



TERMS OF REFERENCE

Audit Committee

Background

The review into the financial sustainability of Local Government has led to changes to the Local Government Act 1999, whereby it is now mandatory for all Councils to appoint an Audit Committee under Section 126 of the Act.

The following information is based on the LGA's Financial Sustainability Program, Information Paper 3, Audit Committees and Standards Australia Draft Handbook – Audit Committees - Sept.2006.

Charter

The Audit Committee is formed under Section 126 of the Local Government Act, 1999 and provides an important independent role between Council, its management and the community. It has no authority to act independently on behalf of Council but it can act in areas covered by its charter.

The Charter of the Audit Committee is to ensure that Council operates at a level that meets good governance criteria that is to:

- Review the annual financial statements to ensure that they present fairly the state of affairs of the Council;
- Review and suggest improvements where warranted in the form of budget and actual financial performance information reported to the Council
- Review the Council's financial governance arrangements and their effectiveness
- Likely impact on the Council's ongoing financial sustainability of implementation of its suite of Strategic Management Plans
- propose, and contribute relevant information to, a review of Council's strategic management or annual business plans;
- Propose and review the exercise of powers in relation to 'other investigations' as specified under relevant legislation. This could include calling for an **Economy and Efficiency Audit;**
- undertake the functions that would have been undertaken by a subsidiary's audit committee in cases where a Council has exempted the subsidiary from having an audit committee (where relevant);
- liaise with the Council's auditor;



- review the adequacy of the Council's accounting, internal control, reporting and other financial management systems and practices on a regular basis.

1. Membership

- 1.1 Members of the Committee shall be appointed by the Council. The Committee shall consist of up to five members including two independent members and at least two Elected Member of Council, in accordance with the Local Government (Financial Management) Regulations 1999.
- 1.2. An Independent Member of the Committee shall Chair the Audit Committee.
- 1.3. The Presiding Member of the Council shall be an ex officio member of the Committee.
- 1.4. Only members of the Committee are entitled to vote in Committee meetings.
- 1.5. Council's external auditors and internal auditors may be invited to attend meetings of the Committee.
- 1.6. Appointments to the Committee shall be for a period of four years,

2. Secretarial resources

- 2.1. The Chief Executive shall provide sufficient secretarial resources to the Committee to adequately carry out its functions.
- 2.2. Other individuals such as the Chief Executive, Finance Manager and if applicable the heads of risk, compliance and internal audit and representatives from the finance function may attend any meeting as observers or be responsible for preparing papers for the Committee.

3. Quorum

- 3.1 The quorum necessary for the transaction of business shall be 50% of the number of members of the Committee plus one. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

4. Frequency of meetings

- 4.1 The Committee shall meet at least three times a year at appropriate times in the reporting and audit cycle.

5. Meeting Procedures

- 5.1 Part 2 of the Local Government (Procedures at Meetings) Regulations 2000 applies to meetings of the Audit Committee.



6. Notice of meetings

- 6.1 In accordance with the principles of open, transparent and informed decision making, Committee meetings must be conducted in a place open to the public. The agenda and minutes of the Committee meetings, subject to any items that are discussed in confidence under the relevant legislative provisions, are also required to be made available to the public.
- 6.2 Ordinary meetings of the Committee will be held at times and places appointed by Council or, subject to a decision of Council, the Committee. A special meeting of the Committee shall be summoned by the Chief Executive at the request of its Presiding Member or any two members of the Committee.
- 6.3 Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and observers, no later than three clear days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

7. Minutes of Meetings

- 7.1 The Chief Executive shall ensure that the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance are minuted.
- 7.2 The Chief Executive shall include on the agenda the declaration by any Committee member, the existence of any conflicts of interest and minute them accordingly.
- 7.3 Minutes of Committee meetings shall be circulated within five days after a meeting to all members of the Committee and members of the Council.

8. Financial Governance

- 8.1 Review and suggest improvements where warranted in the form of budget and actual financial performance information reported to the Council to ensure:
 - it is pitched at a strategic focus and reflects the key information required to be disclosed in external reports
 - it is based on accrual accounting information
 - it includes key financial sustainability information (including FSAC endorsed financial indicators).
- 8.2 Review the Council's financial governance arrangements and their effectiveness including:
 - the processes in place to ensure all Council members and its executive team have appropriate knowledge of key financial governance principles, issues and reporting tools in the context of local government financial



sustainability and where warranted existing knowledge and skills are augmented with locally appropriate training and support

- the appropriateness of existing strategic financial decision-making processes and in particular those associated with the development of the Council's LTFFP and ABP
- the appropriateness of targets established by Council for FSAC endorsed local government financial indicators having regard to LGA Financial Sustainability Information
- the appropriateness of the range and content of the Council's financial policies and practices (eg treasury (including debt) management).

8.3 Comment on the draft Annual Business Plan prior to its formal consideration for adoption by Council, particularly in terms of consistency with Strategic Management Plans, recognising that the Council is responsible and accountable for policy positions and service level decisions but mindful also that the audit committee has responsibilities to ensure the Council is aware of the impact on ongoing financial sustainability of its proposals.

8.4 Satisfy itself regarding the:

- consistency of the Council's Strategic Plan with its Long-term Financial Plan
- consistency of the Council's Long-term Financial Plan with its Infrastructure and Asset Management Plan (I & AMP)
- soundness of the Infrastructure and Asset Management Plan (is it supported by engineering and other professional assessments regarding the condition of Council's infrastructure assets?)

9. Financial Reporting

9.1 The Committee shall monitor the integrity of the financial statements of the Council, including its annual report, reviewing significant financial reporting issues and judgements which they contain;

9.2 The Committee shall review and challenge where necessary:

- the consistency of, and/or any changes to, accounting policies;
- the methods used to account for significant or unusual transactions where different approaches are possible;
- whether the Council has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- the clarity of disclosure in the Council's financial reports and the context in which statements are made; and
- all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).



10. Internal controls and risk management systems

The Committee shall:

- 10.1 keep under review the effectiveness of the Council's internal controls and risk management systems; and
- 10.2 review and recommend the approval, where appropriate, of statements to be included in the annual report concerning internal controls and risk management.

11. Whistle blowing

- 11.1 The Committee shall review the Council's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure these arrangements allow independent investigation of such matters and appropriate follow-up action.

12. Internal Audit

The Committee shall:

- 12.1 monitor and review the effectiveness of the Council's internal audit function in the context of the Council's overall risk management system;
- 12.2 consider and make recommendation on the programme of the internal audit function and the adequacy of its resources and access to information to enable it to perform its function effectively and in accordance with the relevant professional standards.
- 12.3 review all reports on the Council's operations from the internal auditing group;
- 12.4 review and monitor management's responsiveness to the findings and recommendations of the internal auditing group.

13. External auditor

The Committee shall in reviewing the effectiveness of the external auditing role:

- 13.1 develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter;
- 13.2 consider and make recommendations to the Council, in relation to the appointment, re-appointment and removal of the Council's external auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- 13.3 oversee Council's relationship with the external auditor including, but not limited to:



- recommending the approval of the external auditor's remuneration, whether fees for audit or non-audit services, and recommending whether the level of fees is appropriate to enable an adequate audit to be conducted;
- recommending the approval of the external auditor's terms of engagement, including any engagement letter issued at the commencement of each audit and the scope of the audit;
- assessing the external auditor's independence and objectivity taking into account relevant professional and regulatory requirements and the extent of Council's relationship with the auditor, including the provision of any non-audit services;
- satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Council (other than in the ordinary course of business);
- monitoring the external auditor's compliance with legislative requirements on the rotation of audit partners; and
- assessing the external auditor's qualifications, expertise and resources and the effectiveness of the audit process (which shall include a report from the external auditor on the audit committee's own internal quality procedures);

13.4 meet as needed with the external auditor. The Committee shall meet the external auditor at least once a year, without management being present; to discuss the external auditor's report and any issues arising from the audit;

13.5 review and make recommendations on the annual audit plan, and in particular its consistency with the scope of the external audit engagement;

13.6 review the findings of the audit with the external auditor. This shall include, but not be limited to, the following:

- a discussion of any major issues which arose during the external audit;
- any accounting and audit judgements; and
- levels of errors identified during the external audit.

13.7 review any representation letter(s) requested by the external auditor before they are signed by management;

13.8 review the management letter and management's response to the external auditor's findings and recommendations.

14. Reporting responsibilities

14.1 The minutes of the proceedings of the audit committee will be circulated to all Council Members. If requested by Council, the Committee Chair shall report to the Council either in writing as a Presiding Member's report or verbally;

14.2 The minutes will also, after confirmation, be made available to the public;

14.3 The Committee shall make whatever recommendations to the Council it deems appropriate on any area within its charter where in its view action or improvement is needed.



15. Other matters

The Committee shall:

- 15.1 have access to reasonable resources in order to carry out its duties;
- 15.2 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- 15.3 give due consideration to laws and regulations of the Local Government Act, 1999;
- 15.4 make recommendations on co-ordination of the internal auditing group and external auditors;
- 15.5 oversee any investigation of activities which are within its terms of reference; and
- 15.6 oversee action to follow up on matters raised by the external auditors;
- 15.7 at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend changes it considers necessary to the Council for approval.

16. Authority

The Committee is authorised:

- 16.1 to seek any information it requires from any employee of the Council (after advising the Chief Executive) in order to perform its duties;
- 16.2 to obtain, at the Council's expense, (after consultation with the Chief Executive) outside legal or other professional advice on any matter within its terms of reference.

17. Adoption by Council

The Audit Committee's Terms of Reference were originally adopted by Council on 17th January 2011 (Minute Ref: ACF113)

Further amended at Council meeting 4 July 2011 (refer Minute Ref: ACF11256).

Further amended at Council meeting 5 September 2011 (refer Minute Ref: ACA370).