

# Audit Risk and Compliance Committee Terms of Reference

The City of Sydney Council has established an audit, risk and improvement committee (referred to as the Audit Risk and Compliance Committee or the ARCC) in compliance with section 428A of the Local Government Act 1993, the Local Government (General) Regulation 2021 and the Office of Local Government's Guidelines for risk management and Internal Audit for local government in NSW. These terms of reference set out the ARCC's objectives, authority, composition and tenure, roles and responsibilities, reporting and administrative arrangements.

## Objective

The objective of Council's audit, risk and improvement committee (ARCC) is to provide independent assurance to the Council by monitoring, reviewing and providing advice about the Council's governance processes, compliance, risk management and control frameworks, external accountability obligations and overall performance.

## Independence

The ARCC is to be independent to ensure it has no real or perceived bias or conflicts of interest that may interfere with its ability to act independently and to provide the Council with robust, objective and unbiased advice and assurance.

The ARCC is to have an advisory and assurance role only and is to exercise no administrative functions, delegated financial responsibilities or any management functions of the Council. The ARCC will provide independent advice to the Council that is informed by the Council's internal audit and risk management activities and information and advice provided by staff, relevant external bodies and subject matter experts.

The ARCC must always ensure it maintains a direct reporting line to and from the Council's internal audit function and act as a mechanism for internal audit to report to the governing body and the Chief Executive Officer on matters affecting the performance of the internal audit function.

## Authority

The Council authorises the ARCC, for the purposes of exercising its responsibilities, to:

- access any information it needs from the Council
- use any Council resources it needs
- have direct and unrestricted access to the Chief Executive Officer and senior management of the Council
- seek the Chief Executive Officer's permission to meet with any other City of Sydney staff member or contractor
- discuss any matters with the external auditor or other external parties
- request the attendance of any employee at ARCC meetings, and

- obtain external legal or other professional advice in line with Council's procurement policies and prior approval of the expenditure by the Chief Executive Officer.

Information and documents pertaining to the ARCC are confidential and are not to be made publicly available. The ARCC may only release the Council's information to external parties that are assisting the ARCC to fulfil its responsibilities with the approval of the Chief Executive Officer, except where it is being provided to an external investigative or oversight agency for the purpose of informing that agency of a matter that may warrant its attention.

## Composition and tenure

The ARCC consists of an independent chairperson and at least two independent members who have voting rights and one non-voting councillor (which cannot be the Lord Mayor), as required under the Local Government (General) Regulation 2021. Council may, at its discretion and in consultation with the ARCC chair, appoint up to four independent (voting) members to the ARCC (making a total of five external members, including the chairperson).

The Council is to appoint the chairperson and members of the ARCC. Current committee members are listed on the City's website.

All ARCC members must meet the independence and eligibility criteria prescribed under the Local Government (General) Regulation 2021.

Members will be appointed for up to a four-year term. Members can be reappointed for one further term, but the total period of continuous membership cannot exceed eight years. This includes any term as chairperson of the ARCC. Members who have served an eight-year term (either as a member or as chairperson) must have a two-year break from serving on the ARCC before being appointed again. To preserve the ARCC's knowledge of the Council, ideally, no more than one member should retire from the ARCC because of rotation in any one year.

The terms and conditions of each member's appointment to the ARCC are to be set out in a letter of appointment. New members will be thoroughly inducted to their role and receive relevant information and briefings on their appointment to assist them to meet their responsibilities.

Prior to approving the reappointment or extension of the chairperson's or an independent member's term, the Council is to undertake an assessment of the chairperson's or committee member's performance. Reappointment of the chairperson or a ARCC member is also to be subject to that person still meeting the independence and eligibility requirements prescribed under the Local Government (General) Regulation 2021.

Members of the ARCC must possess and maintain a broad range of skills, knowledge and experience relevant to the operations, governance and financial management of the Council, the environment in which the Council operates, and the contribution that the ARCC makes to the Council. At least one member of the ARCC must have accounting or related financial management experience with an understanding of accounting and auditing standards in a government environment. All members should have sufficient understanding of the Council

financial reporting responsibilities to be able to contribute to the ARCC's consideration of the Council annual financial statements.

## **Role**

As required under section 428A of the Local Government Act 1993 (the Act), the role of the ARCC is to review and provide independent advice to the Council regarding the following aspects of Council operations:

- compliance
- risk management
- fraud control
- financial management
- governance
- implementation of the strategic plan, delivery program and strategies
- service reviews
- collection of performance measurement data by the Council, and
- internal audit.

The ARCC must also provide information to the Council for the purpose of improving the Council's performance of its functions.

The ARCC's specific audit, risk and improvement responsibilities under section 428A of the Act are outlined in Schedule 1 to these terms of reference.

The ARCC will act as a forum for consideration of the Council's internal audit function and oversee its planning, monitoring and reporting to ensure it operates effectively.

The ARCC has no power to direct external audit or the way it is planned and undertaken but will act as a forum for the consideration of external audit findings.

The ARCC is directly responsible and accountable to the Council for the exercise of its responsibilities. In carrying out its responsibilities, the ARCC must, at all times, recognise that primary responsibility for management of the Council rests with the governing body and the Chief Executive Officer.

The responsibilities of the ARCC may be revised or expanded in consultation with, or as requested by, the governing body from time to time.

## **Responsibilities of members**

### **Independent members**

The chairperson and members of the ARCC are expected to understand and observe the requirements of the Office of Local Government's Guidelines for risk management and Internal Audit for local government in NSW. Members are also expected to:

- make themselves available as required to attend and participate in meetings
- contribute the time needed to review and understand information provided to it

- apply good analytical skills, objectivity and judgement
- act in the best interests of the Council
- have the personal courage to raise and deal with tough issues, express opinions frankly, ask questions that go to the fundamental core of the issue and pursue independent lines of inquiry
- maintain effective working relationships with the Council
- have strong leadership qualities (chairperson)
- lead effective ARCC meetings (chairperson), and
- oversee the Council Internal Audit function (chairperson).

### **Councillor members**

To preserve the independence of the ARCC, the councillor member of the ARCC is a non-voting member. Their role is to:

- relay to the ARCC any concerns the governing body may have regarding the Council and issues being considered by the ARCC
- provide insights into local issues and the strategic priorities of the Council that would add value to the ARCC's consideration of agenda items
- advise the governing body (as necessary) of the work of the ARCC and any issues arising from it, and
- assist the governing body to review the performance of the ARCC.

Additionally, the Chief Executive Officer will invite all Councillors to observe the Audit Risk and Compliance Committee meetings and the Secretariat for the Audit Risk and Compliance Committee will provide meeting agendas and briefing material will also be made available on all Councillor iPads via Diligent Board Books at least one week prior (where possible) to each Audit Risk and Compliance Committee meeting.

Issues or information the councillor member raises with or provides to the ARCC must relate to the matters listed in Schedule 1 and issues being considered by the ARCC.

The councillor member of the ARCC must conduct themselves in a non-partisan and professional manner. The councillor member of the ARCC must not engage in any conduct that seeks to politicise the activities of the ARCC or the internal audit function or that could be seen to do so.

If the councillor member of the ARCC engages in such conduct or in any other conduct that may bring the ARCC and its work into disrepute, the chairperson of the ARCC may recommend to the governing body, that the councillor member be removed from membership of the ARCC. Where the governing body does not agree to the ARCC chair's recommendation, the Council must give reasons for its decision in writing to the chairperson.

### **Conduct**

Independent ARCC members are required to comply with the Council's code of conduct.

Complaints alleging breaches of the Council's code of conduct by an independent ARCC member are to be dealt with in accordance with the Procedures for the Administration of the Model Code of Conduct for Local Councils in NSW. The Chief Executive Officer must consult

with the governing body before taking any disciplinary action against an independent ARCC member in response to a breach of the Council's code of conduct.

### **Conflicts of interest**

Once a year, ARCC members must provide written declarations to the Council stating that they do not have any conflicts of interest that would preclude them from being members of the ARCC. Independent ARCC members are 'designated persons' for the purposes of the Council's code of conduct and must also complete and submit returns of their interests.

ARCC members and observers must declare any pecuniary or non-pecuniary conflicts of interest they may have in a matter being considered at the meeting at the start of each meeting or as soon as they become aware of the conflict of interest. Where a ARCC member or observer declares a pecuniary or a significant non-pecuniary conflict of interest, they must remove themselves from ARCC deliberations on the issue. Details of conflicts of interest declared at meetings must be appropriately minuted.

### **Standards**

ARCC members are to conduct their work in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and AS ISO 31000:2018 Risk Management Guidelines, where applicable.

### **Work plans**

The work of the ARCC is to be thoroughly planned and executed. The ARCC must develop a strategic work plan every four years to ensure that the matters listed in Schedule 1 are reviewed by the ARCC and considered by the internal audit function when developing their risk-based program of internal audits. The strategic work plan must be reviewed at least annually to ensure it remains appropriate.

The ARCC may, in consultation with the Council, vary the strategic work plan at any time to address new or emerging risks. The governing body may also, by resolution, request the ARCC to approve a variation to the strategic work plan. Any decision to vary the strategic work plan must be made by the ARCC.

The ARCC must also develop an annual work plan to guide its work, and the work of the internal audit function over the forward year.

The ARCC may, in consultation with the governing body, vary the annual work plan to address new or emerging risks. The governing body may also, by resolution, request the ARCC to approve a variation to the annual work plan. Any decision to vary the annual work plan must be made by the ARCC.

When considering whether to vary the strategic or annual work plans, the ARCC must consider the impact of the variation on the internal audit function's existing workload and the completion of pre-existing priorities and activities identified under the work plan.

### **Assurance reporting**

The ARCC must regularly report to the Council to ensure that it is kept informed of matters considered by the ARCC and any emerging issues that may influence the strategic direction of the Council or the achievement of the Council's goals and objectives.

The ARCC will provide an update to the governing body and the Chief Executive Officer of its activities and opinions after every ARCC meeting.

The ARCC will provide an annual assessment to the governing body and the Chief Executive Officer on the ARCC's work and its opinion on how the Council is performing.

The ARCC will provide a comprehensive assessment every council term of the matters listed in Schedule 1 to the governing body and the Chief Executive Officer.

The ARCC may at any time report to the Council or the Chief Executive Officer on any other matter it deems of sufficient importance to warrant their attention. The Lord Mayor and the chairperson of the ARCC may also meet at any time to discuss issues relating to the work of the ARCC.

Should the governing body require additional information, a request for the information may be made to the chairperson by resolution. The chairperson is only required to provide the information requested by the governing body where the chairperson is satisfied that it is reasonably necessary for the governing body to receive the information for the purposes of performing its functions under the Local Government Act. Individual councillors are not entitled to request or receive information from the ARCC.

## **Administrative arrangements**

### **Meetings**

The ARCC will meet at least four (4) times per year, and additionally will hold a special meeting to review the Council's financial statements.

The ARCC can hold additional meetings when significant unexpected issues arise, or if the chairperson is asked to hold an additional meeting by a ARCC member, the Chief Executive Officer, or the governing body.

ARCC meetings can be held in person, by telephone or videoconference. Proxies are not permitted to attend meetings if a ARCC member cannot attend.

A quorum will consist of a majority of independent voting members. Where the vote is tied, the chairperson has the casting vote.

The chairperson of the ARCC will decide the agenda for each ARCC meeting. Each ARCC meeting is to be minuted to preserve a record of the issues considered and the actions and decisions taken by the ARCC.

The Lord Mayor, Chief Executive Officer and the Chief Internal Auditor should attend ARCC meetings as non-voting observers. The external auditor (or their representative) is to be invited to each ARCC meeting as an independent observer. The chairperson can request the Chief Financial Officers (CFO), Director Legal & Governance, members of the Executive, any councillors, any employee/contractor of the Council and any subject matter expert to attend ARCC meetings. Where requested to attend a meeting, persons must attend the meeting where

possible and provide any information requested. Observers have no voting rights and can be excluded from a meeting by the chair at any time.

The ARCC can hold closed meetings whenever it needs to discuss confidential or sensitive issues with only voting members of the ARCC present. Relevant staff may be requested to attend closed meetings by the chairperson.

The ARCC must meet separately with the Chief Internal Auditor and Council's external auditor at least once each year.

### **Dispute resolution**

Members of the ARCC and the Council's management should maintain an effective working relationship and seek to resolve any differences they may have in an amicable and professional way by discussion and negotiation.

In the event of a disagreement between the ARCC and the Chief Executive Officer or other senior managers, the dispute is to be resolved by the governing body.

Unresolved disputes regarding compliance with statutory or other requirements are to be referred to the Departmental Chief Executive of the Office of Local Government in writing.

### **Secretariat**

The Chief Executive Officer will nominate a staff member to provide secretariat support to the ARCC. The secretariat will ensure the agenda for each meeting and supporting papers are circulated after approval from the chair at least one week before the meeting and ensure that minutes of meetings are prepared and maintained. Minutes must be approved by the chairperson and circulated within 21 days of the meeting to each member.

### **Resignation and dismissal of members**

Where the chairperson or an ARCC member is unable to complete their term or does not intend to seek reappointment after the expiry of their term, they should give at least six (6) months notice to the chair and the governing body prior to their resignation to allow the Council to ensure a smooth transition to a new chairperson or ARCC member.

The governing body can, by resolution, terminate the appointment of the chair or an independent ARCC member before the expiry of their term where that person has:

- breached the Council's code of conduct
- performed unsatisfactorily or not to expectations
- declared, or is found to be in, a position of a conflict of interest which is unresolvable
- been declared bankrupt or found to be insolvent
- experienced an adverse change in business status
- been charged with a serious criminal offence
- been proven to be in serious breach of their obligations under any legislation, or
- experienced an adverse change in capacity or capability.

The position of a councillor member on the ARCC can be terminated at any time by the governing body by resolution.

**References**

Laws and Standards
<ul style="list-style-type: none"> <li>Local Government Act, 1993 - Sections 23A and 428A</li> </ul>
<ul style="list-style-type: none"> <li>Local Government (General) Regulation 2021</li> </ul>
<ul style="list-style-type: none"> <li>Local Government (General) Amendment (Audit, Risk and Improvement Committees) Regulation 2023</li> </ul>
<ul style="list-style-type: none"> <li>Guidelines for Risk Management and Internal Audit Guidelines for Local Government in NSW - Office of Local Government (December 2022)</li> </ul>

Policies and Procedures
<ul style="list-style-type: none"> <li>Code of Conduct</li> </ul>
<ul style="list-style-type: none"> <li>Fraud and Corruption Control Plan</li> </ul>
<ul style="list-style-type: none"> <li>Internal Audit Charter</li> </ul>

**Review period**

At least once every council term, the Council must review or arrange for an external review of the effectiveness of the ARCC.

These terms of reference must be reviewed annually by the ARCC and once each council term by the governing body. Any substantive changes are to be approved by the governing body.

Reviewed by chair of the Audit Risk and Compliance Committee.



05 November 2024

Reviewed by The City of Sydney Council in accordance with a resolution of the governing body.



05 November 2024

Resolution of Council 6.3 – 28.10.24

Next review date: **May/June 2025**



## Further information

For further information on Council’s Audit Risk and Compliance Committee (ARCC), contact the Director Legal and Governance by phone (02) 9265 9333.

## Approval

Council approved this policy on 28 October 2024.

## Approval History

Stage	Date	Comment	TRIM Reference
Original	22 June 2023	The City of Sydney Audit Committee has operated since 2002, initially with a terms of reference developed within the City.	2023/413599
Reviewed	01 May 2024	Executive	2024/238333
	28 March 2024	ARCC	2024/364233
	28 October 2024	Council	2024/534257
Commence Review Date	February – May, depending on the scheduling of the ARCC meetings.	The Audit Risk and Compliance Committee will review this policy every year.  (Owner: Audit Risk and Compliance Committee Chairperson).	
Approval Due Date	May - July each year, depending on the scheduling of ARCC meetings.	The Charter is reviewed annually by the Audit Risk and Compliance Committee.  If major changes are recommended, the changes must be approved by Council.	

## Ownership and approval

Responsibility	Role
Author	Chief Internal Auditor
Owner	ARCC Independent Chairperson
Endorser	City of Sydney Executive
Endorser	Audit Risk and Compliance Committee
Approver	City of Sydney Council

## Schedule 1 – Audit Risk and Compliance Committee (ARCC) responsibilities

### Audit

#### Internal Audit

- Provide overall strategic oversight of internal audit activities
- Act as a forum for communication between the governing body, Chief Executive Officer, senior management, the internal audit function and external audit
- Coordinate, as far as is practicable, the work programs of internal audit and other assurance and review functions, and
- Review and advise the Council:
  - on whether the Council is providing the resources necessary to successfully deliver the internal audit function
  - if the Council is complying with internal audit requirements, including conformance with the International Professional Practices Framework
  - if the Council's Internal Audit Charter is appropriate and whether the internal audit policies and procedures and audit/risk methodologies used by the Council are suitable
  - of the strategic four-year work plan and annual work plan of internal audits to be undertaken by the Council's internal audit function
  - if the Council's internal audit activities are effective, including the performance of the internal audit coordinator (Chief Internal Auditor) and the internal audit function
  - of the findings and recommendations of Internal Audits conducted, and corrective actions needed to address issues raised
  - of the implementation by the Council of these corrective actions
  - on the appointment of the internal audit coordinator (Chief Internal Auditor) and external providers
  - if the internal audit function is structured appropriately and has sufficient skills and expertise to meet its responsibilities; and
  - of the progress on recommendations made in Audit Office of NSW performance audits, as required.

#### External audit

- Act as a forum for communication between the governing body Chief Executive Officer, senior management, the internal audit function and external audit
- Coordinate as far as is practicable, the work programs of internal audit and external audit
- Provide input and feedback on the financial statement and performance audit coverage proposed by external audit and provide feedback on the audit services provided
- Ensure any consultant engaged by the Audit Office of NSW seeks input regarding the impact of performance audits on the Council, where Council has been selected as a sample
- Review all external plans and reports in respect of planned or completed audits and monitor council's implementation of audit recommendations, and
- Provide advice to the governing body and/or Chief Executive Officer on action taken on significant issues raised in relevant external audit reports and better practice guides.

## Risk

### Risk management

Review and advise the Council:

- if the Council has in place a current and appropriate risk management framework that is consistent with the Australian risk management standard
- whether the Council is providing the resources necessary to successfully implement its risk management framework
- whether the Council's risk management framework is adequate and effective for identifying and managing the risks the Council faces, including those associated with individual projects, programs and other activities
- if risk management is integrated across all levels of the Council and across all processes, operations, services, decision-making, functions and reporting
- of the adequacy of risk reports and documentation, for example, the Council's risk register and risk profile
- whether a sound approach has been followed in developing risk management plans for major projects or undertakings
- whether appropriate policies and procedures are in place for the management and exercise of delegations
- if the Council has taken steps to embed a culture which is committed to ethical and lawful behaviour
- if there is a positive risk culture within the Council and strong leadership that supports effective risk management
- of the adequacy of staff training and induction in risk management
- how the Council's risk management approach impacts on the Council's insurance arrangements
- of the effectiveness of the Council management of its assets, and
- of the effectiveness of business continuity arrangements, including business continuity plans, disaster recovery plans and the periodic testing of these plans.

### Internal controls

Review and advise the Council:

- whether the Council's approach to maintaining an effective internal audit framework, including over external parties such as contractors and advisors, is sound and effective
- whether the Council has in place relevant policies and procedures and that these are periodically reviewed and updated
- whether appropriate policies and procedures are in place for the management and exercise of delegations
- whether staff are informed of their responsibilities and processes and procedures to implement controls are complied with
- if the Council's monitoring and review of controls is sufficient, and
- if internal and external audit recommendations to correct internal control weaknesses are implemented appropriately.

## Compliance

Review and advise the Council of the adequacy and effectiveness of the Council's compliance framework, including:

- if the Council has appropriately considered legal and compliance risks as part of the Council risk management framework
- how the Council manages its compliance with applicable laws, regulations, policies, procedures, codes, and contractual arrangements, and
- whether appropriate processes are in place to assess compliance.

## Fraud and corruption

Review and advise the Council of the adequacy and effectiveness of the Council's fraud and corruption prevention framework and activities, including whether the Council has appropriate processes and systems in place to capture and effectively investigate fraud-related information.

## Financial management

Review and advise the Council:

- if the Council is complying with accounting standards and external accountability requirements
- of the appropriateness of the Council's accounting policies and disclosures
- of the implications for the Council of the findings of external audits and performance audits and the Council's responses and implementation of recommendations
- whether the Council's financial statement preparation procedures and timelines are sound
- the accuracy of the Council's annual financial statements prior to external audit, including:
  - management compliance/representations
  - significant accounting and reporting issues
  - the methods used by the Council to account for significant or unusual transactions and areas of significant estimates or judgements
  - appropriate management signoff on the statements
- if effective processes are in place to ensure financial information included in the Council's annual report is consistent with signed financial statements
- if the Council's financial management processes are adequate
- the adequacy of cash management policies and procedures
- if there are adequate controls over financial processes, for example:
  - appropriate authorisation and approval of payments and transactions
  - adequate segregation of duties
  - timely reconciliation of accounts and balances
  - review of unusual and high value purchases
- if policies and procedures for management review and consideration of the financial position and performance of the Council are adequate
- if the Council's grants and tied funding policies and procedures are sound.

## Governance

Review and advise the Council regarding its governance framework, including the Council:

- decision-making processes
- implementation of governance policies and procedures

- reporting lines and accountability
- assignment of key roles and responsibilities
- committee structure
- management oversight responsibilities
- human resources and performance management activities
- reporting and communication activities
- information and communications technology (ICT) governance, and
- management and governance of the use of data, information and knowledge.

## **Improvement**

### **Strategic planning**

Review and advise the Council:

- of the adequacy and effectiveness of the Council integrated, planning and reporting (IP&R) processes
- if appropriate reporting and monitoring mechanisms are in place to measure progress against objectives, and
- whether the Council is successfully implementing and achieving its IP&R objectives and strategies.

### **Service reviews and business improvement**

- Act as a forum for communication and monitoring of any audits conducted by external bodies and the implementation of corrective actions (for example, NSW government agencies, Commonwealth government agencies, insurance bodies)
- Review and advise the Council:
  - If the Council has robust systems to set objectives and goals to determine and deliver appropriate levels of service to the community and business performance
  - if appropriate reporting and monitoring mechanisms are in place to measure service delivery to the community and overall performance, and
  - how the Council can improve its service delivery and the Council performance of its business and functions generally.

### **Performance data and measurement**

Review and advise the Council:

- if the Council has a robust system to determine appropriate performance indicators to measure the achievement of its strategic objectives
- if the performance indicators the Council uses are effective, and
- of the adequacy of performance data collection and reporting.