



## AUDIT AND RISK COMMITTEE CHARTER

### 1. PREFACE

Section 53(1) of the Local Government Act 2020 (the Act) states that “a Council must establish an Audit and Risk Committee”. Section 54(1) of the Act states “a Council must prepare and approve an Audit and Risk Committee Charter.”

This Charter has been developed in response to the Act requirements. It has been developed with reference to the model Audit Charter provided by the Institute of Internal Auditors North America, as recommended in “Audit Committees - A Guide to Good Practice for Local Government” issued by Local Government Victoria in January 2011.

### 2. INTRODUCTION

The Audit and Risk Committee (ARC) plays an important role in providing oversight of Colac Otway Shire Council’s governance, risk management, internal control practices, internal and external audit functions<sup>1</sup>. This oversight mechanism also serves to provide confidence in the integrity of these practices.

### 3. BACKGROUND

The ARC’s previous Charter was reviewed and approved by Council on 22 April 2015. This Charter has been developed in accordance with the Section 54(7) of LG Act 2020, which states: *A Council must approve the first Audit and Risk Committee Charter and establish the first Audit and Risk Committee on or before 1 September 2020.*

### 4. PURPOSE

The purpose of the ARC is to provide a structured, systematic oversight of Council’s governance, risk management and internal control practices. The ARC assists the Council and management by providing advice and guidance on the adequacy of initiatives for:

- Values and behaviours (What We Stand For)
- Governance structure
- Risk management
- Internal control framework
- Oversight of the internal audit activity, external auditors and other providers of assurance
- Financial and performance statements and public accountability reporting.

<sup>1</sup> Section 54(2)(d) of the Local Government Act 2020



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In broad terms, the ARC reviews each of the items noted above and provides the Council with independent advice and guidance regarding the adequacy and effectiveness of management's practices and potential improvements to those practices.

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### 5. MANDATE

The ARC has been established under Section 53 of the Local Government Act 2020 (and previously Section 139 of the Local Government Act 1989). The Act states that the ARC is not a delegated committee.<sup>2</sup>

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### 6. AUTHORITY

The ARC Charter sets out the authority of the ARC to carry out the responsibilities established for it by the Council as articulated within the ARC Charter.

In discharging its responsibilities, the ARC will be supported by the General Manager Corporate Services (GMCS), who can facilitate provision of relevant information, records data and reports it considers necessary to discharge its duties. Some information may be denied due to legal or confidentiality reasons.

The ARC is entitled to receive any explanatory information that it deems necessary to discharge its responsibilities. The GMCS will facilitate ARC requests.

The ARC may request engagement of counsel or other advisors it deems necessary to carry out its duties.

The ARC is empowered to:

- Appoint and oversee all audit and non-audit services performed by the internal audit contractor. As the annual financial audit is undertaken by the Auditor-General Victoria or his/her appointed contractor the ARC has no ability to appoint the external auditor.
- Resolve any disagreements between management and the internal auditor or external auditor regarding financial reporting and other matters.
- Preapprove all internal auditing services performed by the internal audit contractor.

The ARC, through the independent ARC members, will assist the GMCS in the:

Assessment of tenders for the internal audit contract and recruitment process for new independent ARC members.

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<sup>2</sup> Section 53(2) of the Local Government Act 2020



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The ARC will receive recommendation reports, which after formal acceptance, will be provided to the Council. Only the Council can formally appoint internal audit contractors and independent ARC members, which will be subject to a resolution at a Council meeting.

### 7. COMPOSITION OF THE COMMITTEE

#### Composition of the Committee<sup>3</sup>

The ARC will be comprised of five members as follows:

- Two Councillors.
- Three independent members.
- Consist of a majority of members who are not Councillors of the Council.

The Act has specific requirements about the ARC collectively having expertise in financial management and risk<sup>4</sup> and experience in public sector management<sup>5</sup>. In addition, ARC members should collectively possess sufficient knowledge of audit, specific industry knowledge, IT, law, governance, and control. The Act precludes any person who is a member of Council staff of the Council<sup>6</sup> from being an ARC member.

Because the responsibilities of the ARC evolve in response to regulatory, economic, and reporting developments, it is important to periodically reevaluate members' competencies and the overall balance of skills on the ARC in response to emerging needs.

### 8. CHAIR OF THE COMMITTEE

The Chair of the ARC must not be a Councillor of the Council.<sup>7</sup> The whole ARC will recommend appointment of the Chair to the Council. Only the Council can formally appoint the Chair, which will be subject to a resolution at a Council meeting.

Should the appointed chair be unavailable at an ARC meeting, a chair will be appointed from the independent ARC members in attendance by all the ARC members in attendance.

<sup>3</sup> Section 53(3) of the Local Government Act 2020: An Audit and Risk Committee must— (a) include members who are Councillors of the Council; and (b) consist of a majority of members who are not Councillors of the Council

<sup>4</sup> Section 53(3)(b)(i) of the Local Government Act 2020

<sup>5</sup> Section 53(3)(b)(ii) of the Local Government Act 2020

<sup>6</sup> Section 53(3)(c) of the Local Government Act 2020

<sup>7</sup> Section 53(4) of the Local Government Act 2020: A chairperson of an Audit and Risk Committee must not be a Councillor of the Council.



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The ARC may choose to recommend appointment of a Deputy Chair. Only the Council can formally appoint the Deputy Chair, which will be subject to a resolution at a Council meeting.

### 9. TERMS OF OFFICE

#### **Councillors**

Councillor ARC members shall be appointed annually by the Council.

#### **Independent Committee Members**

Independent ARC members shall be appointed for an initial term of three years. They have a right of reappointment after the first term, by application of the ARC member. The maximum term of an independent ARC member is three terms or nine years.

The terms of each independent ARC member will be arranged so that there is an orderly rotation of membership, with the turnover and replacement of independent members programmed to maintain the integrity of the ARC. Unless there is a substantive reason not to, the terms of appointment will commence at the first meeting after the review of the Annual Financial and Performance Statements.

The current term schedule has been endorsed by the current ARC to bring all current members back in line with the commencement requirement above. Current terms of Independent ARC members are as follows:

Member	Initial appointment	End of current term	Proposed new term
Michael Said	1 December 2005	25 January 2021	
Brian Keane	5 December 2018	5 December 2021	
Member 3			

### 10. QUORUM

A quorum of any meeting will be at least two independent ARC members and at least one Councillor.

### 11. OPERATIONAL PRINCIPLES

#### **ARC Values**

The ARC will conduct itself in accordance with the “What We Stand For” code of values and behaviours of the Council and in accordance with Section 53(5) of the Local Government Act 2020.



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### **Communications**

The ARC expects that all communication with management and staff of the organisation, as well as with any external assurance providers, will be direct, open, and complete.

### **Work Plan<sup>8</sup>**

The ARC will collaborate with the GMCS to establish a work plan to ensure that the responsibilities of the ARC are scheduled and will be carried out.

### **Meeting Agenda**

The Manager Governance and Communications (MGC) will establish agendas for ARC meetings in consultation with the Chair.

The MGC will circulate the agenda and supporting documentation to members of the Committee at least 5 days in advance of each meeting in electronic data format e.g. email.

### **Information Requirements**

The ARC will establish and communicate its requirements for information, which will include the nature, extent, and timing of information. Information that is scheduled on an agenda will be provided to the ARC with the circulation of the agenda. Information that is sought at an ARC meeting will be provided at the next meeting unless requested otherwise.

### **Preparation and Attendance**

ARC members are obligated to prepare for and participate in meetings. Participation can be in person, via teleconference or video conference. If attendance is via teleconference or videoconference the member will retain full voting rights.

### **Conflict of Interest, Misuse of Position and Confidential Information**

Section 123 (misuse of position), 125 (confidential information) and Division 2 of Part 6 (conflict of interest) of the Act apply to an ARC member who is not a Councillor as if the member were a member of a delegated committee.<sup>9</sup>

All ARC members are expected to be aware of these provisions of the Local Government Act 2020. Failure to comply with the provisions of the Act may result in the ARC member's appointment being terminated.

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<sup>8</sup> Section 54(3) of the Local Government Act 2020

<sup>9</sup> Sections 53(5) of the Local Government Act 2020



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### ***Conflict of Interest***

ARC members must disclose any conflicts of interest to the Chair of the ARC. Where the conflict is related to the Chair of the ARC it must be disclosed to the Mayor.

Once a conflict of interest is identified the ARC member must:

1. Disclose the conflict of interest immediately before the matter is considered in the meeting, including the:
  - a) Type of interest and class; and
  - b) The nature of the interest.
2. Notify the Chair that they are leaving the meeting.
3. Leave the room and vicinity while the matter is being considered and await the Chair's direction to return.
4. Notify the Chair prior to the meeting if they are not going to be present at the meeting.

If details are private in nature, then the nature of the interest can be declared to the Chair in writing prior to the meeting and the disclosure will simply be the type of interest and class.

Disclosure of conflicts of interest must be minuted.

Independent ARC members will be required to sign an Initial Personal Interest Form upon commencement of their term, and a biannual Personal Interests Return as required under the Local Government Act 2020.

### ***Misuse of Position***

ARC members must not intentionally misuse their position 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 another person.

### ***Confidential Information***

ARC members must not intentionally or recklessly disclose information that they know, or should reasonably know, is confidential information.

Independent ARC members will be required to sign a Confidentiality Agreement upon commencement of their term.

### **Orientation and Training**

ARC members will receive formal orientation training on the purpose and mandate of the ARC and on the organisation's objectives. A process of continuing education will be established.



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### 12. OPERATIONAL PROCEDURES

#### **Meetings**

Meetings shall be held not less than four times per annum and timing will be set to ensure that the ARC can properly discharge its responsibilities pursuant to this Charter. ARC members are expected to attend every meeting of the ARC.

Special meetings may be convened as required. The GMCS will convene a meeting at the request of the Chairperson, an ARC member, the external or internal auditors.

Where a matter is required to be dealt with by the ARC between meetings, it will be undertaken by circulating the resolution. The report outlining the matter and a request to vote on the item will be sent via email.

#### **Minutes**

Draft minutes of ARC meetings will be prepared and circulated to all ARC members within 3 weeks of each meeting. Finalised minutes will be included in the following ARC meeting agenda. Upon acceptance of the minutes by the ARC, they will be presented to the next Council meeting.

#### **Required Attendance**

The Chief Executive Officer and GMCS are required to attend every meeting. Officers who have authored reports will be required to attend to speak to their reports, but are not required to attend the whole meeting. Attendance can be in person, via teleconference or video conference.

#### **Secretariat Services**

Secretarial and administrative support will be provided to the ARC by a member of the Governance Team.

#### **Remuneration of Committee Members**

Councillor ARC Members are not remunerated for their role on the ARC.

Remuneration will be paid to each Independent ARC member<sup>10</sup>. The basis of the fee may be an annual fee, a set fee per meeting, or some other basis negotiated with the Chief Executive Officer.

A Letter of Offer must be signed by Independent ARC members and Council. The Letter of Offer must describe any remuneration arrangements and be signed prior to appointment.

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<sup>10</sup> Section 53(6) of the Local Government Act 2020: A Council may pay a fee to a member of an Audit and Risk Committee who is not a Councillor of the Council.





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The chair will receive an additional allowance as negotiated and determined by the Chief Executive Officer.

The Chief Executive Officer will review the remuneration annually in accordance with the terms of appointment.

### **Responsibilities**

It is the responsibility of the ARC to provide Council with independent, objective advice on the adequacy of management's arrangements with respect to the following aspects of the management of the organisation:

### ***Values and Ethics***

To obtain reasonable assurance with respect to the organisation's values and ethics practices, the ARC will:

- Review and assess the policies, procedures, and practices established to monitor conformance with the code of conduct and ethical policies by all managers and staff.
- Provide oversight of the mechanisms established by management to establish and maintain high ethical standards for all managers and staff.
- Review and provide advice on the systems and practices established by management to monitor compliance with laws, regulations, policies, and standards of ethical conduct and identify and deal with any legal or ethical violations.

### ***Organisational Governance***

To obtain reasonable assurance with respect to governance process, the ARC will:

- review and provide advice on the governance process established and maintained within the organisation and the procedures in place to ensure that they are operating as intended.
- monitor compliance of policies and procedures with the overarching governance principles, the Local Government Act 2020, relevant regulations and any Ministerial directions<sup>11</sup>.
- Monitor financial and performance reporting.<sup>12</sup>
- Monitor any ongoing legal matters until the matter is determined.

### ***Risk Management***

To obtain reasonable assurance with respect to risk management practices, the ARC will:

- Provide oversight on significant strategic and operational risk exposures and control issues, including fraud and corruption risks, governance issues, and other matters needed or requested by senior management and the Council.
- Review and provide advice on the risk management processes established and maintained by management and the procedures in place to ensure that they are operating as intended.
- Review the risk profile at least annually.

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<sup>11</sup> Section 54(2)(a)(i) and (ii) of the Local Government Act 2020

<sup>12</sup> Section 54(2)(b) of the Local Government Act 2020





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- Obtain an annual report on management's implementation and maintenance of an appropriate enterprise wide risk management process.
- Business Continuity Plans and the IT Disaster Recovery Plan will be reviewed at least annually with regard to risk management.
- Occupational Health and Safety Action Plan will be reviewed at least annually with regard risk management.
- Provide oversight of the adequacy of the combined assurance being provided.

### ***Fraud and corruption***

To obtain reasonable assurance with respect to procedures for the prevention and detection of fraud, and corruption the ARC will:

- Oversee management's arrangements for the prevention and deterrence of fraud and corruption.
- Ensure that appropriate action is taken in respect of any suspected fraud or corruption matter.
- The Chair should be advised immediately of suspected fraud or corruption, and the proposed course of action.
- The ARC will be advised, in camera, at the next ARC meeting of the progress of investigations into suspected fraud and corruption.
- Challenge management and internal and external auditors to ensure that appropriate anti-fraud and corruption programs and controls are in place to identify potential fraud and ensure that investigations are undertaken if fraud is detected.

### ***Control***

To obtain reasonable assurance with respect to the adequacy and effectiveness of controls in responding to risks within the governance, operations and information systems, the ARC will:

- Consider the effectiveness of the control framework, including risk management, fraud prevention<sup>13</sup>, and information technology security and control.
- Review and provide advice on the control of the organisation as a whole and its individual units.
- Receive reports on all matters of significance arising from work performed by other providers of financial and internal control assurance to senior management and the Council.
- Business Continuity Plans and the IT Disaster Recovery Plan will be reviewed at least annually.

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<sup>13</sup> Section 54(2)(c) of the Local Government Act 2020



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### **Compliance**

The ARC will:

- Review the effectiveness of the system for monitoring compliance with laws, regulations and Council policies, and the results of management's investigation and follow up of any instances of non-compliance.
- Review the observations and conclusions of internal and external auditors and the findings of any regulatory agencies.
- Review the process for communicating the code of conduct to staff and for monitoring compliance.
- Obtain regular updates from management regarding compliance matters.

### **Charter Review**

This Charter will be reviewed by the ARC on a biennial basis, and the ARC will provide a report to the Council recommending that the Council approve the Charter. The Charter can only be adopted by a resolution of Council.

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## 13. OVERSIGHT OF INTERNAL AUDIT ACTIVITY AND OTHER ASSURANCE PROVIDERS

### **Internal Audit Activity**

To obtain reasonable assurance with respect to work of the internal audit activity, the ARC will provide oversight related to:

#### **Internal Audit Control**

- Review and endorse the Internal Audit Control at least annually to ensure that it accurately reflect the ARC's purpose, authority, and responsibility.
- Provide the Internal Audit Control to the Council for adoption.

#### **Strategic Internal Audit Plan**

- Review and provide input on the internal audit activity's strategic plan, objectives, performance measures, and outcomes.
- Review and approve proposed risk-based internal audits and make recommendations concerning internal audit projects.
- Review and approve the Internal Audit Plan and engagement work program, including reviewing internal audit resources necessary to achieve the plan.
- Review the internal auditor performance relative to the Internal Audit Plan.

#### **Internal Audit Engagement and Follow Up**

- Review internal audit reports and other communications to management.
- Review and track management's action plans to address the results of internal audit engagements.



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- Review and advise management on the results of any special investigations.
- Enquire of the Chief Executive Officer whether any internal audit engagements or non-audit engagements have been completed but not reported to the ARC; if so, enquire whether any matters of significance arose from such work.
- Enquire of the Chief Executive Officer whether any evidence of fraud has been identified during internal audit engagements and evaluate what additional actions, if any, should be taken.

### **External Auditors**

To obtain reasonable assurance with respect to work of the external auditors, the ARC will meet with the external auditors during the planning phase of the engagement, the presentation of the audited financial statements, and the discussion of the results of engagements and recommendations for management.

The ARC will:

- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with the internal audit activity.
- Have exclusive meetings with external auditors and internal auditors to discuss sensitive matters.
- Meet separately with both the internal auditor and the external auditor at least annually.
- Monitor management's progress on action plans.

To obtain reasonable assurance that management has acted on the results and recommendations of internal and external audit engagements, the ARC will regularly review reports on the progress of implementing approved management actions plans and audit recommendations resulting from completed audit engagements, internal and external.

### **Financial Statements and Public Accountability Reporting**

The ARC is responsible for oversight of the independent audit of the financial statements and performance statements, including but not limited to overseeing the resolution of audit findings in areas such as internal control, legal, regulatory compliance, and ethics.

The ARC will:

- Review with management and the external auditors the results of audit engagements, including any difficulties encountered.
- Review significant accounting and reporting issues, concluding complex or unusual transactions and highly technical areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review the annual financial statements and performance statement, and consider whether they are complete, consistent with information known to ARC Members, and reflect appropriate accounting standards.



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- Review with management and the external auditors all matters required to be communicated to the ARC under generally accepted external auditing standards.
- Understand strategies, assumptions and estimates that management has made in preparing the financial statements, budgets, and strategic and financial plans (Part 4 – Planning and Financial Management, Local Government Act 2020)
- Review interim financial reports with management and consider whether they are complete and consistent with the information known to ARC Members.

### **Other Responsibilities**

In addition, the ARC will:

- Perform other activities related to this Charter as requested by the Council.
- Institute and oversee special investigations as needed.
- On an annual basis undertake an assessment of its performance against the Charter and provide a copy of the annual assessment to the Chief Executive Officer for tabling at the next Council meeting<sup>14</sup>.

### **Reporting on Audit Committee Performance**

The ARC will prepare a biannual audit and risk report that describes the ARC's activities and includes its findings and recommendations and provide a copy of the biannual report to the Chief Executive Officer for tabling at the next Council meeting<sup>15</sup>.

The report should include:

- A summary of the work the ARC performed to fully discharge its responsibilities.
- A summary of management's progress in addressing the results of internal and external audit engagement reports.
- An overall assessment of management's risks, controls, and compliance processes, including details of any significant emerging risks or legislative changes impacting the organisation.
- Details of meetings, including the number of meetings held during the relevant period and the number of meetings each member attended.
- Provide information required, if any, by new or emerging corporate governance developments.

The ARC may report to the Council at any time regarding any other relevant matter it deems of sufficient importance.

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<sup>14</sup> Section 54(4)(a) and (b) of the Local Government Act 2020

<sup>15</sup> Section 54(5)(a) and (b) of the Local Government Act 2020



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### APPROVAL

Charter approved by Council	26 August 2020
Signed by the Chief Executive Officer	 Date: 27 August 2020