



Audit and Risk Committee Charter

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Purpose

The Audit and Risk Committee Charter (the Charter) outlines the functions and responsibilities of the Audit and Risk Committee (the Committee) in assisting the East Gippsland Shire Council (the Council) fulfil its oversight and corporate governance responsibilities. The Charter provides for the structure and operation of the Committee.

Scope

This policy applies to all Audit and Risk Committee members, Councillors, the Internal and External auditors and relevant Council officers as defined in Roles and Responsibilities section.

Policy Context

The Committee has been established pursuant to section 53 of the *Local Government Act 2020* (the Act). The Council is required, under section 54 of the Act, to adopt a Charter that specifies the functions and responsibilities of the Committee as including:

- a) monitoring compliance of Council policies and procedures with the overarching governance principles¹, the Act and regulations and any Ministerial directions;
- b) monitoring Council financial and performance reporting;
- c) monitoring and providing advice on risk management and fraud prevention systems and controls; and
- d) overseeing internal and external audit functions.

Policy Statement

1.1 Authority

The Committee is directly responsible to the Council for discharging its responsibilities as set out in this Charter.

The Committee has the authority to:

- endorse key documents and reports that must be approved by Council, including annual financial reports, annual performance statements;
- monitor policies and procedures compliance with the overarching governance principles in the Act, the Act and regulations and any ministerial directions;
- approve internal and external audit plans, including internal audit plans with an outlook of greater than one year;
- provide advice and make recommendations to Council on matters within its areas of responsibility;
- retain counsel of relevant independent experts where it considers that it is necessary in order to execute its responsibilities, subject to prior agreement with the Chief Executive Officer;
- seek any relevant information it requires from Council, Council officers (who are expected to co-operate with the Committee's requests) and external parties;
- meet with Council Officers, internal and external auditors and other parties as required to discharge its responsibilities.

¹ Section 9 of the *Local Government Act 2020* included in the definitions.

In accordance with section 53(2), the Committee is not a delegated committee. 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. The Audit and Risk Committee does not have any management functions and is therefore independent of management.

The Audit and Risk Committee that will operate as far as reasonably practicable in accordance with the Local Government Victoria publication, *Audit Committees – A Guide to Good Practice for Local Government January 2011*.

1.2 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;
- risk management, including enterprise risk management, Occupational Health and Safety, fraud and corruption 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, for example information management, data integrity and privacy, project management, risk management, etc;
- compliance of Council policies and procedures with the overarching governance principles, the Act, the regulations, any Ministerial directions and other relevant legislation and regulations.

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

1.3 Membership

- (a) 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
- (b) Independent external members will be sought by way of public advertisement. Appointment of external independent members will be by Council resolution following receipt of a recommendation from a panel comprising the Audit and Risk Committee Chair, the Mayor and the Chief Executive Officer. The Panel will evaluate candidates on the basis 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.

² The chairperson of an Audit and Risk Committee must not be a Councillor of the Council (s53(4) of the *Local Government Act 2020*)

³ Section 53(3)(c) of the *Local Government Act 2020*

- (c) Terms for independent members will be a maximum of three years; however, members may re-apply at the end of their term and may be re-appointed for further terms up to a maximum of two (2), three-year terms (i.e. no more than six years in total). The position must be advertised after an independent member has completed two consecutive terms. The member may apply as part of the competitive process.
- (d) 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.
- (e) Collectively, external independent members must have:
 - (i) expertise in financial management and risk; and
 - (ii) experience in public sector management⁴.

Individually, independent external members will have senior business or financial management knowledge and experience, be conversant with financial and other reporting requirements and possess high levels of personal integrity and ethics.

- (f) Members of the Committee will be covered by Council's insurance when engaged on or attending to Audit and Risk Committee duties.
- (g) 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.
- (h) Provisions relating to Misuse of Position (section 123) Confidential Information (section 125) and Conflict of Interest (sections 126-131) apply to external independent members as if they were a member of a delegated committee.⁵
- (i) Council may resolve to remove a member of the Committee if they fail to attend three (3) consecutive meetings without leave of the Committee, or on the recommendation of the Committee.

1.4 Chair

- (a) The Chair is appointed annually at the Committee's February meeting. At that meeting the Chief Executive Officer will open the meeting, assume the Chair and ask for nominations from among the four independent members. If there is only one nomination, that member will be declared elected. If there is more than one nomination the Chief Executive Officer will ask for a show of hands, with a simple majority of members present determining the result. The member newly elected as Chair will assume the Chair immediately.
- (b) An independent member may be appointed to serve as Chair:
 - for no more than four, 12-month terms; and/or
 - for no more than two consecutive 12-month terms in a three-year period.

⁴ Section 53(2)(b) *Local Government Act 2020*

⁵ Section 53(5) of the *Local Government Act 2020*

- (c) In the absence of the Chair, the Committee will elect another independent member in attendance as Acting Chair.

1.5 Charter and Duties

The Committee is required to adopt an annual work program⁶. The work program will include activities that will assist the Committee to achieve its objectives and as a minimum, fulfil the responsibilities documented in this clause.

- (a) Review Council's draft financial report and performance statement on an annual basis and:
- in consultation with the external auditor, consider whether they are complete and consistent with information known to Committee members, and reflect appropriate accounting principles; and
 - if appropriate, recommend approval *in principle* to Council.
- (b) Review the external auditor's Final Management Letter (annual audit report) with the external auditor and management and if appropriate, frame recommendations for Council's consideration.
- (c) Review annually, the framework in place to ensure Council's risk exposure is managed appropriately. As a minimum, this will include:
- a review of Council's risk management policies and procedures; and
 - review of Council's risk registers in accordance with the reporting regimen documented in the Risk Management Policy, and consideration of the adequacy of actions taken to mitigate Council's risk.
- (d) Review Council's Fraud Prevention policies and controls, including the Fraud Control Plan and fraud awareness programmes at least every two years, this will include:
- receiving reports from management about actual or suspected instances of fraud or corruption including analysis of the underlying control failures and action taken to address each event; and
 - reviewing reports by management about the actions taken by Council to report such matters to the appropriate integrity bodies.
- (e) Review Council's reporting against the Local Government Performance Reporting Framework. The Audit and Risk Committee is responsible to:
- receive and consider performance reports;
 - annually review draft service performance indicators and other performance information disclosures and consider the results in the context of the reports received throughout the year, challenging any unusual or unexpected results;
 - review the internal control framework and level of assurance received around the accuracy and completeness of the information reported; and
 - provide a recommendation to Council.⁷

⁶ Section 54(3) of the *Local Government Act 2020*

⁷ 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

- (f) In respect of Council policies and procedures:
 - review annually, the systems and processes in place to ensure Council policies and procedures comply with the overarching governance principles, the Act and regulations and Ministerial directions (e.g. in respect of risk, finance, business continuity, delegation, equal employment opportunity, workplace health and safety, privacy, etc.); and
 - receive reports from the Chief Executive Officer and other Council officers relevant to Council's compliance with relevant legislation, policies and procedures and if appropriate, make recommendations for Council's consideration.
- (g) In consultation with the internal auditor and management:
 - through a process of mapping against Council's risk registers, prepare a draft three to five-year Internal Audit Plan for consideration by Council;
 - annually review the delivery of the Internal Audit Plan and if required, make a recommendation to Council on any amendments; and
 - review internal audit reports and monitor progress on actions required to achieve rectification of any identified issues.
- (h) Review written reports on significant insurance and legal claims that may impact on Council's financial performance or otherwise expose Council to a high or extreme degree of risk, and mitigation action being taken in response. Reports will be provided in respect of new claims, and subsequently if developments occur in respect of reported risks that are considered likely to increase Council's exposure significantly.
- (i) Where such matters fall within the Committee's Charter:
 - receive reports on specific projects and investigations deemed necessary by the Chief Executive Officer and/or Council, including suspected or actual cases of fraud or any corrupt activity by Council officers or others having business with Council, and if deemed appropriate make recommendations for Council's consideration; and
 - address issues referred for the attention of the Committee, including requests from Council for advice.
- (j) Conduct annually, an evaluation of the performance of the Audit and Risk Committee against the Audit and Risk Committee Charter⁸ and provide an assessment to the Chief Executive Officer for tabling at the next Council meeting.⁹

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.

⁸ Section 54(4)(a) of the *Local Government Act 2020*

⁹ Section 54(4)(b) of the *Local Government Act 2020*

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 after the election

- (k) Review management's responses to any findings identified in the investigation reports of regulatory agencies (e.g. Independent Broad-Based Anti-Corruption Commission (IBAC), Local Government Inspectorate, Victorian Auditor-General's Office, Victorian Ombudsman's Office) and monitor any management actions arising from those reports.
- (l) Annually review reports prepared by Council officers on the operation of Council's Corporate and Public Space Closed Circuit Television and Drone Programs to assess user compliance with legislation, policy and procedure.
- (m) Review biannually, a management report detailing the expenses and reimbursement of out-of-pocket expenses of Councillors and members of delegated committees¹⁰ and if appropriate, make recommendations for Council's consideration.
- (n) Review and assess the adequacy of the Audit and Risk Committee Charter and if appropriate, present recommendations to Council for amendment. As a minimum, this review to occur once every four years, within 12-months after a general municipal election or otherwise is required.
- (o) Prepare a report to Council on the Committee's activities twice per annum. One of these report will be prepared after the meeting at which the annual financial report and the annual performance statement have been considered and recommended to Council for adoption, such a report indicating how the Committee has discharged its responsibilities as set out in the Charter for the previous year.

1.6 Meetings

- (a) The Council's Governance Rules will apply to the conduct of meetings unless alternate procedures are stipulated in this Charter.
- (b) The Committee will hold an ordinary meeting once each quarter.
- (c) A joint meeting with East Gippsland Shire Councillors will be held in September each year 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.
- (d) 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.
- (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 votes cast by members in attendance. The Chair will have the casting vote if the votes are equal.

¹⁰ Section 40(2) of the *Local Government Act 2020*

- (g) In accordance with section 130 of the Act (Disclosure of Conflict of Interest) and Council's Governance Rules, 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.
- (h) Councillors who are not members of the Committee may attend meetings of the Committee as observers. Through the Chair, non-member Councillors may ask questions in relation to matters listed on the agenda but may not participate in discussion.
- (i) The external auditor, internal auditor, General Manager Business Excellence 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.
- (j) As the Audit and Risk Committee is an advisory committee of Council meetings are not open to the public.

1.7 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 about compliance with internal control measures.

1.8 General and Legal Advice

Through the Chief Executive Officer, the Committee may obtain information and advice on any Council matter that falls within the Committee's Charter or is otherwise consistent with the intent and purpose of the Victorian Government's publication, *Audit Committees - A Guide to Good Practice for Local Government*.

Roles and Responsibilities

Roles and responsibilities with respect to Committee function, as well as the implementation, communication and compliance monitoring of this Charter, are as follows:

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. While not a member of the Committee, when practicable and appropriate will attend all meetings of the Committee and provide guidance and advice. 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 describing the activities of the Committee and explaining any recommendations or key findings is tabled at the next Council meeting; • table other 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; • 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 Committee Chair and the Mayor, 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.
General Manager Business Excellence	Responsible for review, updating and implementing policy.
Chair	Conduct meetings efficiently to ensure all matters listed for consideration are afforded appropriate time and attention. Exercise a casting vote where: (a) consensus cannot be reached; (b) a formal vote is required to resolve the matter; and (c) voting numbers are equal. Approve the unconfirmed minutes of each meeting for circulation to Committee members, Councillors and others as determined by the Committee.

Party / Parties:	Roles and responsibilities:
	Together with the Audit and Risk Committee Chair and the CEO, 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.
Committee Members	Actively participate in and contribute to the work of the Committee as outlined in clause 1.5. 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 130 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 123 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 Personal Interest return twice yearly. These will not form part of the Summary of Personal Interests in section 135 of the Act. In accordance with section 125 of the Act (Confidential Information) members must not intentionally or recklessly disclose information that the person knows or should reasonably know to be confidential.
Internal Auditor	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 adopted by Council. The plan will be formulated through a consultative process involving (as a minimum) the internal auditor, the Committee and management. 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 at which the Committee reviews the Internal Audit Plan for the coming year (April).

Party / Parties:	Roles and responsibilities:
	The role of the internal auditor is independent of and separate to that of the external auditor.
External Auditor	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 their Final Management Letter (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 meeting 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.
Mayor	Together with the Audit and Risk Committee Chair and the Chief Executive Officer, participate in the selection process for independent external Committee members.
Officers in Attendance	General manager 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.

References and Supporting Documents

Applicable Legislation:

- *Local Government Act 2020*
- *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.

Supporting Documents:

Audit Committees - A Guide to Good Practice for Local Government, January 2011

Conflict of Interest - A Guide for Members of Council Committees, October 2012

Public Sector Audit Committees – Better Practice Guide, March 2015 (Australian National Audit Office)

Privacy and Human Rights Consideration

All personal information collected by East Gippsland Shire Council relating to the work of the Audit and Risk Committee will be handled in accordance with all applicable privacy legislation and will be used only for 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*.

Definitions

Term:	Meaning:
Chief Executive Officer	Person appointed by Council to the position of Chief Executive Officer.
Committee Member	Member of East Gippsland Shire Council Audit and Risk Committee
Conflict of Interest	As defined in Part 6 Division 2 of the <i>Local Government Act 2020</i> (sections 126-131).
Councillor	Person who has been elected to the office of Councillor of East Gippsland Shire Council.
Council officer	A current member of East Gippsland Shire Council staff with the authority to engage in activities on behalf of Council.
External Auditor	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.
Mayor	Councillor elected by Councillors to the role of Mayor.
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.
Overarching governance principles	Overarching governance principles outlined in section 9(2) of the <i>Local Government Act 2020</i> are: a) Council decisions are to be made and actions taken in accordance with the relevant law; b) priority is to be given to achieving the best outcomes for the municipal community, including future generations; c) the economic, social and environmental sustainability of the municipal district, including mitigation and planning for climate change risk, is to be promoted; d) the municipal community is to be engaged in strategic planning and strategic decision making; e) innovation and continuous improvement is to be pursued; f) collaboration with other Councils and Governments and statutory bodies is to be sought; g) the ongoing financial viability of the Council is to be ensured;

Term:	Meaning:
	h) regional, state and national plans and policies are to be taken into account in strategic planning and decision making; i) the transparency of Council decisions, actions and information is to be ensured. Section 9(3) requires in giving effect to the overarching governance principles Councils must take into account the following supporting principles: a) the community engagement principles; b) the public transparency principles; c) the strategic planning principles; d) the financial management principles; e) the service performance principles.
Personal of Interest	As outlined in Division 3 of Part 6 of the <i>Local Government Act 2020</i> .
Responsible Officer	An officer of East Gippsland Shire Council who has responsibility for the general area/subject matter to which a record pertains.
Risk Management	The culture, process and structures that are directed towards realising potential opportunities while managing adverse effects. (AS/NZS ISO 31000:2009, 20/11/2009)
Shire	The geographic area of East Gippsland Shire Council.
Staff	All staff engaged by East Gippsland Shire Council, including all full-time, part-time and casual employees, labour hire agency staff.

Revision History and Review

Version Control	Approved Amended Rescinded	Date Effective	Approved By	ECM Document Reference	Summary of Changes
1	Approved	12/11/2003	Council		
2	Approved	02/11/2007	Management		
3	Approved	03/2011	Audit Committee, Council		
4	Approved	07/2011	Audit Committee, Council		
5	Approved	07/2013	Audit Committee, Council	5523080	

Version Control	Approved Amended Rescinded	Date Effective	Approved By	ECM Document Reference	Summary of Changes
6	Approved	05/05/2015	Council (endorsed by Audit Committee 28/04/15)	6288081	
7	Approved	10/05/2016	Council (endorsed by Audit Committee 26/04/16)	6752661	
8	Approved	05/06/2018	Council Audit and Risk Committee	7648150	
9	Approved	18/02/2020	Council (endorsed Audit and Risk Committee 22/10/19)	8404863	Converted to new template. Inclusion of provisions for election of Chair, maximum terms for Chair and independent members; recognition of specific obligations proposed by Local Government Bill 2018 Exposure Draft; administrative updates for clarity and readability.
10	Approved	25/08/2020	Council	8618745	Updated to reflect the requirements of the <i>Local Government Act</i> 2020. Under the Act the Charter has to be adopted by Council prior to 1 September 2020. Included a change to two consecutive terms as a member.