Audit and Risk Management Committee Terms of Reference

Version 1.0

4/08/2025

ARMC Terms of Reference

Contents

1 PURPOSE

The Audit and Risk Management Committee (Committee) is a committee of the board of directors (Board) of GMB Water which has been established pursuant to the Mount Barker Region Wastewater Utility Charter (Charter).
This Terms of Reference sets out the Committee's objectives, authority, membership, appointment and term, duties and responsibilities, reporting and administrative arrangements.

2 OBJECTIVES

The objective of the Committee is to provide independent assistance to the Board by monitoring, reviewing and providing advice about GMB Water's financial governance processes, financial and non-financial risk management and control frameworks, and its external accountability obligations.

The functions of the Committee are set out in Schedule 2, Part 1, Clause 13 of the Local Government Act 1999 and include:

- Reviewing annual financial statements to ensure they provide a timely and fair view of the state of affairs of the subsidiary
- Liaising with external auditors
- Reviewing the adequacy of the accounting, internal audit, reporting and other financial management systems and practices of the subsidiary on a regular basis

3 AUTHORITY

Mount Barker District Council (MBDC) authorises the Committee, within the scope of its role and responsibilities to:

- Obtain any information it needs from any employee and / or external party (subject to their legal obligation to protect information)
- Discuss any matters with the external auditor, or other external party (subject to their legal considerations)
- Request the attendance of any employee, including the Board, at committee meetings
- Obtain external legal or other professional advice, as considered necessary to meet its responsibilities. The payment of costs for that advice by GMB Water is subject to the prior approval of the Chief Executive Officer/Managing Director or the Chair of the Board depending on the matter.
- Resolve any disagreements between management and the external financial auditor regarding financial reporting
- Meet with company officers, internal auditors, external auditors, or outside counsel, as necessary.

4 Committee Structure

4.1 Membership, Appointment and Term

The Committee will consist of a minimum of three and a maximum of five members nominated by GMB Water and appointed by MBDC.

A non-executive director will be appointed as chairperson of the Committee. The Chairperson of the Board will not be the chairperson of the Committee.

The chairperson is counted as one member of the Committee.

Members will be appointed for an initial period between three and five years, after which they will be eligible for extension or re-appointment for a further term(s) subject to a formal review of their performance (noting that the maximum total term on the Committee will not exceed eight years).

The chairperson must be appointed for one term only, for a minimum period of three years and a maximum period of five years. The term of appointment for the chairperson can be extended but cannot exceed five years as a chairperson of the Audit and Risk Committee.

Only non-executive directors are eligible for membership and a majority of Committee members will be independent[1] directors.

As far as practicable MBDC must ensure that the Committee collectively possesses the following skills and experience

- Financial Management
  - Understanding of the field of accounting, financial reporting, internal controls, including knowledge of relevant accounting standards
  - Able to contribute to the oversight of budgeting and long-term financial planning
  - Holds a formal qualification in accounting, finance or internal audit
  - Holds a professional membership in accounting, finance or internal audit
- Risk Management – experience in systematic risk identification, evaluation, assurance, monitoring and review of key business risks
- Governance – understanding of Governance Matters
- Local Government – experience with Local Government in South Australia

4.2 Committee Performance Evaluation

The Committee members will participate in an independent external review of the Committee's performance and effectiveness every three years.

5 Duties and Responsibilities

The Committee has no executive powers.

The Committee is directly responsible and accountable to the Board for the exercise of its responsibilities. In carrying out its responsibilities, the Committee must at all times recognise that primary responsibility for management of GMB Water rests with the Board.

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

The Committee's responsibilities are to:

5.1 Financial Reporting

- Monitor the integrity of the financial statements, reviewing significant financial reporting issues and judgments which they contain
- Review and challenge where necessary:
  - The consistency of, and / or any changes to, accounting policies

[1] An independent director in this instance is defined as an individual who is not a member of GMB Water's board of directors and who is free from any relationships that could compromise their ability to make objective and impartial decisions.

    - The methods used to account for significant or unusual transactions where different approaches are possible
    - Whether the subsidiary has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor
    - All material information presented with the financial statements
- Provide advice to the Board relevant to budget reviews undertaken in accordance with the Local Government Act and Regulation 9 of the Local Government (Financial Management) Regulations 2011, including in relation to any revisions to the forecast key financial indicators.

5.2 Management plans and business plans

At the time of preparation or scheduled reviews, provide advice relevant to the scope of the Committee's functions on the organisation's strategic management plans, which may include:

- Strategic Plan
- Business Plan
- Annual Report
- Annual Business Plan and Budget
- Long Term Financial Plan
- Asset Management Plan

5.3 Risk Management

- Review whether management has in place a current and appropriate risk management framework that is consistent with AS/NZS ISO 31000:2018
- Assess and advise on the maturity of GMB Water's risk management framework and risk culture
- Seek assurance from management and Internal Audit that risk management processes are operating effectively
- See assurance from management and Internal Audit as to the adequacy and effectiveness of internal controls
- Review risk reports and provide advice to the Chief Executive Officer/Managing Director and Board
- Review whether a sound and effective approach has been followed in developing risk management plans for major projects or undertakings
- Review the impact of GMB Water's risk management on its control environment and insurance arrangements
- Review GMB Water's fraud and corruption control plan and be satisfied that GMB Water has appropriate processes and systems in place to capture and effectively investigate fraud and corruption related information
- Review whether a sound and effective approach has been followed in establishing GMB Water's business continuity planning arrangements, including whether disaster recovery plans have been tested periodically
- Review, including through use of periodic independent reviews, whether GMB Water has any material exposure to environmental or social risks, including cyber security risk and climate and nature related risk, and, if it does, how it manages or intends to manage those risks
- See assurance that GMB Water has processes in place to identify and manage risks arising from climate change, including physical, transitional and liability risks
- Seek assurance that GMB Water has processes in place to identify and address emerging risks including but not limited to those of cyber security risks and climate and nature related risks

5.4 Control Framework

- Review whether management's approach to maintaining an effective internal control framework, including over external parties such as contractors and advisors, is sound and effective
- Review whether management has in place relevant policies, and that these are periodically reviewed and updated
- Determine whether the appropriate processes are in place to assess, at least once a year, whether laws, regulations, policies and procedures are complied with
- Review whether appropriate policies and procedures are in place for the management and exercise of delegations
- Consider how management identifies and requires changes to the design or implementation of internal controls
- Review whether management has taken steps to embed a culture which is committed to ethical and lawful behaviour

5.5 External Accountability

- Assess the policies and procedures for management review and consideration of the financial position and performance of GMB Water including the frequency and nature of that review (including the approach taking to addressing variances and budget risks)
- Review the procedures around early close and year-end
- Review the financial statements and provide advice to the Board (including whether appropriate action has been taken in response to audit recommendations and adjustments), and recommend their signing by the Board
- Satisfy itself that the financial statements are supported by appropriate management signoff on the statements
- Review cash management policies and procedures
- Review the processes in place designed to ensure that financial information included in GMB Water's annual report is consistent with the signed financial statements
- Review, provide advice and recommend to the Board, any climate and / or nature related financial disclosures reporting and / or other public disclosures by GMB Water, including in GMB Water's annual report
- Satisfy itself that GMB Water has a performance management framework that is linked to organisational objectives and outcomes.

5.6 Compliance, Ethics, Applicable Laws and Regulations

- Determine whether management has appropriately considered legal and compliance risks as part of GMB Water's risk assessment and management arrangements
- Review the effectiveness of the system for monitoring GMB Water's compliance with applicable laws and regulations, and associated governance policies
- Seek assurance that the appropriate exercise of delegation is monitored and reviewed
- Seek assurance that changes in key laws, regulations, internal policies and Accounting Standards affecting GMB Water's operations are being monitored at least once a year, and are appropriately addressed
- Review GMB Water's process for communicating the behaviour and conduct policy and expectations to staff and seek assurance as to compliance with the policy
- Review policies and processes for identifying, analysing and addressing complaints
- Review whether management has taken steps to embed a culture which is committed to ethical and lawful behaviour.

5.7 Internal Audit

- Act as a forum for communication between the Board, senior management and internal and external audit
- Review and provide advice to the Board on the internal audit policies and procedures
- Review the risk based audit methodology
- Review the internal audit coverage and annual work plan, ensure the plan is based on GMB Water's risk management plan, and recommend approval of the plan by the Board
- Advise the Board on the adequacy of internal audit resources to carry out is responsibilities, including the completion of the approved internal audit plan
- Oversee the coordination of audit programs conducted by internal and external audit and other review functions
- Review audit findings and related recommendations that have been assessed as the most significant according to the risk the audit finding represents to GMB Water if the recommendation(s) related to the finding are not implemented
- Provide advice to the Board on significant issues identified in audit reports and action taken on these issues, including identification and dissemination of good practice
- Monitor management's implementation of internal audit recommendations
- Review the internal audit terms of reference to ensure appropriate organisational structures, authority, access and reporting arrangements are in place
- Provide advice to the Board on the results of any external assessments of the internal audit function
- Recommend to the Board the appointment or replacement of external internal audit service providers (in the case of an outsourced or co-sourced internal audit function)
- Periodically review the performance of internal audit as required
- Annually review internal audit's charter
- Assess the overall effectiveness and evaluate the performance of the internal audit function
- Ensure there is no material overlap between the internal and external audit functions

5.8 External Audit

- Act as a forum for communication between GMB Water, senior management and internal and external audit
- Provide input and feedback on the financial statement and performance audit coverage proposed by the external audit and provide feedback on the audit services provided
- Review all external plans and report in respect of planned or completed audits and monitor management's implementation of audit recommendations
- Provide audit advice to the Board on action taken on significant issues raised in relevant external audit reports and better practice guides
- Annually assess and report on external auditor independence, objectivity, effectiveness, value for money and other criteria as determined by the Committee or the Board
- Obtain an independent opinion from external audit management on:
  - Technical compliance with accounting standards
  - Proper application of the accounting principles
  - Clarity in financial disclosure practices as used or proposed in GMB Water's annual report

5.9 Responsibilities of Members

Members of the Committee are expected to understand and observe the requirements of the Internal Audit and Risk Management Policy. Members are also expected to:

- Make themselves available as required to attend and participate in meetings
- Contribute the time needed to study and understand the papers provided

- Apply good analytical skills, objectively and good judgement
- Abide by the relevant ethical codes that apply to employment with the South Australian local government sector
- Express opinions frankly, ask questions that go to the fundamental core of the issues and pursue independent lines of enquiry.

6 Reporting

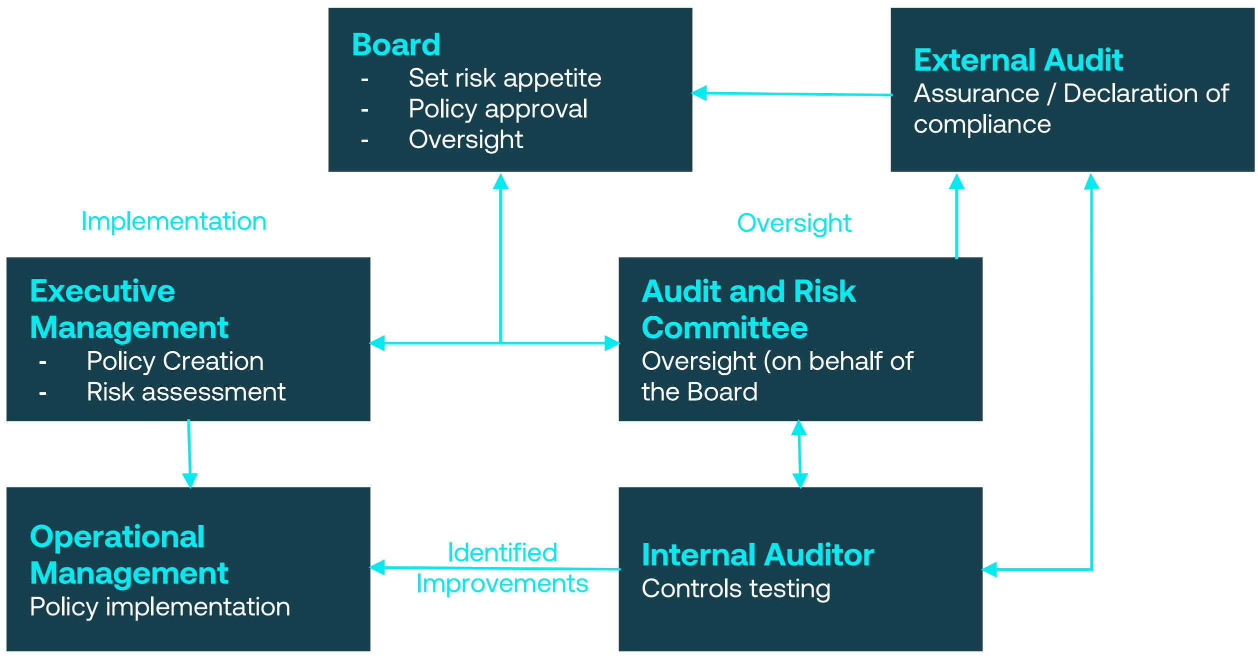
The Committee will:

- Circulate minutes of the Committee meetings to the GMB Water Board, Committee members and invited guests as appropriate
- Prepare an annual report for the GMB Water Board summarising the performance and achievements for the previous year, including Committee members' attendance at meetings. An interim program of the planned activities for the coming year is also to be provided
- Submit a summary of its activities for the inclusion in GMB Water's Annual Report.

The Committee may, at any time, report to the Board on any other matter it deems of sufficient importance to do so. In addition, at any time an individual committee member may request a meeting with the Board.

6.1 Reporting Lines

The delegation of responsibilities to this Committee does not absolve individual Board Directors, or the Board as a whole, from their fiduciary responsibilities.
The following figure outlines the broad areas of responsibility and oversight, and reporting lines, for this Committee.



7 Administrative Arrangements

7.1 Meetings

The Committee will meet at least four times per year. A special meeting may be held to review GMB Water's annual financial statements.

The Chairperson is required to call a meeting if requested to do so by the Board, another Committee member, the Chief Executive Officer/Managing Director or external auditors.

A meeting plan, including meeting dates and agenda items, will be agreed by the Committee each year. The meeting plan will cover all of the Committee's responsibilities as detailed in this Terms of Reference.

7.2 Attendance at Meetings and Quorums

A quorum for each meeting of the Committee is one (1) half of the Committee members, ignoring any fraction, plus one (1), of which two (2) must be independent members. The quorum must be present at all times during the meeting.

Meetings can be held in person, by telephone, video conference or a combination of these methods.

The Chief Executive Officer/Managing Director may attend the meetings of the Audit and Risk Committee. Committee members, of necessity, may have in-camera discussions. Internal audit representatives, external audit representatives and any other GMB Water representatives may attend Committee meetings, except where the Committee members wish to have in-camera discussions. The Committee may also request other employees attend Committee meetings or participate for certain agenda items.

All attendees are responsible and accountable for maintaining the confidentiality of the information they receive during the course of these meetings.

The Committee will meet separately with both the internal and external auditors at least once a year.

7.3 Dispute Resolution

Members of the Committee and GMB Water's management should maintain an effective working relationship, and seek to resolve differences by way of open negotiation. However, in the event of a disagreement between the Committee and management, including the Board, the Chairperson may, as a last resort, refer the matter to MBDC to be dealt with independently.

7.4 Conflicts of Interest

Once a year the Committee members will provide declarations to the Board stating they do not have any conflicts of interest that would preclude them from being members of Committee.

Committee members must declare any conflicts of interest at the start of each meeting or before the discussion of the relevant agenda item or topic, or immediately should they arise at any time. Details of any conflicts of interest should be appropriately minuted.

Where members or observers at Committee meetings are deemed to have real, or perceived, conflict of interest, the Chairperson (or a quorum of the Committee if the conflict of interest arises from the Chairperson) may excuse them from Committee deliberations on the issue where a conflict of interest exists.

7.5 Induction

All new Audit and Risk Committee members are to undertake an induction program coordinated by the Chief Executive Officer/Managing Director, to assist them in fulfilling their Committee duties and responsibilities.

7.6 Assessment arrangements

The Board, in consultation with the Chairperson of the Committee, will establish a mechanism to review and report on the performance of the Committee, including the performance of the Chairperson and each member, at least annually. The review will be conducted on a self-assessment basis (unless otherwise determined by the Board) with appropriate input sought from the Board, the internal and external auditors, management and any other relevant stakeholders, as determined by the Board.

8 Review of the Terms of Reference

The Committee will review this Terms of Reference annually, and recommend any changes to the Board.

9 DOCUMENT CONTROL

VERSION	AUTHOR	DESCRIPTION OF CHANGE	DATE	APPROVED BY
0.1	H Edmonds	Draft	30/06/25	N/A
0.2	H Edmonds	Incorporating Board feedback	11/07/25	N/A
1.0	H Edmonds	Adopted by Council	4/08/25	Council