

# Audit & Risk Committee CHARTER

**December 2016**

[www.warrnambool.vic.gov.au](http://www.warrnambool.vic.gov.au)

## 1. PURPOSE

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The Audit and Risk Committee (*the Committee*) is an independent advisory committee to Council established under section 139 of the Local Government Act 1989 (*the Act*).

The purpose of *the Committee* is to advise Council on the effectiveness of the organisation's systems, processes and culture for complying with its legal and financial obligations and the management of risk. In fulfilling this role, *the Committee* is to aid in the implementation of the Warrnambool City Council's Council Plan.

*The Committee* is accountable to and reports directly to Council.

The Committee's work is to be informed by the requirements of *the Act* and best practice in audit, risk and governance principles and processes.

## 2. AUTHORITY

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*The Committee* 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's* role is to report to Council and provide appropriate advice and recommendations on matters relevant to this Charter in order to facilitate decision-making by Council in relation to the discharge of its responsibilities.

*The Committee* has the authority to:

- Seek resolution on any disagreements between management and the external auditors on financial report;
- Review all auditing, planning and outcomes;
- Seek any information it requires from Council members, officers and external parties via the Chief Executive.
- Formally meet with Council officers, internal and external auditors as necessary.
- Address issues brought to the attention of *the Committee*, including responding to requests from Council for advice which is within the parameters of *the Committee's* terms of reference.
- The Chair has no executive authority on behalf of Council but can be consulted as required, as a sounding board by the Chief Executive or his/her delegate on matters that arise regarding audit, risk management or governance related issues.

## 3. MEMBERSHIP

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*The Committee* will be comprised of five members:

- One (1) independent Chairperson;
- Two (2) independent members; and
- Two (2) Councillors

All members shall 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 Committee Chairperson

- a) Council will appoint Committee members and *the Committee* Chairperson;
- b) A quorum of any meeting will be a least two independent members (which may include the Chairperson) and at least one Councillor member.

- c) The Chairperson shall be an independent member of *the Committee* and shall have a casting vote on occasions where there is an equal tally of votes on a matter. In the absence of the appointed Chairperson from a meeting, the meeting will appoint an acting Chairperson from the independent members present.

#### 4. TERM OF APPOINTMENT

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- a) Appointments of external members shall be made by Council by way of public notice inviting expressions of interest and be for a maximum term of four years. Options for reappointment, subject to successful performance reviews, are also available and a maximum of two extensions is considered reasonable.
- b) Where possible, the terms of external members should be arranged to ensure an orderly rotation and of overlap appointment membership, relative to the elected Council's quadrennial terms.
- c) The external members will have senior business or financial management/reporting knowledge and experience, and be conversant with the financial and other reporting requirements. The evaluation of potential members will be undertaken initially by the Chair utilising officer input as required and subsequently by the Mayor and Chief Executive, taking account the experience of applicants and their likely ability to apply appropriate analytical and strategic management skills, and a recommendation for appointment put to Council.
- d) Council members (councillors) shall be appointed annually at Council's Annual (Statutory) Meeting, normally being in early December each year.
- e) If the Council proposes to remove an external member of *the Committee*, it must give written notice to the external member of its intention to do so and provide that external member with the opportunity to be heard at a Council meeting which is open to the public, if that external member so requests.
- f) Remuneration will be paid to each external member of *the Committee* on the basis of an annual fee, with an additional amount paid to the Chairperson. 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 July 1.
- g) The Chairperson shall be appointed by Council from the external members of *the Committee*. In the absence of the appointed Chairperson from a meeting, the meeting will appoint an acting Chairperson from the external members present.

#### 5. MEETINGS

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The following requirements shall apply to meetings of *the Committee*:

- a) *The Committee* shall meet as required, but at least quarterly each year.
- b) The Chief Executive, Director Corporate Strategies, Manager Financial Services, Manager Governance Projects & Risk and the internal auditor (whether a member of staff or contractor) should attend all meetings, except when *the Committee* chooses to meet in camera. Other members of Council or Council staff may be invited to attend at the discretion of *the Committee* to advise and provide information when required.
- c) *The Committee*, without management present, will meet separately with the internal auditor and the external auditor, at least annually, to discuss issues of relevant interest.

- d) Representatives of the external auditor will attend a meeting to consider the draft annual standard statements, financial statements and the results of the external audit and may be invited to attend other meetings at the discretion of *the Committee*.
- e) A schedule of meetings and annual work plan will be developed and agreed by members. As an indicative guide, meetings would be arranged to coincide with relevant Council reporting deadlines.
- f) Additional meetings shall be convened at the discretion of the Chairperson or at the written request of any two (2) members of *the Committee*, the Chief Executive, the internal or external auditor.
- g) The agenda for each meeting shall take a structured format to comply with *the Act* and Council's Governance (Meeting Procedures) Local Law No. 1 - 2016. In addition, the agenda format shall reflect *the Committee's* annual work plan or matters where regular reports should be presented or identified.
- h) The agenda and supporting documentation will be circulated to members of *the Committee* at least one (1) week in advance of each meeting.
- i) Minutes will be reported to the Committee of the Whole of Council after every meeting inclusive of any report(s) to explain any specific recommendations and key outcomes.
- j) The Corporate Strategies directorate shall provide secretarial and administrative support to *the Committee*.

## 6. REPORTING

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- a) *The Committee* may report to Council on any matters of significance as determined by the Committee.
- b) *The Committee* Chairperson, will attend a meeting of an Assembly of Councillors annually (in the period late October-mid November each year) to:
  - Summarise the activities of *the Committee* during the previous financial year;
  - Provide any recommendations to councillors in relation to the functioning of *the Committee*; and
  - Brief Council on key aspects of the Committee's proposed annual work plan for the following calendar year; and
  - Draw councillors' attention to any other matters which the Chairperson or Committee see as appropriate
- c) The Chairperson is entitled to attend any Assembly of Councillors' meeting at any other time to bring any particular matters to the attention to Council which the Chairperson or Committee sees fit. Such meetings may be held with or without management present at the election of the Chairperson following consultation with the Mayor.
- d) *The Committee* Charter and details of its members will be published on Council's website.
- e) Council's Annual Report will contain information on the makeup of *the Committee*, 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 Auditor during the year.

## 7. DUTIES AND RESPONSIBILITIES

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The duties and responsibilities of *the Committee* include:

### 7.1 External Reporting

- a) Review Council's draft annual financial report, focusing on:
  - Accounting policies and Approved Accounting Standards;
  - Changes to accounting policies and Approved Accounting Standards;
  - The process used in making significant accounting estimates;
  - Significant adjustments to the financial report (if any) arising from the audit process;
  - Compliance with accounting standards and other reporting requirements of financial and non-financial information; and
  - Significant variances (with explanations thereof) from prior year's figures.
- b) 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.
- c) Review the completeness of management reporting on the legislative performance indicators and the governance and management checklist as prescribed in the Local Government (Planning and Reporting) Regulations 2014.

### 7.2 External Audit

*The Committee* will:

- a) Be briefed by the external auditor on the audit engagement and the overall audit strategy of the Victorian Auditor General's Office (VAGO) at the commencement of each year's audit process;
- b) Discuss and review with the external auditor the scope of the audit and the planning of the audit;
- c) Discuss and review with the external auditor issues arising from the audit, including all Management Letters issued by the auditor for completeness and appropriateness;
- d) Ensure significant findings and recommendations made by the external auditor and management's proposed responses are received, discussed and appropriately actioned by management;
- e) Review on an annual basis the performance of the external auditors; and
- f) Maintain an awareness of local government performance audits undertaken by VAGO and any other relevant reviews undertaken by bodies such as IBAC, and consider recommendations for action or implementation where appropriate.

### 7.3 Internal Audit

*The Committee* will:

- a) Be kept informed by Council officers of any process to appoint or terminate Council's internal audit service provider and provide advice to Council with respect to appointment of internal auditor services;
- b) Review the level of resources allocated to internal audit and the scope of its authority;
- c) Review the scope of the internal audit plan and programme and the effectiveness of the function. This review should consider whether, over a period of 3 years the internal audit plan systematically addresses:
  - Internal controls over significant areas of risk, including non-financial management control systems;

- Internal controls over revenue, expenditure, assets and liability processes;
  - The efficiency, effectiveness and economy of significant Council programmes; and
  - Compliance with regulations, policies, best practice guidelines, instructions and contractual arrangements;
- d) Review the appropriateness of special internal audit assignments undertaken by internal audit at the request of Council or the Chief Executive;
  - e) Review internal audit reports and monitor the implementation by management of recommendations made by internal audit.
  - f) Monitor the implementation of recommendations by management;
  - g) Facilitate liaison between the internal and external auditors to promote compatibility, to the extent appropriate, between their audit programmes;
  - h) 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; and
  - i) 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.

#### 7.4 Risk Management

*The Committee will:*

- a) Monitor the risk exposure of Council by determining if management has appropriate risk management frameworks, processes and adequate management information systems;
- b) Monitor reported breaches of ethical standards and related party transactions and monitor the implementation of recommendations arising from reports presented and review the effectiveness of Council's internal control systems.
- c) Monitor the progress of any major lawsuits facing the Council.
- d) Provide oversight of Council's risk management framework (including Council's health and safety management system) and activities conducted by the internal and external auditors and any other assurance providers, to give assurance over that framework;
- e) Escalate to Council when *the Committee* feels that management is not responding as it wishes/should on concerns about the risk management framework.

#### 7.5 Ethical Behaviour

*The Committee will:*

- a) Receive updates from management of any suspected cases of fraud, corruption or serious misconduct impacting Council;
- b) Recommend any specific measures or investigations identified as necessary or desirable by the Committee to the Council;
- c) Identify and refer specific projects or investigations deemed necessary through the Chief Executive, the internal auditor and the Council, if appropriate.

- d) Monitor any subsequent investigation, including the investigation of any suspected cases of fraud, corruption, serious misconduct or breaches of conflict of interest; and
- e) Review the findings of any examinations by regulatory agencies, and any auditor (internal or external) observations.

#### 7.6 Matters Referred to the Committee by Council

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

### 8. PERFORMANCE EVALUATION

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- a) *The Committee*, in conjunction with Council, and the Chief Executive, should develop the Committee's performance indicators.
- b) *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.

### 9. CONFLICT OF INTEREST AND REGISTER OF INTERESTS

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- a) Members of *the Committee* are required to comply with sections 76D, 79 and 81 of the Act which includes, amongst other things, the following requirements:
  - Submit six monthly interest returns on the form specified by Council in accordance with the Act; and
  - Declare and manage any conflicts of interest which arise in accordance with the Act.
- b) 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.
- c) Members of *the Committee* must also be fully aware of the statutory definitions of direct and indirect interests which may give rise to a conflict of interest. These are set out in Division 1A of the Act.
- d) 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.

### 10. REVIEW OF THE COMMITTEE CHARTER

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*The Committee* will review the Committee Charter on a biennial basis and recommend any changes to Council for approval.

The next review date will be: **November/December 2018.**