



# **Audit, Risk and Improvement Committee**

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**TERMS OF REFERENCE**

<b>Division:</b>	Support Services	<b>Adopted Date:</b>	
<b>Branch:</b>	Corporate Services and Governance	<b>Next Review Date:</b>	June 2023
<b>Responsible Officer:</b>	Manager Corporate Services and Governance	<b>Version:</b>	1
<b>Director:</b>	Director Support Services		



**Table of Contents**

**Objective** ..... 3

**Independence** ..... 3

**Authority** ..... 3

**Composition and tenure**..... 3

**Role**..... 4

**Responsibilities of Members** ..... 5

    Independent members ..... 5

    Councillor members..... 5

    Conduct ..... 6

    Conflicts of interest ..... 6

    Standards ..... 6

**Workplans** ..... 6

**Assurance Reporting** ..... 6

**Administrative arrangements** ..... 7

    Meetings ..... 7

    Dispute resolution ..... 7

    Secretariat ..... 8

    Resignation and dismissal of members..... 8

    Review arrangements..... 8

*Further information*..... 8

**Schedule 1 – Audit, Risk and Improvement Committee Responsibilities** ..... 9

**Audit**..... 9

        Internal Audit..... 9

        External Audit ..... 9

**Risk** ..... 9

        Risk management..... 9

**Internal controls** ..... 10

**Compliance** ..... 10

**Fraud and corruption** ..... 10

**Financial management** ..... 10

**Governance** ..... 11

**Improvement** ..... 11

        Strategic Planning..... 11

        Service reviews and business improvement ..... 12

        Performance data and measurement ..... 12





Council has established an Audit, Risk and Improvement Committee in compliance with section 428A of the *Local Government Act 1993* and of the *Local Government (General) Regulation 2021*. These terms of reference set out the Committee's objectives, authority, composition and tenure, roles and responsibilities, reporting and administrative arrangements.

### **Objective**

The objective of Council's Audit, Risk and Improvement Committee is to provide independent assurance to Council by monitoring, reviewing and providing advice about Council's governance processes, compliance, risk management and control frameworks, external accountability obligations and overall performance.

### **Independence**

The Committee is to be independent to ensure it has no real or perceived bias or conflicts of interest that may interfere with its ability to act independently and provide Council with robust, objective and unbiased advice and assurance.

The Committee is to provide an advisory and assurance role only and is to have no administrative function, delegated financial responsibility or any management functions of Council. The Committee will provide independent advice to Council that is informed by Council's internal audit and risk management activities and information and advice provided by Council staff, relevant external bodies and subject matter experts.

The Committee must at all times ensure it maintains a direct reporting line to and from Council's internal audit function and act as a mechanism for internal audit to report to Council and the General Manager on matters affecting the performance of the internal audit function.

### **Authority**

Council authorises the Committee, for the purposes of exercising its role and responsibilities, to:

- Access any information it needs from Council,
- Have direct and unrestricted access to the General Manager and senior management of Council,
- Seek the General Manager's permission to meet with any other Council staff member or contractor,
- Discuss any matters with the external auditor or other external parties,
- Request the attendance of any employee at Committee meetings, and
- Obtain external legal or other professional advice, subject to prior approval from the General Manager and appropriate funding in Council's budget.

Information and documents pertaining to the Committee are confidential and are not to be made publicly available. The Committee may only release Council information to external parties that are assisting the Committee to fulfil its responsibilities with the approval of the General Manager, except where it is being provided to an external investigative or oversight agency for the purpose of informing that agency of a matter that may warrant its attention.

### **Composition and tenure**

The Committee consists of one independent voting Chair, two independent voting members and one non-voting Councillor, in accordance with the *Guidelines for risk management and internal audit in local councils in NSW*.



Council is to appoint the Chair and members of the Committee. The Chair is counted as one member of the Committee. Current Committee members are\*:

[name]	Independent chair (voting)
[name]	Independent member (voting)
[name]	Independent member (voting)
[name]	Councillor member (non-voting), cannot be the Mayor

\* Upon appointment, the Terms of Reference will be updated with the names of the Chair and members of the Committee.

All Committee members are to meet the independence criteria and eligibility criteria for non-prequalified members set out in the *Guidelines for risk management and internal audit in local councils in NSW*.

Members will be appointed for a four-year period excluding the initial appointment of the commencement of Council's Audit, Risk and Improvement Committee where members will be appointed up until September 2024, or the date of the first election after the appointment of Council's first Audit, Risk and Improvement Committee. Members can be reappointed for a further term, but the total period of continuous membership cannot exceed eight years. This includes any term as Chair of the Committee. Members who have served an eight-year term (either as member or Chair) must have a two-year break from serving on the Committee before being appointed again. To preserve the Committee's knowledge of Council ideally, no more than one member should leave the Committee because of rotation on any one year.

Specific member terms and conditions are to be disclosed in a letter of appointment. New members will be thoroughly inducted to their role and receive relevant information and briefings on their appointment to assist them to meet their Committee responsibilities.

Prior to approving the reappointment or extension of the Chair's or an independent member's term, Council is to undertake an assessment of the Chair's or Committee member's performance. Reappointment of the Chair and members is also to be subject to the individual still meeting independence and eligibility requirements.

Members of the Committee are to possess and maintain a broad range of skills, knowledge and experience relevant to the operations, governance and financial management of Council, the environment in which Council operates, and the contribution that the Committee makes to Council. At least one member of the Committee must have accounting or related financial management experience with an understanding of accounting and auditing standards in a local government environment. All members should have sufficient understanding of Council's financial reporting responsibilities to be able to contribute to the Committee's consideration of Council's annual financial statements.

## Role

In accordance with section 428A of the *Local Government Act 1993*, the role of the Committee is to review and provide independent advice to Council regarding the following aspects of the Council's operations:

- Compliance
- Risk management
- Fraud control
- Financial management
- Governance
- Implementation of the strategic plan, delivery program and strategies
- Service reviews
- Collection of performance measurement data by Council, and
- Internal audit.



The Committee must also provide information to Council for the purpose of improving Council's performance of its functions.

The Committee's specific audit, risk and improvement responsibilities under section 428A are outlined in Schedule 1 to this charter.

The Committee will act as a forum for Council's internal audit function and oversee its planning, monitoring and reporting to ensure it operates effectively.

The Committee will have no power of direction over external audit or the manner in which the external audit is planned or undertaken but will act as a forum for the consideration of external audit findings.

The Committee is directly responsible and accountable to the Governing Body of Council for the exercise of its responsibilities. In carrying out its responsibilities, the Committee must at all times recognise that primary responsibility for management of Council rests with the Governing Body and General Manager.

The responsibilities of the Committee may be revised or expanded in consultation with, or as requested by, the Governing Body of the Council from time to time.

### **Responsibilities of Members**

#### **Independent members**

The Chair and members of the Committee are expected to understand and observe the requirements of the *Guidelines for risk management and internal audit for local government in NSW*. Members are also expected to:

- Make themselves available as required to attend and participate in meetings
- Contribute the time needed to review and understand information provided to it
- Apply good analytical skills, objectivity and judgement
- Act in the best interests of Council
- Have the personal courage to raise and deal with tough issues, express opinions frankly, ask questions that go to the fundamental core of the issue and pursue independent lines of inquiry
- Maintain effective working relationships with Council
- Have strong leadership qualities (Chair)
- Lead effective Committee meetings (Chair), and
- Oversee Council's internal audit function (Chair).

#### **Councillor members**

To preserve the independence of the Committee, the Councillor member of the Committee (who cannot be the Mayor) is a non-voting member. Their role is to:

- Relay to the Committee any concerns the Governing Body may have regarding Council and issues being considered by the Committee
- Provide insights into local issues and the strategic priorities of Council that would add value to the Committee's consideration of agenda items
- Advise the Governing Body (as necessary) of the work of the Committee and any issues arising from it, and
- Assist the Governing Body to review the performance of the Committee.

Issues or information the Councillor Member raises with or provides to the Committee must relate to the matters listed in Schedule 1 and issues being considered by the Committee.

The Councillor member of the Committee must conduct themselves in a non-partisan and professional manner. The Councillor member of the Committee must not engage in any conduct that seeks to politicise the activities of the Committee or the internal audit function or that could be seen to do so.

If the Councillor member of the Committee engages in such conduct or in any other conduct that may bring the Committee and its work into disrepute, the Chair of the Committee may recommend to the Council, that the Councillor member be removed from membership of the Committee. Where the Council does not agree to the Committee Chair's recommendation, the Council must give reasons for its decision in writing to the Chair.



### **Conduct**

Independent Committee members are required to comply with Council's Code of Conduct and be held to the same ethical, behavioural and conduct standards as officials of the council.

Complaints or breaches of Council's Code of Conduct by an independent Committee member are to be dealt with in accordance with the *Procedures for the Administration of the Model Code of Conduct for Local Councils in NSW*. The General Manager must consult with the Governing Body before taking any disciplinary action against an independent Committee member in response to a breach of Council's Code of Conduct.

### **Conflicts of interest**

Once a year, Committee members will provide written declarations to Council stating that they do not have any conflicts of interest that would preclude them from being members of the Committee. Independent Committee members are 'designated persons' and must also complete and submit returns of interest.

Committee members and observers must declare any pecuniary or non-pecuniary conflicts of interest they may have at the start of each meeting, before discussion of the relevant agenda item or issue, and when the issue arises. Where Committee members and observers are deemed to have a pecuniary or a significant non-pecuniary conflict of interest, they are to remove themselves from Committee deliberations on the issue. Details of any conflicts of interest should also be appropriately minuted.

### **Standards**

Committee members are to conduct their work in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and the current Australian risk management standard, where applicable.

### **Workplans**

The work of the Committee is to be thoroughly planned and executed to ensure that all Council activities and functions are reviewed. The Committee must develop a strategic plan every four years to ensure that all matters listed in Schedule 1 are reviewed by the Committee and the internal audit function over each Council term, subject to the allocation of available resources by the General Manager. The strategic plan must be reviewed at least annually to ensure it remains appropriate.

The Committee may, in consultation with Council's Governing Body, vary the strategic work plan at any time to address new or emerging risks. The Governing Body of Council may also, by resolution, request the Committee to approve a variation to the strategic work plan. However, any decision to vary the strategic work plan must be made by the Committee.

The Committee must also develop an annual workplan to guide its work over the forward year.

The Committee may, in consultation with Council's Governing Body, vary the annual work plan to address new or emerging risks. The Governing Body of Council may also, by resolution, request the Committee to approve a variation to the annual work plan. However, any decision to vary the annual work plan must be made by the Committee.

When considering whether to vary the strategic or annual work plans, the Committee must consider the impact of the variation on the internal audit function's existing workload and the completion of pre-existing priorities and activities identified under the workplan.

### **Assurance Reporting**

The Committee must regularly report to Council to ensure that Council is kept informed of matters considered by the Committee and any emerging issues that may influence the strategic direction of Council or the achievement of Council's goals and objectives.

The Committee will provide an update to the Governing Body and General Manager of its activities and opinions after every Committee meeting.

The Committee will provide an annual assessment to the Governing Body and General Manager each year on the Committee's work and its opinion on how Council is performing.





The Committee will provide a comprehensive assessment every Council term of all the matters listed in Schedule 1 to the Governing Body and General Manager.

The Committee may at any time report to the Governing Body or General Manager on any other matter it deems of sufficient importance to warrant their attention. The Mayor and Chair of the Committee may also meet at any time to discuss issues relating to the work of the Committee.

Should the Governing Body require additional information, a request for the information may be made to the Chair by resolution. The Chair may only provide the information requested by the Governing Body where the Chair is satisfied that it is reasonably necessary for the Governing Body to receive the information for the purposes of performing its functions under the Local Government Act. Individual Councillors are not entitled to request or receive information from the Committee.

### **Administrative arrangements**

#### **Meetings**

The Committee will meet at least four (4) times per year, including a special meeting to review Council's financial statements.

The Committee can hold additional meetings when significant unexpected issues arise, or if the Chair is asked to hold an additional meeting by a Committee member, the General Manager or the Governing Body.

Committee meetings can be held in person, by telephone or videoconference. Proxies are not permitted if a member is unable to attend a meeting.

A quorum will consist of a majority of independent voting members. Where the vote is tied, the Chair has the casting vote.

The Chair of the Committee will decide the agenda for each Committee meeting. Each Committee meeting is to be minuted to preserve a record of the issues considered and the actions and decisions taken by the Committee.

The General Manager, Chief Audit Executive and the Internal Audit Coordinator are to attend Committee meetings as non-voting observers. The external auditor (or their representative) is to be invited to each Committee meeting as an independent observer. The Chair can request Council's Chief Financial Officer, head of risk management function, senior managers, any Councillors, any employee/contractor of the Council and any subject matter expert to attend Committee meetings. These individuals must attend and provide any information requested, where possible. Observers have no voting rights and can be excluded from a meeting by the Chair at any time.

The Committee can hold closed meetings whenever it needs to discuss confidential or sensitive issues with only voting members of the Committee present.

The Committee must meet separately with both the Chief Audit Executive and Council's external auditor at least once per year.

#### **Dispute resolution**

Members of the Committee and Council's management should maintain an effective working relationship and seek to resolve any differences they may have in an amicable and professional way via discussion and negotiation.

In the event of a disagreement between the Committee and the General Manager or other senior managers, the dispute is to be resolved by Council.

Unresolved disputes regarding compliance with statutory or other requirements are to be referred to the Secretary of the Department of Planning, Industry and Environment in writing.



**Secretariat**

The General Manager will appoint a Council employee to provide secretariat support to the Committee. The secretariat will ensure the agenda for each meeting and supporting papers are circulated after approval from the Chair at least one week before the meeting and ensure that minutes of meetings are prepared and maintained. Minutes must be approved by the Chair and circulated within two weeks of the meeting to each member.

**Resignation and dismissal of members**

Where the Chair or a Committee member is unable to complete their term or does not intend to seek reappointment after the expiry of their term, they should give one month notice to the Chair and the Governing Body prior to their resignation to enable Council to ensure a smooth transition to a new Committee member.

The Governing Body can terminate via resolution the engagement of any Chair or independent Committee member before the expiry of their term where the individual has:

- breached the council's Code of Conduct,
- performed unsatisfactorily or not to expectations,
- been declared bankrupt or found to be insolvent,
- experienced an adverse change in business status,
- been proven to be in a serious breach of their obligations under any legislation, or
- Declared, or is found to be in, a position of a conflict of interest which is unresolvable.

The position of a Councillor member on the Committee can be terminated at any time by the Governing Body via resolution.

**Review arrangements**

At least once every Council term the Governing Body must conduct an external review of the effectiveness of the Committee.

These terms of reference are to be reviewed annually by the Committee and once each council term by the Governing Body. Any substantive changes are to be approved by the Governing Body.

**Further information**

For further information on Council's Audit, Risk and Improvement Committee contact Council's Internal Audit Coordinator by phone 02 4560 4265.

Reviewed by Chair of the Audit, Risk and Improvement Committee

[signed] [date]

Reviewed by Council in accordance with a resolution of the Governing Body

[signed] [date] [resolution reference]

Next review date: [date]



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## Schedule 1 – Audit, Risk and Improvement Committee Responsibilities

### Audit

#### Internal Audit

- Provide overall strategic oversight of internal audit activities
- Act as a forum for communication between the Governing Body, General Manager, senior management, the internal audit function and external audit,
- Coordinate, as far as is practicable, the work programs of internal audit and other assurance and review functions,
- Review and advise the Council:
  - on whether Council is providing the resources necessary to successfully deliver the internal audit function,
  - if Council is complying with internal audit requirements, including conformance with the International Professional Practices Framework,
  - if Council's Internal Audit Charter is appropriate and whether the internal audit policies and procedures and audit/risk methodologies used by Council are suitable,
  - of the strategic four-year plan and annual work plan of internal audits to be undertaken by Council's internal audit function,
  - if Council's internal audit activities are effective, including the performance of the head of the internal audit function and internal audit function,
  - of the findings and recommendations of internal audits conducted, and corrective actions needed to address issues raised,
  - of the implementation by Council of these corrective actions,
  - on the appointment of the head of the internal audit function and external providers, and
  - if the internal audit function is structured appropriately and has sufficient skills and expertise to meet its responsibilities.

#### External Audit

- Act as a forum for communication between the Governing Body, General Manager, senior management, the internal audit function and external audit,
- Coordinate as far as is practicable, the work programs of internal audit and external audit,
- Provide input and feedback on the financial statement and performance audit coverage proposed by external audit and provide feedback on the audit services provided,
- Review all external plans and reports in respect of planned or completed audits and monitor council's implementation of audit recommendations,
- Provide advice to the Governing Body and/or General Manager on action taken on significant issues raised in relevant external audit reports and better practice guides,

### Risk

#### Risk management

Review and advise Council:

- If Council has in place a current and appropriate risk management framework that is consistent with the Australian risk management standard,
- Whether Council is providing the resources necessary to successfully implement its risk management framework,
- Whether Council's risk management framework is adequate and effective for identifying and managing the risks Council faces, including those associated individual projects, programs and other activities,
- If risk management is integrated across all levels of Council and across all processes, operations, services, decision-making, functions and reporting,



- Of the adequacy of risk reports and documentation, for example, Council's risk register and risk profile, whether a sound approach has been followed in developing risk management plans for major projects or undertakings,
- Whether appropriate policies and procedures are in place for the management and exercise of delegations,
- If Council has taken steps to embed a culture which is committed to ethical and lawful behaviour,
- If there is a positive risk culture within Council and strong leadership that supports effective risk management,
- Of the adequacy of staff training and induction in risk management,
- How Council's risk management approach impacts on the Council's insurance arrangements
- Of the effectiveness of Council's management of its assets, and
- Of the effectiveness of business continuity arrangements, including business continuity plans, disaster recovery plans and the periodic testing of these plans.

### **Internal controls**

Review and advise Council:

- Whether Council's approach to maintaining an effective internal audit framework, including over external parties such as contractors and advisors, is sound and effective,
- Whether Council has in place relevant policies and procedures and that these are periodically reviewed and updated,
- Whether appropriate policies and procedures are in place for the management and exercise of delegations,
- Whether staff are informed of their responsibilities and processes and procedures to implement controls are complied with,
- If Council's monitoring and review of controls is sufficient, and
- If internal and external audit recommendations to correct internal control weaknesses are implemented appropriately.

### **Compliance**

Review and advise Council of the adequacy and effectiveness of Council's compliance framework, including:

- If Council has appropriately considered legal and compliance risks as part of Council's risk management framework,
- How Council manages its compliance with applicable laws, regulations, policies, procedures, codes, and contractual arrangements, and
- Whether appropriate processes are in place to assess compliance.

### **Fraud and corruption**

Review and advise Council of the adequacy and effectiveness of Council's fraud and corruption prevention framework and activities, including whether Council has appropriate processes and systems in place to capture and effectively investigate fraud-related information.

### **Financial management**

Review and advise the Council:

- if Council is complying with accounting standards and external accountability requirements,
- of the appropriateness of Council's accounting policies and disclosures,
- of the implications for Council of the findings of external audits and performance audits and Council's responses and implementation of recommendations,
- whether the Council's financial statement preparation procedures and timelines are sound,



- the accuracy of Council's annual financial statements prior to external audit, including:
  - management compliance/representations
  - significant accounting and reporting issues
  - the methods used by Council to account for significant or unusual transactions and areas of significant estimates or judgements
  - appropriate management signoff on the statements
- if effective processes are in place to ensure financial information included in Council's report is consistent with signed financial statements,
- if Council's financial management processes are adequate,
- the adequacy of cash management policies and procedures,
- if there are adequate controls over financial processes, for example:
  - appropriate authorisation and approval of payments and transactions
  - adequate segregation of duties
  - timely reconciliation of accounts and balances
  - review of unusual and high value purchases
- if policies and procedures for management review and consideration of the financial position and performance of Council are adequate
- if Council's grants and tied funding policies and procedures are sound.

### **Governance**

Review and advise Council regarding its governance framework, including the Council's:

- Decision-making processes,
- Implementation of governance policies and procedures,
- Reporting lines and accountability,
- Assignment of key role and responsibilities,
- Committee structure,
- Management oversight responsibilities,
- Human resources and performance management activities,
- Reporting and communication activities,
- Information and communications technology (ICT) governance, and
- Management and governance of the use of data, information and knowledge.

### **Improvement**

#### **Strategic Planning**

Review and advise Council:

- Of the adequacy and effectiveness of Council's IP&R processes,
- If appropriate reporting and monitoring mechanisms are in place to measure progress against objectives, and
- Whether Council is successfully implementing and achieving its IP&R objectives and strategies.



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**Service reviews and business improvement**

- Act as a forum for communication and monitoring of any audits conducted by external bodies and the implementation of corrective actions (for example, NSW government agencies, Commonwealth government agencies, insurance bodies)
- Review and advise Council:
  - if Council has robust systems to set objectives and goals to determine and deliver appropriate levels of service to the community and business performance,
  - if appropriate reporting and monitoring mechanisms are in place to measure service delivery to the community and overall performance, and
  - how the Council can improve its service delivery and Council's performance of its business and functions generally.

**Performance data and measurement**

Review and advise Council:

- If Council has a robust system to determine appropriate performance indicators to measure the achievement of its strategic objectives,
- If the performance indicators Council uses are effective, and
- Of the adequacy of performance data collection and reporting.