



Moreland City Council

# **Audit and Risk Management Committee Charter**

Adopted by Council on 13 February 2019

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The Moreland City Council has established an Audit and Risk Management Committee (the Committee) in compliance with section 139(1) of the *Local Government Act 1989* (the Act)– Audit Committee.

## **1 Purpose**

Pursuant to 139(2) of *the Act*, the Committee is an advisory committee and does not have any executive powers, management functions, or delegated financial responsibility.

The Committee is an advisory committee of the Council established to assist the Council discharge its responsibilities under the Act in respect of:

- external reporting (including financial reporting);
- external audit;
- internal audit;
- internal control and risk oversight and management;
- compliance with relevant laws and regulations;
- fraud (including corruption);
- related-party transactions; and
- performance reporting.

The Committee is not responsible for the executive management of these functions. The Committee will engage with management in a constructive and professional manner in discharging its responsibilities and formulating its advice to the Council.

The Council cannot abrogate or delegate its responsibilities to the Committee. The Committee can advise the Council on how best to fulfil its responsibilities and facilitate decision making by providing a forum for improving communication between the Council members and senior management, finance, risk and compliance managers, internal auditors and external auditors.

## **2 Authority**

The Council authorises the Committee, within its responsibilities, to:

- obtain any information it requires from any official or external party (subject to any legal obligation to protect information);
- discuss any matters with the Victorian Auditor General's Office (VAGO), or other external parties (subject to confidentiality considerations);
- request the attendance of any official, including Councillors and Council Officers, at Committee meetings;
- obtain legal or other professional advice at the entity's expense, as considered necessary to meet its responsibilities; and
- Seek resolution on any disagreements between management and the external auditors on financial reporting.

## **3 Membership**

3.1 The Committee comprises of seven members (three Councillors and four independent and external members), appointed by Council.

3.2 The Council will (based on a recommendation from the Committee) appoint the Chair of the Committee, who in accordance with section 139(2A) of the Act:

- must not be a Councillor;
- must not be a member of Council staff; and

- must be suitably qualified.
- 3.3 In the absence of the Chair, the Committee will elect a temporary Chair for the meeting from the remaining independent members who are present.
  - 3.4 The Mayor of Council or Chief Executive Officer of Council and other Council Officers may attend committee meetings, and when they elect to do so, will require copies of committee papers.
  - 3.5 The Council or Council Officers, Chief Executive Officer, Chief Finance Officer, Chief Information Officer, Head of Internal Audit or other management representatives may attend meetings as advisers or observers, as determined by the Chair, but will not be members of the committee.
  - 3.6 The Committee reserves the right to meet at any time without non-members or with invited non-members only.
  - 3.7 A representative(s) of the VAGO will be invited to attend meetings of the committee, as an observer.
  - 3.8 Membership of the committee will be reviewed periodically (but at least every three years) by the Council with the aim of ensuring an appropriate balance between continuity of membership, the contribution of fresh perspectives and a suitable mix of qualifications, knowledge, skills and experience. Councillor members will be appointed for a one-year term of office. The initial appointment of external Committee members shall be for a three-year period.
  - 3.9 The Committee will adopt and maintain a program of induction, training and awareness-raising for its members, with the objective of enabling the Committee to keep abreast of contemporary developments and leading practices in relation to its functions.
  - 3.10 Pursuant to section 139(6A) of the Act, the Council may pay a fee to a member of an audit committee who is not a Councillor.
  - 3.11 At least one member of the Committee must have financial and risk management expertise.

## **4 Functions**

For each function, the Committee will:

### **4.1 External Reporting (Including Financial Reporting)**

- 4.1.1 Consider the appropriateness of the Council's accounting policies and procedures and any changes to them, and the methods of applying them, ensuring that they are in accordance with the stated financial reporting framework. The Committee requires management to advise on:
  - whether the methods chosen by management are consistent with the applicable financial reporting framework
  - any changes in significant accounting policies or their application during the reporting period
  - the methods used to account for significant unusual transactions or transactions in emerging areas for which there might be no specific accounting standard. This includes management's reasoning in determining the appropriateness of those methods.
- 4.1.2 Request management and the external auditors to inform the Committee of their views on the above.
- 4.1.3 Assess significant estimates and judgements in financial reports by asking management about the processes used in making material estimates and judgements, and then asking the Chief Finance Officer and external auditors for the basis of their conclusions.

- 4.1.4 Review management's processes for ensuring and monitoring compliance with legislation and other requirements on the external reporting by the Council of financial and non-financial information, performance reporting under the Act, and other relevant legislation.
- 4.1.5 Review the appropriateness of accounting policies and disclosures to present a true and fair view.
- 4.1.6 Review the process for the consolidation of financial information of Council related entities into the financial reports of the Council.
- 4.1.7 Assess whether a comprehensive process has been established for the purposes of legislative disclosure reporting requirements.
- 4.1.8 Assess information from internal and external auditors that affects the quality of financial reports. For example, actual and potential material audit adjustments, financial report disclosures, non-compliance with legislation and regulations, internal control issues.
- 4.1.9 Ask the external auditor for an independent opinion on the management's: – technical compliance with accounting standards – proper application of the accounting principles – clarity in financial disclosure practices as used or proposed in the financial report of the Council.
- 4.1.10 Review the Council has appropriate quality assurance processes to assess that documents and reports (whether required under legislation or otherwise) are submitted to ministers and government departments/agencies accurately and timely.
- 4.1.11 Assess internal control systems covering the public release of information.
- 4.1.12 Recommend to the Council whether the financial report including the performance statement should be approved based on the Committee's assessment of them.

## **4.2 External Audit**

- 4.2.1 Be briefed on the terms of the audit engagement with the external auditor (VAGO) at the start of each audit in accordance with the Australian Auditing Standards.
- 4.2.2 Extend a standing invitation to the external auditor to attend all audit committee meetings.
- 4.2.3 At the appropriate meeting, ask the external auditor to outline the external audit plan including proposed audit strategies and how they might relate to identified risk areas; discuss audit results; consider the implications of the external audit findings for the control environment.
- 4.2.4 Ask the external auditor if there have been any significant resolved or unresolved disagreements with management.
- 4.2.5 Monitor and critique management's response to the external auditor's findings and recommendations.
- 4.2.6 Sight all representation letters signed by management and consider the completeness and appropriateness of the information provided.
- 4.2.7 Provide the opportunity for committee members to meet with the external auditor as the need arises without management being present.
- 4.2.8 Monitor the relationship between internal and external auditors, and if the external auditor has access to all the internal auditor's working papers.
- 4.2.9 Maintain an awareness of local government performance audits undertaken by the VAGO and ensure recommendations are brought to the attention of the Council for action/implementation where appropriate.

### **4.3 Internal Audit**

- 4.3.1 Discuss with Council the appropriate method for the provision of the internal audit function, which in the case where this is outsourced, would include the sign-off of the evaluation criteria, the appointment and termination of the contractor.
- 4.3.2 Review internal audit's mission, charter, and resources such that this charter maintains internal audit's independence from management. This is achieved through its reporting structures and rights of access to all levels of management and relevant information.
- 4.3.3 Review the allocation of internal audit resources as specified in an annual internal audit plan to obtain assurances that the planned internal audits are appropriately aligned to the key risks of the Council.
- 4.3.4 Review that internal audit activity is able to independently report to the audit committee for functional purposes; to the Chief Executive Officer for administrative purposes; has access to all levels of management with the right to seek information and explanations relevant to their operations.
- 4.3.5 Review that all work is reported through to the audit committee and is not censored or held up by management.
- 4.3.6 Monitor the internal auditor's participation in non-assurance roles to assess whether it impairs the internal auditor's independence or interferes with the delivery of the internal audit program.
- 4.3.7 Review the internal audit plan to assess that it considers the material business risks (both financial and non-financial) of the Council.
- 4.3.8 Review and approve the scope of the internal audit plan to reflect a rolling 3-year Internal Audit Plan, work program and final internal audit scopes.
- 4.3.9 Provide the opportunity for audit committee members to meet with the internal auditors without management being present.
- 4.3.10 Communicate the Committee's expectations to the internal auditor.
- 4.3.11 Review reports prepared by internal audit activity in terms of quality and timeliness.
- 4.3.12 Monitor the progress of the internal audit plan and work program and consider the implications of internal audit findings for the control and operating environment.
- 4.3.13 Monitor the implementation of internal audit's findings and recommendations.
- 4.3.14 Monitor and review the quality of internal audit services delivered.
- 4.3.15 Evaluate the process the Council has in place for monitoring and assessing the effectiveness of the internal auditor.
- 4.3.16 Monitor the coordination of the planned activities of internal and external audit, and risk and compliance management.
- 4.3.17 Monitor that internal audit complies with appropriate standards and that the internal auditors are appropriately qualified and undertake continuing professional education. These aspects should be reviewed by the audit committee irrespective of whether the internal audit activity is provided in-house or outsourced.
- 4.3.18 Require Internal Auditors to conduct periodic testing of whether audit actions reported as completed by management have been effectively implemented.

### **4.4 Internal Control and Risk Management**

- 4.4.1 Review and recommend enhancements to Council's policy for the oversight and management of business risks.
- 4.4.2 Review management's overall risk management framework and implementation strategy and advise Council of any concerns regarding the appropriate resourcing of the required actions.

- 4.4.3 Review whether the Council has an effective risk management system and that material operating risks are appropriately reflected in the risk profile reported at least annually to the Council.
- 4.4.4 Review whether the Council has a current and effective business continuity plan (including disaster recovery) which is tested periodically.
- 4.4.5 Assess the internal processes for determining and managing material operating risks in accordance with the Council's identified tolerance for risk, particularly in the following areas:
  - potential non-compliance with legislation, regulations and standards and Council's policies
  - important accounting judgements or estimates that prove to be wrong
  - litigation and claims
  - fraud and theft
  - significant business risks, recognising that responsibility for general or specific risk areas, for example, environmental risk, occupational health and safety, and how they are managed by the Council.
- 4.4.6 Monitor Council processes for management's identification and control of material risks, including business, financial and legal compliance risks. This might include oversight of the Council's risk management framework and activities conducted by internal and external audit and any other assurance providers to give assurance over that framework.
- 4.4.7 Receive summary reports from management on all suspected and actual frauds, thefts and material breaches of legislation, ensuring reporting to the Council and/or relevant authorities.
- 4.4.8 Assess adequacy of Council process to manage insurable risks.
- 4.4.9 Monitor Council processes for compliance of Council policies and procedures.
- 4.4.10 Review the effectiveness of the Council's internal control system with management and the internal and external auditors.
- 4.4.11 Assess whether management has controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk.
- 4.4.12 Assess the Council's procurement framework with a focus on the probity and transparency of policies and procedures/processes.
- 4.4.13 Should the need arise, meet periodically with key management, internal and external auditors, and compliance staff, to understand and discuss any changes in the Council's control environment.
- 4.4.14 Monitor the Council's commercial interests, especially where these have been established under section 193 of the Act.

## **4.5 Compliance with Laws and Regulations**

- 4.5.1 Monitor Council's processes regarding compliance with legislation and regulations.
- 4.5.2 Stay informed about how management is monitoring the effectiveness of its compliance and ethics program and making recommendations for change as necessary.
- 4.5.3 Obtain regular risk reports, which identify key risks, the status and the effectiveness of the risk management systems, to ensure that identified risks are monitored and new risks are identified, mitigated and reported.
- 4.5.4 Review whether the Council has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints under the *Protected Disclosure Act 2012* and section 1317AA of the Corporations Act 2001 (Commonwealth), dealing with an accounting, internal accounting controls or auditing matters or other matters likely to affect the Council or its compliance with relevant legislation and regulations.
- 4.5.5 Obtain assurance that adverse trends are identified and review management's plans to deal with these.
- 4.5.6 Review management disclosures in financial reports of the effect of significant compliance issues.

- 4.5.7 Review whether the internal auditors have regard to compliance and ethics risks in the development of their audit plan and in the conduct of internal audit projects, and report compliance and ethics issues to the audit committee.
- 4.5.8 Monitor the Council's compliance frameworks dealing with relevant external legislation and regulatory requirements.
- 4.5.9 Comply with legislative and regulatory requirements imposed on audit committee members, including not misusing their position to gain an advantage for themselves or another or to cause detriment to the Council and disclosing conflicts of interest.

#### **4.6 Fraud (including corruption)**

- 4.6.1 Ascertain whether fraud risks have been:
  - identified, analysed, evaluated, have an appropriate treatment plan which has been implemented, communicated, monitored and there is regular reporting and ongoing management of fraud risks
  - included in the assessment of the risk profile of the Council and have been appropriately addressed.
- 4.6.2 Monitor the Council's fraud prevention and detection framework, including any action taken with respect to actual and suspected instances of fraud.
- 4.6.3 Monitor management's efforts to create and maintain a strong internal control environment, including the design and implementation of anti-fraud strategies and programs, conduct of fraud awareness seminars or training courses to increase staff awareness of activities that amount to fraud.

#### **4.7 Related-party transactions**

- 4.7.1 Review the processes for the identification, nature, extent and reasonableness of related-party transactions.

#### **4.8 Performance Review**

- 4.8.1 Obtain assurance that Council has appropriate systems and procedures in place for collecting and analysing information and data for the purposes of measuring the performance of individual programs and activities (as identified in the Council Plan.)
- 4.8.2 Review the process for the management and governance of the use of data, information and knowledge.

### **5 Engagement with the Victorian Auditor-General's Office (VAGO)**

The committee will engage with the VAGO, as the entity's external auditor, in relation to the VAGO's financial statement and performance audit coverage. In particular, the committee will:

- provide input on planned VAGO financial statement and performance audit coverage;
- monitor management's responses to all VAGO financial statement management letters and performance audit reports, including the implementation of audit recommendations;
- provide advice to the Council on action to be taken on significant issues raised in relevant VAGO reports or better practice guides; and should the need arise, meet privately with the VAGO at least once per year.

### **6 Authority of the Committee**

All decisions of the Committee shall be referred to the Council for approval, other than the:

- Internal Audit Plan; and
- Final Internal Audit scopes that do not require the approval of the Council.

The Committee has the authority to review the Annual Financial Statements and Performance Statement and provide advice to the Council. The Committee can recommend by approving 'in principal', the signing of the Annual Financial Statements and Performance Statement.

## **7 Reporting**

The Committee will at least once annually confirm to the Council that all functions/ responsibilities outlined in this charter have been carried out and comply with any other reporting requirements specified by the Council from time to time.

The Committee will make recommendations to the Council, as appropriate.

## **8 Administrative Arrangements**

### **8.1 Meetings**

- 8.1.1 The committee will meet at least four times per year. One or more special meetings may be held to review the Council's annual financial statements and performance statement, or to meet other responsibilities of the committee.
- 8.1.2 All committee members are expected to attend each meeting, in person or via tele-or-video conference.
- 8.1.3 The Chair is required to call a meeting if asked to do so by the Council, and decide if a meeting is required if requested by another member, internal audit or the VAGO.
- 8.1.4 Pursuant to section 139(6A) of the Act, the chairperson may require any report prepared by the audit committee to be listed on the agenda for the next ordinary meeting of the Council.

### **8.2 Planning**

The Committee will develop a forward meeting schedule that includes the dates, location, and proposed agenda items for each meeting for the forthcoming year, and that covers all the responsibilities outlined in this charter.

The Committee should, in conjunction with the Council Officers, set a work program or plan for the short and medium terms, i.e. for the next 12 months and the next four years (or other term as agreed) respectively. The work program or plan for the next four years should also be reviewed annually to ensure it remains current and reflects the priorities of the Council and Committee.

### **8.3 Quorum**

A quorum will consist of a majority of committee members, with a minimum of 2 independent and 1 Councillor. The quorum must be in attendance at all times during the meeting.

### **8.4 Secretariat**

A Council Officer will be appointed to provide secretariat support to the Committee. The secretariat will:

- ensure the agenda for each meeting is approved by the Chief Executive Officer of Council and Committee Chair;
- the agenda and supporting papers are circulated, at least one week before the meeting; and
- ensure the minutes of the meetings are prepared and maintained. Minutes to include relevant elements of the Committee's discussion.

Minutes must be reviewed by the Chief Executive Officer of Council and Committee Chair and circulated within two weeks of the meeting to each member and committee observers, as appropriate.

## **9 Conflicts of Interest**

Once each year, members of the committee will provide written declarations, through the Chair, to the Council declaring any material personal interests they may have in relation to their responsibilities. External members should consider past employment, consultancy arrangements and related party issues in making these declarations and the Council, in consultation with the Chair, should be satisfied that there are sufficient processes in place to manage any real or perceived conflict.

At the beginning of each committee meeting, members are required to declare any material personal interests that may apply to specific matters on the meeting agenda. Where required by the Chair, the member will be excused from the meeting or from the committee's consideration of the relevant agenda item(s). The Chair is also responsible for deciding if he/she should excuse themselves from the meeting or from the committee's consideration of the relevant agenda item(s). Details of material personal interests declared by the Chair and other members, and actions taken, will be appropriately recorded in the minutes.

## **10 Induction**

New members will receive relevant information and briefings on their appointment to assist them to meet their committee responsibilities.

## **11 Evaluating Performance**

The Chair of the Committee, will initiate a self-assessment of the performance of the Committee at least once every two years. The review will involve input from the Council, each Committee member, senior management, internal audit, the VAGO, and any other relevant stakeholders, as determined by the Committee.

Undertake formal reviews of performance and independence of independent audit committee members before reappointing them for additional terms.

## **12 Review of the Committee Charter**

At least once a year the Committee will review this charter. This review will include consultation with the Council.

Any substantive changes to the charter will be recommended by the Committee and formally approved by the Council.