



# Yarra Ranges Council Audit and Risk Management Committee Charter

November 2022



## Contents

1. Preface .....	3
2. Introduction.....	3
3. Background .....	3
4. Purpose .....	3
5. Mandate.....	4
6. Authority .....	4
7. Composition of the Audit Committee .....	4
8. Chair of the Audit Committee .....	5
9. Terms of Office .....	5
9.1 Councillors.....	5
9.2 Independent Committee Members .....	5
11. Operational Principles .....	6
11.1 Audit Committee Values .....	6
11.2 Conflict of Interest, Misuse of Position and Confidential Information .....	6
11.3 Communications .....	7
11.4 Work Plan .....	7
11.5 Meeting Agenda.....	7
11.6 Information Requirements.....	7
11.7 Preparation and Attendance .....	7
11.8 Induction and Training .....	7
12. Operational Procedures .....	7
12.1 Meetings.....	7
12.2 Minutes .....	8
12.3 Required Attendance .....	8
12.4 Secretariat Services.....	8
12.5 Remuneration of Committee Audit Members.....	8
12.6 Responsibilities.....	9
12.7 Charter Review .....	11
13. Oversight of Internal Audit Activity and Other Assurance Providers.....	11
13.1 Internal Audit Activity .....	11
13.2 External Auditors .....	12
14. Other Responsibilities .....	13
15. Reporting on Audit Committee Performance .....	13

## 1. Preface

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, with reference to “*Audit Committees - A Guide to Good Practice for Local Government*” issued by Local Government Victoria in January 2011.

The Governance Rules to be adopted and kept in force by Council under section 60 of the Act do not apply to the Audit and Risk Management (ARMC) until Council resolves, or the ARMC with the approval of Council resolves, otherwise.

## 2. Introduction

Yarra Ranges Council is committed to good governance, public transparency, and accountability to the Yarra Ranges community. The (ARMC) plays an important role in providing an independent view of Yarra Ranges Council’s governance, risk management, financial management and internal control practices, and driving continuous improvement, and serves to provide confidence in the integrity of these practices. The ARMC performs its role by providing independent assurance to Council, in overseeing internal and external audit functions<sup>1</sup>.

## 3. Background

The previous Charter was reviewed and endorsed by Council in September 2021. This Charter has been developed in accordance with the Section 54(7) of the Act, 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.*

## 4. Purpose

Pursuant to section 53(2) of the Act, the Committee is not a delegated committee and does not have any delegated powers, including executive powers, management functions, or delegated financial responsibility. Pursuant to section 54(2) of the Act, the ARMC assists the Council and management by providing advice and guidance on the adequacy of initiatives for:

- compliance management
- governance structure
- risk management and fraud prevention
- internal control framework
- internal audit activity, external auditors, and other providers of assurance, and
- financial statements, performance, and public accountability reporting.

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

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<sup>1</sup> Section 54(2)(d) of the Local Government Act 2020

## 5. Mandate

The ARMC has been established by Council under Section 53.1 of the Local Government Act 2020 (and previously Section 139 of the Local Government Act 1989).

## 6. Authority

The ARMC Charter sets out the authority to fulfill the responsibilities established for it by the Council.

In fulfilling its role, the ARMC may request:

- Any explanatory information that it deems necessary to discharge its responsibilities unless that information is protected due to legal or confidential reasons. In discharging its responsibilities, the Audit Committee will be supported by the Director Corporate Services (or their delegate), who will facilitate provision of relevant information, records data and reports as the Audit Committee requests.
- Engagement of counsel or other advisors it deems necessary to perform its duties.
- Attendance of any official, including Councillors and Council Officers, at ARMC meetings.

The ARMC is empowered to:

- Recommend to Council the appointment and oversight of all audit and non-audit services performed by the internal audit contractor. The annual financial audit is undertaken by the Victorian Auditor-General (VAGO) or their appointed contractor.
- Resolve any disagreements between management and the internal auditor or external auditor regarding internal audit recommendations, financial reporting, and other matters.
- Endorse all internal auditing services performed by the internal audit contractor.
- Preapprove all internal auditing services performed by the internal audit contractor.

The ARMC, through the Independent Committee Members, will assist (as required) the Director Corporate Services in the assessment of tenders for the internal audit contract. ARMC will be provided with a recommendation report in relation to the tender process, and after formal acceptance, will be provided to the Council.

ARMC recognises that the primary responsibility for management of Council's operations is controlled by the Chief Executive Officer (CEO) and that ARMC is an advisory committee to Council.

## 7. Composition of the Audit Committee<sup>2</sup>

The ARMC will be comprised of up to five members, with the majority being independent members as follows:

- two Councillors, and
- three independent members.

The Mayor may appoint an additional alternate Councillor member, who may attend and act on behalf of the nominated Councillor Representative in order to achieve a quorum of members present.

<sup>2</sup> 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

The collective of independent members will have expertise in financial management and risk<sup>3</sup>, and experience in public sector management<sup>4</sup>, while the ARMC will collectively possess sufficient knowledge of audit, specific industry knowledge, IT, law, governance, and control to undertake its role under this Charter. The Act precludes any person who is a member of staff of the Council<sup>5</sup> from being a Member of the ARMC.

As the responsibilities of the ARMC evolve in response to regulatory, economic, and reporting developments, members' competencies will be periodically reevaluated to ensure the overall balance of skills on the ARMC remains appropriate to respond to Council's needs. This will occur in line with the annual performance assessment.

## 8. Chair of the Audit Committee

The Chair of the ARMC must be an independent member and be appointed by Council.<sup>6</sup> The full ARMC may recommend appointment or reappointment of the Chair to the Council subject to a satisfactory performance review of the ARMC. The Chair will be appointed for a term of up to three years.

In the absence of the Chair from a meeting, the members present will appoint another independent member as Acting Chair for that meeting.

## 9. Terms of Office

### 9.1 Councillors

Councillor ARMC Members will be appointed annually by the Council in line with the allocation of other Councillor delegated responsibilities.

### 9.2 Independent Committee Members

ARMC, through the Independent Members, will assist (as required) the Director Corporate Services in the recruitment process for new Independent Committee Members. Following selection through the recruitment process and completion of appropriate due diligence checks, an Independent Member will be appointed for an initial term of up to three years. At the end of this term, and after a performance review, an Independent Member may be reappointed for a further term without the need for another formal application. The maximum term of an Independent Member is three terms or nine years (whichever is the lesser).

The terms of each Independent ARMC Member will be arranged so that there is an orderly rotation of membership and avoidance (where possible) of more than two members ceasing at the same time.

## 10. Quorum

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<sup>3</sup> Section 53(3)(b)(i) of the Local Government Act 2020

<sup>4</sup> Section 53(3)(b)(ii) of the Local Government Act 2020

<sup>5</sup> Section 53(3)(c) of the Local Government Act 2020

<sup>6</sup> Section 53(4) of the Local Government Act 2020: A chairperson of an Audit and Risk Committee must not be a Councillor of the Council.

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

## 11. Operational Principles

### 11.1 Audit Committee Values

The ARMC will conduct itself in accordance with Council's Values, the Councillor Code of Conduct, the ethics of the Council, and in accordance with the Act.

### 11.2 Conflict of Interest, Misuse of Position and Confidential Information

Section 123 (misuse of position), section 125 (confidential information) and Division 2 of Part 6 (conflict of interest) of the Act apply to a member of the ARMC who a Councillor is not as if the member were a member of a delegated committee.<sup>7</sup>

All ARMC members are expected to be aware of these provisions of the Act. Failure to comply with the provisions of the Act may result in the member's appointment being terminated.

#### *Conflict of Interest*

ARMC members must disclose any conflicts of interest to the Chair. Where the conflict is related to the ARMC Chair Committee it must be disclosed to the Mayor, or in the absence of the Mayor, the Councillor Representative.

Once a conflict of interest is identified, the member of the ARMC must:

1. Disclose the conflict of interest at the commencement of the meeting at which the matter is being considered, including the:
  - a) Type of interest and class; and
  - b) The nature of the interest.
2. Notify the Chair that they are leaving the meeting for the hearing of this matter.
3. Leave the room while the matter is being considered and await the Chair's direction to return.
4. Notify the Chair prior to the meeting if they are not going to be present at the meeting.

If details of the conflict of interest 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 will be required to sign an Initial 'Personal Interests Return Form' upon commencement of their term, and a Biannual 'Personal Interests Return Form' as required under the Act.

#### *Misuse of Position*

ARMC 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, detriment to Council or another person.

#### *Confidential Information*

ARMC members must not intentionally or recklessly disclose information that they know, or should reasonably know, is confidential information.

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<sup>7</sup> Sections 53(5) of the Local Government Act 2020

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

### 11.3 Communications

ARMC expects that all communication with management and staff of the organisation as well as with any external assurance providers will be direct, open, honest, and complete.

### 11.4 Work Plan<sup>8</sup>

ARMC will endorse an annual work plan to ensure that its responsibilities are scheduled and will be carried out.

### 11.5 Meeting Agenda

Agendas for ARMC Meetings will be developed in consultation with and approved by the Chair. Agendas and supporting documentation will be circulated to members a minimum of one week in advance of each meeting. Late items must be agreed by the Chair.

### 11.6 Information Requirements

ARMC will establish and communicate its requirements for information, which will include the nature, extent, and timing of information. Information that is scheduled on an agenda will be provided to ARMC a minimum of one week prior to each meeting. Information that is sought at an ARMC meeting will be provided at the next meeting unless otherwise agreed.

### 11.7 Preparation and Attendance

ARMC members are obligated to prepare for and participate in meetings. Participation can be in person or teleconference, and Members are expected to:

- Apply good analytical skills, objectivity, and sound judgement.
- Express opinions, frankly, ask probing questions and pursue further follow up where appropriate.
- Treat all attendees with an appropriate level of respect and professional courtesy.

### 11.8 Induction and Training

ARMC members will receive formal induction training on the purpose and mandate of the committee and on the organisation's objectives. A process of continuing education will be established as required.

## 12. Operational Procedures

### 12.1 Meetings

Meetings will generally be held no less than four times per year, with one meeting allocated to consider and endorse (if appropriate) Council's annual financial and performance statements. Timing of meetings will be set to ensure that the ARMC can properly discharge its responsibilities pursuant to this Charter.

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<sup>8</sup> Section 54(3) of the Local Government Act 2020

Members are expected to attend every meeting of the ARMC, however, should unavoidable circumstances arise, members must notify the Chair of their absence.

Due to the potentially sensitive nature of the material being considered, meetings are closed to the public.

Upon written request from an ARMC member, the CEO or the external or internal auditors, the Chair may convene a special meeting of the ARMC within fourteen calendar days of the Chair receiving a written request.

Where a matter is required to be dealt with between meetings, it will be undertaken by circulating resolution. A report outlining the matter and a request to vote on the item will be sent by Council's management via email, with the outcome of the vote endorsed at the next scheduled ARMC meeting.

### 12.2 Minutes

Minutes of all meetings will be prepared and provided in draft form within two weeks following each meeting. The members will endorse the minutes within two weeks of receipt. Once agreed, the draft minutes will be provided to Councillors in a report summarising the meeting content. Minutes will remain draft until they are approved at the next ARMC meeting.

The minutes will include a report on the current and outstanding actions required to be undertaken from previous ARMC meetings.

### 12.3 Required Attendance

The CEO, Director Corporate Services, Manager Financial Services (CFO) or their nominated representatives are required to attend every meeting. Officers who have authored reports may be required to attend to speak to their reports but are not required to attend the whole meeting. At the discretion of the ARMC, other Councillors or Council Officers may be invited to attend meetings to provide advice and information when required. Attendance can be in person, or via teleconference.

Internal and external audit representatives will be required to attend every meeting unless requested not to do so by the Chair. The ARMC will meet in camera (separately from management) with both the internal and external auditors at least once a year.

### 12.4 Secretariat Services

Secretariat and administrative support will be provided by a member(s) of Council's management team.

### 12.5 Remuneration of Committee Audit Members

Councillor Committee members are not remunerated for their role.

Remuneration will be paid to each Independent Committee Member<sup>9</sup>. The Council sets the remuneration by resolution at a formal Council Meeting. Set fees per meeting apply for each

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<sup>9</sup> 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.



Independent Committee Member and the Chair, which will be indexed in alignment with the rate cap % each 1 July. Payment will be made each quarter following receipt of a Tax Invoice after each meeting. Remuneration will be reviewed at the appointment of a new Independent Member.

### 12.6 Responsibilities

It is the responsibility of the ARMC to provide Council with independent, objective advice and assurance on the adequacy of management's arrangements with respect to the following aspects of the management of the organisation:

#### *Financial and Performance Reporting*

The ARMC will<sup>10</sup>:

- Obtain assurance that Council has appropriate systems and procedures in place for collecting and analysing information and data for the purposes of measuring the performance of individual programs and activities (as identified in the Council Plan).
- Review the process for the management and governance of the use of data, information, and knowledge.
- Review any changes to Council's accounting policies and procedures and the methods of applying them, with the input of management, external and internal auditors, ensuring that they are in accordance with the stated financial reporting framework.
- Assess significant estimates and judgements in financial reports by asking management about the processes used, and then asking management and external auditors for the basis of their conclusions.
- Review management's processes for ensuring and monitoring compliance with legislation and other requirements on the external reporting by the Council of financial and non-financial information, performance reporting under the Act, and other relevant legislation.
- Review the appropriateness of accounting policies and disclosures to present a true and fair view.
- Assess whether a comprehensive process has been established for the purposes of legislative disclosure reporting requirements.
- Assess information from internal and external auditors that affects the quality of financial reports. For example, actual and potential material audit adjustments, financial report disclosures, non-compliance with legislation and regulations, internal control issues.
- Seek the external auditor for an independent opinion on management's:
  - technical compliance with accounting standards,
  - proper application of the accounting principles, and
  - clarity in financial disclosure practices as used or proposed in the financial report of the Council.
- Review the quarterly financial report provided to Council and monitor the financial performance and sustainability of Council.
- Recommend to the Council whether the financial report including the performance statement should be approved based on the Committee's assessment of them.
- Review best practice recommendations contained in VAGO's performance audits and ensure Council is compliant.

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<sup>10</sup> Section 54(2)(b) of the Local Government Act 2020

### *Organisational Governance*

To obtain reasonable assurance with respect to governance process, ARMC 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 Act, relevant regulations, and any Ministerial directions<sup>11</sup>.

### *Risk Management*

To obtain reasonable assurance with respect to risk management practices, ARMC will:

- Review significant strategic and operational risk exposures and control issues, including fraud and corruption risks, business continuity, governance issues, and other matters needed or requested by senior management and the Council.
- 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.
- Annually review the risk profile.
- Obtain an annual report on management's implementation and maintenance of an appropriate enterprise-wide risk management process.
- Review the adequacy of the combined assurance being provided.

### *Fraud and corruption*

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

- Review the processes for the prevention, detection and deterrence of fraud and corruption.
- Ensure that appropriate action is taken against known perpetrators of fraud.
- 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 ensure that 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, ARMC will:

- Consider the effectiveness of the control framework, including risk management, fraud prevention<sup>12</sup>, and information technology security and control.
- Review and provide advice on the level of risk control of the organisation as a whole and its individual units.
- Receive reports on all matters of significance arising from work performed by other providers of financial and internal control assurance (e.g., IBAC, Office of the Victorian Ombudsman) and VAGO reports as appropriate to senior management and the Council, and where required, monitor implementation of control strengthening measures.

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<sup>11</sup> Section 54(2)(a)(i) and (ii) of the Local Government Act 2020

<sup>12</sup> Section 54(2)(c) of the Local Government Act 2020

### *Compliance Management*

To obtain reasonable assurance with respect to the organisation's values and ethics practices, ARMC 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.
- Assess 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 deal with any legal or ethical violations.
- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow up (including disciplinary action) of any instances of non-compliance.
- Review the observations and conclusions of internal and external auditors and the findings of any regulatory agencies.
- Review the process for communicating the code of conduct to staff and for monitoring compliance.
- Obtain regular updates from management regarding compliance matters.

These responsibilities may be revised or expanded in consultation with, or as requested by the CEO and Council.

### 12.7 Charter Review

This Charter will be formally reviewed by the ARMC every four years, in line with Council elections, and endorsed by the incoming Council within six months of the election. An interim review will occur annually, in line with the annual performance assessment.

Subject to the nature of the changes identified, approval will be as follows:

- Material changes including legislative changes - ARMC will provide a report to Council recommending that the Council approve an updated Charter. Only Council can approve significant changes to the Charter at a formal Council Meeting.
- Administrative or insignificant changes as determined by ARMC – The CEO may authorise these changes.

## 13. Internal Audit Activity and Other Assurance Providers

### 13.1 Internal Audit Activity

To obtain reasonable assurance with respect to work of the internal audit function, ARMC will:

#### *Internal Audit Charter and Resources*

- Review and endorse the Internal Audit Charter within six months of the ARMC Charter being endorsed by Council to ensure that it accurately reflects the ARMC purpose, authority, and responsibility.
- Monitor processes and practices to ensure that independence of the internal audit function is maintained.

### *Internal Audit Strategy and Plan*

- Review and provide input on the internal audit activity's strategic plan, objectives, performance measures, and outcomes.
- Review and endorse proposed risk-based internal audits and make recommendations concerning internal audit projects.
- Review and (if appropriate) endorse changes to the internal audit plan as proposed by management.
- On an annual basis, review and endorse the internal audit plan and engagement work program, including reviewing internal audit resources necessary to achieve the plan, and recommend to Council for approval.
- Review the internal audit activity's performance relative to its audit plan.

### *Internal Audit Engagement and Follow Up*

- Review internal audit reports and other communications to management.
- Where necessary, facilitate conversations between Internal Audit and management to resolve any recommendation or finding disagreements.
- Review and track management's action plans to address the results of internal audit engagements.
- Review and advise management on the results of any special investigations.
- Make suggestions/recommendations to the CEO for them to engage Internal Audit for special reviews or other services.
- Enquire of the CEO whether any internal audit engagements or non-audit engagements have been completed but not reported to ARMC; if so, enquire whether any matters of significance arose from such work.
- Enquire of the CEO whether any evidence of fraud has been identified during internal audit engagements and evaluate what additional actions, if any, should be taken.
- Have in camera meetings with internal auditors to discuss sensitive matters (if required).

## 13.2 External Auditors

To obtain reasonable assurance with respect to work of the external assurance providers, ARMC will meet with the external auditors 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.

ARMC will:

- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with the internal audit activity.
- Have in-camera meetings with external auditors to discuss sensitive matters (if required).
- Monitor management's progress on action plans.

To obtain reasonable assurance that management has acted on the results and recommendations of internal and external audit engagements, ARMC will regularly review reports on the progress of implementing approved management actions plans and audit recommendations resulting from completed audit engagements, internal and external.

## 14. Other Responsibilities

ARMC will also:

- Perform other activities related to this Charter as requested by the Council.
- Institute and oversee special investigations as needed.
- On an annual basis undertake an assessment of its performance against the Charter and provide a copy of the annual assessment to the CEO for tabling at the next Council Meeting<sup>13</sup>.

## 15. Reporting on Audit Committee Performance

ARMC will prepare a report every six months that includes:

- A summary of the work the ARMC 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.
- Provide additional information required by new or emerging corporate governance requirements.

A copy of the report will be provided to the CEO for tabling at the next available Council Meeting<sup>14</sup>. ARMC may report to the Council at any time regarding any other relevant matter of importance.

<sup>13</sup> Section 54(4)(a) and (b) of the Local Government Act 2020

<sup>14</sup> Section 54(5)(a) and (b) of the Local Government Act 2020