



AUDIT AND RISK COMMITTEE CHARTER

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1. PURPOSE

Section 139 of the *Local Government Act 1989* (the Act) requires Local Government Councils to establish an Audit Committee as an advisory committee.¹ To better reflect the scope and nature of its purpose, the East Gippsland Shire Council Audit Committee is named the Audit and Risk Committee.

The Audit and Risk Committee assists East Gippsland Shire Council to discharge its oversight and corporate governance responsibilities.

The Audit and Risk Committee Charter establishes the guiding principles on how the Audit and Risk Committee will operate, its structure, objectives and reporting protocols.

2. POLICY STATEMENT

2.1 Formation

- (a) East Gippsland Shire Council will include in its organisational structure an Audit and Risk Committee, which will operate as far as practicable in accordance with the Local Government Victoria publication, *Audit Committees – A Guide to Good Practice for Local Government January 2011*. The Committee will be a Council Advisory Committee for the purposes of the *Local Government Act 1989*.
- (b) The Audit and Risk 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.
- (c) The Audit and Risk Committee does not have any management functions and is therefore independent of management.
- (d) The Committee will report to Council as necessary with a minimum reporting requirement of four quarterly reports each calendar year.

2.2 Objectives

The Audit and Risk Committee's primary role is to provide independent assurance and advice to Council in the following areas:

- Issues relevant to the integrity of Council's financial reporting;
- Financial and non-financial performance reporting;
- Corporate governance;
- Information and communications technology (ICT) governance;
- Risk management including fraud prevention, business continuity planning and disaster recovery;
- Internal and external audit;
- Internal control framework including policies and procedures as they apply to:
 - financial reporting;
 - management policies, for example entertainment expenses, use of corporate credit cards, etc.; and
 - administrative policies on records management, project management, risk management;

¹ Division 8, section 52 of the Exposure Bill requires that a Council must establish an audit and risk committee.

- Compliance with the *Local Government Act* 1989 and other applicable legislation and regulations including Consumer and Competition Law.

It will do this through the provision of independent advice and recommendations on matters relevant to its Charter, to facilitate decision-making by Council in relation to the discharge of its responsibilities.

2.3 Membership

- The Committee will comprise seven members: four independent members - one of whom will be Chair²; the Mayor of the day; and two other councillors appointed by Council. The Committee must not include any person who is a member of East Gippsland Shire Council's staff.³
- Independent external members will be sought by way of public advertisement. Terms will be for a maximum of three years; however, members may re-apply at the end of their term and be re-appointed for further terms. Terms of appointment will be arranged to ensure an orderly rotation and continuity of membership and will be made despite changes to Council's elected representatives.
- External independent persons must collectively have:
 - expertise in financial management and risk; and
 - experience in public sector management⁴.
 Individually, independent external members will have senior business or financial management/reporting knowledge and experience, be conversant with financial and other reporting requirements and possess high levels of personal integrity and ethics.
- Appointment of external independent persons will be by Council resolution following receipt of a recommendation from the Audit and Risk Committee Chair and the Chief Executive Officer who will evaluate candidates taking account of their experience and likely ability to apply appropriate analytical and strategic management skills, as well as the 'fit' of their skills within the overall skillset of the Committee.
- Members of the Committee when engaged on or attending to Audit and Risk Committee duties will at all relevant times be covered by Council's insurance.
- The four external independent members of the Audit and Risk Committee will be remunerated for the performance of their duties in accordance with the rate determined by Council from time to time, indexed annually.
- Provisions relating to Misuse of Position (section 76D)⁵, Confidential Information (section 77) and Conflict of Interest (sections 77A-81) apply to external independent members as if they were a member of a delegated committee.⁶
- Council may resolve to remove a member of the Committee if he/she fails to attend three (3) consecutive meetings without leave of the Committee, or on the recommendation of the Committee.

² "The chairperson of an Audit and Risk Committee must not be a Councillor of the Council" Division 8, 52(4).

³ Exposure Bill, Division 8, section 52(3)(c), but the LGA "Your Questions Answered" document Feb 2018 Q17 (p8) confirms that staff of other Councils can serve on the host Council's audit committee: "The intent of the Bill is that Council staff members will be able to serve on audit and risk committees of councils other than those at which they are employed".

⁴ Exposure Bill, Division 8, section 52(3)(b)(i)-(ii)

⁵ In Exposure Bill sections 162, 164 and Part 7, Division 2, respectively.

⁶ Exposure Bill, Division 8, section 52(5)

2.4 Roles and Responsibilities

(a) Chair

- Conduct meetings efficiently and in a way that ensures all matters listed for consideration are afforded appropriate time and attention.
- Exercise a casting vote where:
 - consensus cannot be reached; and
 - a formal vote is required to resolve the matter; and
 - voting numbers are equal.
- Approve the Unconfirmed Minutes of each meeting for circulation to Committee members, councillors and others.
- Participate in the selection process for independent external Committee members.
- Together with the Chief Executive Officer, address any matters of concern arising in respect of a Committee member's performance or conduct.

(b) Committee Members

- Actively participate in and contribute to the work of the Committee as outlined in clause 2.5 below.
- Complete a self-assessment survey and contribute actively to the annual evaluation of the performance of the Audit and Risk Committee against the Audit and Risk Committee Charter.
- Make every effort to attend scheduled meetings of the Committee.
- In accordance with section 79 of the Act (Disclosure of Conflict of Interest), make a full disclosure of all conflicts of interest prior to discussion of the matter for which the conflict of interest has arisen. Further, having declared such a conflict, leave the room and remain outside the room and any gallery or other area in view or hearing of the room until the matter has been concluded.
- As prescribed by section 76D of the Act, members must not misuse their position on the Committee to gain or attempt to gain, directly or indirectly, an advantage for themselves or for any other person; or cause, or attempt to cause, detriment to Council or any person.
- Complete the Register of Interest returns required by section 81 of the Act within the stipulated timeframes.

(c) Internal and External Auditors

Internal:

Under contract to Council, the internal auditor reports to the Audit and Risk Committee on a quarterly basis on the outcomes of a range of audits of Council's operations including:

- Internal control systems, policies and procedures and their effectiveness;
- Compliance with Council policies and procedures and any relevant government legislation;
- Financial systems and processes;
- Areas of risk exposure and the way in which these are managed; and
- Special investigations or assignments as requested by the Committee.

The focus of audits undertaken will be documented in a three to five-year Internal Audit Plan formulated through a consultative process involving as a minimum the internal auditor, the Committee and senior Council officers.

The internal auditor will meet with Audit and Risk Committee at least once a year without management being present, to discuss any issues arising from internal audits carried out during the year. Unless determined otherwise by the Committee, this will occur at the meeting convened annually to consider Council's financial report and performance statement.

The role of the internal auditor is independent of and separate to that of the external auditor.

External:

As an agent of the Victorian Government Auditor-General, the external auditor forms an opinion on Council's financial report and performance statement and provides a copy of the final Audit Report to Council and the responsible Minister.

The external auditor reports to a joint meeting of Council and Audit and Risk Committee annually on the completed draft financial report and performance statements for that year. At this time, the findings of the external audit are discussed with the external auditor, focusing on issues such as:

- any major issues that arose during the audit;
- any accounting and audit judgements; and
- levels of errors identified during the audit.

At least annually, an opportunity will be provided for the external auditor to meet with Audit and Risk Committee without management being present, to discuss their remit and any other relevant issues.

Audit and Risk Committee may request a meeting with the external auditor at any other time during the year, as/if required.

From time to time the external auditor may request and will be provided with copies of final reports prepared by the internal auditor.

(d) Chief Executive Officer

While not a member of the Committee, when practicable and appropriate the Chief Executive Officer will attend all meetings of the Committee and provide guidance and advice.

The Chief Executive Officer will also:

- ensure that an appropriate agenda is formulated for scheduled Committee meetings and circulated to members in a timely fashion;
- facilitate meetings by arranging for members of management, auditors or others to attend to provide pertinent information, as necessary;
- provide secretariat services in respect of matters before the Audit and Risk Committee;
- after meetings of the Committee, ensure that a report outlining matters considered by the Committee and explaining any specific recommendations or key outcomes is presented to the next ordinary Council meeting

- table reports of the Audit and Risk Committee at meetings of the Council when required by the Act and when requested by the chairperson of the Audit and Risk Committee;⁷
- ensure that accurate minutes of scheduled Committee meetings are taken, circulated to Committee members, councillors and others in a timely fashion and once confirmed, stored securely in Council's electronic document record management system;
- coordinate the selection process for independent external Committee members and together with the Chair, comprise the interview panel for these positions; and
- Together with the Audit and Risk Committee Chair, address any matters of concern arising in respect of a Committee member's performance or conduct.

(e) Officers in Attendance

Director and/or manager responsible for corporate governance, manager responsible for finance and manager responsible for risk will attend all meetings of the Committee where practicable and appropriate.

Other members of Council's staff will attend Committee meetings from time to time to present a range of recurring and one-off reports and when requested to do so by the Chair, provide advice and information.

2.5 Charter and Duties

The Committee is required to adopt an annual work program, including:⁸

- (a) review Council's draft financial report and performance statement on an annual basis in accordance with the requirements of the *Local Government Amendment (Performance and Reporting Accountability) Act 2014* and Local Government (Planning and Reporting) Regulations 2014 and having regard to the external auditor's opinion on them, recommend approval "in principle" to Council if appropriate;
- (b) discuss with the external auditor the Annual Audit Final Management Letter. This process will include an opportunity to make recommendations where appropriate and to receive follow-up briefings on any remedial action deemed necessary;
- (c) subject to appropriate advice from Council's internal and external auditors, overview compliance with statutory requirements for financial reporting;
- (d) annually review Council Risk Registers and give consideration as to whether, consistent with the reporting regimen of the Committee as documented in the Risk Management Policy, the annual Audit Committee work program needs to be adjusted to include Council officer reports on emerging or priority areas of risk;
- (e) review Council's performance reporting framework to ensure a system is in place that facilitates delivery of the four-year Council Plan and meets Council's policy objectives. The Audit and Risk Committee is responsible to:
 - receive and consider quarterly performance reports⁹;

⁷ Exposure Bill section 53(6)(b)

⁸ Exposure Bill section 53(3) – a committee "must adopt an annual work program".

⁹ Inclusion of Audit and Risk committee responsibilities with respect to the performance reporting framework, as per action item arising from the Audit Committee meeting 25 July 2017

- review the draft performance statement and consider the results in the context of the quarterly reports received throughout the year challenging any unusual or unexpected results;
 - enquire as to the internal control framework and level of assurance received around the accuracy and completeness of the information reported;
 - discuss the results of the audit of the performance statement with the external auditor;
 - provide a recommendation to the council.¹⁰
- (f) based on the written and verbal reports of relevant Council Officers, conduct an annual review of Council's risk management policies and program and report to Council accordingly;
- (g) ensure that effective and efficient systems are in place for the review of other relevant policies and procedures (e.g. financial, business continuity, delegation, equal employment opportunity, workplace health and safety, privacy, etc.) and monitor the compliance of Council policies and procedures with the Act, regulations and any Ministerial directions;
- (h) receive reports from the Chief Executive Officer and other Council officers relevant to Council's compliance with relevant legislation, policies and procedures;
- (i) in consultation with the internal auditor, establish a three to five year Internal Audit Plan, review internal audit reports and monitor progress to achieve rectification of any identified issues;
- (j) receive a written report on any significant claims, insurance, legal or otherwise, which may impact on Council's financial performance or otherwise expose Council to risk;
- (k) receive written and verbal reports relevant to the progress of any major legal action in which Council is involved;
- (l) where such matters fall within the Committee's general Terms of Reference, receive reports on specific projects and investigations deemed necessary by the Chief Executive Officer and Council, including suspected or actual cases of fraud or any corrupt activity by Council officers or others having business with Council. On receipt of such reports the Committee may take further action or make recommendations as it deems appropriate in each case (m) address relevant issues brought to the attention of the Committee, including requests from Council for advice on matters that fall within the Committee's Charter;
- (m) on an annual basis, conduct an evaluation of the performance of the Audit and Risk Committee against the Audit and Risk Committee Charter¹¹ and provide a confidential copy of the annual assessment to the Chief Executive Officer for tabling at the next East Gippsland Shire Council meeting.¹² Performance criteria for the evaluation will include (but not be limited to) the following: The Committee:
- adequately understands and reviews Council's financial and performance reporting requirements;
 - adequately reviews the effectiveness of the system for monitoring Council's compliance with relevant laws and regulations;

¹⁰ Included as per Audit Committee Minutes Dec 17: "The Roles and Responsibilities of the East Gippsland Shire Council Audit Committee referenced at p4-5 of the draft Local Government Performance Reporting Framework Policy and derived from p 11 of the extract (provided as Attachment 3) of the Local Government Better Practice Guide 2016-17 Performance Statement be incorporated in the next iteration of the Audit Committee Terms of Reference."

¹¹ Exposure Bill 53(4)(a)

¹² Exposure Bill 53(4)(b)

- understands and reviews management's systems and arrangements for maintaining effective internal controls, including in respect of audit plans, audit reports and identified issues;
 - adequately understands and reviews Council's enterprise risk management framework;
 - understands and reviews whether an effective approach is being followed in managing Council's major risks; and
 - meets its obligations under this Charter.
- (n) review Council responses to any issues raised or referred by the Victorian Local Government Investigations and Compliance Inspectorate or the Independent Broad-Based Anti-Corruption Commission (IBAC);
- (o) oversee the annual review of the Public Space Closed Circuit Television Program and Drone Program and user compliance with legislation, policy and procedure;
- (p) receive details of expenses of Councillors and members of delegated committees;¹³
- (q) once every two years, review and assess the adequacy of the Audit and Risk Committee Charter and as appropriate, present recommendations for amendment of the document to East Gippsland Shire Council; and

2.6 Meetings

- (a) The Committee will meet on a quarterly basis. A joint meeting with East Gippsland Shire Councillors will be called annually to discuss Council's audited draft financial report and performance statement; the Committee's performance evaluation for the previous financial year and any other matters identified by the Mayor and/or Committee Chair.
- (b) Additional meetings may be convened at the discretion of the Chief Executive Officer or at the written request of any member of the Committee, the external auditor, or the internal auditor.
- (c) Due to the nature of the work of the Committee and the potential sensitivity of the material, in accordance with section 89 (2) of the Act, meetings will not be open to the public.
- (d) Committee members and responsible officers listed in paragraph (h) below can submit agenda items for consideration by the Committee: The Agenda will be determined by the Chief Executive Officer.
- (e) A quorum will exist if four or more Committee members are present and the number of external independent members present is equal to or greater than the number of internal members present.
- (f) The Committee will make every effort to arrive at its decisions by consensus. If consensus is not possible, matters will be resolved by a majority of the votes of members present. The Chair will have the casting vote if the votes are equal.
- (g) In accordance with section 79 of the Act (Disclosure of Conflict of Interest)¹⁴, Committee members must make a full disclosure of all conflicts of interest prior to discussion of the matter for which the conflict of interest has arisen. Further, having declared such a conflict, the Committee member must leave the room and remain outside the room or other area in view or hearing of the room until the matter has been concluded. Further guidance is available through the Victorian government's publication, *Conflict of Interest – A Guide for Members of Council Committees, October 2012*.

¹³ Exposure Bill section 39(2)

¹⁴ In Exposure Bill - Part 7, Division 2

- (h) Except when the Committee chooses to meet in camera, the external auditor, internal auditor, Director Corporate and Chief Executive Officer will, when practicable and appropriate, attend all meetings of the Committee. Other members of Council staff may be invited to attend at the discretion of the Committee to provide advice and information when required.

2.7 Internal Control and Internal Audit

Where appropriate the Audit and Risk Committee and Council will actively support the work of the contract internal auditor. Line managers are responsible for managing the internal control processes in their respective departments, as recommended by the internal auditor, and will report to the Chief Executive Officer in regard to compliance with internal control measures.

2.8 General and Legal Advice

The Committee, through the Chief Executive Officer, may obtain information and advice on any Council matter that falls within the Committee's Duties or Charter, or is otherwise consistent with the intent and purpose of the Best Practice Guidelines.

3. RESPONSIBILITY FOR IMPLEMENTATION AND COMPLIANCE

These management positions are responsible for implementation and compliance monitoring of the policy in their work areas:

Party / Parties:	Roles and responsibilities:
Chief Executive Officer	Overall responsibility for policy implementation and compliance. Ensure compliance with the Policy by all Audit and Risk Committee members.
Director Corporate	Responsible for review, updating and implementing policy.

4. SCOPE OF POLICY

This policy applies to internal and external Audit and Risk Committee Members.

5. REFERENCES / ASSOCIATED DOCUMENTS

Council Plan 2017-2021

- Good governance goal: Council is in a strong financial position and can provide for future generations of East Gippslanders.
- Key Strategic Activity 47: Work smarter to reduce expenditure through improved practices, new technologies and projects that reduce organisation waste.
- Key Strategic Activity 51: Establish ways to capture, distribute and use data better to inform decision-making, service delivery and performance management.

Relevant Legislation:

- Section 79 of the *Local Government Act 1989* (the Act) - Disclosure of Conflict of Interest.
- Section 76D and 77 of the Act - Misuse of Position and Confidential Information.
- Section 89 (2) of the Act - meetings will not be open to the public.
- Section 139 of the Act - Local Government Councils to establish an Audit Committee.
- *Local Government Amendment (Performance and Reporting Accountability) Act 2014 and Local Government (Planning and Reporting) Regulations 2014* – prescribes financial and non-financial reporting required of Local Government.

- *Local Government Amendment (Improved Governance) Act 2015*

External Documents:

- *Audit Committee, A Guide to Good Practice for Local Government. January 2011*
- *Conflict of Interest – A Guide for Members of Council Committees. October 2012*
- *Reforms arising from the Local Government Amendment (Improved Governance) Act 2015 - A guide for councils*

6. PRIVACY AND HUMAN RIGHTS CONSIDERATION

All personal information collected by East Gippsland Shire Council in connection with the Audit and Risk Committee will be handled in accordance with all applicable privacy legislation and will be used only for the purpose of investigating audit matters.

The Audit and Risk Committee Charter has been assessed as compliant with the obligations and objectives of the Victorian *Charter of Human Rights and Responsibilities Act 2006*.

7. DEFINITIONS AND ABBREVIATIONS

Term:	Meaning:
Committee Member	A member of East Gippsland Shire Council Audit and Risk Committee
Conflict of Interest	The <i>Local Government Act 1989</i> requires members of Council and many Council committees to disclose conflicts of interest that may impair an individual’s ability to serve the Committee in a fair, impartial manner. This mechanism is intended to demonstrate that in performing the role to which they were appointed Committee members are not attempting to serve their own interests or the interests of someone close to them.
External Auditor	An audit professional appointed by the Victorian Auditor-General who performs an audit in accordance with specific laws or rules on the financial statements of a company, government entity, other legal entity or organisation, and who is independent of the entity being audited
Internal Auditor	A company (or its representative) charged with providing independent and objective evaluations of Council’s financial and operational business activities, including its corporate governance.
Officers in Attendance	Council officers attending Audit and Risk Committee meetings to provide information or respond to queries. Officers do not hold membership of the Committee.
Register of Interest	Section 81 of the <i>Local Government Act 1989</i> stipulates that people who are Councillors, council officers or members of special/audit committees in Local Government must lodge “interest returns” (forms) in which they disclose information about their personal circumstances, such as property ownership or local club memberships etc. This particularly includes information that may give rise to conflicts of interest in certain circumstances. The reason for having to lodge interest returns is to ensure public transparency. It also serves as a reminder about their obligations to avoid conflicts of interest.
Risk Management	The culture, process and structures that are directed towards realising potential opportunities while managing adverse effects.

Term:	Meaning:
	(AS/NZS ISO 31000:2009, 20/11/2009)

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