

**ORDINARY MEETING OF COUNCIL
23 MARCH 2009**

ORDER OF THE DAY

ORDER 2

AUDIT COMMITTEE

LOCATION/ADDRESS:

AUTHOR:

**DARRELL TRELOAR, CHIEF EXECUTIVE
OFFICER (INTERIM)**

FILE NO.:

ATTACHMENTS:

**ATTACHMENT 1: "AUDIT COMMITTEE
FOR THE CITY OF PORT PHILLIP".
ATTACHMENT 3 OF PJ GOVERNANCE PTY
LTD REPORT
ATTACHMENT 2: PORT PHILLIP CITY
COUNCIL AUDIT COMMITTEE CHARTER**

PURPOSE

- This report presents the findings of PJ Governance Pty Ltd ('Johnstone Report') relating to Council's Audit Committee and recommends a new Audit Committee Charter for adoption by the Council.

RECOMMENDATION

- That Council notes Attachment 3 of the Johnstone Report, headed "Audit Committee for the City of Port Phillip".
- That the Audit Committee Charter (Attachment 2 which is an amended version of Attachment 3 of the Johnstone Report) be adopted.
- That the Audit Committee Charter and the performance of the Audit Committee be reviewed annually.

BACKGROUND AND CONTEXT

- Council at its meeting held on 8 December 2009 resolved to appoint a governance consultant to investigate and report on opportunities for strengthened governance to ensure performance at local government best practice having regard to Council's commitment to good governance practices. PJ Governance Pty Ltd was subsequently engaged and has now completed that work. It is reported under a separate report included in the agenda papers for consideration at this Council meeting.
- The Johnstone Report included a review of Council's Audit Committee at Attachment 3 and it is reproduced in this report at Attachment 1.

CONSULTATION AND STAKEHOLDERS

- The current external members of Council's Audit Committee:
 - Chairperson: Ray Liggett
 - Member: Sue Pelka

were invited to comment on Attachment 3 of the Johnstone Report and the draft Audit Committee Charter.

DISCUSSION

- The Johnstone Report draws heavily on the work of the Australian Institute of Company Directors ('AICD') and in particular the AICD guide, "Audit Committees – A Guide to Good Practice", published jointly by the Auditing and Assurance Standards Board, AICD and Institute of Internal Auditors Australia in February 2008. It also references the guidelines for public entities issued by the then Victorian Department of Infrastructure's Office of Local Government in June 2000 and evaluates their relevance having regard to current thinking on governance best practice.
- The Johnstone Report includes a proposed Audit Committee Charter and recommends that it be adopted by Council and that Council resolves to review the Charter and the performance of the Audit Committee annually. This report endorses that direction with variations detailed below.
- It is proposed that the section on Membership in the Johnstone Report Charter be strengthened by requiring the external members to have formal qualifications; such as being a Certified Practising Accountant (CPA), a Member of the Institute of Internal Auditors Australia or having like qualifications acceptable to the Council. It is to be expected that 'Councillor' members of the Audit Committee will bring a range of skills and experience and have or be able to obtain a working knowledge of financial reporting but, except in limited situations, will be unlikely to have undertaken higher level training in accounting, financial management or auditing. However, the inclusion of a requirement that the external members bring these specialist skills to the work of the Audit Committee will ensure a high level of expertise within the Committee, thereby minimising the risk of areas requiring specialised knowledge being overlooked. It will also enhance the Committee's ability to question work presented by professionals reporting to the Committee, whether they be officers of the Council, internal auditors or external auditors.
- The term of appointment of the external members is proposed to be two years with Council having the option to renew members' appointments when their term expires. It is proposed that the terms of the external members be staggered, one year apart. This addresses the potential for loss of knowledge and continuity that would arise if they were both to leave the Committee at the same time.

- It is recommended that when an external member retires, as a consequence of the term of appointment not being renewed or the member tendering a resignation, the vacant position be filled after inviting applications by public advertisement and undertaking a considered assessment process.
- Further, it is proposed that the Chairperson of the Audit Committee be one of the external members and that he/she be required to personally present a report to the Council each year, following the Audit Committee's annual review of its performance. The ASX Corporate Governance Council recommends inter-alia that the audit committee be chaired by an independent non-executive director, who is not chair of the board. While it can be argued that a Councillor (not being the Mayor) satisfies these conditions, the appointment of one of the external members to the position of Chairperson provides the greatest level of independence and best responds to the intent behind the ASX advice. It in no way diminishes the responsibility of the Council for risk management or the responsibilities of
- individual 'Councillor' members appointed to the Audit Committee but, when combined with a requirement that the Chairperson personally report to the Council on behalf of the Audit Committee, establishes a healthy environment for an independent and objective assessment of the effectiveness of Council's risk management function.
- The suggested variations to the Johnstone Report Charter have been incorporated into the draft Audit Committee Charter contained at Appendix 2.

CONCLUSION

- Council's Audit Committee has an important role overseeing and monitoring audit and risk management processes, and advising Council on related matters so it can meet its responsibilities in this regard. The Johnstone Report provides contemporary advice regarding governance aspects of Council's Audit Committee and the adoption of a new Audit Committee Charter, as amended, will provide Council with an effective means of discharging its risk management responsibilities.