

AUDIT, RISK AND IMPROVEMENT COMMITTEE CHARTER

Procedure 3.9.8

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| Policy No. and Title | 3.9 | Risk Management and Insurance Policy |
| Procedure | 3.9.8 | Audit, Risk and Improvement Committee Charter |
| Version | 43 | |
| Date Adopted | To be updated by Governance team | |

1 OBJECTIVE

The objective of the Audit, Risk and Improvement Committee (the Committee) is to provide independent assurance and assistance to Kempsey Shire Council on risk management, control, governance, and external accountability responsibilities.

2 AUTHORITY

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

- Obtain any information it needs from any employee or external party (subject to their legal obligations to protect information).
- Discuss any matters with the external auditor or other external parties (subject to confidentiality considerations).
- Request the attendance of any employee or councillor at Committee meetings.
- Obtain external legal or other professional advice considered necessary to meet its responsibilities.

3 COMPOSITION AND TENURE

The Committee will consist of:

3.1 MEMBERS (VOTING)

- Independent external member (chairperson)
- Independent external member
- Independent external member

3.2 ATTENDEE (NON-VOTING)

- General Manager
- Internal Auditor
- Director, Corporate and Commercial
- Director, Operations and Planning
- Director, Utilities
- Councillor (observer) – optional

3.3 INVITEES (NON-VOTING) FOR SPECIFIC AGENDA ITEMS

- Representatives of the external auditor

- The Chair of the Audit, Risk and Improvement Committee through the General Manager can request the following people to attend a committee meeting or to meet with the committee in order to provide additional information relevant to its role:
 - council's chief financial officer (or equivalent) given their knowledge of, and responsibility for, council's financial management
 - the head of the council's risk management function
 - senior managers
 - any councillor
 - any employee or contractor of the council, and/or
 - any external independent expert or external party whose advice is needed (subject to confidentiality considerations).

The independent external members will be appointed for a term of 4 years, after which they will be eligible for extension or re-appointment for a further 4 years following a formal review of their performance (maximum 8-year term).

The members of the Committee, taken collectively, will have a broad range of skills and experience relevant to the operations of Kempsey Shire Council. At least one member of the Committee will have accounting or related financial management experience, with understanding of accounting and auditing standards in a public-sector environment.

The General Manager will appoint the independent Chair of the Audit, Risk & Improvement Committee. The General Manager and Chair of the Audit, Risk & Improvement Committee will appoint the independent members and optional Councillor observer in accordance with required skills and attributes for the functions. A skills matrix has been developed to help guide the recruitment and appointment of the independent external members and optional Councillor observer. See Appendix 1 (Audit, Risk & Improvement Committee Skills Matrix).

The Mayor cannot be appointed as a non-voting councillor observer on the Committee in accordance with the Guidelines for Risk Management and Internal Audit for Local Government in NSW as issued by the Office of Local Government.

4 ROLE AND RESPONSIBILITIES

The Committee has no executive powers, except those expressly provided by the Council.

In carrying out its responsibilities, the Committee must at all times recognise that primary responsibility for management of Council rests with the Council and the General Manager as defined by the Local Government Act. The Committee will dispense its responsibilities in accordance with the Guidelines for Risk Management and Internal Audit for Local Government in NSW as issued by the Office of Local Government.

The Mayor can request to meet with the Chair of the Audit, Risk and Improvement Committee at any time to discuss any issues relating to the work of the Committee during the quarter. The Chair of the Audit, Risk and Improvement Committee can also request to meet with the Mayor at any time.

The responsibilities of the Committee may be revised or expanded by the Council from time to time. The Committee's responsibilities are:

4.1 RISK MANAGEMENT

- Review whether management has in place a current and comprehensive risk management framework, and associated procedures for effective identification and management of business and financial risks, including fraud. [The risk](#)

management framework is to be consistent with the current Australian risk management standard.

- Review whether a sound and effective approach has been followed in developing strategic risk management plans for major projects or undertakings.
- Review the impact of the risk management framework on its control environment and insurance arrangements.
- Review whether a sound and effective approach has been followed in establishing business continuity planning arrangements, including whether plans have been tested periodically.
- The committee reviews the implementation of the risk management framework and provides a strategic assessment of its effectiveness to Council each council term.

4.2 LEGISLATIVE COMPLIANCE

- Determine whether management has appropriately considered legal and compliance risks as part of risk assessment and management arrangements.
- Review the effectiveness of the system for monitoring compliance with relevant laws, regulations and associated government policies.

4.3 FRAUD AND CORRUPTION CONTROL FRAMEWORK

- Review the adequacy and effectiveness of the council's fraud and corruption prevention framework and activities, including whether the council has:
 - a fraud and corruption policy
 - clearly defined responsibilities for managing fraud and corruption
 - risk-based preventative and detective controls
 - policies, systems and processes to respond to, investigate and report suspected fraud and corruption
 - employee awareness/education measures
 - robust third-party management systems
 - appropriate processes and systems in place to capture and effectively investigate fraud-related information
 - regular review of the fraud and corruption control framework and reporting,
 - implemented applicable guidance and other better practice measures by the Independent Commission Against Corruption.

4.4 CONTROL FRAMEWORK

- Review whether management has adequate internal controls in place, including over external parties such as contractors and advisors.
- Review whether management has in place relevant policies and procedures, and these are periodically reviewed and updated.
- Progressively review whether appropriate processes are in place to assess whether policies and procedures are complied with.
- Review whether appropriate policies and procedures are in place for the management and exercise of delegations.

- Review whether management has taken steps to embed a culture which is committed to ethical and lawful behaviour.

4.5 FINANCIAL MANAGEMENT FRAMEWORK

- Satisfy itself the annual financial reports comply with applicable Australian Accounting Standards and supported by appropriate management sign-off on the statements and the adequacy of internal controls.
- Review the external audit opinion, including whether appropriate action has been taken in response to audit recommendations and adjustments.
- To consider contentious financial reporting matters in conjunction with council's management and external auditors.
- Review the processes in place designed to ensure financial information included in the annual report is consistent with the signed financial statements.
- Satisfy itself there are appropriate mechanisms in place to review and implement, where appropriate, relevant State Government reports and recommendations.
- Satisfy itself there is a performance management framework linked to organisational objectives and outcomes.

4.6 INTERNAL AUDIT

- Act as a forum for communication between the Council, General Manager, senior management, internal audit and external audit.
- Review the internal audit coverage and Internal Audit Plan, ensure the plan has considered the Risk Management Plan, and approve the plan. Internal audit activities are to be undertaken in accordance with a four-year strategic work plan that has been endorsed by the Council and an annual work plan that has been developed in consultation with Council and senior management.
- Consider the adequacy of internal audit resources to carry out its responsibilities, including completion of the approved Internal Audit Plan.
- Review all audit reports and consider significant issues identified in audit reports and action taken on issues raised, including identification and dissemination of better practices.
- Monitor the implementation of internal audit recommendations by management.
- Periodically review the Internal Audit Charter to ensure appropriate organisational structures, authority, access and reporting arrangements are in place.
- Periodically review the performance of Internal Audit and reports to Council at least once each council term.-

4.7 EXTERNAL AUDIT

- Act as a forum for communication between the Council, General Manager, senior management, 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 external audit services provided.
- Review all external plans and reports in respect of planned or completed external audits and monitor the implementation of audit recommendations by management.
- Consider significant issues raised in relevant external audit reports and better practice guides, and ensure appropriate action is taken.

4.8 IMPROVEMENT

Strategic planning

- Review adequacy and effectiveness of the council's IP&R processes.
- Consider if appropriate reporting and monitoring mechanisms are in place to measure progress against objectives.
- Review whether the council is successfully implementing and achieving its IP&R objectives and strategies.

Service reviews and business improvement

- 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).
- Consider if council has robust systems to set objectives and goals to determine and deliver appropriate levels of service to the community and business performance.
- Consider if appropriate reporting and monitoring mechanisms are in place to measure service delivery to the community and overall performance.
- Consider how the council can improve its service delivery and the council's performance of its business and functions generally.

Performance data and measurement

- Consider if council has a robust system to determine appropriate performance indicators to measure the achievement of its strategic objectives.
- Review the performance indicators council uses are effective.
- Review the adequacy of performance data collection and reporting.

4.9 RESPONSIBILITIES OF MEMBERS

Members of the Committee are expected to:

- Understand the relevant legislative and regulatory requirements appropriate to Kempsey Shire Council.
- Contribute the time needed to study and understand the papers provided.

- Apply good analytical skills, objectivity and good judgment.
- Express opinions frankly, ask questions that go to the fundamental core of issues, and pursue independent lines of enquiry.

5 REPORTING

At the first Committee meeting after ~~1 January~~~~30 June~~ each year, the Committee and Internal Audit will provide a performance report of:

- The performance of the Committee and Internal Audit for the ~~calendar~~financial year as measured against agreed key performance indicators.
- The approved Committee and Internal Audit Plan of work for the previous ~~calendar~~financial year showing the ~~current status~~status of each audit.

The Committee may, at any time, consider any other matter it deems of sufficient importance to do so. In addition, at any time an individual Committee member may request a meeting with the Chair of the Committee. The Committee will report regularly, and at least annually, to the governing body of council on the management of risk and internal controls.

The committee is to ensure it exercises its functions in accordance with a four-year strategic work plan that has been endorsed by the Council and an annual work plan that has been developed in consultation with the Council and senior management.

The committee provides the Council with an annual assessment each year, and a strategic assessment each council term of the matters listed in section 428A of the Local Government Act 1993 reviewed during that term.

The Committee will provide input to and review the annual internal audit and risk management attestation statement to be signed by the General Manager and included in Council's annual report.

6 ADMINISTRATIVE ARRANGEMENTS

6.1 MEETINGS

The Committee will meet at least four times per year, with one of these meetings to include review and endorsement of the annual audited financial reports and external audit opinion.

The need for any additional meetings will be decided by the Chair of the Committee, though other Committee members may make requests to the Chair for additional meetings.

A forward meeting plan, including meeting dates and agenda items, will be agreed by the Committee each year. The forward meeting plan will cover all Committee responsibilities as detailed in this Audit, Risk and Improvement Committee Charter.

6.2 ATTENDANCE AT MEETINGS AND QUORUMS

A quorum consists of a majority of audit, risk and improvement committee independent voting members. Where the vote is tied, the chair is to have the casting vote.

If the Chair is unavailable the meeting can be either adjourned or chairperson duties delegated to one of the other independent external members. Meetings can be held in

person, by telephone or by video conference. The Committee will aim to have at least one committee meeting in person each year.

The Head of Internal Audit will be invited to attend each meeting unless requested not to do so by the Chair of the Committee. The Committee may also request the Chief Finance Officer, Manager Financial Services, or any other employees to participate for certain agenda items, as well as the external auditor.

The General Manager may attend each meeting but will permit the Committee to meet separately with each of the Head of Internal Audit and the External Auditor in the absence of management on at least one occasion per year.

6.3 SECRETARIAT

The Committee has appointed the Head of Internal Audit to be responsible for ensuring that the Committee has adequate secretariat support. The Secretariat will ensure the agenda for each meeting and supporting papers are circulated, at least one week before the meeting, and ensure minutes of the meetings are prepared and maintained. Minutes shall be approved by the Chair and circulated to each member within three weeks of the meeting being held.

6.4 CONFIDENTIALITY AND CONFLICT OF INTERESTS

Councillors, council staff and members of council committees must comply with the applicable provisions of Council's code of conduct in carrying out the functions as council officials. It is the personal responsibility of council officials to comply with the standards in the code of conduct and regularly review their personal circumstances with this in mind.

Committee members must declare any conflict of interests at the start of each meeting or before discussion of a relevant agenda item or topic. Details of any conflicts of interest should be appropriately minuted.

Where members or invitees at Committee meetings are deemed to have a real or perceived conflict of interest, it may be appropriate they be excused from Committee deliberations on the issue where the conflict of interest may exist. The final arbiter of such a decision is the Chair of the Committee.

All Committee members are required to maintain confidentiality in relation to all discussions and information obtained during or as a result of Committee meetings.

6.5 INDUCTION

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

6.6 ASSESSMENT ARRANGEMENTS

The Chair of the Committee will initiate a review of the performance of the Committee at least once every two years. The review will 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. The outcomes of the review will be provided to Council.

6.7 REVIEW OF AUDIT, RISK AND IMPROVEMENT COMMITTEE CHARTER

~~At least once every two years~~ The Audit, Risk and Improvement Committee will review this Audit, Risk and Improvement Committee Charter annually in accordance

with the OLG guidelines.

The Audit, Risk and Improvement Committee will approve any changes to this Audit, Risk and Improvement Committee Charter.

VARIATION

Council reserves the right to review, vary or revoke this procedure which will be reviewed periodically to ensure it is relevant and appropriate.

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Appendix 1: Audit, Risk & Improvement Committee – Skills Matrix

The following is a high-level skills matrix to help guide membership of the Kempsey Shire Council Audit, Risk & Improvement Committee. Note: The pre-qualification scheme is not yet available for local government (compliance is expected from 2027).

| ARIC role | Pre-qualification (NSW Govt) | Independence requirements | Personal qualities and attributes | Functional knowledge | Notes |
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| Chair | Yes | The independent voting committee member cannot: <ul style="list-style-type: none"> currently be a councillor of any NSW council be a non-voting representative of the board of a joint organisation be a candidate at the last election of the council be a person who has been a Mayor / Councillor in the council during its previous term be currently employed by the council or a joint organisation to which Council is a member, or been employed during the last 12 months conduct audits of the council on | All members must demonstrate: <ul style="list-style-type: none"> a commitment to the independence of their role integrity a capacity to dedicate sufficient time and energy 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 | <ul style="list-style-type: none"> As per pre-qualification requirements Experience in chairing meetings, good knowledge of local and state government, ARIC and AO/OLG procedural matters | ARIC Chair to be pre-qualified under the NSW Government scheme |
| Independent member 1 | Yes Not required until 2027 | | | <ul style="list-style-type: none"> As per pre-qualification requirements OR Functional knowledge in areas that would provide valuable contribution to ARIC: <ul style="list-style-type: none"> local government internal audit and external audit risk management governance performance management financial management and reporting accounting human resources management internal control frameworks fraud and corruption prevention IT/cyber security the local community, or another relevant subject matter, and undertake any training on the operation of ARICs recommended by the chair | Member #1 focus (business, operations, compliance expertise): <ul style="list-style-type: none"> Local / state government, local community, local government operations, financial, fraud, risk and legal compliance, business operations, HR or IT skills <p>Note: 4-5 focus areas (member #1 and member #2)</p> |
| Independent member 2 | No Note: Only one ARIC member will | | | <ul style="list-style-type: none"> Functional knowledge in areas that would provide valuable contribution to ARIC: <ul style="list-style-type: none"> local government | Member #2 focus (financial expertise): |

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| | <p>require pre-qualification – not required until 2027</p> | <p>behalf of the Audit Office of NSW</p> <ul style="list-style-type: none"> • have a close personal or business relationship with a councillor or a person who has a senior role in the council that may lead to a real or perceived conflict of interest • be a current employee of another local council in NSW • provided any material goods or services to Council in past three years • be (or have a close family member who is) a substantial shareholder, owner, officer or employee of a company that has a material business interest with Council • currently or have previously acted as an advocate of a material interest on behalf of the council | <ul style="list-style-type: none"> • inquisitiveness and independent judgment. <p>Councils must undertake a criminal record and financial status (bankruptcy) check of an independent non-prequalified audit, risk and improvement committee member before their appointment.</p> | <ul style="list-style-type: none"> ○ internal audit and external audit ○ risk management ○ governance ○ performance management ○ financial management and reporting ○ accounting ○ human resources management ○ internal control frameworks ○ fraud and corruption prevention ○ IT/cyber security ○ the local community, or ○ another relevant subject matter, and • undertake any training on the operation of ARICs recommended by the chair | <ul style="list-style-type: none"> • Accounting, financial management and reporting, internal controls, internal or external audit, governance, risk management, business improvement, corporate planning, strategy skills <p>Note: 4-5 focus areas (member #1 and member #2)</p> |
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| Councillor (observer) – optional position | No | Not applicable | Not applicable | <p>Non-voting councillor members must:</p> <ul style="list-style-type: none"> • have a strong understanding of financial management in local / state government settings. • have a good understanding of one or more of the following that would provide a valuable contribution to the committee: <ul style="list-style-type: none"> ○ internal audit and external audit ○ risk management ○ governance ○ performance management ○ financial management and reporting ○ accounting ○ human resources management ○ internal control frameworks ○ fraud and corruption prevention ○ IT/cyber security, or ○ another relevant subject matter, and • 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. | Note: Optional observer position to be determined by General Manager and ARIC Chair in accordance with this skills matrix |
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