

# Audit and Risk Committee – Terms of Reference

## Purpose

The Audit and Risk Committee (*the Committee*) has been established by the Board to assist the Board in the effective discharge of its fiduciary, stewardship, leadership and control responsibilities, as the governing body of Activ, under:

- Activ Foundation Incorporated Constitution;
- the Associations Incorporations Act 1987 (WA); and
- other relevant legislation and prescribed requirements.

## Scope

The Terms of Reference apply to the Audit and Risk Committee.

The Audit and Risk Committee is a standing committee of the Board, established under the Activ Board Charter, and reports directly to the Board of Directors.

## Responsibilities

The Committee is responsible for:

1. Reviewing and monitoring internal control systems;
2. Reviewing and monitoring risk management systems;
3. Reviewing and monitoring financial governance and corporate reporting systems;
4. Reviewing and monitoring compliance systems; and
5. Ensuring the delivery of an effective and efficient audit function within Activ.

### 1. Internal Control Responsibilities

- 1.1. Evaluate whether Management is setting the appropriate “control culture” through the communication of the importance of internal control and management of risk.
- 1.2. Evaluate Activ’s processes for assessing and continuously improving internal controls, particularly those related to:
  - a. identified areas of significant risk
  - b. the approval of transactions and recording and processing of financial data,
  - c. the safeguarding of assets and
  - d. the security of computer systems and applications (including back-up and contingency plans).

- 1.3. Inquire of Management, the Audit & Assurance Manager and the external auditor as to current/pending litigation or regulatory proceeding with a bearing on corporate governance in which Activ is a party and which has a material impact on Activ's finances, operations or reputation.

### 2. Risk Management Responsibilities

- 2.1 Evaluate whether Management is setting the appropriate "control culture" through the communication of the importance of internal control and management of risk.
- 2.2 Evaluate the Risk, Control, Audit & Assurance Management Policy and Framework on an annual basis to ensure its continued effectiveness;
- 2.3 Consider and review with Management, the Audit & Assurance Manager and the external auditor whether Activ has appropriate processes for identifying, assessing and responding to risks in accordance with Activ's established objectives and plans.
- 2.4 Inquire of Management, the Audit & Assurance Manager and the external auditor as to significant risks or exposures and assess the steps management has taken to minimise such risks to Activ.

### 3. Financial Governance Responsibilities

- 3.1 Review Activ's annual revenue and capital budgets and cash flow forecasts prior to submission to the Board; such reviews should encompass the wage, inflationary and funding assumptions underlying the budgets.
- 3.2 Review Activ Business Case Template on an annual basis to ensure the identification and assessment of the proposed strategies for the management of risk.
- 3.3 Review Activ's draft Annual Financial Accounts prior to submission to Board.

### 4. Compliance with Laws & Regulations and Internal Policies

- 4.1 Review of Risk Register.
- 4.2 Review Activ Foundation policies relating to compliance with laws and regulations and investigation of fraud.
- 4.3 Monitor the management of significant cases of fraud and the resolution of those cases.
- 4.4 Review and monitor the internal processes for monitoring compliance with laws and regulations, contracts, and all internal policies.

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- 4.5 Review the findings of external quality assurance reviews completed.

### 5. Internal Audit Responsibilities

- 5.1 Monitor the independence of the Audit & Assurance function.
- 5.2 Consider and approve (in consultation with Management, the Audit & Assurance Manager and the external auditor), the audit scope and strategic plan of Internal Audit, including ensuring that the annual work plan addresses key areas of risk identified.
- 5.2 Review and monitor the progress of the annual audit work plan.
- 5.3 Consider and review with Management and the Audit & Assurance Manager:
- a. the Internal Audit Charter;
  - b. significant findings during the year; and
  - c. any difficulties encountered by the Audit & Assurance Department in the course of their work or access to required information.
- 5.4 Review and monitor Management's responses to Audit & Assurance findings and recommendations to ensure these are dealt with in a timely and appropriate manner.

### 6. External Audit Responsibilities

- 6.1 Review the independence of the contracted external auditor, including reviewing any consulting services and related fees provided by the external auditor.
- 6.2 Consider, in consultations with the external auditor, Management and the Audit & Assurance Manager, the audit scope and work plans of the external auditor.
- 6.3 Ensure that there are no restrictions imposed on the scope of the external audit or access to information by Management or by other factors.
- 6.4 Review the coordination of audit effort as to:
- a. the completeness of coverage
  - b. reduction of redundant efforts, and
  - c. effective use of audit resources.
- 6.5 Consider and review with the external auditor and the Audit & Assurance Manager any significant findings of the external auditor and internal audit, including the effectiveness of internal controls and appropriateness of accounting policies applied in the financial reports.
- 6.6 Review and monitor Management's responses to the external auditor's observations and recommendations to ensure these are dealt with in a timely and appropriate manner.

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- 6.7 Review on an annual basis the performance of the external auditor and make recommendations to the Board for the appointment, reappointment or termination of the external auditor.

### 7. Other Responsibilities

- 7.1 Review and monitor the propriety of all related-party transactions.
- 7.2 Oversee the integrity of Corporate Reporting systems.
- 7.3 Report, through minutes, Committee actions to Board with such recommendations as the Committee may deem appropriate.
- 7.4 Perform such other functions as appropriate to its overall brief and as assigned by the Board.

### Procedures

The Committee will evaluate its performance each year prior to the Annual General Meeting using the Evaluation of Committees Procedure (AQuA 874) with specific reference to its Terms of Reference.

The Committee will review its Terms of Reference each year and will provide the document to the Board for consideration and approval at the November Board meeting.

The Committee will develop an Annual Work Plan for the subsequent year and provide this plan to the Board for consideration and approval by the Board at the November meeting.

### Committee Membership

The Committee comprises:

- at least three (3) Board Members who have appropriate skills to fulfil their role;
- the Chief Executive Officer; and
- the Chief Financial Officer.

In order to maintain independence of the Committee when considering financial statements, the Executive Members of the Committee will be excluded from voting on those particular resolutions.

The Chairperson of the Committee will be a Board member other than the Chairperson of the Board and will be appointed by the full Board. The Committee has the discretion to appoint a Deputy Chairperson. If a Deputy Chairperson is appointed, they will be a non-executive director other than the Chairperson of the Board and will be appointed by the full Board.

Committee members will be appointed for a one-year term, commencing from the Board Meeting immediately subsequent to the Annual General Meeting.

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The Executive Officer is to be in attendance as the administrative support for the Committee.

The Board will strive to ensure that at least one committee member has a strong financial, accounting, and/or business background, and has sound knowledge of auditing. Other members are to be selected on their qualifications or experience in disciplines related to the operations of Activ.

### Meetings

The Committee shall meet at least quarterly.

Additional unscheduled meetings may be called where matters arise that require further deliberation and/or urgent consideration.

Deliberations and decisions are formally documented and resulting minutes circulated to Board, GM Strategy, Audit & Assurance Manager and external auditors in due course.

Meetings will have an agenda, and supporting papers. Any Committee member, invited observer, Audit & Assurance Manager or external auditor can propose agenda items for approval by the Chairperson.

Minutes of the meeting are to be circulated to all members electronically within seven (7) days after the meeting. Members will be given the chance to review the same and seek any amendment/clarification necessary within seven (7) days of receipt. Once all members have approved the minutes, the Chairman shall be authorised to approve the minutes, and will sign the same or cause his/her electronic signature to be attached. All minutes are to be finalised within 21 days of the meeting, with the intention that they are then included in the next meeting for noting purposes only and provided to the Board in finalised format at the first meeting following each Committee meeting.

### Quorum

The quorum for meetings of the Committee shall be three members with the exception of when the Committee is considering financial statements in which case quorum shall be two non-executive directors.

Where a quorum is not present within 15 minutes after the time appointed, the meeting must stand adjourned to the same day, time and place for the following week. If at the adjourned meeting a quorum is not present in 10 minutes after the time appointed, those present will be deemed a quorum.

### Observers, Persons Present by Invitation

The Committee may grant standing observer status to any officer of Activ or to any external third parties to attend such portion, or such number of meetings, as the Committee may deem desirable and appropriate.

The Committee may also invite officers of Activ to attend and participate in the discussion of particular items on the agenda of a meeting.

## Independence

It is important for Committee members to be both independent and be seen to be independent.

The terms of the Activ Board Charter, Director Independence Policy and Board Member's Conflict of Interest Policy therefore apply to the Committee on the same basis as to the Board.

## Authority and Right to Information

The Committee may seek any information it requires from Activ's staff through the Chief Executive Officer or Management as required.

All staff members are obliged to cooperate with the Committee's reasonable requests.

The Committee may also seek Board approval to retain outside counsel, accountants or others to advise the Committee or to assist in the conduct of any investigation it considers appropriate.

The Committee is a standing committee of the Board. Any action taken based on advice from the Committee is at the absolute discretion of the Board.

## Dissolution


The Committee is established by the Board pursuant to the Activ Board Charter and can be dissolved at the absolute discretion of the Board.

## Related Policies and Documents

Activ Board Charter (AQuA 2022)  
Evaluation of Committees Procedure (AQuA 874)  
Audit and Assurance Charter (AQuA: 295)  
Risk, Control, Audit & Assurance (RCAA) Management Policy (AQuA: 304)  
RCAA Framework Manual (AQuA: 431)  
Compliance Policy (AQuA: 2085)  
Compliance Framework (AQuA: 2084)  
Annual Work Plan  
Director Independence Policy (AQuA: 2272)

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## Appendix 1 – Risk assessment matrices

 <b>A Guide to Risk Assessment</b>		
Step 1: Determine Risk Likelihood		
LIKELIHOOD	Detail	Occurrence
Almost Certain	Expected to occur in most instances	Often per year
Likely	Will probably occur in some instances	Once per 1yr to 5 yrs
Unlikely	Only occurs exceptionally	Once per 5 to 25 years

Step 2: Determine Risk Consequence							
	Reputation & Brand	People & Safety	Organisation Objectives	Compliance Breach	Service Disruption	Financial Impact	Environmental Impact
<b>Major</b>	Substantiated high impact incident & high news profile	Major performance or IR issue impacts most Staff; or fatality /disability	Immediate business uncertainty	Major breach & review by Authority or Funding Body	Loss of service for > 1 week	Greater than \$500k p.a	<ul style="list-style-type: none"> <li>• Long term environmental damage eg pollution.</li> <li>• Environmental impact is both on &amp; off-site.</li> <li>• Numerous complaints.</li> <li>• Fines &amp; Prosecution.</li> </ul>
<b>Moderate</b>	Substantiated moderate impact incident & moderate news profile	Moderate performance or IR issue impacts majority BU or LTI > 1 day	Business uncertainty within 12 to 36 months	Breach notifiable to Regulator or Funding Body	Loss of service for > 1 day & < 1 week	Between \$100k and \$500k p.a.	<ul style="list-style-type: none"> <li>• Medium term environmental damage.</li> <li>• Environmental impact is both on &amp; off-site.</li> <li>• Some complaints.</li> <li>• Fines only - no prosecution.</li> </ul>
<b>Minor</b>	Unsubstantiated negligible impact incident & minimal reporting	Minor performance or IR issue impacts some BU Staff or superficial injury	Business uncertainty beyond 36 months	Minor matter not notifiable	Loss of service for < 1 day	Less than \$100k p.a.	<ul style="list-style-type: none"> <li>• Short term or no environmental damage.</li> <li>• Environmental impact is onsite.</li> <li>• No Complaints.</li> <li>• No Fines, No Prosecution.</li> </ul>

Step 3: Determine Inherent Risk			
CONSEQUENCE	Likelihood		
	Unlikely	Likely	Almost Certain
Major	Medium	High	High
Moderate	Low	Medium	High
Minor	Low	Low	Medium

Step 4: Determine Residual Risk			
INHERENT RISK	Control Assessment		
	Satisfactory	Needs Improvement	Weak
High	Medium	High	High
Medium	Low	Medium	Medium
Low	Low	Low	Low