



CITY OF
MONASH

AUDIT COMMITTEE

CHARTER

&

TERMS OF REFERENCE



AUDIT COMMITTEE CHARTER & TERMS OF REFERENCE

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AUDIT COMMITTEE CHARTER

The Audit Committee is an independent advisory Committee to Council established under section 139 of the Local Government Act 1989.

The Audit Committee Charter and Terms of Reference have been developed with regard to '*Audit Committees - A Guide To Good Practice For Local Government*', January 2011 issued by the Minister of Local Government.

This charter sets out the Audit Committee's objective, authority, composition and tenure, roles and responsibilities, reporting and administrative arrangements.

The Audit Committee is established to provide independent assurance and assistance to Council for its risk, compliance, and internal and external audit accountability responsibilities.

OBJECTIVES

The objectives of the Audit Committee are to assist Council in the effective conduct of its responsibilities for:

- Financial and Non-financial reporting
- Corporate Governance
- Information and communications technology governance
- Council's exposure to risk and monitoring of risk
- Maintaining a reliable system of internal controls

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1. BACKGROUND

The Audit Committee's objective is to provide appropriate independent advice and recommendations to Council on matters relevant to its Charter in order to facilitate decision-making by Council in relation to the discharge of its accountability requirements.

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 Audit Committee does not have any management functions and is therefore independent of management.

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

- Effective internal and external financial reporting,
- Effective management of financial and other risks and the protection of Council assets,
- The effectiveness of the internal and external audit function, and
- The provision of an effective means of communication between the external auditor, internal audit, management and the Council.

2. MEMBERSHIP

The Audit Committee will be comprised of five members as follows:

- One (1) independent Chairperson;
- Two (2) independent members; and
- Two (2) Councillors (Plus one alternate Councillor).

All members shall have full and equal voting rights unless a member is unable to vote due to a conflict of interest.

The following requirements will apply to members and the appointment thereof:

- 2.1 Council will appoint Audit Committee members and the Audit Committee Chair.
- 2.2 A quorum of any meeting will be at least two independent members and at least one Councillor member;

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- 2.3 The Chairperson shall be an independent member of the Audit Committee and shall have a casting vote on occasions where there is an equal tally of votes on a matter. In the absence of the appointed Chairperson from a meeting, the meeting will appoint an acting Chairperson from the independent members present.

3. TERMS OF APPOINTMENT

- 3.1 New independent member appointments will be advertised in the statewide and local newspapers, Council website, online Directorships Opportunities with the Australian Institute of Company Directors and other mediums as appropriate.
- 3.2 The applications for membership will be assessed against appropriate criteria. The criteria will fall within the areas of:
- Level and breadth of senior business, management, finance and accounting and/or audit experience and qualification;
 - Level of Government familiarity in relation to Government operations, financial reporting and auditing requirements, risk management and corporate governance; and
 - Previous Audit Committee experience.
- 3.3 Independent members should also have the ability to provide Councillors, the Chief Executive Officer and Council's administration with well rounded and professional assessment and advice concerning the adequacy of Council's administrative, operational, financial and accounting systems and controls, reporting regimes, and risk management processes.
- 3.4 The Recruitment and Selection panel for appointment to the Audit Committee will consist of the Chair and two Councillor representatives, except in the case of the Chair's appointment where three Councillor representatives will form the Recruitment and Selection Panel for recommendation to the Council for appointment to the Audit Committee. The Panel will take into account the experience of candidates and their likely ability to apply appropriate analytical and strategic management skills and provide a report to the Audit Committee who will make a recommendation for appointment to be put to the Council.
- 3.5 Independent members shall be appointed for a term of three years. The terms of each member should be arranged so that there is an orderly rotation of membership and avoidance of more than one member retiring at the same time.
- 3.6 At the conclusion of their first three year (3) term, existing members will be eligible to apply to be reappointed at the discretion of Council for a second three (3) year term. Independent members can only serve for two consecutive terms.

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- 3.7 In the event of an independent member resigning/retiring before the expiry of their term then this vacancy will either be filled for the remainder of that term or if the vacancy occurs within 12 months of the expiry of the term then the Council may choose not to fill the vacancy. Further should the resignation/retirement of the members coincide then the Council may extend the remaining members term by one year to ensure continuity.
- 3.8 If the Council proposes to remove a member of the Audit 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.
- 3.9 Remuneration will be paid to each independent member of the Audit Committee as determined by Council. Annual increases in the remuneration of Audit Committee members will be limited to increases in the Consumer Price Index (CPI All Groups Melbourne) and adjusted annually on July 1.

4. MEETINGS

The following requirements shall apply to meetings of the Audit Committee:

- 4.1 The Audit Committee shall meet as required but at least quarterly each year.
- 4.2 The Chief Executive Officer and internal auditor should attend all meetings, except when the Committee chooses to meet in camera. Other members of Council or Council staff may be invited to attend at the discretion of the Audit Committee to advise and provide information when required.
- 4.3 The Audit Committee, without management present, will meet separately with the internal auditor and the external auditor, at least annually, to discuss issues of relevant interest.
- 4.4 Representatives of the external auditor will attend a meeting to consider the draft annual financial report and results of the external audit and may be invited to attend other meetings at the discretion of the Audit Committee.
- 4.5 A schedule of meetings will be developed and agreed to by members. As an indicative guide, meetings would be arranged to coincide with relevant Council reporting deadlines.
- 4.6 Additional meetings shall be convened at the discretion of the Chairperson or at the written request of any member of the Audit Committee, internal or external auditor.

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- 4.7 The agenda and supporting documentation will be circulated to members of the Audit Committee at least one (1) week in advance of each meeting.
- 4.8 Minutes will be prepared within in one (1) week of the meeting for approval by the Chairperson and to Audit Committee members within two (2) weeks of the meeting.
- 4.9 The Chair at the subsequent meeting will sign minutes.
- 4.10 The adopted minutes will be circulated to the Council with the meeting papers of the next Council meeting following the Audit Committee meeting.
- 4.11 Through the Corporate Planning & Finance Directorate, Council shall provide secretarial and administrative support to the Audit Committee.

5. REPORTING

- 5.1 The Audit Committee shall report to Council on any matters of significance as determined by the Audit Committee.
- 5.2 The Audit Committee Chairperson shall attend an annual Assembly of Councillors meeting to:
- Recommend approval of the Internal Audit Program for the coming year; and
 - Summarise the activities of the Audit Committee during the previous financial year.
- 5.3 The Audit Committee Charter and details of its members will be published on Council's website.
- 5.4 The Annual Report will contain information on Audit Committee's members, number of meetings held by Committee members, attendance record, audit processes and results of work completed by the Internal and External Auditor.

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6. DUTIES AND RESPONSIBILITIES

The duties and responsibilities of the Audit Committee include:

External Reporting

- 6.1 Review Council's draft annual financial report, focusing on:
- Accounting policies and Approved Accounting Standards;
 - Changes to accounting policies and Approved Accounting Standards;
 - The process used in making significant accounting estimates;
 - Significant adjustments to the financial report (if any) arising from the audit process;
 - Compliance with accounting standards and other reporting requirements of financial and non-financial information; and
 - Significant variances with explanations from prior years.
- 6.2 Recommend adoption of the Annual Financial Report to Council and review any significant changes and the reasons for the changes that may arise subsequent to any such recommendation but before the financial report is signed.
- 6.3 Review the annual performance statement and recommend its adoption to Council.
- 6.4 Review for completeness of Corporate Governance responsibilities.

External Audit

The Audit Committee will:

- 6.5 Be briefed by the external auditor on the audit engagement and present the Audit Strategy on behalf of the Victorian Auditor General's Office (VAGO) at the commencement of the audit.
- 6.6 Discuss and review with the external auditor the scope of the audit and the planning of the audit.
- 6.7 Discuss and review with the external auditor issues arising from the audit, including all Management Letters issued by the auditor for completeness and appropriateness.

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- 6.8 Ensure significant findings and recommendations made by the external auditor and management's proposed responses are received, discussed and appropriately acted upon.
- 6.9 Review on an annual basis the performance of the external auditors.
- 6.10 Maintain an awareness of local government performance audits undertaken by VAGO and consider recommendations for action or implementation where appropriate.

Internal Audit

The Audit Committee will:

- 6.11 Be invited to participate in the tender evaluation process for appointment of an internal auditor and recommendation to Council.
- 6.12 Review the level of resources allocated to internal audit and the scope of its authority.
- 6.13 Review the scope of the internal audit plan and programme and the effectiveness of the function. This review should consider whether, over a period of 3 years the internal audit plan systematically addresses:
- Internal controls over significant areas of risk, including non-financial management control systems;
 - Internal controls over revenue, expenditure, assets and liability processes;
 - The efficiency, effectiveness and economy of significant Council programmes; and
 - Compliance with regulations, policies, best practice guidelines, instructions and contractual arrangements.
- 6.14 Review the appropriateness of special internal audit assignments undertaken by internal audit at the request of Council or Chief Executive Officer.
- 6.15 Review reports of internal audit and the extent to which Council and management respond to matters raised by internal audit, by monitoring the implementation of recommendations made by internal audit.
- 6.16 Facilitate liaison between the internal and external auditor to promote compatibility, to the extent appropriate, between their audit programmes.

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- 6.17 Critically analyse and follow up any internal or external audit report that raises significant issues relating to risk management, internal control, financial reporting and other accountability or governance issues, and any other matters relevant under the Audit Committee's Terms of Reference. Review management's response to, and actions taken as a result of the issues raised.
- 6.18 Review on an annual basis the performance of the internal auditor, and where performance is not considered satisfactory, undertake a tender process for the appointment of a new internal auditor. The Audit Committee Chair should lead this process.

Risk Management

The Audit Committee will:

- 6.19 Monitor the risk exposure of Council by determining if management has appropriate risk management processes and adequate management information systems.
- 6.20 Monitor reported breaches of ethical standards and related party transactions.
- 6.21 Provide oversight of Council's risk management framework and activities conducted by the internal and external audit and any other assurance providers to give assurance over that framework.

Compliance

The Audit Committee will:

- 6.22 Identify and refer specific projects or investigations deemed necessary through the Chief Executive Officer, the internal auditor and the Council if appropriate. Oversee any subsequent investigation, including the investigation of any suspected cases of fraud.
- 6.23 Review the findings of any examinations by regulatory agencies, and any auditor (internal or external) observations.

Matters Referred to the Audit Committee by Council

- 6.24 The Audit Committee will address issues brought to their attention, including responding to requests from Council for advice.

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7. PERFORMANCE EVALUATION

The Audit Committee will evaluate their own performance, both of individual members and collectively on an annual basis. A Self-Assessment tool will be developed and adopted by the Audit Committee.

8. CONFLICT OF INTEREST

In accordance with Section 79 of the Local Government Act 1989 (the Act), members of the Audit Committee will be required to disclose all conflicts of interest.

Members of the Audit Committee must be fully aware of their responsibilities with regard to the management of interests in relation to the discharge of their duties as a member of the Audit Committee. Management of interests includes the proper disclosure of any conflicts of interest as and when they may arise.

Members of the Audit Committee must also be fully aware of the statutory definitions of direct and indirect interests which may give rise to a conflict of interest. These are set out in sections 77A, 77B, 78, 78A, 78B, 78C and 78D of the Act.

Failure to comply with the provisions of the Act with regard to conflicts of interest may result in the member's appointment being terminated.

9. REVIEW OF AUDIT COMMITTEE CHARTER

The Audit Committee will review the Audit Committee Charter annually and recommend any changes to Council for approval.

The next review date will be: **September 2012.**