

Management report to Council

Agenda item 6.6

Audit and Risk Committee Charter

Council

Presenter: Kirsty Pearce, Acting Director Governance

29 August 2023

Purpose and background

1. The purpose of this report is to recommend that Council adopts a revised Audit and Risk Committee Charter (Charter).
2. The Audit and Risk Committee (ARC) is established, and members appointed, by Council.

Key issues

3. The current Charter was adopted by Council on 30 May 2023, and has been reviewed to support the ARC to better acquit its responsibilities and functions, and has been rewritten into a simplified document structure.
4. It was identified during planning for 2024–25 ARC meetings that for the December meeting Councillors may be in a transitional period post-election, impacting Councillor membership and quorum as required under the Charter.
5. The revised Charter has been drafted to give authority to the Lord Mayor to nominate Councillors with endorsement as ARC members during the post-election transition period. The revised Charter has an additional clause under “Appointment of members”.
6. The revised Charter was presented to the ARC at the 11 August 2023 meeting where the ARC endorsed the revised Charter to be referred to Council for adoption.

Recommendation from management

7. That Council:
 - 7.1. Adopts the revised Audit and Risk Committee Charter (Charter), shown as Attachment 2 of the report from management.
 - 7.2. Requests management publish the Charter on the Council website.

Attachments:

1. Supporting Attachment (Page 2 of 11)
2. Audit and Risk Committee Charter (Page 3 of 11)

Supporting Attachment

Legal

1. No direct legal issues arise from the recommendation of the report.
2. The ARC is an advisory committee of Council established in accordance with section 53 of the *Local Government Act 2020* with the requirements for a Charter and its contents outlined in section 54.

Finance

3. No financial implications arise from the recommendation of the report.

Conflict of interest

4. No member of Council staff, or other person engaged under a contract, involved in advising on or preparing this report has declared a material or general conflict of interest in relation to the matter of the report.

Health and Safety

5. In developing this proposal, no occupational health and safety issues or opportunities have been identified.

Stakeholder consultation

6. ARC members provided feedback on the draft Charter at the 11 August 2023 meeting of the ARC and endorsed the attached draft.

Relation to Council policy

7. ARC's role is to report to Council and provide appropriate advice and recommendations on matters relevant to its Charter in order to facilitate decision making by the organisation comprising Council and management, in relation to the discharge of its responsibilities.

Environmental sustainability

8. There are no sustainability impacts arising from the recommendation of the report.



CITY OF MELBOURNE

Audit and Risk Committee Charter

August 2023

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1. Purpose of the Audit and Risk Committee

The City of Melbourne Audit and Risk Committee (the Committee) provides independent professional advice to Council on a range of prudential matters through oversight of the following:

- financial and performance reporting
- management of risks
- maintenance of an effective internal control framework
- internal and external audit functions
- compliance management
- subsidiary company matters.

The Committee's role and functions are informed by the Local Government Act 2020 (LGA), as well as the contemporary corporate governance expectations of such Committees more broadly for other sectors of the Australian economy, including listed corporations and not for profit organisations.

The ARC Charter sets out the Committee's purpose, its remit, structure and key operational processes. The Committee is an advisory committee of Council and is not constituted as a delegated committee under the LGA.

2. Authority

The Committee has the authority to make appropriate enquiries of Councillors, Council Officers and external parties and to seek relevant information in carrying out its role. This authority extends to subsidiary companies.

3. Independence

The Committee has no delegated authority from Council. Its functions and responsibilities are stated in this Charter.

The Committee is independent of management and therefore is not involved in the day to day operations of Council.

4. Areas of Responsibility

This section of the Charter outlines the scope of the Committee's work for each of its areas of responsibility.

4.1 Financial and Performance Reporting

The Committee will:

During the Financial Year

- a. Monitor Council's financial and performance reporting.
- b. Prior to the end of the financial year receive reports on expected changes to accounting treatments and disclosures that may impact the annual financial report.
- c. Prior to the end of the financial year receive reports on expected changes to KPI's and disclosures that may impact the annual performance statement.

At Balance Date

- d. Review the group annual financial report and the annual performance statement for Council and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting treatments and disclosures.
- e. Receive copies of the Board approved and audited annual financial reports of the subsidiary entities.
- f. Receive reports on the outcomes of the audits of the annual financial reports of the subsidiary entities.

- g. Review the outcomes of the audit of the group annual financial report and Council's annual performance statement.
- h. Note any significant audit adjustments and consider whether these represent deficiencies in process and controls that require action by management.

The Committee may review the Council plans, budgets and any other reports as required to allow it to monitor the financial and reputational risk profile of Council.

4.2 Risk Management

The Committee will:

- a. Monitor the effectiveness of Council's enterprise risk management framework on its control environment and insurance arrangements.
- b. Monitor and provide advice on the management of Council's strategic and operational risks and effectiveness of controls.
- c. Receive regular analysis and insight into Council's key risks and mitigating controls, including, but not limited to:
 - Fraud and corruption matters.
 - Compliance management (legislative, regulatory and standards).
 - Business continuity management.
 - Workplace health and safety.
 - Annual insurance renewal programme and claims management performance
- d. Monitor Council awareness of and responses to emerging risks.

4.3 Internal Control Framework

The Committee will:

- a. Receive reports on significant control deficiencies and monitor effectiveness and completion of remedial actions.
- b. Monitor the impact of changes in systems and controls on the internal control framework.
- c. Monitor Council's review and refreshment programme for key policies.
- d. Monitor Council's review programme for Council delegations.
- e. Receive reports on any real or suspected instances of fraudulent and corrupt activity.
- f. Receive reports on recent reports released by integrity agencies with management assessments as to the relevance of the reports to Council's internal control framework.

4.4 Subsidiary Entities

The Committee will, in respect to subsidiary entities:

- a. Receive periodic reports on financial performance.
- b. Receive internal audit and external audit plans, including periodic reports on status of plan delivery.
- c. Receive periodic reports on the strategic risk profile and changes therein, including status of mitigating actions.
- d. Monitor outcomes of internal and external audit activity.
- e. Receive audited annual financial reports after Board approval and audit clearance thereon.
- f. Receive external audit interim and closing reports and any management letters issued.
- g. Receive Officer confirmation that the entities have complied with the Wholly Owned Subsidiary Protocol.

The Chair of the Committee will meet at least annually with the Chairs of the subsidiary entities' Audit and Risk Committees and report back to the Committee on the outcomes of those meetings.

4.5 Internal Audit

The Committee will:

Establishing & Maintaining the Internal Audit Function

- a. Review the charter, activities, resourcing and organisational structure of the internal audit function.

- b. Review the specifications for the Internal Audit Services contract and participate in the tender panel process.
- c. Monitor the continued independence of the internal audit function.

Planning

- d. Review and recommend the strategic and annual internal audit plans for endorsement by the Council and any major changes to the plans.
- e. Monitor that the internal auditor's annual plan is linked to Council's strategic and critical operational risks.

Plan Delivery

- f. Monitor progress of delivery of the annual internal audit plan.
- g. Review and approve scopes for all proposed internal audit reviews.
- h. Review reports on the outcomes of internal audit reviews.
- i. Monitor progress of agreed management actions for timely completion.
- j. Consider reporting to Council on the outcomes of any internal audit reviews where there are major exposures to Council.

Performance Assessment

- k. Annually review the performance of the internal audit service provider, including the level of satisfaction with the service.
- l. Meet with the internal audit service provider in the absence of management at least annually.

4.6 External Audit

The Committee will:

Financial Audit Planning

- a. Note the external auditor's proposed audit scope and approach for financial and performance audits, including any reliance on internal audit activity
- b. Monitor the continued independence of the external audit function.

Financial Audit Delivery

- c. Review all external audit reports on annual financial audits noting any audit differences identified by the auditor and any recommendations for improvements
- d. Monitor the audit opinion statement to be provided by the auditor
- e. Monitor progress of agreed management actions to address process and control improvements required
- f. Consider reporting to Council on the outcomes of the audit where there are major exposures to Council, including any proposed qualification of the audit opinion on the annual financial report or the annual performance statement
- g. Meet with the external audit service provider in the absence of management at least annually

Performance Audits

- h. Note the scopes for any proposed performance audits relevant to Council and its subsidiary entities and consider best value options for Council
- i. Review reports on outcomes of relevant performance audits noting any opportunities identified by management to improve Council performance.

4.7 Compliance Management

The Committee will:

- a. Receive reports on Council's compliance performance.
- b. Receive reports on significant incidents of non-compliance.
- c. Monitor remedial action by management where significant breaches have occurred.
- d. Assess whether non compliance incidents indicate broader process and control deficiencies.

Compliance management oversight includes compliance with the LGA, other relevant legislation and Council policies.

4.8 Other Matters Referred by Council

The Committee will:

- a. Consider any other matters referred to it by Council and respond to Council as appropriate.

5. Committee Governance

5.1 Charter

The Committee will review its Charter biennially or more frequently if required and provide recommendations to Council on proposed improvements. The review process should be aligned with the Committee's annual performance assessment process so that any opportunities for improvements related to the Charter arising from that process can be captured.

5.2 Committee Membership

Composition

- a. The Committee will comprise seven members, four being independent members and three Councillor members. In accordance with section 53(3(c) of the LGA, Committee membership will not include any person who is a member of Council staff.

Chair of the Committee

- b. The Chair will be an independent member and will be appointed by the Committee annually by election by all Committee members.
- c. The Committee is authorised to appoint an Acting Chair, from the independent members, when required.

Appointment of Members

- d. The Council will appoint Committee members. In appointing members, Council will consider gender and diversity balance.
- e. During a transitional period post-election the Lord Mayor has authority to nominate Councillors with endorsement to attend a meeting as a Councillor member.

Member Skill Sets & Experience

- f. The members, taken collectively, will have a broad range of skills and experience relevant to the operations of the Council including expertise in financial management, risk management and experience in public sector management.

Tenure of Members

- g. Independent members will be appointed for an initial period not exceeding three years. Independent members may be re-appointed for a further period. Independent members will not be appointed for more than three consecutive terms.
- h. Councillor members are typically appointed for a four year term.

Recruitment

- i. Recruitment of independent members will be through a recommendation of a panel comprising the ARC Chair or another independent member, a Councillor member and the Council's Chief Executive Officer (CEO) or a senior officer nominated by the CEO.

New Member Induction

- j. New members of the ARC will receive relevant information and briefings on their appointment to assist them to meet their responsibilities.

Remuneration

k. Independent members will be remunerated at a rate set by Council and reviewed annually through Council's budget process.

Independent Member Legislative Obligations

l. Section 123 (Misuse of position), section 125 (Confidential information) and Division 2 of Part 6 (Conflict of interest) of the LGA, apply to an independent member of the Committee as if the member were a member of a delegated Committee of Council.

Personal Returns

m. Council requires independent members to complete Personal Interest Disclosures (Part 6, Division 3) although these will not be published online as for officers.

Indemnification of Independent Members

n. Council will indemnify ARC members, consistent with section 43 of the LGA that applies to Councillors, members of delegated Committees or member of a Community Asset Committee

5.3 Reporting to Council

Annual Cycle

- a. The Committee will formally report to Council twice per year on its activities. These reports will summarise the Committee's activities over the previous six months and will include any significant findings arising from its work.
- b. The second of these reports will provide an overview of the full year of Committee activities and will be published on Council's website.
- c. The Chair of the Committee will be invited to present a summary of the Committees activities to a Councillor Forum annually, followed by an in-camera session with Councillors immediately after the conclusion of the Councillor Forum if required.
- d. In addition to these reports, the unconfirmed minutes of Committee meetings will be provided to Council after each Committee meetings.

End of Council Term Report

The Committee will present an End of Term Report to a closed session of Council prior to the end of each Council Term and before the caretaker period commences.

6. Committee Performance

The Committee will undertake an assessment of its performance annually and:

- a. Review the results of the assessment to identify any opportunities for performance improvement, including suggestions for improvements to the Committee Charter
- b. Agree improvement actions and embed them into forward plans.
- c. Report to Council on the outcomes of the assessment process.

The Chair of the Committee in conjunction with Officers will be responsible for ensuring the agreed actions are undertaken.

7. Committee Operations

7.1 Meetings

Frequency

- a. The Committee will meet at least five times a year, with authority to convene additional meetings, as circumstances require.

Additional Meetings

b. Additional meetings may be called by the Chair of the Committee, or at the request of the Lord Mayor or the CEO.

Quorum

c. A quorum will be a majority of members (so a quorum will be four members) and must include at least one Councillor. The number of independent members at each meeting must equal or exceed the number of Councillor members.

Attendance

d. All Committee members are expected to attend each meeting in person, or can attend remotely by prior approval of the Chair.

e. All Councillors are invited to attend each Committee meeting. Only formally appointed Councillor members can vote at Committee meetings.

f. The ARC meetings are closed to the public.

g. The CEO will facilitate the meetings of the Committee and invite members of the management team, internal and external auditors and other external parties to attend meetings as observers and to provide pertinent information, as necessary.

Meeting Schedule

h. The Committee will develop a forward meeting schedule that includes the dates, location, and agenda content for each meeting for the forthcoming year. Agenda content will be driven by the Committee's annual work plan.

Distribution of Meeting Papers

i. Meeting agendas and briefing papers will be prepared and provided to members at least one week in advance of meetings.

Minutes

j. Minutes will be taken at each meeting and presented to the subsequent meeting for confirmation.

7.2 Independent Specialist Advice

Subject to prior agreement with the Chief Executive Officer, the Committee can access independent specialist advice where it believes that is necessary in order to execute its duties.

7.3 Administrative Support

The Committee will have access to appropriate administrative support to enable it to discharge its responsibilities effectively.

7.4 Cross References to LGA Requirements

LGA	Concern	Charter section
S53(2)	ARC not a delegated Committee	3
S53(3)	Membership	5.2
S53(4)	ARC Chair	5.2 (b and c)
S53(5)	Misuse of position, confidential information, conflict of interest	5.2 (k)
S53(6)	Pay fee	5.2 (j)
S54(1)	Charter	NA
S54(2)	ARC functions and responsibilities	4
S54(3)	Annual Work Plan	7.1 (h)
S54(4a and b)	ARC assess its performance	6
S54(5a and	Biannual report to Council	5.3 (a)

b)		
S54(6a)	Agendas and minutes	7.1 (i) 7.1 (j)
S54(6b)	Table reports at Council	5.3 (c and d)
S53(1) S54(7)	Establishment of ARC	NA

7.5 Document history

Policy name	Audit and Risk Committee Charter
Policy owner	Director, Governance
Last review date	May 2023
Council adoption date	August 2023
Next review date	August 2025
Docs number	DM #16803298