



**Surf Coast Shire
Audit & Risk Committee Charter
July 2013**

1. Background

The Audit & Risk Committee is a formally appointed Advisory Committee of Council. The Audit & 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 & Risk Committee does not have any management functions and is therefore independent of management. The Committee's role is to report to Council and provide appropriate advice and recommendations relevant to its charter in order to facilitate decision making by the Council in relation to the discharge of its responsibilities.

2. Objectives

The objective of the Audit & Risk Committee is to provide appropriate advice to Council so that Council is able to:

- 2.1. Display well informed, efficient and effective decision making.
- 2.2. Promote and monitor an ethical culture throughout the Council and comply with any relevant code of conduct.
- 2.3. Implement a sound system of risk oversight and management.
- 2.4. Implement an effective and efficient internal control system.
- 2.5. Protect the Council's assets.
- 2.6. Protect against litigation and claims.
- 2.7. Protect against fraud.
- 2.8. Comply with applicable legislation, regulations, standards and Council policies.
- 2.9. Demonstrate quality internal and external reporting
- 2.10. Display effective communications between the Council and the internal and external auditors and provide timely responses to matters arising from audits.

3. Legal Status

The Audit & Risk Committee is an advisory committee for the purposes of the Local Government Act 1989.

4. Membership

The Audit & Risk Committee will consist of:

- 4.1. Two Councillors (and one substitute)
- 4.2. Four suitably qualified independent representatives

The Chief Executive Officer, Director Corporate Services and Council's internal auditor are not members but should attend meetings in an advisory capacity. Council's external auditors will be invited to attend meetings as deemed appropriate.

5. Appointment of Independent Representatives

5.1. Independent Members

Independent members are individuals free from any management, business or other relationship that could reasonably be perceived to materially interfere with their ability to act in the best interests of Council. The independence of members will be considered in relation to any applicable legislation or regulation that defines the requirements of independence for membership.

It is commonplace to examine an Audit & Risk Committee member's past and current relationships with Council as indicators of independence.

Good governance identifies the following relationships that might affect the independent status of a member, if the member:

- is employed, or has previously been employed in an executive capacity by Council or a related entity, and there has not been a period of at least three years between ceasing such employment and serving on the Audit & Risk Committee.
- has, within the last three years, been a principal of a material professional adviser or a material consultant to Council or a related entity, or an employee materially associated with the service provided.
- is a material supplier to or customer of Council or a related entity, or an officer of, or otherwise associated directly or indirectly with, a material supplier or customer.
- has a material, contractual relationship with Council or a related entity.

Members and potential members need to exercise care to ensure they disclose, for consideration by Council any relationships that could be viewed by other parties as impairing either the individual's or the Audit & Risk Committee's actual or perceived independence. When deciding what is significant, the selection panel will consider the significance of the relationship to both Council and to the individual.

It is important for members both to be independent and to be seen to be independent. Occasionally, Council might choose to appoint an individual to the Audit & Risk Committee, despite the existence of relationships identified above, because of the individual's business or other expertise. Good governance suggests that the selection panel should state its reasons to Council for considering such a member to be independent, and the corporate governance statement should disclose the existence of any such relationships.

5.2. Selection of Independent Representatives

The evaluation of potential members will be undertaken by a selection panel including the Chief Executive Officer (or his/her delegate) and two councillor representatives, taking account of the experience of candidates and their likely ability to apply appropriate analytical and strategic management skills. A recommendation for appointment is then made by the selection panel to Council.

It is important to not only maintain Audit & Risk Committee continuity, but also to provide a fresh perspective through succession planning and the selection process. The following key qualities are desirable when appointing members:

- Individuals should have:
 - senior business or financial management/reporting knowledge and experience
 - high levels of financial literacy
 - knowledge of Council's operations and the environment in which it operates
 - strong communication skills
 - high levels of personal integrity and ethics
 - sufficient time available to devote to executing responsibilities
- The Audit & Risk Committee as a whole should have:
 - at least one member with financial qualifications and experience, conversant with financial and other reporting requirements
 - skills and experience relevant to discharging responsibilities, including experience in
 - senior business, financial and legal compliance, risk management
 - local government background and experience as applicable.

Where Council considers an individual has the skills, experience and interest or particular expertise to be an effective member of the Audit & Risk Committee, the selection panel will interview and recommend the candidate's appointment as an independent member of the Audit & Risk Committee.

5.3. Rotation of Independent Representatives

The terms of the appointment should be arranged to ensure an orderly rotation and continuity of membership despite changes to Council's elected representatives to enhance the perception and reality of independence.

Appointment of independent representatives shall be made by Council by way of a public advertisement and be for a maximum term of four years.

6. Appointment of Chair Person

The Chairperson shall be appointed by the Council and must be one of the four external members of the Committee.

7. Quorum

Any four members of the Committee, two of which must be independent representatives.

8. Meetings

- 8.1. The Audit & Risk committee will meet at least four times a year, with the authority to convene additional meetings, as circumstances require.
- 8.2. All Audit & Risk committee members are expected to be fully prepared and attend each meeting, in person or through teleconference or video conference.
- 8.3. In the absence of the appointed Chairperson from a meeting, the meeting will appoint an external member as an Acting Chairperson.
- 8.4. The Audit & Risk Committee shall meet at least once a year in conjunction with a scheduled Audit & Risk Committee Meeting with the internal auditor and external auditor without the officers in attendance.
- 8.5. Meetings will be minuted and distributed in draft within 10 days after the meeting.
- 8.6. Agendas will be prepared and distributed 7 days in advance of the meeting along with appropriate briefing papers.
- 8.7. Council shall provide secretarial and administration support.

9. Responsibilities

9.1. External Audit

- 9.1.1. Note the external auditors proposed audit scope and approach, particularly noting any reliance on internal auditor activity.
- 9.1.2. To discuss matters arising from the external audit with the external auditor.
- 9.1.3. To review the annual financial statements prior to their approval by the Council.
- 9.1.4. To make comment on management's response to the external auditor's report.
- 9.1.5. Review the performance of the external auditors.
- 9.1.6. Consider the independence of the external auditor in the context of any other services provided to Council.
- 9.1.7. To monitor the implementation by management of the external auditor's recommendations that are adopted by the Council.
- 9.1.8. Meet at least twice annually with the external auditor.

9.2. Internal Audit

- 9.2.1. To make recommendations to the Council on the appointment and remuneration of the internal auditor.
- 9.2.2. To review and recommend to Council a strategic annual internal audit plan having regard to Council's Budget and objectives.
- 9.2.3. To consider internal audit reviews as completed and recommend to Council, actions that result in improved performance in these areas.
- 9.2.4. As part of the Committee's annual assessment of performance, determine the level of satisfaction with the internal audit function.
- 9.2.5. Ensure the internal auditor's annual plan is linked with and covers the material business risks.

9.3. Internal Control

- 9.3.1. Understand the scope of internal and external auditor's review of internal controls over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
- 9.3.2. Consider with the auditors any acts of fraud, any illegal undertakings and any deficiencies or breaches of security.

9.4. Accounting and Investment Policies

- 9.4.1. To consider recent developments in accounting principles or reporting practices that may affect the Council.
- 9.4.2. To at least annually review the Council's accounting principles, policies and practices as outlined in the annual financial statements.
- 9.4.3. To at least annually review the Council's investment policy.

9.5. Risk Management

- 9.5.1. To monitor Council's risk management system.
- 9.5.2. To work with management to ensure significant risks are adequately managed.
- 9.5.3. To ensure that Council receives timely reporting of existing and emerging risks and the planned treatment of those risks by management.
- 9.5.4. Monitor processes and practices of the Council to ensure effective business continuity.
- 9.5.5. To annually review the Council's risk and fraud policies.

9.6. Financial Reporting

- 9.6.1. Gain an understanding of current areas of greatest financial risk and how they are managed.
- 9.6.2. Review significant accounting and reporting issues, and understand their impact on financial reports.
- 9.6.3. Review complex and unusual financial transactions and highly judgemental areas, and understand their effect on the financial statements.
- 9.6.4. Oversee the periodic reporting process implemented by management and review financial statements before release.

9.7. Compliance

- 9.7.1. Review effectiveness of systems for monitoring compliance with laws, regulations, internal policies and industry standards, and the results of management's investigation and follow up of instances of non-compliance.
- 9.7.2. Obtain regular updates from management about compliance matters that have a material impact on the financial statements, strategies, operations and reputation.

9.8. Fraud

- 9.8.1. Review management's fraud prevention strategies and programs.
- 9.8.2. Ensure that fraud reporting obligations have been met.

9.9. Reporting

- 9.9.1. Report regularly to the Council about the Committee's activities, issues, and related recommendations through circulation of minutes and an annual report.
- 9.9.2. Consider the findings and recommendations of relevant Performance Audits undertaken by the Victorian Auditor General and ensure Council implements relevant recommendations.

9.10. Other

- 9.10.1. Perform other activities related to this charter as requested by the Council.
- 9.10.2. Review and assess the adequacy of the Audit & Risk Committee Charter annually.
- 9.10.3. Evaluate the Audit & Risk Committee's performance annually and include evaluation in the annual report to Council.

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- 9.10.4. The Committee shall establish an annual work plan that ensures proper coverage of matters laid out in the Audit and Risk Committee Charter.

10. Remuneration

External members of the Committee will be offered remuneration for carrying out their duties. The annual amount is to be set by Council.

11. Confidentiality

Committee members shall not directly or indirectly release or make available to any person any information relating to the work or discussions of the Audit & Risk Committee of which he or she is a member that is or was in his or her possession except in accordance with such terms and in such a manner as stipulated by Surf Coast Shire Council.

12. Removal of a Member

If the Council propose to remove a member of the Committee it must give written notice of its intention to do so and afford the member an opportunity to be heard by Council.