COUNCIL POLICY

Cowra Shire Council
Audit, Risk and Improvement Committee
Terms of Reference

Commencement Date	22 April 2024
Council Department	Corporate Services
Contact Officer	Director-Corporate Services
Revision Required	Every 2 years

<u>Policy Review</u>

This policy shall be reviewed at four (4) yearly intervals at least, to ensure it meets all statutory requirements and the needs of council. It may also be reviewed at other times as determined by council.

<u>Revision History</u>

Version	Resolution No.	Council Meeting Date	Responsible Officer
1	96/2011	23 May 2011	General Manager
2	184/2013	26 August 2013	General Manager
3	267/2018	22 October 2018	Director-Corporate Services
4	219/2021 (No changes)	27 September 2021	Director-Corporate Services
5	78/2024 (Previously Audit, Risk and Improvement Committee Charter)	22 April 2024	Director-Corporate Services

Cowra Shire Council
Private Bag 342
Cowra NSW 2794

Phone: 02 6340 2000
Email: council@cowra.nsw.gov.au
Internet: www.cowracouncil.com.au

Table of Contents

Cowra Shire Council (Council) has established an Audit, Risk and Improvement Committee (ARIC) in compliance with section 428A of the *Local Government Act 1993*, the *Local Government (General) Regulation 2021* and the Office of Local Government's *Guidelines for risk management and internal audit for local government in NSW*. These terms of reference set out the ARIC's objectives, authority, composition and tenure, roles and responsibilities, reporting and administrative arrangements.

1. Definitions

Internal Audit Function – the function which provides internal audit services to the Council
Internal Audit Provider – the external third-party provider of internal audit services
Executive Audit Officer – Council employee internally responsible for the Internal Audit Function of the Council

2. Objective

The objective of the ARIC is to provide independent assurance to the Council by monitoring, reviewing and providing advice about the Council governance processes, compliance, risk management and control frameworks, external accountability obligations and overall performance.

3. Independence

The ARIC 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 to provide the Council with robust, objective and unbiased advice and assurance.

The ARIC is to have an advisory and assurance role only and is to exercise no administrative functions, delegated financial responsibilities or any management functions of the Council. The ARIC provides independent advice to the Council that is informed by the Council internal audit and risk management activities and information and advice provided by staff, relevant external bodies and subject matter experts.

The ARIC must always ensure it maintains a direct reporting line to and from the Internal Audit Function and act as a mechanism for internal audit to report to the governing body and the General Manager on matters affecting the performance of the Internal Audit Function.

4. Authority

The Council authorises the ARIC, for the purposes of exercising its responsibilities, to:
→ access any information it needs from the Council
→ use any Council resources it needs
→ have direct and unrestricted access to the General Manager and senior management of the Council
→ seek the General Manager's permission to meet with any other Council staff member or contractor
→ discuss any matters with the external auditor or other external parties
→ request the attendance of any employee at ARIC meetings, and
→ seek approval from the General Manager to obtain external legal or other professional advice in line with the Councils' procurement policies.

Information and documents pertaining to the ARIC are confidential and are not to be made publicly available. The ARIC may only release Council information to external parties that are assisting the ARIC to fulfil its responsibilities with the approval of the General Manager, except where it is being provided to an external investigative or oversight agency for the purpose of informing that agency of a matter that may warrant its attention.

5.   Committee Composition and Tenure

The ARIC consists of an Independent Chair and two Independent Members who have voting rights with the option of one non-voting Councillor, as required under the *Local Government (General) Regulation 2021*.

The governing body is to appoint the Chair and members of the ARIC. Current ARIC members are:

Ron Gillard	Independent Chair (voting)
Geoff Twomey	Independent Member (voting)
[TBA]	Independent Member (voting)
[TBA – if utilised]	Councillor Member (non-voting)

All ARIC members must meet the independence and eligibility criteria prescribed under the *Local Government (General) Regulation 2021*.

Members will be appointed for up to a four-year term. Members can be reappointed for one further term, but the total period of continuous membership cannot exceed eight years. This includes any term as Chair of the ARIC. Members who have served an eight-year term (either as a member or as Chair) must have a two-year break from serving on the ARIC before being appointed again. To preserve the ARIC's knowledge of the Council, ideally, no more than one member should retire from the ARIC because of rotation in any one year.

The terms and conditions of each member's appointment to the ARIC are to be set out in a letter of appointment. New members will be thoroughly inducted to their role and receive relevant information and briefings on their appointment to assist them to meet their responsibilities.

Prior to approving the reappointment or extension of the Chair's or an Independent Member's term, the governing body is to undertake an assessment of the Chair's or Independent Member's performance. Reappointment of the Chair or an Independent Member is also to be subject to that person still meeting the independence and eligibility requirements prescribed under the *Local Government (General) Regulation 2021*.

Members of the ARIC must possess and maintain a broad range of skills, knowledge and experience relevant to the operations, governance and financial management of the Council, the environment in which the Council operates, and the contribution that the ARIC makes to the Council. At least one member of the ARIC must have accounting or related financial management experience with an understanding of accounting and auditing standards in a local government environment. All members should have sufficient understanding of the Council financial reporting responsibilities to be able to contribute to the committee's consideration of the Council annual financial statements.

6.   Role

As required under section 428A of the *Local Government Act 1993* (the Act), the role of the ARIC is to review and provide independent advice to the Council regarding the following aspects of the Council operations:

→ compliance
→ risk management
→ fraud control

→ financial management

→ governance

→ implementation of the strategic plan, delivery program and strategies

→ service reviews

→ collection of performance measurement data by the Council, and

→ internal audit.

The ARIC must also provide information to the Council for the purpose of improving the Council performance of its functions.

The ARIC's specific audit, risk and improvement responsibilities under section 428A of the Act are outlined in Schedule 1 to this document.

The ARIC will act as a forum for consideration of the Internal Audit Function and oversee its planning, monitoring and reporting to ensure it operates effectively.

The ARIC has no power to direct external audit or the way it is planned and undertaken but will act as a forum for the consideration of external audit findings.

The ARIC is directly responsible and accountable to the governing body for the exercise of its responsibilities. In carrying out its responsibilities, the ARIC must at all times recognise that primary responsibility for management of the Council rests with the governing body and the General Manager.

The responsibilities of the ARIC may be revised or expanded in consultation with, or as requested by, the governing body from time to time.

7. Responsibilities of Members

7.1. Independent Members

The Chair and members of the ARIC are expected to understand and observe the requirements of the Office of Local Government's *Guidelines for risk management and internal audit for local government in NSW*. Members are also expected to:

→ make themselves available as required to attend and participate in meetings

→ contribute the time needed to review and understand information provided to it

→ apply good analytical skills, objectivity and judgement

→ act in the best interests of the Council

→ have the personal courage to raise and deal with tough issues, express opinions frankly, ask questions that go to the fundamental core of the issue and pursue independent lines of inquiry

→ maintain effective working relationships with the Council

→ have strong leadership qualities (Chair)

→ lead effective ARIC meetings (Chair), and

→ oversee the Internal Audit Function (Chair).

7.2. Councillor Members (where applicable)

To preserve the independence of the ARIC, the Councillor Member (where nominated) of the ARIC is a non-voting member. Their role is to:

→ relay to the ARIC any concerns the governing body may have regarding the Council and issues being considered by the ARIC

→ provide insights into local issues and the strategic priorities of the Council that would add value to the ARIC's consideration of agenda items

→ advise the governing body (as necessary) of the work of the ARIC and any issues arising from it, and

→ assist the governing body to review the performance of the ARIC.

Issues or information the Councillor Member raises with or provides to the ARIC must relate to the matters listed in Schedule 1 and issues being considered by the ARIC.

The Councillor Member of the ARIC must conduct themselves in a non-partisan and professional manner. The Councillor Member of the ARIC must not engage in any conduct that seeks to politicise the activities of the ARIC or the Internal Audit Function or that could be seen to do so.

If the Councillor Member of the ARIC engages in such conduct or in any other conduct that may bring the ARIC and its work into disrepute, the Chair of the ARIC may recommend to the Council, that the Councillor Member be removed from membership of the ARIC. Where the Council does not agree to the ARIC Chair's recommendation, the Council must give reasons for its decision in writing to the Chair.

7.3. Conduct

Independent Members are required to comply with the Council's Code of Conduct.

Complaints alleging breaches of the Council's Code of Conduct by an independent ARIC member are to be dealt with in accordance with the *Procedures for the Administration of the Model Code of Conduct for Local Councils in NSW*. The General Manager must consult with the governing body before taking any disciplinary action against an independent ARIC member in response to a breach of the Council's Code of Conduct.

7.4. Conflicts of Interest

Once a year, ARIC members must provide written declarations to the Council stating that they do not have any conflicts of interest that would preclude them from being members of the ARIC. Independent ARIC members are 'designated persons' for the purposes of the Council's Code of Conduct and must also complete and submit returns of their interests.

ARIC members and observers must declare any pecuniary or non-pecuniary conflicts of interest they may have in a matter being considered at the meeting at the start of each meeting or as soon as they become aware of the conflict of interest. Where an ARIC member or observer declares a pecuniary or a significant non-pecuniary conflict of interest, they must remove themselves from ARIC deliberations on the issue. Details of conflicts of interest declared at meetings must be appropriately minuted.

7.5. Standards

ARIC members are to conduct their work in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and International Standard on Risk Management – ISO 31000:2018, where applicable.

8. Work Plans

The work of the ARIC is to be thoroughly planned and executed. The ARIC must develop a strategic work plan every four years to ensure that the matters listed in Schedule 1 are reviewed by the ARIC

and considered by the Internal Audit Function when developing their risk-based program of internal audits. The strategic work plan must be reviewed at least annually to ensure it remains appropriate.

The ARIC may, in consultation with the governing body, vary the strategic work plan at any time to address new or emerging risks. The governing body may also, by resolution, request the ARIC to approve a variation to the strategic work plan. Any decision to vary the strategic work plan must be made by the ARIC.

The ARIC must also develop an annual work plan to guide its work, and the work of the Internal Audit Function over the forward year.

The ARIC may, in consultation with the governing body, vary the annual work plan to address new or emerging risks. The governing body may also, by resolution, request the ARIC to approve a variation to the annual work plan. Any decision to vary the annual work plan must be made by the ARIC.

When considering whether to vary the strategic or annual work plans, the ARIC must consider the impact of the variation on the Internal Audit Function's existing workload and the completion of pre-existing priorities and activities identified under the work plan.

9.   Assurance Reporting

The ARIC must regularly report to the Council to ensure that it is kept informed of matters considered by the ARIC and any emerging issues that may influence the strategic direction of the Council or the achievement of the Council's goals and objectives.

The ARIC will provide an update to the governing body and the General Manager of its activities and opinions after every ARIC meeting.

The ARIC will provide an annual assessment to the governing body and the General Manager on the ARIC's work.

The ARIC will provide a comprehensive assessment every Council term of the matters listed in Schedule 1 to the governing body and the General Manager.

The ARIC may at any time report to the governing body or the General Manager on any other matter it deems of sufficient importance to warrant their attention. The mayor and the Chair of the ARIC may also meet at any time to discuss issues relating to the work of the ARIC.

Should the governing body require additional information, a request for the information may be made to the Chair of the ARIC by resolution. The Chair is only required to provide the information requested by the governing body where the Chair is satisfied that it is reasonably necessary for the governing body to receive the information for the purposes of performing its functions under the Local Government Act. Individual Councillors are not entitled to request or receive information from the ARIC.

10. Administrative Arrangements

10.1. Meetings

The ARIC will meet at least quarterly at a time as agreed by the ARIC. The need for an additional special meeting to review the Council's annual financial statements will be assessed annually by the Chair.

The ARIC can hold additional meetings when significant unexpected issues arise, or if the Chair is asked to hold an additional meeting by an ARIC member, the General Manager or the Council.

ARIC meetings can be held in person, by telephone or videoconference. Proxies are not permitted to attend meetings if an ARIC member cannot attend.

A quorum will consist of a majority of independent voting members. Where the vote is tied, the Chair has the casting vote.

The Chair of the ARIC will decide the agenda for each ARIC meeting in consultation with the Executive Audit Officer. Each ARIC meeting is to be minuted to preserve a record of the issues considered and the actions and decisions taken by the ARIC.

The Mayor (or their delegate), General Manager and the Executive Audit Officer should attend ARIC meetings as non-voting invitees. The internal auditor and external auditor (or their representative) are to be invited to each ARIC meeting as an independent observer. The Chair can request any employee/contractor of the Council and any subject matter expert to attend ARIC meetings. Where requested to attend a meeting, persons must attend the meeting where possible and provide any information requested. Observers have no voting rights and can be excluded from a meeting by the Chair at any time.

The ARIC can hold closed meetings whenever it needs to discuss confidential or sensitive issues with only voting members of the ARIC present.

The ARIC must meet separately with the Executive Audit Officer and the Council's external auditor at least once each year.

10.2. Dispute Resolution

Members of the ARIC and the Council's management should maintain an effective working relationship and seek to resolve any differences they may have in an amicable and professional way by discussion and negotiation.

In the event of a disagreement between the ARIC and the General Manager or other senior managers, the dispute is to be resolved by the governing body.

Unresolved disputes regarding compliance with statutory or other requirements are to be referred to the Departmental Chief Executive of the Office of Local Government in writing.

10.3. Secretariat

The General Manager will nominate a staff member to provide secretariat support to the ARIC. The secretariat will ensure the agenda for each meeting and supporting papers are circulated after approval from the Chair at least 3 full business days before the meeting and ensure that minutes of meetings are prepared and maintained. Minutes must be approved by the Chair and circulated within 2 weeks of the meeting to each member.

10.4. Remuneration

Remuneration will be reviewed by the Council at least once every Council term and more frequently where required.

The fees paid to independent ARIC members will increase annually by the percentage allocated to Councillors by the Independent Pricing and Regulatory Tribunal determination. This will take effect for each independent ARIC member, including the Chair, on the anniversary date each year commencing at the completion of the first year.

As required by the *Guidelines for risk management and internal audit for local government in NSW*, Council will pay the superannuation guarantee liability on independent ARIC members meeting fees directly into the individual member's designated fund under the Superannuation Guarantee (Administration) Act 1992 (Cth).

With prior approval from the General Manager, the Council will reimburse reasonable travel and accommodation expenses associated with attending ARIC meetings in person. Wherever possible, the Council will book services directly with providers of its choosing, and members travelling by car will be reimbursed for their return trip using the current Australian Tax Office cents per kilometre rate.

The Council encourages independent ARIC members to keep their skills current and supports professional development. The Council will consider reimbursement of, or pro-rated contribution to, related professional development expenses upon approval by General Manager.

10.5. Public Liability and Professional Indemnity Insurance

The Council will provide Public Liability and Professional Indemnity Insurance to the Independent Chair and Independent Members under the same arrangements as provided to Councillors. This coverage provides indemnification in respect of claims for all loss or damage potentially made against them in their capacity as members of the ARIC.

10.6. Resignation and Dismissal of Members

Where the Chair or an ARIC member is unable to complete their term or does not intend to seek reappointment after the expiry of their term, they should give 4 weeks' notice to the Chair and the governing body prior to their resignation to allow the Council to ensure a smooth transition to a new Chair or ARIC member.

The governing body can, by resolution, terminate the appointment of the Chair or an independent ARIC member before the expiry of their term where that person has:

- breached the Council's Code of Conduct
- performed unsatisfactorily or not to expectations
- declared, or is found to be in, a position of a conflict of interest which is unresolvable
- been declared bankrupt or found to be insolvent
- experienced an adverse change in business status
- been charged with a serious criminal offence
- been proven to be in serious breach of their obligations under any legislation, or
- experienced an adverse change in capacity or capability.

The position of a Councillor Member on the ARIC can be terminated at any time by the governing body by resolution.

10.7. Review Arrangements

At least once every Council term, the governing body must review or arrange for an external review of the effectiveness of the ARIC.

These terms of reference must be reviewed annually by the ARIC and once each Council term by the governing body. Any substantive changes are to be approved by the governing body.

11. Further information

For further information on Council's ARIC, contact Council's Director-Corporate Services on 0263402007.

Schedule 1 – Audit, Risk and Improvement Committee Responsibilities

11.1. Audit

Internal Audit

Principle: The Council has an effective internal audit function and receives maximum value from its internal audit activities.

→ Provide overall strategic oversight of internal audit activities

→ Act as a forum for communication between the governing body, General Manager, senior management, the Internal Audit Function and external audit

→ Coordinate, as far as is practicable, the work programs of internal audit and other assurance and review functions

→ Review and advise the Council:
  o on whether the Council is providing the resources necessary to successfully deliver the Internal Audit Function
  o if the Council is complying with internal audit requirements, including conformance with the International Professional Practices Framework
  o if the Council's internal audit charter is appropriate and whether the internal audit policies and procedures and audit/risk methodologies used by the Council are suitable
  o of the strategic four-year work plan and annual work plan of internal audits to be undertaken by the Council's Internal Audit Function
  o if the Council's internal audit activities are effective, including the performance of the Executive Audit Officer and the 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 the Council of these corrective actions
  o on the appointment of the Executive Audit Officer and Internal Audit Providers, and
  o if the Internal Audit Function is structured appropriately and has sufficient skills and expertise to meet its responsibilities

External Audit

Principle: The Council receives maximum value from its external audit activities.

→ Act as a forum for communication between the governing body, General Manager, senior management, the internal audit function and external audit

→ Coordinate as far as is practicable, the work programs of internal audit and external audit

→ Provide input and feedback on the financial statement and performance audit coverage proposed by external audit and provide feedback on the audit services provided

→ Review all external plans and reports in respect of planned or completed audits and monitor the Council's implementation of audit recommendations

→ Provide advice to the governing body and/or General Manager on action taken on significant issues raised in relevant external audit reports and better practice guides

11.2. Risk

Risk Management

Principle: The Council has an effective risk management framework and internal controls that successfully identify and manage the risks it faces.

Review and advise the Council:

→ if the Council has in place a current and appropriate risk management framework that is consistent with the Australian risk management standard

→ whether the Council is providing the resources necessary to successfully implement its risk management framework

→ whether the Council's risk management framework is adequate and effective for identifying and managing the risks the Council faces, including those associated with individual projects, programs and other activities

→ if risk management is integrated across all levels of the Council and across all processes, operations, services, decision-making, functions and reporting

→ of the adequacy of risk reports and documentation, for example, the Council's risk register and risk profile

→ whether a sound approach has been followed in developing risk management plans for major projects or undertakings

→ whether appropriate policies and procedures are in place for the management and exercise of delegations

→ if the Council has taken steps to embed a culture which is committed to ethical and lawful behaviour

→ if there is a positive risk culture within the Council and strong leadership that supports effective risk management

→ of the adequacy of staff training and induction in risk management

→ how the Council's risk management approach impacts on the Council's insurance arrangements

→ of the effectiveness of the Council's management of its assets, and

→ of the effectiveness of business continuity arrangements, including business continuity plans, disaster recovery plans and the periodic testing of these plans.

Internal Controls

Principle: The Council has an effective risk management framework and internal controls that successfully identify and manage the risks it faces.

Review and advise the Council:

→ whether the Council's approach to maintaining an effective internal audit framework, including over external parties such as contractors and advisors, is sound and effective

→ whether the Council has in place relevant policies and procedures and that these are periodically reviewed and updated

→ whether appropriate policies and procedures are in place for the management and exercise of delegations

→ whether staff are informed of their responsibilities and processes and procedures to implement controls are complied with

→ if the Council's monitoring and review of controls is sufficient, and

→ if internal and external audit recommendations to correct internal control weaknesses are implemented appropriately.

Compliance

Principle: The Council has an effective compliance framework that ensures it is complying with its legal obligations and other governance and contractual requirements when undertaking its functions.

Review and advise the Council of the adequacy and effectiveness of the Council's compliance framework, including:

→ if the Council has appropriately considered legal and compliance risks as part of the Council's risk management framework

→ how the Council manages its compliance with applicable laws, regulations, policies, procedures, codes, and contractual arrangements, and

→ whether appropriate processes are in place to assess compliance.

Fraud and Corruption

Principle: The Council has an effective fraud and corruption control framework in place that minimises the incidence of fraud and corruption.

Review and advise the Council of the adequacy and effectiveness of the Council's fraud and corruption prevention framework and activities, including whether the Council has appropriate processes and systems in place to capture and effectively investigate fraud-related information.

Financial Management

Principle: The Council has an effective financial management framework, sustainable financial position and positive financial performance.

Review and advise the Council:
→ if the Council is complying with accounting standards and external accountability requirements
→ of the appropriateness of the Council's accounting policies and disclosures
→ of the implications for the Council of the findings of external audits and performance audits and the Council's responses and implementation of recommendations
→ whether the Council's financial statement preparation procedures and timelines are sound
→ 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 the Council to account for significant or unusual transactions and areas of significant estimates or judgements
  o appropriate management signoff on the statements
→ if effective processes are in place to ensure financial information included in the Council's annual report is consistent with signed financial statements
→ if the Council's financial management processes are adequate
→ the adequacy of cash management policies and procedures
→ 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
→ if policies and procedures for management review and consideration of the financial position and performance of the Council are adequate
→ if the Council's grants and tied funding policies and procedures are sound.

Governance

Principle: The Council has an effective governance framework to ensure it is appropriately directing and controlling the management of the Council.

Review and advise the Council regarding its governance framework, including the Council's:
→ decision-making processes
→ implementation of governance policies and procedures
→ reporting lines and accountability
→ assignment of key roles and responsibilities
→ committee structure
→ management oversight responsibilities
→ human resources and performance management activities

→ reporting and communication activities

→ information and communications technology (ICT) governance, and

→ management and governance of the use of data, information and knowledge

11.3. Improvement

Strategic Planning

Principle: The Council has an effective framework that ensures it achieves its strategic plans and objectives under the integrated planning and reporting (IP&R) framework.

Review and advise the Council:

→ of the adequacy and effectiveness of the Council's integrated, planning and reporting (IP&R) processes

→ if appropriate reporting and monitoring mechanisms are in place to measure progress against objectives, and

→ whether the Council is successfully implementing and achieving its IP&R objectives and strategies.

Service Reviews and Business Improvement

Principle: The Council has an effective framework to ensure it is delivering services and conducting its business and functions to an expected standard.

→ Act as a forum for communication and monitoring of any audits conducted by external bodies and the implementation of corrective actions (for example, NSW government agencies, Commonwealth government agencies, insurance bodies)

→ Review and advise the Council:

   o If the Council has robust systems to set objectives and goals to determine and deliver appropriate levels of service to the community and business performance

   o if appropriate reporting and monitoring mechanisms are in place to measure service delivery to the community and overall performance, and

   o how the Council can improve its service delivery and the Council's performance of its business and functions generally

Performance Data and Measurement

Principle: The Council's performance management framework ensures the Council can measure its performance and if it is achieving its strategic goals.

Review and advise the Council:

→ if the Council has a robust system to determine appropriate performance indicators to measure the achievement of its strategic objectives

→ if the performance indicators the Council uses are effective, and

→ of the adequacy of performance data collection and reporting.