



# Audit Committee Terms of Reference

Approved by Audit Committee on 28 June 2017

Adopted by Council on [insert date]

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## 1. Background

The Melton City Council (Council) Audit Committee is an independent Advisory Committee to Council appointed by Council pursuant to Section 139 of the Local Government Act 1989.

The Audit Committee Terms of Reference has been developed having regard to 'Audit Committee – A Guide to Good Practice for Local Government', January 2011 issued by the Minister for Local Government and the Victorian Audit General's report 'Audit Committee Governance' of August 2016 (including the Standing Directions of the Minister for Finance 2016).

This Terms of Reference sets out the Audit Committee's objectives, authority, composition and tenure, roles and responsibilities, reporting and administrative arrangements.

The primary objective of the Audit Committee is to assist Council to fulfil its corporate governance responsibilities through the effective conduct of its responsibilities for accounting and financial reporting practices, management of risk, maintaining a reliable system of internal controls, operation of good governance and facilitating sound organisational ethics.

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 responsibilities. The Audit Committee does not have any management function and is therefore independent of management.

As part of Council's governance obligations to its community, Council has constituted an Audit Committee to provide the Council with guidance on:

- Internal and external financial reporting;
- Management of financial and other risks;
- Effectiveness of the internal and external audit function;
- Provision of an effective means of communication between the external auditor, internal auditor, management and Council; and
- Advice and recommendations on various matters within the terms of reference in order to facilitate decision making by council in relation to the discharge of its responsibilities.

The internal, external auditors and other assurance providers support the Audit Committee by providing independent and objective assurance on internal corporate governance, risk management, internal control and compliance.

An Audit Committee Work Plan is established and reviewed annually to ensure the Committee effectively discharges its responsibilities.

## 2. Authority

The Audit Committee is an independent Advisory Committee of Council, formally appointed by Council pursuant to Section 86 of the Local Government Act 1989. Council authorises the Committee within its scope of responsibilities to:

- Perform activities within the scope of this Terms of Reference;
- Require the attendance of senior Council officers at meetings as appropriate;
- Have unrestricted access to members of the management team, employees and relevant information;
- Monitor matters reported to Council pursuant to the Protected Disclosure Act 2012 (recognising that there are strict confidentiality requirements under that legislation);
- Oversee the performance of the external auditor and appointment and performance of the internal auditor;
- Meet in private without the attendance of management; and

- Request necessary financial resources to be provided to enable the Committee to receive any necessary legal, accounting or other professional advice.

### **3. Membership**

The Audit Committee will be comprised of five members as follows:

- Three (3) Independent members; and
- Two (2) Councillors

The Chairperson of the Committee shall be appointed annually from the external independent members of the Committee by all members of the Audit Committee.

The Chairperson of the Audit Committee shall have a casting vote on occasions where there is an equal number of votes on a matter. In the absence of the appointed Chairperson from a meeting, the meeting will appoint an acting Chairperson from the Independent members present.

A quorum of any meeting will be at least two independent members and at least one Councillor member. In this instance a quorum is three (3) members.

All members have full and equal voting rights on all matters considered by the Committee unless a member is unable to vote due to a conflict of interest. Resolutions shall pass on a simple majority vote.

### **4. Terms of Appointment**

#### **Independent Members**

The appointment of external independent members shall be made by Council following a public advertisement process through local and/or statewide newspapers and Council website.

The applications for membership will be assessed against appropriate criteria. The criteria will fall within the areas of:

- Level and breadth of senior business, management, finance and accounting, legal and /or audit experience and qualifications;
- Level of familiarity in relation to local government operations, financial reporting and auditing requirements, risk management and corporate governance;
- Previous Audit Committee experience.

The selection Panel for appointment to the Audit Committee will consist of the Mayor and the Chief Executive Officer. The Panel will take into account the experience of the candidates and their likely ability to apply appropriate analytical and strategic management skills. A recommendation for appointment will be put before Council for resolution.

Independent members shall be appointed for a term of three years. The term of each member should be arranged so that there is an orderly rotation of membership and avoidance of more than one member retiring at the same time.

At the conclusion of the independent members first three year term, existing members will be eligible to apply to be reappointed at the discretion of Council for a second three year term. Independent members can only serve for two consecutive terms.

The terms of each member should be arranged so that there is an orderly rotation of membership and avoidance of more than one member retiring at the same time.

In the event of an independent member resigning/retiring before the expiry of their term then this vacancy will either be filled for the remainder of that term or if the vacancy occurs within 12 months of the expiry of the term then Council may choose not to fill the vacancy. Further, should the resignation/retirement of the members coincide then Council may extend the remaining members term by one year to ensure continuity.

In the event 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 if that member so requests.

Remuneration will be paid to each independent member of the Audit Committee as determined by Council from time to time. The remuneration shall be based on a set fee per meeting with an additional amount paid to the Chairperson. Remuneration will be paid to each independent member of the Committee twice yearly, in June and December.

#### **Councillor members**

The Councillor members of the Audit Committee shall be appointed annually by Council at its Annual Meeting.

The term of the Councillor member to the Audit Committee shall be for a one year term, and may be appointed by Council for further terms.

## **5. Meetings**

Conduct of meetings shall be consistent with Council's Meeting Procedure Local Law, and at the discretion of the Chairperson.

The Committee shall meet as required but must meet a minimum of four times per year with an additional meeting to consider the Annual Financial and Performance Statements.

A schedule of meetings and an annual work plan will be developed and agreed to by the members. Meetings will be arranged as much as possible to coincide with relevant Council reporting deadlines, in particular the finalisation of the financial and performance statements and the draft annual report to the Minister for Local Government.

Additional meetings shall be convened at the discretion of the Chairperson or at the written request of any member of the Audit Committee, internal or external auditor.

Members of the Committee are expected to attend every meeting of the Committee.

The agenda and supporting documentation will be circulated to members of the Audit committee at least 3 working days in advance of each meeting.

The minutes will be presented to the Council at a subsequent Council meeting following the Audit Committee meeting.

The Chairperson at the subsequent meeting will sign the minutes of the previous meeting.

Council shall provide and administrative support to the Audit Committee.

Support staff shall develop and maintain an Audit Committee member Induction pack for newly appointed members.

The following requirements shall apply to all meetings of the Committee:

- Only Committee members are entitled to attend meetings;
- Other Councillors may attend meetings in an observation capacity;
- The Committee may invite, or require any persons to attend meetings, as it deems necessary;
- The Chief Executive Officer, Legal & Governance Manager, Manager Finance will represent the organisation and attend all meetings;
- Other Council staff may be invited to attend at the discretion of the Committee to advise and provide information when required;
- Council staff and Councillors who are not members of the Committee will not have a right to vote and may be excluded from meetings when votes are taken;

- The Internal Auditor (as appointed by Council) should attend all meetings, where internal audit reports are presented or as requested by the committee, except when the Committee chooses to meet in camera;
- The External Auditor (as appointed by the Victorian Auditor General (VAGO)) should attend the meeting when the annual financial accounts and external audit management reports are considered and at other meetings as appropriate;
- The External Auditor shall be offered the opportunity to meet in camera to discuss any aspects of the external audit;
- The external and internal auditors should be invited to make presentations to the Committee as appropriate; and
- The Committee will meet at least once annually with the external and internal auditors (separately) without management present.

## 6. Performance

The Audit Committee will evaluate their own performance, both of individual members and collectively and against the terms of reference on an annual basis using a self assessment tool which will be reviewed, adopted and completed by the Audit Committee.

## 7. Insurance

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

## 8. Conflict of Interest

In accordance with Section 79 of the Local Government Act 1989 (the Act), members of the Audit Committee will be required to disclose all conflicts of interest and will not be eligible to vote on a matter or attend the part of the meeting at which the subject of the conflict will be considered.

Members of the Audit Committee must be fully aware of their responsibilities with regard to the management of interests in relations to the discharge of their duties as a member of the Committee. Management of interests includes the proper disclosure of any conflicts of interest as and when they may arise.

Members of the Audit Committee must be fully aware of the statutory definitions of direct and interest interests which may give rise to a conflict of interest. These are specifically set out in sections 77A, 77B, 78, 78A, 78C and 78D of the Act.

Each independent member of the Committee is required to lodge a declaration of interest form on a bi-annual basis and declare any interest at the commencement of each meeting and prior to the consideration of the item at the meeting.

Failure to comply with the provisions of the Act with regard to conflicts of interest may result in the member's appointment being terminated.

## 9. Reporting

The Audit Committee shall after every meeting forward the minutes of that meeting to the next Ordinary Meeting of Council.

The Melton City Council Annual Report will contain information on audit committee members, number of meetings held, attendance record, audit processes and results of works completed by the Internal and External Auditor.

The Audit Committee shall report to Council on any matters of significance as determined by the Audit Committee.



The Audit Committee Chairperson shall attend an annual Assembly of Councillors meeting to:

- Recommend approval of the Internal Audit Program for the coming year and
- Summarise the activities of the Audit Committee during the previous financial year.

For increased independence, the Audit Committee Chairperson has the authority to have a report placed on the agenda of any Council meeting.

The Audit Committee Terms of Reference and details of its members will be published on Council's website.

## 10. Confidentiality

All Committee members are expected to be aware of their responsibilities with regard to the confidentiality of information about Council's affairs pursuant to Section 77 of the Act. Failure to comply with the provisions of the Act with regard to confidentiality may result in the member's appointment being terminated.

## 11. Duties and Responsibilities

The primary responsibility of the Audit committee is to assist Council to fulfil its responsibilities in relation to the Council's accounting policies, risk management, internal control systems, internal audit function and financial reporting practices.

The duties of the Audit Committee include:

### A. External Audit

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The Audit Committee will:

1. Review the External Auditor's proposed audit scope and approach to be applied each year in light of Council's present circumstances and changes in regulatory and other requirements.
2. Review with the External Auditor Council's draft annual financial statements focusing on:
  - Accounting policies and Approved Accounting Standards;
  - Changes to accounting policies and Approved Accounting Standards;
  - Significant adjustments to the financial statements (if any) arising from the audit process;
  - Compliance with accounting standards and other reporting requirements of financial and non-financial information; and
  - Significant variances with explanations from prior years.
3. Review with the External Auditor Council's draft Performance Statement and consider the results in the context of the quarterly reports received throughout the year challenging any unusual or unexpected results;
4. Discuss and review with the external auditor issues arising from the audit including all Management Letters issued by the auditor for completeness and appropriateness;
5. Ensure findings and recommendations made by the external auditor and management's proposed responses are received, discussed and appropriately acted upon;
6. Meet separately with the external auditor to discuss any matters that the Committee or external auditor believe should be discussed privately. Ensure the external auditor has access to the Committee Chairperson when required;
7. Consider the independence of the external auditor in the context of any other services provided to Council. It is proposed that the external auditors would not provide services other than external audit functions.

8. Review on an annual basis the performance of the external auditor.

## **B. Internal Audit**

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The Audit Committee will

1. Review the level of resources allocated to internal audit and the scope of its authority.
2. Review the strategic three year and annual plan of the Internal Auditor to ensure that it takes into consideration the risk profile of Council.
3. Review the scope of the internal audit plan and the effectiveness of the function, evaluating whether the plan addresses the following issues:
  - Effectiveness of internal controls over significant areas of risk, including non-financial management control systems;
  - Effectiveness of internal controls over key processes relating to revenue, expenditure, assets and liabilities;
  - Efficiency and effectiveness of significant Council programmes; and
  - Compliance with legislation, policies, best practice guidelines and contractual arrangements.
4. Receive, review and approve the scope of work for each proposed audit prior to the audit being undertaken;
5. Ensure the significant findings and recommendations made by the Internal Auditor, and management's proposed responses are received, discussed and appropriately acted upon;
6. Review the appropriateness of special internal audit assignments by internal audit at the request of Council or Chief Executive Officer;
7. Consider the independence of the Internal Auditor in the context of any other services provided to Council;
8. Monitor the effectiveness of the internal audit function on an ongoing basis;
9. Ensure there are no unjustified restrictions or limitations placed on the Internal Auditor;
10. Meet with the Internal Auditor annually or as required to consider any matters that the Audit Committee or Internal Auditor should discuss privately; and
11. Review on an annual basis the performance of the Internal Auditor, and where performance is not considered satisfactory, discuss with Council and management any proposal to undertake a tender process for the appointment of a new Internal Auditor.
12. Through the Committee Chairperson, be party to the process of appointment of the Internal Auditor.

## **C. Financial Reporting**

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The Audit Committee will:

1. Review Council's financial position, via the receipt of Council's Quarterly Financial Management reports or the monthly financial report whichever is more current and report to Council on any material issues which may require action;
2. Review significant accounting and reporting issues including complex or unusual transactions and highly judgemental areas, and recent professional and regulatory pronouncements and understand their impact on financial reports;
3. Review the annual financial statements prior to their approval by Council and determine whether they are complete and consistent with the information known to the Committee



members and assess whether the financial statements reflect appropriate accounting policies and comply with all relevant standards and regulatory requirements; and

4. Review with management and the external auditors all matters required to be communicated to the Audit Committee under the Australian Auditing Standards;
5. Monitor the progress of any litigation, claim or contingency which could have a material effect on Council's financial position or operating result; and
6. Recommend to Council the adoption of the Annual Financial Statements incorporating the Annual Performance Statements to Council. Review any significant changes and the reasons for the changes that may arise subsequent to such recommendation but before the Statements are signed.

#### **D. Ethical and Statutory Compliance**

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The Audit Committee will:

1. Consider the effectiveness of the systems and processes for monitoring compliance with legislation and regulations;
2. Obtain regular updates from management about compliance and non compliance matters of material significance pertaining to ethical, statutory, related party and legal issues; and
3. Keep informed of the findings of any examination by regulatory agencies and monitor managements response to such findings.

#### **E. Risk Management**

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The Audit Committee will:

1. Monitor the risk exposure of Council by determining if management has appropriate risk management processes and adequate management information systems;
2. Review Council's Risk Management Policy and Framework and risk profile;
3. Monitor the process of review of Council's risk profile to ensure that material risks are dealt with appropriately;
4. Receive status reports on a regular basis status report of the risk register and actions being taken to manage identified risks;
5. Monitor the progress of any significant land / or material lawsuits facing the Council; and
6. Monitor the effectiveness of Council's business continuity processes and practices.

#### **F. Fraud Control and Compliance**

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The Audit Committee will:

1. Monitor the effectiveness of fraud prevention policies throughout the organisation;
2. Identify and refer specific projects or investigations deemed necessary through the Chief Executive Officer, the Internal Auditor and the Council;
3. Consider any subsequent investigation, including the investigation of any suspected cases of fraud.
4. Review internal controls over revenue, expenditure, assets and liability processes; and
5. Review internal controls over significant areas of risk including non-financial management control systems;
6. Receive status reports of occurrences of fraud (if any).

**G. Other Responsibilities**

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The Audit Committee will:

1. Consider the findings and recommendations of relevant audits undertaken by the Victorian Auditor General's Office (VAGO), the Victorian Ombudsman, Independent Broad-based Anti-corruption Commission (IBAC) and other agencies and to ensure Council considers the relevant recommendations.
2. Review and consider quarterly performance reports based on Local Government Victoria's Performance Reporting Framework;
3. Enquire as to the internal control framework and level of assurance received around the accuracy and completeness of the quarterly performance information reported;
4. Perform other activities related to this Terms of Reference as requested by Council; and
5. Undertake a self assessment of its performance against the Terms of Reference on an annual basis;

**12. Review of the Audit Committee Terms of Reference**

The Audit Committee will review the Audit Committee Terms of Reference at least once every three years and recommend changes to Council for approval.