

## AUDIT COMMITTEE

### DEBATE

19 OCTOBER 2016

#### 8.1 DEBATE AGENDA

##### LATE ITEM

##### 8.1.8

##### AMENDMENT TO AUDIT COMMITTEE TERMS OF REFERENCE

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##### **PURPOSE**

To approve amendment to the number of members required for a Quorum in the Audit Committee Terms of Reference.

##### **RECOMMENDATION**

That the Audit Committee approve and present to Council for endorsement, an amendment to clause 5.1 in the Audit Committee Terms of Reference to align the calculation of a quorum to that of Section 85 of the *Local Government Act*.

##### **REPORT**

###### Introduction

In accordance with Section 17 of the Local Government Act (Financial Management) Regulations 2011, the Audit Committee of a council has between 3 and 5 members. Prior to Cr Miller's resignation, the Committee had 6 voting members, with the Terms of Reference stating: *The quorum necessary for the transaction of business shall be 4 members of the Committee, including an Independent Member.*

###### Discussion

Council, at its meeting held 27 January 2016, accepted the resignation of Cr Miller from the Audit Committee, leaving a Committee of 3 Independent Members and 2 Elected Members.

It is recommended that the quorum necessary for the transaction of business be reduced to 3 members of the Committee, including an Independent Member, and that the Terms of Reference be amended to reflect this change.

##### **ATTACHMENTS OR OTHER SUPPORTING REFERENCES**

Attachment 1: Draft amended Terms of Reference

## COMMUNITY PLAN / CORPORATE PLAN / LEGISLATIVE REQUIREMENTS

### Community Plan



How We Work – Good Governance

### Corporate Plan

- 6.2 Ensure that Council's policy and process frameworks are based on principles of sound governance and meet legislative requirements.
- 6.9 Provide access to Council's plans, policies and processes and communicate with the community in plain English.
- 6.16 Provide contemporary internal administrative and business support services in accordance with mandated legislative standards and good practice principles.

### Legislative Requirements

Local Government Act (Financial Management) Regulations 2011

## FINANCIAL, RESOURCE AND RISK MANAGEMENT CONSIDERATIONS

Council's Audit Committee has a key role in its good governance framework. Good communication between the Committee and the Council will ensure that financial and risk management issues raised receive appropriate consideration and attention.

## COMMUNITY CONSULTATION

Community consultation is not required under legislation or Council policy.

**TERMS OF REFERENCE OF THE BAROSSA COUNCIL'S AUDIT COMMITTEE  
ESTABLISHED PURSUANT TO SECTION 41 OF THE LOCAL GOVERNMENT ACT 1999**

**1. ESTABLISHMENT**

- 1.1 The Barossa Council (hereinafter referred to as "the Council") at a meeting held on 6 September 2005 Minute Book Reference 2005/292 established the Audit Committee (hereinafter referred to as "the Committee") pursuant to section 41 of the *Local Government Act 1999* ("the Act").
- 1.2 The Committee is established to enquire into and report to Council in respect of those matters conferred upon it under section 126 of the Act and as set out in the clause 2 Objectives herein.

**2 OBJECTIVES**

**2.1 Financial reporting**

- 2.1.1 The Committee shall monitor the integrity of the financial statements of the Council, including its annual report, and review significant financial reporting issues and judgements which they contain.
- 2.1.2 The Committee shall review and question where necessary:
- (i) The consistency of, and/or any changes to, accounting policies;
  - (ii) The methods used to account for significant or unusual transactions where different approaches are possible;
  - (iii) Whether the Council has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - (iv) The clarity of disclosure in the Council's financial reports and the context in which statements are made; and
  - (v) All material information presented with the financial statements.

**2.2 Internal Controls and Risk Management Systems**

The Committee shall:

- 2.2.1 Keep under review the effectiveness of the Council's internal controls and risk management systems; and
- 2.2.2 Review and recommend the approval, where appropriate, of statements to be included in the annual report concerning internal controls and risk management.
- 2.2.3 Understand the business of the Council to appreciate the risks it manages on a daily basis and to ensure that there are appropriate management plans to manage

TERMS OF REFERENCE OF THE BAROSSA COUNCIL'S AUDIT COMMITTEE

Council Meeting on .....

and mitigate this business risk. This will include: governance considerations; insurance matters, financial reporting, legal and regulatory compliance, business continuity, and statutory compliance. This can be facilitated by discussions with internal and external auditors and through presentations by management on how business risks are identified and managed.

### **2.3 Internal audit**

The Committee shall:

- 2.3.1 Monitor and review the effectiveness of the Council's internal audit function in the context of the Council's overall risk management system;
- 2.3.2 Consider and make recommendations on the program of the internal audit function and the adequacy of its resources and access to information to enable it to perform its function effectively and in accordance with the Act, supporting regulations and relevant professional standards;
- 2.3.3 Review all reports on the Council's operations from the internal auditors;
- 2.3.4 Review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
- 2.3.5 Where appropriate, meet the internal audit provider at least once a year, without management being present, to discuss any issues arising from the internal audits carried out. In addition, the internal audit provider shall be given the right of direct access to the Mayor and to the Chairperson of the Committee.

### **2.4 External audit**

The Committee shall:

- 2.4.1 Consider and make recommendations to the Council, in relation to the appointment, re-appointment and removal of the Council's external auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- 2.4.2 Oversee Council's relationship with the external auditor including, but not limited to:
  - (i) Recommending the approval of the external auditor's remuneration, whether fees for audit or non-audit services, and recommending whether the level of fees is appropriate to enable an adequate audit to be conducted;
  - (ii) Recommending the approval of the external auditor's terms of engagement, including any engagement letter issued at the commencement of each audit and the scope of the audit;

- (iii) Assessing the external auditor's independence and objectivity taking into account relevant professional and regulatory requirements and the extent of Council's relationship with the auditor, including the provision of any non-audit services;
  - (iv) Satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Council (other than in the ordinary course of business);
  - (v) Monitoring the external auditor's compliance with legislative requirements on the rotation of audit partners; and
  - (vi) Assessing the external auditor's qualifications, expertise and resources and the effectiveness of the audit process (which shall include a report from the external auditor on the Committee's own internal quality procedures).
- 2.4.3 Meet as needed with the external auditor noting that the Committee shall meet the external auditor at least once a year without management being present to discuss the external auditor's report and any issues arising from the audit;
- 2.4.4 Review and make recommendations on the annual audit plan and its consistency with the scope of the external audit engagement;
- 2.4.5 Review the findings of the audit with the external auditor. This shall include, but not be limited to, the following;
- (i) A discussion of any major issues which arose during the external audit;
  - (ii) Any accounting and audit judgements; and
  - (iii) Levels of errors identified during the external audit.
- 2.4.6 Review the effectiveness of the external audit based on the contract of engagement;
- 2.4.7 Review any representation letter(s) requested by the external auditor; and
- 2.4.8 Review the management letter and management's response to the external auditor's findings and recommendations.

## **2.5 Reporting responsibilities**

- 2.5.1 The Committee shall make whatever recommendations to Council it deems appropriate on any area within this Terms of Reference where in its view action or improvement is needed.

### 3 MEMBERSHIP

- 3.1 The Committee shall consist of 5 members:
- 3.1.1 3 will be Independent Members, and
- 3.1.2 2 will be Elected Members;
- appointed by Council.
- 3.2 Independent Members will have recent and appropriate experience in finance, risk management and/or internal auditing.
- 3.2.1 Unless otherwise determined by Council, the Independent Members will be appointed for a 2 year term with a right of extension of the appointment by Council;
- 3.2.2 Independent Members' remuneration, including when acting as the Chairperson, will be reviewed annually for consideration by Council during the Budget process.
- 3.3 The Committee will be supported by the Chief Executive Officer and other staff members who shall attend the Committee meetings in an advisory capacity.
- 3.4 Council's external auditors and internal auditors may be invited to attend meetings of the Committee in an advisory capacity.
- 3.5 Subject to clause 3.2, Committee members shall continue in office until the completion of a Periodic Election under the Local Government (Elections) Act 1999. Retiring Committee members shall be eligible for re-election.
- 3.6 The Committee shall, at its first meeting or at its first meeting following the Periodic Election, nominate a Chairperson, preferably from among the Independent members. The nomination must be approved by Council. Should there be more nominations than required to fill the positions then all voting shall be by secret ballot.
- 3.7 A member may be removed from the Committee on the grounds that he or she has been absent without leave from three or more consecutive meetings, or is not performing duties as required within the purpose of this Committee.
- 3.8 All members of the Committee shall be appointed by the Council on the recommendation of the Committee being persons who have signified to the Committee their willingness to act if so appointed. Such method of appointment is to be made when filling vacancies on the Committee caused by either casual vacancies, or by the effluxion of time of the members.
- 3.9 The Council may at its discretion, remove from membership any member and appoint others in their stead.

#### **4. MEETINGS**

- 4.1 When the Chairperson is absent from a meeting the Committee members may appoint a person from those present to act as Chairperson for the duration of the meeting.
- 4.2 The meetings of the Committee shall be held in accordance with the Local Government (Procedures at Meetings) Regulations 2013 (“the Regulations”).
- 4.3 Meetings shall be held at least 4 times per year, or at other times as determined by the Committee.
- 4.4 Ordinary meetings of the Committee shall be held at the discretion of the Council, or, subject to a decision of Council, the Committee. A special meeting of the Committee may be called in accordance with the Act.
- 4.5 Notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, all Elected Members and other attendees, no later than 3 clear days before the date of the meeting. Supporting documents shall be sent to Committee Members (and to other attendees as appropriate) at the same time.
- 4.6 No Committee member shall vote or take part in debate who has an interest in any matter before the Committee that would contravene the Conflict of Interest provisions in sections 73, 74 and 75 of the Act.

#### **5. QUORUM**

- 5.1 The quorum shall be determined by dividing the number of members appointed to the Audit Committee, pursuant to clause 3 of these Terms of Reference, by two, ignoring any fraction resulting from the division and adding one. The quorum for a fully appointed committee shall be 3.

#### **6. VOTING**

- 6.1 All decisions of the Committee shall be made on the basis of a majority decision of the members present.
- 6.2 The Chairperson to have a determinative vote and a casting vote in the event of no majority being achieved.
- 6.3 Members present must vote on all resolutions of the Committee. Proxy votes are not permitted.

#### **7. MINUTES**

- 7.1 The Committee shall keep or cause to be kept minutes of all meetings, which shall include a record of the names of members present at each meeting. Minutes of meetings shall be circulated within 5 days after a meeting to all Committee members. Draft (or confirmed) minutes will be placed on the subsequent Council agenda and Council’s website as soon as practicable.

- 7.2 The Chief Executive Officer shall ensure that the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance, are minuted and that the minutes otherwise comply with requirements of the Regulations.
- 7.3 The Committee shall furnish to Council such information concerning the Committee's proceedings and activities as may be required.

## 8. GOVERNANCE

- 8.1 The activities of the Committee shall be regulated by such directions as may be made from time to time by Council and by such Terms of Reference as may be made by the Committee, and ratified by Council.
- 8.2 Pursuant to section 44 of the Act the Committee shall have delegated authority relative to section 126(4) of the Act. For other matters the Committee will make recommendations to Council.
- 8.3 The Chairperson shall be responsible to the Council for the proper observance of these Terms of Reference. However, no member shall be personally liable in respect of any transaction, act or omission of the Committee entered into, done or made in good faith. However, Committee members do not enjoy the protection against defamation actions afforded to State and Commonwealth Parliaments and must be careful not to make remarks that could result in an aggrieved person seeking to take action against them.
- 8.4 In the event of there being any dispute, which cannot be resolved by the Committee, the matter in question is to be referred to the Council for resolution.
- 8.5
- 8.5 Notwithstanding this Terms of Reference, all Committee members will observe the relevant requirements under the:
- (i) Act;
  - (ii) Regulations;
  - (iii) *Code of Conduct for Elected Members* (for Elected Member Committee members) or Council's *Volunteer Management Policy* (for Independent members);
  - (iv) *Independent Commissioner Against Corruption's Directions and Guidelines*; and
  - (v) Council's policies and processes which are relevant to the operations of the Committee.
- 8.6 Members of the Committee who are not Elected members are not required to complete a Register of Interest Return pursuant to Section 64 of the Local Government Act 1999.



8.7 Members are expected to:

- act honestly and within the law at all times;
- act in good faith and not for improper or ulterior motives;
- act in a reasonable, just and non discriminatory manner;
- undertake their role with reasonable care and diligence;
- conduct their ongoing relationship with fellow Committee members, Council employees and the public with respect, courtesy and sensitivity;
- use information in a careful and prudent manner.

8.8 The Chief Executive Officer shall provide sufficient administrative resources to the Committee to enable it to adequately carry out its functions, in accordance with any budget allocation being approved by Council.

8.9 All relevant documentation will be provided to the Committee members during Induction and when Council or legislative changes require further awareness. Committee members are expected to read, comply with and, where appropriate, to seek clarification with respect to Council policies and processes relevant to these Terms of Reference.