



DRAFT AUDIT, RISK AND IMPROVEMENT
COMMITTEE

CONSTITUTION

**INFORMATION ABOUT THIS DOCUMENT
(INTERNAL USE ONLY)**

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#E2012/25442	10/12/2012	27/9/2012 Res 12-769 – New Councillor Appointment 8/11/2012 – reference to WHS Policy
#E2017/17073	15/03/2017	Legislative amendments as per Local Government Amendment Act (Governance and Planning) 2016 (NSW)
#E2017/17073	22/6/2017	Council adopted amended constitution as per the legislative requirements under the Local Government Amendment (Governance and Planning) Act 2016 NSW at its Ordinary Meeting 22 June 2017 (Resolution 17-233)
E2018/71315	27/08/2018	Included information regarding the Committee's responsibilities relating to fraud and corruption prevention, as per recommendation from Council's internal auditors.
E2020/43124	22/10/2020	Council adopted amended constitution at its Ordinary Meeting 22 October 2020 (Resolution 20-577)
E2021/148820	03/02/2022	Adopts the Audit Risk and Improvement Committee Constitution which begins to align with the Office of Local Government Guidelines expected to be implemented from 1 July 2022. (Resolution 22-026)
E2022/73365	Dd/mm/yyyy	Draft to allow for amendments from ARIC members following ARIC Meeting 19/05/2022

Further Document Information and Relationships

Related Legislation	Local Government Act 1993 Local Government Amendment (Governance and Planning) Act 2016
Related Policies	Code of Conduct for Council Committee Members, Delegates of Council and Council Advisers
Related Procedures/ Protocols, Statements, documents	

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Audit, Risk and Improvement Committee

1. Preamble

The Audit, Risk and Improvement Committee (Committee) is a committee ~~of established by~~ Byron Shire Council (Council) ~~under section 355 in compliance with section 428A of the Local Government Act 1993 (Act). The Committee is an advisory Committee of Council and does not have financial delegation.~~

Commented [JM1]: Refer to 3. Independence

This Constitution establishes the ~~Committees objectives, independence, authority, composition and tenure, roles~~ and responsibilities, ~~reporting and administrative arrangements, conferred on the Committee by Council and the role of the Committee within Council.~~

2. Objectives

The role of the Committee is to report to Council and provide independent advice and recommendations on matters identified in this Constitution.

The Committee has a legislated duty to keep under review the following aspects of Council's operations:

- a) Compliance
- b) Risk management
- c) Fraud control
- d) Financial management
- e) Governance
- f) Implementation of the strategic plan, delivery program and strategies
- g) Service reviews
- h) Collection of performance measurement data by Council
- i) Any other matters prescribed by the regulations made under the Act.

The Committee is also to provide information to Council for the purpose of improving Council's performance of its functions.

3. Independence

~~The Committee is to be independent to ensure it has no real or perceived bias or conflicts of interest that may interfere with its ability to act independently and provide Council with robust, objective and unbiased advice and assurance.~~

Commented [JM2]: Per the model terms of reference provided in the draft OLG Guidelines (p83).

~~The Committee is to provide an advisory and assurance role only and is to have no administrative function, delegated financial responsibility or any management functions of the Council. The Committee will provide independent advice to the Council that is informed by the Council's internal audit and risk management activities and information and advice provided by Council, relevant external bodies and subject matter experts.~~

~~The Committee must at all times ensure it maintains a direct reporting line to and from the Council's internal audit function and act as a mechanism for internal audit to report to the Council and the General Manager on matters affecting the performance of the internal audit function.~~

~~To maintain the independence of the audit, risk and improvement committee, the governing body of the council must be careful when adopting the strategic workplan not to direct the committee's work over the council term.~~

Commented [BG3]: From Guidelines Page 14

It is essential for the audit, risk and improvement committee to be able to access the staff and information about the council it needs to review the matters listed in section 428A of the Local Government Act and the resources necessary to undertake its other responsibilities. A council's audit, risk and improvement committee must have direct and unrestricted access to the general manager and senior management of the council in order to fulfil its responsibilities.

Commented [BG4]: From Guidelines Page 33

4. Authority

Council authorises the Committee, within the scope of its role and responsibilities, to:

- a) Obtain any information it needs from any employee or external party (subject to their legal obligations to protect information).
- b) Discuss any matters with the external auditor and internal auditor (subject to confidentiality considerations).
- c) Request the attendance of any employee or Councillor at Committee meetings.
- d) With the concurrence of the General Manager or Mayor, obtain external legal or other professional advice considered necessary to meet its responsibilities.

5. Duties and Responsibilities

Audit, Risk, and Improvement Committee responsibilities are set out in the Act. The Committee has no executive powers, except those expressly provided by Council.

In carrying out its responsibilities, the Committee must at all times recognise that primary responsibility for management of Council rests with Council and the General Manager as defined by the Act.

The responsibilities of the Committee may be revised or expanded by Council from time to time. The Committee's duties and responsibilities include, but are not limited to:

5.1. Compliance

- a) Review whether management has in place relevant policies and procedures, and these are periodically reviewed and updated.
- b) Review whether management has considered legal and compliance risks as part of risk assessment and management arrangements.
- c) Review the effectiveness of the system for monitoring compliance with laws and regulations policies and procedures.
- d) Review whether management has taken steps to embed a culture which is committed to ethical and lawful behaviour.

5.2. Risk Management

- a) Review whether management has in place a risk management framework that complies with current Australian risk management standards.
- b) Review whether the risk management framework operates effectively and supports the achievement of Council's strategic goals and objectives.

- c) Review whether management has integrated risk management into decision making processes and operations.
- d) Review whether management has taken steps to embed a positive risk management culture.
- e) Consider the adequacy of resources provided for risk management and whether employees are able to carry out their risk management responsibilities.

5.3. Fraud Control

- a) Review whether management's fraud and control plan and prevention strategies are adequate and effective.
- b) Review whether management has appropriate processes and systems in place to capture and effectively investigate fraud-related information.

5.4. Financial Management

- ~~a) Review whether management's financial management processes are adequate.~~
- ~~b) Satisfy itself that the annual financial reports comply with applicable Australian Accounting Standards and are supported by appropriate management sign-off.~~
- ~~c) Review the financial statement by Councillors and management made pursuant to section 413(2)(c) of the Act.~~
- ~~d) Review the processes in place designed to ensure financial information included in the annual report is consistent with the signed financial statements.~~
- ~~e) Review the external audit opinion, including whether appropriate action has been taken in response to audit recommendations and adjustments.~~

Review and advise Council:

- a) if Council is complying with accounting standards and external accountability requirements
- b) of the appropriateness of Council's accounting policies and disclosures
- c) of the implications for Council of the findings of external audits and performance audits and Council's responses and implementation of recommendations
- d) whether the Council's financial statement preparation procedures and timelines are sound
- e) the accuracy of the Council's annual financial statements prior to external audit, including:
 - o management compliance/representations
 - o significant accounting and reporting issues
 - o the methods used by Council to account for significant or unusual transactions and areas of significant estimates or judgements
 - o appropriate management signoff on the statements

Commented [BG5]: This section should be replaced by all of the correspondingly titled section in Guidelines page 93.

Commented [JM6]: Deleted per comment from Bernard Grinberg to replace it with OLG guidelines section

Commented [JM7]: Inserted section from OLG guidelines per Bernard Grinberg comment

- f) if effective processes are in place to ensure financial information included in Council's report is consistent with signed financial statements
- g) if Council's financial management processes are adequate
- h) the adequacy of cash management policies and procedures
- i) if there are adequate controls over financial processes, for example:
 - o appropriate authorisation and approval of payments and transactions
 - o adequate segregation of duties
 - o timely reconciliation of accounts and balances
 - o review of unusual and high value purchases
- j) if policies and procedures for management review and consideration of the financial position and performance of Council are adequate
- k) if Council's grants and tied funding policies and procedures are sound

5.5. Governance

- a) Review whether appropriate processes and systems are in place for the management and exercise of delegations.
- b) Review whether appropriate processes and systems are in place to govern day to day activities and decision making.
- c) Review whether management has adequate internal controls over external third parties such as contractors and advisors.

5.6. Implementation of the Strategic Plan, Delivery Program and Strategies

- a) Review whether Council is achieving the objectives and goals it set out in its Community Strategic Plan and successfully implementing its Delivery Program, Operational Plan and other strategies.

5.7. Service Reviews

- a) Review the effectiveness of the service review program in improving service delivery performance.

5.8. Collection of Performance Measurement Data by Council

- a) Review whether management has adequate performance indicators and data to measure performance.

5.9. Internal Audit

- a) ~~Act as a forum for communication between the Council, General Manager, senior management, internal audit and external audit.~~
- b) ~~Review the Internal Audit Plan and the risk methodologies used, and approve the plan.~~
- c) ~~Review the progress of the Internal Audit Plan and the findings/recommendations of internal audit activities.~~

Commented [BGS]: This section should be replaced by all of the correspondingly titled section in Guidelines page 91.

- d) ~~Monitor the implementation of recommendations by management.~~
- e) ~~Consider the adequacy of internal audit resources to successfully deliver the audit function.~~
- f) ~~Periodically review the effectiveness of the internal audit function.~~
- a) Provide overall strategic oversight of internal audit activities
- b) Act as a forum for communication between the governing body, general manager, senior management, the internal audit function and external audit
- c) Coordinate, as far as is practicable, the work programs of internal audit and other assurance and review functions
- d) Review and advise Council:
 - o on whether the Council is providing the resources necessary to successfully deliver the internal audit function
 - o if Council is complying with internal audit requirements, including conformance with the International Professional Practices Framework
 - o if Council's Internal Audit Charter is appropriate and whether the internal audit policies and procedures and audit/risk methodologies used by Council are suitable
 - o of the strategic four-year plan and annual work plan of internal audits to be undertaken by Council's internal audit function
 - o if Council's internal audit activities are effective, including the performance of the head of the internal audit function contractors and internal audit function
 - o of the findings and recommendations of internal audits conducted, and corrective actions needed to address issues raised
 - o of the implementation by Council of these corrective actions
 - o on the appointment of the head of the internal audit function and external providers, and
 - o if the internal audit function is structured appropriately and has sufficient skills and expertise to meet its responsibilities

Commented [JM9]: Deleted per comment from Bernard Grinberg to replace it with OLG guidelines section

Commented [JM10]: Inserted section from OLG guidelines per Bernard Grinberg comment

Yellow highlighted text adjusted to allow for BSC's circumstances (use of contractor for internal audit function)

5.10. External Audit

- a) Act as a forum for communication on external audit issues.
- b) Review the findings of external audits and monitor the implementation by management any recommendations for corrective action.

6. Membership

The Committee shall comprise five members, consisting of two councillors and three relevantly qualified external representatives.

5.1 Councillor members

Councillor members must satisfy the following eligibility criteria to be appointed as an Audit, Risk and Improvement Committee member. They must:

- a) be financially literate
- b) have a good understanding of one or more of the following that would provide a valuable contribution to the committee:
 - o internal audit and external audit

- o risk management
 - o governance
 - o performance management
 - o financial management and reporting
 - o accounting
 - o human resources management
 - o internal control frameworks
 - o fraud and corruption prevention
 - o IT/cyber security
 - o the local community, or
 - o another relevant subject matter, and
- c) undertake any training on the operation of Audit, Risk and Improvement Committees recommended by the chair based on their assessment of the skills, knowledge and experience of the committee member.

5.2 Ex-officio members

Council's General Manager and external auditor shall be available to attend all Committee meetings but are not members of the Committee and do not have voting rights.

5.3 Independent member skills

Independent members must have appropriate skills, personal attributes and time to fulfil their role on the Committee to serve Council effectively and, must have skills and experience in one or more of the following areas:

- o local government
- o internal audit and external audit
- o risk management
- o governance
- o performance management
- o financial management and reporting
- o accounting
- o human resources management
- o internal control frameworks
- o fraud and corruption prevention
- o IT/cyber security
- o the local community.

An independent member of the Committee must also demonstrate the following personal qualities and attributes:

- o a commitment to the independence of their role
- o integrity
- o a capacity to dedicate sufficient time and energy
- o financial literacy, including an ability to read or understand basic financial statements, ask pertinent questions about them, and interpret and evaluate answers

- an ability to give direct and honest opinions and offer different perspectives and constructive suggestions, and
- inquisitiveness and independent judgment.

Council must undertake a criminal record and financial status (bankruptcy) check of an independent Committee member before their appointment. Potential members who possess a criminal record or have been or are bankrupt are not eligible for appointment.

5.4 Independent member appointment process

Independent members shall be requested to nominate their services through a public invitation process. The initial evaluation of potential members will be undertaken by the General Manager, taking into account the experience of the nominees, their personal attributes, and their ability to apply appropriate analytical and strategic management skills.

The General Manager will then nominate selected independent members to Council for approval.

When selecting independent Audit, Risk and Improvement Committee members, the Council is required to ensure that the committee has the appropriate mix of skills, knowledge and experience to successfully implement its terms of reference and add value to Council.

The Audit, Risk and Improvement Committee should have:

- at least one member with financial expertise (for example, a qualified accountant or auditor or other financial professional with experience of financial and accounting matters), and
- a mix of skills and experience in:
 - business
 - financial and legal compliance
 - risk management, and internal audit,
 - any specialised business operations of Council, where the committee would benefit from having a member with skills or experience in this area (for example, IT skills or experience where IT systems have an important role in Council's business).

All Audit, Risk and Improvement Committee members should have sufficient understanding of Council's financial reporting responsibilities to be able to contribute to the committee's consideration of the annual financial statements.

Each independent member should also have sufficient time to devote to their responsibilities as an Audit, Risk and Improvement Committee member.

Where possible, Council should ensure that at least one other Audit, Risk and Improvement Committee member is also qualified to act as the Chair, if this is ever required.

The Chair of the Committee shall be an independent member elected by Council.

All independent members shall be appointed by Council for a term of up to four years.

The appointment of chairs and members of Audit, Risk and Improvement Committees should be formalised in an official letter of appointment signed by the Mayor. The letter of appointment should set out the terms and conditions of the appointment including:

- duration of appointment
- role and responsibilities
- timing and location of meetings
- time commitment
- remuneration
- the management of conflicts of interest
- confidentiality
- performance appraisal, and
- termination of appointment.

5.5 Obligations of members

Members of the Committee must at all times in the discharge of their duties and responsibilities exercise honesty, objectivity and probity and not engage knowingly in acts or activities that have the potential to bring discredit to Council.

Members must also refrain from entering into any activity that may prejudice their ability to carry out their duties and responsibilities objectively and must at all times act in a proper and prudent manner in the use of information acquired in the course of their duties. Members must not use Council information for any personal gain for themselves or their immediate families or any manner that would be contrary to law or detrimental to the welfare of Council.

Further, members must not publicly comment on matters relative to activities of the Committee other than as authorised by Council.

7. Meetings

- a) The Committee will meet at least quarterly, with one of those meetings to include the review of Council's financial statements and external audit opinion.
- b) The need for any additional meetings will be decided by the Chair of the Committee, though other Committee members, Council or the General Manager may make requests to the Chair for additional meetings.
- c) An annual agenda schedule and report work plan must be agreed by the Committee each year. The agenda schedule will cover all Committee responsibilities as detailed in this Constitution.
- d) While meetings will generally be conducted in person, telephone or video conference, other methods to conduct meetings including by email communication, may be used.

8. Attendance at Meetings and Quorum

- a) A quorum shall be three Committee members.
- b) If the Chair of the Committee is absent from a meeting, the first business of the meeting will be to elect a Chair for that meeting from the independent members present.

- c) The internal auditor will be invited to attend each meeting unless requested not to do so by the Chair of the Committee. The Committee may invite ex-officio members, members of the Executive Team, the Manager Finance or other Council employees to participate for certain agenda items.
- d) The Committee members can request ex-officio members and invitees to absent themselves from all or part of the meetings where it is not appropriate for them to be present for the discussion of matters on the agenda.

9. Privacy, Conflict of Interest & Code of Conduct

- a) Committee members are required to adhere to Council's Code of Conduct.
- b) Committee members and invitees must declare any conflict of interest at the start of each meeting or before discussion of a relevant agenda item. Details of any conflicts of interests should be appropriately noted in the minutes.
- c) Where Committee members or invitees have a real or perceived conflict of interest, it may be appropriate for them to be excused from Committee deliberations on the issues from which the conflict arises. The final arbiter of such a decision is the Chair of the Committee.
- d) The Committee must comply with Council policies in relation to confidentiality, privacy and reporting. Members of the Committee must not disclose matters dealt with by the Committee to third parties except with approval of the Committee.

10. Secretariat

Corporate and Community Services Directorate will provide secretariat support to the Committee. The secretariat will ensure the agenda for each meeting and supporting papers are circulated at least one week before the meeting and will take minutes at each meeting. Minutes shall be circulated to each member of the Committee within three weeks of the meeting.

11. Assessing Performance

The Chair of the Committee shall initiate a review of the performance of the Committee annually. The review shall be conducted on a self-assessment basis (unless otherwise determined by the Chair), with appropriate input from management and any other relevant stakeholders, as determined by the Chair.

12. Review

The Council and Committee shall review the Constitution annually. Only Council can amend the Constitution.