



# AUDIT COMMITTEE CHARTER

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# Audit Committee Charter

## 1. Objectives of Audit Committees

- 1.1. The primary objective of the audit committee is to accept responsibility for the annual external audit and liaise with the local government's auditor so that Council can be satisfied with the performance of the local government in managing its financial affairs.
- 1.2. Reports from the committee will assist Council in discharging its legislative responsibilities of controlling the local government's affairs, determining the local government's policies and overseeing the allocation of the local government's finances and resources. The committee will ensure openness in the local government's financial reporting and will liaise with the CEO to ensure the effective and efficient management of the local government's financial accounting systems and compliance with legislation.
- 1.3. The committee is to facilitate –
  - the enhancement of the credibility and objectivity of internal and external financial reporting;
  - effective management of financial and other risks and the protection of Council assets;
  - compliance with laws and regulations as well as use of best practice guidelines relative to audit, risk management, internal control and legislative compliance;
  - the coordination of the internal audit function with the external audit; and
  - the provision of an effective means of communication between the external auditor, internal auditor, the CEO and the Council.
- 1.4. The committee at the time of the mid-year budget review will review the financial performance of the Council and identify any variance due to the failure of lack of internal controls.

## 2. Powers of the Audit Committee

- 2.1 The Audit committee is to report to Council and provide appropriate advice and recommendations on matters relevant to its term of reference. This is in order to facilitate informed decision-making by Council in relation to the legislative functions and duties of the local government that have not been delegated to the CEO.
- 2.2 The committee is a formally appointed committee of council and is responsible to that body. The committee does not have executive powers or authority to implement actions in areas over which the CEO has legislative responsibility and does not have any delegated financial responsibility. The committee does not have any management functions and cannot involve itself in management processes or procedures.

## 3 Membership

- 3.1 The committee will consist of four members with three elected and one external person. All members shall have full voting rights.
- 3.2 External persons appointed to the committee will have business or financial management/reporting knowledge and experience, and be conversant with financial and other reporting requirements.
- 3.3 Appointment of external persons shall be made by Council by way of a public advertisement and be for a maximum term of two years. The terms of the appointment shall be aligned to the biennial council election cycle.
- 3.4 Reimbursement of approved expenses will be paid to each external person who is a member of the committee.

- 3.5 The CEO and employees are not members of the committee.
- 3.6 The CEO or his/her nominee is to be available to attend meetings to provide advice and guidance to the committee.
- 3.7 The local government shall provide secretarial and administrative support to the committee.
- 3.8 The Chairperson shall be recommended by the Audit Committee and appointed by Council.

#### 4. Meetings

- 4.1. The committee shall meet at least quarterly.
- 4.2. Additional meetings shall be convened at the discretion of the presiding person.

#### 5. Reporting

- 5.1. Reports and recommendations of each committee meeting shall be presented to the next ordinary meeting of the Council.
- 5.2. The committee shall report annually to the Council summarising its activities during the previous financial year.

#### 6 Duties and Responsibilities

- 6.1 The duties and responsibilities of the committee will be –
  - a. Provide guidance and assistance to Council as to the carrying out the functions of the local government in relation to audits;
  - b. Develop and recommend to Council an appropriate process for the selection and appointment of a person as the local government's auditor;
  - c. Develop and recommend to Council –
    - a list of those matters to be audited; and
    - the scope of the audit to be undertaken;
  - d. Recommend to Council the person or persons to be appointed as auditor;
  - e. Develop and recommend to Council a written agreement for the appointment of the external auditor. The agreement is to include –
    - the objectives of the audit;
    - the scope of the audit;
    - a plan of the audit;
    - details of the remuneration and expenses to be paid to the auditor; and
    - the method to be used by the local government to communicate with, and supply information to, the auditor;
  - f. Meet with the auditor once in each year on behalf of Council, in accordance with s.7.12A(2) of the *Local Government Act 1995*, and provide a report to Council on the matters discussed and outcome of those discussions.
  - g. Liaise with the CEO to ensure that the local government does everything in its power to –
    - assist the auditor to conduct the audit and carry out his or her other duties under the *Local Government Act 1995*; and
    - ensure that audits are conducted successfully and expeditiously;
  - h. Examine the reports of the auditor after receiving a report from the CEO on the matters and –
    - determine if any matters raised require action to be taken by the local government; and
    - ensure that appropriate action is taken in respect of those matters;
  - i. Review the report prepared by the CEO on any actions taken in respect of any matters raised in the report of the auditor and presenting the report to Council for adoption prior to

- the end of the next financial year or 6 months after the last report prepared by the auditor is received, whichever is the latest in time;
- j. Review the scope of the audit plan and program and its effectiveness;
  - k. Review the appropriateness of special internal audit assignments undertaken by internal audit at the request of Council or CEO (see reference to internal audit page 14);
  - l. Review the level of resources allocated to internal audit and the scope of its authority;
  - m. Review reports of internal audits, monitor the implementation of recommendations made by the audit and review the extent to which Council and management reacts to matters raised;
  - n. Facilitate liaison between the internal and external auditor to promote compatibility, to the extent appropriate, between their audit programs;
  - o. Review the local government's draft annual financial report, focusing on –
    - accounting policies and practices;
    - changes to accounting policies and practices;
    - the process used in making significant accounting estimates;
    - significant adjustments to the financial report (if any) arising from the audit process;
    - compliance with accounting standards and other reporting requirements; and
    - significant variances from prior years;
  - p. Consider and recommend adoption of the annual financial report to Council. Review any significant changes that may arise subsequent to any such recommendation but before the annual financial report is signed;
  - q. Address issues brought to the attention of the committee, including responding to requests from Council for advice that are within the parameters of the committee's terms of reference;
  - r. Seek information or obtain expert advice through the CEO on matters of concern within the scope of the committee's terms of reference following authorisation from the Council.
  - s. Review the annual Compliance Audit Return and report to the council the results of that review, and
  - t. Consider the CEO's biennial reviews of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance, required to be provided to the committee, and report to the council the results of those reviews.

## 7. Internal Audit

- 7.1. Many local governments have recognised the need to improve their internal auditing processes, and have moved to either employ an internal auditor or contract out the internal audit function.
- 7.2. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- 7.3. The scope of an internal audit would be determined by the Audit committee, with input from the CEO, based on the size of the local government's internal operations and the level of compliance to be achieved. The role differs from that of the external auditor who is appointed by council on the recommendation of the Audit Committee, to report independently to it, through the mayor/president and the CEO, on the annual financial statements. The external auditor's primary role is to decide whether the annual financial statements of a local government are free of material misstatement.
- 7.4. There are certain functions of the internal audit that complement the external auditor's role. As the external auditor plans for an effective audit they need to assess and determine whether to include the scope, procedures and outcomes of the internal audit. The CEO must refer all internal audit reports to the Audit Committee for consideration.
- 7.5. An internal auditor's activities should typically include the following:

- a. review of the internal control structure, monitoring the operations of the information system and internal controls and providing recommendations for improvements
  - b. a risk assessment with the intention of minimising exposure to all forms of risk on the local government;
  - c. examination of financial and operating information that includes detailed testing of transactions, balances and procedures;
  - d. a review of the efficiency and effectiveness of operations and services including non-financial controls of a local government;
  - e. a review of compliance with management policies and directives and any other internal requirements;
  - f. review of the annual Compliance Audit Return, and
  - g. assist in the CEO's biennial reviews of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance.
  - h. specific tasks requested by management.
- 7.6. For local government, the internal auditor should report functionally to the audit committee and administratively to the CEO. It should be remembered that pursuant to section 5.41 of the Act, the CEO is responsible for the day-to-day management of council activities including the direction of staff and implicitly the internal audit function. The CEO may choose to delegate this responsibility provided always that the delegation does not directly or indirectly interfere with the ability of the Internal Auditor to conduct an internal audit function free from interference.
- 7.7. A clear and properly defined reporting relationship ensures that the internal auditor is empowered to perform their role working with management. The direct reporting line to the audit committee also acts as an adequate safeguard in the event of a serious breakdown in internal controls or internal control culture at senior levels in the organisation.
- 7.8. While it is recognised that smaller councils may not be able to justify a full-time internal auditor, a small size of operation does not justify forgoing internal audit altogether. If audit committee or management is of the view that the employment of an independent internal auditor either full-time or part-time is not warranted, it may request the council to have the internal audit function undertaken as necessary by an external contractor, or expand the role of its external auditor.
- 7.9. The external auditor or his or her professional company should only undertake internal audit functions that complement the external audit and do not cloud the objectivity and independence of the external audit. An external auditor must not audit information prepared by them or their accounting practice, as this is considered incompatible with the standard of independence.
- 7.10. Local governments that do not establish an internal audit process but require a review of the financial management systems and procedures, may decide to use the services of the external auditor for that purpose. Such reviews are to be undertaken every four years in accordance with regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996*.
- 7.11. The review of financial management systems and procedures provides the external auditor with greater assurance of systems and procedures used to prepare the annual financial statements, and whether they provide information free of material misstatement.