

# Audit and Risk Committee Terms of Reference

## 1. INTRODUCTION

Council is committed to establishing and operating an Audit and Risk Committee (the Committee) which meets the requirements of the *Local Government Act (2009)* section 105. To complement the scope areas in the legislation, the Committee objectives will also include risk management and governance.

The Committee will act as an advisory service to Council in the effective discharge of the responsibilities prescribed in the Local Government Act 2009 (Act), the Local Government Regulation 2012 (Regulation) and other relevant legislation and prescribed requirements. In doing so, it will provide independent comment, advice and counsel on audit and risk management issues covering all Council operations and projects reported and considered by the Committee at its regular meetings. The Committee does not replace or replicate established management responsibilities and delegations, the responsibilities of other executive management groups within Council, or the reporting lines and responsibilities of the internal and external audit or risk management functions.

The Audit and Risk Committee Terms of Reference (ToR) sets out how the Audit and Risk Committee will operate including how it will fulfil the legislative obligations and meet standards relating to Audit Committees.

## 2. OBJECTIVES

The Audit and Risk Committee is established to achieve the following outcomes:

- Assurance that all financial and non-financial internal control and risk management functions are operating effectively and reliably.
- Effective engagement with External Audit regarding their audit process, findings and reports.
- An independent review of Council's reporting functions to ensure the integrity of financial reports.
- Strong and effective oversight of the internal audit function.
- An assessment of the effectiveness of implementation of accepted audit recommendations.
- Assurance that Council has appropriate internal governance arrangements and promotes a culture committed to lawful and ethical behaviour.

## 3. AUTHORITY

- 3.1. The Audit and Risk Committee derives its authority from the Audit and Risk Committee Policy as a formal advisory committee of Council. The Committee has authority to:
- Conduct or request investigations into matters within its scope of responsibility;
  - Access information, records and personnel of the Council for such purpose;
  - Request the attendance of any employee, including General Managers and Managers, at committee meetings;

- Conduct meetings with the internal and external auditors, as necessary, with or without the CEO being present; and
- Seek advice from external parties to meet its responsibilities, as necessary.

#### 4. MEMBERSHIP

- 4.1. Section 210 of the *Local Government Regulations 2012* (the *LGR*) specifies that the Committee must consist of at least three and no more than six members; and must include one, but no more than two Councillors.
- 4.2. The Audit and Risk Committee will be comprised of two external independent members, and two Councillors appointed by Council to that role. One Councillor shall also be appointed by Council as a proxy for either Councillor member. The Chair shall be an external member.
- 4.3. External independent members will have a broad range of skills and experience relevant to the Committee's responsibilities. At least one member will have significant accounting or financial management experience with an understanding of accounting and auditing standards in a public sector environment.
- 4.4. Expressions of Interest will be invited via public advertisement for appointment as external members of the Committee and to fill any casual vacancies for those positions which may arise during the term of the Committee. Nominations received will be reviewed by the Mayor, Deputy Mayor, Chief Executive Officer (CEO) and General Manager Council Sustainability. Where appropriate a shortlist of not more than five candidates may be prepared for Council's consideration, via a merit-based process. Appointments shall be made by the CEO in accordance with a Council resolution.
- 4.5. Appointments of the external members will be for a fixed term, usually of four years. Prior to the completion of the term, Council will resolve to offer an extension or to commence an Expression of Interest process. Ideally the appointments should be staggered such that an external member is appointed every second year, however, strict adherence to this is not necessary dependant on circumstances at the time. Maximum total period of service for the external members shall not be more than eight years unless an extension beyond this is necessary to provide continuity of membership.
- 4.6. The sitting fee paid to external members will be at a level negotiated by the Chief Executive Officer within a range in accordance with the approved budget. The sitting fee should provide value for money to Council based upon the experience and qualification of candidates. The amount will be considered by Council before making a resolution regarding appointment as part of the process outlined in Section 4.4. The sitting fee may also be reviewed annually by the Chief Executive Officer. Any adjustment greater than 5% must be approved by Council within existing budget review and approval processes.
- 4.7. At the discretion of the CEO, the Chair position may be rotated between the external members to provide a greater level of business continuity as circumstances require. The change in Chair is to be ratified by a majority vote of the members in attendance, with any dissenting views recorded in the minutes and reported to Council.
- 4.8. If the Council proposes to remove a member of the Committee, it shall give written notice to the members of its intention to do so and, if that member so requests, provide the member with the opportunity to be heard.
- 4.9. External members are required to act in compliance with Council's Code of Conduct. External

members are required to complete a Confidentiality Agreement before commencement.

- 4.10. Before commencing their duties, all members (including the Proxy member) will complete a structured induction process facilitated by the Principal Specialist Internal Audit and Improvement.

## 5. MEETINGS

- 5.1. The Audit and Risk Committee will conduct its operations at formal meetings to be held a minimum of twice in each financial year. An additional meeting to specifically consider a draft of the general purpose financial statements for the preceding financial year before the statements are certified and given to the Auditor-General under Section 212 of the LGR 2012 may also be scheduled.
- 5.2. The Chief Executive Officer will convene these meetings when requested by the Committee Chair and at such other times which are deemed to be appropriate to the conduct of Committee business and convenient to the members of the Committee.
- 5.3. At meetings, all members shall have full voting rights. Section 211(2) of the LGR 2012 requires a quorum of at least half the number of members of the Committee (while the Committee has four members the quorum is two). Either the Chairperson shall preside or if the Chairperson is absent, the member chosen by the members present as Chairperson for the meeting presides.
- 5.4. At all meetings members will be asked if they need to declare an interest in any of the matters on the agenda. Although the Committee is not a decision making group, it may be considered appropriate that a member not be privy to the discussion on a matter, or not have any influence on the recommendation made by the Committee. The Chair will determine how any declared interests are to be managed. If the declaration is made by the Chair the decision on how to manage the declared interests will be made by a majority decision of the members in attendance.
- 5.5. In addition to Committee Members, the following persons shall be invited to attend all Committee meetings as observers:
- Chief Executive Officer, all General Managers and other relevant Council Officers such as Principal Specialist - Internal Audit and Improvement and Principal Specialist Governance and Assurance.
  - A person appointed by the Queensland Audit Office.
  - External Auditors and Financial Advisors as required, however they must attend any meetings pertaining to the Annual Financial Statements.
  - Councillors who are not members of the Committee.
- 5.6. The Chairperson may determine that any or all observers, including the CEO, be excluded from a particular meeting or part of a meeting during consideration of a particular agenda item or as other business, in particular if there is any known or perceived conflict of interest. The minutes will record that this closed session occurred, and the participants, but not the subject matter discussed. Consistent with recommended good practices, a closed session will be held at least annually with External Audit and separately with Internal Audit.
- 5.7. Due to the confidential nature of information considered, and to support the high level of independence of Internal and External Audit, Committee meetings will be closed to the public.
- 5.8. All information supplied by Council and its officers for consideration at Committee meetings

must be treated as being confidential to the local government (refer Sections 171 and 200 of the LGA 2009).

- 5.9. The Office of the Chief Executive Officer may provide a secretarial function to the Audit and Risk Committee. The CEO shall circulate the agenda, supported by explanatory documentation, to the Audit and Risk Committee members, and the External Auditors at least three business days before the meeting.
- 5.10. The Committee has the right to request that the CEO arrange independent professional advice when considered necessary. The Committee or individual members may request and obtain information from management and consult directly with the auditors. However, the Committee has no power to direct Council staff in the performance of their duties.

## 6. REPORTING MEETING OUTCOMES

- 6.1. A report of the outcomes of each meeting will be prepared for endorsement by the Committee Chair and distributed to Committee members, within three weeks after the meeting.
- 6.2. The Chief Executive Officer will provide a report to the next available Ordinary Meeting of Council about the matters reviewed at the Audit and Risk Committee meeting and recommendations.
- 6.3. The Committee shall report annually to Council summarising the activities of the Committee during the previous financial year. When this report is presented, the Chair shall be in attendance to speak to Council.

## 7. REVIEW RESPONSIBILITIES

The Committee will liaise closely with management and internal and external auditors to carry out its responsibilities. Whilst the primary responsibility for financial and other reporting, risk management, internal control and compliance with laws, regulations, and ethics within Council rests with management, the Committee shall exercise a monitoring and review role.

Section 211(b) of the LGR 2012, stipulates that the Audit Committee must review each of the following matters:

- (i) *the internal audit plan for the internal audit for the current financial year;*
- (ii) *the internal audit progress report for the internal audit for the preceding financial year including the recommendations in the report and the actions to which the recommendations relate;*
- (iii) *a draft of the local government's financial statements for the preceding financial year before the statements are certified and given to the auditor-general under Section 212;*
- (iv) *the auditor-general's audit report and auditor-general's observation report about the local government's financial statements for the preceding financial year.*

The above requirements are addressed within the following sections. In addition, the Audit and Risk Committee will review, but is not necessarily limited to:

### 7.1. Risk Management:

- 7.1.1. Provide oversight and feedback on Council's Risk Management Framework.

- 7.1.2. Receive reports to review whether management has in place a comprehensive risk management framework for effective identification and management of business and financial risks, including fraud risks.
- 7.1.3. Receive reports from the Risk Reference Group and or other governance meetings that help ensure ongoing effective risk management within Council.
- 7.1.4. Monitor the organisation's approach to managing internal controls and providing assurance regarding effective operation of controls.
- 7.1.5. Review the impact of the risk management framework on Council's insurance arrangements.
- 7.1.6. The Committee will request and receive reports from management on specific aspects of Council's risk management approach and identified risks including, but not limited to:
  - Fraud-related risks including theft, embezzlement, false claims, contract and procurement fraud, kickbacks,
  - Security including physical security, cyber-security and ICT security,
  - Risks of non-compliance with key laws and regulations including whistle-blower and ethical conduct,
  - Risks associated with major projects and new business initiatives,
  - Risks associated with the breakdown in key internal controls in processes such as financial reporting and financial management,
  - Risks in regards to Work Health and Safety,
  - Risks to Business continuity and Business Continuity Planning, and
  - Risk of disasters and overall disaster management preparedness.

## **7.2. External Audit**

- 7.2.1. Review the external auditor's identified risks, proposed audit scope, approach and plan for the ensuing year.
- 7.2.2. Review the external auditor's interim and final reports and closing report and monitor management's responsiveness to external audit recommendations.
- 7.2.3. Monitor and review the effectiveness, independence and objectivity of Council's external auditors, being the Queensland Audit Office or its nominated audit service provider and provide feedback on the audit services provided.
- 7.2.4. Provide input and feedback on performance audit coverage proposed by external audit,
- 7.2.5. Provide oversight of Council's involvement in any other activities of the Queensland Audit Office and external audit.
- 7.2.6. Monitor sector wide Auditor-General reports to Parliament, including management's response to those with relevant observations and recommendations for Council.

## **7.3. Financial Reporting**

- 7.3.1. Obtain assurance from management that the financial statements comply with all prescribed accounting requirements and statutory regulations and are materially

correct prior to recommending the financial statements for certification by the Mayor and the CEO.

7.3.2. Perform independent review of the financial statements prior to final sign-off by the Mayor and the CEO. Should any technical or operational issues arise in relation to the finalisation of such reports, the committee acts as a forum for resolution or reviewing and making recommendations on the various options and views. Factors to consider include:

- The appropriateness of Council's accounting policies.
- The process used by management in making material estimates and judgements in financial reports.
- Any unusual financial or operational trends or variations from forecasts.
- The impact of any materially adverse audit findings on the integrity of the agency's financial statements.
- Whether the information contained in the financial statements is consistent with the audit committee's knowledge of the agency's 'business'.
- Confirmation that the audit process has been completed and that there are no unresolved matters requiring investigation.

7.3.3. Perform other due care and diligence processes, including considering whether the statements are complete and operationally accurate and provide a 'true and fair view' of the activities of Council for the period under review and the state of its affairs at balance date. Of particular relevance are the various notes and other disclosures that complement the statements, including any performance indicators.

7.3.4. Receive regular reports from management on the financial performance of the organisation and any changes to the approved budget.

#### **7.4. Internal Audit:**

7.4.1. Review the adequacy of the Internal Audit Charter and any subsequent amendments and recommend for approval.

7.4.2. Assess and contribute to the audit planning processes relating to the risks and threats to Council.

7.4.3. Review the internal audit plans to ensure an optimum, cost-effective overall audit coverage and that the plans are compliant with legislated requirements.

7.4.4. Assess whether the Internal Audit resourcing levels are appropriate and make recommendations if required.

7.4.5. Assess whether the structure, qualification requirements, professionalism, ethical practices and training of internal audit resources are adequate.

7.4.6. Monitor the performance of the internal audit function relative to the annual audit plan.

#### **7.5. Implementation of Accepted Audit Actions:**

7.5.1. Review the findings of internal audit and the actions proposed to be taken by management, including an assessment that management's proposed solution is appropriate and cost-effective.

- 7.5.2. Monitor the progress on implementation of all accepted audit actions including those from Internal Audit, External Audit and other reviews where the Committee requests ongoing tracking of the actions.

## **7.6. Governance:**

- 7.6.1. Review the approach to ensuring legal and regulatory compliance including reports on emerging legal risks and obligations.
- 7.6.2. Receive an overview of regulator activities which contribute to assurance on risk management. Review reports regarding correspondence from regulators, particularly where regulatory breaches have occurred.
- 7.6.3. Monitor Council's governance of Environmental risks and organisational compliance.
- 7.6.4. Monitor Council's governance of Biodiversity and Climate Change including regulatory functions and organisational compliance.
- 7.6.5. Monitor Council's approach to management of complaints and high level outcomes from the complaints management processes.
- 7.6.6. Review the ongoing approach to ensuring a positive organisational culture including adoption of ethical principles.
- 7.6.7. Receive reports on the organisation's approach to management reporting and receive regular updates on operational performance.

## **Approval and Review Details**

Approval and Review	Details
Original Approval Authority and Date	Council 23 November 2020
Amendment Authority and Date	Council 22 May 2024
Notes	Reviewed and updated to new framework.

Approved By:

**SCENIC RIM REGIONAL COUNCIL**

Adopted: 22 May 2024