

# LODDON SHIRE COUNCIL

## AUDIT COMMITTEE CHARTER



## DOCUMENT INFORMATION

DOCUMENT TYPE: Strategic document  
DOCUMENT STATUS: Approved  
POLICY OWNER POSITION: Director Corporate Services  
INTERNAL COMMITTEE: Audit Committee  
ENDORSEMENT:  
APPROVED BY: Council  
DATE ADOPTED: 27/2/2018  
VERSION NUMBER: 6  
REVIEW DATE: 27/2/2019  
DATE RESCINDED:  
RELATED STRATEGIC DOCUMENTS, POLICIES OR PROCEDURES:  
RELATED LEGISLATION: Local Government Act 1989

EVIDENCE OF APPROVAL:

  
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Signed by Chief Executive Officer

FILE LOCATION: K:\EXECUTIVE\Strategies policies and procedures\Documents waiting to be updated\04 STR Audit Committee Charter v6 approved by Council.docx

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This document is available in alternative formats (e.g. larger font) if requested.

## ACKNOWLEDGEMENT OF COUNTRY

**Loddon Shire Council acknowledges the Traditional Custodians of the land comprising the Loddon Shire Council area. Council would like to pay respect to their Elders both past and present.**

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## 1 PURPOSE

The purpose of this charter is to outline the scope, roles and responsibilities of Council's Audit Committee.

## 2 BUDGET IMPLICATIONS

This document has no direct budget implications.

## 3 RISK ANALYSIS

The Audit Committee has a responsibility to oversee Council's risk management function, and the audit program is a risk based program. It is a requirement of Section 139 of the Local Government Act 1989 that Council establish an audit committee.

## 4 OBJECTIVES OF THE COMMITTEE

The Audit Committee is an independent advisory Committee to Council. The primary objective of the Audit Committee is to assist Council in the effective conduct of its responsibilities for:

- the enhancement of the credibility and objectivity of internal and external financial reporting
- effective management of financial and other risks and the protection of Council assets
- compliance with laws and regulations as well as use of best practice guidelines
- the effectiveness of the internal audit function
- the provision of an effective means of communication between the external auditor, internal audit, management and the Council
- facilitating the organisation's ethical development
- maintaining a reliable system of internal controls.

## 5 TERMS OF REFERENCE

### 5.1 General

- (a) The Audit committee is a formally appointed advisory committee of the Council and is responsible to that body. The Audit 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 Committee does not have any management functions and is therefore independent of management.
- (b) The Committee's role is to report to Council and provide appropriate advice and recommendations on matters relevant to its Charter in order to facilitate decision making by Council in relation to the discharge of its responsibilities.
- (c) Meetings of the Audit Committee shall not be open to the public due to the sensitive nature of information discussed.
- (d) Council shall provide secretarial and administrative support to the Committee.

### 5.2 Membership

- (a) The Audit Committee will comprise of five members – one substantive Councillor appointment (and one alternate Councillor in the event that the substantive Councillor's

absence or inability to attend) and four external independent persons. Council's Chief Executive Officer and Director Corporate Services will attend the meeting in an advisory capacity.

- (b) External independent persons will have senior business, governance or financial management / reporting knowledge and experience, demonstrated commitment to local communities or be conversant with the financial and other reporting requirements.

The Mayor and Chief Executive Officer taking account of the experience of candidates and their likely ability to apply appropriate analytical and strategic management skills will undertake the evaluation of potential members, and a recommendation for appointment taken to Council. Council's External Financial Auditor will be approached to advise the committee where appropriate.

- (c) Members will be provided the opportunity to attend technical and professional development courses as appropriate.
- (d) Appointments of external persons shall be made by Council by way of public advertisement and be for a term of four years. The terms of the appointment should be arranged to ensure an orderly rotation and continuity of membership despite changes to Council's elected representatives. A sitting member is able to reapply and be appointed for subsequent terms.
- (e) If the Council proposes to remove a member of the Committee, it must give written notice to the member of its intention to do so 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.
- (f) Remuneration will be paid to each independent member of the Committee. The fee will be reviewed and set by the Council on an annual basis in line with setting the annual budget.
- (g) At the first Audit Committee meeting each calendar year an election of Chair from the external members of the committee will be held.

At the first Council Meeting following the election, the Chair will be appointed by Council on advice of the committee.

The term of the new Chair will commence at the conclusion of the current Chair's term, and will be for a period of 12 months.

In the absence of the appointed Chair from a meeting, the meeting will appoint an acting Chair from the external members present.

- (h) A quorum shall be a majority of the Committee membership.
- (i) The internal auditor (whether a member of staff or contractor), Chief Executive Officer and Director Corporate Services should attend all meetings wherever possible, except when the Committee chooses to meet in camera. Other members of Council or Council staff may be invited to attend at the discretion of the Committee to advise and provide information when required.
- (j) Guests may be invited from time to time as appropriate. An invited guest will not have decision voting powers.
- (k) Representatives of the external auditor should be invited to attend at the discretion of the Committee but **must** attend meetings considering the draft annual financial report and results of the external audit.
- (l) When an extraordinary vacancy occurs, the replacement member will complete the term of the committee member which he/she has replaced. In the situation where the remaining term is less than 12 months, the Committee can apply to Council for leave to

extend the term. If the term is for a period less than 12 months there is no requirement to advertise the vacancy.

### **5.3 Meetings**

- (a) The Committee shall meet at least quarterly.
- (b) A schedule of meetings will be developed and agreed to by the members. As an indicative guide, meetings would be arranged to coincide with relevant Council reporting deadlines, and in August to coincide with the finalisation of the financial statements and the draft annual report.
- (c) Additional meetings shall be convened at the discretion of the Chair or at the written request of any member of the Committee, internal or external auditor.
- (d) Management including the Chief Executive Officer may be asked to leave meetings at any time. In addition, the agenda for each meeting shall include general business for Councillors and external independent persons to raise other matters.
- (e) At the committee's discretion, significant time will be set aside with non-officer members of the committee for the purpose of open discussion with the internal and/or external auditors.
- (f) At any other time the Committee, without management present, may decide to meet separately with the internal and external auditor to discuss issues of mutual interest.
- (g) An agenda will be issued one week before each meeting and will include relevant supporting documentation. The format of the agenda will be as set out in Appendix 1.
- (h) Minutes will be taken by an appointed Secretary and signed by the Chair.

### **5.4 Reporting**

The Audit Committee shall after every meeting forward the minutes of that meeting to the next ordinary meeting of the Council, including a report explaining any specific recommendations, formal resolutions, and key outcomes.

The committee will also provide Council with:

- (a) Information about the audit process and the results of internal and external audits
- (b) An annual review of the Committee's charter and its achievement of the charter
- (c) Other matters the Committee believes need to be reported to the Council
- (d) Any recommendations requiring Council action and/or approval.
- (e) The Committee shall report annually to the Council summarising the activities of the Committee during the previous financial year.

### **5.5 Duties and responsibilities**

The following are the duties and responsibilities of the Audit Committee in pursuing its Charter:

- (i) To review the scope of the internal audit plan and program and the effectiveness of the function. This review should consider whether, over a period of years the internal audit plan systematically addresses:
  - internal controls over significant areas or risk, including non-financial management control systems
  - internal controls over revenue, expenditure, assets and liability processes
  - the efficiency, effectiveness and economy of significant Council programs
  - compliance with regulations, policies, best practice guidelines, instructions and contractual arrangements.

- (ii) Review the appropriateness of special internal audit assignments undertaken by internal audit at the request of Council or Chief Executive Officer.
- (iii) Review the level of resources allocated to internal audit and the scope of its authority.
- (iv) Review reports of internal audit and the extent to which Council and management react to matters raised by internal audit, by monitoring the implementation of recommendations made by internal audit.
- (v) Facilitate liaison between the internal and external auditor to promote compatibility, to the extent appropriate, between their audit programs.
- (vi) Critically analyse and follow up any internal or external audit report that raises significant issues relating to risk management, internal control, financial reporting and other accountability or governance issues, and any other matters relevant under the Committee's terms of reference. Review management's response to, and actions taken as a result of the issue raised.
- (vii) Monitor the risk exposure of Council by determining if management has appropriate risk management processes and adequate management information systems.
- (viii) Monitor ethical standards and related party transactions by determining whether the systems of control are adequate.
- (ix) Review Council's draft annual financial report, focusing on:
  - accounting policies and practices
  - changes to accounting policies and practices
  - the process used in making significant accounting estimates
  - explanations for significant adjustments to the financial report (if any) arising from the audit process
  - compliance with accounting standards and other reporting requirements
  - significant variances from prior years.
- (x) Recommend adoption of the annual financial report to Council. Review any significant changes that may arise subsequent to any such recommendation but before the financial report is signed.
- (xi) Discuss with the external auditor the scope of the audit and the planning of the audit.
- (xii) Discuss with the external auditor issues arising from the audit, including any management letter issued by the auditor and the resolution of such matters.
- (xiii) Review issues relating to financial reporting by Council business units and comparative performance indicators.
- (xiv) Receive from management reports on all suspected and actual frauds, thefts and breaches of the law.
- (xv) Identify and refer specific projects or investigations deemed necessary through the Chief Executive Officer, the internal auditor and the Council if appropriate. Where appointed oversee any subsequent investigation, including overseeing of the investigation of any suspected cases of fraud within the organisation in accordance with Council's fraud policy.
- (xvi) Monitor the progress of any major lawsuits facing the Council.
- (xvii) Address issues brought to the attention of the Committee, including responding to requests from Council for advice that is within the parameters of the Committee's terms of reference.

The Audit Committee, through the Chief Executive Officer and following authorisation from the Council, and within the scope of its responsibilities, may seek information or obtain expert advice on matters of concern.

## **5.6 Induction of new members**

An adequate induction package will be provided for new members, including a copy of the Charter.

Insofar as they have not received and/or retained the following information as Councillors, the new member will be provided with information, and where required a briefing, in the following areas:

- business operations
- the local government sector
- financial performance
- risk management program
- corporate governance
- internal control system and current internal audit program
- register of outstanding audit recommendations
- legal and regulatory requirements
- accounting policies and procedures
- details of any unusual transactions, events or issues
- material previously provided to members relating to matters still before the Committee.

New members will meet with key management and internal and external auditors as soon as practical.

### **5.7 Rights to obtain information**

- (a) Should the committee wish to obtain information from any employee and any relevant external party it will do so by requesting such information from the Chief Executive Officer or Director Corporate Services
- (b) The Committee will have right of access to the Chief Executive at any time; and
- (c) The Committee may recommend to the Council the instigation of special investigations..

### **5.8 Performance monitoring**

The Committee will assess its performance as a Committee annually, which will include completion of a survey. The Chair will arrange assessment of the Committee with all members present to consider the following types of matters:

- Has the Committee taken action on each of its responsibilities in the past year?
- Has the action taken been effective?
- Has the Committee achieved all elements of its charter?
- Are there functions to which more time or effort should have been devoted?
- Does the Committee receive from management:
  - (a) Adequate information about Council's performance of its statutory functions?
  - (b) All the information it needs to allow it to discharge its function effectively and efficiently?
- Can Committee agendas be improved:
  - (a) By including additional matters on a regular basis?
  - (b) By considering matters less frequently?
  - (c) By changing the order in which items are considered?
  - (d) In any other way?
- Can the conduct of meetings be improved?
- Can papers for meetings be improved:
  - (a) By providing additional information in any area?
  - (b) Being shorter or more detailed?
  - (c) In any other way?
- Should there be more oral briefings from Council officers?



- Can oral briefings received from Council officers be improved?
- Can meeting arrangements be improved:
  - (a) By holding longer or shorter meetings?
  - (b) By holding meetings at different times?
  - (c) By inviting visitors?
  - (d) In any other way?
- Are there other ways in which the Committee could increase its effectiveness?

## **5.9 Dispute resolution**

In situations where a dispute arises between any member of the Audit Committee and officers of Council, the Chair of the Audit Committee will have the opportunity to raise the grievance with the Mayor. The Mayor will have the discretion to resolve the dispute by convening a meeting with the disputing parties.

## **5.10 Insurance**

Members of the committee are covered by Council's insurance policies.

# **6 TERMS OF APPOINTMENT**

## **6.1 Chair**

The current Chair and term is listed in the attached Appendix 2.

## **6.2 Committee members**

The current committee members' and their terms of appointment are listed in the attached Appendix 2.

## **6.3 Councillor representative**

The current Councillor representatives are listed in the attached Appendix 2.

# **7 APPROVAL**

The Audit Committee Charter approval details are in the attached Appendix 2.

# **8 REVIEW**

The Director Corporate Services under direction of the Audit Committee will review the Audit Committee Charter for any necessary amendments no later than 1 year after adoption of this current version.

## Appendix 1: Agenda Format

1. Welcome/Present/Apologies
2. Evacuation overview
3. Declaration of conflicts of interest
4. Attachment 1: Minutes of Previous Meeting
5. Review of Action Table
6. Decision Items\*
7. Compliance Items\*
8. Information Items\*
9. Items referred to Council
10. Next review details
11. Next meeting date
12. Close of meeting

The items marked with \* are standard agenda sections for Council meetings. Reports for the Audit Committee will be allocated under these headings.

- Decision items require the audit committee to review and recommend any changes prior to items being reported to Council.
- Compliance items are reports mandated by legislation.
- Information items are often retrospective reports updating the audit committee members on actions taken.

Report topics will be drawn from:

- Audit Committee Charter
- Audit Committee Annual Calendar
- Actions arising from previous meetings
- Topics of interest

## Appendix 2: Terms Of Appointment

### 6.1 Chair

The current Chair is Ken Belfrage.

The term of current Chair is 1 February 2018 to 31 January 2019 or the date of the Ordinary Meeting of Council in February 2019 where resolution for appointment of Chair for the new term will be made, whichever is the earlier.

### 6.2 Committee members

The current committee members' terms of appointment are as follows:

Rod Poxon	1 May 2015 to 30 April 2018
Ken Belfrage	1 May 2015 to 30 April 2019
Rod Baker	1 May 2016 to 30 April 2020
Alan Darbyshire	1 May 2017 to 30 April 2021

### 6.3 Council representative

The current Councillor representatives are:

- Substantive: Councillor Gavan Holt for the period November 2017 to November 2018.
- Alternate: To be appointed in November 2018 for the period November 2018 to November 2019.

## APPROVAL

The Audit Committee Charter was approved by the Audit Committee on 8 February 2018 and endorsed by Council on 27 February 2018.