



# Audit and Risk Committee Charter

Recommended to Council by Audit Committee on 3 August 2022

Adopted by Council on 12 September 2022

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## 1. Background

The Melton City Council (Council) Audit and Risk Committee (the Committee) is established pursuant to Section 53 of the Local Government Act 2020(Act).

The Committee Charter has been developed having regard to the draft Audit and Risk Committee Charter developed by the sector and led by Local Government Victoria (accessed via [engage.vic.gov.au](http://engage.vic.gov.au)), 'Audit Committee – A Guide to Good Practice for Local Government', (January 2011) issued by the Minister of Local Government and the Victorian Auditor General's report 'Audit Committee Governance' of August 2016 (including the Standing Directions of the Minister for Finance 2016).

This Charter sets out the Committee's functions and responsibilities, authority, composition and tenure, roles and responsibilities, reporting and administrative arrangements.

The primary function and responsibility of the Committee is to monitor, the compliance of Council policies and procedures with the Act including any regulations, and chiefly, the overarching governance principles, Council's financial and performance reporting, Council's risk management and fraud prevention systems and controls and oversee the internal and external audit function.

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

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

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

## 2. Authority

The Committee is established by the Council, pursuant to Section 53 of the Act. It is not a delegated committee and has no delegated responsibilities. Rather, it operates in an advisory capacity to Council in the performance of which it has the ability to:

- Perform activities within the scope of this Charter;
- Require the attendance of Senior Council Officers at meetings as appropriate;
- Have unrestricted access to members of the management team, employees and relevant information;
- Review the process for reporting, pursuant to the Protected Disclosure Act 2012;
- 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 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 from the external independent members of the Committee by all members of the Committee up to a maximum of term of three years within their term of appointment and not exceeding the first year of a new term of Council.

The Chairperson of the 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 recruitment through online sites (which may include Seek and LinkedIn) and Council's website.

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

- a. Expertise in financial management and risk;
- b. Experience in public sector management; and

Consideration should also be given to previous audit committee experience, and Membership of the Committee, where possible, being balanced in regard to age, gender, ethnicity and people living with a disability.

Independent members must collectively have experience in a. and b. above pursuant to section 53 of the Act.

The Selection Panel (Panel) for appointment to the Committee will consist, unless a conflict of interest exists, of the Mayor and the Chief Executive Officer. In the case of a conflict of interest, the Deputy Mayor and/or a General Manager of the Council may comprise the selection Panel. 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 be reappointed at the discretion of Council for a second three year term without the need for a formal application process provided that a formal assessment of the member's performance is undertaken by the Panel. Existing members will also be eligible to apply to be reappointed should Council decide to advertise the position. 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 4 weeks 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 Committee as determined by Council from time to time. The remuneration shall be based on a set fee per attendance at each formal meeting with an additional amount paid to the Chairperson. Remuneration will be paid to each independent member of the Committee after each meeting.

### **Councillor members**

The Councillor members of the Committee shall be appointed annually by Council at its Annual Meeting where Councillor representation is decided upon.

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

If the Mayor is one of the Councillor members, the Mayor may appoint a substitute, in the event that Mayoral duties prevent the Mayor's attendance at a meeting.

## **5. Meetings**

Conduct of meetings shall be consistent with Council's Governance Rules, insofar as they can be adapted to the Committee meeting, and at the discretion of the Chairperson.

The Committee shall meet as required and according to the annual schedule adopted by Council 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 and recommended to Council annually for its adoption. 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 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 Committee at least 3 working days in advance of each meeting.

The minutes, containing the Committee's recommendations, will be presented to the Council at a subsequent Council meeting following the Committee meeting.

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

Council shall provide administrative support to the Committee.

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

- Only Committee members are entitled to vote at 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, Chief Financial Officer, and the organisation's lead governance and legal role 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 may request to meet in-camera at the convenience of the Committee;
- The external and internal auditors may be invited to make presentations to the Committee as appropriate; and
- The Committee will meet annually with the external and internal auditors (separately) without management present if required by the Committee, the Auditors or Council.

## **6. Performance**

The Committee will evaluate their own performance collectively against the Charter and provide a copy of the annual assessment to the Chief Executive Officer for tabling at the next Council meeting. The evaluation will include feedback from both Committee members and senior officers who have regular interactions with the Committee.

## **7. Insurance**

Members of the Committee will be covered by Council's insurance policies.

## **8. Committee Member Regulatory Obligations**

Committee members are expected to be aware of their obligations under Section 53 of the Act. These obligations relate to misuse of position as a member of the Committee (Section 123), confidential information (Section 125) and conflict of interest (Sections 126 to 131). Details about these obligations are included in Appendix A to this Charter.

## **9. Reporting**

The Committee shall after every meeting forward the minutes of that meeting, containing its recommendations, to the next Ordinary Meeting of Council.

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

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

The Chairperson will prepare a report to Council through the Chief Executive Officer on the Committee's activities twice per annum. One of these reports 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 report indicating how the Committee has discharged its responsibilities as set out in this Charter for the previous year.

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

## 10. Duties and Responsibilities

The responsibilities of the Committee include:

### A. External Audit

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The Committee will:

- 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.
- Review with the External Auditor Council's draft annual financial statements focusing on:
  - 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.
- In conjunction with the External Auditor, review 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;
- Discuss and review with the external auditor issues arising from the audit including all Management Letters issued by the auditor for completeness and appropriateness;
- Ensure findings and recommendations made by the external auditor and management's proposed responses are received, discussed and appropriately acted upon;
- 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;
- 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.
- Review on an annual basis the performance of the external auditor.

### B. Internal Audit

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The 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 recommend approval or otherwise of 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 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 and Performance Reporting**

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The Committee will:

1. Review Council's financial position, via the receipt of Council's Quarterly Financial Management reports and report to Council on any material issues which may require action;
2. At least annually review changes to the Local Government Performance Reporting Framework and understand the impact of those changes on Council's performance indicators;
3. 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;
4. 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

5. Review with management and the external auditors all matters required to be communicated to the Committee under the Australian Auditing Standards;
6. Monitor the progress of any litigation, claim or contingency which could have a material effect on Council's financial position or operating result; and
7. 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. Internal Control Environment**

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1. Review the adequacy and effectiveness of key policies, systems and controls for providing a sound internal control environment. This should be done on a rotational basis over a three to four year period;
2. Determine whether systems and controls are reviewed regularly and updated where required;
3. Monitor significant changes to systems and controls to assess whether those changes significantly impact Council's risk profile;
4. Ensure that a programme is in place to test compliance with systems and controls;
5. Assess whether the control environment is consistent with Council's Governance Principles.

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

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The 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 of the risk register and actions being taken to manage identified risks;
5. Review the insurance programme annually prior to renewal;
6. Monitor the progress of any significant land / or material lawsuits facing the Council; and
7. Monitor the effectiveness of Council's business continuity processes and practices.

#### **F. Fraud Prevention Systems and Controls**

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The 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. Review reports in relation to 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. Review reports by management about the actions taken by Council to report such matters to the appropriate integrity bodies.

## **G. Compliance Management**

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1. Review the systems and processes implemented by Council for monitoring compliance with relevant legislation and regulations and the results of management's follow up of any instances of non-compliance;
2. Review the processes for communicating Council's Employee Code of Conduct to employees and contractors and for monitoring compliance with the Code;
3. Obtain briefings on any significant compliance matters; and
4. Receive reports from management on the findings of any examinations by regulatory or integrity agencies (whether related to investigations at Council or other agencies), such as the Ombudsman, IBAC, Victoria Government Inspectorate, etc. and monitor Council's responses.

## **11. Review of the Committee Charter**

The Committee will review the Charter at least biennially and recommend changes to Council for approval.

## Appendix A

### Committee Member Regulatory Obligations

#### Guidance to Members

LGA Section	LGA Requirement
<b>Misuse of Position</b>	
123(1)	A Committee member must not intentionally misuse their position to: <ol style="list-style-type: none"> <li>a) Gain or attempt to gain, directly or indirectly, an advantage for themselves or for any other person; or</li> <li>b) Cause, or attempt to cause, detriment to the Council or another person</li> </ol>
123(3)	Circumstances involving misuse of a position by a member of the Committee include: <ol style="list-style-type: none"> <li>a) Making improper use of information acquired as a result of being a member of the Committee; or</li> <li>b) Disclosing information that is confidential information; or</li> <li>c) Directing or improperly influencing, or seeking to direct or improperly influence, a member of Council staff; or</li> <li>d) Exercising or performing, or purporting to exercise or perform, a power, duty or function that the person is not authorised to exercise or perform; or</li> <li>e) Using public funds or resources in a manner that is improper or unauthorised; or</li> <li>f) Participating in a decision on a matter in which the member has a conflict of interest.</li> </ol>
<b>Confidential Information</b>	
125	A member of the Committee must not intentionally or recklessly disclose information that the member knows, or should reasonably know, is confidential information. There are some exemptions to this requirement, the key one being that if the information disclosed by the member has been determined by Council to be publicly available.
<b>Conflicts of Interest</b>	
126	A member of the Committee has a conflict of interest if the member has: <ol style="list-style-type: none"> <li>a) A general conflict of interest as described in Section 127; or</li> <li>b) A material conflict of interest as described in Section 128.</li> </ol>
127	A member of the Committee has a general conflict of interest in a matter if an impartial, fair-minded person would consider that the members private interests could result in that member acting in a manner that is contrary to their public duty as a member of the Committee.
128	A member of the Committee has a material conflict of interest in a matter if an affected person would gain a benefit or suffer a loss depending on the outcome of the matter.
<p><b>Please Note</b></p> <p><i>The above guidance is not verbatim from the Act and does not include all details as explained in Part 6, Division 1 of the Act. For a full understanding of the requirements of the Act in relation to the matters summarised above, members are expected to make themselves fully aware of the requirements of the Act.</i></p>	