



**Merri-bek**  
City Council

# Audit and Risk Committee Charter



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The Merri-bek City Council has established an Audit and Risk Committee (the Committee) in compliance with section 53(1) of the Local Government Act 2020 (the Act).

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## 1 Purpose

Council is committed to good governance, public transparency and accountability to the Merri-bek community. The Audit and Risk Committee is established to strengthen Council's governance, risk management, financial management and to drive continuous improvement.

The Committee is an advisory committee of the Council established to assist the Council discharge its responsibilities under the Local Government Act 2020 (the Act) to:

- monitor the compliance of Council policies and procedures with:
  - the overarching governance principles;
  - the Act and the regulations and any Ministerial directions; and
  - other relevant laws and regulations;
- monitor internal controls; monitor Council financial and performance reporting;
- monitor and provide advice on risk management and fraud prevention systems and controls;
- oversee internal and external audit function;
- monitor related party transactions.

The Committee operates to advise the Council on how to best fulfil its responsibilities and facilitate decision making by providing a forum for improving communication between Council members and senior management, finance, risk and compliance managers, internal and external auditors.

The Committee will engage with management in a constructive and professional manner in discharging its responsibilities and formulating its advice to the Council.

## 2 Authority

Pursuant to section 53(2) of the Act, the Committee is an advisory committee and does not have delegated powers, including executive powers, management functions, or delegated financial responsibility.

The Council authorises the Committee, within its responsibilities, to:

- obtain any information it requires from any official or external party (subject to any legal obligation to protect information);
- discuss any matters with the Victorian Auditor General's Office (VAGO) (or their representative), or other external parties (subject to confidentiality considerations);
- request the attendance of any official, including Councillors and Council Officers, at Committee meetings;
- obtain legal or other professional advice at the entity's expense, as considered necessary to meet its responsibilities;
- seek resolution on any disagreements between management and the external auditors on

financial reporting; and

- seek resolution of any disagreement between management and the internal auditors on internal audit recommendations.

All recommendations of the Committee shall be referred to the Council for approval, other than the:

- Strategic Annual Internal Audit Plan;
- Memorandums of Audit Planning (MAP) that do not require the approval of the Council; and
- Management responses to audit recommendations arising from Internal Audit Reports.

The Committee has the authority to review the Annual Financial Statements and Performance Statement and provide advice to Council. The Committee can recommend to Council its approval 'in principle', the signing of the Annual Financial Statements and Performance Statement.

### 3 Membership

**3.1** The Committee comprises of seven members (three Councillors and four independent and external members), appointed by Council. In accordance with the Act the Members must:

- include Councillors of the Council (section 53(3a)).
- consist of a majority of members who are not Councillors of the Council and who collectively have:
  - expertise in financial management and risk (Section 53(3b i));
  - experience in public sector management; (section 53(3b ii));
- not be a member of Council staff (Section 53(3c)).

**3.2** The Council will appoint the Chair of the Committee in accordance with section 53 of the Act:

- must not be a Councillor (section 53(4)); and
- must not be a member of Council staff (section 53(3c)).

**3.3** In the absence of the Chair, the Committee will elect a temporary Chair from the remaining independent members present at the meeting.

**3.4** The Council or Council Officers, Chief Executive Officer, Chief Financial Officer, Manager of Information Technology, Manager Governance and Strategy or other management representatives may attend meetings as advisers or observers but will not be members of the committee. For example, Directors will be invited to all meetings and Managers will be invited to attend if an audit report central to their area of responsibility is presented.

**3.5** The Committee reserves the right to meet at any time without non-members or with invited non-members only.

**3.6** A representative(s) of the VAGO will be invited to attend meetings of the committee, to present reports and observe. The representative will be required to act in accordance with the governance principles in addition to the obligations of confidentiality (Section 125) and conflict of interest (Part 6, Division 2) as outlined within this Charter and the Act.

- 3.7 A representative(s) of the appointed internal audit contractor will be invited to attend meetings of the committee, to present internal audit reports. The representative will be required to act in accordance with the governance principles in addition to the obligations of confidentiality (Section 125) and conflict of interest (Part 6, Division 2) as outlined within the Act.
- 3.8 Councillor members will be appointed for a one-year term of office.
- 3.9 The initial appointment of independent Committee members shall be for a three-year period. An independent member may serve no more than two full terms in any one position before the position must be publicly advertised. This does not preclude existing members from being re-appointed through a competitive process.
- 3.10 The Committee will adopt and maintain a program of induction, training, and awareness- raising for its members, with the objective of enabling the Committee to keep abreast of contemporary developments and leading practices in relation to its functions.

Pursuant to section 53(6) of the Act, the Council will pay a fee to independent committee members. This fee is based on a per meeting fee, determined by the CEO, which will be indexed in alignment with the rate cap % each 1 July. Payment will be made after each meeting following receipt of a Tax Invoice.

To provide the Council with the information required to review fees, each Council term the fee paid to Independent Members will be benchmarked with five other peer Councils.

## 4 Functions and Responsibilities

In accordance with section 54(2) of the Act, the functions and responsibilities of the Committee include

### 4.1 Monitor the compliance of Council policies and procedures with the overarching governance principles and the Act, regulations, and any ministerial directions (Section 54(2a)).

- 4.1.1 Assess the Council's procurement framework with a focus on the probity and transparency of ~~proc~~ and procedures/processes.
- 4.1.2 Assess the Council's policy framework and procedures to ensure the embedding of the governance principles.
- 4.1.3 Monitor the implementation of a three-year financial management improvement plan as a minimum. The progress against this plan will be reported to the Committee at each meeting. This plan is intended to provide assurance of longer-term planning to strengthen financial management policies and procedures aligned to implementation of financial management principles.
- 4.1.4 Monitor work by the council to mitigate and plan for climate change risk.

### 4.2 Monitor internal controls.

- 4.2.1 Review the effectiveness of the Council's internal control system with management and the internal and external auditors.

- 4.2.2 Assess whether management has controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk.
- 4.2.3 Should the need arise, meet periodically with key management, internal and external auditors, and compliance staff, to understand and discuss any changes in the Council's control environment.

**4.3 Monitor the Council's commercial interests, especially where these have been established under section 193 of the Local Government Act 1989 or sections 110-111 of the Local Government Act 2020. Monitor compliance with relevant laws and regulations.**

- 4.3.1 Monitor Council's processes regarding compliance with legislation and regulations.
- 4.3.2 Stay informed about how management is monitoring the effectiveness of its compliance and ethics program and making recommendations for change as necessary.
- 4.3.3 Review whether the Council has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints under the *Public Interest Disclosures Act 2012* and section 1317AA of the *Corporations Act 2001 (Commonwealth)*, dealing with an accounting, internal accounting controls or auditing matters or other matters likely to affect the Council or its compliance with relevant legislation and regulations.
- 4.3.4 Obtain assurance that adverse trends are identified and review management's actions to manage these.
- 4.3.5 Review management disclosures in financial reports of the effect of significant compliance issues.
- 4.3.6 Comply with legislative and regulatory requirements imposed on audit committee members, including not misusing their position (Section 123 of the Act) to gain an advantage for themselves or another or to cause detriment to the Council and disclosing conflicts of interest (Section 125 of the Act).

**4.4 Monitor Council financial and performance reporting (Section 54(2b))**

- 4.4.1 Receive 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).
- 4.4.2 Review the process for the management and governance of the use of data, information and knowledge.
- 4.4.3 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.
- 4.4.4 Assess significant estimates and judgements in financial reports by enquiring into the financial reports of the Council.
- 4.4.5 Assess whether a comprehensive process has been established for the purposes of legislative disclosure reporting requirements.
- 4.4.6 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.

4.4.7 Seek the external auditor for an independent opinion on the management's:

- technical compliance with accounting standards
- proper application of the accounting principles

clarity in financial disclosure practices as used or proposed in the financial report of the Council.

4.4.8 Assess internal control systems covering the public release of information.

4.4.9 Recommend to the Council whether the financial report including the performance statement should be approved based on the Committee's assessment of them.

4.4.10 Review the financial reporting provided to Council and monitor the financial performance and sustainability of Council.

#### **4.5 Monitor and provide advice on risk management and fraud prevention systems and controls (Section 54(2c))**

4.5.1 Monitor the implementation of a three-year risk management improvement plan as a minimum. The progress against this plan will be reported to the Committee at each meeting.

4.5.2 Review and recommend enhancements to Council's policy for the oversight and management of business risks.

4.5.3 Review management's overall risk profile, risk management framework and implementation strategy and advise Council of concerns regarding the appropriate resourcing of the required actions.

4.5.4 Receive regular risk reports, which:

- provide an overview of management of each strategic risk by strategic risk owners; and
- identify key risks, the status and the effectiveness of the risk management systems, to ensure that identified risks are monitored and new risks are identified, mitigated and reported.

4.5.5 Assess Council processes for management's identification and control of material risks, including business, financial and legal compliance risks in accordance with Council's identified tolerance for risk particularly in the following areas:

- potential non-compliance with legislation, regulations and standards and Council's policies
- important accounting judgements or estimates that prove to be wrong
- litigation and claims
- fraud and theft – significant business risks, recognising that responsibility for general or specific risk areas, for example, environmental risk, occupational health and safety, and how they are managed by the Council.

4.5.6 Assess adequacy of Council process to manage insurable risks.

4.5.7 Review whether the Council has a current and active Business Continuity Plan and Disaster Recovery Plan which are tested periodically.

4.5.8 Ascertain whether fraud risks have been:

- identified, analysed, evaluated, have an appropriate treatment plan which has been implemented, communicated, monitored and there is regular reporting and ongoing management of fraud risks

4.5.9 Receive summary reports from management on all suspected and actual frauds, thefts and material breaches of legislation, ensuring reporting to the Council and/or relevant authorities.

4.5.10 Monitor the Council's fraud prevention and detection framework, including any action taken with respect to actual and suspected instances of fraud.

4.5.11 Monitor management's efforts to create and maintain a strong internal control environment, including the design and implementation of anti-fraud strategies and programs, attendance of fraud awareness seminars and/or completion of training courses to increase staff awareness fraud.

#### **4.6 Oversee internal audit function (Section 54(2d))**

4.6.1 Review the allocation of internal audit resources through the Strategic Annual Internal Audit Plan, against Council's Audit Universe, 3-year Audit Plan, Assurance Map and Council's strategic risks.

4.6.2 Assess if there has been any obstruction to the work completed by the internal auditor.

4.6.3 Review and approve the memorandum of planning (MAP) for each internal audit to ensure that the audit objectives and scope are fit for purpose.

4.6.4 Provide the opportunity for audit committee members to meet with the internal auditors without management being present.

4.6.5 Review the reporting on completed internal audits, seeking clarification through critical analysis to assure the Committee that management is responding adequately to the findings and that key risks are mitigated.

4.6.6 Monitor the progress of the strategic annual internal audit plan and work plan and consider the implications of internal audit findings for the control and operating environment.

4.6.7 Monitor the implementation of internal audit's findings and recommendations.

4.6.8 Require Internal Audit contractor to conduct periodic reviews to confirm whether audit actions reported as completed by management have been effectively implemented.

#### **4.7 Oversee external audit function (Section 54(2d))**

4.7.1 At the appropriate meeting, ask the external auditor to outline the external audit plan including proposed audit strategies and how they relate to identified risk areas; discuss audit results; consider the implications of the external audit findings for the control environment. Ask the external auditor if there have been any significant resolved or unresolved disagreements with management.

4.7.2 Monitor and critique management's response to the external auditor's findings and recommendations.

4.7.3 Sight all representation letters signed by management and consider the completeness and appropriateness of the information provided.

4.7.4 Provide the opportunity for committee members to meet with the external auditor as the need arises without management being present.



4.7.5 Maintain an awareness of local government performance audits undertaken by the VAGO (through the VAGO Status report) and ensure recommendations are brought to the attention of the Council for action/implementation where appropriate.

#### 4.8 Related-party transactions

Review the processes for the identification, nature, extent and reasonableness of related-party transactions.

## 5 Engagement with the Victorian Auditor-General's Office

The committee will engage with the VAGO (or their representative), as the entity's external auditor, in relation to the VAGO's financial statement and performance audit coverage. In particular, the committee will:

- Invite a representative from the VAGO to attend Committee meetings and encourage a positive working relationship;
- Provide feedback to the VAGO on draft strategies, reports and opportunities for improvements; and
- Provide advice to management on action to be taken on significant issues raised in relevant VAGO reports or better practice guides.

## 6 Evaluating Performance

The Committee will undertake an annual assessment of its performance against the Audit and Risk Committee Charter in accordance with section 54(4a) of the Act. This assessment will be reported in accordance with the reporting requirements outlined in section 8 of the Charter.

Every two years, Management will assist the Committee to complete an Audit and Risk Committee Performance evaluation through a survey. The survey will invite input from each Committee member, senior management, internal audit, the VAGO (or representative), and any other stakeholders. The results of the performance evaluation will be reported through the Annual Committee Performance Report. The Chair, in conjunction with management, will undertake formal reviews of performance and independence of independent audit committee members before reappointing them for additional terms.

## 7 Reporting

The Committee will prepare an Annual Committee Performance Report that includes an annual assessment of Committee performance against the Audit and Risk Committee Charter in accordance with Section 54(4a) of the Act. This report will be provided to the Chief Executive Officer for presentation to Council annually in accordance with Section 54(4b) of the Act. This report will be published on Council's website.

The Committee will prepare a biannual audit and risk report that describes the activities of the Audit and Risk Committee and includes the Committee findings and recommendations in accordance with section 54(5a) of the Act, along with the agreed actions. This report will be provided to the Chief Executive Officer for reporting to Council biannually.

In alignment with the Governance Rules 2023, Public Transparency principles and Governance principles in the Act, summary minutes from each Committee meeting are to be presented to Council through the Governance Report - Cyclical report summarising progress, matters discussed and any issues the Committee wishes to share with all Councillors.

Internal audit reports and external audit reports shall not be made public.

Pursuant to section 54(6b) of the Act, the Chief Executive Officer is required to table reports upon request by the Chairperson of the Audit and Risk Committee.

## 8 Administrative Arrangements

### 8.1 Meetings

The committee will meet at least four times per year. One or more special meetings may be held to review the Council's annual financial statements and performance statement, or to meet other responsibilities of the committee.

All committee members are expected to attend each meeting, in person or via tele-or-video conference. Failure to attend a meeting will result in non-payment of members fees for the associated meeting.

The Chair is required to call a meeting if asked to do so by the Council and decide if a meeting is required if requested by another member, internal audit or the VAGO.

### 8.2 Planning

8.1.1 The Committee will develop a forward meeting schedule that includes the dates and location for each meeting for the forthcoming year.

8.1.2 In accordance with section 54(3) of the Act the Committee will develop an annual work program that includes the timing of reporting for all of the responsibilities outlined in this charter.

### 8.3 Quorum

A quorum will consist of two independent members and one Councillor. The quorum must be in attendance at all times during the meeting.

### 8.4 Secretariat

In accordance with section 54(6a) of the Act, the CEO will appoint a Council Officer to provide secretariat support to the Committee. The secretariat will:

- ensure the agenda for each meeting is approved by the Chief Executive Officer and Committee Chair;
- the agenda and supporting papers are circulated at least ten days prior to the meeting;
- Minutes must be reviewed by the Director Business Transformation and Committee Chair and circulated within three weeks of the meeting to each member and committee observers, as appropriate. Minutes to include relevant elements of the Committee's discussion.

## 9 Conflicts of Interest

Committee recommendations must be transparent and accountable, to protect the public interest, maintain the integrity of the Committee and Council and enable the public to be confident that the Committee is performing its duties properly. If a conflict of interest exists, it must be declared and managed. Committee members are required to provide written declarations, through the Chair, to the Council declaring any material personal interests they may have in relation to their responsibilities.

Division 2 of Part 6 of the *Local Government Act 2020* applies to Independent Members, as if the

member were a member of a delegated Committee. An independent member has a conflict of interest if they have:

- (a) a general conflict of interest within the meaning of section 127 of the Act
- (b) a material conflict of interest within the meaning of section 128 of the Act.

Members of the Committee will provide declarations in accordance with statutory requirements.

Independent members should consider past employment, consultancy arrangements and related party issues in making these declarations and the Council, in consultation with the Chair, should be satisfied that there are sufficient processes in place to manage any real or perceived conflict.

At the beginning of each committee meeting, members are required to declare any material personal interests that may apply to specific matters on the meeting agenda. Where required by the Chair, the member will be excused from the meeting or from the committee's consideration of the relevant agenda item(s). The Chair is also responsible for deciding if he/she should excuse themselves from the meeting or from the committee's consideration of the relevant agenda item(s).

Details of material personal interests declared by the Chair and other members, and actions taken, will be appropriately recorded in the minutes.

## 10 Misuse of Position

Section 123 of the Local Government Act 2020 applies to Independent Members, as if the member were a member of a delegated Committee. The Independent Member must not intentionally misuse their position -

- (a) to gain or attempt to gain, directly or indirectly, an advantage for themselves or for any other person; or
- (b) to cause, or attempt to cause, detriment to the Council or another person.

## 11 Confidential Information

Section 125 of the Local Government Act 2020 applies to Independent Members, as if the member were a member of a delegated Committee. The requirements include:

- (1) Unless subsection (2) or (3) applies, a person who is, or has been, an Independent Member must not intentionally or recklessly disclose information that the person knows, or should reasonably know, is confidential information.
- (2) Subsection (1) does not apply if the information that is disclosed is information that the Council has determined should be publicly available.
- (3) A person who is, or has been, an Independent Member may disclose information that the person knows or should reasonably know, is confidential information in the following circumstances—
  - (a) for the purposes of any legal proceedings arising out of this Act;
  - (b) to a court or tribunal in the course of legal proceedings;
  - (c) pursuant to an order of a court or tribunal;
  - (d) in the course of an internal arbitration and for the purposes of the internal arbitration process;
  - (e) in the course of a Councillor Conduct Panel hearing and for the purposes of the hearing;
  - (f) to a Municipal Monitor to the extent reasonably required by the Municipal Monitor;

- (g) to the Chief Municipal Inspector to the extent reasonably required by the Chief Municipal Inspector:
- (h) to a Commission of Inquiry to the extent reasonably required by the Commission of Inquiry.
- (i) to the extent reasonably required by a law enforcement agency.

## 12 Recruitment

A position description for independent members is established and maintained for each of the four independent member positions. The position description includes a committee skills matrix that identifies the blend of skills and experience required for the role.

Independent members will be recruited via a job recruitment website and appointed by Council on the recommendation of a selection panel comprised of the Audit and Risk Committee Chair, Director Business Transformation, Manager Governance and Strategy and Audit and Risk Committee.

Where an independent member resigns mid-term, a new independent member will be recruited and appointed for a three-year term.

## 13 Induction

New members will receive relevant information and briefings on their appointment to assist them to meet their committee responsibilities.

## 14 Review of the Committee Charter

The Committee charter will be reviewed every 2 years.

Any substantive changes to the charter will be recommended by the Committee and must be formally approved by the Council.