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AUDIT AND RISK COMMITTEE CHARTER

Endorsed by Audit & Risk Committee 3 March 2023
Adopted by Council 21 March 2023

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Strathbogie Shire Council has established an Audit and Risk Committee (the Committee) in compliance with section 53(1) of the *Local Government Act 2020* (the Act).

1 Purpose

Council is committed to good governance, public transparency and accountability to its community. The Audit and Risk Committee is established to achieve the Overarching Governance Principles of the *Local Government Act 2020* (the Act) and has a focus on strengthening Council's governance and risk management frameworks, monitoring the organisation's financial management and to help drive continuous improvement.

The Committee is designated as an advisory committee under section 53(2) of the Act and does not have any delegated powers, executive powers, management functions or delegated financial responsibilities.

The Committee's role is to:

- monitor compliance of Council policies and procedures with the overarching governance principles the Act, its regulations and any Ministerial directions, other relevant laws and regulations
- monitor Council financial and performance reporting
- monitor and provide advice on risk management and fraud prevention systems and controls
- oversee internal and external audit functions
- monitor the achievement of the highest standards of corporate governance including monitoring compliance with Council's Code of Conduct.

The Committee will engage with management in a constructive and professional manner in discharging its responsibilities and formulating its advice to the Council.

The Committee operates to 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:

- perform its activities within the scope of this Charter
- obtain any information it requires from any Council, management or other 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
- seek resolution on any disagreements between management and the external auditors on financial reporting

- seek resolution of any disagreement between management and the internal auditors on internal audit recommendations.

3 Membership

The Committee is comprised of six voting members appointed by Council - two Councillors and four independent external members. One of the Councillor representatives will be the Mayor. A third Councillor representative shall be nominated by Council to act as a substitute representative should any of the permanent Councillor representatives be unable to attend a meeting(s).

In accordance with the Act the Members must:

- include members who are Councillors of the Council
- consist of a majority of members who are not Councillors of the Council and who collectively have:
 - expertise in financial management and risk
 - experience in public sector management
- not be a member of Council staff
- aim to increase gender diversity of its membership.

The Council will appoint the Chair of the Committee, who in accordance with section 53 of the Act:

- must not be a Councillor
- must not be a member of Council staff.

In the absence of the Chair, the Committee will elect a temporary Chair for the meeting from the remaining independent members who are present.

Voting members of the Committee will act in accordance with the Councillor Code of Conduct.

3.1 Other Committee attendees

The Council or Council Officers, Chief Executive Officer, Director People and Governance, Chief Finance Officer, Coordinator Governance and Records, Governance Officer, Manager People and Culture or other management representatives may attend meetings as advisers or observers but will not be members of the committee.

A representative(s) of the VAGO will be invited to attend meetings of the Committee as an observer and to build a constructive and open relationship with the Office. Such a representative will be required to act in accordance with the governance principles in addition to the obligations of confidentiality (Section 125) and conflict of interest (Part 6, Division 2) as outlined within this Charter and the Act.

A representative(s) of the appointed internal audit contractor will be invited to attend meetings of the Committee, as an observer. Such a representative will be required to act in accordance with the governance principles in addition to the obligations of confidentiality (Section 125) and conflict of interest (Part 6, Division 2) as outlined within the Act.

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.

3.2 Term of membership

Membership of the committee will be reviewed 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 with their term expiring at the annual meeting of Council when Councillor representatives are nominated for various committees and bodies. They may be reappointed.

The initial appointment of independent Committee members shall be for a three-year period.

The position for an independent member(s) will be publicly advertised at the end of each term. This does not preclude existing members from being re-appointed through a competitive process.

Council may reappoint current independent members if exceptional circumstances are considered to exist.

Where possible, the end of the terms of Independent Members will be staggered to avoid losing continuity in the Committee's membership.

3.3 Induction and training

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

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.

An annual training program will also be prepared and delivered to ensure ongoing professional development for the Committee. The program will be delivered as part of the quarterly meeting process or through attendance at workshops/training sessions arranged for times outside of the normal meeting schedule as agreed by the Committee.

3.4 Payment of a stipend

Pursuant to section 53(6) of the Act, the Council will pay a stipend to independent committee members. This stipend will be based on a per annum amount, determined by the Council, which will be indexed in alignment with the rate cap percentage each 1 July.

Once every three years the Chief Executive Officer will benchmark the stipend paid to Independent Members against other small rural councils in the Hume region to inform the review of stipend amounts by the Council. The first benchmarking exercise will be undertaken at the start of the new Audit and Risk Committee's term.

3.5 Notice requirements

Twenty eight (28) day's written notice must be given:

- By Council to a member of its intention to propose to remove them from the Committee and provide that member with the opportunity to be heard at a Council meeting which is open to the public, if that member so requests
- By a committee member should they wish to resign from the committee
- By a committee member should they not be seeking a further term.

4 Functions

In accordance with section 54(2) of the Act, the functions and responsibilities of the Committee include:

4.1 Monitor the compliance of Council policies and procedures with the overarching governance principles and the Local Government Act 2020 and the regulations and any ministerial directions (section 54(2a))

4.1.1 Monitor Council processes for compliance of Council policies and procedures.

Monitor reimbursements of expenses of Councillors and members of a delegated committee as required under Section 40(2) of the *Local Government Act 2020*

4.1.2 Assess the Council's procurement framework with a focus on the probity and transparency of policies and procedures/processes.

4.1.3 Assess the Council's policy framework and procedures to ensure the embedding of the governance principles.

4.1.4 Monitor the implementation of financial management policies, including they are aligned with the achievement of the Act's financial management principles.

4.1.5 Review the CEO Employment and Remuneration Policy Employment Matters Policy annually as per section 45 of the Act.

4.1.6 Monitor work by the council to mitigate and plan for climate change risk.

4.1.7 Monitor the achievement of the highest standards of corporate governance including monitoring compliance with Council's Code of Conduct,

4.1.8 Review issues relating to national competition policy and Local Government Performance Reporting Framework.

4.2 Monitor Council financial and performance reporting (section 54(2b))

4.2.1 Review the appropriateness of the systems and procedures in place for collecting and analysing information and data for the purposes of measuring the performance of individual programs and activities to monitor progress in implementing the Council Plan and Community Vision.

4.2.2 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.

4.2.3 Assess whether a comprehensive process has been established for the purposes of legislative disclosure reporting requirements.

4.2.4 Assess internal control systems covering the public release of information.

4.2.5 Assess any changes to Council's accounting policies and procedures and the methods of applying them, with the input of management, external and internal auditors, ensuring that they are in accordance with the stated financial reporting framework.

4.2.6 Review the appropriateness of accounting policies and disclosures to present a true and fair view.

4.2.7 Review the financial reporting provided to Council and monitor the financial performance and sustainability of Council.

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- 4.2.8 Assess reports from internal and external auditors that make recommendations about the quality of financial reports such as actual and potential material audit adjustments, financial report disclosures, non-compliance with legislation and regulations, internal control issues.
- 4.2.9 Recommend to the Council whether the financial report including the performance statement section of the Annual Report should be approved based on the Committee's assessment of them.

4.3 Monitor and provide advice on risk management and fraud prevention systems and controls (section 54(2c))

- 4.3.1 Monitor the implementation of the Risk Management Strategy and progress in managing risk identified on the Risk Register priorities. The progress against these documents will be reported to the Committee at each meeting.
- 4.3.2 Review and recommend enhancements to Council's policy for the oversight and management of business risks.
- 4.3.3 Review management's overall risk profile, risk management framework and implementation strategy and advise Council of any concerns regarding the appropriate resourcing of the required actions.
- 4.3.4 Receive regular risk reports, which:
- provide an overview of management of each strategic risk by strategic risk owners
 - 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.
- 4.3.5 Assess Council processes for management's identification and control of material risks, including business, financial and legal compliance risks in accordance with 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.
- 4.3.6 Assess adequacy of Council process to manage insurable risks.
- 4.3.7 Review whether the Council has a current and active business continuity plan and disaster recovery plan which is tested periodically as determined by the plan.
- 4.3.8 Review whether the Council has current and active emergency planning and recovery response frameworks in place which are tested periodically as determined by the internal audit workplan.

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- 4.3.9 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.
- 4.3.10 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.
- 4.3.11 Monitor the Council's fraud prevention and detection framework, including any action taken with respect to actual and suspected instances of fraud.
- 4.3.12 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.

4.4 Oversee internal audit function (section 54(2d))

- 4.4.1 Review the Internal Audit Charter regularly to determine that it provides an appropriate functional and organisational framework to enable Council's internal audit function to operate effectively and without limitations.
- 4.4.2 Recommend to Council the appropriate method for the provision of the internal audit function including the evaluation criteria and the appointment of the contractor.
- 4.4.3 Monitor the performance and ongoing effectiveness of the contractor, which can include making a recommendation to Council to terminate the contractor should performance not meet the standards set out in the contract.
- 4.4.4 Monitor the implementation of a three-year internal audit improvement plan. The progress against this plan will be reported to the Committee at each meeting.
- 4.4.5 Review the allocation of internal audit resources through the Strategic Annual Internal Audit Plan, against Council's Audit Universe, three-year Audit Plan, Assurance Map and Council's strategic risks.
- 4.4.6 Assess if there has been any obstruction to the work reported through to the Committee.
- 4.4.7 Review the planning and scope for each internal audit to ensure that the audit objectives and scope are fit for purpose.
- 4.4.8 Provide the opportunity for Committee members to meet with the internal auditors without management being present.
- 4.4.9 Review the reporting on completed internal audits, seeking clarification through critical analysis to assure the Committee that management is responding adequately to the findings and key risks are mitigated.
- 4.4.10 Monitor the progress of the strategic annual internal audit plan and work program and consider the implications of internal audit findings for the control and operating environment.

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- 4.4.11 Monitor the implementation of internal audit's findings and recommendations.
- 4.4.12 Require Internal Audit contractor to conduct periodic testing of whether audit actions reported as completed by management have been effectively implemented.

4.5 Oversee external audit function (section 54(2d))

- 4.5.1 Seek information from 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 and consider the implications of the external audit findings for the control environment.
- 4.5.2 Ask the external auditor if there have been any significant resolved or unresolved disagreements with management.
- 4.5.3 Monitor and critique management's response to the external auditor's findings and recommendations.
- 4.5.4 Sight all representation letters signed by management and consider the completeness and appropriateness of the information provided.
- 4.5.5 Provide the opportunity for committee members to meet with the external auditor and/or officers of the VAGO as the need arises without management being present.
- 4.5.6 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.
- 4.5.7 Provide advice to management on action to be taken on significant issues raised in relevant VAGO reports or better practice guides.
- 4.5.8 Provide feedback to the VAGO on draft strategies, reports and opportunities for improvement.

4.6 Monitor internal controls

- 4.6.1 Review the effectiveness of the Council's internal control system with management and the internal and external auditors.
- 4.6.2 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.
- 4.6.3 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.

4.7 Monitor compliance with relevant laws and regulations

- 4.7.1 Monitor Council's processes regarding compliance with legislation and regulations.
- 4.7.2 Comply with legislative and regulatory requirements imposed on audit committee members, including not misusing their position (section 123 of the Act) to gain an advantage for themselves or another or to cause detriment to the Council and disclosing conflicts of interest (section 125 of the Act)
- 4.7.3 Monitor ethical standards and related party transactions by determining whether the systems of control are adequate.

4.8 Meetings with Council

A joint meeting between the Independent Committee members of the Audit and Risk Committee and the elected Council at least annually, with a focus on presenting the Committee's performance report to the Council.

Officers will not be present unless otherwise invited to participate.

5 Authority of the Committee

The Committee does not have any delegated powers from Council or any delegated financial responsibilities.

All recommendations of the Committee shall be referred to the Council for review and noting, other than the:

- three-year Internal Audit Plan
- planning and terms of reference for internal audits that do not require the approval of the Council
- management responses to audit recommendations arising from Internal Audit Reports.

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

6 Evaluating the Committee's Performance and Reporting

6.1 Annual Committee Performance Report

The Committee will undertake an annual assessment of its own performance against the Audit and Risk Committee Charter in accordance with section 54(4a) of the Act. This assessment will be reported in accordance with section 4.8 of this Charter.

This report will be provided to the Chief Executive Officer for presentation to Council in accordance with Section 54(4b) of the Act. This report will be made available to the public via Council's website.

The Chair of the Committee, or a representative on behalf of the Committee, will present this Annual Committee Performance Report to an informal Councillor briefing prior to the report being presented to Council.

The Chief Executive Officer will assist the Committee in undertaking a broader 360 degree self-assessment of its performance every three years. This review will invite feedback from the Council, each Committee member, Council's Executive Leadership Team, Council's appointed Internal Auditors, the VAGO, and any other relevant stakeholders. The self-assessment will be reported through the Annual Committee Performance Report.

6.2 Review of Independent Member's performance if seeking additional terms

The Chair, in conjunction with the Chief Executive Officer, will undertake formal reviews of the performance and independence of Independent Members in the event that the member wishes to seek reappointment for an additional term in response to expressions of interest being called from the wider community for the Committee vacancy.

6.3 Six Monthly Audit and Risk Report

The Committee will prepare a six monthly audit and risk report that describes the activities of the Audit and Risk Committee and includes the Committee's findings and recommendations in accordance with section 54(5a) of the Act, along with the agreed actions. This report will be provided to the Chief Executive Officer for reporting to Council twice a year in July and January.

The Chair of the Committee, or a representative on behalf of the Committee, will present the Annual Internal Audit Plan to a Councillor Briefing prior to commencement of the financial year.

7 Administrative Arrangements

7.1 Meetings

The Committee must meet at least every quarter.

A meeting dedicated to strategic planning and another to focus on policy review shall be held each year at a date determined by the Committee.

One or more additional meetings may be held to review the Council's annual financial statements and performance statement, or to meet other responsibilities of the committee.

All committee members are expected to attend each meeting, in person or virtually . Failure to attend a meeting may result in non-payment of members fees for the associated quarter but this will be at the discretion of the Chief Executive Officer and Committee Chair.

The Chair has discretion to decide if a meeting will be held following the receipt of a request by another Independent Member, internal auditor or the VAGO.

7.2 Planning

The Committee will develop a forward meeting schedule that includes the dates and location for each meeting for the forthcoming year.

In accordance with section 54(3) of the Act the Committee will develop an annual work program that includes the timing of reporting for all of the responsibilities outlined in this Charter.

7.3 Quorum

A quorum will consist of a majority of Committee members, with a minimum of two (2) independent members and one (1) Councillor. The quorum must be in attendance at all times during the meeting. If a quorum cannot be achieved at the commencement of the meeting, or maintained during a meeting, the Chair will call a meeting at the earliest possible time to deal with the unfinished business on the agenda.

7.4 Minutes and Agendas

In accordance with section 54(6a) of the Act, the CEO will appoint a Council Officer to provide support to the Committee to ensure:

- the agenda for each meeting is approved by the Chief Executive in consultation with the Committee Chair

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- the agenda and supporting papers are circulated, at least one week before the meeting
- the minutes of the meetings are prepared and maintained.

Minutes must be reviewed by both the Director People and Governance of Council and the Committee Chair and circulated within two weeks of the meeting to each member and committee observers, as appropriate.

In alignment with the Act, Council's Governance Rules and Public Transparency Policy, summary minutes from each Committee meeting are to be presented to Council for review and noting after each Committee meeting summarising progress, matters discussed and any issues the Committee wishes to share with all Councillors.

Internal audit reports and external audit reports will not be made public unless a recommendation from the Committee is passed by Council to do so.

Pursuant to section 54(6b) of the Act, the Chief Executive Officer is required to table reports upon request by the chairperson of the Audit and Risk Committee.

8 Conflicts of Interest

Committee recommendations must be transparent and accountable, protect the public interest, maintain the integrity of the Committee and Council and enable the public to be confident that the Committee is performing its duties properly.

If a conflict of interest exists, it must be declared and managed.

Division 2 of Part 6 of the *Local Government Act 2020* applies to Independent Members in the same way it does to members of any delegated Committee. An independent member has a conflict of interest if they have:

- a general conflict of interest within the meaning of section 127 of the Act
- a material conflict of interest within the meaning of section 128 of the Act.

Committee members are required to provide written declarations relating to their material personal interests to the Chair by completing Council's Conflict of Interest Form. This declaration and information will be forwarded by the Chair to the Director People and Governance for review and recording.

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 will be required to declare any material personal interests that may apply to specific matters on the meeting agenda.

Where the Independent member believes, after consultation with the Chair, that the conflict cannot be appropriately managed the member must leave the meeting prior to any discussion or debate on the matter in which they have declared an interest.

The time of exit will be noted in the minutes, along with the reason for the Independent Member's temporary absence from the meeting. The Chair will ask for the Independent Member to re-join the meeting when the matter has been finalised. The time of re-entry to the meeting will be noted in the minutes.

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).

If a quorum cannot be maintained due to declarations of conflict of interest, the provisions of clause 24 of the Strathbogie Shire Governance Rules will apply.

9 Misuse of Position

Section 123 of the *Local Government Act 2020* applies to Independent Members in that the Independent Member must not intentionally misuse their position -

- a to gain or attempt to gain, directly or indirectly, an advantage for themselves or for any other person
- b to cause, or attempt to cause, detriment to the Council or another person.

10 Confidential Information

Section 125 of the *Local Government Act 2020* applies to Independent Members and the requirements include:

- (1) Unless subsection (2) or (3) applies, a person who is, or has been, an Independent Member must not intentionally or recklessly disclose information that the person knows, or should reasonably know, is confidential information.
- (2) Subsection (1) does not apply if the information that is disclosed is information that the Council has determined should be publicly available.
- (3) A person who is, or has been, an Independent Member may disclose information that the person knows, or should reasonably know, is confidential information in the following circumstances—
 - (a) for the purposes of any legal proceedings arising out of this Act
 - (b) to a court or tribunal in the course of legal proceedings
 - (c) pursuant to an order of a court or tribunal
 - (d) in the course of an internal arbitration and for the purposes of the internal arbitration process
 - (e) in the course of a Councillor Conduct Panel hearing and for the purposes of the hearing
 - (f) to a Municipal Monitor to the extent reasonably required by the Municipal Monitor
 - (g) to the Chief Municipal Inspector to the extent reasonably required by the Chief Municipal Inspector
 - (h) to a Commission of Inquiry to the extent reasonably required by the Commission of Inquiry
 - (i) to the extent reasonably required by a law enforcement agency.

11 Recruitment

A position description for independent members will be established and maintained for each of the four independent member positions. The position description will include a matrix skills assessment that identifies the particular blend of skills and experience required for each particular role.

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 must be formally considered and adopted by the Council.

13 Members

Community Representatives

Paul Ayton, Chair

Mark Freudenstein

Alistair Thomson

Alister Purbrick

Council Representatives

Mayor Laura Binks

Cr Chris Raeburn

Deputy Mayor Paul Murray (Substitute)