

Audit Committees

A Guide to Good Practice for Local Government



Local Government Victoria
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Local Government Act 1989
Section 139(5)

AUDIT COMMITTEES – A GUIDE TO GOOD PRACTICE
FOR LOCAL GOVERNMENT

Approved by Jeanette Powell MP
Minister for Local Government

31 January 2011

INTRODUCTION

Local government is ‘a distinct and essential tier of government consisting of democratically elected councils having functions and powers that the Parliament considers are necessary to ensure peace, order and good government of each municipal district’.¹ The legislative framework for the functions, activities and accountabilities for local government in Victoria is set out in the **Local Government Act 1989** (the LG Act) which applies to councils and regional library corporations.

Since 2003, it has been mandatory for councils to establish an audit committee as an advisory committee under section 139² of the LG Act. Although this requirement does not apply to regional library corporations, local government companies (corporations, all the shares in which are owned by or on behalf of one or more councils, whether directly or indirectly) or council trusts (trusts of which a council is the principal beneficiary or of which several councils are the principal beneficiaries), these entities are encouraged to establish an audit committee as a matter of good governance.

The *Audit Committees – A Guide to Good Practice for Local Government* (the Guide) applies to councils and is strongly recommended for use by regional library corporations and local government companies incorporated or set up under section 193 of the LG Act.

The term *Local Government Entity* (the LGE) used throughout this Guide includes councils³, governing bodies (also referred to in the Guide as boards) of regional library corporations⁴ and boards of local government companies.

An independent audit committee is a fundamental component of a good corporate governance structure. In the context of local government, the audit committee is an advisory committee that typically:

- (i) focuses on issues relevant to the integrity of the LGE’s financial reporting
- (ii) monitors risk management systems, internal control framework, compliance and internal audit activities
- (iii) liaises between external auditors, internal auditors and management.

Historically, the role of the audit committee focused on the financial report, accounting, internal control matters, and on the integrity of accounting systems. Audit committees are now commonly given a broader mandate that covers a wide range of activities. This includes risk management (including fraud prevention strategies), financial and non-financial performance, compliance requirements and other audit and assurance activities not directly related to the financial report. While the term ‘audit committee’⁵ may no longer reflect the committee’s broader scope and responsibilities, it is retained as it is the statutory title and in general use.

References to legislation in this Guide are to Victorian legislation, unless otherwise noted.

1 Refer to the **Victorian Constitution Act 1975** Part 2A.

2 The legislative/regulatory framework for audit committees plus other relevant legislation and standards are outlined in Appendix 1.

3 Under section 3B of the LG Act, a council consists of its councillors who are democratically elected in accordance with the LG Act. Further, section 5 of the LG Act establishes the council as a body corporate with perpetual succession; capable of suing and being sued in its corporate name; capable of acquiring, holding, dealing with or disposing of property; and capable of doing and suffering all acts and things which bodies corporate may by law do and suffer and which are necessary or expedient for performing its functions and exercising its powers. Refer to the LG Act for the full text of section 3B and 5.

4 A regional library corporation is a statutory body corporate established under sections 196 to 197G of the LG Act. The members of its governing body are subject to certain provisions of the LG Act as set out under section 196(7) of the LG Act as if they were councillors of a council.

5 LGEs have the discretion to give their audit committee an alternative title including ‘Audit and Risk Advisory Committee’ if they believe the alternative title better reflects the broader roles and responsibilities of the audit committee. However, LGE’s must make it clear that its ‘Audit and Risk Advisory Committee’ is constituted under section 139 of the LG Act.

Definitions

CEO means the statutory position of Chief Executive Officer of the LGE.

CFO means the Chief Financial Officer⁶ of the LGE or equivalent position.

External auditor means the Auditor-General of Victoria, as mandated by the **Audit Act 1994**.⁷

Independent member of the audit committee means a member who is appointed by the LGE and who is external to the LGE, i.e. a person who is not a LGE member or a member of staff of the LGE.

Internal auditor means the LGE staff member or the contractor who provides the internal audit service.

LGE means councils, governing bodies or boards of regional library corporations and the boards of local government companies.

LGE member means the mayor and councillors of a council, the chair and board members of a regional library corporation, and the chair and board members of local government companies.

Principal Accounting Officer (PAO) means the person designated by a council to be responsible for the financial management of the council.⁸

Related entity means wholly owned subsidiaries of LGEs, entities in which the LGE has a controlling interest, joint venture arrangements and entities which have an interest in LGE activities.

Purpose of this Guide

The *Audit Committees – A Guide to Good Practice for Local Government* is made under section 139 of the LG Act. Sections 139(5) and (6) provide that the Minister for Local Government may make guidelines for the purposes of section 139, and that the guidelines must be published in the Government Gazette.

This Guide is issued as a guideline only, and is not mandatory in nature. LGEs are, however, strongly encouraged to adopt and use the Guide when establishing their audit committees.

This Guide provides a practical introduction to the role and responsibilities of an audit committee. It explains the context in which an audit committee typically operates and outlines good practice.

This Guide is for use by audit committee members, risk and compliance managers and internal and external auditors. It demonstrates the interaction between:

- audit committees and internal and external auditors to achieve maximum value for the LGE and its stakeholders
- audit committees, risk and compliance managers, and internal and external auditors for effective discharge of their responsibilities.

The Guide clarifies the roles and responsibilities of risk and compliance managers, auditors (both external and internal) and audit committees and assists their intercommunication. Using this Guide assists audit committees in assessing an LGE's external financial and other internal and external reporting. It also assists in assessing the effectiveness of its risk management and internal control systems.

⁶ Generally, the CFO is also designated as the Principal Accounting Officer for the purposes of Local Government (Finance and Reporting) Regulations 2004.

⁷ The **Audit Act 1994** sets out the powers and functions of the Auditor-General. The Auditor-General is an independent officer of Parliament appointed under this Act to examine and report to Parliament and the community on the efficient and effective management of public sector resources, and provide assurance on the financial integrity of Victoria's system of government. The Auditor-General provides auditing services to Parliament and public sector agencies/authorities and LGEs.

⁸ Refer regulations 4 and 12 of the Local Government (Finance and Reporting) Regulations 2004.

This Guide reflects developments in audit committee practice since 2000 and it draws on *Audit Committees – A Guide to Good Practice* published by the Australian Institute of Company Directors, the Auditing and Assurance Standards Board and the Institute of Internal Auditors – Australia in February 2008.

This Guide does not attempt to advise LGE members or members of audit committees about their legal duties. Independent legal advice should be sought if in doubt.

Who should use this Guide?

This Guide is written largely for councils for which it is mandatory to have an audit committee, however, regional library corporations and local government companies will also find this Guide a useful reference for their own audit committees.

There is no one size fits all good practice solution for audit committees. The nature of the LGE's activities, the regulatory environment, legal requirements and audit committee membership influence the objectives and activities of the audit committee.

Smaller LGEs with limited resources may find it impractical to meet all of the practices outlined in this Guide but should use this Guide to assess the elements of good practice that are commensurate with the financial reporting, corporate governance, risk management and internal control of an LGE of its size.

It should be recognised, however, that as the role of LGEs in the local community is the same irrespective of their size, the benefits that will be derived from an appropriately structured audit committee will, likewise, be similar.

ROLE OF THE AUDIT COMMITTEE

The LGE audit committee is an advisory committee whose role is determined by the LG Act and LGE, having regard to this Guide. It monitors the LGE's audit processes, including the LGE's internal control activities.

The following list of the roles of the audit committee is indicative only and is not exhaustive. LGEs and the audit committee will need to exercise their own judgement on the relevance of the roles contained in this list, which includes:

- corporate governance
- information and communications technology (ICT) governance
- management and governance of the use of data, information and knowledge
- internal and external reporting – financial and performance
- risk management including fraud prevention, business continuity planning and disaster recovery
- internal and external audit
- internal control framework including policies and procedures as they apply to financial reporting; management policies, for example, on entertainment expenses, use of corporate credit cards, etc; administrative policies on records management; project management; and so on
- compliance with the LG Act and other applicable legislation and regulations including national competition policy.

The LGE cannot abrogate or delegate its responsibilities to the audit committee. The audit committee can advise the LGE on how best to fulfil its responsibilities and facilitate decision making by providing a forum for improving communication between the LGE members and senior management, finance, risk and compliance managers, internal auditors and external auditors.

To be effective, the audit committee must be independent from management and free from any undue influence. As an advisory committee of the LGE, the audit committee (and its members) cannot have any executive powers, management functions, or delegated financial responsibility.

The role of the audit committee and its terms of reference must be reflected and clearly set out in its charter.⁹

9 Refer to Getting the Charter Right on page 21.

REGULATORY CONTEXT

The LG Act sets out the legislative framework for the functions, activities and accountabilities for local government in Victoria. The LG Act also establishes the Local Government Charter together with the legislative authority for the LGE's operating activities and performance.

Requirement to have an audit committee

Section 139¹⁰ of the LG Act makes it mandatory for councils to establish an audit committee, which is an advisory committee.

Constitution and functions & responsibilities

Councils, in establishing an audit committee, must have regard to the regulations¹¹ and guidelines which may prescribe the:

- constitution of the audit committee
- functions and responsibilities for the purposes of section 139 of the LG Act.

Misuse of position and conflicts of interest¹²

The members of an audit committee are subject to the provisions of:

- section 76D of the LG Act dealing with the misuse of position
 - section 79 of the LG Act dealing with the disclosure of conflicts of interest
- as if they were members of a special committee¹³ of a council.

Payment of fees

Section 139 provides for the payment of fees to members of the audit committee who are not a councillor or a member of council staff.

Other legislation and standards

A list and description of other legislation, regulatory requirements, standards and guidance that are relevant to LGE's, their audit committees and those involved with them is provided in Appendix 1.

10 Refer to the LG Act for the full text of section 139.

11 At the time of publication of this Guide, regulations prescribing the constitution of the audit committee; and functions and responsibilities for the purposes of section 139 of the LG Act had not been made.

12 Refer to the LG Act for the full text of sections 76D and 79 (and related sections).

13 Special committees are established under section 86 of the LG Act. Refer to the LG Act for the full text of section 86.

LGE OBJECTIVES¹⁴

Local government provides governance and leadership and endeavours to achieve the best outcomes for the local community having regard to the long-term and cumulative effects of decisions. Facilitating objectives¹⁵ include ensuring that resources are used efficiently and effectively and services are provided in accordance with the Best Value Principles to best meet the needs of the local community.

The establishment of an effective audit committee can assist the LGE to achieve its primary objectives by providing appropriate advice to the LGE so that the LGE is able to:

- display well-informed, efficient and effective decision making.
- promote and monitor an ethical culture throughout the LGE and comply with any relevant code of conduct.
- implement a sound system of risk oversight and management, typically including:
 - policies dealing with material business risks, clearly describing the roles and responsibilities of the LGE, audit committee, management and internal audit activity
 - linking of internal audit plans which consider the material business risks
 - effective reporting of material business risks
 - ongoing monitoring of the LGE’s risk profile.
- implement an effective and efficient internal control system including:
 - a strong control environment
 - identification and mitigation of risk
 - adequate design and operation of business policies and procedures including effective business continuity planning/management and disaster recovery
 - quality internal audit processes
 - timely implementation of internal and external audit recommendations to enhance internal controls.
- protect the LGE’s assets
- protect against litigation and claims
- protect against fraud
- comply with applicable legislation, regulations, standards and LGE policies
- demonstrate quality internal and external reporting (financial and non-financial performance) including:
 - complete, timely, accurate and useful information
 - appropriate accounting policies and procedures
 - reasonable judgements and estimates.

Display effective communications between the LGE and the internal and external auditors and provide timely responses to matters arising from audits.

¹⁴ Section 3C(1) of the LG Act sets out the objectives of councils.

¹⁵ Section 3C(2) of the LG Act sets out the facilitating objectives of councils.

RESPONSIBILITIES OF THE AUDIT COMMITTEE

The responsibilities and terms of reference of the audit committee should be clearly defined in its charter, formally approved by the LGE and communicated to stakeholders.¹⁶ The audit committee should develop and maintain mechanisms to enable it to effectively discharge its responsibilities.

The audit committee should, in conjunction with the LGE, set a work program or plan for the short and medium terms, i.e. for the next 12 months and the next four years (or other term as agreed between the LGE and audit committee) respectively. The work program or plan for the next four years should also be reviewed annually to ensure it remains current and reflects the priorities of the LGE and audit committee. It is important that both the audit committee and the LGE agree on, and take ownership of, the annual and four year work program or plan.

The key responsibilities of the audit committee typically include a range of functional areas:

- external reporting
- external audit
- internal audit
- internal control and risk management
- compliance and ethics
- fraud prevention (including corruption) and risk management
- related-party transactions oversight
- good governance.

The following list of activities under these functional areas is indicative only and is not exhaustive. LGEs and the audit committee will need to exercise their own judgement on the relevance of the activities contained in this list.

External reporting

- Consider the appropriateness of the LGE's accounting policies and procedures and any changes to them, and the methods of applying them, ensuring that they are in accordance with the stated financial reporting framework. The audit committee requires management to advise on:
 - whether the methods chosen by management are consistent with the applicable financial reporting framework
 - any changes in significant accounting policies or their application during the reporting period
 - the methods used to account for significant unusual transactions or transactions in emerging areas for which there might be no specific accounting standard. This includes management's reasoning in determining the appropriateness of those methods.
- Request management and the external auditors to inform the audit committee of their views on the above.
- Assess significant estimates and judgements in financial reports by asking management about the processes used in making material estimates and judgements, and then asking the CFO and/or PAO and external auditors for the basis of their conclusions.
- Review management's processes for ensuring and monitoring compliance with legislation and other requirements on the external reporting by the LGE of financial and non-financial information, performance reporting under the LG Act, and other relevant legislation.
- Review the appropriateness of accounting policies and disclosures to present a true and fair view.

¹⁶ It is recommended that the approved audit committee charter is made publicly available on the LGE website as well as in hard copy form at the LGE offices.

- Review the process for the consolidation of financial information of LGE related entities into the financial reports of the LGE.
- Assess whether a comprehensive process has been established for the purposes of legislative disclosure reporting requirements.
- Assess information from internal and external auditors that affects the quality of financial reports. For example, actual and potential material audit adjustments, financial report disclosures, non-compliance with legislation and regulations, internal control issues.
- Ask the external auditor for an independent opinion on the management's:
 - technical compliance with accounting standards
 - proper application of the accounting principles
 - clarity in financial disclosure practices as used or proposed in the financial report of the LGE.
- Ensure the LGE has appropriate quality assurance processes to ensure that documents and reports (whether required under legislation or otherwise) are submitted to ministers and government departments/agencies accurately and timely.
- Liaise with other LGE committees (established under section 86 of the LG Act) and LGE-related entities, including those in which the LGE has a controlling interest.
- Assess internal control systems covering the public release of information.
- Review for completeness and accuracy the reporting of the LGE's main corporate governance practices as required under legislation.¹⁷
- Recommend to the LGE whether the financial report and any associated non-financial disclosures should be approved based on the audit committee's assessment of them.

External audit

- Be briefed on the terms of the audit engagement with the external auditor at the start of each audit in accordance with the Australian Auditing Standards.
- Extend a standing invitation to the external auditor to attend all audit committee meetings.
- At the appropriate meeting, ask the external auditor to outline the external audit plan including proposed audit strategies and how they might relate to identified risk areas; discuss audit results; consider the implications of the external audit findings for the control environment.
- Ask the external auditor if there have been any significant resolved or unresolved disagreements with management.
- Monitor and critique management's response to the external auditor's findings and recommendations.
- Sight all representation letters signed by management and consider the completeness and appropriateness of the information provided.
- Provide the opportunity for audit committee members to meet with the external auditor as the need arises (as a minimum at least once a year) without management being present.
- Monitor the relationship between internal and external auditors, and if the external auditor has access to all the internal auditor's working papers.
- Maintain an awareness of local government performance audits undertaken by the Auditor-General and ensure recommendations are brought to the attention of the LGE for action/implementation where appropriate.

¹⁷ The LG Act requires councils to make certain documents related to corporate governance publicly available. These include the Councillor Code of Conduct (section 76C), Council Meeting Procedures (Section 91 and 120), Council Plan (section 125), Budget and Revised Budget (sections 127, 128 and 130), Annual Report (section 131), Procurement Policy (section 186A), Report on Best Value Compliance (section 208G). The Local Government (General) Regulations 2004 also require councils to make certain documents/information publicly available (regulation 11).

Internal audit

Internal audit programs within LGEs are a key expression of their attitude towards effective controls. Good audit committee practices in monitoring internal audit programs¹⁸ typically include:

- Discuss with the LGE the appropriate method for the provision of the internal audit function, which in the case where this is outsourced, would include the appointment and termination of the contractor.
- Review internal audit's mission, charter, and resources such that this charter maintains internal audit's independence from management. This is achieved through its reporting structures and rights of access to all levels of management and relevant information.¹⁹
- Review the allocation of internal audit resources as specified in an annual internal audit plan to obtain assurances that the planned internal audits are appropriately aligned to the key risks of the LGE.
- Ensure that internal audit activity is able to independently report to the audit committee for functional purposes; to the CEO for administrative purposes; has access to all levels of management with the right to seek information and explanations relevant to their operations.
- Ensure that all work is reported through to the audit committee and is not censored or held up by management.
- Monitor the internal auditor's participation in non-assurance roles to assess whether it impairs the internal auditor's independence or interferes with the delivery of the internal audit program.
- Review the internal audit plan to assess that it considers the material business risks (both financial and non-financial) of the LGE.
- Review and recommend the scope of the internal audit plan and work program for approval by the LGE.
- Provide the opportunity for audit committee members to meet with the internal auditors without management being present.
- Communicate the audit committee's expectations to the internal auditor.
- Review reports prepared by internal audit activity in terms of quality and timeliness.
- Monitor the progress of the internal audit plan and work program, and consider the implications of internal audit findings for the control and operating environment.
- Monitor the implementation of internal audit's findings and recommendations.
- Monitor and review the quality of internal audit services delivered.
- Evaluate the process the LGE has in place for monitoring and assessing the effectiveness of the internal auditor.
- Monitor the coordination of the planned activities of internal and external audit, and risk and compliance management.
- Ensure that internal audit complies with appropriate standards²⁰ and that the internal auditors are appropriately qualified and undertake continuing professional education.²¹ These aspects should be reviewed by the audit committee irrespective of whether the internal audit activity is provided in-house or outsourced.

18 The Institute of Internal Auditors Position Paper: *The Role of Internal Auditing in Resourcing the Internal Audit Activity* provides useful guidance on this issue.

19 The **Privacy Act 1988** might be a consideration in determining access to information.

20 All members of the Institute of Internal Auditors are required to comply with *The International Standards for the Professional Practice of Internal Auditing* and are required to undertake independent verification at least every five years that they are in compliance with these standards.

21 All members of the Institute of Internal Auditors are required to undertake at least 60 CPE hours over each two year period and are provided with specialised CPE programs, some of which are included free of charge as part of their membership. IIA recommends that anyone signing an internal audit report should be a Certified Internal Auditor which is the global qualification for internal audit.

Internal control and risk management

Internal control and risk management systems and programs are a key expression of an LGE's attitude to effective controls. Good audit committee practices in monitoring internal control and risk management programs typically include:

- Review whether the LGE has an effective risk management system and that material operating risks to the LGE are appropriately reflected in the risk profile reported at least annually to the LGE.
- Review whether the LGE has a current and effective business continuity plan (including disaster recovery) which is tested from time to time.
- Assess the internal processes for determining and managing material operating risks in accordance with the LGE's identified tolerance for risk, particularly in the following areas:
 - potential non-compliance with legislation, regulations and standards and LGE's policies
 - important accounting judgements or estimates that prove to be wrong
 - litigation and claims
 - fraud and theft
 - significant business risks, recognising that responsibility for general or specific risk areas, for example, environmental risk, occupational health and safety, and how they are managed by the LGE.
- Monitor LGE processes for management's identification and control of material risks, including business, financial and legal compliance risks. This might include oversight of the LGE's risk management framework and activities conducted by internal and external audit and any other assurance providers to give assurance over that framework.
- Receive summary reports from management on all suspected and actual frauds, thefts and material breaches of legislation, ensuring reporting to the LGE and/or relevant authorities.
- Assess adequacy of LGE process to manage insurable risks and ensure the adequacy of insurance cover, and if applicable, the level of self-insurance.
- Review the effectiveness of the LGE's internal control system with management and the internal and external auditors.
- Assess whether management has controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk.
- Assess the LGEs procurement framework with a focus on the probity and transparency of policies and procedures/processes.
- Should the need arise, meet periodically with key management, internal and external auditors, and compliance staff, to understand and discuss any changes in the LGE's control environment.
- Liaise with other relevant sub-committees of the LGE.
- Monitor the LGEs commercial interests, especially where these have been established under section 193 of the LG Act.²²

Compliance and ethics

The compliance and ethics programs of an LGE are a key expression of its values. Leading audit committee practices in monitoring and ethics programs typically include:

- Monitor compliance with legislation and regulations.
- Review whether the LGE has codes of conduct for councillors and staff.

²² Section 193 of the LG Act allows LGEs to participate in entrepreneurial ventures subject to compliance with the requirements of this section.

- Stay informed about how management is monitoring the effectiveness of its compliance and ethics program and making recommendations for change as necessary.
- Obtain regular risk reports, which identify key risks, the status and the effectiveness of the risk management systems, to ensure that identified risks are monitored and new risks are identified, mitigated and reported.
- Review whether the LGE has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints under the **Whistleblowers Protection Act 2001** and section 1317AA of the **Corporations Act 2001** (Commonwealth), dealing with an LGE's accounting, internal accounting controls or auditing matters or other matters likely to affect the LGE or its compliance with relevant legislation and regulations.
- Obtain assurance that adverse trends are identified and review management's plans to deal with these.
- Review management disclosures in financial reports of the effect of significant compliance issues.
- Review whether the internal auditors have regard to compliance and ethics risks in the development of their audit plan and in the conduct of internal audit projects, and report compliance and ethics issues to the audit committee.
- Consider the internal auditor's role in assessing compliance and ethics risks in their plan.
- Monitor the LGE's compliance frameworks dealing with relevant external legislation and regulatory requirements.
- Comply with legislative and regulatory requirements imposed on audit committee members, including not misusing their position to gain an advantage for themselves or another or to cause detriment to the LGE and disclosing conflicts of interest.

Fraud (including corruption)

The existence of systems and programs to minimise and detect fraud within LGEs is a key expression of their attitude to minimising fraud.

Good audit committee practices in monitoring fraud minimisation and detection programs typically include:

- Ascertain whether fraud risks have been:
 - identified, analysed, evaluated, have an appropriate treatment plan which has been implemented, communicated, monitored and there is regular reporting and ongoing management of fraud risks
 - included in the assessment of the risk profile of the LGE and have been appropriately addressed.
- Monitor the LGE's fraud prevention and detection framework, including any action taken with respect to actual and suspected instances of fraud.
- Monitor management's efforts to create and maintain a strong internal control environment, including the design and implementation of anti-fraud strategies and programs, conduct of fraud awareness seminars or training courses to increase staff awareness of activities that amount to fraud.

Related-party transactions

- Review the processes for the identification, nature, extent and reasonableness of related-party transactions.

RELATIONSHIPS

With the LGE

Role of the LGE

The role of the audit committee, as an advisory committee to the LGE, is to assist the LGE to discharge its oversight and corporate governance responsibilities, whereas the role of the LGE is that of a constituting and governing body.

Responsibilities of the LGE

The LGE:

- Establishes the audit committee with an appropriate charter, membership and level of resources (including the provision of a secretariat) to enable it to effectively carry out its activities having regard to this Guide.
- Ensures that there are appropriate reporting mechanisms in place between the LGE and the audit committee.
- Periodically reviews the performance of the audit committee as a whole, and of the independent members of the audit committee. The audit committee performance review can be (and often is) by self-assessment.

It is important for the members of the audit committee and the LGE to recognise that the advisory activities of the audit committee do not absolve the LGE members of their responsibilities. Individual LGE members are obliged to reach their own decisions based on a proper assessment of the information, which includes, but is not limited to, audit committee advice and reports.

General responsibilities of LGE members, which extend to audit committee interaction and involvement, typically include:

- duty to act in good faith in the best interests of the LGE
- duty to act with care and diligence
- duty to avoid a conflict in the position of a LGE member and/or any interest that a LGE member may have
- a range of duties that prohibit the misuse of information obtained by LGE members.

Statutory responsibilities of LGE members under the LG Act include requirements:

- not to misuse his or her position to gain, or attempt to gain, an advantage for themselves or any other person or to cause detriment, or attempt to cause detriment to the LGE²³
- to disclose conflicts of interest, including direct and indirect interests.²⁴

With the external auditors

Role of the external auditor

The external auditor, as an independent party with knowledge of the LGE's financial affairs, can provide the audit committee with valuable, objective insight into aspects of the LGE's governance and internal controls, including its risk management.

For the external auditor, communication and consultation with the audit committee helps to facilitate an effective and efficient audit and the communication of matters arising from the audit. External auditors seek a constructive relationship with the audit committee while maintaining their independence, objectivity and professional scepticism.

External auditors gain an understanding of the LGE, its environment and its internal controls, make risk assessments about the financial report and obtain sufficient audit evidence to support the auditor's report on the financial report.

²³ Refer to section 76D of the LG Act.

²⁴ Refer to section 79 of the LG Act.

Responsibilities of the external auditor

The external auditor has the following responsibilities for effective interaction with an audit committee:

Advising on the terms of the audit engagement

- Advising on the terms of the audit engagement in accordance with Australian Auditing Standards (including who to communicate with and how to communicate).

Advising on elements of audit planning

- Advising on the overall audit strategy and timing, including any limitations – based on their consideration of materiality, high risk areas affecting the financial report and their plans to examine the effectiveness of internal controls.
- Consulting with the audit committee on development of the internal audit plan if invited to do so by the audit committee.
- Discussing with the internal auditor any planned use of internal audit work, including the external auditor's access to internal audit work papers.

Advising significant related party relationships and transactions

- Advising the nature, extent and operational rationale of significant related party relationships and transactions, including those involving actual conflicts of interest.

Communicating matters arising from the audit

- Scope of the audit when communicating matters arising from the audit, particularly when the audit identifies matters outside the scope of the audit.
- Determining, based on professional judgement, when matters should be communicated to management, the audit committee and/or directly to the LGE.²⁵
- Communicating significant deficiencies identified in the design or operation of the internal controls and monitoring the implementation of recommendations.
- Communicating, where identified, information that indicates fraud might exist, or weaknesses in the design or implementation of internal control to prevent or detect fraud.
- Communicating, where identified, significant matters of non-compliance with legislation and regulations.
- Communicating corrected as well as uncorrected misstatements identified by the auditor that were determined by management to be immaterial and not worthy of correction.
- Communicating matters of governance interest that arose during the audit of the financial report. For the oversight of financial reporting, such matters may typically include:
 - material risks and exposures related to the financial report
 - industry, regulatory, or other external factors
 - significant accounting policies and practices
 - accounting estimates or uncertainties (including going concern matters)
 - adjustments or recommended adjustments resulting from the audit
 - disagreements with management affecting the financial report or the auditor's report (resolved and unresolved)
 - expected modifications to the auditor's report.

Note: It is highly desirable that the external auditor discusses all issues planned to be raised at the audit committee meeting with the CEO and the CFO before the audit committee meeting. This ensures that all relevant information has been obtained and is done as a courtesy to these executives.

²⁵ Certain matters should be communicated directly with those responsible for governance (the LGE members). While the auditor may agree with the LGE on preferred lines and forms of communications, the auditor should continue to use judgement to determine whether communication with the audit committee is sufficient and appropriate. The auditor should take into account such things as the nature of the matters, the governance structure, legal requirements and the composition of the audit committee (for example, the extent to which the LGE members are represented on the audit committee).

Responding to questions

- Responding, in a timely manner, to reasonable audit committee questions and communications within the scope of financial and performance audit activities undertaken by the external auditor.

Note: The majority of the above matters would normally be set out in the engagement letter and audit plans presented by the external auditor.

With the internal auditors

Role of the internal auditor

The internal audit activity supports the audit committee by providing independent and objective assurance to the audit committee²⁶ on internal corporate governance, risk management, internal control and compliance.

The internal auditor assists the audit committee with its monitoring role.

Internal audit activities²⁷ typically fall into two distinct categories:

- Assurance services: An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organisation.
- Consulting services: Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management, and control processes without the internal auditor assuming management responsibility.²⁸

Responsibilities of the internal auditor

The responsibilities of the internal auditor typically include:

Discussing elements of internal audit planning

- Providing a draft of the formal internal audit plan, for input and endorsement by the audit committee before approval by the LGE. The draft should discuss internal audit's objectives, work schedules, staffing requirements, and a description of any limitations placed on internal audit's scope of work. The internal audit plan might also include financial or compliance audits, operational reviews, risk and control self-assessment (CSA), system-based audits, performance audits, IT audits and so on, and/or specific one-off assignments. Internal audit activity should evaluate and monitor the adequacy and effectiveness of the internal control system. The plan should:
 - provide details of the internal audit staff structure, including staff skills, experience and qualifications
 - advise on the coordination of the internal audit plan with the external audit plan.
- Discussing proposed changes to the internal audit plan previously approved by the LGE.
- Discussing the internal audit plan with the audit committee including the opportunity to do so without the presence of management.

Communicating on independence

- Reporting any non-assurance activities of the internal auditor and advising of any potential compromises to audit independence.

²⁶ Internal audit activity should be conducted in a manner consistent with *The International Standards for the Professional Practice of Internal Auditing* as issued by The Institute of Internal Auditors. Internal audit should be performed by professionals with an appropriate level of understanding of the business culture, systems and processes to provide assurance that the internal controls in place are sufficient to mitigate the risks, that the governance processes are adequate and that organisational goals and objectives are met.

²⁷ As defined by the Institute of Internal Auditors.

²⁸ This is covered in detail in standards 1100–1130 of *The International Standards for the Professional Practice of Internal Auditing*.

Communicating matters arising from an internal audit

- Submitting activity reports highlighting significant findings, their effect and recommendations (particularly on the LGE's risk management plan), and advising on the actions taken or proposed by management.
- Submitting reports on any major variances from the internal audit goals and work schedule.
- Advising the audit committee of the incidence of fraud, unethical behaviour and potential conflict of interest identified during the conduct of internal audit projects.
- Advising changes to the inherent and residual risk profile of the LGE identified as part of their work and the implications of these on the audit plan.

Responding to requests

- Providing any other information requested by the audit committee.
- Providing assurance to management in the areas of internal corporate governance, risk management, internal control and compliance and being available to management for consultation to assist with the improvement of processes and control activities.

Educating and providing advice to the audit committee on matters associated with risk, internal control, and other matters

- Internal auditors provide a key source of information for members of the audit committee on risk and internal controls, and other matters affecting the LGE's operations.

GETTING THE CHARTER RIGHT

The charter is the audit committee's blueprint for its operations and defines its terms of reference. The charter is set by the LGE to meet the needs of its operating environment, objectives and culture and should clearly articulate the audit committee's role and responsibilities, composition, structure and membership requirements, authority, processes and procedures.

The local government audit committee charter should define and/or outline the following:

- the audit committee's objectives and purpose
- the advisory role of the audit committee as defined in the LG Act
- audit committee membership²⁹
- the appointment and role of the chair, the chair being an independent member
- the method of identifying and declaring actual or potential conflicts of interest by audit committee members
- the arrangements for meetings, including who may call a meeting, the timing of meetings, their frequency and what constitutes a quorum
- the procedures for meetings and the reasons for them being closed to the public given the sensitive nature of material considered by the audit committee
- the responsibility of the audit committee, in conjunction with the LGE, to develop an annual work program or plan, as well as a four year work program or plan which should be reviewed annually
- the parties with whom the audit committee may meet privately and the frequency of such meetings
- attendance at audit committee meetings by non-member invitees including LGE members, senior management, and the internal and external auditors³⁰
- the audit committee's capacity to obtain information from any LGE member, staff (including senior management) of the LGE, or any relevant external party
- the audit committee may request the LGE to obtain independent legal or professional advice if and when it requires
- the audit committee's duty to carry out or to arrange investigations requested by the LGE
- The audit committee's obligations to report on its activities to the LGE and stakeholders
- the LGE's process for monitoring and reviewing the audit committee's performance and compliance with its charter, including periodic review of the charter
- the extent of liaison expected between the audit committee and other LGE committees (including special committees established under section 86 of the LG Act) and related entities
- the audit committee's responsibilities and the scope of its activities for monitoring financial reporting³¹
- the audit committee's responsibilities and the scope of its activities relating to the effectiveness of the internal audit function

29 Membership aspects include the number of "independent" members, the process for their appointment and replacement by LGE, their terms of office, and the process for reviewing the independent status of committee members.

30 Attendance matters include the responsibility to meet internal and/or external auditors independently of management at least annually and during any meeting when considered appropriate. The mayor or chair of the LGE (if not already on the audit committee), CEO and CFO should be extended a standing invitation to attend audit committee meetings but the audit committee will retain the authority to exclude them if and when the need arises.

31 Review of the draft financial and performance statements before submission to the LGE and external auditor for audit.

- the audit committee's responsibilities and the scope of its activities for monitoring the risk management and control framework³²
- the audit committee's responsibilities and the scope of its activities for monitoring fraud control and compliance management
- the audit committee's responsibilities and the scope of its activities for monitoring continuous disclosure.

Audit committee members, the LGE, management and internal and external auditors need to understand the audit committee's terms of reference as set out in the charter, including the audit committee's scope of activities and communication and reporting arrangements.

The charter should not be too detailed or prescriptive. It should be monitored, and reviewed periodically (as agreed by the LGE and audit committee) as well as on an as-needs basis to ensure it remains relevant. This review should ensure the charter remains relevant to the LGE's needs (for instance, revising reporting requirements to cover LGE needs for additional information) and reflects current regulatory requirements and audit committee good practice.

32 These include (1) Assessing the scope and effectiveness of the systems established by management to identify, assess, manage and monitor material business risks as well as financial reporting risks; (2) Monitoring and assessing the systems established by management to ensure the integrity of the LGE's internal financial controls; (3) Reviewing management's and the internal auditors' reports on the effectiveness of the systems for internal financial control, financial reporting and risk management; (4) Considering reports made by the external auditor on risk and control issues; (5) Reviewing the LGE's procedures for preventing and detecting fraud and whistleblowers, and assess whether these are adequate and effective; and (6) Reviewing the LGE's procedures for compliance with laws and regulations, and assess whether these are adequate and effective.

GETTING THE RIGHT MEMBERSHIP BALANCE

The membership of the audit committee is a key determinant of its success.

Audit committee composition

The composition of the audit committee should include a balance of professional skills, knowledge and technical experience, sufficient capacity, independence and objectivity to discharge its responsibilities as defined in its charter.

Good practice³³ suggests the audit committee is structured so that it:

- consists of a majority of independent members
- is chaired by an independent member
- has at least three members.³⁴

This structure recognises that the LGE is a policy making body that is accountable to its electorate for its policies and in meeting its associated responsibilities, and that this process is strengthened by an independent (and appropriately skilled) review and advisory function.

Independent members bring to the audit committee skills, knowledge and experience that may not otherwise be available from within the LGE, and a facility for a perspective which is independent to the primarily internal/operational focus of other members. In this regard, LGE members are not regarded as independent as they are part of the policy and decision-making process, and have responsibilities within the LGE's internal processes which will be subject to review by the audit committee.

LGE members, including the mayor and chair of the LGE or LGE-related entity, may be appointed to the audit committee. However, the mayor and chair of the LGE or LGE-related entity must not be appointed chair of the audit committee. The CEO and staff of the LGE or related LGE entity must not be appointed to the audit committee.

Selection of audit committee members

It is important to not only maintain audit committee continuity, but also to provide a fresh perspective through succession planning and the selection process. The following key qualities are desirable when appointing members:

- Individuals should have:
 - knowledge of the LGE's operations and the environment in which it operates
 - strong communication skills
 - high levels of personal integrity and ethics
 - sufficient time available to devote to executing responsibilities
 - high levels of financial literacy and, if possible, accounting and finance qualifications.
- The audit committee as a whole should have:
 - at least one member with financial qualifications and experience
 - skills and experience relevant to discharging responsibilities, including experience in business, financial and legal compliance, risk management
 - local government background and experience as applicable.

Committee members and the audit committee chair must be appointed by the LGE.

Where the LGE considers an individual has the skills, experience and interest or particular expertise to be an effective member of the audit committee, the LGE might convene a committee to interview and recommend the candidate's appointment as an independent member of the audit committee.

33 Refer to Recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, 2nd Edition, August 2007.

34 The number of members should be determined by the LGE having regard to ensuring that the size of the audit committee is 'workable' and able to properly function.

LGEs may also seek to appoint members of the community with the appropriate skills to the audit committee either on an honorary basis or remunerated as agreed by the LGE as allowed under section 139(7) of the LG Act.

Independent members

Independent members are individuals free from any management, business or other relationship that could reasonably be perceived to materially interfere with their ability to act in the best interests of the LGE. The independence of audit committee members should always be considered in relation to any applicable legislation or regulation that defines the requirements of independence for audit committee membership.

It is commonplace to examine an audit committee member's past and current relationships with the LGE as indicators of independence or otherwise.

Good governance identifies the following relationships that might affect the independent status of a member of the audit committee – if the member:

- is employed, or has previously been employed in an executive capacity by the LGE or a related entity, and there has not been a period of at least three years between ceasing such employment and serving on the audit committee
- has, within the last three years, been a principal of a material professional adviser or a material consultant to the LGE or a related entity, or an employee materially associated with the service provided
- is a material supplier to or customer of the LGE or a related entity, or an officer of, or otherwise associated directly or indirectly with, a material supplier or customer
- has a material, contractual relationship with the LGE or a related entity.

This list is not exhaustive and if one or more of the above examples is exhibited by an audit committee member it is possible that his/her status as independent might be compromised.

Members and potential members of the audit committee need to exercise care to ensure they disclose, for consideration by the LGE, any relationships that could be viewed by other parties as impairing either the individual's or the audit committee's actual or perceived independence. When deciding what is significant, consider the significance of the relationship to both the LGE and to the individual.

It is important for audit committee members both to be independent and to be seen to be independent. Occasionally, the LGE might choose to appoint an individual to the audit committee, despite the existence of relationships identified above, because of the individual's business or other expertise. Good governance suggests that the LGE should state its reasons for considering such a member to be independent, and the corporate governance statement should disclose the existence of any such relationships. It is important for the LGE to consider materiality thresholds from the perspective of both the LGE and LGE members and to disclose these.

Audit committee chair

The chair of the audit committee plays a pivotal role in the overall effectiveness of the audit committee. The chair of the audit committee must be independent. The LGE should select an audit committee chair who:

- is knowledgeable about the duties and responsibilities of the position as outlined in the charter; especially about the LGE's operations, financial reporting and auditing requirements, risk management and corporate governance
- has the requisite industry, business, financial and leadership skills
- is a good builder of relationships
- has strong communication skills.

The chair's term of appointment to the audit committee should be specified by the LGE. The LGE might also appoint a deputy chair in the same manner.

Remuneration of members

Section 139(7) of the LG Act allows the LGE, at its discretion, to pay a fee to a member of an audit committee who is not an LGE member or member of LGE staff. The amount of the fee paid to independent members is at the discretion of the LGE, but should reflect the time, commitment and responsibility involved in serving as a member of the audit committee.

Induction of new members

The audit committee's knowledge and proficiency are enhanced when new members are acquainted adequately with the audit committee's objectives and practices. All new and existing members need to be well briefed. Induction can be undertaken in many different ways ranging from formal orientation programs to informal discussions.

A new member needs to understand the audit committee's role, objectives and responsibilities, be familiar with its relationships with management and the internal and external auditors, and have a sound knowledge of the LGE's operations and the environment in which it operates including the LGE's code of conduct. They also need to understand the time and effort they will need to devote to their audit committee membership, additional to the time and effort they devote to each governing body meeting.

Background and other relevant information should be provided on the following areas:

- the audit committee charter
- an overview of the LGE's business operations and the industry in which it operates
- the most recent LGE statutory documents – the Council or Library Plan, the Annual Budget, and Annual Report
- all material previously provided to audit committee members on matters still before the audit committee, including current audit plans and outstanding corrective actions from previous audit reports (both external and internal)
- papers from recent audit committee meetings
- the internal audit charter
- financial performance of the LGE and related entities by way of the periodical financial reports to the LGE and Boards of the related entities
- risk profile of the LGE and a list of the material operational risks
- risk management systems
- the internal control system
- business Continuity Plans (including the disaster recovery plans)
- key financial reporting policies, including related-party issues
- the LGE Procurement Policy
- legal and regulatory requirements, including external reporting and compliance responsibilities
- councillor Code of Conduct and Staff Code of Conduct
- fraud control framework (and high level details on previous fraud issues/allegations)
- estimates of the time members need to commit to their audit committee role.

All new members should meet with the chair, other audit committee members, senior management, and external and internal auditors as soon as practicable after being appointed.

Ongoing training

It is important that audit committee members keep themselves abreast of current developments in matters that affect their capacity to effectively discharge their duties. Audit committee members should routinely source focused information on:

- important relevant operational environment issues, trends and developments

- key financial and other performance indicators of the LGE, detailing level of achievement of the LGE's objectives
- significant relevant proposed changes in financial reporting and regulatory requirements
- other matters that might have a significant effect on the risk profile of the LGE.

Rotation of members of the audit committee

Periodic rotation of the members of the audit committee is encouraged as this will enhance the perception and reality of audit committee independence, although this is often inhibited by the lack of suitable candidates. To ensure continuity, ideally no more than one member should leave the audit committee pursuant to rotation in any one year.

The period of tenure of members of the audit committee should be set by the LGE recognising that the tenure could be different for LGE members and independent members.

LGE members will be subject to council elections every four years and accordingly the tenure of LGE members on the audit committee needs to be set to allow for their rotation among the nominated LGE members.

Independent members appointed to the audit committee are not subject to the same four year council election cycle and accordingly their tenure can be set differently. The period of tenure for independent members could be two to three years, again with options for reappointment after periodic performance reviews. The LGE might also consider setting a maximum number of terms of reappointment for independent members.

Indemnity for members of the audit committee

The LGE will include independent members of the audit committee in its professional indemnity insurance coverage for the services they provide to the LGE, and advise those members accordingly.

Conflict of interest and misuse of information

The LG Act identifies direct and indirect conflicts of interest which require disclosure as and when they may arise as they are likely to compromise the independence of an audit committee member in relation to the matter to which they relate.

Section 139(4A) of the LG Act subjects members of the audit committee to the provisions of sections 76D and 79 of the LG Act.

The nature of the work of the audit committee will provide its members with access to information about the day to day operations of the LGE including information that may be commercial in confidence. Accordingly, it is important that members of the audit committee recognise the responsibilities associated with their access to this information, in particular with regard to its use or misuse.

Section 76D of the LG Act makes it an offence for a member of an audit committee to misuse his or her position to:

- gain or attempt to gain, directly or indirectly, an advantage for themselves or for any other person
- cause, or attempt to cause, detriment to the council or to another person.

Members of the audit committee must be fully aware of their responsibilities with regard to the management of interests in relation to the discharge of their duties as a member of the audit committee. The management of interests includes the proper disclosure of any conflicts of interest as and when they may arise. Section 79 of the LG Act makes it mandatory for members of the audit committee to disclose all conflicts of interest prior to the discussion of the matter for which the conflict of interest has arisen.

Members of the audit committee must also be fully aware of the statutory definitions of direct and indirect interests which may give rise to a conflict of interest. These are set out in sections 77A, 77B, 78, 78A, 78B, 78C and 78D of the LG Act.

CONDUCTING MEETINGS

The conduct of meetings will greatly influence the ability of audit committee members to achieve the audit committee's objectives. The audit committee should be conducted in accordance with sound operating principles and meeting procedures. Officers will facilitate the operation of the meeting and provide advice for consideration of the audit committee.

Frequency of meetings

A regular schedule of meetings should be designed to fulfil the audit committee's terms of reference. While the number and duration of audit committee meetings will largely depend on the size and complexity of the audit committee's responsibilities, it is common for the following to occur:

- As a guide the audit committee meets at least four times each year. There may also be a special meeting to consider the annual financial report.³⁵ The frequency of meetings should be sufficient to enable the audit committee to effectively discharge its responsibilities.³⁶
- Meetings are arranged (for example, twelve months in advance) so that, where possible, all audit committee members can attend.
- The audit committee charter empowers the chair to convene a special meeting at the request of the LGE, an audit committee member, senior management, the external or internal auditor.

Reference should be made to the meeting schedule of the LGE so that there is sufficient time between audit committee and LGE meetings to attend to any action items and for the preparation of reports that will be tabled at the next LGE meeting.

The annual agenda for the audit committee should be planned and set at least twelve months in advance. The annual agenda should reflect the annual work program or plan. A sample agenda is provided at Appendix 3.

Important accounting judgements and decisions should be considered as far as possible ahead of the year's end and at an earlier meeting than the one that considers the annual financial report.

Structure of meetings

The meeting procedures for audit committees should be set out in the charter. Due to the nature of the work of the audit committee and the potential sensitivity of material, the meetings of audit committees should not be open to the public.

There must be a well structured agenda and minutes to record the proceedings. Characteristics of a well run audit committee meeting typically include:

- the preparation of a formal agenda and its circulation list (audit committee members, the LGE, senior management, and the internal and external auditors)
- the internal and external auditors and officers are invited to contribute to the agenda
- the Chief Executive Officer reviews the agenda before it is issued to audit committee members, the LGE and other parties (for example, internal and external auditors)
- the agenda is approved by the chair with relevant meeting papers being distributed to members, internal and external auditors and management representatives at least one week before the meeting
- efficient running of the meeting assisted by:
 - ensuring the meeting starts and finishes on time
 - members agreeing to the priority of, and the time to be devoted to, each item at the commencement of each meeting
 - compliance with all statutory requirements including the declaration of any conflicts of interest at the beginning of each meeting (members should consider past employment, consultancy arrangements and related party issues when considering conflicts of interest).

35 Audit committees typically meet at least four times a year to coincide with key dates within the financial reporting and audit cycles and to plan the year and review performance.

36 Meetings to consider annual financial reports should allow ample time for this activity, and the agenda should be tailored accordingly, avoiding an agenda which is overly burdened with other items.

- the minutes are administered as follows by the audit committee secretariat:
 - minutes are complete, clear and concise, providing a summary of the issues, outcomes and actions with clear responsibilities and timelines attached
 - draft minutes are provided to the chair as soon as practicable after the meeting for clearance and then to audit committee members once the minutes are cleared
 - the audit committee secretariat provides senior management, within two weeks of the meeting, with a brief summary of issues dealt with at each meeting, including details of actions to be taken with assigned responsibilities and timelines
 - the minutes are circulated to the members with the papers of the next practical LGE meeting after the audit committee meeting
 - to ensure the council is kept informed of audit committee activity, a summary report on the committee's activities is to be provided at the next practicable council meeting
 - the chair should brief the LGE on significant issues
 - the minutes are signed by the chair at the subsequent meeting
- The audit committee, without management present, should have the opportunity to meet separately with the internal auditor and the external auditor to discuss issues of mutual interest. This opportunity should occur at least annually
- When preparing the agenda, reference is made to the audit committee's charter and annual work program or plan to ensure the agenda and papers are appropriate.

Attendance

Consider the following matters concerning attendance at audit committee meetings:

- The CEO, CFO and other staff are extended a standing invitation to attend meetings and participate in discussions of particular (possibly standard) agenda items. However the audit committee retains the right to exclude the mayor/chair of the LGE (if not a member of the audit committee), CEO, CFO and other staff from the meetings as and when this is considered necessary.
- Internal and external audit representatives are extended a standing invitation to attend relevant parts of each meeting. Where necessary the chair might decide that they should not attend for certain agenda items or that the audit committee will meet them without representatives of management in attendance. It is recommended that the audit committee is given the opportunity to meet on occasion with each of the external and internal auditors without the presence of management.

Administrative support for the audit committees

The LGE must provide sufficient administrative resources to properly support the audit committee. The LGE should designate a secretariat to support the audit committee.

OTHER REPORTING BY THE AUDIT COMMITTEE**Annual Report**

The annual report should include information on the audit committee's roles and responsibilities, organisation and membership, and its principal activities during the year. This information should be included as part of the wider corporate governance information included in the annual report.

The following material should be included in the corporate governance section of the annual report:

- details of the names and qualifications of those appointed to the audit committee
- the number of meetings held by the audit committee and the attendance record of members
- information about the audit processes and the results of work completed by the internal and external auditors
- the annual review of the audit committee's charter and its achievement of the charter
- other matters the audit committee believes need to be reported.

Website

The following information should be made publicly available on the LGE's website in a clearly marked corporate governance section:

- the audit committee charter
- description of the roles and responsibilities of the audit committee
- information on procedures for the selection and appointment of the internal auditor
- a description of the audit committee's monitoring role for the LGE's risk management and internal control frameworks
- names of audit committee members, professional background and qualifications.

ASSESSING PERFORMANCE

Assessing the audit committee's performance

LGEs and LGE committees need to demonstrate a high level of professionalism. The LGE should undertake a periodic and regular review of the performance of the audit committee, usually on an annual basis.

Matters for consideration by the LGE include:

- identifying and agreeing to the criteria by which the performance of the audit committee will be assessed
- assessing the effectiveness of the audit committee as a whole and of the performance of the individual independent audit committee members
- identifying the process for implementing action plans developed in response to areas requiring improvement
- assessing compliance with the audit committee's charter.

Audit committees should also take advantage of opportunities to benchmark their activities with audit committees in similar LGEs.

FURTHER READING

Corporate Governance Principles and Recommendations, 2nd Edition, August 2007, ASX Corporate Governance Council, Australia

Excellence in Governance for Local Government, 2005, joint publication by CPA Australia and Local Government Managers Australia (LGMA)

Audit Committees – A Guide to Good Practice, February 2008, joint publication by the Australian Institute of Company Directors (AICD), the Institute of Internal Auditors Australia (IIA Australia) and the Auditing and Assurance Standards Board (AUASB)

Public Sector Better Practice Guide on Audit Committees, 2005, Australian National Audit Office (includes a model audit committee charter)

Audit Committee Effectiveness – What Works Best, 3rd Edition, sponsored by The Institute of Internal Auditors Research Foundation and prepared by PricewaterhouseCoopers, Australia

The Audit Committee Handbook, 4th Edition, Louis Braiotta, Jr., IIA Inc, USA

Professional Practice Guide for Internal Audit, 2003, IIA-Australia

IIA Position Paper: The Role of Internal Auditing in Resourcing the Internal Audit Activity, Revised January 2009, The Institute of Internal Auditors

International Professional Practices Framework (including the International Standards for the Professional Practice of Internal Auditing), 2009, The Institute of Internal Auditors

Public Sector Internal Audit, September 2007, Australian National Audit Office

Public Sector Internal Audit toolkit, September 2007, Australian National Audit Office (includes a model Internal Audit Charter)

Fraud Control in Australian Government Agencies – A Better Practice Guide, 2004, Australian National Audit Office

Managing Risk Across the Public Sector: Toward Good Practice, 2007, Victorian Auditor-General's Office

Managing Risk Across the Public Sector: Good Practice Guide, 2004, Victorian Auditor-General's Office

Business Continuity Management – Building resilience in public sector entities, June 2009, Australian National Audit Office

Emergency Management Manual Victoria, Office of the Emergency Services Commissioner

Victorian Human Influenza Pandemic Plan, April 2007, Department of Human Services

APPENDICES

APPENDIX 1 – REGULATORY CONTEXT

The following is a list of the current legislation, standards and guidance that are relevant to LGEs, their audit committees and those involved with them. These include:

Local Government Act 1989

The LG Act establishes the Local Government Charter together with the legislative authority on the LGE's operating activities and performance.

Constitution Act 1975

The **Constitution Act 1975** establishes local government as a distinct tier of government. Local government entities are required to work in partnership with the Governments of Victoria and Australia.

Audit Act 1994

The **Audit Act 1994** gives the Auditor-General of Victoria the responsibility for the audit of local government. All references to the external auditor in this Guideline should therefore be read as a reference to the Auditor-General of Victoria or his contractor.

Corporations Act 2001 (Commonwealth)

The **Corporations Act 2001** is the principal legislation regulating companies in Australia. It covers matters such as the formation and operation of companies, duties of officers, takeovers and fundraising. It is a key point of reference for the audit committee on financial reporting and external audit requirements.

Associations Incorporation Act 1981

The **Associations Incorporation Act 1981** provides a simple and inexpensive process available to not-for-profit associations or community groups to apply to become its own 'legal person' (i.e. the association becomes a distinct legal entity that continues regardless of changes to its membership).

Local Government (Financial Assistance) Act 1995 (Commonwealth)

The **Local Government (Financial Assistance) Act 1995** sets out many of the provisions through which the Commonwealth Government provides grants to local government. The term 'Financial Assistance Grants' describes both general purpose grants and identified local road grants.

Victoria Grants Commission Act 1976

The **Victoria Grants Commission Act 1976** is the governing legislation for the Victoria Grants Commission (the VGC). The VGC is an independent statutory body which falls within the portfolio responsibilities of the Minister for Local Government. Its primary function is to allocate Financial Assistance Grants provided by the Commonwealth Government to councils in Victoria.

Local Government (Finance and Reporting) Regulations 2004

The regulations set out certain specific requirements with respect to the budget and annual report.

AASB Accounting Standards

The LGE's financial report must comply with the Accounting Standards promulgated by the Australian Accounting Standards Board (AASB). Compliance with these standards underpins the audit committee's monitoring and oversight of the LGE's financial reporting. The Accounting Standards require financial reports to present a 'true and fair view'. Since July 2005 the standards issued by the AASB have been based on International Financial Reporting Standards (IFRS³⁷).

37 IFRS is the International Financial Reporting Standards issued by the International Accounting Standards Board.

AUASB Auditing Standards

The **Audit Act 1994** requires the LGE's financial report to be audited by the Victorian Auditor-General in accordance with the Auditing Standards made by the Auditing and Assurance Standards Board (AUASB). While not creating obligations for the LGE, the Auditing Standards establish the mandatory requirements and provide explanatory guidance for the external auditor of the LGE. This includes requirements to agree on the terms of the audit engagement, communicate material weaknesses in the design or implementation of internal controls, communicate matters of governance interest and seek representations from management. The audit committee plays a key role in establishing an appropriate relationship with the external auditor and the LGE.

The following Standards on Assurance Engagements may be used by the external auditor in the conduct of other assurance engagements:

- *ASAE 3000 Assurance Engagements other than Audits or Reviews of Historical Financial information.*
- *ASAE 3100 Compliance Engagements.*
- *ASAE 3500 Performance Engagements.*

International Standards for the Professional Practice of Internal Auditing

The International Standards for the Professional Practice of Internal Auditing are professional standards promulgated by the Institute of Internal Auditors Inc (IIA). These standards provide the basic principles and guidance for providing internal audit services. They are a global set of standards reflecting contemporary best practice for internal auditors that all practicing members of the IIA are expected to follow.

Standards Australia

Where audit committees are responsible for monitoring risk management and compliance, Joint Australian/New Zealand Standards, developed by Standards Australia are a useful reference resource.

AS 8000 Premium (Set)-2004 *Premium Corporate Governance Set* combines the five Corporate Governance Standards with the practical guidance of two Handbooks on implementing a Corporate Governance system. Included in this set are:

- > AS 8000-2003 *Corporate governance – Good governance principles* specifies a blueprint for the development and implementation of a generic system of governance suitable for a wide range of entities.
- > AS 8001-2008 *Fraud and corruption control* provides an outline for an approach to controlling fraud and corruption and is intended to apply to all entities including government sector agencies, publicly listed corporations, private corporations, other business entities and not-for-profit organisations engaged in business or business-like activities.
- > AS 8002-2003 *Corporate governance – Organizational codes of conduct* specifies essential elements for establishing, implementing and managing an effective organizational Code of Conduct.
- > AS 8003-2003 *Corporate governance – Corporate social responsibility* specifies essential elements for establishing, implementing and managing an effective corporate social responsibility program within an entity and provides guidance in using these elements.
- > AS 8004-2003 *Corporate governance – Whistleblower protection programs* for entities specifies essential elements for establishing, implementing and managing an effective whistleblower protection program within an entity and provides guidance when using these elements.
- > HB 400-2004 *Introduction to Corporate Governance* provides information that will assist in applying the AS 8000 series of Corporate Governance Standards. The Handbook places the Standards in the context of the Corporations Act and the **broader corporate governance landscape** in Australia.

- > HB 401-2004 *Applications of Corporate Governance* explores how the Standards may be applied in a variety of industry contexts, including education, healthcare and in the not-for-profit sector. The Handbook also describes fraud and corruption control as it relates to corporate governance.

AS/NZS ISO/IEC 38500:2010 *Corporate governance of information technology* promotes effective, efficient and acceptable use of IT in all organisations.

AS/NZS ISO 31000:2009 *Risk management – Principles and guidelines* provides guidance for establishing and implementing effective risk management processes in an organisation.

AS 4811-2006 *Employment screening* specifies guidelines in the Employment Screening process for verifying the identity, integrity and credentials of any person entrusted with resources and/or assets in an organization, and can be utilized as a basis for industry or organizational specific screening policies and procedures.

AS/NZS 3806-2006 *Compliance Programs* provides guidance on the principles of effectively managing an organisation's legal compliance obligations, and any other relevant obligations, such as industry and organisational standards, principles of good governance and accepted community and ethical norms.

HB 221:2004 *Business Continuity Management* sets out a definition and process for business continuity management, and provides a workbook that may be used by organisations to assist in implementation.

HB 292 Set-2006 *Business Continuity Management Handbooks Set* consists of HB 292 *A practitioners Guide to Business Continuity Management*, and HB 293 *Executive Guide to Business Continuity Management*. Together, the two documents provide users with an integrated approach to Business Continuity Management. HB 292 is the substantive document, while HB 293, the Executive guide, provides both a summary of HB 292, but also acts as a navigational tool to the substantive document.

AS/NZS 5050:2010 *Business continuity – Managing disruption-related risk* describes the application of the principles, framework and process for risk management, as set out in AS/NZS ISO 31000:2009, to disruption-related risk. Managing such risk effectively will help maintain continuity of an organization's business.

ISACA

ISACA (Information Systems Audit and Control Association) is an international professional association that deals with IT Governance. ISACA provides practical guidance, benchmarks and other effective tools for all enterprises that use information systems. Through its guidance and services, ISACA defines the roles of information systems governance, security, audit and assurance professionals worldwide.

The *IT Standards, Guidelines, and Tools and Techniques for Audit and Assurance and Control Professionals* issued by ISACA provides the information required to meet the compliance needs of audit, assurance and control professionals, and also provides essential guidance to improve the effectiveness and efficiency of IT audit and assurance and IS control professionals.

APPENDIX 2 – RECOMMENDED AUDIT COMMITTEE CHARTER

The recommended audit committee charter is the Model Audit Committee Charter produced by The Institute of Internal Auditors (the IIA). This model has been adapted to suit the local government sector. The original model charter can be obtained directly from the IIA. Copies of this model charter may be downloaded from the IIA website – www.theiia.org/.

The recommended audit committee charter aims to:

- capture many of the good practices used today
- encompass all the activities that are appropriate to an audit committee
- address the requirements of the LG Act.

Recommended Audit Committee Charter based on the IIA model

Audit Committee Charter

Purpose

To facilitate the operation of the audit committee, the Chief Executive Officer has responsibility to provide secretariat services and officer advice in respect of matters before the audit committee.

Authority

The audit committee has the responsibility for advising the LGE on:

- seeking resolution on any disagreements between management and the external auditors on financial reporting
- reviewing all auditing, planning and outcomes
- seeking any information it requires from LGE members, and LGE staff via the Chief Executive Officer and external parties
- formally meeting with LGE staff, internal and external auditors as necessary.

Composition

- The audit committee will consist of at least three members,³⁸ the majority of whom must be independent.
- The LGE will appoint audit committee members and the audit committee chair.
- The chair of the audit committee must be independent.
- One audit committee member should be financially literate.

Meetings

- The audit committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require.
- All audit committee members are expected to attend each meeting, in person or through teleconference or video conference.
- The Chief Executive Officer will facilitate the meetings of the audit committee and invite members of management, auditors or others to attend meetings to provide pertinent information, as necessary.
- Meeting agendas will be prepared and provided at least one week in advance to members, along with appropriate briefing materials.
- Minutes will be prepared.

³⁸ The number of members should be determined by the LGE having regard to ensuring that the size of the audit committee is 'workable' and able to properly function. The LGE should also determine the quorum for audit committee meetings.

Responsibilities

The audit committee will carry out the following responsibilities:

Financial Report

- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgemental areas, and recent accounting, professional and regulatory pronouncements and legislative changes, and understand their effect on the financial report.
- Review with management and the external auditors the results of the audit, including any difficulties encountered.
- Review the annual financial report, and consider whether it is complete, consistent with information known to audit committee members, and reflects appropriate accounting principles.
- Review with management and the external auditors all matters required to be communicated to the audit committee under the Australian Auditing Standards.

Internal control

- Understand the scope of internal and external auditors' review of internal controls over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

Risk management

- Monitor the systems and process via the LGE's risk profile to ensure that material operational risks to the LGE are dealt with appropriately.
- Monitor the process of review of the LGE's risk profile.
- Consider the adequacy of actions taken to ensure that the material business risks have been dealt with in a timely manner to mitigate exposures to the LGE.

Business continuity

- Monitor processes and practices of the LGE to ensure for effective business continuity.

Internal audit

- Review with management and the internal auditor the charter, activities, staffing, and organisational structure of the internal audit function.
- Review and recommend the annual audit plan for approval by the LGE and all major changes to the plan.
- Monitor processes and practices to ensure that the independence of audit function is maintained.
- As part of the audit committee's annual assessment of performance, determine level of satisfaction with internal audit function having consideration of the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.
- Monitor that the internal auditor's annual plan is linked with and covers the material business risks.
- Provide an opportunity for the audit committee to meet with the internal auditor to to discuss any matters that the audit committee or internal auditor believes should be discussed privately.

External audit

- Note the external auditor's proposed audit scope and approach, including any reliance on internal auditor activity.
- 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.

Compliance

- Review the systems and processes to monitor effectiveness of the system for monitoring compliance with legislation and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.
- Keep informed of the findings of any examinations by regulatory agencies, and any auditor (internal or external) observations and monitor management's response to these findings.
- Obtain regular updates from management about compliance matters.

Reporting responsibilities

- Report regularly to the LGE about audit committee activities, issues, and related recommendations through circulation of minutes and annual report. Additional updates may be appropriate should issues of concern arise.
- Monitor that open communication between the internal auditor, the external auditors, and the LGE occurs.
- Report annually to stakeholders, describing the audit committee's composition, responsibilities and how they were discharged, and any other information required by regulation, including approval of non-audit services.
- Consider the findings and recommendations of relevant Performance Audits undertaken by the Victorian Auditor-General and to ensure the LGE implements relevant recommendations.

Other responsibilities

- Perform other activities related to this charter as requested by the LGE.
- Review and assess the adequacy of the audit committee charter annually, requesting LGE approval for proposed changes, and ensure appropriate disclosure as might be required by legislation or regulation.
- Confirm annually that all responsibilities outlined in this charter have been carried out.
- Evaluate the audit committee's performance annually.

APPENDIX 3 – SAMPLE AUDIT COMMITTEE AGENDA FOR THE YEAR

MEETINGS SCHEDULED FOR:	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Financial report				
Review significant accounting and reporting issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Review the annual financial report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
New review attestations required	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Review the results of the audit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Review communication required under Australian Auditing Standards	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Internal control				
Consider the effectiveness of the LGE's internal control system	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Review the internal control over financial reporting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Risk management				
Monitor the systems and processes for risk management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Review the LGE's risk profile	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Material business risks consider adequacy of mitigation actions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Monitor effectiveness of business continuity planning	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Review any reports concerning evidence of material violation or breaches of fiduciary duty	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Review any instance of fraud or possible illegal acts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Internal audit				
Review the internal audit function	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Review and recommend the annual audit plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Review internal audit plan and ensure it is linked to the LGE's risk profile	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Monitor satisfaction with internal audit service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Monitor processes and practices to ensure that independence of internal audit function	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Provide an opportunity for the audit committee to meet with internal audit without management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
External audit				
Note the external auditors' proposed audit scope and approach	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Consider external auditors' view on the control environment and management letters	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolve any disagreement between management and the external auditors in financial reporting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Provide an opportunity for the audit committee to meet with external auditor without management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

MEETINGS SCHEDULED FOR:	Qtr 1	Qtr 2	Qtr 3	Qtr 4
<i>Compliance</i>				
Obtain regular updates on compliance matters	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Review the systems and processes for monitoring compliance with legislation and regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Be informed on how management monitors the effectiveness of its compliance and ethics program	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Keep informed of the findings of any examinations by regulatory agencies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Review whistleblower arrangements and reports	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Reporting responsibilities</i>				
Report regularly to the LGE	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Monitor that open communication between the internal auditor, the external auditors, and the LGE occurs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Report annually to stakeholders	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Consider the findings and recommendations of relevant Performance Audits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Assessment of financial information</i>				
Review significant accounting and reporting issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Periodically compare actual outcomes, achievement of milestones and other KPIs as compared with the Council Plan, Annual Report and Budget - strategic indicators for monitoring the achievement of the strategic objectives.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Review attestations required	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Review and discuss any reports concerning evidence of material violation of breaches of fiduciary duty	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>General</i>				
Establish number of meetings for forthcoming year	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Effectiveness of Secretariat support performance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Perform an assessment of the Committee's performance annually	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Review and assess the adequacy of the audit committee charter annually	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Confirm annually that all responsibilities outlined in this charter have been carried out	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**APPENDIX 4 – SAMPLE AUDIT COMMITTEE SELF ASSESSMENT
SAMPLE COUNCIL AUDIT COMMITTEE**

ANNUAL SELF ASSESSMENT FOR 201X-1Y

1. A Summary of Work Performed by the Audit Committee
2. Overall Conduct of the Audit Committee
3. A Review of the Audit Committee’s Effectiveness
4. An Update on the Internal Audit Program for 201X–201Y

(Name)

Chair, Audit Committee

dd / mm / 201X

1. A Summary of Work Performed by the Audit Committee

The Committee consisted of:

- Independent Chair – (insert name and qualifications)
- Independent (insert name and qualifications)
- Independent (insert name and qualifications)
- LGE members (insert name and qualifications)

Committee membership has not changed since dd / mm / 200Y (update as appropriate). However, (name of members) will be replaced by (name of members) in the near future. Retiring member (insert name) thanked for his/her contribution to the Audit Committee over their term (insert number of years).

- (Insert any significant governance developments affecting the LGE during the year)
(Document specific meetings between the chair and the LGE, matters addressed and outcomes)

Outcomes included:

1.1 Risk Management

The Audit Committee endorsed the (insert year) Risk Management Plan at the (date of meeting). The Plan was approved subsequently by the LGE. All risks identified in internal audit reviews and external audit reports were noted by the Committee and followed up where action was warranted. The Internal Audit Plan was cross referenced to the Risk Management Plan. The Committee makes enquiries on specific risks at each meeting.

1.2 External Audit Report – Financial Audit

There was/were (number and nature) Management letter/s issued by the external auditors as part of the (Year) audit and the following financial matters of concern were raised:

- (List high and medium risk items)

1.3 Internal Audit Reports

The following reports were tabled at audit committee meetings for endorsement:

- (List by audit)

At 30 June (insert year) there are (insert number) outstanding internal audit reports:

- (List by audit)

1.4 Performance Audits by Victorian Auditor-General (only to be included if the AG completed a performance audit which has relevance to the LGE specifically or to local government more generally during the year)

Note the performance audits (if any and if relevant) completed by the Auditor-General.

Note the matters of relevance to the LGE and/or local government identified by the Auditor-General.

Note the actions taken by the LGE to address the matters raised by the Auditor-General (if relevant).

2. Overall Conduct of the Audit Committee

The Committee discharged its duties for the year during the following (insert number) meetings:

- Insert Dates

An evaluation of the administration & conduct of these meetings is as follows:

2.1 Agenda:

- a. The agenda-setting process allowed for inclusion of the necessary items. (Comment how this was achieved)
- b. Sufficient time is allowed to address complex and critical issues.

2.2 Meeting papers:

- a. Comprehensive meeting papers are circulated a week prior.
- b. Opportunity available to be briefed prior to the meeting.

2.3 Conduct of meetings:

- a. Meetings commence at (insert time) and matters are productively and promptly concluded by (Insert time).
- b. Meeting time is extended where there are complex matters.
- c. Out of session consultation is sought as appropriate.

2.4 Minutes:

- a. Audit committee minutes are completed and circulated for comment within (insert time period) of each meeting.
- b. Minutes of meetings are approved at the following meeting, signed and maintained by the Secretariat.

2.5 Communication with the LGE:

- a. The LGE is available for consultation with members of the Committee at any time during the year. (Insert dates at which meetings took place)

Recommendations for Improvement

The following are recommended actions for improvement:

- (1) For future Audit Committee meetings, the Chair will report key messages to the LGE and provide feedback to the Audit Committee.
- (2) List any other areas for improvement.

3. A Review of the Audit Committee's Effectiveness

Overall the Audit Committee was effective for the year.

Provided below is a detailed assessment of the Audit Committee for 201X-201Y.

1. Self Assessment of Performance against Committee Charter ³⁹	Audit Committee Performance has been:					
	Less than adequate		Adequate		More than adequate	
	1	2	3	4	5	6
A. The Audit Committee has monitored and reported on the systems and activities of Council in ensuring:						
(a) Reliable financial reporting and management information.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) High standards of corporate governance.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) Appropriate application of accounting policies.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) Compliance with applicable laws and regulations.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) Effective and efficient internal audit functions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f) Effective and efficient external audit functions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(g) Measures to provide early warning of any issues affecting the organisation's financial well-being.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(h) The level and effectiveness of appropriate Business Continuity and Disaster Recovery Planning.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(i) Maintenance and fostering an ethical environment.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B. The Audit Committee has received whatever information, presentations, or explanations it considers necessary to fulfil its responsibilities.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C. The Audit Committee has worked with management and Internal Audit to develop a framework for monitoring the multi dimensional elements of corporate governance.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
D. The Audit Committee has:						
(a) gained a level of assurance that systems are in place within Council to identify high risks	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) scheduled audit reviews in accordance with risk assessments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) reviewed the accountability of Council's corporate governance arrangements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) reviewed the effectiveness of internal control systems in place	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f) made recommendations to address control deficiencies.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
E. The Audit Committee has reviewed the effectiveness of management information including financial controls and reporting.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
F. The Audit Committee has reviewed reports outlining:						

³⁹ The Self Assessment of Performance template was provided courtesy of the Boroondara City Council.

1. Self Assessment of Performance against Committee Charter cont'd	Audit Committee Performance has been:					
	Less than adequate		Adequate		More than adequate	
	1	2	3	4	5	6
(a) Developments and changes in the various rules, regulations and laws which relate generally to Council's business operations.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Measures to ensure Council's compliance with legislation.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

G. The Audit Committee has:

(a) reviewed the performance of internal audit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) reviewed the effectiveness of the annual external audit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) recommended internal audit appointments to Council	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) provided a structured reporting line for internal and external audit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) annually approved the Internal Audit Program and rolling three year plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f) reviewed and approved the Audit Committee Annual Plan.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

H. (a) Committee members have attended meetings on a regular basis.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Meetings have been conducted in accordance with the agenda issued.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) Meeting agendas and supporting papers have been well structured and well written.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) Meetings have been conducted to allow for full participation by all members.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) Meetings have allowed Committee members to raise any issue they believe relevant.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f) Meetings have been conducted to allow for open, frank and robust discussion of all matters raised.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Other Comments:

Are there any other matters you believe should be raised as part of this assessment of the performance of the Audit Committee for the 201X/201X financial year?

1. _____
2. _____
3. _____
4. _____
5. _____

4. An Update on the Internal Audit Program for 201X-201Y

The (insert new financial year) Internal Audit Program includes the following audits:

- (List specific projects)
-

Acknowledgements

The Department of Planning and Community Development (DPCD) issued a draft guideline for consultation in December 2009 to all councils, regional library corporations and key stakeholders. The key stakeholders consulted included:

- Municipal Association of Victoria
- Victorian Local Governance Association
- Local Government Professionals (LGPro)
- LGPro Corporate Services Special Interest Group
- Victorian Auditor-General's Office
- Ombudsman Victoria

A consultation period of 14 weeks was allowed.

All submissions received during the consultation period were considered and taken into account as appropriate in the finalisation of this Guide.

A total of 35 submissions were received from councils, stakeholders and interested parties.

Councils

Ballarat City Council	Latrobe City Council
Banyule City Council	Macedon Ranges Shire Council
Boroondara City Council	Manningham City Council
Brimbank City Council	Melbourne City Council
Cardinia Shire Council	Monash City Council
Darebin City Council	Mornington Peninsula Shire Council
Frankston City Council	Nillumbik Shire Council
Glenelg Shire Council	Port Phillip City Council
Greater Bendigo City Council	Stonnington City Council
Greater Shepparton City Council	Strathbogie Shire Council
Hepburn Shire Council	Wangaratta Rural City Council
Hindmarsh Shire Council	Whitehorse City Council
Hobsons Bay City Council	Whittlesea City Council
Kingston City Council	Yarra Ranges Shire Council
Knox City Council	

Stakeholders and Interested Parties

Local Government Professionals
FinPro
Ombudsman Victoria
Information Systems Audit and Control Association (ISACA)
Australian Institute of Company Directors (AICD)
Institute of Internal Auditors – Australia (IIA Australia)
Auditing and Assurance Standards Board (AUASB)
Richard Sinnott & Delahunty Chartered Accountants
Mr Geoff Harry

Local Government Victoria would also like to acknowledge the contributions of Ms Helen Lanyon of Boroondara City Council and Mr Geoff Cockram of Stonnington City Council, who on behalf of LGPro, provided detailed comments and valuable input in the finalisation of this Guide.

