

## AUDIT AND RISK COMMITTEE TERMS OF REFERENCE

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### 1. Purpose of the Terms of Reference

The purpose of the terms of reference is to facilitate the operation of the Audit and Risk Committee (the Committee).

### 2. Introduction

The Committee has been established in accordance with Part 7 of the *Local Government Act, 1995* and constitutes an advisory committee formally appointed by and responsible to the Council. This Committee does not have any:

- Executive powers;
- Authority to implement actions in areas over which management has responsibility;
- Financial responsibility; nor
- Management functions.

It is independent of the Shire's Administration with fundamental oversight and a need to focus on matters relating to internal and external audit, and risk exposure and mitigation pertinent to the Shire of Brookton.

Accordingly, the Committee's is to assist the Shire Council in:

- Liaising with the Office of the Auditor General (OAG),
- Overseeing external and internal audit functions;
- Promoting high level transparency and accountability of the Shire's financial management systems and reporting;
- Managing its risk exposure; and
- Driving a culture of continuous improvement.

Furthermore, the Committee is to report to Council with appropriate advice and recommendations on matters relevant to this Terms of Reference in order to facilitate decision making by Council in the discharge of responsibilities pursuant to statutory requirements.

### 3. Objectives

The objectives of the Committee are to oversee:

- 3.1 The integrity of external financial reporting, including accounting policies.
- 3.2 The scope of work, objectivity, performance and independence of the external auditor.
- 3.3 The establishment, effectiveness and maintenance of controls and systems to safeguard the Shire's financial and physical resources.
- 3.4 The systems or procedures that are designed to ensure the Shire and its subsidiaries

comply with relevant statutory and regulatory requirements.

- 3.5 The process for recognising risks arising from the Shire's operations, strategies, and consider the adequacy of measures taken to manage those risks.
- 3.6 The process and systems which protect the Council against fraud and irregularities.
- 3.7 The promotion of best practice in striving to instil and maintain a culture of continuous improvement.

The Committee must also add to the credibility of Council by promoting ethical standards through its work.

#### **4. Authority**

The Committee has the authority to:

- 4.1 Review and suggest improvements to internal and external auditor's annual audit plans and the outcomes/results of all audits undertaken.
- 4.2 Monitor and advise the CEO in reviews conducted under regulation 17 (1) of the Local Government (Audit) Regulations, 1996 and regulation 5 (2) (o) of the Local Government (Financial management) Regulations, 1996.
- 4.3 Formally meet with the AOG appointed auditors as necessary.
- 4.4 Seek resolution on any disagreements between management and the AOG auditors on financial and performance reporting.
- 4.5 Advise Council on any or all of the above as deemed necessary.

#### **5. Composition of Committee Members**

- 5.1 The Committee will consist of all Elected Members.
- 5.2 The Council is to also appoint at least (2) external Committee member from within the community.
- 5.3 The Presiding Member and Deputy Presiding Member is to be appointed biennially by the Committee through election by all committee members after the Ordinary Local Government Election.
- 5.4 The appointed Committee members should collectively have a broad range of skills and experience relevant to the operations of the Shire.
- 5.5 Appointments of external Committee members will be for a two-year term. The terms of appointment should be arranged to ensure an orderly rotation and continuity of membership despite changes to Council's elected representatives.
- 5.6 A quorum will be a minimum of 50% of the membership of the Committee.

- 5.7 Each Committee member must declare proximity, financial or impartiality interests that relate to matters considered at every meeting.
- 5.8 New members are to receive relevant information and be briefed immediately following their appointment to assist in performing their responsibilities on the Committee.

## **6. Meetings**

- 6.1 Meetings may be called by the Presiding Member of the Committee, or at the request of the Shire President or Chief Executive Officer.
- 6.2 The meetings are open to the public.
- 6.3 The Chief Executive Officer is responsible for arranging Committee meetings and may invite members of management, internal and external auditors or other employee to attend meetings as observers and to provide pertinent information, as necessary.
- 6.4 The Committee should meet at least twice per year with a meeting schedule to be set that includes the dates, location, and where possible a proposed work plan for each meeting for the forthcoming year, that covers all the responsibilities outlined in this terms of reference.
- 6.5 Meeting agendas are to be prepared and provided at least one week in advanced notice to members, along with appropriate briefing materials as well as be advertised in the Community with no later than 72 hours prior to the meeting being convened.
- 6.6 Minutes are to be taken at each meeting and presented to the subsequent meeting for confirmation and Council for receipt and acknowledgement.

## **7. Responsibilities**

The Committee is to perform the following responsibilities:

### **7.1 Risk Management**

- 7.1.1 To review and suggest improvements on the current and comprehensive risk management framework and associated procedures for effective identification and management of the Shire's business and financial risks, including fraud.
- 7.1.2 To determine whether a sound and effective approach is being administered in managing the Shire's major risks, including those associated with individual service delivery, projects, and activities, such as community events.
- 7.1.3 To assess the impact of the Shire's risk management framework on its exposure to litigation and insurance arrangements.
- 7.1.4 To review and suggest improvements to developing and implementing fraud control arrangements and be satisfied the Shire has appropriate processes and systems in place to detect, capture and effectively respond to fraud.

- 7.1.5 To ensure adequate systems of internal control are in place to mitigate key business risks and promote the effectiveness and efficiency of operations.
- 7.1.6 To oversee, review and suggest improvements to internal audit functions in accordance with Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing.
- 7.1.7 To receive and review all audit reports and provide advice and recommendations to the Council on significant issues identified in audit reports with a focus of continuous improvement.

## **7.2 Financial Report**

- 7.2.1 To review and suggest improvements to significant account and reporting issues, including:
  - complex or unusual transactions;
  - identified accounting anomalies;
  - professional and regulatory pronouncements and legislative changes; and
  - effect on the financial reporting requirements.
- 7.2.2 To review (with management and the AOG) the external audit results, including any difficulties or deficiencies identified and suggest improvements, if required.
- 7.2.3 To review and suggest improvements to the annual financial report in consideration of legislative requirements and appropriate accounting principles.
- 7.2.4 To review and suggest improvements to the financial information presented to Council and the Community in the financial reports based on transparency and accountability measures, without revealing information that could be used to aid in fraudulent activity.
- 7.2.5 To review (with management and the OAG) all matters required to be communicated to the Committee under the Australian Auditing Standards, and suggest improvements if required.
- 7.2.6 To review, suggest improvements and recommend adoption of the Annual Financial Statements to Council.

## **7.3 Compliance**

- 7.3.1 To review, suggest improvements and monitor systems and processes to ensure relevant compliance with legislative requirements, with associated reporting to Council.
- 7.3.2 To keep informed of the findings of any examinations by regulatory agendas and any auditor (internal or external) observations and monitor management's response to these findings.

7.3.3 To obtain regular updates from management about compliance matters.

7.3.4 To review and suggest improvements to the annual Compliance Audit Return (CAR) and report the results to the Council.

#### **7.4 External Audit**

7.4.1 To discuss with the OAG auditor's the proposed audit scope and methodology for financial and performance audits, including any reliance on internal auditor activity.

7.4.2 To consider the findings and recommendations of relevant financial and performance audits performed by the OAG auditors, and ensure the Shire Administration implements relevant recommendations in a timely manner.

7.4.3 To provide an opportunity for the Committee to meet with the OAG auditors to discuss any matters consider by either party to be of concern.

7.4.4 To monitor and provide feedback on management's implementation of external audit recommendations.

#### **7.5 Reporting Responsibilities**

7.5.1 To report regularly to the Council on the Committee's activities, issues, and related recommendations through circulation of minutes.

7.5.2 To monitor and ensure open communication and co-operation is achieved between the internal auditor, the external OAG auditors, and the Shire's management.

#### **7.6 Other Responsibilities**

7.6.1 To perform other activities related to this Terms of Reference, as requested by the Council.

7.6.2 To perform a biennial review and suggest improvements to this Terms of Reference for Council's consideration and approval prior to the next Local Government Ordinary Election.

#### **7.7 Remuneration of External Members**

7.7.1 Remuneration of External members are to be remunerated in accordance with section 5.100 of the Act. The extent to which external members can be reimbursed shall be as determined by the Salaries and Allowances Tribunal.