



## **Audit Committee**

## **Terms of Reference**

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### **1. Purpose of the Terms of Reference**

The purpose of the terms of reference is to facilitate the operation of the Audit Committee.

### **2. Introduction**

The Audit Committee is an advisory committee formally appointed by the Council and is responsible to the Council. The Audit Committee does not have executive powers or authority to implement actions in areas over which management has responsibility and does not have any financial responsibility. The Audit Committee does not have any management functions and is therefore independent of management.

The Audit Committee objective is to assist the Town of East Fremantle Council in liaising with the auditor and overseeing the external audit function and promoting the transparency and accountability of the Town's financial management systems and reporting. The role of the Committee is to report to the Council and provide appropriate advice and recommendations on matters relevant to its terms of reference in order to facilitate decision making by the Council in relation to the discharge of its responsibilities.

### **3. Objectives**

The objectives of the Audit Committee are to oversee council's obligations under the *Local Government Act 1995*, and *Local Government (Audit) Regulations 1996*, more specifically;

- 3.1 The integrity of external financial reporting, including accounting policies.
- 3.2 The scope of work, objectivity, performance and independence of the external and internal audit charter.
- 3.3 Ensure the Town has established effective controls and systems to safeguard the Town's financial and physical resources.
- 3.4 The systems or procedures that are designed to ensure that the Town and its subsidiaries comply with relevant statutory and regulatory requirements.
- 3.5 The process for recognising risks arising from the Town's operations and strategies, and consider the adequacy of measures taken to manage those risks.
- 3.6 The process and systems which protect the Council against fraud and irregularities.

The Audit Committee must also add to the credibility of Council by promoting ethical standards through its work.

### **4. Authority**

The Audit Committee has the authority to:

- 4.1 Review the internal and external auditor's annual audit plans and the outcomes/results of all audits undertaken.
- 4.2 Formally meet with the Town's appointed external auditors as necessary.
- 4.3 Seek resolution on any disagreements between management and the external auditors on financial reporting.
- 4.4 Advise Council on any or all of the above as deemed necessary.

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### **5. Composition**

- 5.1 The Audit Committee will comprise six (6) elected members and a maximum of 8 members in total inclusive of the external independent members..
- 5.2 The Audit Committee will comprise of up to two (2) external independent members. An external member will be a person independent to the local government and will not have provided paid services to the Town either directly or indirectly.
- 5.3 External independent members will be selected based on the following criteria:
  - a) A demonstrated high level of expertise and knowledge in financial management, reporting, governance and audit; and
  - b) Relevant skills and experience in providing independent expert advice.
- 5.4 Appointments of external independent members will be made following a public advertisement. The Chief Executive Officer will evaluate potential members and make a recommendation to Council.
- 5.5 External members shall be appointed for a period of up to two (2) years terminating on the day of the Local Government Ordinary Elections, unless Council resolves otherwise
- 5.6 In accordance with 7.1A (3) of the Local Government Act, “A CEO is not to be a member of an audit committee and may not nominate a person to be a member of an audit committee or have a person to represent the CEO as a member of an audit committee.”
- 5.7 The Council will appoint Audit Committee members. Voting requirement of Council is an *Absolute Majority*.
- 5.8 The Presiding Member and Deputy Presiding Member will be appointed by the Audit Committee, biennially by election by all committee members after the Ordinary Local Government Election.
- 5.9 The members, taken collectively, will have a broad range of skills and experience relevant to the operations of the Town. At least one member of the committee will have accounting or related financial management experience with an understanding of accounting and auditing standards in a public sector environment.
- 5.10 A quorum will be a minimum of 50% of the membership.
- 5.11 Audit Committee members are required by the *Local Government Act 1995* and Code of Conduct in observing the requirements of declaring any proximity, financial or impartiality interests that relate to any matter to be considered at each meeting.
- 5.12 New members will receive relevant information and briefings on their appointment to assist them to meet their committee responsibilities.

### **6. Meetings**

- 6.1 The Audit Committee will meet at least three (3) times per year, with the dates to be set each year by Council, with authority to convene additional meetings, as circumstances require.
- 6.2 Meetings may be called by the Presiding Member of the Audit Committee, or at the request of the Mayor or Chief Executive Officer.
- 6.3 The Audit Committee meetings are generally open to the public unless the Presiding

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Member or Chief Executive Officer deem it necessary to proceed behind closed doors pursuant to Section 5.23 of the Local Government Act 1995.

- 6.4 All Elected Members are invited to attend each Audit Committee meeting.
- 6.5 All Audit Committee members are expected to attend each meeting in person.
- 6.6 The Chief Executive Officer will facilitate the meetings of the Audit Committee and invite members of management, internal and external auditors or others to attend meetings as observers and to provide pertinent information, as necessary.
- 6.7 The Audit Committee will develop a forward meeting schedule that includes the dates, location, and proposed work plan for each meeting for the forthcoming year, that cover all the responsibilities outlined in this terms of reference.
- 6.8 Meeting agendas will be prepared and provided at least one week in advance to members, along with appropriate briefing materials.
- 6.9 A decision of the Audit Committee is to be made by a simple majority.
- 6.10 Minutes will be taken at each meeting and presented to the subsequent meeting for confirmation.

### **7. Responsibilities**

The Audit Committee will carry out the following responsibilities:

#### 7.1 Risk management

- 7.1.1 Review whether management has in place a current and comprehensive enterprise risk management framework and associated procedures for effective identification and management of the Town's business and financial risks, including fraud.
- 7.1.2 Determine whether a sound and effective approach has been followed in managing the Town's major risks including those associated with individual projects, program implementation, and activities.
- 7.1.3 Review the process of developing and implementing the Town's fraud control arrangements and satisfy itself the Town has appropriate processes and systems in place to detect, capture and effectively respond to fraud-related information.

#### 7.2 Business continuity

- 7.2.1 Determine whether a sound and effective approach has been followed in establishing the Town's business continuity planning arrangements, including whether business continuity and disaster recovery plans have been periodically updated and tested.

#### 7.3 Internal Control

- 7.3.1 Review whether management has in place relevant policies and procedures and that they are periodically reviewed and updated.
- 7.3.2 Review whether appropriate policies and supporting procedures are in place for the management and exercise of delegations.

#### 7.4 Financial Report

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- 7.4.1 Review with management and the external auditors the results of the audit, including any difficulties encountered.
- 7.4.2 Review the annual financial report and performance report of the Town of East Fremantle and its subsidiaries, and consider whether it is complete, consistent with information known to Audit Committee members, and reflects appropriate accounting principles.
- 7.4.3 Review the process for the consolidation of financial information of the Town related entities into the financial reports of the Town.
- 7.4.4 Review with management and the external auditors all matters required to be communicated to the Audit Committee under the Australian Auditing Standards.
- 7.4.5 Review the draft Annual Financial Statements and recommend the adoption of the Annual Financial Statements to Council.

### 7.5 Compliance

- 7.5.1 Keep informed of the findings of any examinations by regulatory agencies and any auditor (external) observations and monitor management's response to these findings.
- 7.5.2 Obtain regular updates from management about compliance matters.

### 7.6 Internal Audit Charter

- 7.6.1 Review and recommend the annual internal audit plan for approval by the Council and all major changes to the plan.
- 7.6.2 Monitor that the internal annual plan is linked with and covers the material business risks.
- 7.6.3 Review all audit reports and provide advice to the Council on significant issues identified in audit reports and action to be taken on issues raised, including identification and dissemination of good practice.
- 7.6.4 Monitor management's implementation of audit recommendations.

### 7.7 External Audit

- 7.7.1 Note the external auditor's proposed audit scope and approach for financial performance audits, including any reliance on internal auditor activity.
- 7.7.2 Consider the findings and recommendations of relevant Performance Audits undertaken by the external auditor and ensure the Town implements relevant recommendations.
- 7.7.3 Provide an opportunity for the Audit Committee to meet with the external auditors to discuss any matters that the Audit Committee or the external auditors believe should be discussed privately.
- 7.7.4 Annually review the performance of external audit including the level of satisfaction with external audit function.
- 7.7.5 Monitor management's implementation of external audit recommendations.

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### 7.8 Reporting Responsibilities

- 7.8.1 Report regularly to the Council about Audit Committee activities, issues, and related recommendations through circulation of minutes.
- 7.8.2 Monitor that open communication between the external auditors, and the Town's management occurs.
- 7.8.3 To review a report given to it by the CEO under regulation 17(3) of the Local Government (Audit) Regulations and is to —
  - (i) report to the council the results of that review;  
and
  - (ii) give a copy of the CEO's report to the council.

### 7.9 Other Responsibilities

- 7.9.1 Perform other activities related to this terms of reference as requested by the Council or as required by *Local Government Act 1995 or Local Government (Audit) Regulations 1996*.
- 7.9.2 Annually review and assess the adequacy of the Audit Committee terms of reference, request Council approval for proposed changes, and ensure appropriate disclosure as might be required by legislation or regulation.