

# Audit and Risk Committee - Terms of Reference

## Purpose

- 1.1 To assist the Council to discharge its responsibility to exercise due care, diligence and skill in relation to the oversight of:
  - the robustness of the internal control framework;
  - the integrity and appropriateness of external reporting, and accountability arrangements within the organisation for these functions;
  - the robustness of internal risk management systems, including the City's processes, practices and procedures;
  - internal and external audit;
  - accounting policy and practice;
  - significant projects and programs of work focussing on the appropriate management of risk;
  - compliance with applicable laws, regulations, standards and best practice guidelines for public entities;
  - the establishment and maintenance of controls to safeguard the Council's financial and non-financial assets; and
  - Councils risk appetite and the acceptability of level of risk.
- 1.2 As reflected in this Terms of Reference, the foundations on which this Committee operates includes: independence; clarity of purpose; competence; open, effective and respectful relationships and a transparent "no surprises" ethos.

## Membership and participation

- 1.3 Members of the Audit and Risk Committee shall be impartial and independent at all times.
- 1.4 The Committee will comprise of six members, namely two independent external members and four City of Kwinana Elected Members, one of whom should be the presiding Mayor.
- 1.5 Appointment of independent members
  - Identify skills required for independent members of the Audit and Risk Committee. Appointment panels will include the Mayor or Deputy Mayor and two other Elected Members. Council approval is required for all independent member appointments;
  - The term of the independent members should be for three years;

- Independent members are eligible for re-appointment to a maximum of two terms. By exception, the Council may approve a third term to ensure continuity of knowledge; and
- The Committee will comprise of six members, namely two independent external members and four City of Kwinana Elected Members.

- 1.6 All Committee members have full voting rights.
- 1.7 The term of a Councillor's appointed to the committee will end when their four-year term of office ceases. If the Councillor nominates for re-election to Council at the Local Government, they may be eligible to apply for re-appointment to the committee for a further term should they be successfully elected to Council following the Local Government elections.
- 1.8 Other than the presiding Mayor, Councillors are to serve no more than two terms on the committee.
- 1.9 The Chief Executive Officer and Executive Leadership Team (herein referred to as "Management") will not be members of the Committee. The Chief Executive Officer should attend every Committee meeting and shall play a key role on the committee by providing expert advice to the Committee.
- 1.10 The members, taken collectively, will have a broad range of skills and experience relevant to the operations of the Council. At least one external member should have accounting or related financial management experience, with an understanding of accounting and auditing standards in a public sector/local government environment.
- 1.11 One of the independent members of the Audit and Risk Committee shall be appointed Chairperson of the Committee.

## Quorum

- 1.12 A quorum shall consist of at least 50% of the number of members of the Committee, one of whom is to be an independent member, unless a reduction is approved by the local government under s5.15 of the *Local Government Act 1995*.

## Meetings

- 1.13 The Committee should meet at times during the year that most effectively coincides with the requirements of the legislation for that year, and operational activities, with a view to providing the necessary reports well before the due dates.

## Procedure

- 1.14 In order to give effect to its advice, the Committee should make recommendations to the Council and to Management.
- 1.15 Each meeting agenda is to include an opportunity for an in camera meeting between the Committee and the internal and the external auditors (without Management present). An in camera meeting can be held at any time during the meeting if requested by any of the Committee members present.
- 1.16 The external auditors, the internal audit manager and the co-sourced internal audit firm (if appointed) should meet with the Committee Chair outside of formal meetings as considered appropriate.
- 1.17 The Committee Chair will meet with the CEO or delegate before each Committee meeting and at other times as required as agreed by the Chair.

## Duties and responsibilities

- 1.18 Internal control framework
- Consider the adequacy and effectiveness of internal controls and the internal control framework including overseeing privacy and cyber security;
  - Critically examine the steps Management has taken to embed a culture that is committed to probity and ethical behaviour;
  - Review the organisation's processes or systems in place to capture and effectively detect and/or investigate fraud or material litigation should it be required; and
  - Seek confirmation annually and as necessary from internal and external auditors, attending Councillors, and Management, regarding the completeness, quality and appropriateness of financial and operational information that is provided to the Council.
- 1.19 Risk management
- Review and consider Management's risk management framework in line with Council's risk appetite, which includes policies and procedures to effectively identify, treat and monitor significant risks, and regular reporting to the Council;
  - Assist the Council to determine its appetite for risk;
  - Review the principal risks that are determined by Council and Management, and consider whether appropriate action is being taken by Management to treat Council's significant risks;
  - Assess the effectiveness of, and monitor compliance with, the risk management framework; and
  - Consider any emerging risks trends and report these to Council where appropriate.

#### 1.20 Internal audit

- Review and approve the annual internal audit plan, which is to be based on the Council's risk framework;
- Monitor performance against the annual audit plan at each regular quarterly meeting;
- Monitor all internal audit reports and the adequacy of Management's response to internal audit recommendations;
- Review six monthly fraud reporting and ensure fraud issues are disclosed to the external auditor;
- Provide a functional reporting line for the internal audit and ensure objectivity and transparency of the internal audit;
- Oversee and monitor the performance and independence of both the internal auditors and co-sourced auditors who may be appointed from time to time;
- Review the range of services provided by the co-sourced partner and make recommendations to Council regarding the conduct of the internal audit function; and
- Monitor compliance with Council's delegation policies.

#### 1.21 External reporting and accountability

- Consider the appropriateness of the Council's existing accounting policies and practices and approve any changes as deemed appropriate;
- Contribute to improve the quality, credibility and objectivity of the accounting processes, including financial reporting;
- Consider and review the draft annual financial statements and any other financial reports that are to be publicly released and make recommendations to Management on any matters that arise from those statements or reports;
- Consider the underlying quality of the external financial reporting, including:
  - changes in accounting policy and practice;
  - any significant accounting estimates and judgements, accounting implications of new and significant transactions, management practices;
  - and any significant disagreements between Management and the external auditors; and
  - the propriety of any related party transactions and compliance with applicable Australian and international accounting standards and legislative requirements.
- Consider the disclosure of contingent liabilities and contingent assets as well as the clarity of disclosures generally;
- Consider whether the external reporting is consistent with Committee members' information and knowledge, and whether it is adequate for stakeholder needs;
- Recommend to Council:
  - the adoption of the Financial Statements and Reports; and
  - the Statement of Service Performance; and
  - the signing of the Letter of Representation to the Auditors by the Mayor and the Chief Executive Officer.

- Enquire of external auditors any information that affects the quality and clarity of the Council's financial statements, and assess whether appropriate action has been taken by Management;
- Request visibility of appropriate management signoff on the financial reporting and on the adequacy of the systems of internal control; including:
  - certification from the Chief Executive Officer, and other staff that risk management and internal control systems are operating effectively.
- Consider and review the Community Strategic Plan Term and Annual Plans before adoption by the Council;
- Apply similar levels of enquiry, consideration, review and management sign off as are required above for external financial reporting; and
- Review and consider the Summary Financial Statements for consistency with the Annual Report.

#### 1.22 External audit

- Review and monitor whether Management's approach to maintaining an effective internal control framework is sound and effective, and in particular:
  - Review whether Management has taken steps to embed a culture that is committed to probity and ethical behaviour;
  - Review whether Management has in place relevant policies and procedures and how such policies and procedures are reviewed and monitored; and
  - Review whether there are appropriate systems processes and controls in place to prevent, detect and effectively investigate fraud.
- Annually review the independence of the audit engagement with the external auditor appointed by the Office of the Auditor General;
- Annually review the term of the audit engagement with the external auditor appointed by the Office of the Auditor General, including the adequacy of the nature and scope of the audit, and the timetable and fees;
- Review all external audit reporting, discuss with the auditors and review action to be taken by Management on significant issues and recommendations and report such actions to Council as appropriate;
- The external audit reporting should describe:
  - Council's internal control procedures relating to external financial reporting, findings from the most recent external audit and any steps taken to deal with such findings;
  - All relationships between the Council and the external auditor;
  - Critical accounting policies used by Council; and
  - Alternative treatments of financial information within Generally Accepted Accounting Practice that have been discussed with Management, the ramifications of these treatments and the treatment preferred by the external auditor.
- Ensure that the lead audit engagement and concurring audit directors are rotated in accordance with best practice and Australian Auditing Standards.

1.23 Compliance with legislation, standards and best practice guidelines

- Review the effectiveness of the system for monitoring the Council's compliance with laws (including governance legislation, regulations and associated government policies), with Council's own standards, and Best Practice Guidelines.