

6.5. APPOINTMENT OF AUDIT COMMITTEE MEMBERS

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RECOMMENDATION

1. **Appoint Cr Lisa Scomazzon as a member of the Douglas Shire Council Audit Committee for a term of 4 years; and**
2. **Appoint Cr Michael Rees as a member of the Douglas Shire Council Audit Committee for a term 2 years.**
3. **Note the proposed dates for Audit Committee meetings in 2024.**

EXECUTIVE SUMMARY

Audit Committees are an essential component in the corporate governance structure of an organisation. They act as an advisory body independent of management and internal and external audit and report directly to the Council. The Audit Committee membership consists of two external independent members, and two elected members.

Following the election in March 2024, two elected members need to be appointed to the Audit Committee.

BACKGROUND

Council is required to have an Audit Committee in accordance with s 105(2) of the *Local Government Act 2009* and ss 208 - 211 of the *Local Government Regulation 2012*.

As outlined in the Audit Committee Charter (attached) which was adopted in May 2023, the Committee exercises a monitoring, oversight, review and advisory role for financial and other statutory reporting, risk management, internal controls and compliance with laws and regulations.

The Audit Committee consists of four members – two appropriately qualified external members (of which the Chairperson is one) and two Councillors.

The Audit Committee meets at least four times a year provides prompt and constructive recommendations on its findings directly to the Council, particularly when issues are identified that could present a material risk or threat to Council. The Committee does not replace or replicate established management responsibilities and delegations or the reporting lines and responsibilities of either internal audit or external audit functions.

COMMENTS

In 2020, Dr Martin Fahy was appointed as Independent Chair and Mr Drong Vue was appointed as an external member. The term of appointment for both external members expires on 27 October 2024.

Following the March 2024 election, two new elected members need to be appointed to the Audit Committee.

Audit Committee meetings dates are proposed for:

- 27 May 2024
- 16 September 2024
- Early-mid October (to consider financial statements)
- 25 November 2024

PROPOSAL

It is proposed that Council resolve to:

- Appoint Cr Lisa Scomazzon as a member of the Douglas Shire Council Audit Committee for a term of 4 years; and
- Appoint Cr Michael Rees as a member of the Douglas Shire Council Audit Committee for a term of 2 years.
- Note the proposed dates for Audit Committee meetings in 2024.

FINANCIAL/RESOURCE IMPLICATIONS

A budget is allocated to pay sitting fees for the external members of the committee.

RISK MANAGEMENT IMPLICATIONS

The Audit Committee plays a significant role in overseeing Council's risk management framework and mitigations. If Councillors are not appointed to the Audit Committee, Council will be at significant risk of breaching the Local Government Regulations.

SUSTAINABILITY IMPLICATIONS

Economic: Nil

Environmental: Nil

Social: Nil

CORPORATE/OPERATIONAL PLAN, POLICY REFERENCE

This report has been prepared in accordance with the following:

Corporate Plan 2019-2024 Initiatives:

Theme 5 - Robust Governance and Efficient Service Delivery

Strong governance and financial management are the foundations of the way in which Council will conduct its business and implement the initiatives of the Corporate Plan.

Goal 3 - *We will make sound financial decisions by ensuring robust strategic planning, financial management and reporting.*

Operational Plan 2023-2024 Actions:

Legislative requirement.

COUNCIL'S ROLE

Council can play a number of different roles in certain circumstances and it is important to be clear about which role is appropriate for a specific purpose or circumstance. The implementation of actions will be a collective effort and Council's involvement will vary from information only through to full responsibility for delivery.

The following areas outline where Council has a clear responsibility to act:

Regulator Council has a number of statutory obligations detailed in numerous regulations and legislative Acts. Council also makes local laws to ensure that the Shire is well governed. In fulfilling its role as regulator, Council will utilise an outcomes based approach that balances the needs of the community with social and natural justice.

CONSULTATION

Internal: Councillors and Management Team

External: Queensland Audit Office, Crowe Australia

COMMUNITY ENGAGEMENT

Nil

ATTACHMENTS

1. Audit Committee Charter [6.5.1 - 6 pages]



AUDIT COMMITTEE – CHARTER

Background

Council has adopted the Audit Committee Policy to establish an Audit Committee in accordance with S105(2) of the *Local Government Act 2009* (the Act) and Subdivision 2 Sections 208 - 211 of the *Local Government Regulation 2012* (the Regulation).

Purpose

The Audit Committee provides an independent forum where representatives of Council, independent specialists, and management work together to fulfill specific governance responsibilities as set out in this Charter.

The Audit Committee Charter (the Charter) sets out the objectives, authority, responsibilities, membership, voting, appointment, remuneration for external independent members, reporting and administrative arrangements associated with the audit committee of the Douglas Shire Council (Council).

The Audit Committee is an advisory body only and must keep Council informed of its activities.

The Audit Committee does not diminish management or a Councillor's individual or overall responsibilities.

Independence and access

As an advisory committee of Council, the Committee is independent of management and does not have any executive powers, delegated responsibility or authority to implement actions over which management has responsibility. The Committee needs to liaise closely with management and internal and external auditors to carry out its responsibilities.

The Committee will be provided with adequate resources in order to fulfil its oversight responsibilities.

Whilst the primary responsibility for financial and other reporting, internal control and compliance with laws, regulations and ethics within council rest with management, the Committee exercises a monitoring, oversight, review and advisory role.

Requests for Council officers and independent experts to attend an audit committee meeting or provide information will be undertaken through the Chief Executive Officer (CEO).

Membership and voting

S 210 of the Regulation requires the membership of the Committee to consist of at least three and no more than six members and include:

- at least one Councillor but no more than two Councillors nominated by Council, and
- between one and four independent external members as determined by Council.

Council may resolve from time to time to change the membership of the Committee.

The Committee will be comprised of four members who shall be determined by Council as follows:

- two of the members will be Councillors.
- the other two members will be independent and external to Council.

The Committee chairperson (the chair) must be independent of Council and will be appointed by Council.

The Committee members, taken collectively, should have a broad range of skills and experience relevant to the committee's responsibilities. At least one member will have significant accounting or related financial management experience with an understanding of accounting and auditing standards in a public sector environment.

The four members of the Committee are each eligible to vote. In the event of a tied vote, the chair may exercise a casting vote on any resolution.

The external auditor, internal auditor and advisors are non-voting observers.

The CEO, Manager Governance and the Chief Financial Officer are permanent invitees and are non-voting observers. Other management and staff are invited to attend meetings as required.

Appointment of audit committee members

Councillor members will generally be appointed to the committee for the full council term unless otherwise determined by Council. Independent external members will be recruited via a publicly advertised merit-based selection process.

The term of appointment for independent external members will be determined by Council and is generally up to 3 years and may be extended for a further term subject to the composition and skill requirements of the committee. The maximum term being 6 years.

Appointments of external members to the Committee will be staggered to ensure appropriate continuity and succession planning.

External members may be recommended for appointment for subsequent terms following a review of their performance by the CEO and discussion with the chair of the Committee.

Remuneration of external independent members of the Committee is set by Council in recognition of the skills and experience, time commitment and responsibilities assumed and required to fulfil the role.

External members are expected to maintain the necessary professional expertise to fulfil their role on the Committee.

Committee responsibilities

S 211(b) of the Regulation, stipulates that the Committee must review each of the following matters:

- (i) the internal audit plan for the internal audit for the current financial year,
- (ii) the internal audit progress report for the internal audit for the preceding financial year including the recommendations in the report and the actions to which the recommendations relate,

- (iii) a draft of the local government's financial statements for the preceding financial year before the statements are certified and given to the auditor-general under section 212,
- (iv) the auditor-general's audit report and auditor-general's observation report about the local government's financial statements for the preceding financial year.

The above requirements are addressed within the following sections. In addition, the Committee will review, but is not necessarily limited to:

Financial statements and reporting

- Receive regular reports from management on the financial performance of the organisation.
- Monitor and assess progress against agreed financial statement preparation and auditing milestones.
- Review Council's draft annual financial statements (including draft financial sustainability statements) prior to their provision to the external auditors.
- Review with management and the external auditors any significant adjustments or changes between draft and final financial statements.
- Review Council's final financial statements (including final financial sustainability statements) and provide advice to the CEO on whether appropriate action has been taken in response to audit recommendations and adjustments.
- Recommend the signing of the draft financial statements by the Mayor and CEO.
- Review with management and external auditors all matters required to be communicated to the Committee under generally accepted auditing standards.
- Satisfy itself about the adequacy of the key internal controls supporting the timeliness and integrity of Council's financial statement preparation process.
- Consider the processes in place designed to ensure that financial information included in Council's annual report is consistent with the signed financial statements.
- Review the draft annual report before release and consider the consistency of financial information being reported.

Risk management

- Monitor whether management has in place a current and comprehensive risk management framework, and associated procedures for effective identification and management of operational and strategic risks.
- Consider the impact of the risk management framework on Council's control environment and insurance arrangements.
- Consider whether a sound and effective approach has been followed in establishing business continuity planning and disaster management arrangements.
- Consider risk and probity matters associated with significant procurement activities.
- Consider high and extreme strategic risks and implementation of treatment plans.

External audit activities

- Review the external auditor's proposed audit scope, approach and client strategy for the ensuing year.
- Review the external auditor's closing reports, long form audit reports and observation reports relating to Council's interim and final audit and monitor management's responsiveness to external audit recommendations and the timeliness of implementation of agreed actions with particular emphasis given to recommendations where a significant deficiency has been identified.

- Provide input and feedback on financial statement and performance audit coverage proposed by external audit and provide feedback on audit services provided.
- As required, meet separately with the external auditors to discuss any matters that the committee or external auditors believe should be discussed.
- Review the effectiveness of the annual audit, to ascertain whether emphasis is being placed on areas where the Committee, management or the auditors believe special attention is necessary.
- Review management responses to audit reports and the extent to which external audit recommendations concerning internal accounting controls and other matters are implemented.

Internal audit activities

- Review the effectiveness of the control environment established by management.
- Review the internal audit Charter to ensure appropriate organisational structures, authority, access and reporting arrangements in place and internal audit's independence is maintained.
- Review the annual internal audit plan to assess that it covers the material business risks of the Council and monitor implementation of the internal audit plan and approve any changes thereto.
- Monitor the effectiveness and objectivity of the Council's internal auditors.
- Review internal audit reports and provide advice to the CEO on significant issues identified in the audit reports and action to be taken.
- Monitor the implementation of internal audit recommendations by management.
- The Committee's responsibilities do not extend to managing the day-to-day activities of the internal audit function. This is a function which is carried out by the CEO.

Legislative and policy compliance

- Consider whether management has in place an overall compliance and accountability framework together with relevant policies and procedures which reflect legislative, regulatory and policy requirements, and that these are periodically reviewed and updated.
- Monitor the effectiveness of the system and structure for ensuring compliance with laws and regulations, with particular focus on the Act and other legislative requirements relevant to the Committee's areas of focus.
- Consider the effectiveness of the system for monitoring Council's compliance with relevant laws, regulations and government policies.
- Review the findings of any examinations by external regulatory agencies, and any auditor observations.

Other matters

- Review the effectiveness, reliability and timeliness of management information being provided to Council.
- Review policies and procedures relating to conflict of interest, misconduct, fraud and other related sensitive issues.

Meetings, records and reporting structure

- The Committee will meet at least four times each financial year with authority to convene additional meetings as required to consider financial statement and annual planning matters.
- Meetings are closed to the public due to the sensitive nature of items that are considered by the Committee. Information disclosed to members of the Committee is confidential to the Committee.

- A quorum shall consist of two members, one of whom must be an independent member.
- The external auditors shall be given notice of all meetings and sent an agenda. The external auditors shall have the right to attend and speak.
- The internal auditors shall be given notice of all meetings and sent an agenda. The internal auditors shall have the right to attend and speak.
- The Governance department will provide secretarial functions to the meetings.
- The Committee chair has the right to meet with internal and/or external auditors without management being involved.
- The Committee's reports shall be presented at the next available general council meeting.

Attendance by audio link or audio-visual link

- The chair may allow members or auditors to take part in a meeting by audio link or audio-visual link.
- Requests to attend by audio link or audio-visual link must be submitted to the chair at least three (3) days prior to the audit committee meeting and will generally be allowed by the chair.
- Where the chair has approved the audio link or audio-visual link arrangement, the attendee must be able to hear and be heard by each other person at the same time throughout the meeting.
- In considering a request for attendance at a committee meeting by audio link or audio-visual link, confidentiality and privacy matters need to be considered as this may pose a risk to council due to the nature of discussions.
- Attendance by audio link or audio-visual link will be recorded in the minutes of the meeting.

Conflicts of interest

Members are required to declare any interests that could constitute a real, potential or apparent conflict of interest with respect to participation on the committee. The declaration must be made on appointment to the committee and in relation to specific agenda items at the outset of each committee meeting and be updated as necessary.

Induction

New members of the Committee will be provided with induction material to allow the members to familiarise themselves with the environment and to facilitate their understanding of its principal operations and activities, corporate practices and culture.

Self-evaluation

The chair of the Committee, in consultation with the CEO, will initiate a review of the performance and achievements of the committee on an annual basis to ensure that it is meeting its objectives efficiently and effectively.

Where this evaluation highlights a need for enhancements to the role, operational processes or membership of the Committee, the chair should take action to ensure such enhancements are implemented.

Review of Charter

Every two years, (or as necessary) due to Council, legislative and regulatory changes, the Committee will review and confirm the appropriateness of the Audit Committee Charter.

The reviewed Charter, with recommendations by the Committee, will be submitted to the next ordinary council meeting for consideration and adoption by Council.

Related Documents

- Audit Committee Policy - Doc # 906816

Related Legislation

- *Local Government Act 2009*
- *Local Government Regulations 2012*

Details

Name	Audit Committee Charter
Version	2
Document Number	1157791
Endorsed by	Chief Executive Officer
Approval Authority	Council
Date Adopted	30/05/2023
Time Period	Two years
Review Date	01/05/2025
Department	Governance
Link to Corporate Plan	Robust Governance and Efficient Service Delivery
Revoked/Superseded	Nil

This policy is to remain in force until otherwise determined by Council.