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1. STATEMENT

The Local Government Act requires that each large local government must establish an audit committee. The Charter defines the role, responsibilities, composition and guidelines of the Audit and Risk Management Committee (the Committee) within Council. The Committee is to provide an oversight, advisory and assurance role only and does not have any delegated responsibility or management functions within Council.

2. PURPOSE AND PRINCIPLES

The Committee acts as an independent, oversight, assurance and advisory service to Council in the effective discharge of its responsibilities prescribed in the Local Government Act, the Local Government Regulation and other relevant legislation and prescribed requirements by providing oversight, monitoring and reviewing:

- The governance structure.
- Values and ethics.
- The integrity of financial documents, management and public accountability reports.
- The internal audit and corrupt conduct investigation's branch activities.
- Legislative compliance.
- External audit.
- Risk management.
- Internal control including fraud.
- Management action plans.
- Assurance providers.
- Performance reporting.

The Committee can provide recommendations to Council and management about any matters that it considers needs action or improvement. These terms of reference set the principles and standards for the Audit and Risk Management Committee to:

- 2.1 Enhance the ability of members to fulfil their legal responsibilities.
- 2.2 Add to the credibility and objectivity of financial reports.
- 2.3 Enhance the independence and effectiveness of the Council's Internal Audit Branch.
- 2.4 Oversee the application of appropriate accounting and disclosure policies and procedures.
- 2.5 Monitor existing corporate policies and recommend new corporate policies that aim to prohibit unethical, questionable or illegal activities.

- 2.6 Provide a communication link between management, internal auditors/external auditors and Council.
- 2.7 Promote the need for public accountability of managers to Council, the ratepayers and other interested parties.
- 2.8 Support measures to improve governance, risk and internal controls.

3. STRATEGIC PLAN LINKS

The Audit and Risk Management Committee's aim is to achieve the objectives of the whole organisation and therefore this policy relates to providing oversight of the systems, processes and controls that contribute to:

- Strengthening our local economy and building prosperity
- Managing growth and delivering key infrastructure
- Caring for the Community
- Caring for the Environment
- Listening, Leading and Financial Management

4. REGULATORY AUTHORITY

Local Government Act 2009

Local Government Regulation 2012

Crime and Corruption Act 2001

5. AUTHORITY, INDEPENDENCE AND ACCESS

- 5.1. In discharging its responsibilities the Audit and Risk Management Committee has the authority to:
 - 5.1.1 Conduct or request investigations into matters within its scope of responsibility and in accordance with the Local Government Act.
 - 5.1.2 Access information, records and personnel of the Council for such purpose.
 - 5.1.3 Request the attendance of any employee, including executive staff, at committee meetings.
 - 5.1.4 Conduct and minute meetings with the Council's internal and external auditors and risk manager as necessary.
 - 5.1.5 Seek advice from external parties to meet its responsibilities, as necessary provided that Council approval will be required prior to committing to any expenditure required in seeking that advice.
- 5.2 The Committee will need to liaise closely with management and internal and external auditors to carry out its responsibilities. Whilst the primary responsibility for financial and other reporting, risk, internal control and compliance with laws, regulations and ethics within Council rests with management, the Audit and Risk Management Committee should exercise an oversight, monitoring and review role.
- 5.3 The Committee will have unrestricted access to all information it deems necessary, including documents and officials, and have adequate resources in order to fulfil its oversight responsibilities.

6. CONFIDENTIALITY

The Committee members are responsible and accountable for maintaining the confidentiality of the information they receive during the conduct of their function and should comply with the Code of Conduct.

7. ETHICAL PRACTICES

- 7.1 The Committee members will, at all times in the discharge of their duties and responsibilities, exercise honesty, objectivity, probity and not engage knowingly in acts or activities that have the potential to bring discredit to Council.
- 7.2 The Committee members must also refrain from entering into any activity that may prejudice their ability to carry out their duties and responsibilities objectively and must at all times act in a proper and prudent manner in the use of information acquired in the course of their duties. Committee members must not use Council information for any personal gain for themselves or their immediate families or in any manner that would be contrary to law or detrimental to the welfare and goodwill of Council.
- 7.3 The Committee members must not publicly comment on matters relative to activities of the Committee other than as authorised by Council.
- 7.4 Members who become aware of a conflict of interest or issues which may affect their objectivity on matters raised within the Committee should advise the Chairperson immediately. Should the Chairperson experience such a conflict he/she is to advise the Chief Executive Officer.

8. COMPOSITION AND MEMBERSHIP

- 8.1 The Committee will be composed of five members, including the Chairperson, as follows:
 - 8.1.1 Three independent external members* will be chosen and appointed by Council to ensure impartiality and an appropriate mix of skills.
 - 8.1.2 The Interim Administrator* and two Members of the Interim Management Committee (while active/appointed). When the Council returns these members will be replaced by two Councilors on a rotational basis with a two year term.
 - 8.1.3 When selecting an external independent member, Council must have regard to that person having a strong business, accounting, legal or similar background to provide additional expertise to Council.
 - 8.1.4 Independent external members will also need a high level understanding of internal controls, risk management, corporate governance and a sound knowledge of information systems and related technology.
 - 8.1.5 No additional paid professional work may be performed for Council during the period of appointment to the Audit and Risk Management Committee.
 - 8.1.6 The term of an independent external member shall be four years and Council may approve a further extension of four years to that term.
 - 8.1.7 As provided by Section 210(1) of the Local Government Regulation Council will appoint one of the external independent members of its Audit and Risk Management Committee to be Chairperson.

- 8.2 The Committee has the ability to co-opt any persons as advisers, from time to time for a particular period. No remuneration will apply to these advisers.
- 8.3 The External Auditor, Advisers and Ex Officio members are non-voting observers.
- 8.4 The Chief Executive Officer, the General Manager Corporate Services, the Chief Audit Executive the Governance Manager and the Risk Management Coordinator should attend all meetings as Ex Officio observers but have no voting rights.
- 8.5 Other Council officers may attend meetings as required by invitation of the Committee.
- 8.6 The membership of the Committee may be reviewed during the life of the Committee but will be reviewed following the completion of each general local government election.

*The Interim Administrator is only included during the term of Administration

*While in Administration there will be two independent external members and once the IMC leave this will change to three.

9. ROLES AND RESPONSIBILITIES

In accordance with the principles, for an Audit Committee set out in the Act, the Regulation and accepted best practice, the duties and responsibilities of the Committee are as follows:

9.1. External Audit

- 9.1.1 Oversee Council compliance with the Local Government Act and other relevant legislation requirements for financial reporting.
- 9.1.2 Review the scope of the audit activities with the external auditors and provide input and feedback on the external auditor's proposed audit strategy and audit plan including financial statements, and consult on audit fees for the year.
- 9.1.3 Review of effectiveness of the annual audit, to ascertain whether emphasis is being placed on areas where the Committee, management or the auditors believe special attention is necessary.
- 9.1.4 Review the findings and recommendations of external audit, management responses to audit reports and the extent to which external audit recommendations concerning internal accounting controls and other matters are implemented in effectively addressing control deficiencies.

9.2. Internal Audit

- 9.2.1 Review the internal audit's charter, resources and budget such that this charter maintains and enforces internal audit's independence from management.
- 9.2.2 Ascertain that the activities undertaken by the Internal Audit Branch are in accordance with the Internal Audit Branch Charter and the International Standards for the Professional Practice of Internal Auditing.
- 9.2.3 Monitor whether the Internal Audit Branch is receiving the co-operation of all levels of management; and in light of its functions and activities, is viewed as a highly regarded function of Council.
- 9.2.4 Review the planning and scope of internal audit activities and assess the resultant recommendations and findings.
- 9.2.5 Assess whether all significant recommendations of the Internal Audit Branch have been properly implemented by management in effectively addressing control deficiencies. Any reservations the Internal Audit Branch may have about control risk, and accounting and disclosure practices should be discussed by the Committee.

- 9.2.6 Review the Internal Audit Plan to assess that it covers the key risks of the Council.
- 9.2.7 Monitor the extent of reliance on internal audit work by the external auditors to facilitate completeness of coverage and the effective use of audit resources.
- 9.2.8 The Audit and Risk Management Committee will assume joint responsibility with the CEO in the appointment and dismissal of the Chief Audit Executive.
- 9.2.9 Review and monitor the quality, effectiveness and objectivity of internal audit.
- 9.2.10 The Audit and Risk Management Committee's responsibilities do not extend to the administration of day-to-day activities of Internal Audit Branch. This is a function which is carried out by the CEO.

9.3. Financial Statements

- 9.3.1 Review the appropriateness of accounting policies adopted by Council and ensure the accounting policies adopted are relevant to Council and its specific circumstances.
- 9.3.2 Review the appropriateness of significant assumptions and judgments made by management particularly around estimations which impact on reported amounts of assets, liabilities, income and expenses in the financial statements.
- 9.3.3 Review the financial statements for compliance with prescribed accounting and other requirements.
- 9.3.4 Review, with management and the external auditors, the results of the external audit and any significant issues identified.
- 9.3.5 Analyse the Council's financial performance and financial position and seek explanation for significant trends or variations from budget or forecasts.
- 9.3.6 Ensure that assurance with respect to the accuracy and completeness of the financial statements is given by management.
- 9.3.7 Recommend approval of the Financial Statements (including sustainability ratios) to the CEO and Mayor.
- 9.3.8 Review the final draft financial statements prior to its approval by Council, taking on board any external audit comments. In particular the review should focus on but not limited to:
 - (i) significant changes in accounting policies and practices
 - (ii) major judgmental areas
 - (iii) significant audit adjustments
 - (iv) proposed departures from accounting standards

9.4 Risk Management

- 9.4.1 Provide oversight of the embedding of risk culture in policy setting, projects, programs and operating activities.
- 9.4.2 Review the risk management framework for identifying, escalating, monitoring and managing significant enterprise risks, including fraud.
- 9.4.3 Assess the impact of the Council's risk management framework on its control environment and satisfy itself that the insurance arrangements are appropriate.
- 9.4.4 Assess and contribute to the audit planning processes relating to the risks and threats to Council.
- 9.4.5 Determine whether a sound and effective approach has been followed in establishing the Council's business continuity planning arrangements, including whether business continuity and disaster recovery plans have been periodically updated and tested.

- 9.4.6 Monitor whether the risk management framework/program is receiving support from all levels of management.

9.5 Fraud and Corruption Control

- 9.5.1 Review the process of developing and implementing the Council's fraud control arrangements and satisfy itself that Council has appropriate processes and systems in place to identify fraud and corruption risks as well as to detect, capture and effectively respond to fraud-related information.
- 9.5.2 Review reports on fraud that outline any identified allegations of fraud, the status of any ongoing investigations and any changes to identified fraud risk in Council.

9.6 Internal Control Framework

- 9.6.1 Provide oversight of the adequacy of management review of the internal control environment, structure and systems, including information technology security and control.
- 9.6.2 Provide oversight whether management is maintaining up-to-date, relevant policies and procedures and is in compliance, including those for the management and exercise of delegations.
- 9.6.3 Report any significant control deficiencies to Council.

9.7 Compliance

- 9.7.1 Determine whether management has considered legal and compliance risks as part of Council's risk assessment and management arrangements.
- 9.7.2 Review the effectiveness of the system for monitoring Council's compliance with relevant laws, regulations and policies including statutory regulations for any subsidiaries of Council.
- 9.7.3 Review the findings of any examinations by regulatory agencies, and any auditor observations.
- 9.7.4 Review the Council's Code of Conduct and recommend changes as appropriate.
- 9.7.5 Review policies and procedures relating to conflict of interest, misconduct, fraud and other related sensitive issues.

9.8 Other Matters

- 9.8.1 Determine whether Council is receiving reliable and timely management information.
- 9.8.2 Review the proposed Annual Report of Council.
- 9.8.3 Recommend special projects or investigations on any matter within its terms of reference.
- 9.8.4 Consider any governance issues that arise out of the performance assessment of the Chief Executive Officer and General Managers.

10. MEETINGS, RECORDS AND REPORTING STRUCTURE

- 10.1 The Committee shall meet at least four times a year. The CEO with the Audit and Risk Management Committee's agreement will set the date, time and place for the meetings. Before setting the date, time and place for a Committee meeting, the CEO must, if practicable, consult with the Chairperson of the Committee. In addition, the CEO will call a meeting if requested to do so by any Committee member, or the internal or external auditors.
- 10.2 A quorum shall consist of three members, including two independent members. If there is a split vote by members on a resolution the Chairperson at the meeting may exercise a

casting vote on the resolution.

- 10.3 The external auditors shall be given notice of all meetings and sent an agenda. The external auditors shall have the right to attend and speak.
- 10.4 The Committee Section shall prepare an agenda supported by necessary explanatory documentation and circulate it to the Audit and Risk Management Committee members, any other Council officer requested to attend and the external auditors, if practicable at least five (5) days before the day of the meeting. All others Councilors will have a standing invite to attend the Committee.
- 10.5 The Committee Section will provide secretarial functions to the meetings and prepare a Report of each meeting which will be provided to Audit and Risk Management Committee members and permanent attendees one week after the meeting, at the latest.
- 10.6 The Report of the Audit and Risk Management Committee meeting will be presented to the next meeting of the Council for its consideration.
- 10.7 The Committee Branch will provide relevant extracts of the Report, upon its adoption by Council, to relevant officers for information and action.
- 10.8 The Audit and Risk Management Committee may hold periodic private 'in camera'¹ meetings with the Chief Audit Executive and/or external audit without senior management being present through a formal process and included in the annual Audit and Risk Management Committee planner.

11. EDUCATION AND INDUCTION OF MEMBERS

- 11.1 New members to the Committee will be provided with induction material on their appointment to assist them to meet their Committee responsibilities to allow the members familiarise themselves with the environment and to facilitate their understanding of its principal operations and activities, corporate practices and culture.
- 11.2 Presentations to the Committee will be provided on key issues in Council such as transformation programs, strategic planning, legislative directions, procurement compliance and performance, governance success, information communications and related technology status, growth and development of the city, financial sustainability, infrastructure adequacy, asset management etc.

12 MONITORING AND SELF EVALUATION

- 12.1 At least biennially, the Audit and Risk Management Committee will assess the performance and achievements of the Committee for the previous period and ensure that it is meeting its objectives efficiently and effectively.
- 12.2 Confirm biennially that all responsibilities outlined in this charter have been carried out.
- 12.3 Where this evaluation highlights a need for enhancements to the role, operational processes or membership of the Committee, the Chairperson should take action to ensure such enhancements are implemented.

13 REVIEW OF THE CHARTER

- 13.1 This Charter will be reviewed annually by the committee to ensure it remains consistent with the Committee's authority, objectives and responsibilities.

14 APPROVAL OF THE CHARTER

- 14.1 The Charter is endorsed by the Chair of the Committee and approved by Council.

15. DEFINITIONS

Accountability

The obligation of an individual or organization to account for its activities, accept responsibility for them, and to disclose the results in a transparent manner.

Add Value

The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

Adequate Control

Present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organization's risks have been managed effectively and that the organization's goals and objectives will be achieved efficiently and economically.

Assurance Services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

Corrupt Conduct

Under the *Crime and Corruption Act 2001*, there are now two different types of corrupt conduct.

"Type A" corrupt conduct involves conduct that affects, or could affect, a public officer (an employee of a public sector agency) so that the performance of their functions or the exercise of their powers:

- is not honest or impartial, or
- knowingly or recklessly breaches public trust, or
- involves the misuse of agency-related information or material.

Common examples of Type A corrupt conduct include fraud and theft, extortion, unauthorised release of information, obtaining or offering a secret commission and nepotism.

"Type B" corrupt conduct involves specific types of conduct that impair, or could impair, public confidence in public administration. This may include:

- collusive tendering, or
- fraud relating to an application for a licence, permit or other authority relating to public health or safety; the environment; or the State's natural, cultural, mining or energy resources, or
- dishonestly obtaining public funds or State assets, or
- evading a State tax, levy or duty or fraudulently causing a loss of State revenue, or
- fraudulently obtaining or retaining an appointment.

Both Type A and Type B corrupt conduct must be either a criminal offence or serious enough to warrant dismissal.

Council/Board

The highest level governing body (e.g., a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the

organization's activities and hold senior management accountable. Although governance arrangements vary among jurisdictions and sectors, typically the board includes members who are not part of management. If a board does not exist, the word "board" in the *Standards* refers to a group or person charged with governance of the organization. Furthermore, "board" in the *Standards* may refer to a committee or another body to which the governing body has delegated certain functions (e.g., an audit committee).

Charter

A formal document that defines the purpose, authority, and responsibility. The charter establishes the activity's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of activities.

Chief Audit Executive

Chief Audit Executive describes the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications.

Compliance

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

Conflict of Interest

Any relationship that is, or appears to be, not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

Consulting Services

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

Control

Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment

The attitude and actions of the board and management regarding the importance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organizational structure.
- Assignment of authority and responsibility.

- Human resource policies and practices.
- Competence of personnel.

Control Processes

The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organization is willing to accept.

External Service Provider

A person or firm outside of the organization that has special knowledge, skill, and experience in a particular discipline.

Fraud

Any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.

Governance

The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

Impairment

Impairment to organizational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations (funding).

Independence

The freedom from conditions that threaten the ability of the activity to carry out responsibilities in an unbiased manner.

Information Technology Controls

Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure, and people.

Internal Audit Activity

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

International Professional Practices Framework

The conceptual framework that organizes the authoritative guidance promulgated by The IIA. Authoritative guidance is composed of two categories – (1) mandatory and (2) recommended.

Must

The *Standards* use the word "must" to specify an unconditional requirement.

Objectivity

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

Overall Opinion

The rating, conclusion, and/or other description of results provided by the chief audit executive addressing, at a broad level, governance, risk management, and/or control processes of the organization. An overall opinion is the professional judgment of the chief audit executive based on the results of a number of individual engagements and other activities for a specific time interval.

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Risk Appetite

The level of risk that an organization is willing to accept.

Risk Management

A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives.

Should

The *Standards* use the word "should" where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

Significance

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance, and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Standard

A professional pronouncement promulgated by the International Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities and for evaluating internal audit performance.

Technology-based Audit Techniques

Any automated audit tool, such as generalized audit software, test data generators, computerized audit programs, specialized audit utilities, and computer-assisted audit techniques (CAATs).

16. POLICY OWNER

The Chairperson is the Charter owner and the Chief Audit Executive is responsible for authoring and reviewing this Charter.