

	<b>NORTHERN AREAS COUNCIL AUDIT AND RISK COMMITTEE TERMS OF REFERENCE</b>	<b>Version No:</b>	1.3
		<b>Last Adopted:</b>	20 June 2023
		<b>To be Reviewed:</b>	June 2024

Responsible Officer	Manager Corporate Services
First Issued / Adopted	21 August 2007
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Applicable legislation	Local Government Act, Sections 41 and 126

## 1. MEMBERSHIP

- 1.1 Members of the committee are appointed by the Council. The committee shall consist of three independent members with two additional members from the Elected Members of Council. The size of the committee shall be five members.
- 1.2 Independent member(s) of the committee shall have relevant financial and/or risk experience.
- 1.3 Only members of the committee are entitled to vote in committee meetings. Unless otherwise required by the Act not to vote, each member must vote on every matter that is before the committee for decision.

However other individuals such as the Chief Executive Officer, Finance Manager and other officers of Council may attend any meeting as observers or be responsible for preparing papers for the committee.

In accordance with the principles of open, transparent and informed decision making, committee meetings must be conducted in a place open to the public.

The agenda and minutes of the committee meetings, subject to any items that are discussed in confidence under Section 90 of the Local Government Act 1999 and subsequently retained as confidential under Section 91 of the Act, are also required to be made available to the public.

- 1.4 Council's external auditors may be invited to attend meetings of the committee.
- 1.5 Appointments to the committee shall be until the end of the term of the Council. Appointees may be reappointed by Council.

- 1.6 The Council shall appoint the Presiding Member of the committee who must be one of the independent members.
- 1.7 One or more committee members are permitted to participate in a meeting of the Audit and Risk Committee by telephone, or other electronic means that are available to both Council and the committee member, if they are unable to attend a meeting in person. This is subject to members of the public in attendance being able to hear the discussion between all committee members

## **2. SECRETARIAL RESOURCES**

- 2.1 The Chief Executive Officer shall provide sufficient administrative resources to the committee to enable it to adequately carry out its functions.

## **3. QUORUM**

- 3.1 The quorum necessary for the transaction of business shall be 50% of the number of members of the committee plus one. A duly convened meeting of the committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the committee.

## **4. FREQUENCY OF MEETINGS**

- 4.1 The committee shall meet at least once each quarter at appropriate times in the reporting and audit cycle and otherwise as required.

## **5. NOTICE OF MEETINGS**

- 5.1 Ordinary meetings of the committee will be held at times and places determined by Council or, subject to a decision of Council, the committee. A special meeting of the committee may be called in accordance with the Act.
- 5.2 Notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the committee and observers, no later than 3 clear days before the date of the meeting. Supporting papers shall be sent to committee members (and to other attendees as appropriate) at the same time.

## **6. MINUTES OF MEETINGS**

- 6.1 The Chief Executive Officer shall ensure that the proceedings and resolutions of all meetings of the committee are recorded.
- 6.2 The Chief Executive Officer shall include on the agenda the declaration by any Committee member, the existence of any conflicts of interest and minute them accordingly
- 6.3 Minutes of committee meetings shall be circulated within five days after a meeting to all members of the committee and to all members of the Council and will (as appropriate) be available to the public.

## **7. ROLE OF THE COMMITTEE**

The purpose of an Audit and Risk Committee (the Committee) established by a Council is to provide independent assurance and advice to Council on accounting, financial management, internal controls, risk management and governance matters.

### **7.1 Financial Reporting**

- 7.1.1 The committee shall monitor the integrity of the financial statements of the Council, including its annual report, reviewing significant financial reporting issues and judgements which they contain;.
- 7.1.2 The committee shall review and challenge where necessary:
  - 7.1.2.1 the consistency of, and/or any changes to, accounting policies;
  - 7.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
  - 7.1.2.3 whether the Council has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - 7.1.2.4 the clarity of disclosure in the Council's financial reports and the context in which statements are made; and
  - 7.1.2.5 all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).

### **7.2 Internal Controls and Risk Management Systems**

The committee shall:

- 7.2.1 keep under review the effectiveness of the Council's internal controls and risk management systems; and
- 7.2.2 reviewing and commenting on an annual report provided by the chief executive officer in relation to the policies and processes adopted by the council to evaluate and improve the effectiveness of its internal control practices and procedures; and
- 7.2.3 reviewing and evaluating the effectiveness of policies, systems and procedures established and maintained for the identification, assessment, monitoring, management and review of strategic, financial and operational risks on a regular basis; and
- 7.2.4 Review any prudential report obtained by the council under section 48(1) of the *Local Government Act 1999*.

### **7.3 Whistle Blowing**

The committee shall review the Council's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee shall ensure these arrangements allow independent investigation of such matters and appropriate follow-up action.

### **7.4 Internal Audit (If Applicable, Where a Council Does Not Have a Separate Internal Audit Function)**

The committee shall:

- 7.4.1 monitor and review the effectiveness of the Council's internal audit function in the context of the Council's overall risk management system;
- 7.4.2 consider and make recommendation on the program of the internal audit function and the adequacy of its resources and access to information to enable it to perform its function effectively and in accordance with the relevant professional standards;
- 7.4.3 review all reports on the Council's operations from the internal auditors; [Note that the reports to the audit and risk committee need not be the detailed reports that are presented to management for their review. Ordinarily a high level review report is all that is required detailing the work undertaken, the findings and management response.
- 7.4.4 review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and

### **7.5 External Audit**

The committee shall:

- 7.5.1 develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter;
- 7.5.2 consider and make recommendations to the Council, in relation to the appointment, re-appointment and removal of the Council's external auditor. The committee shall oversee the selection process for new auditors and if an auditor resigns the committee shall investigate the issues leading to this and decide whether any action is required;
- 7.5.3 oversee Council's relationship with the external auditor including, but not limited to:
  - 7.5.3.1 recommending the approval of the external auditor's remuneration, whether fees for audit or non-audit services, and recommending whether the level of fees is appropriate to enable an adequate audit to be conducted;
  - 7.5.3.2 recommending the approval of the external auditor's terms of engagement, including any engagement letter issued at the commencement of each audit and the scope of the audit;

- 7.5.3.3 assessing the external auditor's independence and objectivity taking into account relevant professional and regulatory requirements and the extent of Council's relationship with the auditor, including the provision of any non-audit services;
- 7.5.3.4 satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Council (other than in the ordinary course of business);
- 7.5.3.5 monitoring the external auditor's compliance with legislative requirements on the rotation of audit partners; and
- 7.5.3.6 assessing the external auditor's qualifications, expertise and resources and the effectiveness of the audit process (which shall include a report from the external auditor on the audit and risk committee's own internal quality procedures);
- 7.5.4 meet as needed with the external auditor. The committee shall meet the external auditor at least once a year, without management being present; to discuss the external auditor's report and any issues arising from the audit;
- 7.5.5 review and make recommendations on the annual audit plan, and in particular its consistency with the scope of the external audit engagement;
- 7.5.6 Review the findings of the audit with the external auditor. This shall include, but not be limited to, the following:
  - 7.5.6.1 a discussion of any major issues which arose during the external audit;
  - 7.5.6.2 any accounting and audit judgements; and
  - 7.5.6.3 levels of errors identified during the external audit. The committee shall also review the effectiveness of the external audit.
- 7.5.7 review any representation letter(s) requested by the external auditor before they are signed by management; [Note that these representation letters are a standard practice of any audit and provide the auditor confirmation from management, (in particular the Chief Financial Officer) that, amongst other matters, accounting standards have been consistently applied, that all matters that need to be disclosed have been so disclosed and that the valuation of assets has been consistently applied.];
- 7.5.8 review the management letter and management's response to the external auditor's findings and recommendations.

## **8. REPORTING RESPONSIBILITIES**

- 8.1 The committee shall make whatever recommendations to the Council it deems appropriate on any area within its terms of reference where in its view action or improvement is needed
- 8.2 The Committee must provide a report to the council after each meeting summarising the work of the Committee during the period preceding the meeting and the outcomes of the meeting.
- 8.3 The Committee must provide an annual report to the Council on the work of the committee during the period to which the report relates. Generally the independent chair should be available to speak to this report.
- 8.4 The annual report of the Committee must be included in the Council's annual report.

## **9. OTHER MATTERS**

The committee shall:

- 9.1 have access to reasonable resources in order to carry out its duties; [Note that this is subject to any budget allocation being approved by Council];
- 9.2 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- 9.3 give due consideration to laws and regulations of the Local Government Act, 1999;
- 9.4 make recommendations on co-ordination of the internal and external auditors;
- 9.5 oversee any investigation of activities which are within its terms of reference; and
- 9.6 oversee action to follow up on matters raised by the external auditors;
- 9.7 at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend changes it considers necessary to the Council for approval;
- 9.8 proposing, and providing information relevant to, a review of the Council's Strategic Management Plans, Asset Management Plans and Annual Business Plan;
- 9.9 proposing, and reviewing, the exercise of powers under section 130A.

## **10. MEMBERS SITTING FEES**

The below sitting fees will be paid to External Audit and Risk Committee Members as per Council resolution 11273.

Independent Chair - \$1,000 per meeting  
Independent Members - \$600 per meeting

<b>Date</b>	<b>Changes</b>
Adopted by Council on 21 August 2007	
Ordinary Council Meeting on 18 November 2014	Point 1.7 was added.  Three elected members were appointed to the committee.
Ordinary Council Meeting on 22 January 2019	Council added a second independent member to the NAC Audit Committee.
Ordinary Council Meeting 17 March 2020	Points 9.8 and 9.9 were added. New format.
Special Council Meeting 30 November 2021	Change of name to "Audit and Risk Committee"
Ordinary Council Meeting 20 June 2023	Clauses inserted to reflect changes in legislation.