

# AUDIT ADVISORY COMMITTEE

## TERMS OF REFERENCE – November 2016

### 1. Purpose

The Audit Advisory Committee is an independent Advisory Committee to Council. The Committee is to assist Council in the effective conduct of its responsibilities for financial reporting, internal control, risk management, business continuity, internal audit, external audit and compliance.

As part of Council's governance obligations to its community, Council has constituted the Committee to facilitate the:

- enhancement of the credibility and objectivity of internal and external financial reporting
- effective management of financial and other risks and the protection of Council assets
- compliance with laws and regulations as well as use of best practice guidelines
- effectiveness of the internal audit function
- provision of an effective means of communication between the external auditor, internal audit, management and the Council.

### 2. Audit Advisory Committee

The Committee is a formally appointed committee of the Council and is responsible to that body. The Audit 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 Committee does not have any management functions and is therefore independent of management.

The Committee is to report to Council and provide appropriate advice and recommendations on matters relevant to its Charter in order to facilitate decision-making by Council in relation to the discharge of its responsibilities.

The Committee may request the Council obtain independent professional or legal advice.

### **3. Membership**

- 3.1. The Committee will comprise two Councillors and a majority of independent members.
- 3.2. Independent members will have senior business or financial management/reporting knowledge and experience, and be conversant with the financial and other reporting requirements. The evaluation of potential members will be undertaken by the Chief Executive Officer taking account of the experience of candidates and their likely ability to apply appropriate analytical and strategic management skills, and a recommendation for appointment put to Council.
- 3.3. Appointments of independent members shall be made by Council by way of a public advertisement and be for a maximum term of three years with an expiry date of 31 December in any given year.

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

- 3.4. If the Council proposes to remove a member of the Committee, it must give written notice to the member of its intention to do so and provide that member with the opportunity to be heard at a Council meeting which is open to the public, if that member so requests.
- 3.5. Remuneration will be paid to each independent member of the Committee (the basis may be an annual fee, with an additional amount paid to the Chairperson or a set fee per meeting, or another basis as appropriate).
- 3.6. The Chairperson shall be an independent member and appointed by the Committee. In the absence of the appointed Chairperson from a meeting, the meeting will appoint an acting Chairperson from the independent members present.

The Chairperson will have:

- a sound knowledge of Benalla Rural City Council's operations and the environment in which it operates
  - strong communication skills
  - a high level of personal integrity and ethics
  - sufficient time available to devote to executing responsibilities.
- 3.7. A quorum will be a majority of the Committee membership comprising at least equal representation of Councillors and independent members.
  - 3.8. The Chief Executive Officer should attend all meetings, except when the Committee chooses to meet in camera. The internal auditor, other members of Council or Council staff maybe invited to attend at the discretion of the Committee to advise and provide information when required.
  - 3.9. Representatives of the external auditor are to be invited to attend at the discretion of the Committee but should attend meetings considering the draft annual financial report and results of the external audit.
  - 3.10. Council shall provide secretarial and administrative support to the Committee.

## **4. Meetings**

- 4.1. The Committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require.
- 4.2. A schedule of meetings will be developed and agreed to by the Committee. As an indicative guide, meetings would be arranged to coincide with relevant Council reporting deadlines.
- 4.3. Meetings are closed to the public due to the sensitive nature of material considered by the Committee.
- 4.4. All Committee members are expected to attend each meeting, in person or through teleconference or video conference.
- 4.5. The Chief Executive Officer will facilitate the meetings of the Committee and invite members of management, auditors or others to attend meetings to provide pertinent information, as necessary.
- 4.6. The Chairperson may convene a special meeting at the request of the Council, an audit committee member, the Chief Executive Officer, the external auditor or the internal auditor.
- 4.7. Pursuant to the *Local Government Act 1989*, Committee members must declare in writing any direct or indirect conflict of interest in respect of a matter which is to be or is likely to be considered by the Committee.
- 4.8. Meeting agendas will be prepared and provided at least one week in advance to members, along with appropriate briefing materials.
- 4.9. Minutes will be prepared.

## **5. Reporting**

- 5.1. The Chair of the Committee will report twice yearly to Council about the Committee's activities, issues, and related recommendations. Minutes of each meeting will be circulated to Councillors. Additional updates may be appropriate should issues of concern arise.
- 5.2. The Committee is to monitor that open communication between the internal auditor, the external auditors, and Council occurs.
- 5.3. The Committee will report annually to stakeholders, describing the Committee's composition, responsibilities and how they were discharged, and any other information required by regulation, including approval of non-audit services.
- 5.4. The Committee will consider the findings and recommendations of relevant Performance Audits undertaken by the Victorian Auditor-General and is to ensure Council implements relevant recommendations.

## **6. Responsibilities**

The audit committee will carry out the following responsibilities:

### **6.1. Financial Report**

- 6.1.1 Review significant accounting and reporting issues, including complex or unusual transactions and highly judgemental areas, and recent accounting, professional and regulatory pronouncements and legislative changes, and understand their effect on the financial report.
- 6.1.2 Review with management and the external auditors the results of the audit, including any difficulties encountered.
- 6.1.3 Review the annual financial report, and consider whether it is complete, consistent with information known to Committee members, and reflects appropriate accounting principles.
- 6.1.4 Review with management and the external auditors all matters required to be communicated to the audit committee under the Australian Auditing Standards.

### **6.2. Internal control**

- 6.2.1 Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

### **6.3. Risk management**

- 6.3.1 Monitor the systems and process via the Council's risk profile to ensure that material operational risks to the Council are dealt with appropriately.
- 6.3.2 Monitor the process of review of the Council's risk profile.
- 6.3.3 Consider adequacy of actions taken to ensure that the material business risks have been dealt with in a timely manner to mitigate exposures to the Council.

### **6.4. Business continuity**

- 6.4.1 Monitor processes and practices of the Council to ensure for effective business continuity.

### **6.5. Internal audit**

- 6.5.1 Review with management and the internal auditor the charter, activities, staffing, and organisational structure of the internal audit function.
- 6.5.2 Review and recommend the annual audit plan for approval by the Council and all major changes to the plan.
- 6.5.3 Monitor processes and practices to ensure that the independence of the audit function is maintained.
- 6.5.4 As part of the Committee's annual assessment of performance determine level of satisfaction with internal audit function having consideration of the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

- 6.5.5 Monitor that the internal auditor's annual plan is linked with and covers the material business risks.
- 6.5.6 Provide an opportunity for the Committee to meet with the internal auditor to discuss any matters that the Committee or internal auditor believes should be discussed privately.
- 6.5.7 Ensure that internal audit activity is able to independently report to the audit committee for functional purposes; to the CEO for administrative purposes; has access to all levels of management with the right to seek information and explanations relevant to their operations.
- 6.5.8 Ensure that all work is reported through to the audit committee and is not censored or held up by management.
- 6.5.9 Monitor the progress of the internal audit plan and work program and consider the implications of internal audit findings for the control and operating environment.
- 6.5.10 Monitor the implementation of internal audit's findings and recommendations.

## **6.6. External audit**

- 6.6.1 Note the external auditor's proposed audit scope and approach, including any reliance on internal auditor activity.
- 6.6.2 Provide an opportunity for the Committee to meet with the external auditors, to discuss any matters that the Committee or the external auditor believes should be discussed privately.

## **6.7. Compliance**

- 6.7.1 Review the systems and processes to monitor effectiveness of the system for monitoring compliance with legislation and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.
- 6.7.2 Keep informed of the findings of any examinations by regulatory agencies and any auditor (internal or external) observations and monitor management's response to these findings.
- 6.7.3 Obtain regular updates from management about compliance matters.

## **7. Annual Review**

- 7.1. To review and assess the adequacy of the Committee's Terms of Reference annually, requesting Council approval for proposed changes, and ensure appropriate disclosure as might be required by legislation or regulation.
- 7.2. Confirm annually that all responsibilities outlined in this Terms of Reference have been carried out.
- 7.3. Evaluate the Committee's performance annually.