

5.3. AUDIT COMMITTEE TERMS OF REFERENCE

REPORT AUTHOR Juanita Holden, Acting Manager Governance

MANAGER Mark Stoermer, Chief Executive Officer

DEPARTMENT Governance

RECOMMENDATION

That Council adopt the Audit Committee Terms of Reference as presented.

EXECUTIVE SUMMARY

Council adopted the Audit Committee Policy on 24 June 2019.

This Terms of Reference sets out the specific responsibilities as defined in the Act and Regulations delegated by the Council to the Audit Committee.

BACKGROUND

A Terms of Reference set the terms for the Audit Committee. Terms of Reference need to comply with the provisions of the *Local Government Act 2009 and the Local Government Regulations 2012* as a minimum. There is no impediment to Councils extending the Charter to enhance coverage and confidence in Council's governance and financial systems.

COMMENT

Characteristics of a good charter are:

- Set out the objectives, roles and responsibilities of the Committee
- Set out the composition, structure and membership requirements of the Committee
- Set out the relationship of the Committee with the Mayor, Council, Management, Internal and External Audits
- Be tailored to suit the Council's specific needs and circumstances
- Include authority for the Committee to conduct enquiries appropriate to fulfil Committees responsibility together with a statement that full assistance is be provided to the Committee in the discharge of its duties and responsibilities
- Include Authority for the Committee to access Council documents, records and personnel and the requirement that frank, truthful and meaning full answers be given to questions by the committee to any Council employee
- Clearly state the Committee's responsibilities with other Governance Committees including the process for sharing of information
- Outline confidentiality and independence requirements of Committee members and their ethical and reporting responsibilities
- Outline the process for resignation and dismissal ensuring that grounds for dismissal refer to the skills and Code of Conduct as documented in the letter of appointment
- Outline procedures for meetings

PROPOSAL

That Council adopt the Terms of Reference as presented.

FINANCIAL/RESOURCE IMPLICATIONS

Disclosure would reflect the expectation for high level accountability to the public and other stakeholders.

RISK MANAGEMENT IMPLICATIONS

Disclosure would reflect the expectation for high level accountability to the public and other stakeholders.

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

Goal 1 - We will conduct Council business in an open and transparent manner with strong oversight and open reporting.

Operational Plan 2019-2020 Actions:

5.1.2 - Establish an Audit Committee.

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: Executive Staff

External: Local Government Association of Queensland
Queensland Audit Office

COMMUNITY ENGAGEMENT

N/A

ATTACHMENTS

1. Audit Committee Terms of Reference Draft.doc [5.3.1 - 6 pages]



AUDIT COMMITTEE TERMS OF REFERENCE

Background

Council has adopted the Audit Committee Policy to establish an Audit Committee in accordance with Section 208 of the *Local Government Regulation 2012* and Section 105(2) of the *Local Government Act 2009*.

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 Terms of Reference.

The Audit Committee is an internal governance process, which is intended to contribute to the improved performance of the organisation. It plays a key role in assisting Council to fulfill its governance and oversight responsibilities in relation to a number of areas including, financial reporting, internal control systems, risk management, legal and regulatory compliance and audit functions.

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.

Council intends to work progressively towards the achievement of better practice in a local government environment, and has included in the Terms of Reference an obligation for the Committee to develop its own skills for this purpose.

Authority

The Audit Committee reports to Council through the Chief Executive Officer.

The Audit Committee is an advisory body only and has no line of authority; however, the Committee has full right of access to all levels of management through the Chief Executive Officer.

This Terms of Reference sets out the specific responsibilities as defined in the Act and Regulations delegated by the Council to the Audit Committee.

At all times the Audit Committee is to maintain its independence from the day-to-day operations of the Council.

Composition of Committee

The membership of the Committee will comprise two Councillors nominated by Council and up to two external members (one being the Independent Chair of the Committee). In accordance with section 210 of the *Local Government Regulation 2012*, at least one member of the Committee will have skills in financial matters.

Council may appoint an 'alternate' member as provided for in Section 266 of the *Local Government Regulation 2012*. An *alternate member* of a Committee is a person who attends meetings of the Committee and acts as a member of the Committee only if another member of the Committee is absent from the meeting of the Committee.

Objectives

The main objectives of the Audit Committee are to: monitor and review:

- a) the integrity of financial documents; and
- b) the internal audit function; and
- c) the effectiveness and objectivity of the internal auditors; and
- d) the effectiveness, independence and objectivity of external auditors.

Make recommendations to Council about any matters that the Audit Committee considers need action or improvement.

In addition, the Audit Committee shall:

- assess and contribute to the Council's processes related to the identification of risks and threats, taking into account the environment, financial and other frameworks through which the Council operates;
- monitor, oversee and enhance the Council's corporate governance, including its systems of internal control, risk management, legal and regulatory compliance;
- evaluate the quality and facilitate the practical discharge of the internal audit function, particularly in the areas of planning, monitoring and reporting; and
- consider the Council's financial and operational reporting.

The Audit Committee will, having regard to the systems and processes available within the Council, be pro-active with a view to pre-empting issues that may arise.

Scope of the Audit Committee

The scope of the Audit Committee includes but is not limited to the following aspects of the Council's activities:

- Governance processes
- Financial compliance
- Internal controls
- Internal audit
- External audit
- Risk management

- Legal and legislative compliance
- Referrals by Council
- Self-development of the Audit Committee and
- Self-assessment of the Audit Committee.

Furthermore, the Audit Committee must review each of the following:

- (1) the internal audit plan for internal audit for the current financial year;
- (2) the internal audit progress report and the actions to which recommendations relate;
- (3) the draft financial statements for the preceding financial year before the statement is certified and given to the Auditor General for auditing under section 212; and
- (4) the Auditor General's audit report and the Auditor General's observation report about the local governments financial statements for the preceding financial year.

From time to time the Committee will focus its attention on matters referred to it by Council within its scope of responsibility.

Duties and Responsibilities

AUDIT COMMITTEE MEMBER:

- contributes to the assessment and Improvement of Council's corporate governance processes, including its systems of internal control, risk management and internal audit activities;
- is required to prepare for, attend and contribute as appropriate to all Audit Committee meetings;
- is to review key areas of risk to Council including internal controls, external reporting and compliance requirements, governance and probity;
- should review the activities of external and internal audit and provide guidance and direction as required;
- should be proactive in respect to any matters that would compromise the objectivity or independence of the Internal Audit Unit;
- should periodically engage with the Internal Audit Unit and the External Auditor independent of management;
- is responsible for reviewing and approving the Internal Audit policy, charter and plans;
- should ensure that all recommendations arising from audit sources are followed up and implemented appropriately (reasons should be obtained from management for inappropriate and untimely implementation);
- should verify minutes of meetings as an accurate record of Audit Committee meetings; and

- will refrain from making any public comment or issuing any information in any form, concerning matters of the Audit Committee or matters of interest to the Committee.

Chairperson

In addition to the duties and responsibilities as an Audit Committee member, the Audit Committee Chairperson shall:

- provide leadership and direction to the Audit Committee including providing meeting structure, professionalism and efficiency;
- ensure effective communication between the Audit Committee, Chief Executive Officer, management, QAO, Internal Audit and Council; and
- ensure the independence and objectivity of the Audit Committee and Internal Audit functions are maintained.

Self-Development of the Committee

- Council accepts that professional development of Committee members is necessary to skill the Committee and to maintain its competence. Accordingly, Council will give internal Committee members reasonable access to technical and professional development events to help them keep up to date with legislative, accounting and other relevant issues; and
- External members are expected to maintain their own professional self-development requirements.

Self-Assessment of the Committee and Review Committee Terms of Reference

- Each calendar year the Audit Committee shall undergo a self-assessment process to ensure all the functions and business of the Committee is being dealt with in an efficient and effective manner.
- The assessment process shall include but not be restricted to time of meetings, length of meetings, attendance at meetings, location of meetings, content of meetings, results of recommendations on matters discussed, achievements and satisfaction rating of members.
- The Committee shall review these Terms of Reference annually and recommend changes to the Council for adoption.

Term of Membership

The composition of the Audit Committee shall be in accordance with section 210 of the *Local Government Regulations 2012*. Council may alter the Committee's membership. (See composition of Committee)

A Councillor's membership of the Committee will automatically expire concurrent with the end of their term on Council. Councillors are eligible for re-appointment upon being re-elected.

The terms and conditions of the independent members shall be determined by Council on appointment.

Meetings

Committee meetings shall be held at least four times in each financial year and one Special meeting held annually to review and consider the Annual Financial Statements. Additional meetings shall be held at the request of Council or at the request of the Audit Committee Chair.

A set agenda will be prepared by the Chairperson and Manager Governance and will include an action item list, supporting business papers and will be distributed to Committee members seven (7) clear business days prior to the meeting, unless all members agree to less notice.

Members may participate in a meeting by telephone or videoconference.

Urgent agenda items can be managed by convening a Special meeting or by flying minute.

Two voting members constitute a quorum. If the Chair is absent the members present shall elect a person to preside at the meeting. The person presiding at any meeting shall have a casting vote.

The Committee reserves the right to meet with only voting members in attendance. Proceedings of the meetings shall be minuted and signed by the Chair when confirmed. The Executive Support Officer is responsible for, recording all proceedings, attending to meeting arrangements, distributing minutes of all meetings and record keeping practices.

Access

The Audit Committee shall have access to the necessary information to enable it to carry out its responsibilities under these Terms of Reference.

The Chief Executive Officer will ensure management and staff cooperate fully with the Audit Committee.

With the approval of Council or if within the approved budget, external experts may be consulted if considered necessary for independent advice and to assist the Audit Committee to carry out its duties.

Reporting Requirements

The Chief Executive Officer will submit to Council a copy of the meeting report of each Audit Committee meeting.

The Audit Committee Chair shall prepare an annual report to Council, which:

- summarises its activities and achievements;
- assesses the Committee's performance;
- comments on its compliance with its Terms of Reference; and
- outlines the proposed activities for the following year.

Confidentiality

The Audit Committee's role of analysing and recommending improvements to the Council's financial reporting, risk management, compliance and internal control systems makes the business of the Committee highly confidential.

Public discussion of that business would prejudice the interests of the Council.

Therefore, the Council resolves that all meetings of the Audit Committee are to be closed meetings pursuant to section 275(1) (h) of the *Local Government Regulation 2012*.

All agendas, reports, minutes and other proceedings of the Audit Committee are to be considered and held confidential by Councillor's and staff until Council otherwise decides.

Conflicts of Interest

Audit Committee members shall absent themselves from meeting when a conflict of interest agenda is raised. The member will remain absent from the meeting until the agenda item has been appropriately addressed by the Committee.

This Terms of Reference is to remain in force until otherwise determined by Council.

Manager Responsible for Review: Manager Governance

ORIGINALLY ADOPTED: New

CURRENT ADOPTION: 10 September 2019

DUE FOR REVISION: [Insert Date] 10 August 2020

REVOKED/SUPERSEDED: