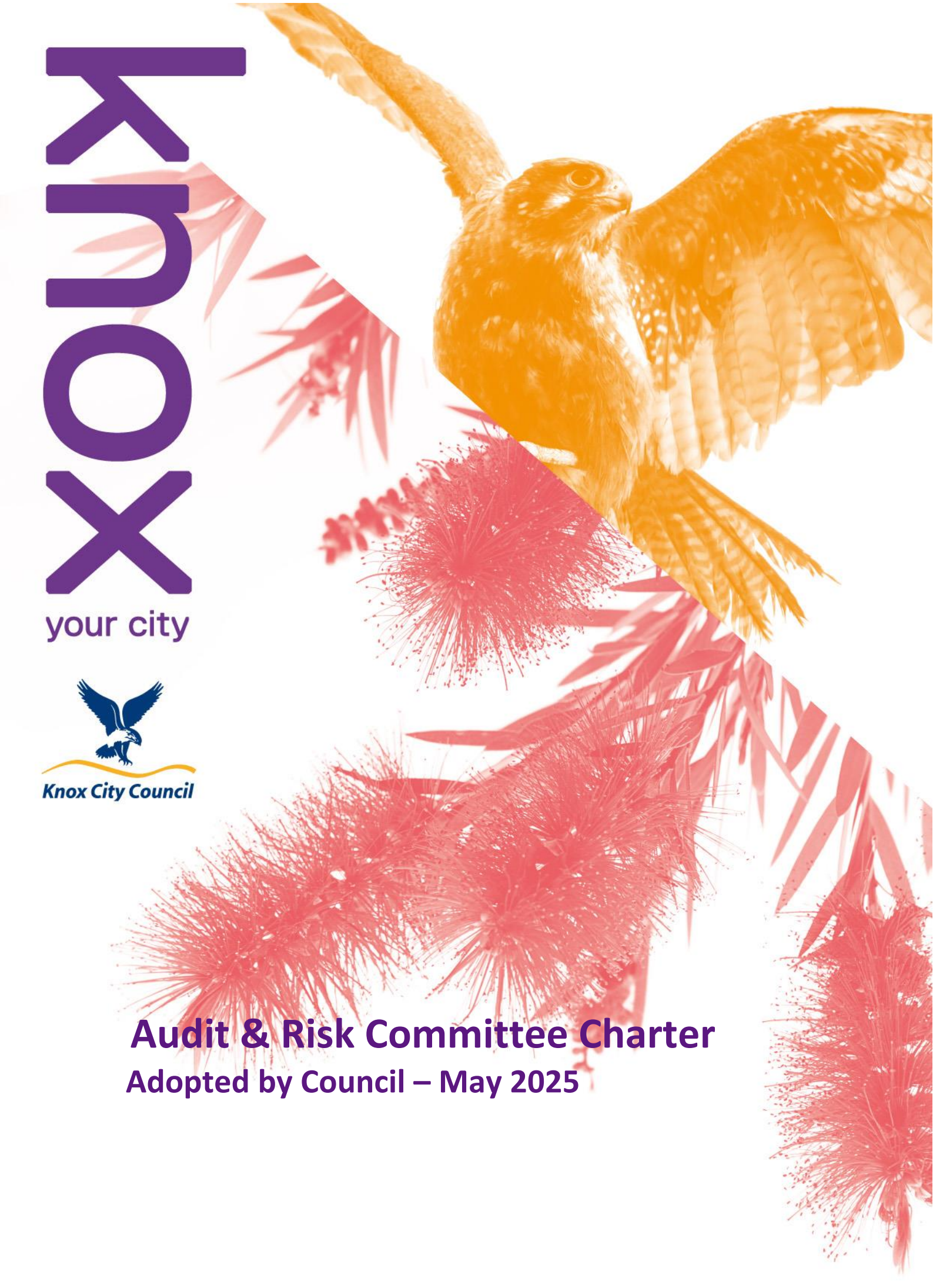

Audit & Risk Committee Charter

Adopted by Council – May 2025

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1. Introduction

Knox City Council is committed to good governance, public transparency and accountability to the Knox community. The Audit and Risk Committee is established to strengthen Council's governance, risk management, financial management; and to drive continuous improvement.

Knox Council's Audit and Risk Committee (the Committee) is an independent Advisory Committee, established under section 53(2) of the *Local Government Act 2020* (the Act).

The Committee provides an autonomous link between Council, Management and its external and internal auditors and assists in providing independent advice, assurance and recommendations to Knox Council on matters relevant to the Committee's Charter.

2. Purpose of the Committee and Charter

This Charter has been developed in accordance with section 54(2) of the Act and sets out the Committee's objective, governance arrangements and duties and responsibilities.

The Committee's role is to support Council in discharging its oversight and accountability responsibilities related to:

a. Compliance with Council's policies, procedures, and governance principles;
b. Overarching governance principles;
c. Effectiveness of Council's system of internal controls, including fraud and corruption prevention;
d. Council's risk management framework;
e. Financial and performance reporting;
f. Internal audit and external audit functions; and
g. Statutory and legislative compliance.

The Committee will engage with Management in a constructive and professional manner in discharging its responsibilities and formulating its advice to the Council.

The Committee will advise Council on how best to fulfil its responsibilities and facilitate decision making by providing a formal forum for communication and liaison between the Council members and Management, internal auditors, and external auditors.

3. Committee Authority

The Committee is directly responsible to Council for discharging its responsibilities as set out in this Charter and its Annual Work Plan.

The Committee has the authority to:

a. Establish and regularly review its Annual Work Plan to enable it to discharge its responsibilities effectively, pursuant to the requirements of this Charter;
b. Approve internal and external audit plans;
c. Endorse documents, policies and reports that must be approved by Council, including annual financial reports, annual performance statements, new or revised policies and other documents that assist in maintaining a strong internal control environment;
d. Provide advice and make recommendations to Council on matters within its areas of responsibility as prescribed in the Act;
e. Retain counsel of relevant independent experts where it considers that is necessary in order to execute its responsibilities, subject to prior agreement with the Chief Executive Officer;
f. Seek any relevant information it requires from Council, Council Officers (who are expected to cooperate with the Committee's requests) and external parties;
g. Meet with Council Officers, internal and external auditors and other parties as required to discharge its responsibilities; and
h. Meet annually with the External Auditors and the Internal Auditors respectively without Management present.

The Committee has no executive authority, no delegated financial responsibilities and no delegated authority from Council, unless specifically provided by Council from time to time. Any such authority shall be temporary and may only relate to specific matters as resolved and directed by Council.

The Committee will, through the Chief Executive Officer, have access to appropriate support to enable it to discharge its responsibilities effectively.

4. Committee Duties and Responsibilities

The Committee will discharge the following duties and responsibilities:

4.1 Financial and Performance Reporting

4.1.1 Review Council's annual financial report and annual performance statement prior to their approval focusing on:

a) Whether they are complete and consistent with information known to Committee members;

b) The reporting requirement of Accounting Policies and approved Accounting Standards and Treatments;
c) The assumptions used and process applied in making significant accounting estimates;
d) Compliance with accounting standards and other reporting requirements of financial and non-financial information;
e) Significant changes to the content of the reports, the operating results, financial position, and performance indicators in comparison to the previous year; and
f) Adequate disclosure of Council's financial performance and position.

4.1.2 Review and recommend the adoption of the annual financial report and annual performance statement to Council and review any significant changes and the reasons for the changes that may arise subsequent to any such recommendation;

4.1.3 At least annually review significant accounting and external reporting issues, including complex or unusual transactions, transactions and balances in areas where judgement is required, changes to accounting policies, audit adjustments, performance variations, legal risk or contractual exposures, recent accounting, professional and regulatory pronouncements and legislative changes, and understand their effect on the annual financial report and the audit thereof;

a) At least annually review changes to the Local Government Performance Reporting Framework and understand the impact of those changes on Council's performance indicators;
b) Review with Management and the external auditors the results of the audit, including any difficulties encountered by the auditors and how they were resolved; and
c) Review the appropriateness of the format and content of periodic management financial reports and performance statements to Council as required.

4.2 Internal Control Environment

4.2.1 Review the adequacy and effectiveness of key policies, procedures, systems and controls on a regular basis including Council's framework for ensuring policies remain relevant and current;

4.2.2 Review the systems and processes implemented by Council for monitoring compliance with relevant legislation and regulations and the results of Management's response to any instances of non-compliance;

4.2.3 Receive reports on local government performance audits undertaken by Victorian Auditor-General's Office (VAGO), Independent Broad-based Anti-

Corruption Commission (IBAC), Local Government Inspectorate, Victorian Ombudsman and other relevant integrity bodies to consider relevant findings and recommendations for action where appropriate;

4.2.4 Consider whether systems and controls are reviewed regularly and updated where required, including testing compliance;

4.2.5 Consider significant changes to systems and controls to assess whether those changes significantly impact Council's risk profile;

4.2.6 Review and assess whether the control environment is consistent with Council's Governance Principles; and

4.2.7 Obtain briefings on any significant compliance matters.

4.3 External Audit

4.3.1 Annually review and approve the external audit scope and plan proposed by the external auditor;

4.3.2 Be briefed annually by the external auditor on the audit scope and strategy at the commencement of each year's audit process;

4.3.3 Discuss with the external auditor any audit issues encountered in the normal course of audit work, including any restriction on scope of work or access to information;

4.3.4 Ensure that significant findings and recommendations made by the external auditor, and Management's responses are received, appropriate and are acted upon in a timely manner;

4.3.5 Review the effectiveness of the external audit function and ensure that VAGO is aware of the Committee's views;

4.3.6 Consider the findings and recommendations of any relevant performance audits undertaken by VAGO and monitor Council's responses to them; and

4.3.7 Meet with the external auditor at least annually without Management in attendance.

4.4 Internal Audit

4.4.1 Annually review and approve the rolling three-year strategic internal audit plan with a focus on:

a) Internal controls over significant areas of risk, including non-financial management system controls;
b) Internal controls over revenue, expenditure, assets, and liabilities processes;
c) Efficiency, effectiveness, and economy of significant Council programs;
d) Compliance with regulations, policies, best practice guidelines; and
e) Contractual arrangement.

4.4.2 Review progress on delivery of the annual internal audit plan;

4.4.3 Review and approve proposed scopes for each review in the annual internal audit plan;

4.4.4 Review reports on internal audit reviews, including recommendations for improvement arising from those reviews;

4.4.5 Meet with the leader of the internal audit function at least annually without Management in attendance;

4.4.6 Monitor action by Management on internal audit findings and recommendations;

4.4.7 Review the effectiveness of the internal audit function and ensure that it has appropriate authority within Council and has no unjustified limitations on its work;

4.4.8 Review the appropriateness of special internal audit investigations and assignments undertaken by the internal auditor at the request of Council or the Chief Executive Officer;

4.4.9 Review the performance of the internal auditor, including adhering to appropriate professional and quality standards; and where performance is not considered satisfactory, report to Council and make a recommendation on the termination of the internal auditor and to subsequently undertake a process for the appointment of a new internal auditor contractor;

4.4.10 The Chairperson or their delegate will participate in the evaluation panel considering the procurement of internal audit services pursuant to the provisions of Council's Procurement Policy (as adopted or amended from time to time).

4.4.11 Ensure that the Committee is aware of and appropriately represented with regard to any proposed changes to the appointment of the internal audit service provider, including being appropriately briefed on the need for any proposed change.

4.5 Risk Management

4.5.1 Review annually the effectiveness of Council's risk management framework, ensuring it has the appropriate risk management processes and adequate management information systems in place;

4.5.2 Review Council's risk appetite statement and the degree of alignment with Council's risk profile;

4.5.3 Review Council's risk profile and the changes occurring in the profile from meeting to meeting;

4.5.4 Review Council's treatment plans for significant risks, including the timeliness of mitigating actions and progress against those plans;

4.5.5 Gain assurance that Council has appropriate insurance and claims management processes in place.

4.5.6 Review the effectiveness of business continuity and disaster recovery plans; and

4.5.7 Review the approach to business continuity planning arrangements, including whether business continuity and disaster recovery plans have been regularly updated and tested.

4.6 Ethical Behaviour, Fraud and Corruption

4.6.1 Review and monitor Council's Fraud and Corruption Control Framework, including fraud preventative systems and controls, policies, awareness programs and reporting channels biannually;

4.6.2 Receive reports from Management about actual or suspected instances of fraud or corruption, serious misconduct, or breaches of ethical standards including analysis of the underlying control failures and action taken to address each event;

4.6.3 Review reports by Management about the actions taken by Council to report such matters to the appropriate integrity bodies; and

4.6.4 Review findings and examinations by regulatory or independent agencies or internal or external audit, confirming that Management have taken actions as a result of the findings.

5. Committee Governance

5.1 Membership

The Committee will consist of a majority of members who are not Councillors, comprising five members appointed by Council as follows:

a) Three (3) Independent Members; and
b) Two (2) Councillors (traditionally one of whom is the Mayor).

Council employees are not able to be members of the Committee.

Where the Mayor is not otherwise appointed to the Committee, they will serve as an ex-officio member of the Committee with no voting entitlement.

Any Councillor, not appointed to the Committee, may attend a Committee meeting as an observer only and will have no opportunity to participate in the debate and no voting entitlement.

5.2 Independent Members

5.2.1 Terms and Reappointment

Independent members will be appointed for three-year terms.

Subject to section 5.2.2, at the conclusion of their first term, independent members may be reappointed for one additional three-year term subject to satisfactory performance, to a maximum of six years' service in total. Recommendations to Council regarding re-appointments may be informed by consultation with key stakeholders, including the Mayor, Councillor-members of the Committee, and the Chairperson. If the role under review is that of the current Chairperson, consultation may alternatively involve the previous Chairperson (if available) or another independent member.

Independent members' terms of appointment should be arranged so that there is an orderly rotation of membership and avoidance of more than one independent member retiring at the same time in order to provide continuity and minimize the loss of knowledge.

5.2.2 Casual Vacancies

Where an independent member has not been in attendance for two consecutive meetings, without submitting an apology or having been granted a leave of absence, a casual vacancy will be created and their membership revoked.

A casual vacancy will also be created in the event of an independent member resigning or retiring before the expiry of their term.

A casual vacancy may be filled, at the discretion of the Council, for an initial term of up to three years, giving regard to an orderly rotation of membership and avoidance of more than one independent member retiring at the same time.

5.2.3 Recruitment and Selection

Independent members must collectively have expertise in financial management and reporting and risk management and also experience in public sector management.

New independent members' vacancies will be publicly advertised in appropriate places such as statewide and local newspapers, Council's website, Australian Institute of Company Directors, Governance Institute of Australia and other appropriate channels.

A 'Recruitment and Selection Panel', comprising the Chief Executive Officer, Mayor, Councillors and the Chairperson, will be established to recommend the preferred appointment to Council for consideration.

The Recruitment and Selection Panel shall assess applications for membership against appropriate criteria. The criteria shall fall within the areas of:

a) level and breadth of senior business, management, finance and accounting and/or audit experience and qualifications;
b) level of familiarity with Government operations, including financial reporting, auditing requirements, risk management, business ethics and corporate governance; and
c) previous Audit and/or Risk Committee experience.

Independent members should have the ability to provide Councillors, the Chief Executive Officer and Management with well-rounded and professional advice concerning the adequacy of Council's administrative, operational, financial and

accounting systems and controls, performance reporting regimes, and risk management processes.

5.2.4 Remuneration and Insurance

Remuneration will be paid to independent members as approved by Council from time to time, with annual increases limited to increases in the Consumer Price Index (CPI All Group Melbourne) adjusted annually on July 1.

Independent members have professional indemnity insurance coverage under Council's Liability Mutual Insurance (LMI) policy when acting in that capacity and within the scope of their duties for and on behalf of Council, subject to the policy terms and conditions.

5.3 Councillor Members

Councillor members will be appointed to the Committee by Council annually in November.

Should an appointed Councillor member not be able to attend a Committee meeting, Council can appoint an alternate member to act in such circumstances, either on a meeting-by-meeting basis or for the remainder of their term.

5.4 Committee Member Regulatory Obligations

Committee members must be fully aware of their obligations and responsibilities under section 53 of the Act. These obligations relate to misuse of position as a member of the Committee (section 123), confidential information (section 125) and conflict of interest (sections 126 to 131).

5.5 Chairperson

The Chairperson of the Committee must be an independent member.

The Committee will appoint the Chairperson of the Committee.

If the Chairperson is unable to attend a meeting, the members in attendance at the meeting will appoint a temporary Chairperson for that meeting from among the attending members.

5.6 Meetings

The Committee will meet at least quarterly, with the authority to convene additional meetings, as and when required.

A schedule of meetings will be developed annually and adopted by the Committee.

A quorum shall comprise at least one Councillor member and two independent members.

All Committee members are requested to attend each meeting in person, although members can attend through electronic means and will be included as part of the quorum.
Committee meetings are not open to the public and all meeting agendas, minutes and proceedings are deemed confidential.

Matters before the committee may, at the discretion of the Chairperson, be resolved by consensus rather than vote. Where a vote is required or conducted all members will have one vote. The Chairperson shall have a casting vote on the occasion where there is an equal tally of votes on a matter.

Where a matter is required to be dealt with by the Committee between meetings, it may be undertaken by circulating a resolution. A report outlining the matter and a request to vote on the item will be sent by Council's management via email, with the outcome endorsed and minuted at the next Committee meeting.

The Chief Executive Officer, Director Customer and Performance, Manager Governance & Risk, and Chief Financial Officer (or their nominated representatives) will attend all meetings.

The Committee will invite other members of Council's Management team, the internal and external auditors and other staff as appropriate to attend meetings.

The Committee and External and Internal Auditors will meet without Management at least once per annum to discuss issues of relevant interest.

Committee members and the internal auditor and external auditor can request the Chairperson to convene additional meetings if they feel that it is justified to address unexpected matters that may have arisen.

Meeting agendas and appropriate briefing materials will be provided to members at least one week before each meeting.

Minutes will be taken at each meeting, documenting attendance, formal decisions and actions arising.

Minutes will be circulated to the Chairperson for approval within one week of the meeting occurring and also presented for formal endorsement at the next meeting of the Committee.

The Chairperson will sign the minutes following the confirmation of the minutes at a subsequent meeting.

The Manager Governance & Risk will ensure administrative support is provided to the Committee.

5.7 Disclosures to Committee

The Committee will ascertain at each meeting whether the work of the Internal Auditor has been obstructed in any way. Where the Internal Auditor's response is that the work has been obstructed, the Chairperson will ascertain from the Chief Executive Officer what action will be taken to remedy the issue. Where it is alleged that the Chief Executive Officer has obstructed the Internal Auditor's work, the Chairperson will consult with the Mayor to ascertain what resolution can be reached.

If it is considered that the obstruction is substantiated and is of an ongoing nature that creates a risk to effective internal audit practices, the Chairperson will consult with the Chief Executive Officer and the Mayor to seek a resolution.

Where the matter cannot be resolved through this process the matter will be referred to Council for appropriate attention.

In order to ascertain whether there are any issues that the Committee should be aware of, the Chief Executive Officer or their representative attending each meeting should be questioned as to whether there are any breaches of legislation or practices that should be brought to the Committee's attention.

Where issues are disclosed and substantiated, the Committee members will seek from the Chief Executive Officer an explanation as to what appropriate actions are to be taken to remedy same.

Where the Chief Executive Officer is alleged to have caused the breach of legislation or practices and a satisfactory resolution is not arrived at, the Chairperson will consult with the Mayor and the Chief Executive Officer in an attempt to resolve the issue. Where no satisfactory resolution can be reached through this process, the matter will be referred to Council for appropriate attention.

5.8 Planning and Reporting

The Committee will prepare a bi-annual report to Council through the Chief Executive Officer on the Committee's activities, findings, recommendations and functions.

The Chairperson will be invited to address Council at least once per annum on the activities and performance of the Committee.

The second of these reports will be presented to Council after the meeting at which the annual financial report and the annual performance statement have been considered and recommended to Council for adoption, such report indicating how the Committee has discharged its responsibilities as set out in this Charter for the previous year.

5.9 Performance Evaluation

The Committee shall undertake a process to evaluate its performance at least annually each year and report the outcomes of the evaluation process to Council through the Chief Executive Officer or the Committee's bi-annual report, including recommendations for any opportunities for improvement.

The evaluation will include feedback from both Committee members and Management who have regular interactions with the Committee.

5.10 Review of Charter

The Committee shall review and assess the adequacy of this Charter every two years or earlier if necessary and submit requests to Council through the Chief Executive Officer for revisions and improvements for approval.

The Charter was last reviewed by the Audit & Risk Committee at its meeting on 12 December 2024.

5.11 Administrative Updates

From time to time, circumstances may change, leading to the need for non-material changes to this policy. Where an update does not materially alter this policy, such a change may be made administratively by the Chief Executive Officer. Examples of minor administrative changes include grammatical corrections, changes to names of Council departments or positions, change to names of Federal or State Government departments or a minor legislative amendment that does not have material impact on the Charter.

Administrative changes should be reported to the next Audit Committee and notified to Councillors.

Where any change or update may materially change the intent of this policy, it must be considered by the Committee and Council.