

# **LGA Audit and Risk Committee Terms of Reference**

**October 2018**

**Local Government Association of South Australia**  
**Audit and Risk Committee Terms of Reference**

Adopted by the LGA Board on 13 September 2018 and Members at the AGM held  
26 October 2018

**1. Establishment**

In accordance with clause 24.3 of the Local Government Association of South Australia Constitution and Rules (adopted April 13, 2018) (**Constitution**) the Board of Directors (the Board) of the Local Government Association of South Australia (**LGA**) has resolved to establish a committee to operate as an independent and objective advisory committee to the Board and to discharge the functions of an Audit and Risk Committee as determined by the Board (**Audit and Risk Committee**).

**2. Terms of Reference**

- 2.1. These Terms of Reference set out the functions to be discharged by the Audit and Risk Committee.
- 2.2. The operation of the Terms of Reference may be altered by the Board either generally or in respect of specific circumstances by resolution. A resolution for the purposes of this clause 2.2 will be reported to the chairperson of the Audit and Risk Committee within 24 hours of the meeting of the Board at which the resolution was passed.
- 2.3. A capitalised term not defined in this document has the meaning provided for the term in the Constitution.

**3. Status**

- 3.1. The Audit and Risk Committee is a committee of the LGA and is responsible to the Board for the discharge of its functions.
- 3.2. Clause 23 of the Constitution provides that the duties of the Board are to ensure that:
  - 3.2.1. the activities of the LGA are conducted efficiently and effectively and that the assets of the LGA are properly managed and maintained; and
  - 3.2.2. the LGA performs to its business plan and achieves or better the financial outcomes projected in its budget.
- 3.3. The activities of the LGA include the activities of LGA controlled entities including LGASA Mutual Pty Ltd and LGCS Pty Ltd (trading as LGA Procurement).
- 3.4. Having regard to Clauses 3.2 and 3.3 above, and in accordance with Clause 24.3 of the Constitution, the Board vests in the Audit and Risk Committee responsibility to investigate and keep under consideration the matters outlined in this Terms of Reference.

**4. Objectives**

- 4.1. The primary objective of the Audit and Risk Committee is to protect and create value for the Board and its stakeholders. It will provide advice and recommendations to the Board, contributing to a systematic and disciplined approach to evaluating and



improving the effectiveness of financial management, risk management, internal controls and governance processes.

- 4.2.** As part of the LGA's governance commitment to its Members, the Board has constituted the Audit and Risk Committee to facilitate:
- 4.2.1. Oversight of relevant activities to facilitate achieving the LGA's objectives in an effective, efficient and orderly manner including the delivery of advocacy, and non-commercial (assist) and commercial (advance) services to Members;
  - 4.2.2. Advisory services and oversight as required relating to the activities of the LGA's controlled entities in the context of their ongoing value and return on investment to Members;
  - 4.2.3. Enhancing the credibility and objectivity of internal and external financial auditing and reporting;
  - 4.2.4. Effective management of risk and the protection of the LGA's assets.
  - 4.2.5. Compliance with laws and regulations as well as use of best practice guidelines;
  - 4.2.6. The effectiveness of systems of internal control; and
  - 4.2.7. The provision of an effective means of communication between the external auditor, other service providers as applicable, management and the Board.

## **5. Membership**

### **5.1. The Audit and Risk Committee will comprise of:**

- 5.1.1. at least 3 independent members ensuring there is always a majority of independent members; and
- 5.1.2. 1 Director of the Board (**Director Member**) (who is not the President) appointed by the Board.

### **5.2. The term of office for members of the Audit and Risk Committee will be:**

- 5.2.1. 3 years for independent members; and
- 5.2.2. 2 years for the Director.

### **5.3. Board Member Representative**

- 5.3.1. Ideally, the Board Member on the Audit and Risk Committee will have experience in either business, legal, risk, governance, audit or financial management / reporting knowledge and experience;
- 5.3.2. Appointment of the LGA Board Member to this Committee will be made by the LGA Board, as resolved from time to time;
- 5.3.3. The Board may appoint a proxy for the Board Member representative to attend meetings of the Committee in the event that the Board Member representative is unavailable;
- 5.3.4. The Board may resolve to re-appoint the Board Member on this Committee for consecutive terms; and

- 5.3.5. If required, training and development will be sourced and provided to the Board Member representative and the Board Member Proxy on matters/subjects within the Audit and Risk Committee's Terms of Reference.

#### **5.4. Independent Members**

- 5.4.1. Ideally, independent members will collectively bring the following knowledge, skills and experience:
- sound business, financial management, insurance, procurement, legal and audit skills;
  - an understanding of local government and / or member based organisations;
  - high levels of common sense, integrity, independent judgement, dedication and commitment;
  - significant industry experience in the finance and insurance sectors; and
  - significant board and / or Audit and Risk Committee experience.
- 5.4.2. At least one external independent member will have expertise and knowledge in financial management/reporting;
- 5.4.3. Independent members will not be elected members or employees of LGA Member Councils, or employees of related local government organisations;
- 5.4.4. Appointment of independent members will generally be made by the Board for a three-year term;
- 5.4.5. To ensure succession planning for the Committee, the terms of appointment should be arranged on a rotational basis thus ensuring there is continuity of membership despite changes to the Board's elected representatives. The Board may resolve to re-appoint an independent member for consecutive terms; and
- 5.4.6. If the Board proposes to remove an independent member from the Committee prior to the conclusion of their appointed term, it must give written notice to the independent member of its intention to do so and provide that independent member with the opportunity to be heard at a Board meeting, if that independent member so requests.

#### **5.5. Each member of the Audit and Risk Committee must:**

- 5.5.1. Undertake his or her role as a committee member honestly and act with reasonable care and diligence in the performance and discharge of functions and duties;
- 5.5.2. Not make improper use of information acquired by virtue of his or her position as a committee member to gain, directly or indirectly, an advantage for himself or herself or for another person or to cause detriment to the LGA or any of its controlled entities;



- 5.5.3. Not make improper use of his or her position as a committee member to gain, directly or indirectly, an advantage for himself or herself or for another person or to cause detriment to the LGA or any of its controlled entities; and
- 5.5.4. Not act in any matter where the committee member has a conflict of interest (provided that an interest shared in common with all or a substantial proportion of the members of the Audit and Risk Committee will not be an interest giving rise to a conflict of interest).

## **6. Basis of Operation**

- 6.1. The Audit and Risk Committee is responsible to the Board. It does not have any delegations or authority to implement actions in areas over which the Chief Executive Officer has responsibility.
- 6.2. The Committee does not have any management functions and is therefore independent of management.
- 6.3. The Board considers that the ability of the Audit and Risk Committee to operate in a manner that adds value and also maintains independent judgement is vital. As such, the Board has based this Terms of Reference on better practice (drawing on ASX Corporate Governance Principles and Recommendations and other expert sources such as Australian Standard AS 8000-2003 Good Governance Principles).

## **7. Responsibilities**

### **7.1. Board**

- 7.1.1. The Board, the Boards of LGA controlled entities or the respective Chief Executive Officers may from time to time refer matters to the Audit and Risk Committee for consideration, including in relation to the financial affairs or performance of the LGA or a controlled entity or the undertaking or proposed undertaking of any activity by the LGA or a controlled entity; and
- 7.1.2. The Board or the Board of a controlled entity will receive, consider and respond to any report or recommendation provided to the respective Board by the Audit and Risk Committee.

### **7.2. Audit and Risk Committee**

- 7.2.1. The Audit and Risk Committee will report to the Board outcomes from Audit and Risk Committee meetings;
- 7.2.2. The Audit and Risk Committee will make recommendations to the Board or the Board of a controlled entity regarding any matter considered by the Committee; and
- 7.2.3. The Audit and Risk Committee will fulfil its functions under these Terms of Reference in a timely, objective and professional manner.

### **7.3. Director Member**

- 7.3.1. The Director Member will act as a conduit between the Audit and Risk Committee and the Board of Directors;

- 7.3.2. The Director Member will raise matters (within the scope of the Audit and Risk Committee Terms of Reference) with the Audit and Risk Committee, on behalf of the Board;
- 7.3.3. The Director Member will present any report of the Audit and Risk Committee to the Board and provide context for any recommendation of the Audit and Risk Committee; and
- 7.3.4. The Director Member will provide a verbal report to the Board on key matters being considered by the Audit and Risk Committee at each Board meeting at which the minutes of the Audit and Risk Committee are to be considered by the Board.

#### **7.4. Chief Executive**

- 7.4.1. The Chief Executive will make available to the Audit and Risk Committee information of the LGA which is relevant to the functions of the Audit and Risk Committee; and
- 7.4.2. The Chief Executive will ensure that administrative support and other resources are made available to the Audit and Risk Committee to enable the committee to discharge its obligations under these Terms of Reference.

### **8. Functions of the Audit and Risk Committee**

#### **8.1. External Audit**

- 8.1.1. The Audit and Risk Committee will recommend to the Board an external auditor to be appointed by the Board for the purposes of clause 34 of the LGA Constitution;
- 8.1.2. The Audit and Risk Committee will review and advise the Board of:
  - (a) the adequacy of the terms of engagement and audit fees for the external auditor prior to the commencement of each audit;
  - (b) the independence and objectivity of the external auditor and its compliance with all relevant requirements; and
  - (c) the adequacy of the external auditor's proposed audit plan, approach and scope, including materiality levels.
- 8.1.3. The Audit and Risk Committee will meet with the external auditor without the presence of the Chief Executive or any staff of the LGA Office at least once each year to discuss the external audit process and outcomes;
- 8.1.4. Representatives of the external auditor must be invited to attend meetings of the Audit and Risk Committee at which the end of year financial report and outcomes of the external audit will be considered; and
- 8.1.5. The Audit and Risk Committee may recommend to the Board that the external auditor or another appropriately qualified person examine and report on any matter related to financial management, risk management, internal controls and governance processes that would not otherwise be addressed as part of the annual external audit.

## **8.2. Financial reporting and prudential requirements**

- 8.2.1. The Audit and Risk Committee will review and comment on the LGA's annual financial statements (and any significant amendment of the financial statements previously considered by the Audit and Risk Committee prior to adoption by the Board of Directors). The Audit and Risk Committee will include in its considerations:
- (a) compliance with accounting standards, policies and practices and any other reporting requirements, and any changes in these since the last annual financial statement were compiled;
  - (b) the process used to make significant accounting estimates;
  - (c) significant adjustments to the financial reports (if any) arising from the external audit process;
  - (d) significant variance in the financial statements from prior years;
  - (e) trends which have become evident from the annual financial statements over the last 5 year period;
  - (f) management representations attesting to the accuracy of the end of year financial statement and any significant matters evident from these statements; and
  - (g) the external auditor's summary management report detailing the results and significant findings from the audit and management responses.
- 8.2.2. The Audit and Risk Committee will review the LGA's strategic management plans, annual business plans and budget and provide recommendations to the Board regarding actions which may be taken to enhance financial governance and sustainability; and
- 8.2.3. The Audit and Risk Committee will review recommendations contained in business cases developed by, or for, the LGA Office in respect of significant activities, commercial services or major projects. The Audit and Risk Committee will consider prudential management principles when undertaking a review for the purpose of this clause.

## **8.3. Internal audit, internal controls and compliance**

The Audit and Risk Committee will monitor and advise the Board on:

- 8.3.1. any internal audit project or special assignments that may be undertaken from time to time as requested by the Board or the Chief Executive;
- 8.3.2. internal controls over revenue, expenditure, assets and liability processes;
- 8.3.3. the adequacy of internal controls, including both financial and non-financial management control systems;
- 8.3.4. the efficiency, effectiveness and sustainability of significant LGA programs and activities; and



- 8.3.5. compliance with regulations, policies, best practice guidelines, instructions and contractual arrangements.

#### **8.4. Commercial activities and related entities**

- 8.4.1. The Audit and Risk Committee will monitor and advise the Board on LGA subsidiaries and entities associated with the LGA, including:
- (a) LGCS Pty Ltd (trading as LGA Procurement);
  - (b) LGASA Mutual Pty Ltd;
  - (c) LGA Commercial Services; and
  - (d) the Local Government Research and Development Scheme.
- 8.4.2. The Audit and Risk Committee will include in its considerations for the purposes of clause 8.4.1:
- (a) service design, market testing and transitioning to new arrangements;
  - (b) the effectiveness and value of services offered by the LGA, subsidiaries and associated entities to the Members; and
  - (c) the ongoing adequacy of service models and governance arrangements in terms of achieving the local government sector's desired outcomes and creating value for Members.
- 8.4.3. The Audit and Risk Committee will monitor and advise the Board on significant activities of the LGA, including activities where the LGA is the conduit for State government funding to Members.

#### **8.5. Risk Management**

The Audit and Risk Committee shall:

- 8.5.1. at least annually, review the LGA and associated entities' risk register, risk strategy and mitigation measures
- 8.5.2. provide comment to the Board on the appropriateness of the LGA's risk framework, risk appetite and management of risks
- 8.5.3. receive and provide advice to the Board on any risk or governance audits undertaken on the LGA and its activities

#### **8.6. Other functions**

The Audit and Risk Committee will:

- 8.6.1. provide feedback on the systems of control in respect of ethical standards, codes of conduct and conflicts of interest for its directors, senior executives and employees are adequate;
- 8.6.2. address issues brought to the attention of the Audit and Risk Committee, including responding to requests for advice within these Terms of Reference from the Board or the Chief Executive;
- 8.6.3. review the LGA's arrangements for its employees to raise concerns, in confidence, that the LGA or a controlled entity is not acting lawfully, ethically



or in a socially responsible manner and that there are suitable protections if they do;

8.6.4. oversee that the LGA and its controlled entities have in place and disclose a fraud and corruption policy;

8.6.5. ensure that the Board is informed of:

8.6.5.1. any material breaches of ethical standards, codes of conduct, conflicts of interest and fraud and corruption policy by a director or senior executive; and

8.6.5.2. any other material breaches of ethical standards, codes of conduct, conflicts of interest and fraud and corruption that call into question the culture of the LGA or its controlled entities about which the Committee becomes aware.

8.6.6. make recommendations to the Board of Directors on any matter relevant to these Terms of Reference.

## **9. Meetings**

### **9.1. Resolution of the Board**

Requirements under this clause 9 may be altered, supplemented or replaced by resolution of the Board.

### **9.2. Frequency of meetings and venue**

9.2.1. The Audit and Risk Committee will:

(a) meet at least once each quarter at a venue and time determined by the Committee and documented in an annual schedule of meetings; and

(b) consider holding at least 1 joint workshop with the Board each year.

9.2.2. Any member of the Audit and Risk Committee or the Board may convene additional meetings of the Audit and Risk Committee; and

9.2.3. A meeting of the Audit and Risk Committee must be convened in response to a request by the external auditor to meet with the Audit and Risk Committee.

### **9.3. Chairperson**

9.3.1. The chairperson of the Audit and Risk Committee will be an independent member of the Committee appointed by the Board; and

9.3.2. If the chairperson of the Audit and Risk Committee is absent from a meeting of the Audit and Risk Committee then the members attending the Audit and Risk Committee meeting will appoint a chairperson for the purposes of that meeting.

### **9.4. Meeting procedure**

The Audit and Risk Committee will determine its own meeting practice, processes and procedures.



## **9.5. Attendance**

- 9.5.1. Meetings of the Audit and Risk Committee will be closed to the public;
- 9.5.2. The Chief Executive may attend all meetings of the Audit and Risk Committee on an ex officio basis, except as provided for in clause 8.1.3 or as otherwise determined by the Audit and Risk Committee; and
- 9.5.3. The Audit and Risk Committee may invite any person to attend its meetings.

## **9.6. Minutes**

- 9.6.1. Minutes will be kept of all Audit and Risk Committee meetings including a record of the actions of the Audit and Risk Committee; and
- 9.6.2. Within 48 hours of an Audit and Risk Committee meeting, the chairperson will review and confirm the draft minutes. The draft minutes will then be circulated to the Audit and Risk Committee members for comment and if necessary amendment before being certified as correct by the chairperson.

## **9.7. Quorum**

A quorum for an Audit and Risk Committee meeting is 3 members, provided that a LGA Board Director (or their proxy) must be present at each Audit and Risk Committee meeting.

## **10. Other**

### **10.1. Performance assessment**

- 10.1.1. The Audit and Risk Committee will assess its performance against these Terms of Reference annually; and
- 10.1.2. The process for evaluating the performance of the Committee will be disclosed in the annual report of the Audit and Risk Committee and whether a performance evaluation was undertaken in accordance with that process.

### **10.2. Induction and continuing professional development**

- 10.2.1. There will be a program for inducting new members to the Audit and Risk Committee; and
- 10.2.2. The annual performance assessment of the Audit and Risk Committee will include reviewing whether there is a need for any professional development to maintain the skills and knowledge needed by Audit and Risk Committee members to perform their role effectively.

### **10.3. Reporting**

- 10.3.1. Any matter relevant to the corporate governance, financial management, risk management and process improvement of the LGA considered to be of significance to the corporate governance, strategic direction, leadership and culture of the LGA will be reported by the Audit and Risk Committee to the Board as soon as practicable after the Audit and Risk Committee has become aware of and considered the matter. The Audit and Risk Committee will outline the nature of the matter highlighting any opportunities and risks for the

LGA and endeavour to include recommendations in respect of the matter reported to the Board; and

- 10.3.2. The Audit and Risk Committee will provide an annual report to the Board of Directors at the same meeting at which the Annual Financial Statements are presented each year summarising:
- (a) the discharge of the Audit and Risk Committee's responsibilities and function under these Terms of Reference;
  - (b) the activities of the Audit and Risk Committee during the previous year;
  - (c) issues referred to the Board during the previous year and whether or not the issue was resolved or addressed; and
  - (d) issues being considered by the Audit and Risk Committee which have not been reported to the Board and the intended actions in respect of those matters.

## **11. Access to information**

- 11.1 The Audit and Risk Committee is entitled, acting through the Chief Executive, to access any information or discuss matters with staff of the LGA Office.
- 11.2 The Committee is authorised, at the LGA's expense, to obtain outside legal or other professional advice on any matter within its Terms of Reference.
- 11.3 A copy of the agenda for an Audit and Risk Committee meeting, reports to be considered by the Audit and Risk Committee and minutes of Audit and Risk Committee meetings certified under clause 9.6.2 will be available to all Directors.
- 11.4 Subject to confidentiality requirements as determined by the Board or the Audit and Risk Committee, a copy of the Audit and Risk Committee agenda, reports and minutes certified under clause 9.6.2 will be published on the LGA website for review by Members.

## **12. Remuneration and Expenses**

- 12.1. Remuneration of independent and Board member representatives on the Audit and Risk Committee will be resolved on an annual basis by the Board, to be ratified by Members at the Annual General Meeting each year.
- 12.2. Expenses reasonably incurred in carrying out the role of a member of the Audit and Risk Committee will be reimbursed by the LGA.
- 12.3. The fact and the extent of payment and to who payable will be disclosed in a note to the audited financial statements of that financial year.

## **13. Indemnity insurance**

Independent members of the Audit and Risk Committee will be indemnified for civil liability claims by the Local Government Association Mutual Liability Scheme in accordance with the rules applying to that scheme from time to time.

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