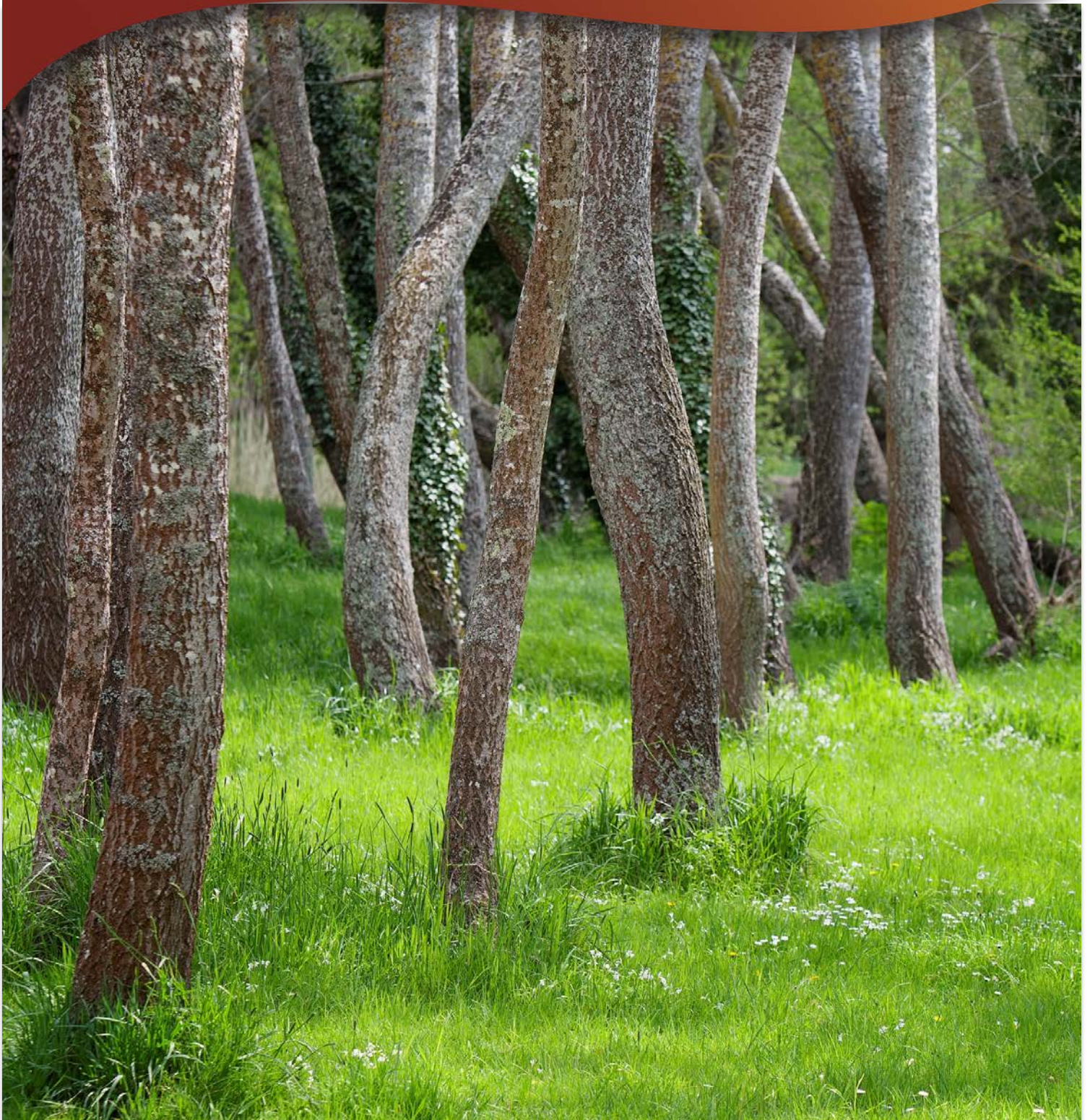




**Macedon
Ranges**
Shire Council

CC.2 ATTACHMENT

Macedon Ranges Audit and Risk Committee Charter



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Approval

Charter approved by Council	[date to be inserted]
Signed by the Chief Executive Officer	[date to be inserted]

1. Introduction

Section 53 (1) of the Local Government Act 2020 (the Act) states that “a Council must establish an Audit and Risk Committee”. Section 54 (1) of the Act states “a Council must prepare and approve an Audit and Risk Committee Charter.”

This Charter has been developed in response to the Act requirements. It has been developed with reference to the model Audit Charter provided by the Institute of Internal Auditors North America, as recommended in “*Audit Committees - A Guide to Good Practice for Local Government*” issued by Local Government Victoria in January 2011.

The Audit and Risk Committee (Audit Committee) plays an important role in providing oversight of Macedon Ranges Shire Council’s governance, risk management, and internal control practices. This oversight mechanism also serves to provide confidence in the integrity of these practices. The Committee performs its role by providing independent oversight to the governing board, the Local Government Entity (LGE), in overseeing internal and external audit functions¹.

2. Background

The Committee’s previous Charter was reviewed and approved by the LGE on TBC 2018. This Charter has been developed in accordance with the Section 54(7) of LG Act 2020, which states: *A Council must approve the first Audit and Risk Committee Charter and establish the first Audit and Risk Committee on or before 1 September 2020.*

3. Purpose

The purpose of the Audit Committee is to provide a structured, systematic oversight of the LGE’s governance, risk management and internal control practices. The Committee assists the LGE and management by providing advice and guidance on the adequacy of initiatives for:

- a) Values and ethics of the organisation
- b) The credibility and objectivity of financial and performance reporting;
- c) The management of financial and other risks and fraud prevention systems and controls;
- d) The systems for internal controls and the protection of the LGE’s assets;
- e) Corporate governance;
- f) ICT governance;
- g) The management of, and the governance of, the use of – data, information and knowledge;
- h) The compliance with laws and regulations;
- i) The use of best practice guidelines for accounting;
- j) The effectiveness of the internal and external audit functions; and
- k) The compliance of LGE’s policies and procedures with the overarching governance principles, the LGA 2020 and regulations.

In broad terms, the Committee reviews each of the items noted above and provides the LGE with independent advice and guidance regarding the adequacy and effectiveness of management’s practices and potential improvements to those practices.

The Audit and Risk Committee should also be an effective communication forum between the External Auditor, Internal Auditor, management and Councillors.

¹ Section 54(2)(d) of the Local Government Act 2020

4. Authority

The Act states that the Audit and Risk Committee is not a delegated committee.² The Committee does not have power or authority to implement actions in areas over which management has responsibility. The Committee does not have any delegated financial responsibility. The Committee does not have any management functions and is therefore independent of management.

The Audit Committee Charter sets out the authority of the Audit Committee to carry out the responsibilities established for it by the LGE as articulated within the Committee Charter.

The Audit and Risk Committee has authority to:

- a) Advise the LGE on the appropriate resolution on any disagreement between management and the Auditor General's Agent (that is, the External Auditor) on financial reporting.
- b) Review all auditing – both planning and outcomes.
- c) Provide input into the scope of internal services that will be sought via tender
- d) Seek any information it requires from Councillors and the LGE Staff, via the Chief Executive Officer and external parties.
- e) Formally meet, as necessary, with the LGE Staff, Internal Auditors and External Auditors.

The Chief Executive Officer has responsibility to provide advice to the Audit and Risk Committee in respect to matters before it.

5. Composition of the Committee³

Membership of the Audit and Risk Committee is open to any resident, property owner or business operator in the Shire of Macedon Ranges.

The Audit and Risk Committee is comprised of five members – two Councillors and three independent persons.

All members have full voting rights.

The Committee Members should collectively possess sufficient knowledge of audit, specific industry knowledge, IT, law, governance, and financial control. The Act has specific requirements about the Audit Committee collectively having expertise in financial management and risk⁴, experience in public sector management⁵, and precludes any person who is a member of the LGE staff⁶ from being a Committee Member.

6. Chair of the Committee

The Chairperson shall be appointed from the independent members of the Audit and Risk Committee by the Audit and Risk Committee on an annual basis. The appointment shall be endorsed by the LGE at the next available LGE meeting.

In the absence of the appointed Chairperson from a meeting, the Audit and Risk Committee shall appoint an acting Chairperson from the independent members present.

² Section 53(2) of the Local Government Act 2020

³ Section 53(3) of the Local Government Act 2020: An Audit and Risk Committee must— (a) include members who are Councillors of the Council; and (b) consist of a majority of members who are not Councillors of the Council

⁴ Section 53(3)(b)(i) of the Local Government Act 2020

⁵ Section 53(3)(b)(ii) of the Local Government Act 2020

⁶ Section 53(3)(c) of the Local Government Act 2020

7. Terms of Office

Councillors

Councillor Committee Members shall be appointed annually by the LGE.

Independent Committee Members

The LGE shall publicly advertise for applications from interested residents, property owners and business operators to fill the vacant independent position(s) that exists on the Audit and Risk Committee. Following the selection process, the LGE shall appoint three independent persons to be members of the Audit and Risk Committee.

Independent Committee Members shall be appointed for an initial term of up to three years. Independent members will be subject to a maximum consecutive term of 9 years.

In order to ensure continuity of independent membership across Council terms, independent Committee members are appointed in a manner that achieves 3-year terms in a non-concurrent cycle, resulting in one independent-member advertisement process per annum.

Current terms of Independent Committee Members are as follows:

Member	2020	2021	2022
Committee Member 1	Recruited until 2022	✓	✓
Committee Member 2	✓	Recruit Until 2023	✓
Committee Member 3	✓	✓	Recruit Until 2024

In the instance of an independent member becoming ineligible or resigning from the Committee, the independent member should notify the Chairperson and nominated officer of the relevant circumstances.

At the next available Committee meeting consideration should be given by the Committee to options for a replacement that are in line with the membership provisions of this Charter, for recommendation to the LGE regarding the process of replacement. The LGE will then by resolution formally endorse the replacement process.

8. Quorum

A quorum of any meeting will be at least two independent members and at least one Councillor.

9. Operational Principles and Procedures

Audit Committee Values

The Audit Committee will conduct itself in accordance with the values and ethics of the LGE and in accordance with the Local Government Act 2020.

Communications

The Audit Committee expects that all communication with management and staff of the organisation as

well as with any external assurance providers will be direct, open, respectful and complete.

Work Plan⁷

The nominated officer will prepare an annual and multi-year plan for the Committees consideration and endorsement at the first meeting of each calendar year. The Committee may endorse changes to these plans as required. Business risk should be a driver in the setting of annual / multi-year plans and the associated internal audit schedule.

Meetings

Meetings shall be held not less than four times per annum and timing will be set to ensure that the Committee can properly discharge its responsibilities pursuant to this Charter. Members of the Audit and Risk Committee are expected to attend every meeting of the Committee. A schedule of meetings shall be developed and agreed to by the members.

The Audit and Risk Committee has authority to convene additional meetings, as circumstances require. Generally additional meetings shall be convened at the discretion of the Chairperson following a written request from a member, or the Internal Auditor or the External Auditor.

Where a matter is required to be considered by the Audit and Risk Committee between meetings e.g. it cannot wait until the next available meeting, it may be undertaken by circulating resolution. The resolution will be circulated via email to all members and a vote of 75% of members is required to adopt the resolution. The vote will be in accordance with the Quorum representation - that is that there will need to be a majority of independent members whom cast their vote, otherwise the resolution will not be valid.

A summary of the matter, the recommendation for decision and a request to vote on the item will be sent via email. A members vote should be transparent and emailed to all other Committee members.

The matter will also be recorded in the next available agenda of the Committee.

Agenda

The nominated officer shall organise meetings; prepare an agenda and provide it to members together with appropriate background material at least 5 days in advance of the meeting. Where additional meetings are called an agenda shall be prepared and provided to members together with appropriate background material two days prior to the meeting.

Preparation and Attendance

Audit Committee members are obligated to prepare for and participate in meetings.

The Chief Executive Officer and nominated officer are required to attend every meeting. The nominated officer shall invite the relevant Managers and/or Staff to attend meetings to provide pertinent information and advice as necessary.

Officers who have authored reports will be required to attend to speak to their reports, but are not required to attend the whole meeting.

Attendance can be in person, via teleconference or video conference.

⁷ Section 54(3) of the Local Government Act 2020

Councillors, not elected as Committee members are welcome to attend the meeting as observers, and should advise the Chairperson (via the nominated officer) of their intent to attend a meeting.

The Internal Auditor shall be invited to attend all meetings and in accordance with the Internal Audit Contract, the Internal Auditor shall attend whenever an internal audit report is due to be considered.

The External Auditor shall be invited to attend all meetings and shall attend the meeting(s) at which the draft annual financial report and results of the external audit are being considered.

The Committee will schedule individual scheduled meetings with the Internal Auditor and External Auditor, independent of management, at its ordinary meetings.

Independent Committee Members Meeting Allowance

A meeting preparation allowance will be paid to each Independent Committee Member⁸. The LGE sets the remuneration by resolution at a formal Council Meeting.

Secretariat Services

An officer nominated by the Chief Executive Officer (herein referred to as the “nominated officer”, will have responsibility to manage all administrative matters associated with the Audit and Risk Committee (such as researching issues, coordinating reports to the Audit and Risk Committee, preparing agendas, organising meetings, preparing minutes, coordinating reports to the LGE and the recruitment process for independent members).

Minutes

Accurate minutes shall be kept by the nominated officer including actions and recommendations. The nominated officer shall circulate the Minutes to all Audit and Risk Committee members, Councillors, Auditors, Chief Executive Officer, Directors and Managers within seven days of each meeting.

Reporting on Audit and Risk Committee Performance

The Audit and Risk Committee will prepare a biannual audit and risk report that describes the committee’s activities and includes its findings and recommendations and provide a copy of the biannual report to the Chief Executive Officer for tabling at the next Council Meeting⁹.

The biannual report should include:

- A summary of the work the Audit Committee performed to fully discharge its responsibilities.
- A summary of management’s progress in addressing the results of internal and external audit engagement reports.
- An overall assessment of management’s risks, controls, and compliance processes, including details of any significant emerging risks or legislative changes impacting the organisation.
- Details of meetings, including the number of meetings held during the relevant period and the number of meetings each member attended.
- Provide information required, if any, by new or emerging corporate governance developments.

⁸ Section 53(6) of the Local Government Act 2020: A Council may pay a fee to a member of an Audit and Risk Committee who is not a Councillor of the Council.

⁹ Section 54(5)(a) and (b) of the Local Government Act 2020

On an annual basis, the Audit and Risk Committee Chairperson (with assistance from the nominated officer) shall provide an audit and risk report that describes the activities of the Committee. This will include an annual assessment of performance against this charter.

The Audit and Risk Committee Chairperson may request the Chief Executive Officer table a report to the LGE at any time regarding any other relevant matter it deems of sufficient importance.

Orientation and Training

Audit Committee Members will receive formal orientation training on the purpose and mandate of the Audit Committee and on the organisation's objectives. A process of continuing education will be established.

10. Responsibilities

It is the responsibility of the Audit Committee to provide the LGE with independent, objective advice on the adequacy of management's arrangements with respect to the following aspects of the management of the organisation:

Reporting

- 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.
- Review with management and the External Auditors the results of the audit, including any difficulties encountered.
- Review the annual financial report, and consider whether it is complete, consistent with information known to members, and reflects appropriate accounting principles.
- Review with management and the External Auditors all matters required to be communicated to the Committee under the Australian Auditing Standards.
- Understand strategies, assumptions and estimates that management has made in preparing financial statements, budgets, and investment plans.
- Review performance reporting of the LGE.

Values and Ethics

To obtain reasonable assurance with respect to the organisation's values and ethics practices, the Audit Committee will:

- Review and assess the policies, procedures, and practices established to monitor conformance with the code of conduct and ethical policies by all managers and staff.
- Provide oversight of the mechanisms established by management to establish and maintain high ethical standards for all managers and staff.
- Review and provide advice on the systems and practices established by management to monitor compliance with laws, regulations, policies, and standards of ethical conduct and identify and report any legal or ethical violations to the LGE.

Organisational Governance

To obtain reasonable assurance with respect to governance process, the Audit Committee will:

- Review and provide advice on the governance process established and maintained within the organisation and the procedures in place to ensure that they are operating as intended.
- Monitor compliance of policies and procedures with the overarching governance principles, the

Local Government Act 2020, relevant regulations and any Ministerial directions¹⁰.

Risk Management

To obtain reasonable assurance with respect to risk management practices, the Audit Committee will:

- Provide oversight on significant strategic and operational risk exposures and control issues, including fraud and corruption risks, governance issues, and other matters needed or requested by senior management and the LGE.
- Monitor processes and practices of the LGE to ensure for effective business continuity.
- Review and provide advice on the risk management processes established and maintained by management and the procedures in place to ensure that they are operating as intended.
- Monitor the process of review of the LGE's risk profile.
- Consider the adequacy of actions taken to ensure that the material business risks have been dealt with in a timely manner to mitigate exposures to the LGE.
- Obtain an annual report on management's implementation and maintenance of an appropriate enterprise wide risk management process.

Fraud and corruption

To obtain reasonable assurance with respect to procedures for the prevention and detection of fraud, and corruption the Audit Committee will:

- Oversee management's arrangements for the prevention and deterrence of fraud and corruption.
- Challenge management and internal and external auditors to ensure that appropriate anti-fraud and corruption programs and controls are in place to identify potential fraud and recommend that appropriate investigations are undertaken if fraud is detected.

Control

To obtain reasonable assurance with respect to the adequacy and effectiveness of controls in responding to risks within the governance, operations and information systems, the Audit Committee will:

- Consider the effectiveness of the control framework, including risk management, fraud prevention¹¹, and information technology security and control.
- Understand the scope of Internal and External Auditors' reviews of internal controls over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

Internal audit

To obtain reasonable assurance with respect to work of the internal audit providers, the audit committee will:

- Review the internal audit contract specification and resourcing of the internal audit function.
- Review the annual audit plan (and all major changes to the plan) and recommend for approval by the LGE.
- Ensure the annual audit plan is linked with and covers the material business risks as shown in the LGE's risk profile.
- Monitor processes and practices to ensure that the independence of audit function is maintained.
- As part of the Committee's annual assessment of performance, determine level of satisfaction with internal audit function.

¹⁰ Section 54(2)(a)(i) and (ii) of the Local Government Act 2020

¹¹ Section 54(2)(c) of the Local Government Act 2020

- 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 in-camera.
- Review internal audit reports and other communications to management.
- Review and track management's action plans to address the results of internal audit engagements.

External audit

To obtain reasonable assurance with respect to work of the external assurance providers, the audit committee will:

- Meet with the external auditor during the planning phase of the engagement, the presentation of the audited financial statements, and the discussion of the results of engagements and recommendations for management.
- Note the external auditor's proposed audit scope and approach, including any reliance on internal auditor activity.
- Receive the External Auditors Final Management Letter.
- Monitor management's progress on action plans.
- Provide an opportunity for the Committee to meet with the External Auditors, to discuss any matters that the Committee or the external auditors believe should be discussed in-camera.
- Annually assess the performance of the External Auditor.

Compliance

- Monitor the compliance of the LGE's policies and procedures with the overarching governance principles of the LGA 2020, the regulations and any ministerial directions.
- 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.
- 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.
- Obtain regular updates from management about compliance matters.

Charter

- On a biennial basis undertake a review of the Charter and provide a report to the LGE recommending that the LGE approve the Charter. Only the LGE can approve the Charter at a formal Council meeting.

Other

In addition, the Audit Committee will:

- Perform other activities related to this Charter as requested by the LGE.
- Monitor that open communication between the Internal Auditor, the External auditor, and Councillors occurs.
- Consider the findings and recommendations of relevant Performance Audits undertaken by the Victorian Auditor-General and ensure the LGE implements relevant recommendations.
- Receive details of all reimbursements of expenses of Councillors and members of a delegated committee.

11. Misuse of Position, Confidential Information and Conflict of Interest

Section 123 (misuse of position), 125 (confidential information) and Division 2 of Part 6 (conflict of interest) of the Act apply to a member of the Audit and Risk Committee who is not a Councillor as if the member were a member of a delegated committee. ¹²

Conflict of Interest

Audit Committee Members must disclose any conflicts of interest to the Committee. Where the conflict is related to the Chair of the Audit Committee it must be disclosed to the Chief Executive Officer.

Once a conflict of interest is identified the member of the Audit and Risk Committee must:

1. Disclose the conflict of interest immediately before the matter is considered in the meeting, including the:
 - a) Type of interest and class (refer https://www.localgovernment.vic.gov.au/_data/assets/pdf_file/0019/47440/2012-Conflict-of-Interest-Guide-Councillors-Oct-2012-.pdf); and
 - b) The nature of the interest.
2. Notify the Chair that they are leaving the meeting.
3. Leave the meeting while the matter is being considered and await the Chair's direction to return.

If details are private in nature then the nature of the interest can be declared to the Chair in writing prior to the meeting and the disclosure will simply be the type of interest and class.

Disclosure of conflicts of interest must be minuted.

Independent Committee Members of the Audit and Risk Committee will be required to sign an Initial Personal Interests Form upon commencement of their term, and an annual Personal Interests Return. In addition they will be required to confirm the declaration made in their Personal Interests Form remains unchanged at each Audit Committee Meeting as a standing agenda item.

Conflicts of Interest, Duty and Loyalty

The following section provides additional information in regards to the existing legislative requirements to declare conflicts of interest. Beyond the legislative provisions, the Committee aspires to a high standard of disclosure and will in each meeting agenda provide the opportunity for Committee Members to declare conflicts in line with this guide.

¹² Sections 53(5) of the Local Government Act 2020

Conflict of Interest

A conflict of interest is where a Committee Member has private interests that could improperly influence, or be seen to influence, their decisions or actions in the performance of their public duties as a Committee Member.

1.1.1 Private interests

A private interest means anything that can influence a Committee Member. Private interests include **direct** interests, such as a Committee Member's own personal, family, professional or business interests, as well as **indirect interests**, such as the personal, family, professional or business interests of individuals or groups with whom the Committee Member is, or was recently, closely associated. Private interests may be financial (pecuniary) or non-financial.

1.1.2 Financial interests

Financial interests involve an **actual, potential or perceived financial gain or loss**. Money does not need to change hands for an interest to be financial. People have a financial interest if they (or a relative, or a close associate) own property, hold shares, have a position in a company bidding for government work, or receive benefits such as concessions, discounts, gifts or hospitality from a particular source related to the public entity.

1.1.3 Non-financial interests

Non-financial interests **involve any tendency toward favour or prejudice resulting from friendship, animosity, or other personal involvement with another person or group**. They include personal or family relationships, or involvement in sporting, social or cultural activities. If personal values are likely to impact on the proper performance of public duty, then these can also lead to a conflict of interest. Enmity as well as friendship can give rise to a non-financial conflict of interest.

Source: VPSC, [Conflict of Interest and Duty, a practical guide for Committee Members of public entities](#).

Conflict of Duty

Conflicts of duty arise when a person is required to fulfil two or more roles that may be in conflict with each other, and can be actual, potential or perceived conflicts of duty. This situation is sometimes known as 'wearing two hats'. For example, a Committee Member may also hold a position as a public servant, or they may be a member of the board of another public entity or body. A conflict of duty may also arise through a Committee Member having official duties to other Commonwealth and local government bodies, community and professional associations or non-governmental organisations.

Source: VPSC, [Conflict of Interest and Duty, a practical guide for Committee Members of public entities, section 2.2](#).

Conflict of Loyalty

- Committee Members may have a conflict of loyalty that is they may have competing loyalties between a not for profit to which they owe a primary duty and some other person or entity.
- This could include funding bodies that nominate Committee Members, so called 'representative' Committee Members from a particular interest group.

It could also extend to friendship and personal beliefs in some circumstances.

Source: Governance Institute of Australia, [Good Governance Guide: Conflicts of interest in not-for-profit organisations](#)

Misuse of Position

Audit Committee Members must not intentionally misuse their position to gain or attempt to gain, directly or indirectly, an advantage for themselves or for any other person, or cause, or attempt to cause, determinant to the LGE or another person¹³.

Confidential Information

Audit Committee Members must not intentionally or recklessly disclose information that they know, or should reasonably know, is confidential information¹⁴.

Independent Committee Members of the Audit and Risk Committee will be required to sign a Confidentiality Agreement upon commencement of their term.

¹³ Local Government Act 2020 Section 123(1).

¹⁴ Local Government Act 2020 Section 125(1).