

Terms of Reference Audit, Risk and Improvement Committee

1. INTRODUCTION

Good corporate governance of Gilgandra Shire Council (Council) promotes effective and efficient delivery of services to the Coonamble community with honesty and integrity.

The Audit, Risk and Improvement Committee (Committee) has an important role in the governance framework of Council by providing Council with independent oversight, objective assurance and monitoring of Council's audit processes, internal controls, external reporting, risk management activities, compliance of and with Council's policies and procedures, and performance improvement activities.

These Terms of Reference, which are based on the guidelines issued by the Chief Executive of the Office of Local Government pursuant to Section 23A of the Local Government Act 1993, the NSW Audit Office guidelines for Local Government in Risk Management and is consistent with best practice, are intended to add value and drive the qualities of effective local government; being openness, transparency, and accountability.

The Committee helps Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

2. OBJECTIVE

The objective of the Committee is to provide independent assurance and assistance to the Council in accordance with Section 428A of the Local Government Act 1993 (the LG Act).

Section 428A states:

The Committee must keep under review the following aspects of the council's operations:

- a) compliance,
- b) risk management,
- c) fraud control,
- d) financial management,
- e) governance,
- f) implementation of the strategic plan, delivery program and strategies,
- g) service reviews,
- h) collection of performance measurement data by the council,
- i) any other matters prescribed by the regulations.

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

2 AUTHORITY

Section 428A (1) states: "A council must appoint an Audit, Risk and Improvement Committee" (the Committee).

The Committee is established in accordance with Council's authority granted by section 355 of the LG Act and has no executive powers, except those expressly provided by the Council.

In carrying out its responsibilities, the Committee must at all times recognise that primary responsibility for management of Council rests with the Council and the General Manager as defined by the Local Government Act.

The Council authorises the Committee as a whole (but not individual members of the Committee within the scope of its role and responsibilities as follows and to report any action undertaken in the meeting minutes:

- a) obtain any information it needs from any employee or external party (subject to their legal obligations to protect information).
- b) discuss any matters with the Auditor-General (or contracted agent) and/or external auditor and/or other external parties (subject to confidentiality considerations).
- c) request the attendance of any employee or Councillor at Committee meetings.
- d) obtain external legal or other professional advice considered necessary to meet its responsibilities. The engagement and payment of costs for that advice is subject to the prior approval by the General Manager.

These Terms of Reference are required to be reviewed and endorsed by the Committee each year. Any substantive changes to the Terms of Reference need to be approved by the Council.

Council must review, amend as required and adopt the Terms of Reference at least once during each term of Council at an open meeting of Council.

3 COMPOSITION

Both the governing body of the Council and the General Manager must ensure that adequate procedures are in place to preserve the independence of the chair and members of the Committee.

Voting at a Committee meeting is to be by open means (such as by voice or by show of hands).

Classified as a tier 1 Council is required to have as a minimum a Committee that has:

Three (3) independent voting members comprising:

- a) 1 chair prequalified under the NSW Government's prequalification scheme*
- b) 2 independent persons that meet the eligibility criteria for non-prequalified committee members (see below), and
- c) (optional) 1 non-voting councillor that meets the eligibility criteria for councillor members (see below).

3.1 Members

3.1.1 There will be the following voting members:

Three (3) independent external members, with preferably at least one who is prequalified as Chair. (Councils that currently do not have an audit, risk and improvement committee must appoint a Committee by June 2022 that

complies with the requirements of the Guidelines for Risk Management and Internal Audit for Local Councils in NSW. A prequalified Chair is a requirement). *

*Exemptions. It is recognised that some small councils located in remote local government areas may find it difficult to attract and retain a prequalified chair for their audit, risk and improvement committee.

Whilst prequalification is preferred, where a tier 1 council is unable to appoint a prequalified chair, the council can apply to the Office of Local Government for an exemption from this requirement. Where a council is granted an exemption from this requirement the exemption will apply for the duration of the chair's term

3.1.2 There will be the following Non-Voting members:

One (1) Councillor (excluding the Mayor)

3.2 Attendees (Non-Voting)

There will be the following non-voting attendees:

- a) General Manager (if they wish to exercise that right)
- b) Executive Leader Transformational Change (Head of Internal Audit)
- c) Audit and Risk Officer
- d) Other Councillors may attend as observers at the discretion of the Chair.

3.3 Invitees (Non-Voting)

There will be the following invitees (non-voting) for special agenda items:

- a) Representatives of the External Auditor
- b) Other staff members by invitation of the Committee.

3.4 External Independent Members Requirements

All Committee voting members must be independent to ensure they have no real or perceived bias or conflicts of interest that may interfere with their ability to act independently and can provide the council with robust, objective, and unbiased advice about how the council is functioning.

Council must ensure that the chair and any voting member appointed to the Council's Committee meets the following independence criteria.

The independent voting committee member cannot:

- a) currently be a councillor of any NSW Council.
- b) be a non-voting representative of the board of a joint organisation.
- c) be a candidate at the last election of the council.
- d) be a person who has held office in the Council during its previous term
- e) be currently employed by the Council or a joint organisation, or been employed during the last 12 months.
- f) conduct audits of the Council on behalf of the Audit Office of NSW
- g) have a close personal or business relationship with a councillor or a person who has a senior role in the Council that may lead to a real or perceived conflict of interest.

- h) currently, or within the last three years, provided any material goods or services (including consultancy, legal, internal audit and advisory services) to the Council which directly affect subjects or issues considered by the audit, risk and improvement committee.
- i) be (or have a close family member who is) a substantial shareholder, owner, officer or employee of a company that has a material business, contractual relationship, direct financial interest or material indirect financial interest with the Council or a related entity which could be considered a real or perceived conflict of interest, or
- j) currently or have previously acted as an advocate of a material interest on behalf of the Council or a related entity which could be considered a real or perceived conflict of interest.

Wherever possible the Independent External Members, in aggregate, will have recent and relevant knowledge and experience of:

- a) Accounting or related Financial management
- b) Risk management experience
- c) Auditing experience in a public sector environment
- d) Performance improvement
- e) The Local Government framework
- f) Council services, activities, and operations
- g) Governance, risk and compliance
- h) Community services

3.5 Non-Voting Councillor Members

Non-voting Councillors should have a working knowledge of one or more of the functions undertaken by the Committee.

The mayor cannot be appointed as a councillor member on a Council's Committee.

3.6 Joint Internal Audit Arrangements

Pursuant to section 428B of the Local Government Act 1993 (the Act) Council has entered into an arrangement with Coonamble Shire Council to jointly appoint a committee to exercise functions for both councils. The two councils are to mutually agree to the independent members that will be appointed to the committee. Each council is to confirm their appointment by resolution.

The committee operates as an individual committee for each council and exercises their functions for each council individually.

The committee must maintain a strong understanding of both councils' assurance needs and be able to meet these needs.

The committee must maintain an effective working and reporting relationship with the General Manager and governing body of both councils.

The councillor member will not be shared by both councils. The governing body of each council is to appoint one councillor member for that council only. The councillor member is to only attend committee meetings for their council. The councillor member is to receive information pertaining to their council only.

Secretariat support for the committee is to be shared by the two councils, that is, either Council or Coonamble Shire Council will provide secretariat support under arrangements made by the councils. These arrangements may be changed from time to time by agreement. See section 10.3 for further detail on the functions of the secretariat.

4 TENURE

The Councillor member of the Committee will be appointed by resolution of the Council at the start of each Council Term for the length of the Council Term.

The Council may also resolve to appoint an alternative Councillor member to the Committee for the same period to attend meetings in the absence of the appointed Councillor member.

4.1 Independent External Members

Expressions of Interest for appointment as an independent member of the Committee are to be invited by public advertisement and/or written invitation from persons eligible to be members of the Committee as outlined by these Terms of Reference including any arrangements made under a joint Committee with other Councils. All Committee members will be appointed by resolution of Council.

Any such nominations will be received and reviewed by the General Manager who will prepare a report for Council's consideration. Once the Independent External Member(s) is/are appointed, they will receive a letter of appointment clearly detailing the terms of their appointment and their award remuneration rates, as well as a copy of these Terms of Reference.

The three Independent External Members will be appointed for up to an initial period no less than three years and not exceeding five years, after which they will be eligible for extension or re-appointment following a formal review of their performance by Council (noting that the total term on the Committee will not exceed eight years).

Any of the three Independent External Members seeking an extension or re-appointment will be required to notify the General Manager in writing six months before their appointed is set to end.

The three Independent External Members are eligible for extension or re-appointment up to a maximum of eight years of continual service. Appointments must be made so that phased replacement of each of the three Independent external members is required to ensure continuity in the Committee.

The Independent External Members can also be removed by resolution of Council. If for any reason a vacancy in the Committee membership occurs, the position(s) shall be filled in accordance with this Charter.

4.2 The Chair

The Chair will be elected by the majority of the Committee's voting members and must be one of the Independent External Members who is prequalified as Chair under the NSW Government's prequalification scheme.(See exemption).

The Chair can be appointed for up to a maximum period of five years. The term of appointment for the Chair can be extended but any extension must not cause the total term to exceed five years as a Chair of the Committee.

Whenever the voting on a motion put to a meeting of the Committee is equal, the Chair of the Committee is to have a casting vote as well as an original vote.

If the elected Chair is not present at a meeting of the Committee, the first business of that meeting is for the Committee's voting members to elect a Chair from the Independent External Members present.

5 ROLES AND RESPONSIBILITIES

The ARIC has no executive powers, except those expressly provided by the Council.

In carrying out its responsibilities, the Committee must at all times recognise that primary responsibility for management of Council rests with the Council and the General Manager as defined by the Local Government Act (the Act).

Members of the Committee must not act in a way that contravenes the Act (which includes compliance with Council's adopted Code of Conduct and Code of Meeting Practice) or any other Act. Members of the Committee are also required to comply with other relevant Policies and Procedures of Council.

The General Manager will ensure that adequate resources are available to allow for the proper functioning of the Committee, including provision of a Committee Support Officer for administrative support.

The Committee may also, at Council's expense, request the General Manager to obtain such legal, accounting or other professional advice as it reasonably considers necessary for the performance of its duties. The General Manager will give appropriate consideration to all such requests.

The responsibilities of the Committee may be revised or expanded by the Council from time to time.

5.1 Risk Management

Risk management is an essential part of effective corporate governance. It is defined as "the culture, processes and structures that are directed towards realising potential opportunities whilst managing adverse effects." (Risk Management – Principles and Guidelines" ISO 31000 2018). Enterprise Risk Management is the holistic management of all risks within Council, not just insurable risks or work health and safety.

The Committee's responsibilities are:

- a) Review whether management has in place a current and comprehensive risk
 - i. management framework, and associated procedures for effective identification and management of business and financial risks, including fraud, that is consistent with ISO 31000 2018;
- b) Review whether a sound and effective approach has been followed in developing strategic risk management plans for major projects or undertakings;
- c) Review the impact of the risk management framework on its control environment and insurance arrangements;
- d) Review whether a sound and effective approach has been followed in establishing business continuity planning arrangements, including whether plans have been tested periodically;
- e) reviewing whether a sound and effective approach has been established in relation to technological related risks issues that present a threat to the operations of Council;
- f) considering, and recommending to the General Manager, improvements in relation to Council activities, systems, and processes; and

- g) reviewing whether Council processes and procedures result in an efficient and effective allocation of resources, and accountability and transparency.

5.2 Control Framework

The Committee's responsibilities are:

- a) Review whether management has adequate internal controls in place, including over external parties such as contractors and advisors;
- b) Review whether management has in place relevant policies and procedures, and these are periodically reviewed and updated;
- c) Progressively review whether appropriate processes are in place to assess compliance with policies and procedures;
- d) Review whether appropriate policies and procedures are in place for the management and exercise of delegations; and
- e) Review whether management has taken steps to embed a culture which is committed to ethical and lawful behaviour.

5.3 External Accountability

The Committee's responsibilities are:

- a) Satisfy itself the annual financial reports comply with applicable Australian Accounting Standards and supported by appropriate management sign-off on the statements and the adequacy of internal controls.
- b) Review the external audit opinion, including whether appropriate action has been taken in response to audit recommendations and adjustments.
- c) To consider contentious financial reporting matters in conjunction with council's management and external auditors.
- d) Review the processes in place designed to ensure financial information included in the annual report is consistent with the signed financial statements.
- e) Satisfy itself there are appropriate mechanisms in place to review and implement, where appropriate, relevant State Government reports and recommendations.
- f) Satisfy itself there is a performance management framework linked to organisational objectives and outcomes.

5.4 Legislative Compliance

The Committee's responsibilities are:

- g) Determine whether management has appropriately considered legal and compliance risks as part of risk assessment and management arrangements.
- h) Review the effectiveness of the system for monitoring compliance with relevant laws, regulations, and associated government policies.

5.5 Internal Audit

The Committee's responsibilities are:

- a) Act as a forum for communication between the Council, General Manager, senior management, internal audit, and external audit.
- b) Review the internal audit coverage and Internal Audit Plan, ensure the plan has considered the Risk Management Framework and approve the plan.

- c) Consider the adequacy of internal audit resources to carry out its responsibilities, including completion of the approved Internal Audit Plan.
- d) Review all audit reports and consider significant issues identified in audit reports and action taken on issues raised, including identification and dissemination of better practices.
- e) Monitor the implementation of internal audit recommendations by management.
- f) Periodically review the Internal Audit Charter to ensure appropriate organisational structures, authority, access and reporting arrangements are in place.
- g) Periodically review the performance of Internal Audit.

5.6 External Audit

The Committee's responsibilities are:

- a) Act as a forum for communication between the Council, General Manager, senior management, internal audit, and external audit.
- b) Provide input and feedback on the financial statement and performance audit coverage proposed by external audit and provide feedback on the external audit services provided.
- c) Review all external plans and reports in respect of planned or completed external audits and monitor the implementation of audit recommendations by management.
- d) Consider significant issues raised in relevant external audit reports and better practice guides, and ensure appropriate action is taken.
- e) Where appropriate meet with the External Auditors to discuss any matters that the Committee or Auditors believe should be discussed privately.

5.7 Fraud and Corruption Prevention

The Committee's responsibilities are to review and advise 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.

6 CONTINUOUS IMPROVEMENT

The Committee's responsibilities are:

- a) Review and advise of the adequacy and effectiveness of Council's Integrated Planning and Reporting (IP&R) processes,
- b) Review if Council has robust systems to set objectives and goals to determine and deliver appropriate levels of service to the community and business performance,
- c) Review if appropriate reporting and monitoring mechanisms are in place to measure service delivery to the community and overall performance,
- d) Review if the performance indicators Council uses are effective, and
- e) Review whether the Council is successfully implementing and achieving its IP&R objectives and strategies.

7 RESPONSIBILITIES OF MEMBERS

Members of the Committee are expected to:

- a) Understand the relevant legislative and regulatory requirements appropriate to Coonamble Shire Council.
- b) Contribute the time needed to study and understand the papers provided.
- c) Apply good analytical skills, objectivity, and good judgment.
- d) Express opinions frankly, ask questions that go to the fundamental core of issues, and pursue independent lines of enquiry.

8 REPORTING

At the first Committee meeting after 30 June each year, Internal Audit will provide a report providing details of:

- a) The performance of Internal Audit for the financial year as measured against agreed key performance indicators;
- b) Meetings, including the number of meetings held during the relevant period, and the number of meetings each member attended;
- c) The approved Internal Audit Plan of work for the previous financial year showing the current status of each audit.

The Committee may, at any time, consider any other matter it deems of sufficient importance to do so. At any time an individual Committee member may request a meeting with the Chair of the Committee.

The Committee will report regularly, and at least annually, to Council on the management of risk and internal controls.

Council may request the Chair of the Committee to address Council and to answer any enquiries about the operation of the Committee.

In consultation with the Chair some or all of the Committee's annual report will form part of Council's Annual Report.

9 ADMINISTRATIVE ARRANGEMENTS

9.1 Meetings of the Committee

The Committee is bound by Council's adopted Code of Conduct.

The Committee will meet at least four times per year, with one of these meetings to include review and endorsement of the annual audited financial reports and external audit opinion.

The need for any additional meetings will be decided by the Chair of the Committee, though other Committee members may make requests to the Chair for additional meetings.

A forward meeting plan, including meeting dates and agenda items, will be agreed by the Committee each year. The forward meeting plan will cover Committee responsibilities as detailed in this Committee's Terms of Reference.

When the Committee receives confidential referrals/requests that do not fall within the ambit of these Terms of Reference or the Committee's responsibilities, the Committee will refer such matters (with any suitable recommendations) to the General Manager to deal with appropriately.

9.2 Attendance at Meetings and Quorums

A quorum will consist of a majority of Committee members, including at least one independent member. All Meetings can be attended by Committee members either in person, by telephone or by video conference. If for any reason a quorum is not present within twenty (20) minutes of the scheduled commencement of the meeting, the meeting shall be rescheduled.

The Head of Internal Audit will be invited to attend each meeting unless requested not to do so by the Chair of the Committee.

The Committee may also request any other employees to participate for certain agenda items, as well as the external auditor.

The General Manager may attend each meeting (except for a matter relating to the standard of performance of the general manager or the terms of the employment of the general manager) but will permit the Committee to meet separately with each of the Head of Internal Audit and the External Auditor in the absence of management on at least one occasion per year.

A Committee member will be deemed to have relinquished their membership of the Committee if they do not attend two consecutive meetings of the Committee without notice or satisfactory explanation (as determined by the Chair – or in the case of the Chair the majority of the Committee).

Committee meetings are closed to the public and will be conducted in accordance with Council's Code of Meeting Practice.

9.3 Secretariat

The Committee has appointed the Head of Internal Audit to be responsible for ensuring that the Committee has adequate secretariat support.

The Secretariat will ensure the agenda for each meeting, which must specify the time and place at which, and the date on which, the meeting is to be held and the business proposed to be transacted at the meeting, and supporting papers are circulated, at least one week before the meeting.

The Secretariat must also ensure minutes of the meetings are prepared and maintained. Minutes shall be approved by the Chair and circulated to each member within three weeks of the meeting being held.

9.4 Conflict of Interests

Councillors, council staff and members of council committees must comply with the applicable provisions of Council's code of conduct in carrying out the functions as council officials. It is the personal responsibility of council officials to comply with the standards in the Code of Conduct and regularly review their personal circumstances with this in mind.

Committee members must declare any conflict of interests at the start of each meeting or before discussion of a relevant agenda item or topic.

Details of any conflicts of interest should be appropriately minuted.

Where members or invitees at Committee meetings are deemed to have a real or perceived conflict of interest, it may be appropriate they be excused from Committee deliberations on the issue where the conflict of interest may exist. The final arbiter of such a decision is the Chair of the Committee (or in the case of the Chair a majority of the Committee).

9.5 Induction

New Committee members will receive all relevant information, training, and briefings on their appointment to assist them to meet their Committee responsibilities.

9.6 Assessment Arrangements

The Chair will initiate a review of the performance of the Committee at least once every two years. The review will be conducted on a self-assessment basis (unless otherwise determined by the Chair), with appropriate input from Council's Senior Management and any other relevant stakeholders, as determined by the Chair.

The review of the performance of the Committee is to be included in the Committee's annual report to Council.