meet with management, internal and external auditors as necessary or if required in camera.
5. Seek resolution on any disagreements between management and the external auditors on financial reporting.
6. Seek resolution on any disagreements between management and the internal auditors on any audit findings.

The Committee has the authority to advise Council on any or all of the above as deemed necessary.

## **5. Composition**

1. The Committee will comprise of five members, three being independent and two being councillors.
2. Council will appoint Committee members. In appointing members to the Committee Council will consider gender balance.
3. The Chair will be independent of Council and management and will be appointed by the Committee, for a three year term and ratified by Council and may be reappointed consistent with the provisions of 5.7 of this charter.
4. The Committee is authorised to appoint an Acting Chair when required.
5. The independent members, taken collectively, will have expertise in financial management and risk and experience in public sector management.
6. No member of Council staff may be a member of the Committee.
7. Independent members will be appointed for an initial period not exceeding three years. Members may be re-appointed for a total period of six years (which includes their initial term) at the discretion of Council. Independent members may be appointed for a final consecutive term of up to three years in addition to the six years subject to competitive advertising.
8. A quorum will be a majority of members. The number of independent members at each meeting must equal or exceed the number of Councillors.
9. Independent members will be remunerated at a rate set by Council for the four meetings per year, the annual amount will be apportioned evenly across each meeting.
10. The rate will be reviewed annually, if applicable increased accordingly through either annual indexation applied or benchmarking undertaken across Committees of similar size and complexity both within the sector and from other industries.
11. Should additional meetings be required, independent members will be remunerated for the meeting at a rate equal to or greater than the apportioned meeting remuneration under point 9 of this section.
12. Committee members are required by the *Local Government Act 2020* to lodge an initial personal interests return and subsequent biannual personal interests returns and declare any conflicts of interest that apply to any matter to be considered at each meeting.

13. New members will receive relevant information and briefings on their appointment to assist them to meet their Committee responsibilities.
14. Professional indemnity cover will be provided to Independent members under Council's insurance policy.

### **5.1 Support**

1. To facilitate the operation of the Committee, the Chief Executive Officer or their delegate has responsibility to provide:
  - a. any necessary training for members in relation to their responsibilities under the *Local Government Act 2020*.
  - b. any information required by the Committee to enact its responsibilities under this charter.
  - c. officer advice in respect of matters before the Committee.
  - d. formal meetings with Council staff, the internal auditors or the external auditors as requested by the Committee, in accordance with the execution of its responsibilities under this charter.

## **6. Meetings**

1. The Committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require.
2. Additional meetings may be called by the Chair of the Committee, or at the request of the Mayor or Chief Executive Officer. If additional meetings are called, Independent members will be remunerated for their attendance at a rate reflective of the allowance paid.
3. The Committee meetings shall be 'Closed' and therefore not open to the public.
4. All Councillors are invited to attend each Committee meeting.
5. All Committee members are expected to attend each meeting in person.
6. The Chief Executive Officer and Chief Financial Officer will facilitate the meetings of the Committee and invite members of management, internal and external auditors or others to attend meetings as observers and to provide pertinent information, as necessary.
7. The Committee will develop a forward meeting schedule that includes the dates, location, and proposed work plan for each meeting for the forthcoming year, that cover all the responsibilities outlined in this charter.
8. Meeting agendas will be prepared and provided at least one week in advance to members, along with appropriate briefing materials.
9. Minutes will be taken at each meeting and presented to the subsequent meeting for confirmation.

## **7. Responsibilities**

The Committee will carry out the following responsibilities:

### **7.1 Risk management**

1. Review whether management has in place a current and comprehensive enterprise risk management framework and associated procedures for effective identification and management of Council's business and financial risks.
2. Determine whether a sound and effective approach has been followed in managing Council's major risks including those associated with individual projects, program implementation and activities.
3. Assess the impact of Council's enterprise risk management framework on its control environment and insurance arrangements.
4. Monitor, review and provide advice on Council's strategic risk register.
5. Review the process of developing and implementing Council's fraud control arrangements to assist Council in ensuring it has appropriate processes and systems in place to detect, capture and effectively respond to fraud and improper activities.

## **7.2 Business continuity**

1. Consider whether a sound and effective approach has been followed in establishing Council's business continuity planning arrangements, including whether business continuity and disaster recovery plans have been periodically updated and tested.

## **7.3 Internal control**

1. Review whether management's approach to maintaining an effective internal control framework is sound and effective.
2. Review whether management has in place relevant policies and procedures, including Chief Executive Officer's Instructions or their equivalent, and that these are periodically reviewed and updated.
3. Consider whether the appropriate processes are in place to assess, at least once a year, whether key policies and procedures are complied with.
4. Review whether appropriate policies and supporting procedures are in place for the management and exercise of delegations.
5. Consider how management identifies any required changes to the design or implementation of key internal controls.

## **7.4 Compliance**

1. Review the systems and processes to monitor the effectiveness of the system for monitoring compliance with legislation, including the overarching governance principles in the Act, regulations and Ministerial Directions and the results of management's investigation and follow-up (including disciplinary action) of any instances of material non-compliance.
2. Keep informed of the findings of any examinations by regulatory agencies and any auditor (internal or external) observations and monitor management's response to these findings.
3. Obtain regular updates from management about compliance matters.

## **7.5 Internal audit**

1. Ratify the appointment and dismissal of the internal auditor.

2. Review with management and the internal auditor the charter, activities and resourcing of the internal audit function.
3. Review the specifications for the Provision of Internal Audit Services contract and participate in the tender evaluation process.
4. Review and recommend the annual internal audit plan for endorsement by Council and all major changes to the plan.
5. Monitor that the internal auditor's annual plan is aligned to and covers the material business risks.
6. Monitor processes and practices to ensure that the independence of the internal audit function is maintained.
7. Annually review the performance of internal audit including the level of satisfaction with the internal audit function having consideration of the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.
8. Provide an opportunity for the Committee to meet with the internal auditor to discuss any matters that the Committee or internal auditor believes should be discussed privately.
9. Review all internal audit reports and provide advice to Council on significant issues identified in audit reports and action to be taken on issues raised, including identification and dissemination of good practice.
10. Monitor management's implementation of internal audit recommendations.

#### **7.6 External audit**

1. Note the external auditor's proposed audit scope and approach for financial and performance audits, including any reliance on internal auditor activity.
2. Consider the findings and recommendations of relevant Performance Audits undertaken by the external auditor and ensure Council implements relevant recommendations.
3. Monitor processes and practices to ensure that the independence of the external audit function is maintained.
4. Provide an opportunity for the Committee to meet with the external auditors to discuss any matters that the Committee or the external auditors believe should be discussed privately.
5. Review all external audit reports and provide advice to Council on significant issues identified in audit reports and action to be taken on issues raised, including identification and dissemination of good practice.
6. Annually review the performance of external audit including the level of satisfaction with the external audit function.
7. Monitor management's implementation of external audit recommendations.

#### **7.7 Financial report**

1. Review significant accounting and reporting factors, including complex or unusual transactions and areas requiring expert judgement, and recent accounting, professional and regulatory pronouncements and legislative changes, and understand their effect on the financial report.

2. Review with management and the external auditors the results of the audit, including any difficulties encountered.
3. Review the annual financial report and performance report of Nillumbik Shire Council and consider whether it is complete, consistent with information known to Committee members, and reflects appropriate accounting principles and standards.
4. Review with management and the external auditors all matters required to be communicated to the Committee under the Australian Auditing Standards.
5. Recommend in principle that Council approve the Financial Statements and Performance Statements.
6. Review the appropriateness of the framework and content of periodic management financial reporting to Council.

### **7.8 Reporting responsibilities**

1. Report to Council about Committee activities, issues, and related recommendations through circulation of minutes and the Committee's annual report. Additional updates may be appropriate should issues of concern arise.
2. Biannually prepare a report that describes the activities of the Committee and includes its findings and recommendations to be presented to Council.

### **7.9 Other Responsibilities**

1. Perform other activities related to this charter as requested by Council.
2. Annually review and assess the adequacy of the Committee Charter, request Council approval for proposed changes, and ensure appropriate disclosure as might be required by legislation or regulation.
3. Annually confirm that all responsibilities outlined in this charter have been carried out.
4. The minutes of each meeting be presented to Council.
5. Internal audit reports and external audit reports shall not be made public.

## **8. Transparency measures adopted**

The Committee shall undertake a process to evaluate its performance against this Charter and overall performance annually, reporting the outcomes of the evaluation process to Council.

## **9. Conflicts of Interest and Personal Interests Returns**

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 a general conflict of interest and a material conflict of interest. These are set out in Division 2 of Part 6 of the Act. Members of the Committee are required to comply with section 123 (misuse of position),

Division 2 of Part 6 (disclosure of conflict of interest) and Division 3 of Part 6 (personal interests returns of the Act, which include, among other things, the following requirements:

1. Lodgement of personal interest returns on the forms specified by Council in accordance with the Act; and
2. Declaration and management of any conflicts of interest which arise in accordance with the Act.

In addition, members of the Committee shall comply with Council's Code of Conduct in carrying out their duties as a member of the Committee. In broad terms, and for guidance to members of the Committee:

- a) Committee members must disclose any conflicts or perceived conflicts of interest at the commencement of each meeting;
- b) Where members are deemed to have a conflict of interest, they will be excused from discussions and deliberations on the matter. Failure to comply with the provisions of the Act regarding conflicts of interest may result in prosecution and the member's appointment being terminated by Council.

## **10. Confidentiality**

All information received by Committee members in the course of their work as Committee members is confidential and must not be shared with any party outside the Committee.

Councillor members must comply with the requirements of section 125 of the Act in this regard. Section 53(5) of the Act provides that sections 123 (misuse of power) and 125 (confidential information) and Division 2 of Part 6 (Conflict of interest) apply to a member of the Audit and Risk Committee who is not a Councillor as if he were a member of a delegated committee. Failure to comply with the provisions of the Act with regard to confidential information may result in prosecution and the member's appointment being terminated by Council.

## **11. Indemnity**

The Council will indemnify and keep indemnified each independent member of the committee against all actions or claims whether arising during or after their term of appointment in respect of anything necessarily done or reasonably done or omitted to be done in good faith:

- a) In the performance of a duty or function or the exercise of any matter under the Act, regulations, a local law or this charter.
- b) In the reasonable belief that the act or omission was in the performance of a duty or a function or the exercise of a matter under the Act, regulations, a local law or this charter.