



Audit, Risk and Improvement Committee Meeting

**Tuesday 31 March 2020
5.30pm
Council Chambers
209 Comur Street, Yass**

AUDIT, RISK AND IMPROVEMENT COMMITTEE

NOTICE OF MEETING

A meeting of the Audit, Risk and Improvement Committee will be held via video conferencing (Zoom Rooms), on Tuesday 31 March 2020, commencing at **5.30pm**

AGENDA

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1. Introduction	
1.1 Formal Opening and Welcome	
1.2 Acknowledgement of Country	
1.3 Apologies	
1.4 Declarations of Interest	
2. Committee Matters	
2.1 Confirmation of Minutes	
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Close of Meeting Time

Andrew Hannan

CHAIR



Minutes of the Audit, Risk and Improvement Committee Meeting

Tuesday 8 October 2019

5.30pm

Council Chambers

209 Comur Street, Yass

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Present

Andrew Hannan – Chair, Natasha Bourke, Mitchell Fleming, Cr Rowena Abbey and Councillors Rowena Abbey and Allison Harker

Also present were the Acting General Manager – Chris Berry, Director of Finance and Corporate Services – Mark Eady, Financial Accountant - Sarah Donnelly, Corporate Planning & Executive Support Officer – Shirree Garland

NSW Audit Office - Dominika Ryan, Deloitte - Dana Utesheva and Sanket Raje via conference call

1. Welcome

2. Apologies

Apologies were received from Bruce Papps.

3. Declaration of Conflict of Interest

Nil

4. Confirmation of Minutes

RESOLVED that the minutes of the Audit, Risk and Improvement Committee Meeting held on 03 September 2019, copies of which had been circulated to all members, be taken as read and confirmed.

(Harker/Fleming)

5. Business Arising

The meeting was advised that the Internal Auditor has been filled, the successful applicant will commence at the beginning of November.

6. Director of Finance & Corporate Reports

6.1 DRAFT ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2019

• **SUMMARY**

Presenting draft annual financial statements for review.

RESOLVED that the Committee notes the draft annual financial statements for the year ended 30 June 2019.

(Bourke/Fleming)

7. General Manager Reports

Nil

8. Confidential Matters

Nil

9. Next Meeting

Date of next meeting to be advised.

The meeting closed at 6.49 p.m.

3. EXTERNAL AUDIT

SUMMARY

The Audit Office of NSW has completed the Financial Statement Audit for the financial year ended 30 June 2019 and has issued a Final Management Letter to Council for consideration of the Audit, Risk and Improvement Committee.

RECOMMENDATION

That the:

1. The Committee receives and notes the Final Management Letter issued by the NSW Audit Office on the Financial Statement audit completed for the financial year ended 30 June 2019.
2. The Committee endorses management responses addressing the audit matters identified in the Final Management Letter issued by the NSW Audit Office.

FINANCIAL IMPLICATIONS

Nil

POLICY & LEGISLATION

Nil

REPORT

1. Background






The Audit Office has issued the Final Management Letter (**Attachment A**) to Council for the audit conducted by Deloitte Touche Tohmatsu on behalf of the Audit Office for the financial year ended 30 June 2019.

2. Final Management Letter

The Final Management Letter identifies 5 (five) new audit matters observed during the audit of the 2018/2019 Financial Statements.

The matters identified are assessed by the Audit Office as low to moderate risk to Council. Management response has been provided for all new matters identified within the attached Final Management Letter.








Please refer below for the summary of audit matters observed during the audit of the 2018/2019 Financial Statements.

Issue	Detail	Likelihood	Consequence	Risk assessment
1	Fixed assets reconciliation	Possible	Medium	 Moderate
2	Asset useful life discrepancy	Likely	Low	 Low
3	Unrecognised Crown land assets	Likely	Low	 Low
4	Valuation of investment properties	Possible	Low	 Low
5	Credit card expenses after termination	Possible	Low	 Low

The Final Management Letter also considers the status of matters raised in previous audits and notes that:

- Six (6) matters have been resolved
- One (1) matter is being addressed and will be resolved by December 2020.

Please refer to below table for the status of audit matters identified in prior audits.

Prior issues raised	Risk assessment	Assessment of action taken	Recommendation
2018–19 Interim Management Letter			
Inadequate review of changes to supplier master file	 Moderate	Matter is being addressed. Finance team has determined that it would be more appropriate for the staff member in CFO role to perform this review. As such, the control procedure will be implemented upon the assignment of the new CFO.	Matter is expected to be addressed by December 2020.
Absence of the review of land valuation reconciliation	 Moderate	Matter has been addressed. Review of land valuation reconciliation process was reinstated.	Nil as matter addressed.
Absence of the gifts and benefits declarations register	 Moderate	Matter has been addressed. Electronic register of gifts and benefits declarations is now being maintained by the internal audit.	Nil as matter addressed.
2017–18 Interim and Final Management Letters			
Infrastructure, property, plant and equipment documentation	 Moderate	Matter has been addressed. The source documents and fixed assets register were provided on time.	Nil as matter addressed.
Bank signatories	 Low	Matter has been addressed. Terminated employees' bank signatories have been removed.	Nil as matter addressed.
New accounting standards not yet effective	 Moderate	Matter has been addressed. The Council has prepared accounting position papers supporting qualitative and quantitative disclosures of the impact of AASBs 15, 1058, 16 and 9.	Nil as matter addressed.
Limited oversight over IT staff with super user access	 Low	Matter has been addressed. The regular review of privileged access audit logs is now performed by Mark Eady, Director.	Nil as matter addressed.

ATTACHMENTS: A. Final Management Letter [↓](#)



Ms Rowena Abbey
Mayor
Yass Valley Council
209 Comur Street
YASS NSW 2582

Contact: Dominika Ryan
Phone no: 02 9275 7336
Our ref: D1925039/1813

23 March 2020

Dear Mayor

**Management Letter on the Final Phase of the Audit
for the Year Ended 30 June 2019**

The final phase of our audit for the year ended 30 June 2019 is complete. This letter outlines six new matters of governance interest I identified during the current audit. We also considered the status of matters raised in the previous audits and have noted:

- six matters have been resolved
- one matter is being addressed and will be resolved by December 2020.

I planned and carried out my audit to obtain reasonable assurance the financial statements are free from material misstatement. Because my audit is not designed to identify all matters that may be of governance interest to you, there may be other matters that did not come to my attention.

For each matter in this letter, I have included my observations, risk assessment and recommendations based on my understanding of your business. Management should make its own assessment of the risks to the Council.

I have kept management informed of the issues included in this letter as they have arisen. A formal draft of this letter was provided on 6 January 2020. This letter includes management's formal responses, the person responsible for addressing the matter and the date by which this should be actioned.

As soon as practicable, I recommend you nominate an individual or establish a committee to monitor and report on progress.

The Auditor-General may include items listed in this letter in the Report to Parliament.

If you would like to discuss any of the matters raised in this letter, please contact me on 0428 904 890 or Stewart Thompson, Deloitte Western Sydney on 02 9480 6660.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'D Ryan'.

Dominika Ryan
Director, Financial Audit Services

cc: Mr Chris Berry, General Manager
Mr Andrew Hannan, Chair of Audit, Risk and Improvement Committee



Final management letter

for the year ended 30 June 2019

Yass Valley Council



FINANCIAL AUDIT

INSIGHTS FOR BETTER GOVERNMENT





We have rated the risk of each issue as 'Extreme', 'High', 'Moderate' or 'Low' based on the likelihood of the risk occurring and the consequences if the risk does occur.

The risk assessment matrix used is consistent with the risk management framework in [TPP12-03](#) 'Risk Management Toolkit for the NSW Public Sector'.

This framework may be used as better practice for councils.

		CONSEQUENCE			
		Low	Medium	High	Very high
LIKELIHOOD	Almost certain	M	M	H	E
	Likely	L	M	H	H
	Possible	L	M	M	H
	Rare	L	L	M	M

The risk level is a combination of the consequences and likelihood. The position within the matrix corresponds to the risk levels below.

RISK LEVELS		MATRIX REFERENCE
	Extreme:	E
	High:	H
	Moderate:	M
	Low:	L

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For each issue identified, I have used the consequence and likelihood tables from TPP12-03 to guide our assessment.

Consequence levels and descriptors

Consequence level	Consequence level description
Very high	<ul style="list-style-type: none"> Affects the ability of your entire entity to achieve its objectives and may require third party intervention; Arises from a fundamental systemic failure of governance practices and/or internal controls across the entity; or May result in an inability for the auditor to issue an audit opinion or issue an unqualified audit opinion.
High	<ul style="list-style-type: none"> Affects the ability of your entire entity to achieve its objectives and requires significant coordinated management effort at the executive level; Arises from a widespread failure of governance practices and/or internal controls affecting most parts of the entity; or May result in an inability for the auditor to issue an unqualified audit opinion.
Medium	<ul style="list-style-type: none"> Affects the ability of a single business unit in your entity to achieve its objectives but requires management effort from areas outside the business unit; or Arises from ineffective governance practices and/or internal controls affecting several parts of the entity.
Low	<ul style="list-style-type: none"> Affects the ability of a single business unit in your entity to achieve its objectives and can be managed within normal management practices Arises from isolated ineffective governance practices and/or internal controls affecting a small part of the entity.

Likelihood levels and descriptors

Likelihood level	Frequency	Probability
Almost certain	The event is expected to occur in most circumstances, and frequently during the year	More than 99 per cent
Likely	The event will probably occur once during the year	More than 20 per cent and up to 99 per cent
Possible	The event might occur at some time in the next five years	More than 1 per cent and up to 20 per cent
Rare	The event could occur in exceptional circumstances	Less than 1 per cent

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Summary of issues

Issue	Detail	Likelihood	Consequence	Risk assessment
1	<u>Fixed assets reconciliation</u>	Possible	Medium	Moderate
2	<u>Asset useful life discrepancy</u>	Likely	Low	Low
3	<u>Unrecognised Crown land assets</u>	Likely	Low	Low
4	<u>Valuation of investment properties</u>	Possible	Low	Low
5	<u>Credit card expenses after termination</u>	Possible	Low	Low

Appendix

Review of Matters Raised in Prior Years

Issue 1: Fixed assets reconciliation

Likelihood	Consequence	Systemic issue	Category	Risk assessment
Possible	Medium	No	Operational	 Moderate

Observation

The Council currently performs the reconciliation of asset balances between the fixed assets module and general ledger once per annum, at 30 June.

Council advised the reconciliation was not finalised prior to the commencement of the audit due to the resignation of responsible staff and the transition to the Magiq system.

This observation has not resulted in any misstatements and the reconciliation performed by the Council for 30 June 2019 was provided to the audit team on request during the final audit.

Implications

The accuracy and completeness of fixed assets data may be compromised. Issues such as unrecorded asset additions, disposals, transfers and other movements may not be detected and resolved in a timely manner resulting to misstatements in the financial statements particularly infrastructure, property, plant and equipment.

Recommendation

We recommend management perform the reconciliation of the fixed assets register and the fixed assets module to the general ledger more frequently and consider the feasibility of performing the reconciliation monthly.

Management response

Agree

Reconciliation of FAR and the fixed assets module to the general ledger is undertaken on an annual basis during the preparation of the annual financial statements. This process was still underway at the commencement of audit as a result of key staff departures and was completed during the audit process. When appointed, Council's CFO will take the lead in a review of fixed assets and related control activities with a view to quarterly reconciliation of fixed assets in line with existing Council reporting.

Person responsible:	Date (to be) actioned:
Sarah Donnelly, Acting CFO	June 2020

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Issue 2: Asset useful life discrepancy

Likelihood	Consequence	Systemic issue	Category	Risk assessment
Likely	Low	No	Operational	Low

Observation

Our review of fixed asset registers (FARs) found that there is a discrepancy between the useful life detailed in them and the useful life disclosed in the asset accounting policy. The FARs that contain these discrepancies are following:

- vehicles FAR - contains useful life figures ranging between three to four years, whereas in the asset accounting policy the useful life ranges between five to eight years
- unsealed roads FAR - contains useful life figures ranging between 75 to 80 years, whereas in the asset accounting policy the useful life is 20 years.

Discrepancies in useful lives noted above did not result in material misstatements, and all those misstatements were corrected by the Council.

Implications

Incorrect useful lives may be applied to assets which could result in material misstatements in depreciation expenses.

Although current year audit did not identify any material misstatement, inaccurate application of useful lives might cause material errors in subsequent periods due to incorrect useful lives applied to material asset additions or disposals.

Recommendation

We recommend management review and update the asset policy to reflect operational reality of the Council. Council should strengthen controls over periodic review of useful lives in the system to ensure consistency with the accounting policy.

Management response

Agree

Asset useful lives are reviewed and updated in the fixed asset register regularly at times of revaluation, whether desktop or external. Updating of the wording in the annual financial statements to reflect these changes in the fixed asset register was undertaken during audit and will be reviewed annually.

Person responsible:	Date (to be) actioned:
Sarah Donnelly, Acting CFO	Actioned

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Issue 3: Unrecognised Crown land assets

Likelihood	Consequence	Systemic issue	Category	Risk assessment
Likely	Low	No	Operational	Low

Observation

We have reviewed the Crown land listing obtained from the Department of Planning, Industry and Environment's (the Department) Crown Land Information Database (CLID) as at 1 July 2019. Our review identified four land plots with the total area size of 56,082.13 square meters and value of \$543,997 that were not recognized by the Council. Consistent with previous years, Council only recognized the Crown asset acquisition and movements based on information received from auditors.

Our review also found four instances where an area of Crown land recognized in Council's fixed assets register has changed from prior year. On overall basis, land area size has increased by 2,395.76 square meters and the value has increased by \$232,389. However, such change has not been appropriately reflected in the fixed assets registers.

Discrepancies noted above did not result in material misstatements of infrastructure, property, plant and equipment balance.

Implications

Unrecognised Crown land and discrepancies in areas may result in understatement of assets recorded in Council's financial statements.

Recommendation

We recommend management:

- perform periodic review of Crown land listing from the Department's CLID
- liaise with the Department to confirm if unrecognised assets identified during the review should be recorded in the Council's financial statements
- ensure land area of all Crown land currently recognized by the Council corresponds to data in Crown land listing.

Management response

Agree

A review of crown land asset recognition will be undertaken as part of a wider review of the management of the fixed asset register with an emphasis on establishing a process for the ensuring the receipt of data from the Crown Land Information Database.

Person responsible:	Date (to be) actioned:
Sarah Donnelly, Financial Accountant	June 2020

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Issue 4: Valuation of investment properties

Likelihood	Consequence	Systemic issue	Category	Risk assessment
Possible	Low	No	Operational	Low

Observation

Our review of the valuation of investment properties noted that the last comprehensive revaluation of investment properties took place at 30 June 2017. No subsequent valuation exercise was undertaken by the Council. The Council's accounting policy specifies that fair value model is followed in subsequent measurement of investment property. Under the fair value model, investment property should be revalued every year due to the specific nature of property (i.e. assets held for purposes of earning rentals rather than being used within the normal course of operations).

We note that the potential increment or decrement in fair value of the investment properties held by the Council is unlikely to be material considering the carrying amount at 30 June 2019 is only \$3,900,000.

Implications

Insufficient frequency of investment property revaluation may lead to carrying value not reflecting fair value of those assets.

Although the observation is unlikely to result in a material error, the expectation is that the annual revaluation of investment properties will ensure compliance with the Council's accounting policy and with the OLG Code.

Recommendation

We recommend management perform an annual review of the fair value of investment properties to verify that the carrying amount is not materially different from fair value.

Management response

Agree


An annual external revaluation of Council's investment property will be undertaken from 2019–20.

Person responsible:	Date (to be) actioned:
Sarah Donnelly, Acting CFO	Process commenced for 2019–20

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Issue 5: Credit card expenses after termination

Likelihood	Consequence	Systemic issue	Category	Risk assessment
Possible	Low	No	Operational	 Low

Observation

During our testing of credit card expenses, we have noted two instances where credit card accounts were kept open after termination of staff members. Management advised that the credit card accounts were kept open until new cards were organised for replacement staff because ongoing recurrent charges required by the Visitor Information Centre were set up to be paid from those cards.

Furthermore, we've noted one instance where a terminated worker's credit card expense totalling \$195.70 related to an online subscription payment has remained unapproved for more than three months.

Implications

There is a heightened risk that unauthorised use of credit cards may go undetected.

Delay in processing of expenses of terminated staff might be indicative of insufficient control procedures over the credit cards expense approvals. This increases the risk of unauthorized transactions.

Recommendation

We recommend management enhance controls over the review of active credit card expenses on terminated employees' accounts to mitigate the risk of unauthorised use of credit card accounts.

The Council should aim to reduce the processing time between employee termination and credit card deactivation.

Management response

Agree

Council has existing controls in place to limit this circumstance to minimal instances where an essential business need has been identified. This process will be further tightened to require all such instances be authorised by the CFO for one month and if required, by the relevant Director for an additional one month (maximum 2 months).








Person responsible:	Date (to be) actioned:
Sarah Donnelly, Acting CFO	June 2020

Appendix

Review of matters raised in prior year management letters

The issues in this appendix were raised in previous management letters. For each of these issues, I have determined:

- how management has addressed the issue in the current year
- what management still needs to do to address unresolved issues.

Prior issues raised	Risk assessment	Assessment of action taken	Recommendation
2018–19 Interim Management Letter			
Inadequate review of changes to supplier master file	 Moderate	Matter is being addressed. Finance team has determined that it would be more appropriate for the staff member in CFO role to perform this review. As such, the control procedure will be implemented upon the assignment of the new CFO.	Matter is expected to be addressed by December 2020.
Absence of the review of land valuation reconciliation	 Moderate	Matter has been addressed. Review of land valuation reconciliation process was reinstated.	Nil as matter addressed.
Absence of the gifts and benefits declarations register	 Moderate	Matter has been addressed. Electronic register of gifts and benefits declarations is now being maintained by the internal audit.	Nil as matter addressed.
2017–18 Interim and Final Management Letters			
Infrastructure, property, plant and equipment documentation	 Moderate	Matter has been addressed. The source documents and fixed assets register were provided on time.	Nil as matter addressed.
Bank signatories	 Low	Matter has been addressed. Terminated employees' bank signatories have been removed.	Nil as matter addressed.
New accounting standards not yet effective	 Moderate	Matter has been addressed. The Council has prepared accounting position papers supporting qualitative and quantitative disclosures of the impact of AASBs 15, 1058, 16 and 9.	Nil as matter addressed.
Limited oversight over IT staff with super user access	 Low	Matter has been addressed. The regular review of privileged access audit logs is now performed by Mark Eady, Director.	Nil as matter addressed.

4. GENERAL MANAGER'S REPORT

SUMMARY

This report serves to inform the Audit, Risk and Improvement Committee of key ongoing Council matters for the quarter ending 31 March 2020.

RECOMMENDATION

The Committee receives and notes the verbal update from the General Manager.

FINANCIAL IMPLICATIONS

Nil

POLICY & LEGISLATION

Local Government Act 1993

REPORT

General Manager is to provide a verbal report to the Committee on the following Council matters:

1. Council pandemic response
2. Organisational re-alignment

Please refer to the updated organisational chart at **Attachment A**.

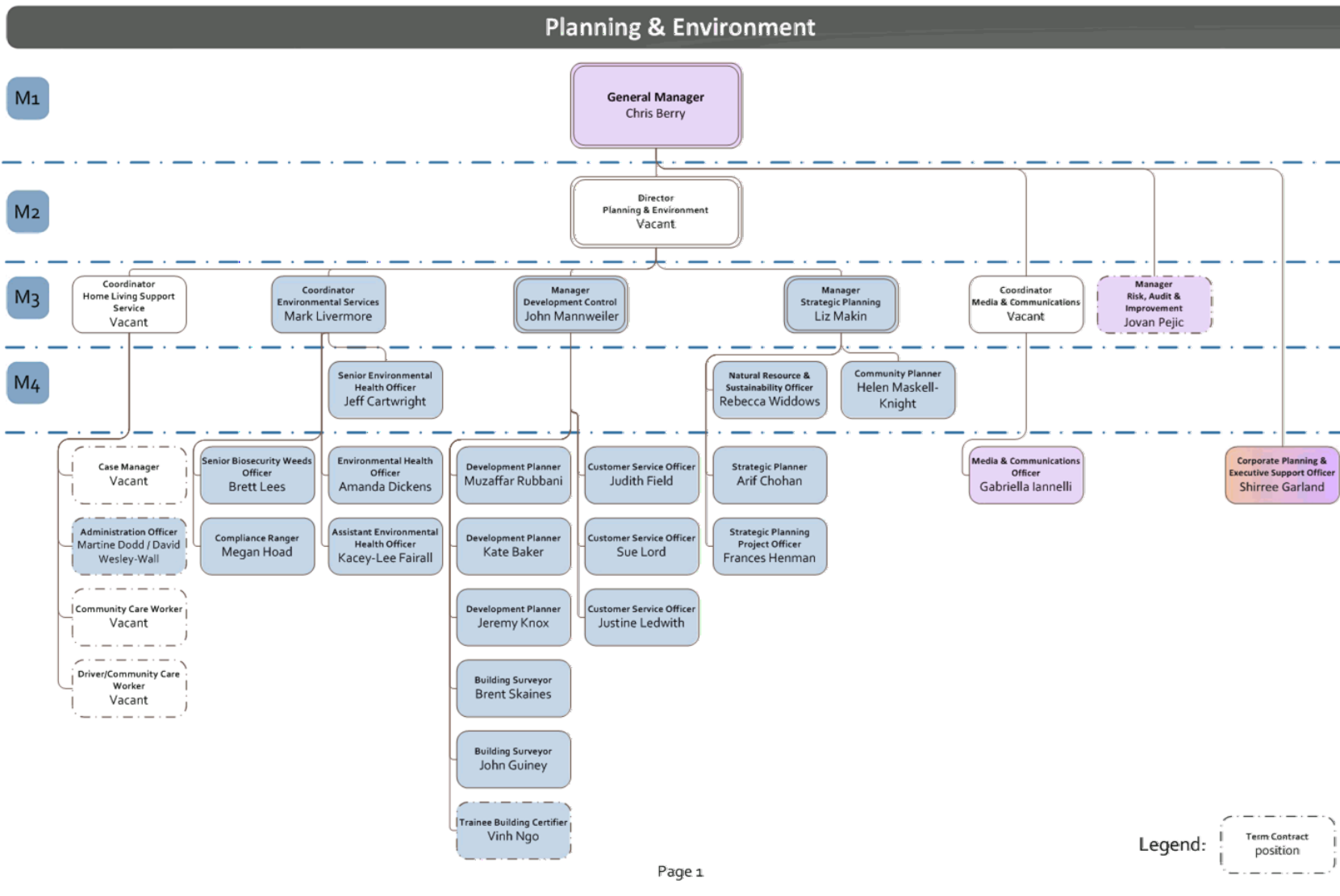
3. Winding up of Home Living Support Services

ATTACHMENTS: A. YVC Organisational Chart [↓](#)

4. General Manager's Report
Attachment A YVC Organisational Chart

Yass Valley Council

March 3, 2020

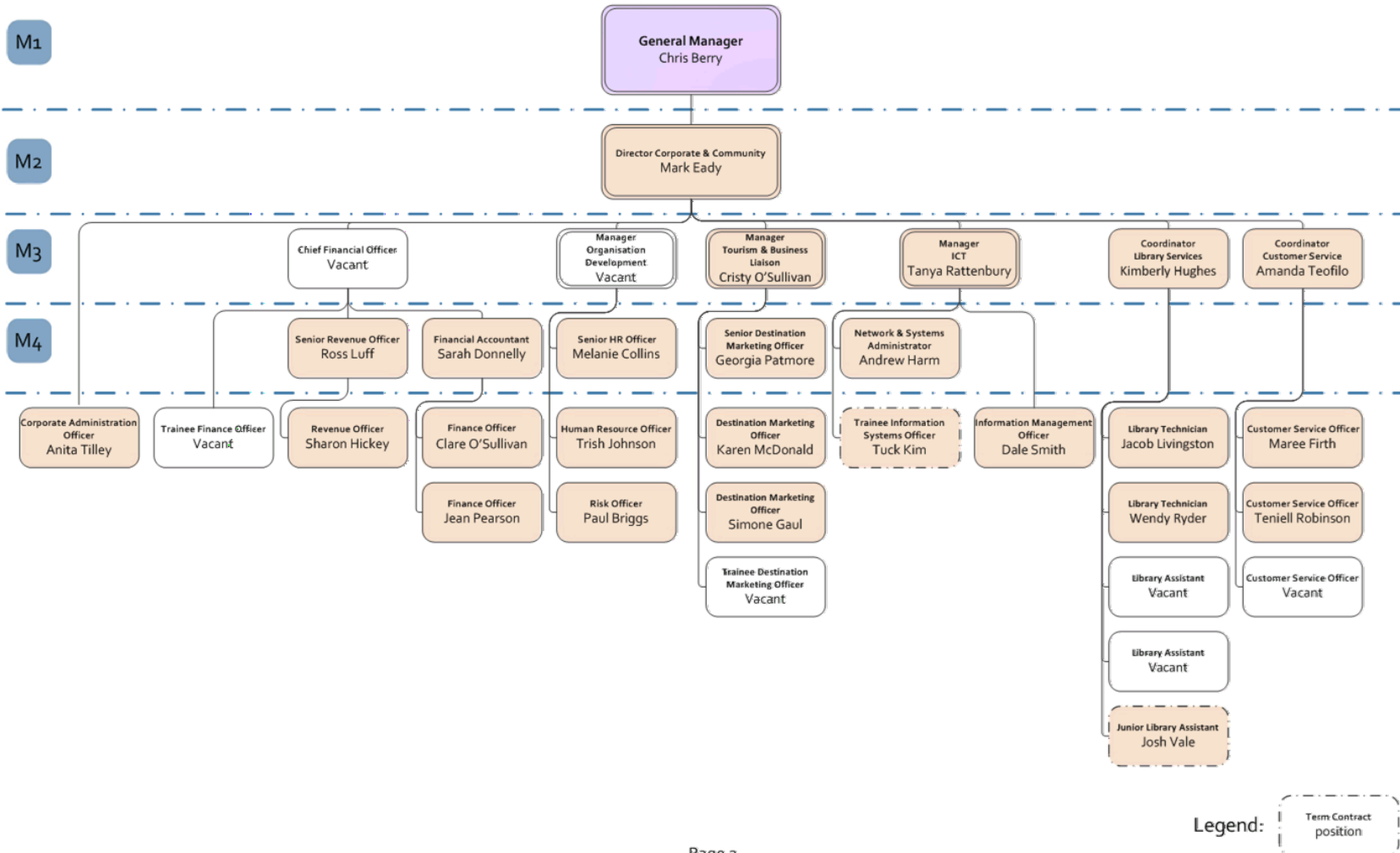


4. General Manager's Report
Attachment A YVC Organisational Chart

Yass Valley Council

March 3, 2020

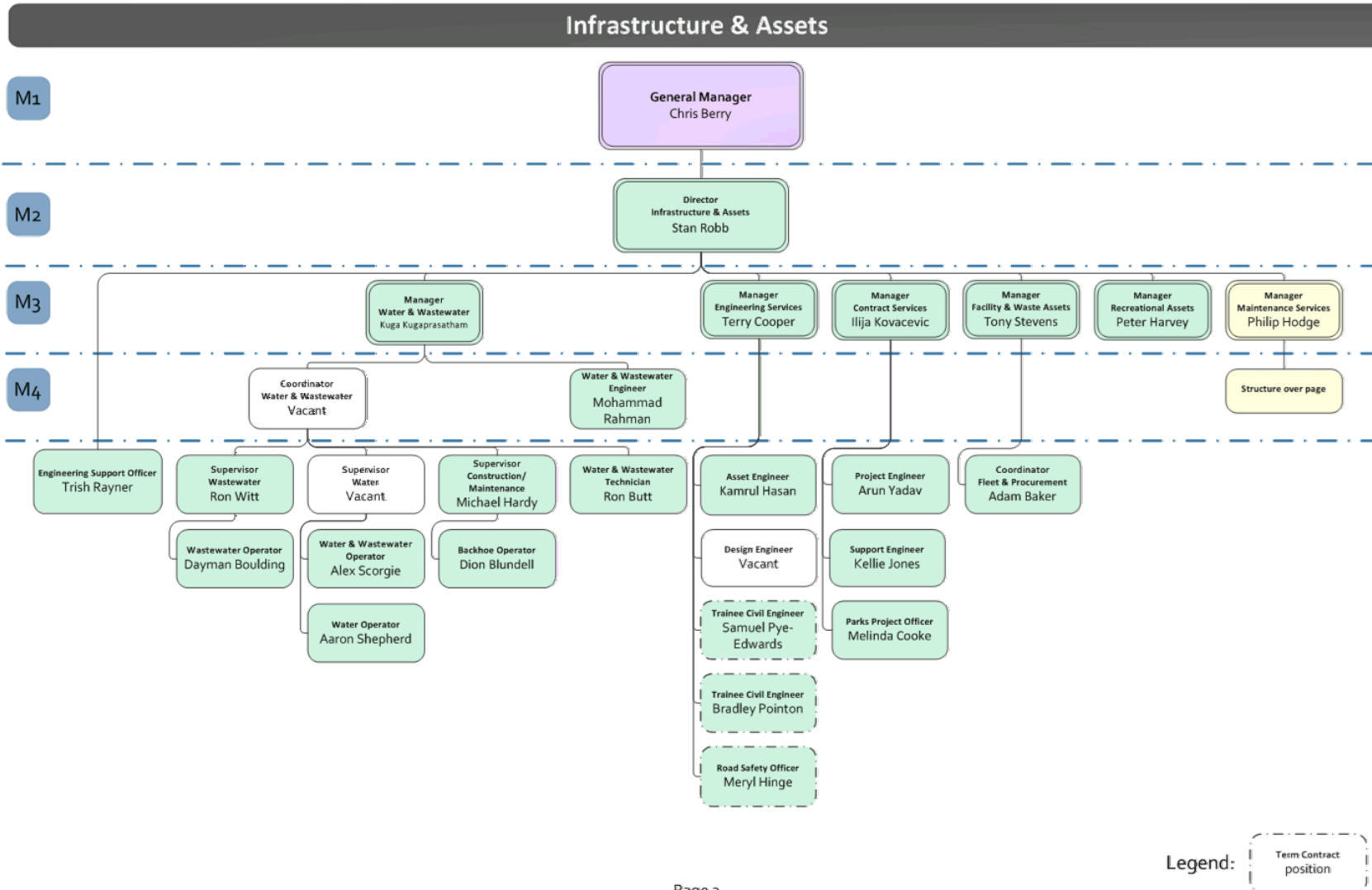
Corporate & Community



4. General Manager's Report
Attachment A YVC Organisational Chart

Yass Valley Council

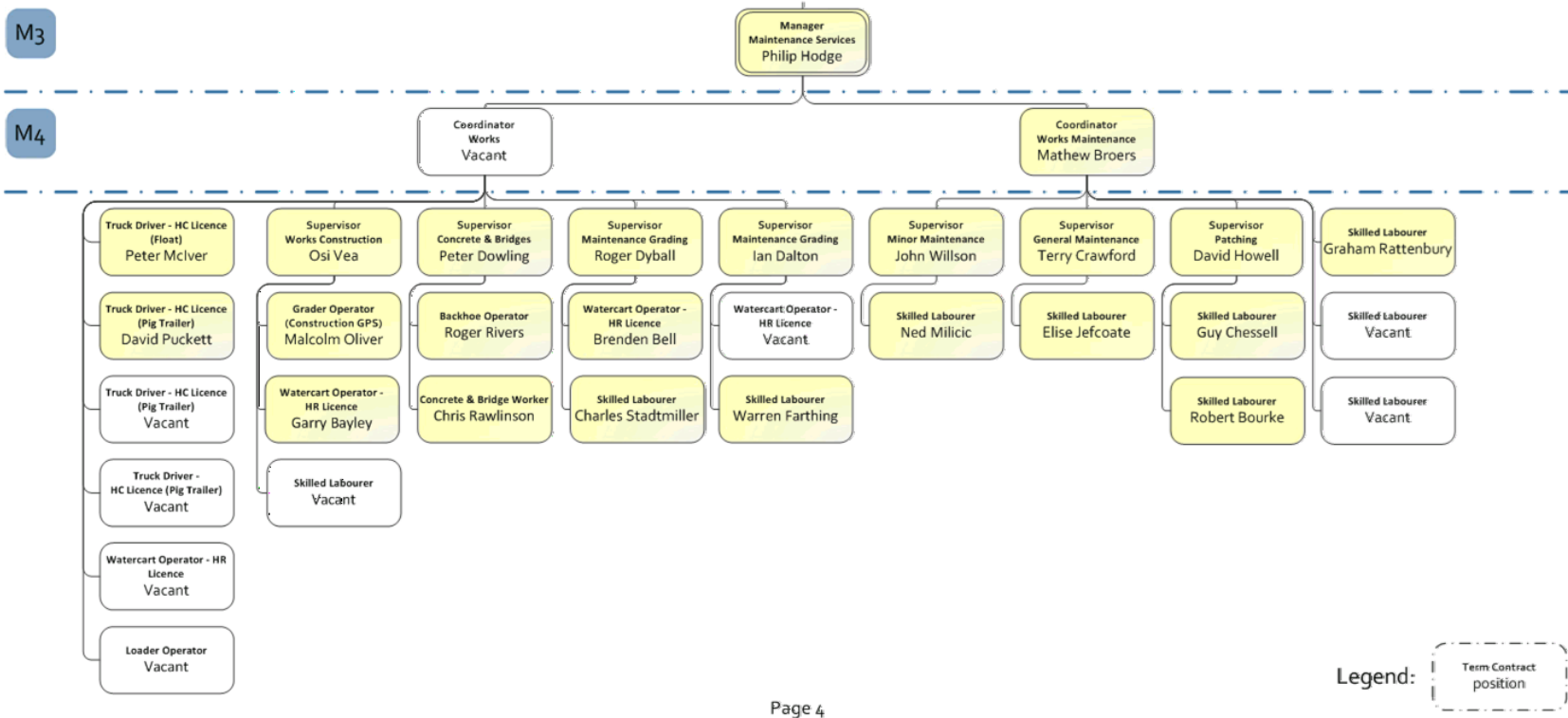
March 3, 2020



Yass Valley Council

March 3, 2020

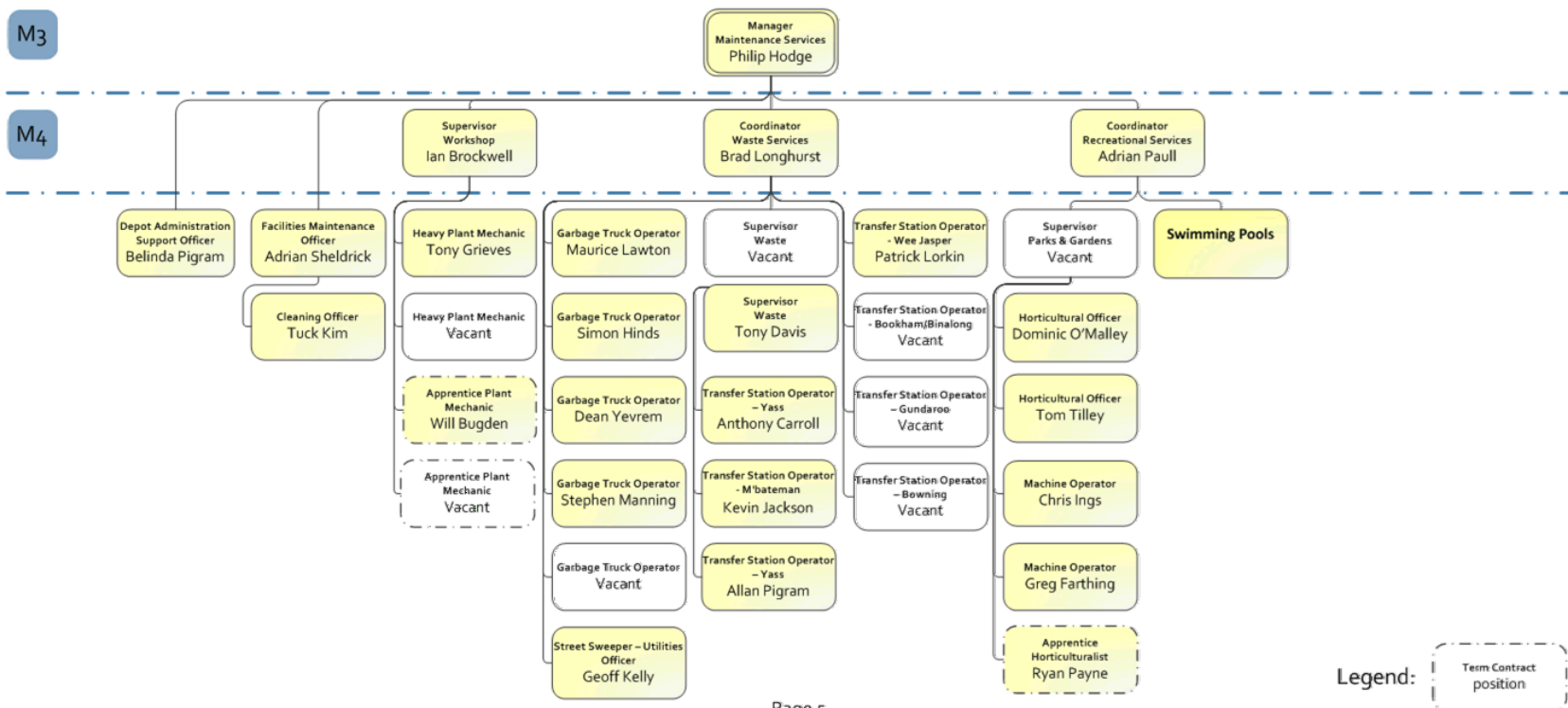
Maintenance Services Section



4. General Manager's Report
Attachment A YVC Organisational Chart

Yass Valley Council

March 3, 2020

Maintenance Services Section (continued)

5. RISK MANAGEMENT

SUMMARY

This report serves to inform the Audit, Risk and Improvement Committee of Risk Management activities and developments for the quarter ending 31 March 2020. This includes:

- General risk management update
- Business Unit Risk Register presentations
- New Position Description: Coordinator Risk Management

RECOMMENDATION

That the:

1. *Committee receives and notes the Risk Management Update.*
2. *Committee receives and notes the “Critical Risks” and “High Risks” identified for the Finance and E&H Business Units.*
3. *The Committee endorses the proposed Coordinator Risk Management position.*

FINANCIAL IMPLICATIONS

Nil

POLICY & LEGISLATION

- Local Government Act 1993
- Risk Management Framework

REPORT

1. Risk management update

On 3 September 2019 the Committee was presented with a first-pass revision of the Enterprise Risk Register as part of a revision process of Council’s risk management framework. It was noted then that:

- Risk ownership by the organisation’s operational management has yet to be fully achieved
- There is a need for further engagement and transfer of ownership to operational management of Council
- Risk Management harmonisation needs to be achieved with partnering councils.

For the quarter ended March 2020, Manager of Audit, Risk and Improvement has sought to address the challenges identified above by undertaking the following risk management activities:

- Identified key activities to be completed as part of the Risk Management Framework revision process
- Simultaneously engaged in a Risk Management Framework review across the partner councils of Goulburn Mulwaree and Upper Lachlan Shire to create efficiencies through common risk themes, shared knowledge and risk management tools
- Engaged the Council’s operational management through one-on-one consultation sessions and assisted the business units in drafting the Business Unit centric Risk Registers for the following Business Units:

1. Finance
2. Environment and Health
3. Development Control
4. Strategic Planning
5. Media and Communications
6. Organisational development
7. Tourism and business
8. ICT
9. Library Services
10. Customer Services
11. Water and Wastewater
12. Engineering Services
13. Contract services
14. Facility & Waste Assets
15. Recreational assets
16. Maintenance Services

- Facilitated Risk Rating group sessions with the following Business Units:
 1. Finance
 2. Environment and Health
- In progress of embedding risk management into all aspects of the Council, including decision making processes by setting expectations with operational management and requiring risk tracking on all identified “**Critical Risks**” and “**High Risks**” at the business unit level at Executive Management Team meetings and ARIC meetings.

2. Business Unit Risk Register presentation

Second pass Risk Registers have been completed for the Finance and Environment and Health business units.

“**Critical Risks**” and “**High Risks**” identified are presented by the risk owners for Committee review, discussion and status tracking. Please refer to the following attachments:

- BU Risk Register – Finance (**Attachment A**)
- BU Risk Register – Environment and Health (**Attachment B**)

3. Coordinator Risk Management

The Director of Corporate and Community Services is seeking to provide support to the Executive Management Team in implementing the Councils Risk Management Framework with an addition of the ‘**Coordinator of Risk Management**’ position to the directorate.

A position description is attached for Committee review and discussion (**Attachment C**).

ATTACHMENTS:

- A. BU Risk Register - Finance [↓](#)
- B. BU Risk Register - Environment and Health [↓](#)
- C. Position Description - Coordinator Risk Management [↓](#)

5. Risk Management
Attachment A BU Risk Register - Finance

YASS VALLEY COUNCIL BUSINESS UNIT REGISTER - CRITICAL AND HIGH RISKS ONLY FINANCE										
Risk Number	Directorate	Available Unit	Risk Category	Risk Statement	Caused By	Results in	Impact	Likelihood	Risk Rating	Responsible Individual
R003	Corporate and Community Services	Finance	Internal Controls	Risk from weaknesses in valuation controls (e.g. valuation of road infrastructure is not performed, if the assets are not appropriately mapped in the GIS)	This may be caused by: 1. Asset Register is not integrated with the Asset Management System 2. Asset register values policy is not maintained or updated 3. Valuation of assets are not performed in a timely manner 4. Valuation methods used are not appropriate 5. Lack of proactive review of asset fair values by management 6. Lack of process level evaluations and monthly supplementary land valuations from the GIS Office	This may result in: 1. Material misstatements in P&BS and financial reports 2. Impairment of assets 3. Adverse audit findings 4. Loss of public confidence in Council 5. Poor information for management decision making	Major (5)	Unlikely (4)	Critical	Sarah Donnelly (Acting Chief Financial Officer) Mark Eady (Director of Corporate and Community Services)
R005	Corporate and Community Services	Finance	Internal Controls	Risk from weaknesses in cash receipts controls (waste management centre, pool, donations, collection by 1355 committees)	This may be caused by: 1. Lack of dates for fraudulent and/or corrupt behaviour i.e. CCTs 2. Errors in manual reconciliation of cash receipts and deposits 3. Cash receipts are not appropriate journal in the P&BS 4. Cash receipts do not match customer account balances 5. Lack of management review of cash receipts to cash applied reconciliations 6. Errors by security and leaving personnel	This may result in: 1. Dismissal of staff and/or disciplinary action 2. Misappropriation of council funds 3. Reputational damage to council and loss of public confidence 4. Disruption to K&C 5. Investigations by ICAC	Major (4)	Unlikely (4)	Critical	Sarah Donnelly (Acting Chief Financial Officer) Mark Eady (Director of Corporate and Community Services)
R007	Corporate and Community Services	Finance	Financial	Risk from weaknesses in accounts receivable controls including aged debtors and write offs	This may be caused by: 1. Debtors module is not fit for purpose 2. Aged debtor reports are not reviewed and actioned 3. Council services are provided to customers without appropriate vetting and authorisation 4. Poor debt recovery processes 5. Poor credit control processes (ie credit terms) 6. Lack of management review and approval over allowance reviews	This may result in: 1. Adverse impact on budgets 2. Adverse impacts on council cash flows 3. Increased administrative burden 4. Increased costs associated with debt recovery efforts	Major (4)	Possible (3)	High	Sarah Donnelly (Acting Chief Financial Officer) Mark Eady (Director of Corporate and Community Services)
R008	Corporate and Community Services	Finance	Internal Controls	Risk of over/under capitalization of Capital Projects	This may be caused by: 1. Lack of review of construction in progress for potential impairment 2. Payroll costs are not appropriately capitalised 3. Lack of system reviewed capital expenditure limits and approval procedures 4. Management manipulation of financial results	This may result in: 1. Non-compliance with the relevant financial reporting framework 2. Material misstatements in P&BS and financial reports 3. Impairment of assets 4. Instances of fraud and corruption 5. Adverse audit findings	Major (4)	Unlikely (4)	Critical	Sarah Donnelly (Acting Chief Financial Officer) Mark Eady (Director of Corporate and Community Services)
R009	Corporate and Community Services	Finance	Internal Controls	Risk from weaknesses in purchase and payable controls	This may be caused by: 1. Creditor module is not fit for purpose 2. Purchase orders do not record planned requisitions 3. PO's don't match vendor data 4. Lack of system reviewed spending limits and approvals 5. Manual processing of PO data in system 6. There is a mismatch for goods/services purchased and not undertaken 7. Duplicate invoices 8. Duplicate supplier recording in system 9. Lack of exception reporting on aged purchase orders 10. Purchase documentation is not appropriately maintained 11. Absence of trade accounts with billings and other suppliers	This may result in: 1. Erroneous payments and missed payments 2. Misled assets 3. Material misstatements in P&BS and financial reports 4. Adverse audit findings 5. Increase in complaints and disputes from public 6. Increased administrative burden	Major (4)	Possible (3)	High	Sarah Donnelly (Acting Chief Financial Officer) Mark Eady (Director of Corporate and Community Services)
R011	Corporate and Community Services	Finance	Internal Controls	Controls around the acquisition, depreciation, impairment and disposal of PPE are not designed, implemented and/or operating effectively	This may be caused by: 1. Unapproved acquisition of PPE 2. Depreciation method applied to PPE is not appropriate 3. Under/over estimation of useful life of PPE 4. Lack of management review and approval around disposal of PPE 5. Physical inspections of PPE and reconciliation to the Asset Register is not performed 6. PPE register is not maintained and updated 7. Accounting to the crown land	This may result in: 1. Financial losses 2. Material misstatements in P&BS and financial reports 3. Adverse audit findings 4. Impairment of assets	Major (4)	Unlikely (4)	Critical	Sarah Donnelly (Acting Chief Financial Officer) Mark Eady (Director of Corporate and Community Services)

5. Risk Management
Attachment A BU Risk Register - Finance

R004	Corporate and Community Services	Finance	Operational	Risk of failing to provide effective budgetary control services for Council.	<p>This may be caused by:</p> <ol style="list-style-type: none"> 1. Lack of financial management skills and budget management knowledge among the Leadership Group. 2. Inconsistent budgetary process between the Directorates. 3. Variations to budget are not identified and addressed/reported in a timely manner. 4. Quarterly budgets are not aligned with the long term financial plans of Council. 5. Material or high risk errors or omission resulting in budgeted outcome. 	<p>This may result in:</p> <ol style="list-style-type: none"> 1. Misreported and planned results are not achieved. 2. Increased administrative costs associated with the budgeting process. 3. Poor financial information for strategic decision making. 4. Mismanagement of public funds. 	Major (4)	Possible (3)	High	<p>Sarah Donnelly (Acting Chief Financial Officer)</p> <p>Mark Eady (Director of Corporate and Community Services)</p>
R005	Corporate and Community Services	Finance	Internal Controls	Risk from weaknesses in manual journal processing	<p>This may be caused by:</p> <ol style="list-style-type: none"> 1. Management override of controls in manual journal processing. 2. Lack of appropriate review of manual journals. 3. Lack of segregation of duties between preparer and approver. 4. Lack of appropriate and sufficient supporting documentation for manual journals. 	<p>This may result in:</p> <ol style="list-style-type: none"> 1. Material misstatements in FMS and financial reports. 2. Adverse audit findings. 3. Fraud resulting from management override of controls. 	Major (4)	Possible (3)	High	<p>Sarah Donnelly (Acting Chief Financial Officer)</p> <p>Mark Eady (Director of Corporate and Community Services)</p>
R008	Corporate and Community Services	Finance	Legal and Regulatory	Insufficient external audit process (Asset Management System is currently in transition)	<p>This may be caused by:</p> <ol style="list-style-type: none"> 1. Material omissions and errors in accounts. 2. Internal control weaknesses. 3. Extended leave of Finance staff. 4. Lack of supporting working papers for the annual audit process. 	<p>This may result in:</p> <ol style="list-style-type: none"> 1. A qualified opinion from external auditors. 2. Reputational damage. 3. Financial penalties. 4. Qualification of effort to achieve result. 5. Further inquiry. 	Major (4)	Unlikely (4)	Critical	<p>Sarah Donnelly (Acting Chief Financial Officer)</p> <p>Mark Eady (Director of Corporate and Community Services)</p>
R009	Corporate and Community Services	Finance	Information Technology	IMS (MapInfo) lacking key functionality to ensure adequate controls are enforced across critical financial management processes (i.e. GL, Project Accounting, Ratings).	<p>This may be caused by:</p> <ol style="list-style-type: none"> 1. Lack of native functionality in the FMS applications and modules configured for WGO local government requirements. 2. Lack of integration ability between IMS and key information systems of the Council (i.e. GIS, Research Management, Asset etc). 3. Systems up impacting effective application of training. 4. Lack of documented procedures on use and modification of FMS. 	<p>This may result in:</p> <ol style="list-style-type: none"> 1. Data integrity issues. 2. Excessive workarounds and process inefficiencies. 3. Multiple sources of truth. 4. Financial penalties. 5. Material misstatements in FMS and financial reports. 6. Adverse audit findings. 7. Increased compliance complexity. 8. Increased administrative burdens. 9. Loss of public confidence in Council. 	Severe (5)	Almost Certain (5)	Critical	<p>Sarah Donnelly (Acting Chief Financial Officer)</p> <p>Mark Eady (Director of Corporate and Community Services)</p>
R000	Corporate and Community Services	Finance	Human resources	Risk of overdependence on key staff	<p>This may be caused by:</p> <ol style="list-style-type: none"> 1. Lack of depth in key functional areas of the business unit including billing, accounts payable, accounts receivable, water, billing, management accounting, payroll etc. 2. High staff turnover or extended leave of absence. 3. Succession planning not undertaken. 	<p>This may result in:</p> <ol style="list-style-type: none"> 1. Poor business continuity capability. 2. High workload. 3. Low staff morale. 4. Poor service delivery outcomes. 5. Loss of public confidence in Council. 	Severe (5)	Unlikely (4)	Critical	<p>Sarah Donnelly (Acting Chief Financial Officer)</p> <p>Mark Eady (Director of Corporate and Community Services)</p>
R001	Corporate and Community Services	Finance	Operational	Risk of staff acting outside of their financial delegation	<p>This may be caused by:</p> <ol style="list-style-type: none"> 1. Staff acting outside of the FMS to commit Council to unauthorised expenditures. 2. Workarounds to system enforced delegations exist. 3. Financial delegations are not clearly defined, implemented, communicated or system enforced. 4. Unauthorised use of credit cards. 5. Lack of monitoring around the use of financial delegations. 	<p>This may result in:</p> <ol style="list-style-type: none"> 1. Financial losses. 2. Non compliance with relevant laws and regulations. 3. Misuse of public funds. 4. Adverse impacts on cash flow and budget. 5. Loss of public confidence in Council. 	Moderate (3)	Almost Certain (5)	High	<p>Sarah Donnelly (Acting Chief Financial Officer)</p> <p>Mark Eady (Director of Corporate and Community Services)</p>
R003	Corporate and Community Services	Finance	Operational	Insufficient segregation of duties within key finance functions including: 1. Treasury management 2. Investment management 3. Revenue and Receivables 4. Revenue and Payables 5. Taxes 6. Payroll 7. Financial reporting	<p>This may be caused by:</p> <ol style="list-style-type: none"> 1. Inadequate human resources. 2. Poor planning of key functions. 3. Loss of absence staff taking extended leave. 4. Lack of working procedures in staff. 5. Authorisers and approvers are the same person. 	<p>This may result in:</p> <ol style="list-style-type: none"> 1. Increased opportunities for fraud and management override of controls. 2. Poor business continuity capability. 3. Misuse of public funds. 4. Adverse audit findings. 5. Loss of public confidence in Council. 	Major (4)	Possible (3)	High	<p>Sarah Donnelly (Acting Chief Financial Officer)</p> <p>Mark Eady (Director of Corporate and Community Services)</p>
R005	Corporate and Community Services	Finance	Strategic	Factor collaborate effectively with other departments and functional areas within the Council to ensure meaningful outcomes are achieved. E.g. Business Units not appropriately consulted by other functional areas of the Council in sport management.	<p>This may be caused by:</p> <ol style="list-style-type: none"> 1. Project planning does not include all relevant stakeholders such as Finance. 2. Highly segmented service culture. 3. Lack of inter departmental networking opportunities within Council. 4. Lack of awareness within Council regarding the responsibilities and objectives of the Finance Business Unit. 5. Lack of implemented workflows between business units. 	<p>This may result in:</p> <ol style="list-style-type: none"> 1. Poor service delivery outcomes. 2. Loss of public confidence. 3. Financial loss. 4. Loss of public good will. 	Major (4)	Possible (3)	High	<p>Sarah Donnelly (Acting Chief Financial Officer)</p> <p>Mark Eady (Director of Corporate and Community Services)</p>
R009	Corporate and Community Services	Finance	Fraud and corruption	Staff have improper relationships with and/or receive personal benefits from unauthorised parties.	<p>This may be caused by:</p> <ol style="list-style-type: none"> 1. Transparency not undertaken on award length basis. 2. No preventative or detective controls in place. 3. No separation of duties. 4. No fraud and corruption awareness not broadly disseminated to staff. 5. No fraud control policy or fraud management plan in place. 6. Collusion or coercion. 	<p>This may result in:</p> <ol style="list-style-type: none"> 1. Reputational impact to Council. 2. Financial loss to Council. 3. Poor staff morale. 4. Possible criminal charges. 5. Termination of employment. 6. Increased regulatory oversight. 	Major (4)	Possible (3)	High	<p>Sarah Donnelly (Acting Chief Financial Officer)</p> <p>Mark Eady (Director of Corporate and Community Services)</p>

5. Risk Management
Attachment B BU Risk Register - Environment and Health

[illegible]

Position Description

Coordinator Risk Management

Division	Corporate and Community
Location	Yass
Classification/Band	Grade XX / Band X, Level X
Management Level	M4
Date position description approved	XX Month 2020

Council Overview

Yass Valley offers a great country lifestyle in close proximity to Canberra and only two and a half hours drive from Sydney. It provides a diverse rural and natural setting, heritage towns and villages, and relaxed lifestyle opportunities, all with easy access to the rich sporting, cultural and educational opportunities across the region. The main town servicing the local government area is Yass with the towns and villages of Murrumbateman, Binalong, Bookham, Bowning, Gundaroo, Sutton, and Wee Jasper supporting the outlying areas, including those in close proximity to the ACT.

Council Vision

To build and maintain sustainable communities while retaining the region's natural beauty.

Division Overview

The Corporate and Community Services Division of Yass Valley Council aims to both: support the effective delivery of sustainable Council Services; and lead the economic, community and environmental outcomes needed for a thriving community. For more information, go to www.yassvalley.nsw.gov.au

Primary Purpose of the Position

Provides effective leadership and assurance for the day to day management of risk and insurance across all Council operations including the oversight of work health and safety risk. This role delivers programs and projects to improve the management of risk at Council.

Key Accountabilities

- Implement and coordinate the day to day operation of Council's Enterprise Risk Framework
- Ensure Council's compliance with Workplace Health and Safety legislation
- Manage all insurance relationships and claims processes across all Council with regard to operational risk
- Implement and coordinate the operation of risk related register across Council
- Implement and coordinate the operation of business continuity plans across Council
- Implement and coordinate the management of workplace incidents across Council including investigation

Key Challenges

- Influencing and implementing change across a diverse workforce to achieve governance objectives
- Ensuring decisions about risk are evidence based and are in the context of the operating environment

Key Internal Relationships

Who	Why
Executive Management Team	Advice provided to the Executive must be reliable and trusted
Manager Risk Audit & Improvement	Both are key roles for the management of risk

Key External Relationships

Who	Why
SafeWork NSW	Effective liaison is required for the management of workplace matters
StateWide Mutual	This role will be the key contact point with our insurer and their managing agent JLT

Key Dimensions

Decision making

The incumbent has the authority to take any reasonable steps to ensure the achievement of agreed objectives set out in the relevant business plan. The role has delegations from the General Manager as set out in an instrument of delegation. All decisions must be in accordance with legislation and Council policies and procedures. Decisions should also be consistent with the objectives of Council's strategies and plans.

All staff have the power to stop work in circumstances that are deemed an immediate risk to health and safety until a satisfactory resolution is agreed and implemented.

Reports to

Director Corporate and Community Services

Audit Risk and Improvement Committee (on an exception basis)

Direct reports

Risk Officer

Indirect reports

Nil

Budget (operating and capital expenditure)

Nil. The budget will be managed at the next level of management.

Essential Requirements

- Tertiary qualifications at a minimum certificate level 4 in a relevant discipline and/or demonstrated experience in a similar role

5. Risk Management






Attachment C Position Description - Coordinator Risk Management

- Excellent demonstrated interpersonal skills, including high-level facilitation, consultation, negotiation and presentation skills
- Highly developed written skills including the ability to prepare quality reports
- Demonstrated experience in developing and implementing programs to achieve change
- A current driver's licence for light vehicles

Capabilities for the role

The Local Government Capability Framework describes the core knowledge, skills and abilities expressed as behaviours, which set out clear expectations about performance in local government: “how we do things around here”. It builds on organisational values and creates a common sense of purpose for elected members and all levels of the workforce. The Local Government Capability Framework is available at <https://www.lgnsw.org.au/capability>

Below is the full list of capabilities and the level required for this position. The capabilities in bold are the focus capabilities for this position. Refer to the next section for further information about the focus capabilities

Local Government Capability Framework		
Capability Group	Capability Name	Level
 Personal attributes	Manage Self	Adept
	Display Resilience and Adaptability	Adept
	Act with Integrity	Adept
	Demonstrate Accountability	Adept
 Relationships	Communicate and Engage	Adept
	Community and Customer Focus	Adept
	Work Collaboratively	Adept
	Influence and Negotiate	Adept
 Results	Plan and Prioritise	Adept
	Think and Solve Problems	Adept
	Create and Innovate	Intermediate
	Deliver Results	Adept
 Resources	Finance	Intermediate
	Assets and Tools	Adept
	Technology and Information	Intermediate
	Procurement and Contracts	Intermediate
 Workforce Leadership	Manage and Develop People	Adept
	Inspire Direction and Purpose	Adept
	Optimise Workforce Contribution	Adept
	Lead and Manage Change	Adept

Focus capabilities

The focus capabilities for the position are those judged to be most important at the time of recruiting to the position. That is, the ones that must be met at least at satisfactory level for a candidate to be suitable for appointment.

Local Government Capability Framework		
Group and Capability	Level	Behavioural Indicators
Personal Attributes Demonstrate Accountability	Adept	<ul style="list-style-type: none"> Is prepared to make decisions within own level of authority Takes an active role in managing issues in the team Coaches team members to take responsibility and follow through Is committed to safe work practices and manages work health and safety risks Identifies and manages other risks in the workplace
Relationships Work Collaboratively	Adept	<ul style="list-style-type: none"> Contributes to a culture of respect and understanding in the organisation Creates an atmosphere of trust and mutual respect within the team Builds cooperation and overcomes barriers to sharing across teams/units Relates well to people at all levels and develops respectful working relationships across the organisation Identifies opportunities to work together with other teams/units Acts as a resource for other teams/units on complex or technical matters
Results Plan and Prioritise	Adept	<ul style="list-style-type: none"> Consults on and delivers team/unit goals and plans, with clear performance measures Takes into account organisational objectives when setting and reviewing team priorities and projects Scopes and manages projects effectively, including budgets, resources and timelines Manages risks effectively, minimising the impacts of variances from project plans Monitors progress, makes adjustments, and evaluates outcomes to inform future planning
Results Deliver Results	Adept	<ul style="list-style-type: none"> Takes responsibility for the quality and timeliness of the team's work products Ensures team understands goals and expectations Shares the broader context for projects and tasks with the team Identifies resource needs, including team, budget, information and tools Allocates responsibilities and resources appropriately Gives team members appropriate flexibility to decide how to get the job done

5. Risk Management
Attachment C Position Description - Coordinator Risk Management

Local Government Capability Framework		
Group and Capability	Level	Behavioural Indicators
Workforce Leadership Manage and Develop People	Adept	<ul style="list-style-type: none"> • Seeks to understand the individual strengths, weaknesses, goals and concerns of team members • Defines and communicates roles and responsibilities and sets clear performance standards and goals • Coaches team members to help improve performance and development • Regularly discusses performance with team members and provides accurate, constructive reviews • Identifies suitable learning opportunities, including stretch assignments, based on individual needs, interests and goals • Addresses team and individual performance issues, including unsatisfactory performance, in a timely and effective way

6. FINANCIAL MANAGEMENT

SUMMARY

This report serves to inform the Audit, Risk and Improvement Committee of the Financial Management matters for the quarter ending 31 March 2020 including:

- Council Investments
- Council Loans
- Proposed Budget FY20/21

RECOMMENDATION

That the:

1. *Committee receives and notes the position of Council Investment as at 29 February 2020.*
2. *Committee receives and notes the status of Council Loans as at 29 February 2020.*
3. *Committee endorses the Proposed Budget for Financial Year 2020/2021.*

FINANCIAL IMPLICATIONS

Nil

POLICY & LEGISLATION

- *Local Government Act 1993*
- *Local Government General Regulation 2005*
- Investment Policy

REPORT

1. Comments on Economic Climate

Interest rates were reduced to 0.25% at the RBA's March meeting. Market developments are occurring against a backdrop of uncertainty regarding policy response to COVID-19. There has been heightened uncertainty around short term global growth and loss of confidence. Central banks are stepping in to provide liquidity, which may need to be increased if conditions continue to deteriorate. Liquidity in corporate bond markets is more challenged at the moment. When financial markets become so volatile and erratic, market liquidity often dries up as investors hold back and market makers retreat. If the global economy does fall into recession, credit markets will come under more pressure.

2. Council Investments

Valuations of Council investments are detailed in [Attachment A](#).

Details of investment compliance with Council's Investment Policy are provided in the tables below. Excess funds held in the NAB working account have been transferred to Council's investment account with TCorp during March 2020.

A recent valuation has seen the market value of Hawthorn increase to \$4,350,000.

Table 1 – Exposure by Credit Rating Type as at 31 January 2020

S&P Rating (or equivalent)	Exposure	Maximum % Invested per Policy
A1+/AAA	Nil	100%
A1/AA	73.96%	100%
A2/A	Nil	60%
A3/BBB	6.05%	30%
N/A	19.99%	<i>Note 1</i>

Note 1 – The TCorp Strategic Cash Facility is an allowable investment under the Ministerial Order.

Table 2 – Exposure to Single Institutions at 29 February 2020

Institution	S&P Rating (or equiv)	Exposure	Max Exposure per Policy
NAB	A1/AA	45.00%	50%
IMB	A3	6.05%	30%
CBA	A1/AA	28.96%	50%
TCorp	N/A	19.99%	<i>Note 1 above</i>

3. Council Loans

Council has four loans with an estimated 29 February 2020 value of \$17.387M. It should be noted that there may be small balance variations as current balances are based on indicative payment schedules. The table below provides loan details at 29 February 2020. Indicative repayments for 2019/20 are shown for both principal and interest for all current loans. Balances will not change on a monthly basis as the most frequent repayment cycle is quarterly. The NSW Treasury interest free loan sourced for the raising of the dam wall has been completed with the final payment of \$750k having been made in December 2019.

	Current Balance	Interest rate	Comment	Principal 2019/20	Interest 2019/20
General Loan	\$834,638	5.91% fixed	To be fully repaid in 2020/21	\$ 645,058	\$ 53,967
Sewer - CBA Loan for Sewer Infrastructure	\$4,027,201	4.82% fixed	Payable over 20 years, fully repaid in 2035/36	\$ 168,053	\$ 195,684
Water – NSW Treasury Loan for Dam wall	\$0	Interest free	FULLY REPAID December 2019	\$ 750,000	\$ -
Water – NAB Dam wall	\$9,024,165	6.96% fixed	Total loan over 30 years. Fixed rate period of 10 years to 2022, to be renegotiated at that time.	\$ 250,019	\$ 665,199
Water - Yass to Murrumbateman water supply (TCorp)	\$2,263,730	2.55% fixed	Payable over 10 years.	\$ 215,714	\$ 59,786
Water main and pump station upgrades (TCorp)	\$1,236,883	2.55% fixed	Payable over 10 years.	\$ 117,864	\$ 32,666

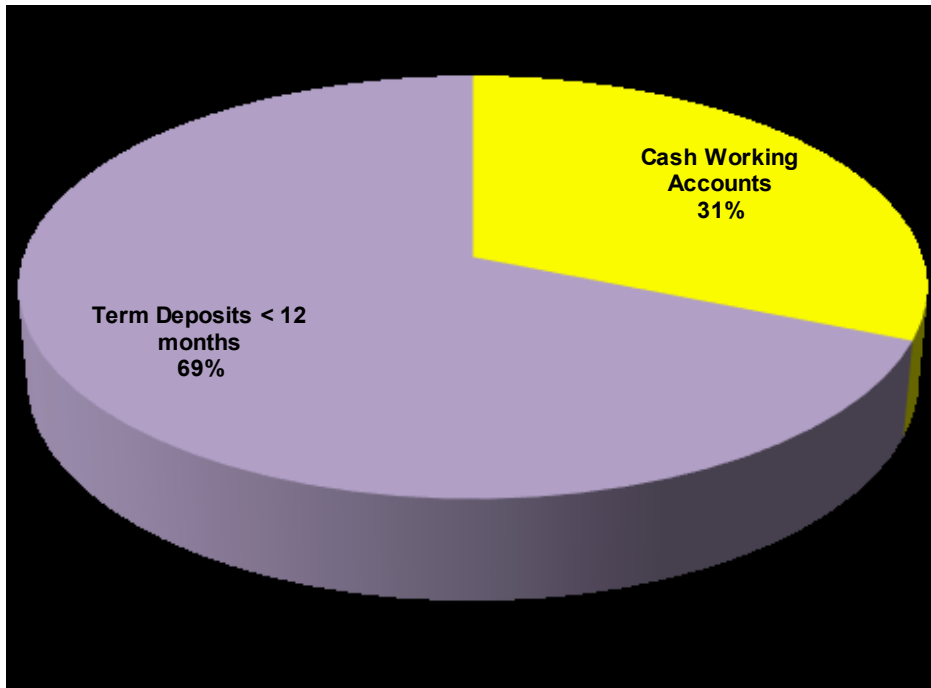
4. Proposed Budget

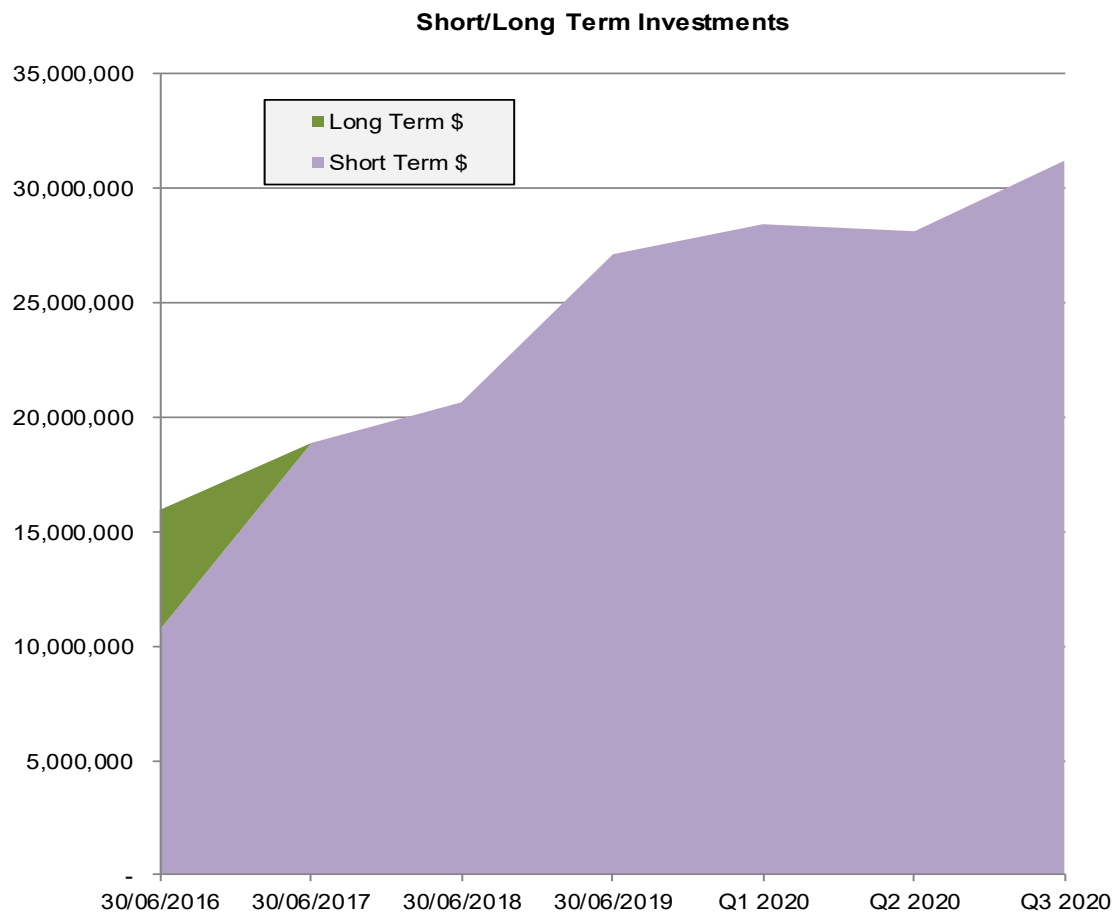
Proposed Budget for the Financial Year 2020/2021 has been prepared by Sarah Donnelly (Acting, Chief Financial Officer) and is presented to the Committee in **Attachment B** for review and discussion.

ATTACHMENTS: A. Investment Valuation Report [↓](#)
B. Proposed Budget FY20/21 [↓](#)

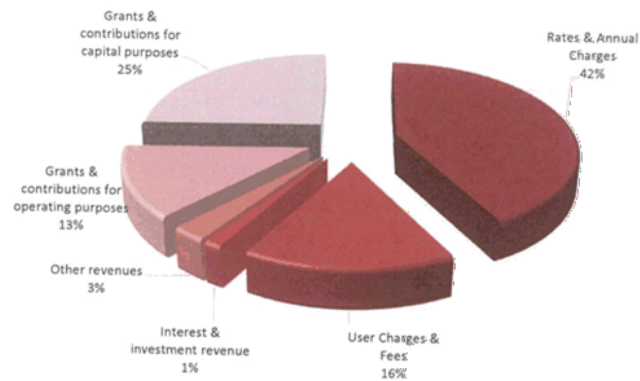
Short Term Investments (Cash Accounting) as at 29 February 2020

Investment Type	Par Value \$	Market Value \$	Maturity	Rate	Interest \$ July 19 to June 20
Cash Working Accounts					
NAB Working Account	9,742,872.67	9,742,872.67	n/a	0.50%	40,237.52
	9,742,872.67	9,742,872.67			40,237.52
Term Deposits < 12 Months					
IMB 29876	1,762,743.00	1,762,743.00	1/05/2020	1.55%	33,201.34
IMB - Youth Bequest	125,107.13	125,107.13	1/05/2020	1.55%	2,686.05
NAB Term Deposit	2,690,340.10	2,690,340.10	27/07/2020	1.10%	33,627.42
NAB Term Deposit	1,597,239.98	1,597,239.98	30/03/2020	1.60%	28,993.20
CBA	2,092,428.86	2,092,428.86	2/06/2020	1.41%	46,571.78
CBA	1,175,558.73	1,175,558.73	10/03/2020	1.36%	10,086.50
CBA	2,125,139.03	2,125,139.03	2/06/2020	1.41%	29,761.34
CBA	1,577,474.88	1,577,474.88	28/05/2020	1.43%	11,908.83
CBA	2,059,087.20	2,059,087.20	11/06/2020	2.21%	25,389.40
Tcorp Strategic Cash Facility	6,231,287.74	6,231,287.74	at call	n/a	66,264.12
Interest Recalled Funds *					-
	21,436,406.65	21,436,406.65			288,489.98
Total Short Term	31,179,279.32	31,179,279.32			328,727.50
Investment Property					
Hawthorn - Current Fair Value		4,350,000.00	Revalued March 2020		
* Refers to interest received in the current financial year for investments no longer held by council					



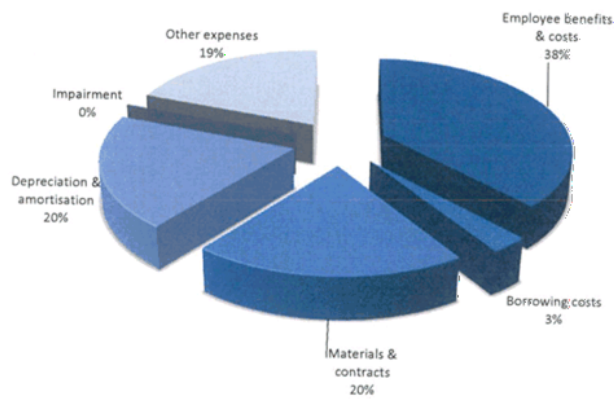


SOURCES OF REVENUE



Revenue Sources	
Rates & Annual	42%
User Charges &	16%
Interest & invest	1%
Other revenues	3%
Grants & contril	13%
Grants & contril	25%

EXPENDITURE BY TYPE



Expenditure	
Employee ben	38%
Borrowing costs	3%
Materials & cor	20%
Depreciation &	20%
Impairment	0%
Other expenses	20%

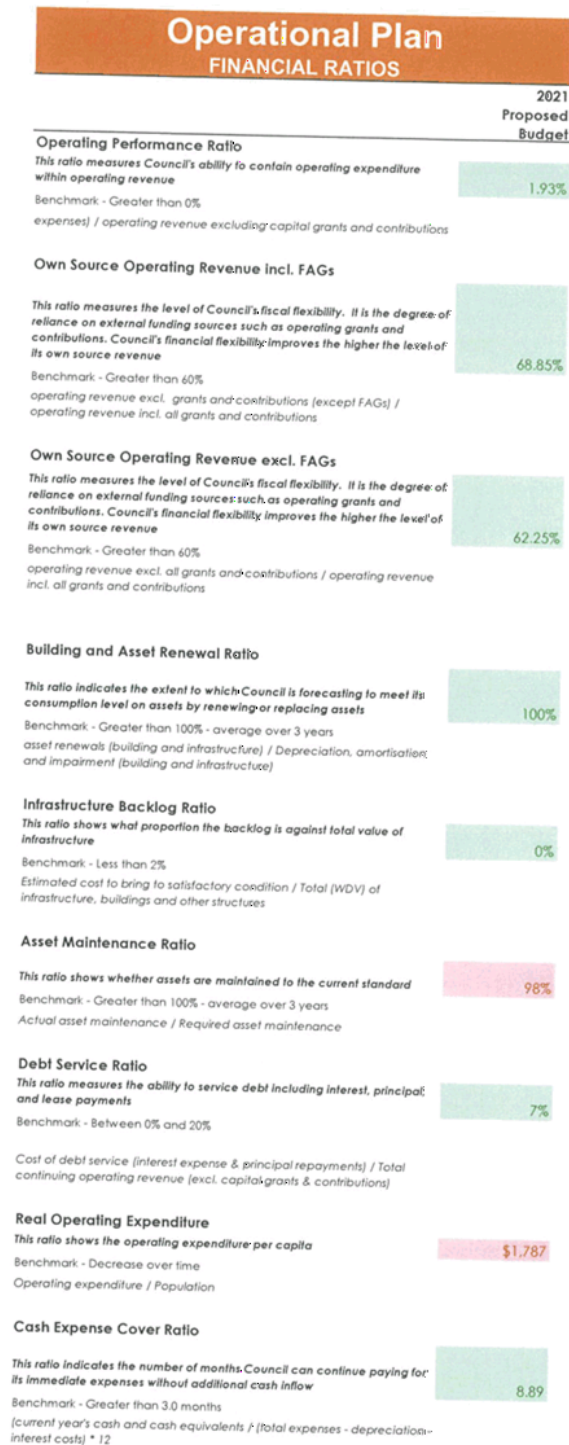
Operational Plan						
INCOME STATEMENT						
\$ '000	2021	2021	2021	2021	2021	2021
	TOTAL Proposed Budget	Our Environment Proposed Budget	Our Economy Proposed Budget	Our Community Proposed Budget	Our Infrastructure Proposed Budget	Our Civic Leadership Proposed Budget
Income from Continuing Operations						
Revenue:						
Rates & annual charges	17,853	60	-	-	6,664	11,129
User charges & fees	6,759	706	857	357	4,720	119
Interest & investment revenue	538	-	-	-	90	448
Other revenues	1,102	17	-	50	857	178
Grants & contributions for operating purposes	5,506	172	5	98	3,596	1,634
Grants & contributions for capital purposes	10,658	300	-	-	10,359	-
Other Income:						
Net gains from disposal of assets	400	-	-	-	400	-
Net share of interests in joint ventures	-	-	-	-	-	-
TOTAL INCOME FROM CONTINUING OPERATIONS	42,816	1,255	862	505	26,686	13,508
Expenses from Continuing Operations						
Employee benefits & costs	11,889	1,822	604	336	5,074	4,053
Borrowing costs	923	-	-	-	909	14
Materials & contracts	6,242	273	639	130	4,332	875
Depreciation & amortisation	6,278	-	-	-	6,278	-
Impairment	-	-	-	-	-	-
Other expenses	6,207	368	284	1,064	3,606	878
Net losses from disposal of assets	-	-	-	-	-	-
TOTAL EXPENSES FROM CONTINUING OPERATIONS	31,538	2,463	1,527	1,530	20,199	5,819
OPERATING RESULT FOR THE YEAR:	11,278	(1,208)	(665)	(1,025)	6,487	7,689
NET OPERATING RESULT FOR THE YEAR BEFORE GRANTS & CONTRIBUTIONS FOR CAPITAL PURPOSES	620	(1,508)	(665)	(1,025)	(3,872)	7,689
NET OPERATING RESULT FOR THE YEAR EXCLUDING EXTRAORDINARY ITEMS BEFORE GRANTS & CONTRIBUTIONS FOR CAPITAL PURPOSES	620	(1,508)	(665)	(1,025)	(4,272)	7,689
Assumptions						
Kate increase (incl. 0.5% increase from growth)	2.30%					
General Index	2.50%					
Employee Cost Index	2.50%					
Operational Grant Index	0.50%					
Capital Grant (averaged over 5 years)	0.50%					
Investment interest rate	3.00%					
Overdue rates interest rate	8.00%					

Operational Plan			
Functional Area Allocation			
\$ '000	Notes	2021 Proposed Budget	2021 Proposed Budget
Functions/Activities		Income from Continuing Operations	Expenses from Continuing Operations
Governance		-	-
Administration	1	13,511	6,328
Public order and safety		400	519
Health		237	636
Environment		4,174	3,378
Community services and education		-	-
Housing and community amenities		1,018	1,827
Water supplies		6,264	3,998
Sewerage services		2,499	2,068
Recreation and culture		325	2,251
Transport and communication		13,526	9,006
Economic affairs		862	1,527
Total Functions & Activities		42,816	31,538

1. Administration Income includes general rates and the general component of the Financial Assistance Grant.
Administration Expenses include corporate support for all other functions, plant/fleet, finance, HR, IT

Operational Plan	
STATEMENT OF FINANCIAL POSITION	
\$ '000	2021 Proposed Budget
Assets	
Current Assets:	
Cash & cash equivalents	19,686
Investments	2,088
Receivables	3,483
Inventories	559
Other	55
Non-current assets classified as 'held for sale'	-
TOTAL CURRENT ASSETS	25,872
Non-Current Assets:	
Investments	-
Receivables	-
Inventories	-
Infrastructure, property, plant & equipment	409,070
Investments accounted for using the equity method	-
Investment property	4,350
Intangible assets	-
TOTAL NON-CURRENT ASSETS	413,420
TOTAL ASSETS	439,292
Liabilities	
Current Liabilities:	
Payables	3,883
Borrowings	1,322
Provisions	3,123
TOTAL CURRENT LIABILITIES	8,328
Non-Current Liabilities:	
Payables	-
Borrowings	15,418
Provisions	1,464
TOTAL NON-CURRENT LIABILITIES	16,882
TOTAL LIABILITIES	25,210
NET ASSETS	414,082
Equity	
Retained earnings	220,784
Revaluation reserves	193,298
Council equity interest	414,082
Non-controlling interest	-
TOTAL EQUITY	414,082
Assumptions	
General Index	2.50%
No impact from revaluation of assets	

Operational Plan	
STATEMENT OF CASH FLOWS	
\$ '000	2021 Proposed Budget
Cash Flows from Operating Activities	
Receipts:	
Rates & annual charges	17,853
User charges & fees	6,759
Investment & interest revenue received	574
Grants & contributions	16,164
Bonds, deposits & retention amounts received	-
Other	1,102
Payments:	
Employee benefits & costs	(11,889)
Materials & contracts	(6,242)
Borrowing costs	(923)
Bonds, deposits & retention amounts refunded	-
Other	(6,207)
NET CASH PROVIDED (OR USED) IN OPERATING ACTIVITIES	17,191
Cash Flows from Investing Activities	
Receipts:	
Sale of investment securities	-
Sale of infrastructure, property, plant & equipment	-
Deferred debtors receipts	-
Other investing activity receipts	-
Payments:	
Purchase of investment securities	-
Purchase of infrastructure, property, plant & equipment	-
Deferred debtors & advances made	(16,553)
NET CASH PROVIDED (OR USED) IN INVESTING ACTIVITIES	(16,553)
Cash Flows from Financing Activities	
Receipts:	
Proceeds from borrowings & advances	-
Payments:	
Repayment of borrowings & advances	(1,309)
NET CASH PROVIDED (OR USED) IN FINANCING ACTIVITIES	(1,309)
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS	(671)
plus: CASH & CASH EQUIVALENTS - beginning of year	20,357
CASH & CASH EQUIVALENTS - end of year	19,686
Assumptions	
Rates & charges recovery rate	100.00%
Debtor recovery rate	100.00%
General index	2.50%
Investment interest rate	3.00%
Overdue rates interest rate	8.00%



Long Term Financial Plan - ALL FUNDS														
INCOME STATEMENT														
\$ '000	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Actual	Actual	Actual	Actual	Budget	Proposed	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Income from Continuing Operations														
Revenue:														
Rates & annual charges	12,555	13,686	15,103	16,304	17,355	17,853	18,264	18,684	19,113	19,553	20,003	20,463	20,933	21,415
User charges & fees	6,971	6,320	6,692	6,269	5,713	6,759	6,728	7,101	7,279	7,461	7,647	7,838	8,034	8,235
Interest & investment revenue	1,140	515	522	676	583	538	653	746	868	997	1,322	1,496	1,679	1,872
Other revenues	932	3,069	763	864	839	1,102	1,130	1,158	1,187	1,216	1,247	1,278	1,310	1,343
Grants & contributions for operating purposes	7,854	6,728	6,585	8,294	5,759	5,506	5,534	5,561	5,589	5,617	5,645	5,673	5,702	5,730
Grants & contributions for capital purposes	5,862	5,891	7,652	5,112	10,433	10,658	10,711	10,765	10,819	10,873	10,927	10,982	11,037	11,092
Other income:														
Net gains from disposal of assets	9	107	-	-	-	400	-	-	-	-	-	-	-	-
Net gains of interests in joint ventures														
TOTAL INCOME FROM CONTINUING OPERATIONS	35,323	36,316	37,317	37,519	40,682	42,816	43,219	44,014	44,855	45,717	46,791	47,720	48,695	49,687
Expenses from Continuing Operations														
Employee benefits & costs														
Borrowing costs	10,740	11,590	11,587	11,586	11,773	11,889	12,186	12,491	12,803	13,123	13,451	13,788	14,132	14,486
Materials & contracts		1,221	1,329	1,000	1,309	923	868	825	788	748	708	665	621	605
Depreciation & amortisation	6,452	5,644	4,610	7,724	5,324	6,242	6,398	6,557	6,721	6,889	7,062	7,238	7,419	7,602
Impairment	6,482	6,174	5,942	6,569	5,976	6,278	6,377	6,455	6,533	6,611	6,689	6,767	6,845	6,923
Other expenses	4,984	5,126	4,568	3,718	3,526	6,207	6,362	6,521	6,684	6,851	7,032	7,198	7,378	7,562
Net losses from disposal of assets				1,853										
TOTAL EXPENSES FROM CONTINUING OPERATIONS	29,941	29,755	29,285	32,150	27,928	31,538	32,191	32,849	33,540	34,223	34,932	35,656	36,395	37,198
OPERATING RESULT FOR THE YEAR	5,382	6,561	8,032	5,369	12,754	11,278	11,028	11,165	11,325	11,494	11,859	12,074	12,300	12,489
NET OPERATING RESULT FOR THE YEAR BEFORE GRANTS & CONTRIBUTIONS FOR CAPITAL PURPOSES	(480)	670	380	257	2,321	620	317	400	507	622	932	1,093	1,263	1,397
NET OPERATING RESULT FOR THE YEAR BEFORE GRANTS & CONTRIBUTIONS FOR CAPITAL PURPOSES AND EXCLUDING EXTRAORDINARY ITEMS	(489)	563	380	257	2,321	620	317	400	507	622	932	1,093	1,263	1,397
Assumptions														
General Inflation (incl. 0.3% increase from growth)														
Employee Cost Index	8.50%	8.50%	8.50%	8.50%	8.50%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%
Operational Grant Index	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Operational Grant Index (assumed to be indexed over 5 years)	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Investment Interest Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Overhead sales interest rate	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Efficiency gain on Materials, Contracts & Other Exp.	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
New Capital works (for depreciation)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Capitalisation Increase	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%
	1%	1%	1%	1%	2%	2%	2%	3%	3%	3%	3%	3%	3%	3%

Long Term Financial Plan - ALL FUNDS												
STATEMENT OF FINANCIAL POSITION												
\$ '000	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Actual	Actual	Actual	Actual	Budget	Proposed	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Assets												
Current Assets:												
Cash & cash equivalents	10,613	16,810	18,696	20,975	17,057	19,656	22,771	26,855	31,161	35,695	40,652	45,881
Investments	5,246	2,055	2,088	6,165	2,088	2,088	2,088	2,088	2,088	2,088	2,088	2,088
Receivables	3,487	1,902	2,527	5,763	2,047	3,483	3,567	3,963	3,761	3,346	4,134	3,948
Inventories	495	214	519	329	545	559	573	587	602	617	632	648
Other	138	89	51	10	54	55	57	58	60	61	63	64
Non-current assets classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL CURRENT ASSETS	19,979	21,070	23,881	33,242	21,791	25,872	29,055	38,551	37,671	41,807	47,569	52,629
Non-Current Assets:												
Investments	-	-	-	-	-	-	-	-	-	-	-	-
Receivables	-	-	-	-	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure, property, plant & equipment	342,491	349,187	357,192	359,986	392,517	409,070	422,070	435,070	448,070	461,070	474,070	487,070
Investments accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets	2,467	3,900	3,900	3,900	3,900	4,350	4,350	4,350	4,350	4,350	4,350	4,350
TOTAL NON-CURRENT ASSETS	344,958	353,087	361,092	364,108	396,417	413,420	426,420	439,420	452,420	465,420	478,420	491,420
TOTAL ASSETS	364,937	374,157	384,973	397,350	418,208	439,292	455,475	477,971	490,091	507,227	525,989	544,049
Liabilities												
Current Liabilities:												
Payables	3,610	5,400	3,605	4,189	3,788	3,883	3,980	4,079	4,181	4,286	4,393	4,503
Borrowings	1,379	1,503	1,624	2,091	1,309	1,322	536	554	572	592	611	634
Provisions	2,742	2,649	2,899	3,437	3,047	3,123	3,201	3,281	3,363	3,447	3,534	3,622
TOTAL CURRENT LIABILITIES	7,731	9,552	8,128	9,717	8,144	8,328	7,717	7,915	8,117	8,325	8,538	8,759
Non-Current Liabilities:												
Payables	18,256	16,750	15,127	16,785	15,137	15,418	14,882	14,328	13,756	13,164	12,553	11,919
Borrowings	1,549	1,043	1,359	850	1,428	1,464	1,500	1,538	1,576	1,616	1,656	1,697
TOTAL NON-CURRENT LIABILITIES	19,805	17,793	16,486	17,635	16,565	16,882	16,382	15,866	15,332	14,780	14,209	13,616
TOTAL LIABILITIES	27,536	27,345	24,614	27,352	24,709	25,210	24,099	23,780	23,449	23,105	22,747	21,987
NET ASSETS	337,401	346,772	360,359	369,998	393,499	414,082	431,376	449,191	466,642	484,122	503,241	521,674
Equity												
Retained earnings	202,927	209,488	218,938	224,307	214,754	220,784	225,078	229,893	234,344	238,824	244,943	250,376
Revaluation reserves	134,474	137,304	141,420	145,691	176,745	193,298	206,298	219,298	232,298	245,298	258,298	271,298
Council equity interest	337,401	346,772	360,359	369,998	393,499	414,082	431,376	449,191	466,642	484,122	503,241	521,674
Non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL EQUITY	337,401	346,772	360,359	369,998	393,499	414,082	431,376	449,191	466,642	484,122	503,241	521,674
Assets												
General fund	-	-	-	-	-	-	-	-	-	-	-	-
Impact forecast from revaluation of assets	-	-	-	-	-	-	-	-	-	-	-	-

Long Term Financial Plan - ALL FUNDS													
STATEMENT OF CASH FLOWS													
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Actual	Actual	Actual	Actual	Budget	Proposed	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Cash flows from Operating Activities													
Receipts:													
Rates & annual charges	12,539	13,881	14,914	15,745	17,355	17,853	18,264	18,684	19,113	19,553	20,003	20,463	20,933
User charges & fees	7,024	7,567	6,639	6,183	5,713	6,759	6,928	7,101	7,279	7,461	7,647	7,838	8,034
Investment & interest revenue received	1,040	479	507	616	593	574	653	746	868	997	1,322	1,496	1,679
Grants & contributions	11,534	10,906	12,877	11,611	16,192	16,164	16,245	16,326	16,408	16,490	16,572	16,655	16,738
Bonds, deposits & retention amounts received	34	-	13	386	-	-	-	-	-	-	-	-	-
Other	2,792	5,000	1,938	2,312	839	1,102	1,130	1,158	1,187	1,216	1,247	1,278	1,310
Payments:													
Employee benefits & costs	(10,385)	(11,685)	(11,827)	(11,409)	(11,773)	(11,889)	(12,186)	(12,491)	(12,803)	(13,123)	(13,451)	(13,788)	(14,132)
Materials & contracts	(7,140)	(5,476)	(4,486)	(8,012)	(5,324)	(6,249)	(6,398)	(6,557)	(6,721)	(6,889)	(7,062)	(7,238)	(7,419)
Borrowing costs	(1,235)	(1,251)	(1,100)	(1,017)	(1,329)	(923)	(868)	(825)	(788)	(748)	(708)	(665)	(621)
Bonds, deposits & retention amounts refunded	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	(7,305)	(6,593)	(7,049)	(5,547)	(3,526)	(6,207)	(6,362)	(6,521)	(6,684)	(6,851)	(7,022)	(7,198)	(7,378)
NET CASH PROVIDED (OR USED IN) OPERATING ACTIVITIES	9,158	12,610	12,996	10,877	18,740	17,191	17,406	17,621	17,859	18,106	18,348	18,591	18,841
Cash flows from Investing Activities													
Receipts:													
Sale of investment securities	-	3,231	-	-	-	-	-	-	-	-	-	-	-
Sale of infrastructure, property, plant & equipment	11	895	984	2,665	450	-	-	-	-	-	-	-	-
Deferred debtors receipts	-	-	-	-	-	-	-	-	-	-	-	-	-
Other investing activity receipts	-	-	-	-	-	-	-	-	-	-	-	-	-
Payments:													
Purchase of investment securities/property	1,007	-	(33)	(4,077)	-	-	-	-	-	-	-	-	-
Purchase of infrastructure, property, plant & equipment	(15,318)	(9,297)	(9,859)	(9,311)	(17,724)	(16,553)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)
Deferred debtors & advances made	-	-	-	-	-	-	-	-	-	-	-	-	-
NET CASH PROVIDED (OR USED IN) INVESTING ACTIVITIES	(14,300)	(5,231)	(9,608)	(10,723)	(17,274)	(16,553)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)
Cash flows from Financing Activities													
Receipts:													
Proceeds from borrowings & advances	4,650	-	-	3,750	-	-	-	-	-	-	-	-	-
Payments:													
Repayment of borrowings & advances	(2,009)	(1,382)	(1,502)	(1,425)	(2,084)	(1,309)	(1,322)	(534)	(554)	(572)	(592)	(611)	(634)
Repayment of finance lease liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
NET CASH PROVIDED (OR USED IN) FINANCING ACTIVITIES	2,641	(1,382)	(1,502)	2,325	(2,084)	(1,309)	(1,322)	(534)	(554)	(572)	(592)	(611)	(634)
NET INCREASE/DECREASE IN CASH & CASH EQUIVALENTS	(2,501)	6,197	1,886	2,479	(618)	(671)	3,084	4,085	4,305	4,534	4,956	5,230	5,510
plus: CASH & CASH EQUIVALENTS - beginning of year	13,114	10,613	16,810	18,696	20,975	20,357	19,486	22,771	26,855	31,161	35,695	40,652	45,881
CASH & CASH EQUIVALENTS - end of year	10,413	16,810	18,696	20,975	20,357	19,486	22,771	26,855	31,161	35,695	40,652	45,881	51,391
Assumptions													
Prices & charges/recovery rate													
Debtors recovery rate													
General Index													
Interest rate													
Overhead rates													
Overhead rates interest rate													

Long Term Financial Plan - ALL FUNDS												
FINANCIAL RATIOS												
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Actual	Actual	Actual	Actual	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Operating Performance Ratio This ratio measures Council's ability to contain operating expenditure within operating revenue. Benchmark: Greater than 0% Operating revenue incl. capital grants and contributions - operating expenditure / operating revenue excluding capital grants and contributions	-1.63%	2.20%	1.28%	0.77%	7.67%	1.93%	0.98%	1.20%	1.49%	1.78%	2.60%	2.97%
Own Source Operating Revenue Incl. FAGs This ratio measures the level of Council's fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions. Council's financial flexibility improves the higher the level of its own source revenue. Benchmark: Greater than 60% Operating revenue incl. capital grants and contributions (except FAGs) / operating revenue incl. all grants and contributions	69.18%	76.74%	69.73%	71.80%	67.15%	68.85%	68.95%	69.33%	69.72%	70.11%	70.62%	71.03%
Own Source Operating Revenue excl. FAGs This ratio measures the level of Council's fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions. Council's financial flexibility improves the higher the level of its own source revenue. Benchmark: Greater than 60% Operating revenue incl. capital grants and contributions (except FAGs) / operating revenue incl. all grants and contributions	61.17%	65.25%	61.85%	64.27%	60.20%	62.25%	62.41%	62.91%	63.42%	63.93%	64.58%	65.11%
Building and Asset Renewal Ratio This ratio indicates the extent to which Council is forecasting to meet its consumption level on assets by renewing or replacing assets. Benchmarks: Greater than 100% - average over 3 years asset renewal (building and infrastructure) / Depreciation, amortisation and replacement (building and infrastructure)	72%	128%	141%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Infrastructure Backlog Ratio This ratio shows what proportion the backlog is against total value of infrastructure. Benchmark: Less than 2% Estimated cost to bring to satisfactory condition / total (MVA) of infrastructure, building and other assets	3%	4%	2%	1%	0%	0%	0%	0%	0%	0%	0%	0%
Asset Maintenance Ratio This ratio shows whether assets are maintained to the current standard. Benchmark: Greater than 100% - average over 3 years Actual asset maintenance / required asset maintenance	98%	98%	98%	98%	98%	98%	98%	100%	102%	102%	102%	102%
Debt Service Ratio This ratio measures the ability to service debt including interest, principal, and lease payments. Benchmark: Between 0% and 30% Cost of debt service (interest expense & principal repayments) / total operating revenue (incl. capital grants & contributions)	11%	9%	10%	8%	11%	7%	7%	4%	4%	4%	3%	3%
Real Operating Expenditure This ratio shows the operating expenditure per capita. Benchmarks: Decreases over time Operating expenditure / Population	\$1,808	\$1,779	\$1,730	\$1,676	\$1,606	\$1,787	\$1,788	\$1,789	\$1,773	\$1,757	\$1,741	\$1,725
Cash Expenditure Cover Ratio This ratio indicates the number of months Council can continue paying for its immediate expenses without additional cash inflow. Benchmark: Greater than 10 months (current year's cash and cash equivalents) / total expenses - depreciation - interest cost x 12	4.51	7.64	8.83	9.12	8.52	8.89	10.07	11.97	13.37	15.20	16.92	18.46
												20.43
												22.17

7. INTERNAL AUDIT

SUMMARY

This report serves to inform the Audit, Risk and Improvement Committee of Internal Audit activities for the quarter ending 31 March 2020 including:

- the number of internal audits completed during that quarter, including providing copies of the audit reports including details of findings and recommendations
- Internal audit recommendation tracking and status updates
- progress in implementing the strategic internal audit plan
- any concerns the Manager Audit, Risk and Improvement may have.

RECOMMENDATION

That the:

1. *Committee receives and notes the Internal Audit Report on Rates Levied for FY19/20.*
2. *Committee receives and notes the status of Internal Audit Recommendations.*
3. *Committee receives and notes the status update on the progress in implementing the strategic internal audit plan.*

FINANCIAL IMPLICATIONS

Nil

POLICY & LEGISLATION

- Local Government Act 1993
- Internal Audit Charter
- Internal Audit Strategic Plan

REPORT

1. Internal Audits finalised in period

During the quarter Manager Audit, Risk and Improvement has finalised a management initiated Internal Audit Review of Rates Levied for FY2019/2020. The review was initiated by the Director of Corporate and Community following raised concerns surrounding the data integrity of rating information captured in the FMIS (MAGIQ).

The objective of the review was to:

- Identifying any variances in Rates Levied with corresponding balances reported in the FMIS (MAGIQ Enterprise System);
- Establishing root causes of variances identified;
- Identifying any instances where supporting documentation is unable to reconcile to the identified variance;
- Identify any opportunities to strengthen internal controls underpinning the integrity of the Rates Levied Reporting Process.

- Identify any systemic or significant data integrity issues in MAGIQ.

The Internal Audit review resulted in **ten (10)** audit recommendations.

The Committee should refer to **Attachment A** for a copy of the Internal Audit Report including details of findings and recommendations.

2. Internal Audit Recommendations Tracking

Status of outstanding Internal Audit Recommendations has been reviewed and updated for the information of the Audit, Risk and Improvement Committee.

There are currently **eight (8)** Internal Audit recommendations in progress.

Please refer to **Attachment B** to review the details and status of outstanding Internal Audit Recommendations.

3. Progress against the Internal Audit Plan

Manager Audit, Risk and Improvement is currently in the process of reviewing and updating the Strategic Internal Audit Plan to align with the Internal Audit requirements of partner councils in Goulburn Mulwaree and Upper Lachlan Shire and in doing so create efficiencies through common audit themes, shared knowledge and internal audit tools and potentially lower audit fees.

An updated Strategic Internal Audit Plan will be presented to the Committee for endorsement in Q2 of 2020.

ATTACHMENTS: A. IA Review Report - Rates Levied FY19/20 [↓](#)
 B. IA Recommendation Tracker [↓](#)



Review of the Rates & Valuation Certificate

Manager Risk, Audit and Improvement

December 2019

Period of review:	FY19/20
Date of final report:	
Review Sponsor:	Mark Eady (Director Corporate Services)

1.	Executive summary	2
2.	Detailed Findings	8
3.	Appendix A – Rates and Valuation Certificate of Rates Levied 2019/2020	15
4.	Appendix B – Assessment ID's to be actioned	16
5.		

1 Executive summary

1.1 Limitations

Internal audit review was carried out in accordance with the methodology prescribed in this report in order to identify variances in the MAGIQ Enterprise System in relation to calculation of Rates Levied for 2019/2020 year as reported in the Rates & Valuation Certificate of Rates Levied for 2019/2020 Year.

Internal Audit was required to rely upon documentation provided by various stakeholders and there is no certainty as to the completeness of this documentation.

The review did not constitute an examination or audit in accordance with generally accepted auditing standards or assurance standards.

Internal Audit did not audit or otherwise verify the information supplied in connection with this review, except to the extent specified in this report.

1.2 Introduction

Internal Audit was approached by Mark Eady (Corporate Services Director, YVC) to undertake a review of Rates Levied for 2019/2020 as reported in the Rates & Valuation Certificate of Rates Levied for 2019/2020 year dated 28 October 2019 and investigate any identified variances with the MAGIQ Enterprise system.

1.3 Objectives and Scope

The objective of the review is to:

1. Review the Rates & Valuation Certificate of Rates Levied for 2019/2020 year prepared by Ross Luff (Senior Revenue Officer) dated 28 October 2019 with the aim of:
 - a. Identifying any variances in reported balances with corresponding balances reported in MAGIQ Enterprise System;
 - b. Establishing root causes of variances identified;
 - c. Identifying any instances where supporting documentation is unable to reconcile the identified variance;
 - d. Identify any opportunities to strengthen internal controls underpinning the integrity of the Rates Levied Reporting Process.
 - e. Identify any systemic or significant data integrity issues in MAGIQ.
2. Provide a report to the Chris Berry (General Manager, YVC) and Mark Eady (Corporate Services Director) on findings in relation to the above scope.

1.4 Methodology

The review was undertaken in accordance with the following methodology:

1. Review Planning & Initiation

- Review planning meeting was undertaken with Mark Eady (Corporate Services Director, YVC) and Sarah Donnelly (Acting Chief Financial Officer, YVC) on 11 November 2019 to obtain background information on the assignment and agree, in principle, on the review timing, key stakeholders, objectives and approach.
- Key documents and systems to be reviewed were identified, including:
 - Rates & Valuation Certificate of Rates Levied for 20189/2020 Year dated 28 October 20189 and prepared by Ross Luff (Senior Revenue Officer, YVC);
 - MAGIQ Enterprise Information Systems;
 - Rate Codes & Differentials Schedule.
 - Relevant legislation and guidance on NSW Rating.
- Key stakeholder consultations
 - Sarah Donnelly (Finance Manager, YVC)
 - Ross Luff (Senior Revenue Officer, YVC)
 - Tanya Rattenbury (ICT Manager, YVC)
 - Deborah Albert (MAGIQ Enterprise Consultant)

2. Review Execution

- All documentation identified were examined in consultation with key stakeholders with the aim of identifying:
 - Identifying any variances in reported balances with corresponding balances reported in MAGIQ Enterprise System;
 - Establishing root causes of variances identified;
 - Identifying any instances where supporting documentation is unable to reconcile the identified variance;
 - Identify any opportunities to strengthen internal controls underpinning the integrity of the Rates Levied Reporting Process.
 - Identifying any systemic or significant data integrity issues in MAGIQ.

3. Reporting

- A draft report detailing findings in relation to the above review scope was prepared and circulated to key stakeholders for their consideration and comment and all management comments were incorporated into the draft report;
- A meeting was held with Mark Eady (Corporate Services Director, YVC) and Chris Berry (General Manager, YVC) to discuss the findings of the draft report.
- The report was finalised and distributed to all stakeholders as final.

1.5 Summary of observations

The internal audit review of rates levied for 2019/2020 year reported in the Rates and Valuation Certificate dated 28 October 2019 has made the following observations:

- No systemic or significant data integrity issues in MAGIQ were observed based on our reconciliation of the Rates and Valuation Certificate to MAGIQ.
- All balances reported on the Rates and Valuation Certificate were successfully reconciled to MAGIQ.
- The review identified two subdivisions with reference to Assessment ID 968 and 14027. MAGIQ does not enable in-application verification of net adjustments in land values following subdivisions or revaluations of properties leading to out-of-application workarounds and inefficiencies in reporting on rates levied for the period under review. Please refer to **section 2.1** of this report for detailed findings and management comments.
- Out of **75** balances tested the review identified **21** account categories where the assessment count per the certificate did not agree to the assessment count per the MAGIQ Enterprise System. Please refer to **section 2.2** of this report for detailed findings and management comments.
- The review identified **1** account category where the Certificate needs to be updated to ensure all part year assessments are correctly identified on the Certificate. Refer to **section 2.3** of this report for detailed findings and management comments.
- The review noted insufficient internal controls to underpin the integrity of the Rates Levied Reporting Process. The review identified opportunities to strengthen internal controls around the Rates Levied Reporting Process. Refer to **section 2.4** of this report for detailed findings and management comments.

1.6 Summary of findings and recommendations

Summary of findings and recommendations are grouped into the table below. For detailed findings please refer to **Section 2** of this report.

*** Explanation of priority ratings**

High – Findings to be actioned as soon as practicable (ASAP).

Medium – Findings to be actioned in 3 -6 months or at next available opportunity.

Low – Findings to be actioned in the next 12 months.

Finding ref.	Recommendation ref.	Priority Rating*	Management Comments	Responsible Officer	Action date
2.1 Net adjustments in land values (Sub-divisions)	2.1.1.1 MAGIQ should enable in-application verification of net adjustments in land values following subdivisions or revaluations of properties to enable efficient reporting on rates levied for the period under review.	High	SRO - The adjusted land values are not reflected in any report produced by Magiq.	MAGIQ Team ICT Manager Senior Rates Officer	30 June 2020
	2.1.1.1 MAGIQ team to provide guidelines/procedures on best practice processing of subdivision of land in MAGIQ with reference to Assessment ID 968 and 14027 to ensure data integrity is preserved in the future. SRO is responsible for applying best practice guidelines and procedures provided.	Medium	SRO - The handling of the parent assessment when subdivided depends on the situation. If a number of parcels are created as a result of the subdivision, the parent assessment is made historical. If it is only a small subdivision such as a large block is subdivided into two and the developer intends to still live in the house on one of the lots, they retain the parent assessment as it has all the records of transactions etc on it. Linking assessments in Magiq simply doesn't work so all history would be lost.	MAGIQ Team ICT Manager Senior Rates Officer	30 June 2020
2.2 Variances in reported	2.2.1.1 Senior Rates Officer should review the	High	SRO - All identified issues surrounding these	Senior Rates Officer	31 Dec 2019

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assessment counts	Assessment ID's identified in Appendix B to ensure all factor profiles are up to date and all \$Nil levy amounts are appropriately supported. All necessary changes should be processed in MAGIQ		recommendations have been addressed. Unfortunately Magiq does not automatically close a service at the end of the financial year like Authority use to allow, instead you have to go in the following financial year and manually delete it.		
	2.2.1.2 Senior Rates Officer should perform quarterly exception reporting using MAGIQ Performance to query, identify and investigate potential data quality issues in MAGIQ as they arise.	Medium	SRO - I will perform regular checks to identify issues.	Senior Rates Officer	Every quarter
	2.2.2.1 The Certificate heading/titles should be updated to enable the user of the Certificate to make appropriate interpretations of the information presented i.e. counts of services	Low	SRO – Will change headings from assessments to services where required on certificate.	Senior Rates Officer	30 June 2020
2.3 Transposition error	2.3.1 Certificate needs to be updated to ensure IDs 101345 and 101352 are reflected in the assessment count as part year assessments in their respective rate categories.	Low	SRO – This has been corrected although this would not have had any effect whatsoever on the final outcome.	Senior Rates Officer	31 Dec 2019
2.4 Opportunities for improvement	2.4.1 Sufficient and appropriate protocols and procedure need to be developed and documented in relation to the preparation of the Rates & Valuation Certificate of Rates Levied for 2019/2020 to enable the second in charge to undertake the necessary work should the SRO be unavailable. The protocols	Medium	SRO - Documentation on the preparation of the certificate will be prepared however, no matter how much documentation you have, you need someone highly experienced in rates to be able to interpret the data. MAGIQ User guides to be updated by SRO to reflect YVC Rating.	Senior Rates Officer	30 June 2020.

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	and procedures should be prepared with sufficient detail to allow the reader to understand all key assumptions and all key exceptions in preparing the certificate.				
	2.4.2 The Finance Team needs to develop an additional resource with capability in Rating to support the important work of the SRO.	Medium	SRO - Agreed, I do believe this is going to be addressed in the New Year. Development plan for the trainee/Rates Officer to be developed by SRO.	Senior Risk Officer/Chief Financial Officer/ Director of Corporate Services	31 Dec 2020
	2.4.3 The Certificate is to be prepared by the Senior Revenue Officer with all supporting documentation attached and submitted for review by the Chief Financial Officer. Sufficient documentation should be retained to evidence both Preparer sign-off and Reviewer sign-off prior to submission of the certificate to Auditors.	Low	SRO - All documentation is kept and presented to the auditors. There is no need for the CFO to check the certificate. You have to remember that this certificate is prepared solely for the auditors, nobody else.	Senior Rates Officer	31 Oct 2020
	2.4.4 An automated report should be set-up in the MAGIQ Enterprise System to facilitate the reporting of Rates Levied.	Medium	SRO - This is where the whole thing started, I could pull a report from Authority that would match it everywhere but with Magiq, that just hasn't happened. That is all I have ever wanted and this whole review/report would have been avoided if that was available.	Senior Rates Officer/ MAGIQ Team	30 June 2020

2 Detailed Findings

2.1 Net Adjustments in land values (Subdivisions)

The review identified two Subdivisions with reference to Assessment ID 968 and 14027.

In order to ensure accurate rates are levied on subdivisions the Senior Rates Officer needs to be able to verify the net adjustments (uptake) in land value following subdivisions or revaluations of properties.

The net adjustment (uptake) in land value following a subdivision or revaluation of a property is not currently verifiable in MAGIQ.

This limits the Senior Rate's Officers ability to undertake necessary reporting in an efficient manner as an Excel workaround is necessary to calculate and keep track of net-adjustments to land values following a subdivision or revaluation.

IA Recommendation

2.1.1.1 MAGIQ should enable in-application verification of net adjustments in land values following subdivisions or revaluations of properties to enable efficient reporting on rates levied for the period under review.

Priority level: **High**

Managements Comments

The adjusted land values are not reflected in any report produced by Magiq.

Managements action date

30 June 2020 - Enhancement request is to be negotiated with MAGIQ by Tanya Ratenburry (ICT Manager)

2.1.1.2 MAGIQ team to provide guidelines/procedures on best practice processing of subdivision of land in MAGIQ with reference to Assessment ID 968 and 14027 to ensure data integrity is preserved in the future. SRO is responsible for applying best practice guidelines and procedures provided.

Priority level: **Medium**

Managements Comments

SRO –The handling of the parent assessment when subdivided depends on the situation. If a number of parcels are created as a result of the subdivision, the parent assessment is made historical. If it is only a small subdivision such as a large block is subdivided into two and the developer intends to still live in the house on one of the lots, they retain the parent assessment as it has all the records of transactions etc on it. Linking assessments in Magiq simply doesn't work so all history would be lost.

Managements action date

31 March 2020 - Internal Audit has requested from Deborah Albert (Magiq Enterprise Consultant) on 18 December 2019, guidance on processing subdivision in MAGIQ according to best practice with specific reference to Assessment ID's 968 and 14027. The matter has been escalated with Tanya Rattenbury and the Account Manager at MAGIQ on 11 February 2020.

2.2 Variances in reported assessment counts

The review has identified 21 account categories where the assessment count per the certificate did not agree to the assessment count per MAGIQ.

Below are details of all samples where assessment count variances have been identified:

Sample	Service	Rate Type	Variable	Count per MAGIQ	Count Certificate	Count Variance
1	General Rates	0108 - Farmland Rate	SUM(FACTOR)	1459	1452	7
2	General Rates	0108 - Farmland Rate	SUM(Levy)	1459	1452	7
3	General Rates	0108 - Farmland Rate	SUM(FACTOR)	7	0	7
4	General Rates	0108 - Farmland Rate	SUM(Levy)	7	0	7
5	General Rates	3008 - Farmland Base Charge	SUM(Levy)	1459	1455	4
7	General Rates	0101 - Residential - Non Urban	SUM(FACTOR)	2517	2512	5
8	General Rates	0101 - Residential - Non Urban	SUM(Levy)	2517	2512	5
9	General Rates	3001 - Res - Non Urban Base Charge	SUM(Levy)	2517	2512	5
10	General Rates	0102 - Residential - Yass	SUM(FACTOR)	1128	1127	1
11	General Rates	0102 - Residential - Yass	SUM(LEVY)	1128	1127	1
18	General Rates	0103 - Residential - Binalong	SUM(FACTOR)	197	196	1
19	General Rates	0103 - Residential - Binalong	SUM(LEVY)	197	196	1
52	Water Charges	0202 - 20-32mm Water Charge	SUM(LEVY)	3226	3299	-73

55	Water Charges	2004 - 40mm Water Charge	SUM(LEVY)	21	26	-5
66	Waste	0501 - Domestic Waste Charge	SUM(LEVY)	3959	4106	-147
67	Waste	0501 - Domestic Waste Charge	SUM(LEVY)	11	12	-1
70	Waste	1401 - Domestic Waste Unoccupied	SUM(LEVY)	339	319	20
71	Waste	1401 - Domestic Waste Unoccupied	SUM(LEVY)	6	-6	12
72	Waste	1001 - Business Waste Charge	SUM(LEVY)	78	90	-12
73	Waste	0601 - Waste Management Environment Charge	SUM(LEVY)	7433	7417	16
75	Onsite sewerage management	1601 - On Site Sewage Management	SUM(LEVY)	3934	3924	10

2.2.1 Outdated factor profiles

IA has identified a number of assessment across the sample population that have a \$Nil levy amount but are designated as rateable for the period under review in MAGIQ.

Through discussion with the Senior Rates Officer, it was discovered that some of these \$Nil levy assessments relate to:

1. Cancelled Assessments,
2. New Assessments not rateable until the next year,
3. Assessments with a human error element
4. Properties in dispute
5. Assessments where the \$Nil levy needs to be further investigated.

The Senior Rates Officer manually tracks these exceptions for the purposes of reporting rates levied on the Certificate using the Spreadsheet Model for rates as the primary source of truth.

As there are is no reconciliation currently performed between the Spreadsheet Model for Rates and MAGIQ there is a resulting variance between the assessments counts reported on the Certificate of Rates Levied and what can be evidenced in MAGIQ.

In order to reconcile the counts reported on the Certificate to MAGIQ, Internal Audit together with the Senior Rates Officer have identified all Assessment ID's that require either:

1. Factor profile update to ensure they are appropriately classified as rateable/non rateable, and/or
2. Further investigation to determine the reasons behind the \$Nil Levy amount in MAGIQ.

Please refer to **Appendix C** for a list of Assessments requiring factor profile updating and or further investigation by the Senior Rates Officer.

IA Recommendation

2.2.1.1 Senior Rates Officer should review the Assessment ID's identified in **Appendix C** to ensure all factor profiles are up to date and all \$Nil levy amounts are appropriately supported. All necessary changes should be processed in MAGIQ.

Priority level: **High**

2.2.1.2 Senior Rates Officer should perform quarterly exception reporting using MAGIQ Performance to query, identify and investigate potential data quality issues in MAGIQ as they arise.

Priority level: **Medium**

Management comments

SRO - All identified issues surrounding these recommendations have been addressed. Unfortunately Magiq does not automatically close a service at the end of the financial year like Authority use to allow, instead you have to go in the following financial year and manually delete it. I will perform regular checks to identify issues.

Managements action date

31 December 2019

2.2.2 Count methodology

IA has noted that another key driver of variance between the counts reported on the Certificate and evidenced in MAGIQ is that the counts on the Certificate are sometimes based on services provided to a property where as the MAGIQ counts obtained are based on Assessment ID's. This is best evidenced in samples 52,55 and 66 and 67.

Internal Audit confirmed with the Senior Rates Officer that a single assessment may have multiple services.

No data integrity issues have been identified in MAGIQ in relations to these type of variance.

IA Recommendation

2.2.2.1 The Certificate heading/titles should be updated to enable the user of the Certificate to make appropriate interpretations of the information presented i.e. counts of services.

Priority level: **Low**

Management comments

SRO – Will change headings from assessments to services where required on certificate.

Managements action date

30 June 2020

2.3 Transposition error

The review identified 1 account category where the Certificate incorrectly reported part year assessments as full year assessments. The following exception was identified:

Sample	Service	Rate Type	Assessment ID	Internal Audit Observations
10	General Rates	0102 - Residential - Yass	101345 101352	Residential – Yass minimum rates equal \$664 for full year assessments. For Assessment ID 101345 and 101352, full year amount levied equal \$497.09 per the Certificate. These need to be restated as part year assessments on the Certificate

Per discussion with the Senior Rates Officer, due to human error assessment IDs 101345 and 101352 were incorrectly recorded as full year assessments on the certificate instead of part year assessments as per MAGIQ.

No data integrity issues have been noted in MAGIQ.

IA Recommendation

2.3.1 Certificate needs to be updated to ensure IDs 101345 and 101352 are reflected as part year assessments in their respective rate category.

Priority level: **Low**

Management comments

SRO – This has been corrected although this would not have had any effect whatsoever on the final outcome.

Management action date

31 December 2019

2.4 Opportunities for improvement

Internal audit observations

The review noted insufficient internal controls to underpin the integrity of the Rates Levied Reporting Process. Internal Audit notes the following opportunities for improvement:

2.4.1 Sufficient and appropriate protocols and procedure need to be developed and documented in relation to the preparation of the Rates & Valuation Certificate of Rates Levied for 2019/2020 to enable the second in charge to undertake the necessary work should the SRO be unavailable. The protocols and procedures should be prepared with sufficient detail to allow the reader to understand all key assumptions and all key exceptions in preparing the certificate.

Priority level: **Medium**

2.4.2 The finance team needs to develop an additional resource with capability in Rating to support the important work of the SRO.

Priority level: **Medium**

2.4.3 The Certificate is to be prepared by the Senior Revenue Officer with all supporting documentation attached and submitted for review by the Chief Financial Officer. Sufficient documentation should be retained to evidence both Preparer sign-off and Reviewer sign-off prior to submission of the certificate to Auditors.

Priority level: **Low**

2.4.4 An automated report should be set-up in the MAGIQ Enterprise System to facilitate the reporting of Rates Levied to auditors.

Priority level: **Medium**

Management comments

SRO –

1. Documentation on the preparation of the certificate will be prepared however, no matter how much documentation you have, you need someone highly experienced in rates to be able to interpret the data.
2. Agreed, I do believe this is going to be addressed in the New Year.
3. All documentation is kept and presented to the auditors. There is no need for the CFO to check the certificate. You have to remember that this certificate is prepared solely for the auditors, nobody else.
4. This is where the whole thing started, I could pull a report from Authority that would match it everywhere but with Magiq, that just hasn't happened. That is all I have ever wanted and this whole review/report would have been avoided if that was available.

Management action date

30 June 2020

Appendix A – Rates and Valuation Certificate of Rates Levied 2019/2020

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(Refer to MAGIQ Documents ID349762)

Appendix B – Assessment ID's to be actioned

<i>Rate Type</i>	<i>ID</i>	<i>Rate Year</i>	<i>Rateable YN</i>	<i>New Rateable YN</i>	<i>Category Description</i>	<i>Factor</i>	<i>Levy Gross</i>	<i>Levy</i>	<i>Days Part</i>
0101 - Residential - Non Urban	3756	2020	N	N	CANCELLED ASSESSMENT	0	0.00	0.00	366
0101 - Residential - Non Urban	4325	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
0101 - Residential - Non Urban	91355	2020	Y		Residential Non Urban	0	0.00	0.00	366
0101 - Residential - Non Urban	95372	2020	Y		Residential Non Urban	0	0.00	0.00	366
0101 - Residential - Non Urban	99655	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
0101 - Residential - Non Urban	99952	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
0102 - Residential -Yass	31815	2020	N	N	CANCELLED ASSESSMENT	0	0.00	0.00	366
0103 - Residential - Binalong	3590	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
0105 - Residential - Wee Jasper	26047	2020	N	N	CANCELLED ASSESSMENT	0	0.00	0.00	366
0108 - Farmland Rate	101360	2020	Y	Y	Farmland	0	0.00	0.00	366
0108 - Farmland Rate	1081	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366

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0108 - Farmland Rate	14027	2020	Y	Y	Farmland	903,000	0.00	0.00	92
0108 - Farmland Rate	1867	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
0108 - Farmland Rate	22715	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
0108 - Farmland Rate	24240	2020	N	N	CANCELLED ASSESSMENT	0	0.00	0.00	366
0108 - Farmland Rate	25130	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
0108 - Farmland Rate	25726	2020	Y		Farmland	155,000	451.02	0.00	366
0108 - Farmland Rate	27417	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
0108 - Farmland Rate	968	2020	Y	Y	Farmland	3,250,000	0.00	0.00	92
0108 - Farmland Rate	97600	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
0202 - 20-32mm Water Charge	31567	2020	Y		Business Yass	0	0.00	0.00	366
0202 - 20-32mm Water Charge	31815	2020	N	N	CANCELLED ASSESSMENT	0	0.00	0.00	366
0202 - 20-32mm Water Charge	3590	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
0301 - Residential Sewerage Charge	31815	2020	N	N	CANCELLED ASSESSMENT	0	0.00	0.00	366

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0501 - Domestic Waste Charge	16931	2020	Y		Residential Non Urban	0	0.00	0.00	366
0501 - Domestic Waste Charge	27631	2020	Y		Business Yass	0	0.00	0.00	366
0501 - Domestic Waste Charge	3590	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
0501 - Domestic Waste Charge	91264	2020	Y		Residential Non Urban	0	0.00	0.00	366
0501 - Domestic Waste Charge	96453	2020	Y		Residential Non Urban	0	0.00	0.00	366
0601 - Waste Management Environment Charge	101360	2020	Y	Y	Farmland	0	0.00	0.00	366
0601 - Waste Management Environment Charge	1081	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
0601 - Waste Management Environment Charge	1867	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
0601 - Waste Management Environment Charge	22715	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
0601 - Waste Management Environment Charge	24240	2020	N	N	CANCELLED ASSESSMENT	0	0.00	0.00	366
0601 - Waste Management Environment Charge	25130	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
0601 - Waste Management Environment Charge	26047	2020	N	N	CANCELLED ASSESSMENT	0	0.00	0.00	366
0601 - Waste Management Environment Charge	27417	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366

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0601 - Waste Management Environment Charge	31815	2020	N	N	CANCELLED ASSESSMENT	0	0.00	0.00	366
0601 - Waste Management Environment Charge	3590	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
0601 - Waste Management Environment Charge	36905	2020	Y		Business Yass	0	0.00	0.00	366
0601 - Waste Management Environment Charge	3756	2020	N	N	CANCELLED ASSESSMENT	0	0.00	0.00	366
0601 - Waste Management Environment Charge	4325	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
0601 - Waste Management Environment Charge	97600	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
0601 - Waste Management Environment Charge	99655	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
0601 - Waste Management Environment Charge	99952	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
1001 - Business Waste Charge	32052	2020	Y		Business Yass	0	0.00	0.00	366
1401 - Domestic Waste Unoccupied	31815	2020	N	N	CANCELLED ASSESSMENT	0	0.00	0.00	366
1401 - Domestic Waste Unoccupied	82743	2020	Y		Residential Non Urban	0	0.00	0.00	366
1401 - Domestic Waste Unoccupied	86611	2020	Y		Residential Non Urban	0	0.00	0.00	366
1401 - Domestic Waste Unoccupied	87437	2020	Y		Residential Non Urban	0	0.00	0.00	366

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1401 - Domestic Waste Unoccupied	89433	2020	Y		Residential Yass	0	0.00	0.00	366
1401 - Domestic Waste Unoccupied	92031	2020	Y		Residential Yass	0	0.00	0.00	366
1401 - Domestic Waste Unoccupied	92049	2020	Y		Residential Yass	0	0.00	0.00	366
1401 - Domestic Waste Unoccupied	92379	2020	Y		Residential Yass	0	0.00	0.00	366
1401 - Domestic Waste Unoccupied	93393	2020	Y		Residential Non Urban	0	0.00	0.00	366
1401 - Domestic Waste Unoccupied	93930	2020	Y		Residential Non Urban	0	0.00	0.00	366
1401 - Domestic Waste Unoccupied	95455	2020	Y		Residential Yass	0	0.00	0.00	366
1401 - Domestic Waste Unoccupied	95679	2020	Y		Residential Yass	0	0.00	0.00	366
1401 - Domestic Waste Unoccupied	96859	2020	Y		Residential Yass	0	0.00	0.00	366
1401 - Domestic Waste Unoccupied	97154	2020	Y		Residential Murrumbateman	0	0.00	0.00	366
1401 - Domestic Waste Unoccupied	97303	2020	Y		Residential Murrumbateman	0	0.00	0.00	366
1401 - Domestic Waste Unoccupied	98509	2020	Y		Residential Murrumbateman	0	0.00	0.00	366
1401 - Domestic Waste Unoccupied	98517	2020	Y		Residential Murrumbateman	0	0.00	0.00	366

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1401 - Domestic Waste Unoccupied	98558	2020	Y		Residential Murrumbateman	0	0.00	0.00	366
1401 - Domestic Waste Unoccupied	98590	2020	Y		Residential Murrumbateman	0	0.00	0.00	366
1401 - Domestic Waste Unoccupied	98608	2020	Y		Residential Murrumbateman	0	0.00	0.00	366
1401 - Domestic Waste Unoccupied	98657	2020	Y		Residential Murrumbateman	0	0.00	0.00	366
1401 - Domestic Waste Unoccupied	98723	2020	Y		Residential Murrumbateman	0	0.00	0.00	366
1401 - Domestic Waste Unoccupied	99259	2020	Y		Residential Murrumbateman	0	0.00	0.00	366
1401 - Domestic Waste Unoccupied	99325	2020	Y		Residential Murrumbateman	0	0.00	0.00	366
1401 - Domestic Waste Unoccupied	99556	2020	Y		Residential Non Urban	0	0.00	0.00	366
1401 - Domestic Waste Unoccupied	99820	2020	Y		Residential Yass	0	0.00	0.00	366
1501 - Stormwater Management Charge	90183	2020	Y	Y	Residential Yass	0	0.00	0.00	366
1501 - Stormwater Management Charge	96511	2020	Y	Y	Residential Yass	0	0.00	0.00	366
1501 - Stormwater Management Charge	99846	2020	Y	Y	Residential Yass	0	0.00	0.00	366
1601 - On Site Sewage Management	100248	2020	Y	Y	Residential Non Urban	0	0.00	0.00	366

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1601 - On Site Sewage Management	1081	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
1601 - On Site Sewage Management	11569	2020	Y		Farmland	0	0.00	0.00	366
1601 - On Site Sewage Management	21782	2020	Y		Farmland	0	0.00	0.00	366
1601 - On Site Sewage Management	2196	2020	Y		Farmland	0	0.00	0.00	366
1601 - On Site Sewage Management	22715	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
1601 - On Site Sewage Management	27417	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
1601 - On Site Sewage Management	3590	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
1601 - On Site Sewage Management	63537	2020	Y		Gundaroo Village	0	0.00	0.00	366
1601 - On Site Sewage Management	99499	2020	Y		Residential Non Urban	0	0.00	0.00	366
3001 - Res - Non Urban Base Charge	3756	2020	N	N	CANCELLED ASSESSMENT	0	0.00	0.00	366
3001 - Res - Non Urban Base Charge	4325	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
3001 - Res - Non Urban Base Charge	91355	2020	Y		Residential Non Urban	0	0.00	0.00	366
3001 - Res - Non Urban Base Charge	95372	2020	Y		Residential Non Urban	0	0.00	0.00	366

7. Internal Audit

Attachment A IA Review Report - Rates Levied FY19/20

3001 - Res - Non Urban Base Charge	99655	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
3001 - Res - Non Urban Base Charge	99952	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
3008 - Farmland Base Charge	101360	2020	Y	Y	Farmland	0	0.00	0.00	366
3008 - Farmland Base Charge	1081	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
3008 - Farmland Base Charge	1867	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
3008 - Farmland Base Charge	22715	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
3008 - Farmland Base Charge	24240	2020	N	N	CANCELLED ASSESSMENT	0	0.00	0.00	366
3008 - Farmland Base Charge	25130	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
3008 - Farmland Base Charge	27417	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
3008 - Farmland Base Charge	97600	2020	Y		CANCELLED ASSESSMENT	0	0.00	0.00	366
8002 - Res-Non Urban Base Charge S	72439	2020	Y		Residential Non Urban	0	0.00	0.00	366
8008 - Residential Gundaroo Village base	63941	2020	Y		Gundaroo Village	0	0.00	0.00	366
8102 - Residential Non Urban S	72439	2020	Y		Residential Non Urban	18,500	0.00	0.00	366

7. Internal Audit

Attachment A IA Review Report - Rates Levied FY19/20

8108 - Residential Gundaroo Village	63941	2020	Y		Gundaroo Village	277,000	0.00	0.00	366
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Appendix C – Audit Workpaper

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(Refer to MAGIQ Documents ID349766)

7. Internal Audit

Attachment B IA Recommendation Tracker

YASS VALLEY COUNCIL IA RECOMMENDATION TRACKER									
Item	Audit ID	Audit Issue	Sub	Audit Recommendation	Agreed Action	Responsibility	Status update	Completion status	Date
1	16/04-01 Document ID 199190	Risk Management not embedded		<p>The work currently underway in relation to risk management be fully addressed and embedded into day to day management and to include each of the following areas:</p> <p>1 Strategy & Governance: Risk framework; risk appetite & tolerance; three lines of defence; accountability and assessment of risk management function</p> <p>2 Process: Standardisation and embedding of risk management – templates, risk register, control testing; Key Risk Indicator reporting; audit program; stress testing of key risks.</p> <p>3 Systems & Intelligence: Risk management systems in place – real time; ability to tailor to suit needs; integration; availability of reports.</p> <p>4 Monitoring and Review: Use of risk monitoring to inform decision making; escalation process; root cause analysis risk/incident; predictive analysis for resource allocation; continuous improvement implementation; risk appetite.</p> <p>5 Culture: Risk linkage to corporate and strategic goals; ownership of risk and controls; risk management value – enabler / hindrance; risk management in business planning.</p>	<p>To develop task and action plan following completion of risk register and risk framework. This will also consider mechanism into embedding into operational systems</p>	<p>Director of Finance and Corporate Services</p> <p>Manager of Risk, Audit and Improvement</p>	In progress	<p>First pass Enterprise Risk Register has been completed and reviewed by ARIC at 3 September 2019.</p> <p>Leveraging the first pass Enterprise Risk Register final pass Risk Registers are being prepared for the following business units:</p> <p>1. Finance - Completed 2. Environment and Health - Completed 3. Development Control - Initiated 4. Strategic Planning - Initiated 5. Media and Communications - Initiated 6. Organisational development - Initiated 7. Tourism and business - Initiated 8. ICT - Initiated 9. Library Services - Initiated 10. Customer Services - Initiated 11. Water and Wastewater - Complete 12. Engineering Services - Draft Completed 13. Contract services - Initiated 14. Facility & Waste Assets - Draft Completed 15. Recreational assets - Initiated 16. Maintenance Services - Initiated</p> <p>One-on-one Risk Register consultation completed with all Business Unit managers and Directors</p> <p>Risk Rating group sessions completed with:</p>	Expected completion Q2 2020.
2	Review 19-12 Rates Levied Document ID 348386	Reconciling differences in Rates Levied for 2019/2020 as reported on the Rates and Valuation Certificate of Rates Levied to MAGIQ Enterprise System	<p>2.1 Not a adjustments in land values following subdivisions of land can not be evidenced in MAGIQ</p> <p>2.2 Identified variances between reported counts on the Rates and Valuation Certificate and MAGIQ</p> <p>2.4 Opportunities for improvement</p>	<p>2.1.1 MAGIQ should enable in-application verification of not a adjustments in land values following subdivisions or revaluations of properties to enable efficient reporting on rates levied.</p> <p>2.1.2 MAGIQ team to provide guidelines/procedures on best practice processing of subdivision of land in MAGIQ with reference to Assessment ID 968 and 14027 to ensure data integrity is preserved in the future. SRO is responsible for applying best practice guidelines and procedures provided.</p> <p>2.2.1.1 Senior Rates Officer should review the Assessment ID's identified in Appendix B to ensure all factor profiles are up to date and all SMI levy amounts are appropriately supported. All necessary changes should be processed in MAGIQ.</p> <p>2.4.1 Sufficient and appropriate protocols and procedure need to be developed and documented in relation to the preparation of the Rates & Valuation Certificate of Rates Levied for 2019/2020 to enable the second in charge to undertake the necessary work should the SRO be unavailable. The protocols and procedures should be prepared with sufficient detail to allow the reader to understand all key assumptions and all key exceptions in preparing the certificate.</p> <p>2.4.2 The Finance Team needs to develop an additional resource with capability in Rating to support the important work of the SRO.</p> <p>2.4.3 The Certificate is to be prepared by the Senior Revenue Officer with a full supporting documentation attached and submitted for review by the Chief Financial Officer. Sufficient documentation should be retained to evidence both Preparer sign-off and Reviewer sign-off prior to submission of the certificate to Auditors.</p> <p>2.4.4 An automated report should be set-up in the MAGIQ Enterprise System to facilitate the reporting of Rates Levied.</p>	<p>Functionality to be requested with MAGIQ</p> <p>Service request to be lodged with MAGIQ for system specific guidelines/procedures on best practice processing of subdivision of land in MAGIQ</p> <p>Senior Rates Officer to perform quarterly exception reporting using MAGIQ Performance to query, identify and investigate potential data quality issues in MAGIQ as they arise.</p> <p>Documentation on the preparation of the certificate to be prepared by Senior Rates Officer.</p> <p>MAGIQ User guides to be updated by SRO to reflect YVC Rating.</p> <p>Finance Trainee to be recruited in FY20/21. Development plan for the trainee/Rates Officer to be developed by SRO.</p> <p>Review of the annual certificate of Rates Levied to be performed and evidenced by the CFO prior to submission to the external auditors.</p> <p>Senior Rates Officer/ MAGIQ Team</p>	<p>MAGIQ Team Senior Rates Officer ICT Manager</p> <p>MAGIQ Team Senior Rates Officer ICT Manager</p> <p>Senior Rates Officer</p> <p>Senior Rates Officer</p> <p>CFO Senior Rates Officer</p> <p>MAGIQ Team Senior Rates Officer ICT Manager</p>	In progress	<p>Service request has been lodged with MAGIQ. Due 30 June 2020</p> <p>Service request has been lodged with MAGIQ. Due 30 June 2020</p> <p>First quarterly exception report is due in April 2020.</p> <p>Due 30 June 2020</p> <p>Due 31 December 2020</p> <p>Due 31 October 2020</p> <p>Initial conversations have been had between SRO and MAGIQ. Due 30 June 2020</p>	<p>Expected completion Q2 2020.</p> <p>Expected completion Q2 2020.</p> <p>Expected completion Q2 2020.</p> <p>Expected completion Q2 2020.</p> <p>Expected completion Q4 2020.</p> <p>Expected completion Q3 2020.</p> <p>Expected completion Q2 2020.</p>

8. ARIC ACTIONS TRACKING

SUMMARY

This report serves to inform the Audit, Risk and Improvement Committee on the status of outstanding ARIC Actions as resolved by the Committee.

RECOMMENDATION

That the Committee receives and notes the report.

FINANCIAL IMPLICATIONS

Nil

POLICY & LEGISLATION

- Local Government Act 1993
- ARIC Charter
- Internal Audit Charter
- ARIC Workplan
- ARIC Agenda
- Code of Conduct

REPORT

Outstanding ARIC Actions

All outstanding ARIC Actions have been implemented by Manager, Risk, Audit and Improvement.

Please refer to **Attachment A** to review the details and status of ARIC Actions.

ATTACHMENTS: A. ARIC Actions Tracker [↓](#)

8. ARIC Actions Tracking
Attachment A ARIC Actions Tracker

YASS VALLEY COUNCIL ARIC ACTION TACKER								
Item	Committee Name	Meeting Date	Agenda Item	Recommendation No	Responsibility	Status update	Completion status	Date
2	ARIC	3-Sep-19	7.1 ARIC Responsibilities, Charter and Workplan	7.1.2 The Manager Risk, Audit & Improvement, when appointed, prepares a: 1. draft ARIC Responsibility Plan 2. draft ARIC Workplan 3. draft ARIC Standard Agenda 4. Report for the Committee on the ARIC Charter 5. Internal Audit Charter.	Manager of Audit Risk and Improvement	Manager Audit Risk and Improvement has prepared the following for presentation to the ARIC on 31 March 2020: 1. DRAFT INTERNAL AUDIT CHARTER 2. DRAFT ARIC CHARTER 3. DRAFT ARIC WORKPLAN (Including Responsibility Plan) 4. DRAFT ARIC STANDARD AGENDA	Completed	18-Mar-20
3	ARIC	3-Sep-19	7.1 ARIC Responsibilities, Charter and Workplan	7.1.3 The Manager Risk, Audit & Improvement, when appointed, prepares a report for Council on the: 1. Matter of an ARIC Code of Conduct for Independent External Members.	Manager of Audit Risk and Improvement	Manager Audit Risk and Improvement notes that under section 440 of the Local Government Act, Independent Audit, Risk and Improvement Committee members are subject to and required to comply with the council's Code of Conduct. This is documented in Section 7 of the Audit Risk and Improvement Committee Charter. Manager Audit, Risk and Improvement has DRAFTED additional Code of Conduct Guidelines for Independent Chair and Members of ARIC to supplement the Model Code of Conduct adopted by the Council.	Completed	18-Mar-20

9. ARIC GOVERNANCE FRAMEWORK

SUMMARY

This report presents updated governing documents aligned with best practice and the New Risk Management and Internal Audit Framework for Local Council in NSW to be adopted by March 2021. The governing documents presented include:

- ARIC Charter
- Internal Audit Charter
- ARIC Workplan, Responsibility Plan and Calendar
- ARIC Standard Agenda
- ARIC Code of Conduct Guidelines for Independent Chair and Members

RECOMMENDATION

That the:

1. *Committee to endorse the updated Internal Audit Charter for adoption by March 2021.*
2. *Committee to endorse the updated Audit, Risk and Improvement Committee Charter for adoption by March 2021.*
3. *Committee to endorse the proposed ARIC Workplan. Responsibility Plan and Calendar for adoption by March 2021.*
4. *Committee to endorse the proposed ARIC Standard Agenda for adoption by March 2021.*
5. *Committee to endorse the proposed Code of Conduct Guidelines for Independent ARIC Chair and Members for adoption by March 2021.*

FINANCIAL IMPLICATIONS

Nil

POLICY & LEGISLATION

- Local Government Act 1993.
- ARIC Charter
- Internal Audit Charter
- Code of Conduct

REPORT

1. Background

Council has moved to a shared services model for the administration and management of Risk, Audit and Business Improvement functions with the Manager of Risk, Audit and Improvement commencing the shared services role between the partner councils of Yass Valley, Upper Lachlan Shire and Goulburn Mulwaree in November 2019.

With the introduction of the New Risk Management and Internal Audit Framework for Local Council in NSW (to be discussed separately) effective by March 2021, ARIC must now keep under review the following aspects of the Council's operations:

- a) Internal Audit
- b) External Audit
- c) Compliance
- d) Risk management
- e) Fraud control
- f) Financial management
- g) Governance
- h) Implementation of the strategic plan, delivery program and strategies
- i) Service reviews
- j) Collection of performance measurement data by the council
- k) Any other matters prescribed by the regulations

The legislation has been in place since 2016 but only proclaimed and gazetted during the last year and will come into complete and compulsory operation from 6 months after the next general council elections in NSW, i.e. from March 2021.

Like many ARICs, this Committee was initially established prior to the 2016 legislation. A comprehensive review of the Committee's reporting and operational framework has not been undertaken since its inception in 2015, although annual Reports on Committee Performance have been prepared.

At present the Committee receives reports on an ad-hoc basis and based upon Internal Audit Programs (when prepared) and Annual Reporting Programs. Internal Audit does not consider this to constitute an adequate framework in view of the requirements the newly proclaimed legislation imposes.

The present ARIC Charter, Internal Audit Charter and other governing documents of the Committee required review and update to ensure they provide a robust reporting and operational framework which will enable the ARIC to meet its legislative responsibilities going forward.

This report presents updated governing documents aligned with best practice and the New Risk Management and Internal Audit Framework for Local Council in NSW to be adopted by March 2021.

2. ARIC and Internal Audit Charter

The present ARIC and Internal Audit Charters are based on the outdated s23A Internal Audit Guidelines and Charters.

A review and update has been completed by Manager of Risk, Audit and Improvement to ensure full alignment and coverage of legislative requirements in accordance with the New Risk Management and Internal Audit Framework for Local Council in NSW and best practices models supported by the Institute of Internal Auditors and Local Government NSW.

Please refer to the following attachments:

- 1. Updated Internal Audit Charter (**Attachment A**)
- 2. Updated ARIC Charter (**Attachment B**)

3. ARIC Workplan, Responsibility Plan and Calendar

The current ARIC does not have the assistance of a formally adopted ARIC Workplan, Responsibility Plan and Calendar in the form recommended by the Institute of Internal Auditors and Local Government of NSW.

ARIC Workplan, Responsibility Plan and Calendar has been drafted by the Manager of Risk, Audit and Improvement and ensures full alignment and coverage of legislative requirements in accordance with the New Risk Management and Internal Audit Framework for Local Council in NSW.

Please refer to the following attachments:

1. Proposed ARIC Workplan, Responsibility Plan and Calendar (**Attachment C**)

4. ARIC Standard Agenda

To support the Responsibility and Reporting Frameworks of Council, the Manager of Risk, Audit and Improvement has prepared a draft ARIC Standard Agenda to strengthen independent oversight, robustness and transparency in reporting for the organisation.

Please refer to the following attachments:

1. Proposed ARIC Standard Agenda (**Attachment D**)

5. ARIC Code of Conduct Guidelines for Independent Chair and Members

Under section 440 of the Local Government Act, independent Audit, Risk and Improvement Committee members are subject to and required to comply with the council's Code of Conduct.

In line with the recommendations of the Institute of Internal Auditors and Local Government NSW ARIC Training workshop, Manager of Audit Risk and Improvement has drafted supplementary Code of Conduct Guidelines for Audit, Risk and Improvement Committee Independent Chairs and Members

Code of Conduct Guidelines have been prepared in accordance with the requirements of the NSW Government's Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members.

Please refer to the following attachments:

1. Proposed Code of Conduct Guidelines: Audit, Risk and Improvement Committee Independent Chairs and Members (**Attachment E**)

ATTACHMENTS:

- A. Updated - Internal Audit Charter [↓](#)
- B. Updated - ARIC Charter [↓](#)
- C. Proposed - ARIC Workplan, Responsibility Plan and Calendar [↓](#)
- D. Proposed - ARIC Standard Agenda [↓](#)
- E. Proposed - Code of Conduct Guidelines: AIRC Independent Chair and Members [↓](#)

Internal Audit Charter

Yass Valley Council



Record	Version	Author	MAGIQ Doc ID	Endorsed by	Date	Approved by	Date	Review Date	Status
1	1.0	Margaret Nicholls	2891	ARIC	11/06/15	General Manager	11/06/15	N/A	Current
2	2.0	Jovan Pejic		ARIC		General Manager		Q1 2021	Draft

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1.		

Introduction and Vision

The Internal Audit function is established by authority of the governing body of the Council (the Council), with its responsibilities defined in this Internal Audit Charter (Charter) approved by the General Manager on endorsement by the Audit, Risk and Improvement Committee.

This charter provides the framework and authority for the performance of Internal Audit activities at the Council.

Chief Audit Executive describes the person in the senior position responsible for managing the Internal Audit Department of an organisation. At the Council, this is the shared services Manager of Risk, Audit and Improvement.

The vision of the Internal Audit function is to embrace and operate in line with the relevant and recognised best practices of internal audit.

2. Definition of internal auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes.

3. Purpose

The mission of internal audit is to enhance and protect the value the Councils delivers to rate payers by providing stakeholders with risk-based, objective and reliable assurance, advice and insight.

The Internal Audit function provides independent and objective assurance to:

- The Audit, Risk and Improvement Committee and the General Manager that financial and non-financial controls are operating in a compliant, efficient, effective, economical and ethical manner.
- Assist executive management and business managers to improve business performance.

4. Independence

The Internal Audit function is required to be independent and objective, with independence essential to its effectiveness. The Internal Audit function has no direct authority or responsibility for the activities it reviews. The Internal Audit function has no responsibility for the management of business activities, or for development or implementation of operational systems or procedures.

The strength of the Internal Audit function comes from it being independent of management.

Where the Chief Audit Executive may be responsible for a non-audit activity including risk management and business improvement, there are independence safeguards in place:

- When responsible for non-audit activities, the Chief Audit Executive is not performing internal audit duties when managing or performing those activities; and
- Review of non-audit activities must be managed and performed independently of the Chief Audit Executive and reported direct to the Audit, Risk and Improvement Committee.

5. Conflict of interest

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the Internal Audit function, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

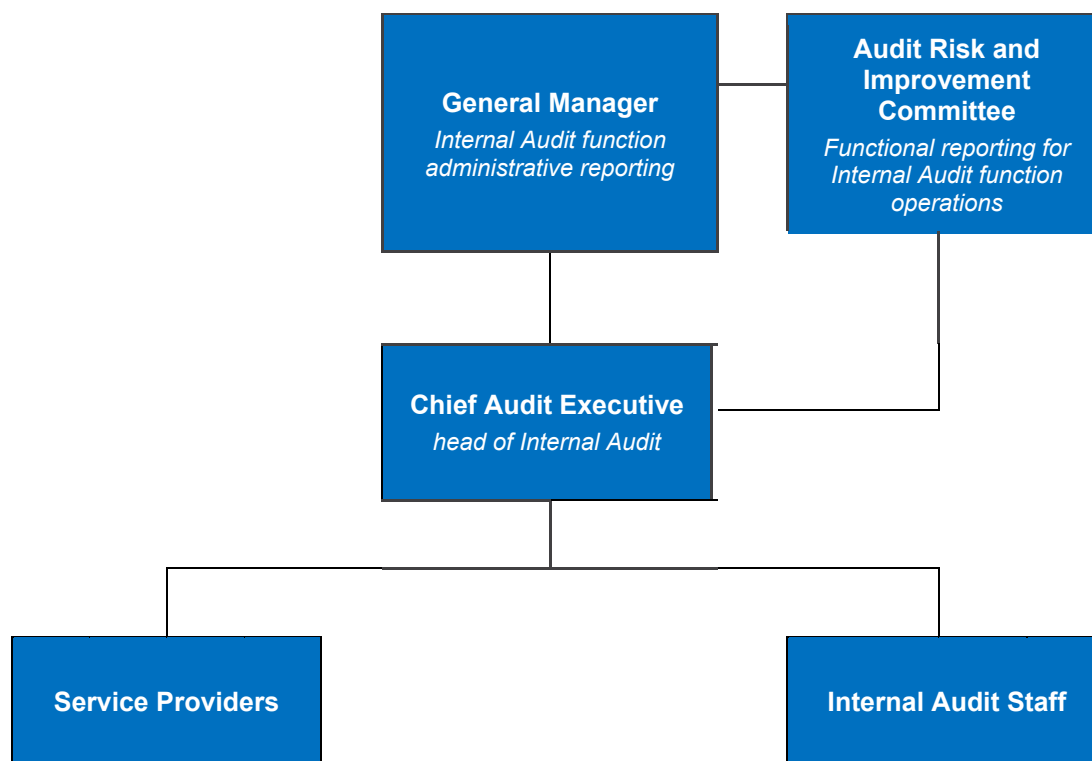
Internal auditors are not to provide audit services for work for which they may previously have been responsible. The Institute of Internal Auditors provides guidance on this point and suggests a period of one year, but each instance should be carefully assessed.

When engaging internal audit service providers, the Chief Audit Executive shall take steps to identify, evaluate the significance, and manage any perceived, potential or actual conflict of interest that may impinge upon internal audit work.

Instances of perceived, potential or actual conflict of interest by Internal function staff and service providers shall immediately be reported to the Chief Audit Executive and the chair of the Audit Risk and Improvement Committee.

6. Internal audit positioning

Internal Audit is positioned within the Council is as follows:



7. Reporting arrangements

All Internal Audit staff and service providers report to the Chief Audit Executive, who reports:

- Functionally for operations to the Audit Risk and Improvement Committee through the chair.
- Administratively to the General Manager.

Functional reporting involves the Audit Risk and Improvement Committee:

- Reviewing and approving the Internal Audit Charter.
- Approving decisions regarding appointment and removal of the Chief Audit Executive, including remuneration.
- Assessing performance of the Chief Audit Executive.
- Reviewing and approving the Internal Audit Plan, and any changes to the plan.
- Reviewing reports on the results of audits, audit-related activities, audit team capability, audit performance, and other important matters.
- Monitoring compliance with standards, together with quality and improvement arrangements.
- Meeting privately with the Chief Audit Executive at least once a year without the General Manager or other management present.
- Making enquiries of the Chief Audit Executive to determine any scope or budget limitations that may impede the execution of Internal Audit function responsibilities.

Administrative reporting to the General Manager includes:

- Internal Audit resources and annual budget.
- Provision of corporate services to the Internal Audit function including office accommodation, computers and equipment.
- Human resource administration.

The Chief Audit Executive will meet regularly with the General Manager, with meetings scheduled at least every two (2) months. Right of direct access by the Chief Audit Executive to the General Manager is preserved for any time the Chief Audit Executive believes it to be warranted.

8. Authority and confidentiality

All Internal Audit work is undertaken under the authority of the Audit Risk and Improvement Committee.

Internal Audit staff and service providers are authorised to have full, free and unrestricted access to all functions, premises, assets, personnel, records, and other documentation and information necessary to enable the Internal Audit function to fulfil its responsibilities in line with its approved internal audit plan.

All records, documentation and information accessed in the course of undertaking internal audit work are to be used solely for the performance of these activities. Internal Audit staff and service providers are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

All internal audit documentation and work papers remain the property of the Council, including where internal audit services are provided by service providers under an outsourced or co-sourced model.

9. Role

In the performance of its activities, the Internal Audit function will play an active role in:

- Developing and maintaining a culture of accountability, integrity and adherence to high ethical standards.
- Facilitating the integration of controls and risk management into day-to-day business activities and processes.
- Promoting a culture of cost-consciousness and self-assessment.

The Internal Audit function will support the Council by:

- Reviewing achievement of objectives.
- Assessing if decisions are properly authorised.
- Evaluating the reliability and integrity of information.
- Ensuring assets are safeguarded.
- Assessing compliance with laws, regulations, policies and contracts.
- Considering the efficiency, effectiveness, economy and ethics of business activities.
- Reviewing opportunities for fraud and corruption.
- Following-up previous audits to assess if remedial action has been effectively implemented.
- Looking for better ways of doing things, and sharing these insights within the Council.

Management may request internal audit services in response to emerging business issues or risks. The Internal Audit function will attempt to satisfy these requests, subject to the assessed level of risk, availability of resources, and endorsement of the Audit, Risk and Improvement Committee.

10. Reporting to the Audit Risk and Improvement Committee

The Audit Risk and Improvement Committee supports the General Manager in exercising its governance responsibilities. The Chief Audit Executive will report to the Audit Risk and Improvement Committee on:

- Overall performance of the Internal Audit function, including key performance indicators agreed with the Audit Risk and Improvement Committee that are documented in a balanced scorecard report or similar.
- Internal audit work completed.
- Progress implementing the internal audit plan.
- Implementation status of internal audit, external audit, and other relevant external and regulatory body recommendations.
- Achievements via an annual report to summarise work and achievements for the year, to demonstrate value delivered, and to provide an opinion on the overall state of internal controls and any systemic issues identified.

- Annual assertion on the work of the Internal Audit function and compliance with internal auditing standards.
- Annual statement of assurance.

11. Nature and scope of work

The scope of internal audit work embraces the wider concept of corporate governance and risk, recognising that controls exist in organisations to manage risks and promote effective and efficient governance and performance. Internal audit services may include:

- Assurance Services – objective examination of evidence for the purpose of providing an independent assessment of risk management, control and governance processes.
- Advisory Services – advisory and related client activities, the nature and scope of which are agreed upon with the client and which are intended to add value and improve business operations.

The Internal Audit function will offer a range of services, including:

- Audits with a compliance, financial or operational performance improvement focus.
- Management requested services where business areas may request internal audit services, usually in response to an issue or an emerging risk.
- Multi-stage audits at key project milestones.
- Continuous auditing of controls using technology.

The scope and coverage of Internal Audit work is not limited in any way, and may cover any Council activity, operations and programs, including those of associated organisations.

12. Professional standards

The Internal Audit function will govern itself by adherence to mandatory guidance contained in the 'International Professional Practices Framework' (IPPF) issued by the Institute of Internal Auditors (IIA):

- 'Core Principles for the Professional Practice of Internal Auditing'.
- 'Definition of Internal Auditing'.
- 'Code of Ethics'.
- 'International Standards for the Professional Practice of Internal Auditing'.

This mandatory guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of Internal Audit function performance. The Chief Audit Executive is responsible for maintaining an up-to-date risk-based internal audit methodology that aligns with good practices promoted by the internal audit profession.

The Internal Audit function, including service providers, will perform their work in accordance with the IPPF. While the IPPF will cover the majority of internal audits, technology audits may be performed using ISACA standards contained in the Information Technology Assurance Framework (ITAF).

13. Resourcing

The Audit, Risk and Improvement Committee will be advised of any resource limitations to the ability of the Internal Audit function to fulfil its responsibilities. Any assessment of the Internal Audit operational budget is to be supported by appropriate and objective analysis and benchmarking.

Where an internal audit outsourced or co-sourced model is adopted, in consultation with the Audit Risk and Improvement Committee, the service provider will be selected through periodic market testing that applies good practice probity principles focused on competence, skills and knowledge against a set of pre-determined criteria that includes independence and objectivity. Service provider appointment will be approved by the Audit Risk and Improvement Committee.

14. Responsibilities

Internal Audit responsibilities include, but are not limited to:

Internal Audit

- Establish a 'best practice' Internal Audit function.

Internal Audit Plan

- Develop a risk-based internal audit plan that considers the Councils risks and issues, including those identified by management, and submit the plan to the Audit Risk and Improvement Committee for review and approval.
- Ensure changes to the internal audit plan are approved by the Audit Risk and Improvement Committee.

Internal Audit Engagements

- Perform internal audit work contained in the approved internal audit plan, and produce a written report for each audit containing improvement actions.
- Ensure management action plans to implement improvement actions are obtained from management and included in audit reports, including a responsible person and timetable for completion.
- Where management responses to any audit recommendation are not considered adequate, the Chief Audit Executive will consult with management of the area audited and attempt to reach a mutually agreeable resolution. If agreement is not reached, the Chief Audit Executive will refer the matter to the General Manager for resolution. If agreement is still not reached, the final arbiter will be the Audit Risk and Improvement Committee.
- Provide final audit reports to management of the area audited, General Manager, and the Audit Risk and Improvement Committee. Copies may be provided to management of other areas where relevant. Copies may be provided to the external auditor if requested.

Improvement Actions

- Establish a system to monitor progress by management to implement internal audit and external audit improvement actions, together with recommendations contained in reports by other relevant external and regulatory bodies.
- Ensure management provides updates to the Internal Audit function quarterly on progress to implement management action plans.
- Follow-up and obtain evidence that management action plans are effectively implemented by management before recommending closure to the Audit Risk and Improvement Committee.

15. Management and staff obligations

An executive sponsor will be nominated for each audit.

Management and staff are obligated to professionally and constructively contribute to internal audit work, and the implementation of management action plans in response to improvement opportunities and recommendations contained in internal audit reports.

Management has maximum of 10 working days from when they receive a draft internal audit report to provide their management responses and action plans, which should contain:

- Agreed, partially agreed or not agreed.
- If not agreed, why not.
- Action to be taken – these do not need to include lengthy comments or explanations; the action to be taken is all that is required.
- Responsible person.
- Timing.
- Interim control arrangements to be relied upon where there is a long lead time, such as waiting to close-out an improvement action through implementation of a technology solution.

Where formal management responses and action plans have not been received within 10 working days, recommendations will be provided to the Audit Risk and Improvement Committee, with a timetable for implementation to be pursued separately through the General Manager.

Each quarter internal audit will request an update from management on progress of implementation for every improvement action and recommendation. Timing will align to Audit Risk and Improvement Committee meetings.

There is one opportunity for the executive sponsor to revise the implementation date should this be necessary due to unexpected delay.

Where an original implementation date is passed, whether approved or not, the audit recommendation cannot be rated to be on track.

Where an audit recommendation rated high or above is not implemented and closed-out by its due date, the executive sponsor will be required to attend the next Audit Risk and Improvement Committee meeting and present details on why the management action has not been fully implemented and the audit recommendation closed-out, and how the resulting risk is being addressed in the interim.

Where management seeks to accept a risk from an audit recommendation, they are required to complete a 'management acceptance of risk' form that considers approved risk appetite and risk tolerances, and have it approved by the Audit Risk and Improvement Committee.

16. Quality assurance and improvement program

The Chief Audit Executive is responsible for developing and maintaining a quality assurance and improvement program that includes:

- Ongoing internal assessments.
- Periodic internal assessments to be performed annually.
- Annual assertion to the Audit Committee on compliance with internal auditing standards.
- Independent external assessments performed at least once every five years by a qualified, independent assessor or assessment team from outside the Council.

Internal audit is encouraged to develop and maintain mutually beneficial relations with counterparts in other organisations, thought leaders, relevant professional bodies and networks with a view to:

- Exchanging information on internal audit good practices.
- Exchanging information on emerging corporate governance, risk management and assurance issues.

17. Evaluation of performance

Internal Audit performance will be evaluated and results reported to the Audit Risk and Improvement Committee in a balanced scorecard or similar. This will include:

- Results of the quality assurance and improvement program.
- Results of Internal Audit performance measures previously approved by the Audit Risk and Improvement Committee.
- Feedback from management of areas where internal audit work has been performed.

Feedback on Internal Audit performance will be sought annually from members of the Audit Risk and Improvement Committee.

18. Relationship with other assurance activities

The Council uses the 3 lines of defence integrated assurance model to allocate responsibilities for risk management and control, recognising that:

- 1st line of defence – Management has ownership, responsibility and accountability for assessing, controlling and mitigating risks.
- 2nd line of defence – Risk management facilitates and monitors implementation of effective risk management practices by management, and assists risk owners in reporting adequate risk-related information up and down the organisation.
- 3rd line of defence – Internal audit will, through a risk-based approach, provide assurance to the Audit Risk and Improvement Committee and management, on how effectively the Council assesses and manages its risks, including the manner in which the first and second lines of defence operate. Internal audit does not absolve management and staff from any of their risk management and control responsibilities.

The Internal Audit function will establish and maintain an open relationship with the external auditor and other assurance providers. The Internal Audit function will plan its activities to ensure adequacy of overall assurance coverage, and to minimise duplication of assurance effort across the Council.

External audit has full and free access to all internal audit plans, work papers and reports.

19. Review of the charter

This Charter will be reviewed annually, with any changes endorsed by the Audit Risk and Improvement Committee and approved by the General Manager.

20. Approval of the charter

Endorsed:

Audit Risk and Improvement Committee

Date:

31 March 2020

Resolution Number:

Approved:

General Manager

Date:

31 March 2020

Resolution Number:

Audit Risk and Improvement Committee Charter Yass Valley Council



Record	Author	MAGIQ Doc ID	Endorsed by	Date	Approved by	Res No:	Date	Review Date	Status
1	Margaret Nicholls	2889	ARIC	11/06/15	Council	342	25/02/15	-	Superseded
2	Margaret Nicholls	34685	ARIC	-	Council	184	27/06/16	-	Current
3	Jovan Pejic		ARIC	31/03/20	Council			Q1 - 2021	Draft

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1. Objective

The objective of the Audit Risk and Improvement Committee (Committee) is to provide independent advisory and assurance services to Yass Valley Council (the Council) on internal audit, external audit, risk management, compliance, fraud control, financial management and external accountability, governance, strategic planning, service delivery, collection of performance measurement data by the council and any other matters prescribed by the regulation.

2. Authority

The Council authorises the Committee, within the scope of its role and responsibilities, to:

1. Obtain any information it needs from any employee or external party (subject to their legal obligations to protect information).
2. Discuss any matters with the external auditor or other external parties (subject to confidentiality considerations).
3. Request of the General Manager the attendance of any employee at Committee meetings.
4. Obtain external legal or other professional advice considered necessary to meet its responsibilities. Prior discussion with the General Manager must be undertaken who will determine appropriateness of any reimbursement if any by Council.

3. Composition and Tenure

The Audit, Risk and Improvement Committee will consist of:

3.1 Members (voting)

The Audit, Risk and Improvement Committee is to comprise of three (3) independent voting members who are prequalified via the NSW Government's Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members.

3.2 Observers (non-voting)

3.2.1 Observers to attend each meeting except where excluded by the Committee

- General Manager
- Chief Audit Executive

3.2.2 Observers may attend by invitation as requested by the Committee

- NSW Auditor General (open invitation)
- Council's senior officers

- Risk management coordinator
- Council staff/contractors
- External experts
- Councillors
- Mayor

Audit, Risk and Improvement Committee members and the Chair are to serve a three to five-year term. A member's term cannot exceed eight years and the Chair's term cannot exceed five years.

Individuals who have served an eight-year term (either as a member or Chair) must have a three-year break from serving on the committee before being appointed again.

When approving the reappointment or extension of a membership term on the Audit, Risk and Improvement Committee, the governing body of the council is to consider a formal assessment by the Mayor (in consultation with the general manager) of the member's or Chair's performance on the committee.

The Council may engage an external reviewer to undertake this assessment if they choose.

When selecting individual Audit, Risk and Improvement Committee members, the governing body of the council will be required to ensure that the committee as a collective body has the appropriate mix of skills, knowledge and experience to successfully implement its Charter and add value to the council.

At least one member of the Audit, Risk and Improvement Committee should have accounting or financial management experience with an understanding of accounting and auditing standards in a local government context.

Each individual should also have sufficient time to devote to their responsibilities as an Audit, Risk and Improvement Committee member.

4. Role and Responsibilities

The Committee will act as an advisory Committee to Council and has no executive powers, except those expressly provided by the Council. In carrying out its responsibilities, the Committee must at all times recognise that primary responsibility for management of Council rests with the Council and the General Manager as defined by the Local Government Act 1993, and associated Regulations.

The responsibilities of the Committee may be revised or expanded by the Council from time to time. The Committee's responsibilities are to assist Council to discharge its responsibilities with due care and diligence in relation to the following items:-

4.1 Internal Audit

1. Provide overall strategic and executive direction for internal audit activities
2. Advise the general manager and governing body of the council of the resources

- necessary to successfully deliver the internal audit function
3. Assess the adequacy and effectiveness of council's internal audit activities
 4. Act as a forum for communication between the governing body, general manager, senior management, the internal audit function and external audit
 5. Oversee the coordination of audit programs conducted by internal and external audit and other review functions
 6. Ensuring the council achieves maximum value from its internal audit activities
 7. Review the appropriateness of council's Internal Audit Charter, internal audit policies and procedures
 8. Review audit/risk methodologies used
 9. Review findings/recommendations of internal audit activities, particularly recommendations that have been assessed as the most significant according to the risk to the council if they are not implemented
 10. Review the effectiveness of corrective actions implemented
 11. Review compliance with statutory requirements
 12. Review performance of the Chief Audit Executive and the internal audit function as part of the council's internal audit quality improvement program
 13. Review findings of any external reviews of the internal audit function
 14. Endorse the council's Internal Audit Charter, internal audit strategic four-year plan and annual work plan, and
 15. Endorse the appointment and remuneration of the Chief Audit Executive.

4.2 External Audit

1. Act as a forum for communication between the Council, General Manager, senior management, internal audit and external audit
2. Advise on the findings of external audits and monitor the implementation by the council of any recommendations for corrective action.

4.3 Risk Management

1. Advise whether the council has provided sufficient resources for risk management and staff are able to carry out their risk management responsibilities
2. Advise whether the council's risk management framework complies with current Australian risk management standards
3. Advise whether the council's risk management framework operates effectively and supports the achievement of council's strategic goals and objectives
4. Advise whether management has embedded a positive risk management culture
5. Advise whether risk management is fully integrated into all aspects of the council, including decision making processes and operations
6. Advise whether risks are formally considered when developing and implementing all council policies, programs, projects and other activities, including procurement
7. Advise whether major risks have been identified and assessed by the council and appropriate risk treatments have been implemented that reflect council's risk criteria
8. Advise whether risk information is captured and communicated in a timely manner across the council, enabling management and staff to carry out their responsibilities
9. Advise whether there are council-specific, fit-for-purpose tools, systems and processes to help all those responsible for managing risk to fulfil their responsibilities, and
10. Advise whether the council's risk management policies, procedures and plans are being complied with
11. Review the appropriateness and effectiveness of the council's risk criteria
12. Review the appropriateness and effectiveness of the council's internal control framework
13. Review the appropriateness and effectiveness of the council's risk register and risk profile
14. Review the appropriateness and effectiveness of the council's risk reports
15. Review the appropriateness and effectiveness of the council's risk management framework in relation to its insurance arrangements
16. Review the appropriateness and effectiveness of the council's business continuity plans and natural disaster plans (including periodic testing).
17. Endorse the council's risk management policy, risk management plan and risk criteria prior to their approval by the governing body of the council, and
18. Endorse the council's risk profile and risk register/s prior to their approval by the general manager.

4.4 Compliance

1. Advise whether management has embedded a culture which is committed to lawful and ethical behaviour
2. Advise whether the council has in place necessary policies and procedures and that these are periodically reviewed and updated
3. Advise whether the council is complying with all necessary legislation, regulations,

policies and procedures

4. Advise whether management has appropriately considered all legal and compliance risks as part of the council's risk assessment and management arrangements
5. Advise whether delegations are properly managed and exercised, and
6. Advise whether the council's system for monitoring compliance is effective.

4.5 Fraud control

1. Advise whether the council's fraud and corruption prevention plan and activities are adequate and effective, and
2. Advise whether council has appropriate processes and systems in place to capture and effectively investigate fraud-related information.

4.6 Financial management and external accountability

1. Advise whether the council's financial management processes are adequate
2. Assess the policies and procedures for council management's review and consideration of the council's current and future financial position and performance and the nature of that review (including the approach taken to addressing variances and budget risks)
3. Advise on the adequacy of early close and year-end review procedures, and
4. Review council's financial statements, including:
 - provide input and feedback on council's financial statements
 - advise whether council is meeting its external accountability requirements
 - advise whether appropriate action has been taken in response to audit recommendations and adjustments
 - satisfy itself that the financial statements are supported by appropriate management signoff
 - review the 'Statement by Councillors and Management' (made pursuant to s 413(2)(c) of the Local Government Act)
 - review the processes in place designed to ensure that financial information included in the council's annual report is consistent with the signed financial statements
 - review cash management policies and procedures
 - review policies and procedures for the collection, management and disbursement of grants and tied funding, and
 - satisfy itself that the council has a performance management framework that is linked to organisational objectives and outcomes.

1.

4.7 Governance

1. Advise on the adequacy and robustness of the processes and systems that the council has put in place to govern day-to-day activities and decision-making, and
2. Review whether controls over external parties such as contractors and advisors are sound and effective.

4.8 Strategic planning

1. Advise whether the council is achieving the objectives and goals it set out in its community strategic plan and has successfully implemented its delivery program, operational plan and other strategies.

4.9 Service delivery

1. Advise on how the council is delivering local services and how it could improve its service delivery performance.

4.10 Performance data and measurement

1. Assess the adequacy of the performance indicators and data the council uses to measure its performance.

4.11 Responsibilities of Members

Members of the Committee are expected to:-

1. Understand the relevant legislative and regulatory requirements appropriate to Upper Lachlan Shire Council.
2. Contribute the time needed to study and understand the papers provided.
3. Apply good analytical skills, objectivity and good judgement.
4. Express opinions frankly, ask questions that go to the fundamental core of issues, and pursue independent lines of enquiry.

5. Reporting

The Audit, Risk and Improvement Committee is to be advised at each quarterly meeting of the internal audits undertaken and progress made implementing corrective action.

The governing body of the council is to be advised after each quarterly meeting of the Audit, Risk and Improvement Committee of the internal audits undertaken and the progress made implementing corrective action through a formal monitoring report from the Committee – this report would be for information only and a decision at the council meeting would not be required

The Audit, Risk and Improvement Committee can raise any concerns with the

governing body of the council at any time through the Chair.

The Audit, Risk and Improvement Committee is to provide an annual self-assessment (Assurance Report) to the governing body of the council and be assessed by an external party at least once each council term as part of the council's quality assurance and improvement program.

6. Administrative Arrangements

6.1 Meetings

The Audit, Risk and Improvement Committee is to meet at least quarterly over the course of each year. A special meeting may be held, if needed, to review the council's financial statements.

The Audit, Risk and Improvement Committee will also be able to hold additional meetings when significant unexpected issues arise, or the Chair is asked to hold an additional meeting by the majority of committee members, the general manager, or the governing body of the council (by resolution). The Chair will be responsible for deciding if an additional meeting will be held.

Any individual Audit, Risk and Improvement Committee member who wishes to meet with the general manager or governing body of the council to discuss internal audit issues is to do so through the Chair of the committee, and vice versa.

6.2 Attendance at Meetings and Quorums

A quorum is to consist of a majority of Audit, Risk and Improvement Committee members. Where the vote is tied, the Chair is to have the casting vote.

Meetings can be held in person, by telephone or by video conference.

6.3

Secretariat

The Committee has appointed Internal Audit to provide secretariat support to the Committee. The Secretariat will ensure the agenda for each meeting and supporting papers are circulated, at least seven days before the meeting, and ensure minutes of the meetings are prepared and tabled at Ordinary Council meetings.

6.4 Conflicts of Interest

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

Where members or invitees at Committee meetings are deemed to have a real or perceived conflict of interest, it may be appropriate they be excused from Committee deliberations on the issue where the conflict of interest may exist. The final arbiter of such a decision is the Chairperson of the Committee.

6.5 Access to council staff resources and information

The Audit, Risk and Improvement Committee is to have direct and unrestricted access to the general manager, senior management and staff and contractors of the council in order to perform its role.

The Audit, Risk and Improvement Committee is also to have direct and unrestricted access to the council resources and information it needs to perform its role.

The Audit, Risk and Improvement Committee may only release council information to external parties with the approval of the general manager. The general manager's approval is not required where the information is being provided to an external investigative, audit or oversight agency such as, but not limited to, the Office of Local Government, the NSW Audit Office, the Independent Commission Against Corruption or the NSW Ombudsman for the purpose of informing that agency of a matter that may warrant its attention.

6.6 Disputes

Members of the Audit, Risk and Improvement Committee should maintain an effective working relationship and try to resolve any differences they may have via open negotiation.

However, in the event of a disagreement between the council management and the Chief Audit Executive (for example, about findings or recommendations of audits), it is to be resolved by the Audit, Risk and Improvement Committee.

6.7 Induction

General Manager is to ensure that each member of the Audit, Risk and Improvement Committee, including new appointments, are provided with a copy of the Charter and a formal induction.

6.8 Dismissal of committee members and the Chair

The governing body of council may terminate the engagement of the Chair or a member of the Audit, Risk and Improvement Committee where the Chair or member has:

- breached the conditions of the prequalification scheme
- breached the council's Code of Conduct
- performed unsatisfactorily, or
- declared, or is found to be in, a position of a conflict of interest which is unresolvable.

Termination can only occur with the approval of the Chief Executive of the Office of Local Government.

6.9 Fees paid to members and the Chair

Fees paid to Audit, Risk and Improvement Committee members and the Chair are to be the same as those currently paid under the NSW Government's prequalification scheme. Members will be able to serve on Audit, Risk and Improvement Committees on a voluntary basis.

7. Code of conduct

Under section 440 of the Local Government Act, independent Audit, Risk and Improvement Committee members are subject to and required to comply with the council's Code of Conduct.

In addition, independent chair and members are subject to and required to comply with the *Code of Conduct Guidelines: Audit, Risk and Improvement Committee Independent Chairs and Members* established in accordance with the requirements of the *NSW Government's Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members*.

Complaints or breaches of council's code of conduct will be dealt with in accordance with the Procedures for the Administration of the Model Code of Conduct for Local Councils in NSW.

8. Review of Audit, Risk and Improvement Committee Charter

Audit, Risk and Improvement Committee's Charter is to be reviewed annually by the Audit, Risk and Improvement Committee, and once each council term (i.e. four years) by an external party.

Any change to the Audit Risk and Improvement Committee Charter is by endorsement of the Audit, Risk and Improvement Committee. The Audit Risk and Improvement Committee Charter is presented to Council for resolution.

9. Approval of the charter

Endorsed:

Audit Risk and Improvement Committee

Date:

31 March 2020

Resolution Number:

Approved:

Council

Date:

Resolution Number:

Audit Risk and Improvement Committee Workplan Yass Valley Council



Record	Author	MAGIQ Doc ID	Endorsed by	Date	Approved by	Res No:	Date	Review Date	Status
1	Jovan Pejic		ARIC		General Manager			Q1 - 2021	Draft

9. ARIC Governance Framework
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Charter reference 4.1 Internal Audit											
1.	Provide overall strategic and executive direction for internal audit activities										
2.	Advise the general manager and governing body of the council of the resources necessary to successfully deliver the internal audit function										
3.	Assess the adequacy and effectiveness of council’s internal audit activities										
4.	Act as a forum for communication between the governing body, general manager, senior management, the internal audit function and external audit										
5.	Oversee the coordination of audit programs conducted by internal and external audit and other review functions										
6.	Ensuring the council achieves maximum value from its internal audit activities										
7.	Review the appropriateness of council’s Internal Audit Charter, internal audit policies and procedures										
8.	Review audit/risk methodologies used										
9.	Review findings/recommendations of internal audit activities, particularly recommendations that have been assessed as the most significant according to the risk to the council if they are not implemented										
10.	Review the effectiveness of corrective actions implemented										
11.	Review compliance with statutory requirements										
12.	Review performance of the Chief Audit Executive and the internal audit function as part of the council’s internal audit quality improvement program										
13.	Review findings of any external reviews of the internal audit function										
14.	Endorse the council’s Internal Audit Charter, internal audit strategic four-year plan and annual work plan, and										
Endorse the appointment and remuneration of the Chief Audit Executive											
Charter Ref #	ARIC Task to meet charter reference objective	Approach	Provided by	FY202X				FY202X			
				SEP	DEC	MAR	JUN	SEP	DEC	MAR	JUN
4.1.1	Provide overall strategic and executive direction for internal audit activities	Chairpersons address to Committee setting the overall strategic and executive direction for internal audit activities.	Chairperson	x	x	x	x	x	x	x	x
4.1.2	Advise the general manager and governing body of the council of the resources necessary to successfully deliver the internal audit function	Review/discuss the annual report to Committee on the IA Budget and other Internal Audit arrangements (i.e. shared services, co-source) to ensure delivery of the internal audit function.	General Manager				x				x
4.1.4	Act as a forum for communication between the governing body, general manager, senior management, the internal audit function and external audit	ARIC to meet privately with the CAE at le	ARIC Committee	x				x			

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4.1.6	Ensuring the council achieves maximum value from its internal audit activities	Review/discuss annual report to committee on any tender process resulting in a co-source arrangement with assurance service providers for the delivery of the IA Strategic four-year plan and annual work plan to ensure Council receives maximum value for money for its internal audit activities.	Chief Audit Executive				x				x
4.1.5	Oversee the coordination of audit programs conducted by internal and external audit and other review functions	Review/discuss quarterly report to Committee on: <ul style="list-style-type: none"> the number of internal/external audits completed during that quarter, including providing copies of the audit reports including details of findings and recommendations progress in implementing the annual work plan progress made implementing corrective actions arising from any past internal/external audits, and any concerns the CEA may have. 	Chief Audit Executive	x	x	x	x	x	x	x	x
4.1.8	Review of the IA Audit and Risk Methodology										
4.1.9	Review findings/recommendations of internal audit activities, particularly recommendations that have been assessed as the most significant according to the risk to the council if they are not implemented										
4.1.10	Review the effectiveness of corrective actions implemented										
4.1.11	Review compliance with statutory requirements										
4.1.12	Review performance of the Chief Audit Executive and the internal audit function as part of the council's internal audit quality assurance and improvement program	Review/discuss bi-annual report to committee on the periodic self-assessment by the Chief Audit Executive on the performance of the internal audit function	Chief Audit Executive	x		x		x		x	

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4.1.13	Review findings of any external reviews of the internal audit function (every 4 years)	Review/discuss special report to the Committee on the maturity of the Council Internal Audit function	TBA – External Assurance Provider	External Review of IA to be performed in 2024							
4.1.7	Review the council’s Internal Audit Charter, internal audit strategic four-year plan and annual work plan	Review/discuss annual report to Committee presenting: <ul style="list-style-type: none">Updated/reviewed Internal audit charterUpdated/reviewed Internal Audit strategic four-year planProposed annual work planProposed ARIC annual work plan	Chief Audit Executive				x				x
4.1.3	Assess the adequacy and effectiveness of council’s internal audit activities										
4.1.14	Endorse the council’s Internal Audit Charter, internal audit strategic four-year plan and annual work plan										
4.1.15	Endorse the appointment and remuneration of the CAE	Review/discuss report to Committee on the appointment and remuneration of the CEA	General Manager	As required							
Charter reference 4.2 External Audit											
1. Act as a forum for communication between the Council, General Manager, senior management, internal audit and external audit 2. Advise on the findings of external audits and monitor the implementation by the council of any recommendations for corrective action.											
Charter Ref #	ARIC Task to meet charter reference objective	Approach	Provided by	FY202X				FY202X			
				SEP	DEC	MAR	JUN	SEP	DEC	MAR	JUN
4.2.1	Act as a forum for communication between the Council, General Manager, senior management, internal audit and external audit	Review/discuss annual report presenting the External Audit Client Service Plan prepared by the external auditor in relations to the annual Financial Statement audit.	Chief Financial Officer	x				x			
4.2.2	Advise on the findings of external audits and monitor the	Review/discuss the annual external Audit Report and Letter to	External Auditor		x				x		

9. ARIC Governance Framework
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	implementation by the council of any recommendations for corrective action.	Management on the findings of the completed Financial Statement Audit.									
		Review/discuss quarterly report to Committee on the status of management’s implementation of external audit recommendations.	Chief Financial Officer	x	x	x	x	x	x	x	x
Charter reference 4.3 Risk Management (Objective)											
<div>1. Advise whether the council has provided sufficient resources for risk management and staff are able to carry out their risk management responsibilities</div> <div>2. Advise whether the council’s risk management framework complies with current Australian risk management standards</div> <div>3. Advise whether the council’s risk management framework operates effectively and supports the achievement of council’s strategic goals and objectives</div> <div>4. Advise whether management has embedded a positive risk management culture</div> <div>5. Advise whether risk management is fully integrated into all aspects of the council, including decision making processes and operations</div> <div>6. Advise whether risks are formally considered when developing and implementing all council policies, programs, projects and other activities, including procurement</div> <div>7. Advise whether major risks have been identified and assessed by the council and appropriate risk treatments have been implemented that reflect council’s risk criteria</div> <div>8. Advise whether risk information is captured and communicated in a timely manner across the council, enabling management and staff to carry out their responsibilities</div> <div>9. Advise whether there are council-specific, fit-for-purpose tools, systems and processes to help all those responsible for managing risk to fulfil their responsibilities, and</div> <div>10. Advise whether the council’s risk management policies, procedures and plans are being complied with</div> <div>11. Review the appropriateness and effectiveness of the council’s risk criteria</div> <div>12. Review the appropriateness and effectiveness of the council’s internal control framework</div> <div>13. Review the appropriateness and effectiveness of the council’s risk register and risk profile</div> <div>14. Review the appropriateness and effectiveness of the council’s risk reports</div> <div>15. Review the appropriateness and effectiveness of the council’s risk management framework in relation to its insurance arrangements</div> <div>16. Review the appropriateness and effectiveness of the council’s business continuity plans and natural disaster plans (including periodic testing).</div> <div>17. Endorse the council’s risk management policy, risk management plan and risk criteria prior to their approval by the governing body of the council, and Endorse the council’s risk profile and risk register/s prior to their approval by the general manager.</div>											

9. ARIC Governance Framework
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Charter Ref #	ARIC Task to meet charter reference objective	Approach	Provided by	FY202X				FY202X			
				SEP	DEC	MAR	JUN	SEP	DEC	MAR	JUN
4.3.1	Advise whether the council has provided sufficient resources for risk management and staff are able to carry out their risk management responsibilities	Review/discuss the annual report to Committee presenting the Budget for risk management activities and other resources to ensure staff are able to carry out their risk management responsibilities.	General Manager				x				x
4.3.4	Advise whether management has embedded a positive risk management culture	Review/discuss annual report to committee on actions/steps taken by management to embedded a positive risk management culture.	General Manager		x				x		
4.3.2	Advise whether the council's risk management framework complies with current Australian risk management standards	<p>Review/discuss an annual self-assessment by the General Manager supported by other senior management reporting on the overall quality/maturity of the council's risk management framework with reference to the previous financial year including whether:</p> <ul style="list-style-type: none"> Risk management framework is in compliance with Australian risk management standards Risk management framework operates effectively and supports the achievement of council's strategic goals and objectives Risk management is fully integrated into all aspects of the council, including decision making processes and operations 	General Manager		x				x		
4.3.3	Advise whether the council's risk management framework operates effectively and supports the achievement of council's strategic goals and objectives										
4.3.5	Advise whether risk management is fully integrated into all aspects of the council, including decision making processes and operations										
4.3.6	Advise whether risks are formally considered when developing and implementing all council policies, programs, projects and other activities, including procurement										
4.3.7	Advise whether major risks have been identified and assessed by										

9. ARIC Governance Framework
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	the council and appropriate risk treatments have been implemented that reflect council's risk criteria	<ul style="list-style-type: none"> Risks are formally considered when developing and implementing all council policies, programs, projects and other activities, including procurement 									
4.3.8	Advise whether risk information is captured and communicated in a timely manner across the council, enabling management and staff to carry out their responsibilities	<ul style="list-style-type: none"> Major risks have been identified and assessed by the council and appropriate risk treatments have been implemented that reflect council's risk criteria 									
4.3.9	Advise whether there are council-specific, fit-for-purpose tools, systems and processes to help all those responsible for managing risk to fulfil their responsibilities	<ul style="list-style-type: none"> Risk information is captured and communicated in a timely manner across the council, enabling management and staff to carry out their responsibilities 									
4.3.10	Advise whether the council's risk management policies, procedures and plans are being complied with	<ul style="list-style-type: none"> There are council-specific, fit-for-purpose tools, systems and processes to help all those responsible for managing risk to fulfil their responsibilities Council's risk management policies, procedures and plans are being complied with 									
4.3.11	Review the appropriateness and effectiveness of the council's risk criteria	Review/discuss annual report to committee presenting: <ul style="list-style-type: none"> Reviewed/updated risk management policy 	Coordinator Risk Management		x						
4.3.17	Endorse the council's risk management policy, risk management plan and risk criteria prior to their approval by the governing body of the council	<ul style="list-style-type: none"> Reviewed/updated risk management plan Reviewed/updated council's risk criteria 									
4.3.12		Review/discuss quarterly report to committee on the status of	Coordinator Risk Management	x	x	x	x	x	x	x	x

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	Review the appropriateness and effectiveness of the council’s internal control framework	HIGH/Critical enterprise risks identified.										
		Review/discuss quarterly report to committee presenting: <ul style="list-style-type: none">updated and validated enterprise risk registerupdated risk profileupdated list of internal controls for all significant risks identified	Coordinator Environmental Services	x								
			Manager Development Control	x								
			Manager Strategic Planning		x							
			Coordinator Media and Communications		x							
			Chief Financial Officer			x						
4.3.18	Endorse the council’s risk profile and risk register/s prior to their approval by the general manager	Manager Organisational Development			x							
		Manager Tourism & Business Liaison				x						
		Manager ICT				x						
		Coordinator Library Services					x					
		Coordinator Customer Service					x					
		Manager Water and Wastewater						x				

9. ARIC Governance Framework
Attachment C Proposed - ARIC Workplan, Responsibility Plan and Calander

			Manager Engineering Services						x		
			Manager Contract Services							x	
			Manager Facility and Waste Assets							x	
			Manager Recreational Assets								x
			Manager Maintenance Services								x
4.3.14	Review the appropriateness and effectiveness of the council's risk reports	Review/discuss annual report to committee presenting: <ul style="list-style-type: none"> Reviewed/updated risk report template 	Coordinator Risk Management			x				x	
4.3.15	Review the appropriateness and effectiveness of the council's risk management framework in relation to its insurance arrangements	Review/discuss quarterly report to on the effectiveness of Council's insurance arrangements with reference to any incidents/events resulting in insurance claims.	Coordinator Risk Management	x	x	x	x	x	x	x	x
4.3.16	Review the appropriateness and effectiveness of the council's business continuity plans and natural disaster plans (including periodic testing)	Review/discuss annual report to Committee presenting: <ul style="list-style-type: none"> Reviewed/updated of the Business continuity plan Reviewed/update of the Disaster Recovery Plan Results of Business Impact Assessments 	Coordinator Risk Management			x				x	

9. ARIC Governance Framework
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		<ul style="list-style-type: none"> Results of BCP and DRP testing performed 										
Charter reference 4.4 Compliance												
<ol style="list-style-type: none"> Advise whether management has embedded a culture which is committed to lawful and ethical behaviour Advise whether the council has in place necessary policies and procedures and that these are periodically reviewed and updated Advise whether the council is complying with all necessary legislation, regulations, policies and procedures Advise whether management has appropriately considered all legal and compliance risks as part of the council's risk assessment and management arrangements Advise whether delegations are properly managed and exercised, and Advise whether the council's system for monitoring compliance is effective 												
Charter Ref #	ARIC Task to meet charter reference objective	Approach	Provided by	FY202X				FY202X				
				SEP	DEC	MAR	JUN	SEP	DEC	MAR	JUN	
4.4.1	Advise Council on whether management has embedded a culture which is committed to lawful and ethical behaviour	Review/discuss annual report to Committee on management actions/steps taken for embedded a culture which is committed to lawful and ethical behaviour	General Manager			x				x		
4.4.2	Advise Council whether the council has in place necessary policies and procedures and that these are periodically reviewed and updated	Review/discuss annual report to Committee presenting: <ul style="list-style-type: none"> Reviewed/updated regulatory compliance policies and procedures 	Coordinator Governance			x				x		
4.4.3	Advise Council whether management is complying with all necessary legislation, regulations, policies and procedures	Review/discuss quarterly report to Committee presenting: <ul style="list-style-type: none"> Updated/validated regulatory compliance register 	Coordinator Governance	x	x	x	x	x	x	x	x	x
4.4.4	Advise Council whether management has appropriately											

9. ARIC Governance Framework
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	considered all legal and compliance risks as part of the council's risk assessment and management arrangements	<ul style="list-style-type: none"> Updated cross references to the Risk Register Reviewed/updated delegations 									
4.4.5	Advise Council whether delegations are properly managed and exercised										
4.4.6	Advise Council whether the council's system for monitoring compliance is effective										
Charter reference 4.5 Fraud control											
1. Advise whether the council's fraud and corruption prevention plan and activities are adequate and effective, and 2. Advise whether council has appropriate processes and systems in place to capture and effectively investigate fraud-related information.											
Charter Ref #	ARIC Task to meet charter reference objective	Approach	Provided by	FY202X				FY202X			
				SEP	DEC	MAR	JUN	SEP	DEC	MAR	JUN
4.5.1	Advise whether the council's fraud and corruption prevention plan and activities are adequate and effective	Review/discuss quarterly report to committee on status of fraud and corruption control		x	x	x	x	x	x	x	x
4.5.2	Advise whether council has appropriate processes and systems in place to capture and effectively investigate fraud-related information	Review/discuss annual report to Committee presenting the councils Fraud Control frame work comprising <ul style="list-style-type: none"> Reviewed/updated fraud and corruption prevention plan Completed fraud and corruption risk assessment 	Coordinator Risk Management			x				x	

9. ARIC Governance Framework
Attachment C Proposed - ARIC Workplan, Responsibility Plan and Calander

		<ul style="list-style-type: none"> Prevention, detection and investigation measures 										
Charter reference 4.6 Financial Management and External Accountability (Objective)												
<ol style="list-style-type: none"> Advise whether the council's financial management processes are adequate Assess the policies and procedures for council management's review and consideration of the council's current and future financial position and performance and the nature of that review (including the approach taken to addressing variances and budget risks) Advise on the adequacy of early close and year-end review procedures, and Review council's financial statements, including: <ul style="list-style-type: none"> providing input and feedback on council's financial statements advising whether council is meeting its external accountability requirements advising whether appropriate action has been taken in response to audit recommendations and adjustments satisfying itself that the financial statements are supported by appropriate management signoff reviewing the 'Statement by Councillors and Management' (made pursuant to s 413(2)(c) of the Local Government Act) reviewing the processes in place designed to ensure that financial information included in the council's annual report is consistent with the signed financial statements reviewing cash management policies and procedures reviewing policies and procedures for the collection, management and disbursement of grants and tied funding, and satisfying itself that the council has a performance management framework that is linked to organisational objectives and outcomes. 												
Charter Ref #	ARIC Task to meet charter reference objective	Approach	Provided by	FY202X				FY202X				
				SEP	DEC	MAR	JUN	SEP	DEC	MAR	JUN	
4.6.1	Advise whether the council's financial management processes are adequate	Review/discuss annual report to the Committee on the self assessment of the adequacy of the council Financial Management Framework.	Chief Financial Officer			x				x		

9. ARIC Governance Framework
Attachment C Proposed - ARIC Workplan, Responsibility Plan and Calander

4.6.2	Assess the policies and procedures for council management's review and consideration of the council's current and future financial position and performance and the nature of that review (including the approach taken to addressing variances and budget risks)	<p>Review/discuss report to the Committee presenting</p> <ul style="list-style-type: none"> • annual schedule of review of key financial management policies and procedures • Reviewed/updated policies and procedures for the quarter across key financial management business processes ○ Treasury management ○ Investment management ○ Revenue and Receivables ○ Purchases and Payables ○ Taxes ○ Payroll ○ Financial reporting 	Chief Financial Officer	x	x	x	x	x	x	x	x
		<p>Review/discuss report to the Committee presenting:</p> <ul style="list-style-type: none"> • Annual Budget • 12 month Cash flow forecast • Actual vs Budget quarterly results and variance analysis 	Chief Financial Officer	x	x	x	x	x	x	x	x
4.6.3	Advise on the adequacy of early close and year-end review procedures	<p>Review/discuss report to the Committee presenting:</p> <ul style="list-style-type: none"> • Early close and year-end review procedures 	Chief Financial Officer			x				x	

9. ARIC Governance Framework
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4.6.4	<p>Review council's financial statements, including:</p> <ul style="list-style-type: none"> providing input and feedback on council's financial statements advising whether council is meeting its external accountability requirements advising whether appropriate action has been taken in response to audit recommendations and adjustments satisfying itself that the financial statements are supported by appropriate management signoff reviewing the 'Statement by Council' (made pursuant to s 413(2)(c) of the Local Government Act) reviewing the processes in place designed to ensure that financial information included in the council's annual report is consistent with the signed financial statements 	<p>Review/discuss report to the Committee presenting:</p> <ul style="list-style-type: none"> Final Draft Financial Statements Final Draft Annual report Auditors Report External Audit Letter to Management including management responses 'Statement by Council' (made pursuant to s 413(2)(c) of the Local Government Act) 	Chief Financial Officer	x				x				
Charter reference 4.7 Governance												
<p>1. Advise on the adequacy and robustness of the processes and systems that the council has put in place to govern day-to-day activities and decision-making, and</p> <p>2. Review whether controls over external parties such as contractors and advisors are sound and effective.</p>												
Charter Ref #	ARIC Task to meet charter reference objective	Approach	Provided by	FY202X				FY202X				

9. ARIC Governance Framework
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				SEP	DEC	MAR	JUN	SEP	DEC	MAR	JUN
4.7.1	Advise on the adequacy and robustness of the processes and systems that the council has put in place to govern day-to-day activities and decision-making.	Review/discuss annual report to the Committee on the self-assessment of the adequacy of the council's Governance Framework.	Director Corporate and Community		x				x		
4.7.2	Review whether controls over external parties such as contractors and advisors are sound and effective	Review/discuss annual report to the Committee on the self-assessment of the adequacy of the council's: 1. Procurement framework 2. Contract management Framework. 3. Project management framework	Director Corporate and Community		x				x		
Charter reference 4.8 Strategic Planning											
1. Advising whether the council is achieving the objectives and goals it set out in its community strategic plan and has successfully implemented its delivery program, operational plan and other strategies.											
Charter Ref #	ARIC Task to meet charter reference objective	Approach	Provided by	FY202X				FY202X			
				SEP	DEC	MAR	JUN	SEP	DEC	MAR	JUN
4.8.1	Advising whether the council is achieving the objectives and goals it set out in its community strategic plan and has successfully implemented its delivery program, operational plan and other strategies.	Review/discuss annual report to the Committee presenting the: • annual performance report against the objectives and goals as set out in the community strategic, delivery program, operational plan and other strategies.	General Manager				x				x
Charter reference 4.9 Service Delivery											
1. Advising how the council is delivering local services and how it could improve its service delivery performance.											

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Attachment C Proposed - ARIC Workplan, Responsibility Plan and Calander

Charter Ref #	ARIC Task to meet charter reference objective	Approach	Provided by	FY202X				FY202X			
				SEP	DEC	MAR	JUN	SEP	DEC	MAR	JUN
4.9.1	Advising how the council is delivering local services and how it could improve its service delivery performance.	Discuss an annual presentation to the Committee by the Directorate providing an overview of:	Director Corporate and Community	x				x			
		• Service delivery performance	Director of Infrastructure and Assets		x				x		
		• Risks									
		• Projects									
		• Financials	Director of Planning and Environment			x				x	
		Discuss an annual presentation to the Committee on the strategic overview council operations for the next 12 months.	General Manager				x				x
Charter reference 4.10 Performance Monitoring											
1. Assess the adequacy of the performance indicators and data the council uses to measure its performance.											
Charter Ref #	ARIC Task to meet charter reference objective	Approach	Provided by	FY202X				FY202X			
				SEP	DEC	MAR	JUN	SEP	DEC	MAR	JUN
4.10.1	Assess the adequacy of the performance indicators and data the council uses to measure its performance.	Review/discuss report to Committee presenting:	Chief Audit Executive				x				
		• Annual internal audit performance indicators									
		Review/discuss report to Committee presenting:	Coordinator Risk Management				x				

9. ARIC Governance Framework
Attachment C Proposed - ARIC Workplan, Responsibility Plan and Calander

		<ul style="list-style-type: none"> Annual risk management performance indicators 										
		Review/discuss report to Committee presenting: <ul style="list-style-type: none"> Annual operational performance indicators 	General Manager				x					
Charter reference - Other												
Ref #	ARIC Task to meet charter reference objective	Approach	Provided by	FY202X				FY202X				
				SEP	JUN	SEP	JUN	SEP	JUN	SEP	JUN	
Charter 6.1	The Audit, Risk and Improvement Committee is to meet at least quarterly over the course of each year.	Discuss and agree on next Committee meeting date.	Chairperson	x	x	x	x	x	x	x	x	
N/A	Review ARIC Action Register to determine implementation of ARIC recommendations	Review/discuss report to Committee presenting the ARIC Action Register and progress made with implementation of ARIC recommendations.	Chief Audit Executive	x	x	x	x	x	x	x	x	
Charter 5	The governing body of the council is to be advised after each quarterly meeting of the Audit, Risk and Improvement Committee of the internal audits undertaken and the progress made implementing corrective action through a formal monitoring report from the Committee	Prepare a formal monitoring report from the Committee to the governing body of the council following each quarterly meeting.	ARIC Committee	x	x	x	x	x	x	x	x	
Charter 5	ARIC is to provide an annual self-assessment (Assurance Report) to the governing body of the council.	Annual assurance report to be prepared by the Audit, Risk and Improvement Committee on the factors the Committee must consider under s428 A of the Local Government	ARIC Committee	x				x				

9. ARIC Governance Framework
Attachment C Proposed - ARIC Workplan, Responsibility Plan and Calander

		Act– reported to the governing body of the Council.										
Req. 4(b)	Independence confirmation of internal audit activities.	The Chief Audit Executive will be required to confirm at least annually to the Audit, Risk and Improvement Committee the independence of internal audit activities.	Chief Audit Executive				x					x
Req. 8	Annual Attestation Certificate – Internal Audit	Review/endorse Annual Attestation Certificate prepared by the general manager and published in council’s annual report. Indicates if council’s internal audit function complies with statutory requirements.	General Manager				x					x
Req. 8	Annual Attestation Certificate – Risk Management	Review/endorse Annual Attestation Certificate prepared by the general manager and published in council’s annual report. Indicates if council’s risk management function complies with statutory requirements.	General Manager				x					x

AGENDA

AUDIT, RISK & IMPROVEMENT COMMITTEE

(not all matters are covered every Meeting. This is defined in the ARIC Workplan)

(a special Agenda may be used for the Meeting/s considering the financial statements)

No.	Agenda Item		ARIC Workplan Ref	Presented by
1	Introduction			
	1.1	Formal opening and welcome		Chairperson
	1.2	Acknowledgement of Country		Chairperson
	1.3	Apologies		Chairperson
	1.4	Declarations of interest		Chairperson
2	Committee matters			
	2.1	Confirmation of minutes from previous ARIC Meeting		Chairperson
	2.2	Matters arising		Chairperson
	2.3	Actions Tracking		
	2.3.1	ARIC matters	Other	CEA
	2.3.2	Internal Audit Recommendations	4.1	CEA
	2.3.3	External Audit Recommendations	4.2	CFO
3	Internal Audit			
	3.1	Status Report on IA Program	4.1	CEA
	3.2	Presentation of Reports (if any)	4.1	CEA
4	External Audit			
	4.1	Status Report on External Audits	4.2	Audit Office
	4.2	Presentation of Reports (if any)	4.2	Audit Office
5	Risk Management			
	5.1	Risk management update	4.3	CRM
	5.2	Status Report on Insurance Matters	4.3	CRM
	5.3	Presentation of Reports (if any)	4.3	CRM
6	Compliance			
	6.1	Compliance management update	4.4	CRM
	6.2	Presentation of Reports (if any)	4.4	CRM
7	Fraud Control			
	7.1	Fraud and corruption control update	4.5	CRM
8	Financial Management and External Accountability			
	8.1	Financial Management update (Budgets, cash flow, variance analysis)	4.6	CFO

9. ARIC Governance Framework
Attachment D Proposed - ARIC Standard Agenda

	8.2	Presentation of Reports (if any)	4.6	CFO
9	Governance			
	9.1	Governance update	4.7	GC
	9.2	Presentation of Reports (if any)	4.7	GC
10	Strategic Planning			
	10.1	CSP, Operating Plan and Delivery Program progress update	4.8	GM
	10.2	Presentation of Reports (if any)	4.8	GM
11	Service Delivery			
	11.1	Director Service Delivery Update (Rotating)	4.9	Directors
	11.2	Presentation of Reports (if any)	4.9	Directors
12	Other matters			
	12.1	Presentation of Reports on other matters (If any)	Other	Various
	12.2	Next committee meeting date	Other	Chairperson

Code of Conduct Guideline

Audit, Risk and Improvement Committee Independent Chairs and Members



Record	Author	MAGIQ Doc ID	Endorsed by	Date	Approved by	Res No:	Date	Review Date	Status
1	Jovan Pejic		ARIC	31/03/20				Q1 - 2021	Draft

Purpose

This document outlines fundamental values and principles that define the standards of behaviour expected of independent chairs and members of Audit, Risk and Improvement Committees (ARICs). It also provides sources of information and advice on ethical and other relevant accountability issues.

Scope

These guidelines apply to independent chairs and members of Audit, Risk and Improvement Committees established in accordance with the requirements of with the Council's Code of Conduct and the conduct requirements of *NSW Government's Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members*.

Each Audit and Risk Committee member should adopt this code of conduct to define their values and behaviour. Members should also be aware of, and act in accordance with the Government sector core values as outlined in section 7 of the *Government Sector Employment Act 2013*.

1. Principles of Conduct

All ARIC chairs and members have a responsibility to understand their duties and responsibilities and execute the committee's purpose without exceeding the authority of their position.

Chairs and members of ARICs must uphold standards of conduct and ethics that maintain public confidence and trust. The public has the right to expect that chairs and members of ARICs demonstrate the highest level of integrity and competence and treat all stakeholders fairly, reasonably and equitably.

As a condition of engagement, independent chairs and members of ARICs must agree to the general principles of conduct consistent with those that apply to public sector employees, executives and boards. These include:

- Independence and impartiality
- Honesty, Integrity and loyalty to the Public Interest
- Take responsibility for decisions and actions
- Consider people equally without prejudice or favour
- Responsive service
- Care, skill and diligence

Independence and impartiality

The value of an ARIC depends on its ability to provide independent advice and review. Chairs and members of ARICs must qualify to provide this independent and objective review function to the public sector. It is therefore of utmost importance that any impediment or conflict of interest that exists is removed or managed so that it cannot affect decision making.

It is the individual's responsibility to communicate and manage any conflict of interest and seek assistance where required from the Department Head or Governing Board of a statutory body. It is the Chair's responsibility to ensure that a record of all conflict of interest declarations is maintained.

Honesty, integrity and public interest

In performing their duties, chairs and members of ARICs must promote confidence in the integrity of public administration. They should always act honestly and in the public interest, rather than in their private interest. They should use their authority and available resources and information only for the work related purpose intended.

Take responsibility for decisions and actions

Chairs and members of ARICs will act lawfully and respect requirements and implementation of policies and decisions of the Government. They will also perform their duties in a professional and responsible manner and ensure that decisions and actions are reasonable, fair and appropriate to the circumstances, based on a consideration of the relevant facts, and supported by adequate documentation.

Consider people equally without prejudice or favour.

Chairs and members of ARICs will treat colleagues and others fairly and consistently, in a non-discriminatory manner with proper regard for their rights and obligations.

Responsive service

Chairs and members of ARICs should have good understanding of the role of the committee as well as the business nature and role of the organisation to whose ARIC they have been appointed.

Care, Skill and Diligence

Chairs and members of ARICs should look for ways to improve the performance and function of the committee to enhance the performance of particular organisations.

2. Accountability and Decision-making

The nature of work in the public sector requires a high standard of accountability, transparency and fairness. Independent chairs and members should attend all meetings of the ARIC as far as is possible, and allow the necessary time to prepare for meetings. Decisions, reasons for those decisions and processes of the ARIC must be documented and minutes of all official meetings prepared and retained as official records.

3. Use of Public Resources

The Council will provide furniture and equipment and other resources for the board or committee to perform its functions. All such resources are to be used by independent chairs

and members only for ARIC work and in accordance with any guidelines or rules about the use of those resources.

4. Use of Official Information

An ARIC chair or member must not disclose official information or documents acquired as a consequence of membership of an ARIC other than as required by law or when the member has been given proper authority to do so.

5. Public Comment

Chairs and members of an ARIC will not make “Public Comment” on the function and operations of the ARIC and must confine all external discussion on government matters to material that is in the public domain.

“Public Comment” includes public speaking engagements (including comments on radio and television), expressing views in letters to the press or in books or notices or where it is reasonably foreseeable that publication or circulation of the comment will enter the public domain.

6. Gifts and Benefits

ARIC chairs and members are required to perform their functions with integrity, impartiality and honesty. During the term of engagement they may be offered certain gifts or benefits. It is critical for ARIC chairs and members to be aware that the acceptance of gifts and benefits can place an ARIC chair or member in a position where they feel obliged to act contrary to rules of integrity, independence and honesty.

Offering money or gifts in order to obtain a benefit or favour is illegal. It is called bribery and is one form of corruption. Similarly, if a chair or member of an ARIC seeks or accepts a bribe it is corruption.

ARIC chairs and members must not accept gifts or benefits that could place them under an actual or perceived financial or moral obligation to other organisations or to individuals. To avoid the possibility of being compromised, only gifts or hospitality of token or nominal value may be accepted in some circumstances and must always be registered on the gift register of the organisation. Accepting such gifts or benefits is essentially a matter of judgement. ARIC chairs and members must be satisfied that their position will not in any way be compromised or appear to be compromised by acceptance of a gift or benefit. Council guidelines on the subject must also be taken into account.

It is recommended that a Register of Gifts be maintained to enable the receipt and disposal of gifts to be conducted in an open and transparent manner. The information recorded should include who made the offer, who received the gift or benefit, the date, its estimated value and the decision made on its allocation.

7. Disclosure of Interests

A chair or member must disclose interests to the ARIC (which include positions and pecuniary interests) in corporations, partnerships, or other government agencies that may be relevant to the activities of a particular ARIC.

A chair or member's interests include those of an associate or close relative. A register of such interests should be maintained by the organisation.

8. Recognising and Managing Conflicts of Interest

Independent chairs and members of an ARIC are appointed for their expertise and skill in particular areas in addition to their impartial perspective as an external member of the committee. As a consequence of their expertise and experience there may be the potential for conflicts of interest to arise between an independent member's duties to the ARIC and his or her other personal and work interests (or the duties or interests of others).

A conflict of interest may arise, for example, from:

- any government appointment or employment
- professional and business interests and associations
- a prior personal or business relationship with a Head of Authority
- family relationships

Independent ARIC chairs and members be aware of threats to independence as well as relationships that must be avoided. Independent members must notify the Head of Authority immediately if a real or perceived threat to independence arises.

Disclosure of Interests

An ARIC chair or member has a duty to declare any private interest that may impact upon an ARIC decision. When an issue arises, the ARIC chair or member must, as soon as practicable, disclose in writing full and accurate details of the interest or issue to the particular ARIC, and where it affects more than one ARIC, in writing to the Department of Finance, Services and Innovation.

Mechanisms for Avoiding or Managing a Conflict of Interest

Each ARIC member is responsible for disclosing conflicts of interest as early as possible to the committee and ensuring that the actions to manage the conflict are recorded in ARIC minutes. Actions for managing conflicts of interest might include:

- absenting the member from the meeting room during discussions pertaining to the matter;
- ensuring that no papers are provided to the member in relation to the matter.

Where managing a conflict of interest is likely to cause significant disruption to the operation of the ARIC the following actions may be considered:

- resignation by the member from the ARIC
- divestment of the interest/issue that is creating the conflict, for example the sale of shares;

- resignation from a position within an organisation or government department that gives rise to the conflict.

9. Reporting Suspected Corrupt Conduct

Corrupt conduct is the dishonest or partial exercise of public official functions. It may also involve the conduct of non-public officials which adversely affects the honest and impartial exercise of a public official's functions. For conduct to be considered corrupt under the *ICAC Act* definition it must be serious enough to involve a criminal offence, a disciplinary offence, be grounds for dismissal or, in the case of Members of Parliament, involve a substantial breach of their Code of Conduct.

Members of an ARIC are urged to report suspected corrupt conduct as well as maladministration and serious and substantial waste of public resources. The *Public Interest Disclosures Act 1994* provides certain protection against reprisals for public officials who voluntarily report such matters (but not vexatious or malicious allegations).

The *Public Interest Disclosures Act 1994* provides protection to public officials (including independent contractors) who voluntarily report suspected corrupt conduct. ARIC members can make protected disclosures either to the principal officer of the relevant public authority or to one of the three investigative bodies; the Independent Commission Against Corruption, the Auditor General or the Ombudsman.

A report must be made to a principal officer or ICAC as soon as a member of an ARIC reasonably suspects that corrupt conduct may have occurred or may be occurring. Matters must be reported regardless of any duty of secrecy or other restriction on disclosure. It is important that reports be made without advising the person(s) to whom the report relates and without publicity.

If disclosures are made to an external investigating body, those concerning corrupt conduct should be made to the Independent Commission Against Corruption. Disclosures concerning maladministration should be made to the NSW Ombudsman and disclosures concerning serious and substantial waste of public money should be made to the NSW Auditor General.

10. Sanctions

Acceptance into the Prequalification Scheme for independent Chairs and Members of ARICs and engagement to ARICs is conditional on agreement to this Code of Conduct. A serious breach of this code by an independent ARIC member could result in their removal from the ARIC and the Scheme.

9. ARIC Governance Framework
Attachment E Proposed - Code of Conduct Guidelines: AIRC Independent Chair and Members
-

11. Approval

Endorsed:

Audit Risk and Improvement Committee

Date:

31 March 2020

Resolution Number:

Approved:

Date:

Resolution Number:

10. ARIC IMPLICATIONS REPORT

SUMMARY

This report presents a summary of key implications on the Audit Risk and Improvement Committee from the introduction of the New Risk Management and Internal Audit Framework for Local Council in NSW to be adopted by March 2021. These include:

- New independence requirements for ARIC Chair and Members in line with the NSW Government's Prequalification Scheme
- Opportunity to establish a Shared Audit Risk and Improvement Committee with partner Councils of Goulburn Mulwaree and Upper Lachlan Shire.

RECOMMENDATION

That the:

1. *Committee receives and notes the Discussion Paper on A New Risk Management and Internal Audit Framework for Local Council in NSW*
2. *Committee receives and notes the Independence requirements of Audit, Risk and Improvement Committee Chair and Members under Core Requirement 1(c) of the New Risk Management and Internal Audit Framework for Local Council in NSW and the NSW Government's Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members.*
3. *Committee endorses a move to a Shared Audit Risk and Improvement Committee with partner councils of Goulburn Mulwaree and Upper Lachlan Shire by March 2021.*

FINANCIAL IMPLICATIONS

Potential financial implications of a Shared Audit, Risk and Improvement Committee are detailed in **Attachment D**.

POLICY & LEGISLATION

- Local Government Act 1993
- ARIC Charter
- *A New Risk Management and Internal Audit Framework for Local Council in NSW*
- NSW Government's Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members

REPORT

1. Background

In 2016, the NSW Government made it a requirement under the Local Government Act 1993 ('Local Government Act') that each council have an Audit, Risk and Improvement Committee in place.

The government has since been working to develop the regulatory framework that will support the operation of these committees, and the establishment of a risk management framework and internal audit function in each council.

Regulatory requirements and operational framework being proposed are outlined in A NEW RISK MANAGEMENT AND INTERNAL AUDIT FRAMEWORK FOR LOCAL COUNCILS IN NSW – DISCUSSION PAPER – 2019 (**Attachment A**)

2. Key Implication: Independent Audit Risk and Improvement Committee

Core Requirement 1(c) of the New Risk Management and Internal Audit Framework For Local Councils of NSW outlines that the Audit, Risk and Improvement Committee is to comprise of three to five independent members who are prequalified via the NSW Government's Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members.

This requirement represents a significant change to the current composition of the Audit, Risk and Improvement Committee which is expected to comply with the new independence requirements by March 2021.

For more information on the NSW Government's Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members, please refer to the following:

1. Scheme Conditions ([Attachment B](#))
2. Scheme Guidelines ([Attachment C](#))

3. Key Implications: Shared Audit, Risk and Improvement Committee

Core Requirement 9(a) proposes that a council can share all or part of its internal audit function with another council/s including Audit, Risk and Improvement Committee members. These options are designed to:

- assist smaller councils to implement their internal audit function in a more cost-effective way where:
 - a full-time committee, Chief Audit Executive or internal audit function is not necessary
 - the council's risk profile does not warrant stand-alone arrangements, and/or
 - the cost of having a stand-alone arrangements will significantly and unacceptably impact the council's operating budget
- assist councils in remote locations that may find it difficult to employ or appoint the suitably qualified personnel that are necessary to support a stand-alone internal audit function
- allow councils to access a larger resource pool than would be available to a single council
- create efficiencies through common systems, shared knowledge and internal audit tools, and
- potentially lower audit costs.

The fee structure proposed under the *NSW Government's Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members*, significantly increases the cost of running a stand-alone Audit, Risk and Improvement Committee arrangement for Yass Valley Council.

The Audit, Risk and Improvement Manager has prepared an analysis comparing the cost of running a stand-alone Audit, Risk and Improvement Committee versus the cost of running a Shared Audit Risk and Improvement Committee and potential savings for partner Councils. Please refer to ([Attachment D](#)).

Audit, Risk and Improvement Managers has obtained in principal support from the partner Councils of Goulburn Mulwaree and Upper Lachlan Shire for a move to a Shared Audit Risk and Improvement Committee in line with the existing shared internal audit function.

The Committee should consider and comment whether a move to a shared Audit Risk and Improvement Committee is recommended for Yass Valley Council.

- ATTACHMENTS:**
- A. A New Risk Management and Internal Audit Framework for Local Council in NSW - Discussion Paper - 2019 [↓](#)
 - B. Scheme Conditions [↓](#)
 - C. Scheme Guidelines [↓](#)
 - D. Shared ARIC Cost Analysis [↓](#)

A NEW RISK MANAGEMENT AND INTERNAL AUDIT FRAMEWORK

for local councils in NSW

Discussion paper

September 2019



A NEW RISK MANAGEMENT AND INTERNAL AUDIT FRAMEWORK FOR LOCAL COUNCILS IN NSW – DISCUSSION PAPER

2019

ACCESS TO SERVICES

The Office of Local Government is located at:

Street Address: Levels 1 & 2, 5 O'Keefe Avenue, NOWRA NSW 2541

Postal Address: Locked Bag 3015, Nowra, NSW 2541

Phone: 02 4428 4100

Fax: 02 4428 4199

TTY: 02 4428 4209

Email : olg@olg.nsw.gov.au

Website: www.olg.nsw.gov.au

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MINISTER'S FOREWARD



Risk is inevitable in any organisation, including local councils. If a council can identify its risks and how they are caused, a council is more likely to succeed in managing these risks and achieving its community objectives.

Internal audit is a globally accepted mechanism for ensuring that an organisation has good governance and is managing its risks successfully. There has been a steady push over recent years for internal audit to be mandated in the NSW local government sector.

As a first step, in 2008, the government released guidelines to assist councils to establish an internal audit function. These guidelines were updated in 2010. The benefits realised by councils who had introduced internal audit into their business led to calls for internal audit to be made mandatory for every council in NSW.

In 2016, the NSW Government made it a requirement under the *Local Government Act 1993* ('Local Government Act') that each council have an Audit, Risk and Improvement Committee in place. This requirement is likely to take effect from March 2021. Councils are also required to proactively manage any risks they face under the new guiding principles of the Act.

The government has since been working to develop the regulatory framework that will support the operation of these committees, and the establishment of a risk management framework and internal audit function in each council. This discussion paper details the regulatory requirements and operational framework being proposed.

There will be nine core requirements that councils will be required to comply with when establishing their Audit, Risk and Improvement Committee, risk management framework and internal audit function. These requirements are based on international standards and the experience of Australian and NSW Government public sector agencies who have implemented risk management and internal audit. Most importantly, they reflect the unique needs, structure and resources of NSW local government.

Formal risk management and internal audit is a vital part of the NSW Government's plan to ensure that councils achieve their strategic objectives in the most efficient, effective and economical manner. A strong and effective risk management and internal audit framework will result in better services for the community, reduced opportunities for fraud and corruption, increased accountability of councils to their communities and a culture of continuous improvement in councils.

I encourage you to provide your feedback and ideas on the proposed model so we can ensure NSW has in place the most robust and effective risk management and internal audit framework for local government possible.

The Hon Shelley Hancock MP
Minister for Local Government

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BACKGROUND AND PURPOSE

1. Risk

All organisations and governments, including councils, operate in uncertain and changing economic, social, political, legal, business and local environments. Risk is defined as the effect of this uncertainty on an organisation's ability to achieve its goals and objectives, where the effect is the potential for a result that is different to what was expected or planned for¹. Risks that go so far as to threaten to harm or destroy an object, event or person are known as material risks.

Risk can be positive, negative or both, and can address, create or result in opportunities and threats. Risk is often expressed in terms of an event's consequences and the likelihood of its occurrence. Negative risks can include, for example, unexpected financial loss, project failure, extreme weather events, failure of council policy, and fraud or corruption. Positive risks can include, for example, unexpected favourable publicity, changes to legislation, improved technology, new commercial relationships and business contracts.

Internal controls

Internal controls are any action taken by an organisation to manage and minimise the impacts of negative risks or to promote and harness positive risks to increase the likelihood that the organisation's goals and objectives will be achieved. Internal controls can be:

- preventative – to deter undesirable events from occurring
- detective – to detect and correct undesirable events from happening, or
- directive – to cause or encourage a desirable event to occur.

Internal controls generally fall into two categories:

- hard/formal controls – for example, systems, processes, policies, procedures, management approvals, or
- soft controls – for example, employee capability, organisational culture, ethical behaviour of management and staff.

2. Good governance

Governance can be described as the combination and interconnection of decisions, policies, procedures, processes and structures implemented by an organisation's board/governing body to direct and control the organisation and ensure it functions effectively.

Good governance is a key component of successful organisations. It supports an organisation to ensure its goals and objectives are achieved, its operations are performed successfully, it complies with all necessary legal and other requirements, and it uses its resources responsibly with accountability. It also helps an organisation to promote confidence with stakeholders and adapt and function in changing and uncertain environments.

Good governance is directly linked to an organisation's risk management and compliance frameworks.

¹ Adapted from the definition of risk in AS ISO 31000:2018

The three lines of defence against risk

There are a number of different mechanisms organisations can use to ensure they have good governance and are managing their risks. These governance activities are often referred to as 'the three lines of defence' and are described below in the context of local government. A summary diagram is provided on page 8.

1st line of defence – operational functions implemented by a council to own and manage risk

A council's first line of defence against risk is for council staff to own and manage the risks that occur in their sphere of influence. This means they are given responsibility and held accountable for identifying risks and implementing internal controls (where appropriate).

In practice, this generally sees operational management responsible for identifying and assessing risks that occur in their work area and developing internal controls to manage these risks. This can include guiding the development of council policies and procedures and overseeing the implementation of internal controls by the council staff they supervise. Council staff are responsible for following policies and procedures, implementing other controls and notifying managers when issues arise.

Examples of first line of defence activities could include development assessment processes, operational procedures for technical equipment, maintenance of specific pieces of equipment, cash handling procedures, work health and safety requirements, following project plans etc.

2nd line of defence – management functions implemented by a council to ensure operational functions are managing risks

A council's second line of defence against risk is to ensure that the controls in the first line of defence are properly designed, implemented and operating as intended. Examples of the management frameworks that can be implemented in a council's second line of defence include:

- a risk management framework which identifies known and emerging risks the council faces and controls being implemented to manage these risks (further described in this discussion paper)
- a compliance framework which identifies and monitors council's risk of non-compliance with applicable laws, regulations, contracts and policies, and alerts council to changing compliance requirements
- a financial management framework which identifies and monitors council's financial risks, including financial reporting and external accountability²
- a fraud control framework which identifies and manages the risk of the incidence of fraud or corruption and includes prevention and monitoring strategies³
- business and performance improvement which identifies and manages any business/performance risks and helps council to improve the efficiency, effectiveness and economy of its operations, for example, information technology and work health and safety, and
- project management which is used to identify and manage project risks, for example, poor project governance, flawed scope definition and insufficient resourcing.

² Councils are required under the Local Government Act (s 413) to prepare financial reports each year to prescribed standards. These reports must be externally audited, be made available for public inspection (s 418), presented at a council meeting along with the auditor's reports (s 419) and included in council's annual report (s 428).

³ Councils are required to have a fraud and corruption control plan which includes risk management processes that examine the risk of fraud and corruption both internally and externally across the council. The plan should also include internal controls that seek to minimise fraud and corruption occurring.

Second line of defence activities are generally reported to senior and mid-level management, and can be of interest to the Audit, Risk and Improvement Committee.

3rd line of defence – functions that provide independent external assurance

Council's third line of defence against risk is to receive assurance from an independent body external to the council that its risks are being managed appropriately in the first and second lines of defence. External assurance is designed to provide a council with a level of confidence that its goals and objectives will be achieved within an acceptable level of risk.

Independent external assurance is provided by an Audit, Risk and Improvement Committee, supported by an internal audit function.

External assurance activities are reported to the governing body of the council and the general manager.

Other lines of defence

There are also other lines of defence that sit outside an organisation and provide independent assurance that an organisation has good governance and is managing its risk appropriately.

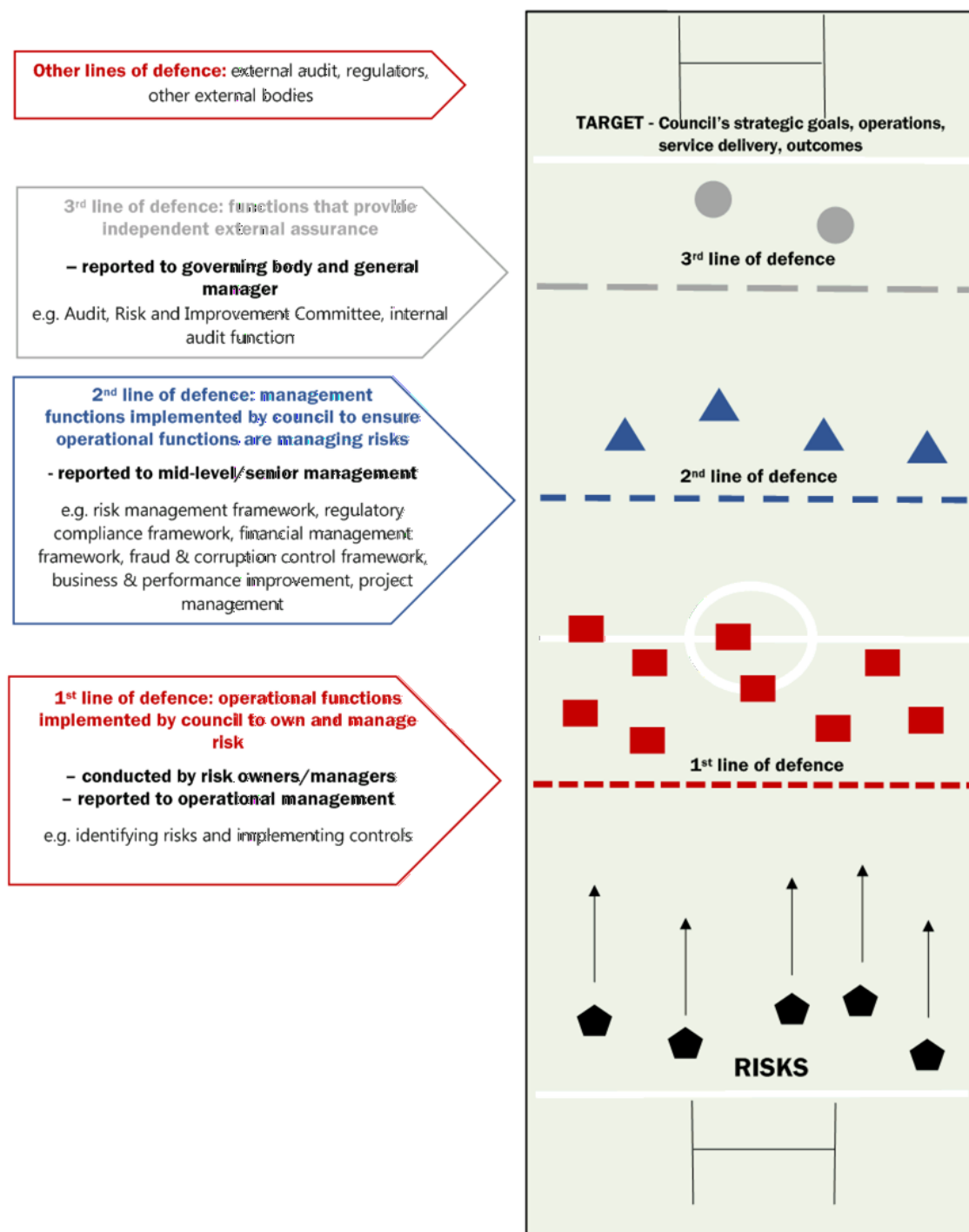
For councils, these include:

- external audit – an annual independent examination and opinion of council's financial statements which also assesses council's compliance with accounting standards, laws and regulations⁴
- performance audit – an audit of council activities to determine whether the council is carrying out these activities effectively, economically, efficiently and in compliance with all laws. A performance audit can include an individual program or service provided by a group of councils, all or part of an individual council, or issues affecting the sector as a whole⁵, and
- regulatory bodies – these set minimum requirements for council's lines of defence, and/or assess the effectiveness of council's governance (for example, the Office of Local Government, NSW Ombudsman, Independent Commission Against Corruption, NSW Parliament).

⁴ The Local Government Act (s 415) requires each council to have their annual financial reports externally audited by the NSW Auditor-General (s 422) so that the community and the governing body of the council have access to an independent opinion on their validity. The Auditor-General is to also provide a copy of the Independent Audit Report and the Conduct of the Audit to the Office of Local Government, and report to Parliament on local government sector-wide matters arising from the examination of the financial statements of councils and any other issues the Auditor-General has identified during its audit and the exercise of her other functions (s 421C).

⁵ The NSW Auditor-General conducts performance audits of councils under the Local Government Act and reports to the Office of Local Government, the council concerned and the Minister for Local Government any findings, recommendations or concerns that arise from a performance audit (s 421B).

Council's three lines of defence against risk



3. Purpose of this discussion paper

Amendments made to the Local Government Act in 2016 require each council to be financially sustainable, continuously review its performance, properly exercise its regulatory functions, operate honestly, efficiently and appropriately, and have sound decision-making and risk management practices (s 8A-8C and 223).

They also require each council to establish an Audit, Risk and Improvement Committee as a third line of defence to continuously review and provide independent advice and assurance on council's first and second lines of defence (s 428A). The Local Government Act also envisages the establishment of a risk management framework and internal audit function in each council to support the work of the Committee.

The purpose of this discussion paper is to propose how councils should establish and implement these functions.

It is envisaged that each council's Audit, Risk and Improvement Committee, once established by March 2021, will undertake assurance activities by overseeing each council's internal audit function and risk management framework.

Over time (post-2021), and as resources allow, each council's Audit, Risk and Improvement Committee will be expected to expand its reach to include the other management functions that councils should have in place as part of their second line of defence (for example, financial management, integrated planning and reporting, fraud control, performance etc.).

INTRODUCTION TO RISK MANAGEMENT AND INTERNAL AUDIT

1. Risk management

Risk management describes the coordinated activities an organisation takes to ensure it knows the risks it faces, makes informed decisions about how to respond to these risks, and identifies and harnesses potential opportunities⁶.

In practice, it is a deliberate, systematic, comprehensive and documented program that provides a structure to managing risk consistently across the entire organisation, regardless of where, and by who, decisions are made. It also provides a mechanism to shape organisational culture – 'the way we do things around here'.

Risk management is not about being risk averse and it is not a guaranteed way to eliminate all the risks an organisation faces altogether. It is a framework that can help an organisation to reduce its risks to a level that is acceptable and take calculated and appropriate risks that will help it to achieve its strategic goals and deal positively with opportunities.

As required under Australian risk management standards, councils will be required to adopt an 'enterprise risk management' approach under the new regulatory framework.

This will require councils to identify, assess and manage all the risks that affect the ability of the council to meet its goals and objectives, and goes beyond traditional risk management that focuses on insurable risks. Further explanation is provided in the table below.

Traditional risk management	Enterprise risk management
Focuses on insurable risks	Considers all risks that could affect a council's ability to meet its goals, including risks that cannot be insured, for example, a council's reputation
Focused on threats and minimising losses	Considers risks that present both negative and positive consequences or impacts and focuses on adding value
Manages each risk individually and in isolation, often within the particular business unit	Considers risks holistically across the entire council taking into account any connections or interdependencies that could reduce losses or maximize growth opportunities. Risk management is integrated across the entire council
Responses to risk are largely reactive and sporadic	Responses to risk are proactive and continually applied and assessed. Risk management is embedded in organisational culture

⁶ Adapted from the definition of risk management in AS ISO 31000:2018

Governing standards

A number of worldwide standards have been developed to help organisations implement risk management. These standards are set by recognised international standards bodies or industry groups and provide an accepted benchmark for risk management practices.

In Australia, the International Organisation for Standardisation's risk management standard *ISO 31000:2009, Risk Management – Guidelines* (AS/NZS ISO 31000:2009) has been accepted as the Australian risk management standard and widely adopted in the private and public sectors. AS/NZS ISO 31000:2009 has just been replaced by AS ISO 31000:2018⁷.

AS ISO 31000:2018 states that an organisation's approach to risk management must be based on the following eight specific principles to ensure it is effective:

- risk management is **integrated** into all organisational activities and decision-making processes
- risk management is **structured and comprehensive** process that achieves consistent and comparable results
- the risk management framework and process is **customised** to the organisation
- risk management is **inclusive** of all stakeholders and enables their knowledge, views and perceptions to be considered
- risk management is **dynamic** and able to respond to changes and events in an appropriate and timely manner
- risk management decisions are based on the **best available information** and takes into account any limitations and uncertainties
- risk management takes into account **human and cultural factors**, and
- risk management is continuously and periodically **evaluated and improved** through learning and experience.

To achieve these principles, AS ISO 31000:2018 requires each organisation to ensure its risk management framework includes the following elements:

- **leadership and commitment** – the organisation's board/governing body must clearly communicate and demonstrate strong leadership and commitment to risk management.
This will be shown by the board/governing body:
 - adopting a risk management policy which communicates the organisation's commitment to risk management and how risk management will be undertaken
 - ensuring the necessary resources are allocated to risk management, and
 - assigning authority and accountability for risk management at appropriate levels in the organisation and aligning risk management to the organisation's objectives
- **integration** – integration of risk management into a council should be a dynamic and iterative process, customised to the organisation's unique needs and culture. Risk management must be made part of the organisation's purpose, governance, leadership, strategy, objectives and operations and everyone in the organisation must understand their responsibility for managing risk.

This can be achieved through the development and implementation of a risk management plan that provides structure for how the organisation will implement its risk management policy and conduct its risk management activities

⁷ More information about AS ISO 31000:2018 can be found at <https://www.iso.org/iso-31000-risk-management.html>.

- **design** – the organisation's risk management framework must be based on the unique needs, characteristics and risks of the organisation, and its external and internal context.

This can be achieved by following a tailored risk management process that:

- evaluates the organisation's internal and external context, operations, stakeholders, complexity, culture, capabilities etc.
 - identifies, assesses and prioritises the risks these present
 - decides how they will be managed
 - allocates resources
 - assigns risk management roles, responsibilities and accountabilities
 - documents and communicates this across the organisation, and
 - demonstrates the organisation's continual commitment to risk management.
- **evaluation and improvement** – the organisation must regularly evaluate the effectiveness of its risk management framework and continually adapt and improve how it is designed and integrated throughout the organisation and ensure it is fit for purpose.

2. Internal audit

Internal audit is a mechanism that an organisation can use to receive independent assurance that its first and second lines of defence are appropriate and working effectively. Internal audit can also help an organisation to improve its overall performance.

It does this by:

- providing management with information on the effectiveness of risk management, control and governance processes, and acting as a catalyst for improvement
- providing an independent and unbiased assessment of the organisation's culture, decision-making, financial management, operations, fraud risk, safeguarding of assets, information, policies, processes and systems
- assessing the efficiency, effectiveness, economy and ethical conduct of business activities
- reviewing the achievement of organisational goals and objectives
- assessing compliance with laws, regulation, policies and contracts, and
- looking for better ways the organisation can be doing things.

In relation to risk management, internal audit provides assurance that an organisation's:

- risk management framework is effective and regularly reviewed
- risks are correctly identified and assessed
- risks are being managed to an acceptable level in accordance with the organisation's risk criteria⁸, goals and objectives
- internal controls are appropriately designed and effectively implemented, and
- risk information is captured and communicated in a timely manner across the organisation, enabling staff to carry out their risk management responsibilities.

Unlike organisational staff, an internal audit function has no direct involvement in day-to-day operations or financial management of an organisation. It sits within an organisation, but external to it, and investigates how an organisation conducts its day-to-day operations and financial management and helps an organisation to improve those processes and systems.

⁸ 'Risk criteria' can also be known as 'risk appetite'

To preserve an internal audit function's independence, it cannot be responsible or held accountable for:

- setting an organisation's risk criteria
- implementing risk management processes
- deciding how an organisation responds to risk, or
- implementing risk responses or controls.

The internal audit function also reports functionally (for internal audit operations) to an organisation's Audit, Risk and Improvement Committee to ensure that it is allowed to operate without inappropriate interference.

Governing standards

The Institute of Internal Auditors (IIA) is the recognised international standard setting body for internal audit and provides professional certification for internal auditors.

The IIA has developed the International Professional Practices Framework (IPPF)⁹ which outlines the mandatory requirements for the practice of internal auditing. It describes:

- the definition of internal auditing
- the core principles for the practice of internal auditing
- the international standards for the professional practice of internal auditing, and
- a Code of Ethics which describe the minimum behavioural and conduct requirements of individuals and organisations in the conduct of internal auditing.

These standards are international and are to be applied consistently to the practice of internal audit activity worldwide.

The core components required for internal audit under the IPPF include:

- an **internal audit charter** which communicates internal audit's purpose and authority, its position within the organisation and how internal audit will be undertaken
- reporting arrangements and responsibilities that provide the internal audit function with **independence** from the organisation so that it can be objective and unbiased in its work
- authority for the internal audit function to have **full access** to the records, information, property and personnel it needs to undertake its work
- **work plans** which provide a short-term and long-term structure for the internal audits to be undertaken
- use of **approved methods** and procedures to conduct audits
- a system to **monitor and report** on internal audit findings and the implementation of corrective actions, and
- a **quality assurance and improvement process** to continuously review and improve internal audit activities.

⁹ More information about the IPPF can be found at <https://www.iaa.org.au/technical-resources/professionalGuidance.aspx>

Under the IPPF, an effective internal audit function must also exhibit the following 10 mandatory core principles:

- demonstrates integrity
- demonstrates competence and due professional care
- is objective and free from undue influence
- aligns with the strategies, objectives and risks of the organisation
- is appropriately positioned and adequately resourced
- demonstrates quality and continuous improvement
- communicates effectively
- provides risk-based assurance
- is insightful, proactive and future-focused, and
- promotes organisational improvement.

3. Audit Committees

An audit committee is a committee of experts that plays a key role in assisting the board/governing body of an organisation to fulfil its corporate governance and oversight responsibilities. Its main role is to provide advice and assurance regarding:

- the organisation's culture and ethics
- the organisation's first and second lines of defence, including:
 - the effectiveness of risk management and the organisation's internal controls
 - the organisation's fraud and corruption controls
 - business performance and improvement
 - the adequacy of financial management practices and the organisation's accounting, financial records and external reporting
 - systems for managing the organisation's assets
 - compliance with applicable laws, regulations, standards and best practice guidelines, and
- matters that are raised during external and internal audits.

An audit committee also provides a forum for communication between the organisation, senior management, risk and compliance managers, internal auditors and external auditors.

To be effective, an audit committee must be independent from the organisation's management and free from any undue influence.

The size and nature of the committee depends on the industry and size of the organisation. Some organisations establish one committee with responsibility for all these tasks. Larger organisations may establish more than one committee, for example, an audit committee, a risk committee, a compliance committee etc. depending on the nature and extent of the organisation's operations.

There are a number of legal requirements and good practice guides that apply to audit committees depending on the jurisdiction and type of industry and organisation.

4. Use of risk management, internal audit and audit committees in the private and government sectors

Private sector

Audit committees, risk management and internal audit are widely used in the corporate sector worldwide as a mechanism to manage risk and provide independent assurance on governance, controls and financial reporting.

The *Corporations Act 2001* (Commonwealth) requires some Australian companies to ensure that financial reports are true and fair and comply with accounting standards made by the Australian Accounting Standards Board. Most of these companies have audit committees to monitor and oversight their financial reporting (in consultation with external auditors).

The Australian Securities Exchange requires entities included in the S&P/ASX All Ordinaries Index at the beginning of their financial year to have an audit committee during that year¹⁰, and to comply with specific requirements¹¹ regarding the composition, operation and responsibilities of their audit committee. If an entity does not have an audit committee, this must be disclosed along with the processes the board/governing body employs to independently verify and safeguard the integrity of its corporate reporting.

The establishment of an internal audit function is seen by many investors as essential before they will invest in a company. Since 2014, entities listed on the Australian Securities Exchange have been required to disclose to potential investors whether they have an internal audit function, how the function is structured and what role it performs. If an entity does not have an internal audit function, it must outline why it doesn't, and what assurance arrangements it has in place to manage risk and verify the integrity of financial records¹². Whilst it is not mandatory, non-listed companies are recommended under Australian standards to have an audit committee as part of good governance¹³.

The Australian Prudential Regulation Authority has also mandated the requirement for financial, insurance and superannuation institutions to have internal audit and an audit committee¹⁴. The audit committee must also meet specific requirements.

Australian Government public sector

While risk management and internal audit is often voluntary in the private sector, many governments around the world have mandated through legislation a requirement for public sector agencies to have an audit committee and some form of risk management.

The Australian Government, under the *Public Governance, Performance and Accountability Act 2013*, requires all Commonwealth entities to establish and maintain appropriate risk management systems and have an audit committee. The *Public Governance, Performance and Accountability Rule 2014* and Commonwealth Risk Management Policy¹⁵ prescribe the requirements for how risk is to be managed.

¹⁰ ASX Corporate Governance Council (2016) *ASX Listing Rules* – Rule 12.7

¹¹ As set out in ASX Corporate Governance Council (2019) *Corporate Governance Principles and Recommendations 4th Edition*

¹² ASX Corporate Governance Council (2014) *Corporate Governance Principles and Recommendations 3rd Edition*

¹³ Standards Australia International (2004) *Australian Standard – Good Governance Principles (AS 8000-2003)*

¹⁴ Australian Prudential Regulation Authority (2019) *Prudential Standard CPS 510 Governance (July 2019)*

¹⁵ Australian Government, Department of Finance (2014) *Commonwealth Risk Management Policy*

While an internal audit function is not mandated by legislation, it is recommended that Commonwealth entities establish one to support the audit committee¹⁶ and to ensure that the Secretary or Chief Executive is able to fulfil their other responsibilities under the Act. There have been calls for internal audit to be mandated for Commonwealth entities under the *Public Governance, Performance and Accountability Act 2013*¹⁷.

There are no legislated standards for risk management or internal audit in Commonwealth entities. However, the Australian Government recommends Commonwealth entities conform to ISO risk management standards and the IPPF.

State and Territory public sectors

Most Australian states and territories have mandated risk management, internal audit and/or audit committees in their public sector agencies – these include NSW, Queensland¹⁸, Tasmania¹⁹, Western Australia²⁰, Victoria²¹, and the Northern Territory²².

In South Australia, only public corporations are required to have an audit committee and an internal audit function²³. While not mandatory, the Australian Capital Territory recommends its agencies have an audit committee and internal audit function and provides guidance on how they should be established and operate²⁴.

In NSW, the new *Government Sector Finance Act 2018* requires all NSW Government departments and statutory bodies to have effective systems for risk management, internal control and assurance (including internal audit) that are appropriate for the agency²⁵.

The NSW Government's Internal Audit and Risk Management Policy²⁶ further stipulates that all NSW Government departments and statutory bodies are required to establish an Audit and Risk Committee, risk management framework and internal audit function. The core requirements of this policy are modelled on AS ISO 31000:2009²⁷ and the IPPF. The policy is currently under review by the NSW Government following the release of AS ISO 31000:2018.

¹⁶ Australian Government, Department of Finance (2018) *Resource Management Guide No. 202: A guide for non-corporate Commonwealth entities on the role of the audit committee* and Australian Government, Department of Finance (2018) *Resource Management Guide No. 202: A guide for corporate Commonwealth entities on the role of the audit committee*

¹⁷ IIA (2017) *Submission to the Department of Finance's Review of the Public Governance, Performance and Accountability Act 2013*

¹⁸ Section 78 of the *Financial Accountability Act 2009* (QLD) and *Financial and Performance Management Standard 2009* (QLD)

¹⁹ *Treasurer's Instruction 108 – Internal Audit* (TAS) September 2011

²⁰ Part 4 of the *Financial Management Act 2006* (WA) and Government of Western Australia, Department of Treasury (2018) *Treasurer's Instructions Part XII – Internal Audit*

²¹ Victorian Government (2018) *Standing Directions 2018 under the Financial Management Act 1994*

²² *Financial Management Act 1995* (NT) and NT Government (2001) *Treasurer's Directions L4/01 – Part 3 Responsible and Accountable Officers, Section 3 Internal Audit* (originally published 1995)

²³ Section 31 of the *Public Corporations Act 1993* (SA)

²⁴ ACT Government (2007) *Internal Audit Framework 2007* – this is currently under review by the ACT Government and changes may occur during 2019-2020

²⁵ Section 3.6 of the *Government Sector Finance Act 2018*

²⁶ NSW Treasury (2015) *TPP 15-03 Internal Audit and Risk Management Policy for the NSW Public Sector*

²⁷ AS ISO 31000:2018 did not exist when the policy was developed in 2015

Local government

The regulation of audit committees, risk management and internal audit in local councils varies between states and territories. Some jurisdictions, such as South Australia and Tasmania do not explicitly require their councils to have an audit committee, risk management or internal audit function. For those jurisdictions that do require an audit committee and an internal audit function, the approach varies.

All councils in Victoria are legislatively required to have an audit committee²⁸ and recommended to have an internal audit function that complies with the IPPF²⁹.

Only large councils in Queensland are legislatively required to have an audit committee³⁰, but all councils are required to have an internal audit function³¹ that complies with the IPPF³².

The Western Australian Government has legislatively mandated that each council has an audit committee comprising a majority of councillors³³. A formal internal audit function is not mandated, but encouraged³⁴.

The experience in NSW is detailed in the next part of this discussion paper.

²⁸ Section 139 of the *Local Government Act 1989 (VIC)*

²⁹ Local Government Victoria (2011) *Audit Committees, A Guide to Good Practice for Local Government*

³⁰ Section 105 of the *Local Government Act 2009 (QLD)*

³¹ Clause 207 of the *Local Government Regulation 2012 (QLD)*

³² *Local Government Bulletin 08/15: Internal Audit and Audit Committees*

³³ Part 7 of the *Local Government Act 1995 (WA)* and the *Local Government (Audit) Regulations 1996 (WA)*

³⁴ Government of Western Australia, Department of Local Government and Communities (2013) *Local Government Operational Guidelines Number 9: Audit in Local Government. The Appointment, Function and Responsibilities of Audit Committees*

PROPOSED RISK MANAGEMENT AND INTERNAL AUDIT FRAMEWORK – THE ROAD AHEAD

1. Risk management and internal audit in NSW local government – the story so far

Local councils in NSW were initially created to provide local communities with basic public services such as water, roads and waste removal on behalf of the NSW Government. As NSW has grown since federation, so too have the responsibilities of local councils. In most local government areas, councils now also provide a wide variety of community services, social infrastructure and local facilities.

NSW councils continue to largely rely on funding from the NSW Government to fulfil their responsibilities, coupled with grants from the Australian Government and rates paid by private citizens. Councils must therefore be accountable to the community and the governments who fund their activities for the way they spend this money and manage public assets.

External independent assurance via an audit committee and internal audit function has been seen for some time as key mechanisms to deliver this accountability. Up to 2008, around 20% of NSW councils were voluntarily following the example set by the private sector and implementing some aspect of external assurance or internal audit function into their operations³⁵.

In 2008, the Office of Local Government³⁶ first released guidelines to encourage councils to establish an Audit, Risk and Improvement Committee, risk management framework and internal audit function and set minimum requirements. This led to more councils establishing these mechanisms recognising the benefits they offer.

In 2009, integrated planning and reporting (IP&R) was introduced into the Local Government Act to provide a strategic planning framework for councils. IP&R could also be used to improve the management by councils of actual or potential risks to the strategic goals and objectives.

Reviews by the NSW Auditor-General found that by 2012 over 75 councils had some sort of internal audit function³⁷, and by 2016 about 60 councils (out of 152 councils), equivalent to 39%, had or shared an Audit, Risk and Improvement Committee³⁸. Other research conducted in 2015 suggested full adoption by councils of the other minimum requirements in the Office of Local Government's 2008 Internal Audit Guidelines may have been lower³⁹.

By June 2018, the NSW Auditor-General⁴⁰ found that 86 councils or 62% (out of 138 councils and county councils) now had an internal audit function and the number of councils that had an Audit, Risk and Improvement Committee had risen to 97 or 70%. In terms of risk management, the NSW Auditor-General found that 18 councils did not have a risk management policy and 38 councils did not have a risk register.

³⁵ NSW Auditor-General (2012) *NSW Auditor-General's Report - Monitoring local government: Department of Premier and Cabinet, Division of Local Government*

³⁶ Then the Department of Local Government

³⁷ NSW Auditor-General (2012) *NSW Auditor-General's Report - Monitoring local government: Department of Premier and Cabinet, Division of Local Government*

³⁸ Audit Office of NSW (2017) *NSW Auditor-General Update for Audit, Risk and Improvement Committee Chairs*

³⁹ Jones and Beattie (2015) *Local Government Internal Audit Compliance, Australasian Accounting, Business and Finance Journal* 9(3)

⁴⁰ NSW Auditor-General (2019) *Report on Local Government 2018* (see erratum)

The findings of various public inquiries and corruption investigations since 2008 have led to increased calls for risk management and internal audit to be mandated for NSW councils.

This was realised in 2016 with amendments to the Local Government Act which require councils to establish an Audit, Risk and Improvement Committee by March 2021. These amendments also enable the making of future regulations to mandate a risk management framework and internal audit function in all councils and set a minimum standard of compliance.

This discussion paper outlines what this regulatory framework is proposed to look like.

A timeline of the key influential events that lead to the development of the proposed mandatory framework is provided in **Appendix 1**.

2. Proposed policy framework

The risk management and internal audit framework proposed for the NSW local government sector seeks to:

- ensure each council (including county council/joint organisation) in NSW has an independent Audit, Risk and Improvement Committee that adds value to the council
- ensure each council (including county council/joint organisation) in NSW has a robust risk management framework in place that accurately identifies and mitigates the risks facing the council and its operations
- ensure each council (including county council/joint organisation) in NSW has an effective internal audit function that provides independent assurance that the council is functioning effectively and the internal controls the council has put into place to manage risk are working, and
- establish a minimum standard for these mechanisms based on internationally accepted standards and good practice guidance.

The framework has been based primarily on the NSW public sector risk management and internal audit framework (as recommended by the Independent Commission Against Corruption⁴¹) and the IPPF⁴².

It has also taken into consideration:

- the existing *Internal Audit Guidelines* updated by the Office of Local Government in 2010⁴³
- the internal audit-related recommendations of the Independent Local Government Review Panel's 2013 inquiry⁴⁴ and the Local Government Acts Taskforce's 2013 review⁴⁵
- recommendations made by the Independent Commission Against Corruption in its various public inquiries into local councils in NSW⁴⁶
- the Australian Government's public sector internal audit framework

⁴¹ Independent Commission Against Corruption (2011) *Investigation into the alleged corrupt conduct involving Burwood Council's general manager and others*

⁴² The Institute of Internal Auditors (2017) *International Professionals Practices Framework. International Standards for the Professional Practice of Internal Auditing*

⁴³ Division of Local Government (2010) *Internal Audit Guidelines*

⁴⁴ Independent Local Government Review Panel (2013) *Revitalising Local Government. Final Report of the NSW Independent Local Government Review Panel*

⁴⁵ Local Government Acts Taskforce (2013) *A New Local Act for New South Wales and Review of the City of Sydney Act 1988*

⁴⁶ Independent Commission Against Corruption (2017) *Investigation into the former City of Botany Bay Council Chief Financial Officer and others*. ICAC Report July 2017 and Independent Commission Against Corruption (2011) *Investigation into the alleged corrupt conduct involving Burwood Council's general manager and others*

- opinions, research and recommendations of leaders and practitioners in risk management and internal audit, and
- feedback obtained from NSW Treasury, the NSW Audit Office, the Department of Finance, Services and Innovation, the Institute of Internal Auditors and executive members of the Local Government Internal Auditors Network on earlier drafts of this discussion paper.

An overriding concern has been to ensure that the proposed framework reflects the unique structure and needs of NSW local government and that it also minimises the administrative and resource impacts for councils. For this reason, there are components of the proposed framework that are unique to NSW councils and not reflected in the above-mentioned resources.

3. Proposed statutory framework

The proposed statutory framework regulating internal audit in NSW councils (including county council/joint organisation) will consist of the current provisions in the Local Government Act, new regulations in the Local Government Regulation and new guidelines.

Current legislation

Audit, Risk and Improvement Committee

Section 428A of the Local Government Act (when proclaimed) will require each council to establish an Audit, Risk and Improvement Committee to continuously review and provide independent advice to the general manager and the governing body of the council about:

- whether the council is complying with all necessary legislation
- the adequacy and effectiveness of the council's risk management framework, fraud and corruption prevention activities, financial management processes, and the council's financial position and performance
- the council's governance arrangements
- the achievement of the goals set out in the council's community strategic plan, delivery program, operational plan and other strategies
- how the council delivers local services and how to improve the council's performance of its functions more generally
- the collection of performance measurement data by the council, and
- any other matters prescribed by the Local Government Regulation⁴⁷.

Section 428B (when proclaimed) will also allow a council to establish a joint Audit, Risk and Improvement Committee with another council/s including through joint or regional organisations of councils.

Other supporting provisions

Amendments made to the Local Government Act in 2016 to prescribe new guiding principles for councils, and update the prescribed roles and responsibilities of the governing body and general manager will support and inform the work of the Audit, Risk and Improvement Committee and provide for the future establishment of a risk management and internal audit function in each council. These guiding principles and roles and responsibilities have already been proclaimed.

⁴⁷ Internal audit will be a matter prescribed under the Regulation.

Guiding principles

The guiding principles of the Local Government Act require each council to carry out its functions in a way that provides the best possible value for residents and ratepayers. The guiding principles also specify that councils are to:

- spend money responsibly and sustainably, and align general revenue and expenses (s 8B(a))
- invest in responsible and sustainable infrastructure for the benefit of the local community (s 8B(b))
- effectively manage their finances and assets and have sound policies and processes for performance management and reporting, asset maintenance and enhancement, funding decisions, and risk management practices (s 8B(c))
- ensure the current generation funds the cost of its services and achieves intergenerational equity (s 8B(d)), and
- manage risks to the local community, area or council effectively and proactively (s 8C(h)).

Role of the governing body

Under section 223, the statutory role and responsibilities of the governing body include:

- directing and controlling the affairs of the council in accordance with the Local Government Act (s 223 (1)(a))
- ensuring as far as possible the financial sustainability of the council (s 223 (1)(c))
- ensuring as far as possible that the council complies with the guiding principles of the Local Government Act (s 223 (1)(d))
- keeping the performance of the council under review (s 223 (1)(g))
- making the decisions necessary to ensure the council properly exercises its regulatory functions (s 223 (1)(h)), and
- being responsible for ensuring that the council acts honestly, efficiently and appropriately (s 223 (1)(i)).

Role of the general manager

Under section 335, the general manager is responsible for ensuring the operational delivery of council's risk management framework and internal audit function. This includes:

- conducting the day-to-day management of the council in accordance with the strategic plans, programs, strategies and policies of the council (s 335(a))
- implementing, without undue delay, the lawful decisions of the council (s 335(b))
- advising the governing body on the development and implementation of the council's plans, programs, strategies and policies (s335(c)), and
- ensuring that the Mayor and other councillors are given timely information and advice and the administrative and professional support necessary to effectively discharge their functions (s335(f)).

Clause 209 of the Local Government Regulation also states that the general manager must ensure that:

- the council complies with all legal financial obligations, including the keeping of accounting records
- effective measures are taken to secure the effective, efficient and economical management of financial operations within each division of the council's administration
- authorised and recorded procedures are established to provide effective control over the council's assets, liabilities, revenue and expenditure and secure the accuracy of the accounting records, and
- lines of authority and the responsibilities of members of the council's staff for related tasks are clearly defined.

New regulations

The operation of sections 428A and 428B will be supported by new regulations. These will prescribe the requirements that councils are to comply with when appointing their Audit, Risk and Improvement Committee and establishing their risk management framework and internal audit function. They will also include internal audit as a function of the Committee under section 428A(2)(i) of the Local Government Act.

The Local Government Regulation will provide for a Model Internal Audit Charter and Model Terms of Reference for Audit, Risk and Improvement Committees which all councils must adopt and comply with. This discussion paper describes the key requirements that will ultimately be prescribed by the Local Government Regulation.

New guidelines

To support compliance with the Local Government Act and Regulation, *Guidelines for NSW Local Government Audit, Risk and Improvement Committees, Risk Management Frameworks and Internal Audit Functions* will be issued under section 23A of the Local Government Act. These Guidelines will outline the core requirements that each council's Audit, Risk and Improvement Committee, risk management framework and internal audit function must have.

A key aim of the Guidelines will be to create a strong and effective risk management framework and internal audit function in all councils by establishing minimum standards that reflect accepted international standards.

The nine core requirements of the Guidelines that councils will need to comply with are summarised below and explained in greater detail throughout the rest of this discussion paper.

The Office of Local Government will, on a periodic basis and at least once every five years, review the Local Government Regulation and Guidelines to assess the efficiency and effectiveness of internal audit requirements and the local government sector's compliance.

CORE REQUIREMENT 1:

Appoint an independent Audit, Risk and Improvement Committee

- (a) Each council (including county council/joint organisation) is to have an independent Audit, Risk and Improvement Committee that reviews all the matters prescribed in section 428A of the Local Government Act
- (b) The Audit, Risk and Improvement Committee is to operate according to terms of reference, based on a model terms of reference, and approved by the governing body of the council after endorsement by the Committee
- (c) The Audit, Risk and Improvement Committee is to comprise of three to five independent members who are prequalified via the NSW Government's *Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members*
- (d) Audit, Risk and Improvement Committee members and the Chair are to serve a three to five-year term. A member's term cannot exceed eight years and the Chair's term cannot exceed five years
- (e) The Audit, Risk and Improvement Committee is to meet quarterly, with the ability to hold extra meetings if required. A council's general manager and Chief Audit Executive should attend except where excluded by the Committee
- (f) Audit, Risk and Improvement Committee members are to comply with council's Code of Conduct and the conduct requirements of the NSW Government's *Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members*
- (g) Disputes between the general manager and/or the Chief Audit Executive are to be resolved by the Audit, Risk and Improvement Committee. Disputes with the Committee are to be resolved by the governing body of the council
- (h) The Audit, Risk and Improvement Committee is to provide an annual assurance report to the governing body of the council and be assessed by an external party at least once each council term as part of council's quality assurance and improvement program
- (i) The general manager is to nominate a council employee/s to provide secretariat support to the Audit, Risk and Improvement Committee. Minutes are to be recorded for all committee meetings

CORE REQUIREMENT 2:

Establish a risk management framework consistent with the current Australian risk management standards

- (a) Each council (including county council/joint organisation) is to establish a risk management framework that is consistent with current Australian standards for risk management
- (b) The governing body of the council is to ensure that the council is sufficiently resourced to implement an appropriate and effective risk management framework
- (c) Each council's risk management framework is to include the implementation of a risk management policy, risk management plan and risk management process. This includes deciding council's risk criteria and how risk that falls outside tolerance levels will be treated
- (d) Each council is to fully integrate its risk management framework within all of council's decision-making, operational and integrated planning and reporting processes
- (e) Each council is to formally assign responsibilities for risk management to the general manager, senior managers and other council staff and to ensure accountability
- (f) Each council is to ensure its risk management framework is regularly monitored and reviewed
- (g) The Audit, Risk and Improvement Committee and the council's internal audit function are to provide independent assurance of risk management activities, and
- (h) The general manager is to publish in council's annual report an attestation certificate indicating whether the council has complied with the risk management requirements

<p>CORE REQUIREMENT 3: Establish an internal audit function mandated by an Internal Audit Charter</p> <p>(a) Each council (including county council/joint organisation) is to establish an internal audit function</p> <p>(b) The governing body is to ensure that the council's internal audit function is sufficiently resourced to carry out its work</p> <p>(c) The governing body of the council is to assign administrative responsibility for internal audit to the general manager and to include this in their employment contract and performance reviews</p> <p>(d) The Chief Audit Executive is to develop an Internal Audit Charter, based on a model charter, which will guide how internal audit is conducted by the council. The Charter is to be approved by the governing body of the council after endorsement by the Audit, Risk and Improvement Committee</p>
<p>CORE REQUIREMENT 4: Appoint internal audit personnel and establish reporting lines</p> <p>(a) The general manager is to appoint a Chief Audit Executive to oversee the council's internal audit activities in consultation with the Audit, Risk and Improvement Committee</p> <p>(b) The Chief Audit Executive is to report functionally to the Audit, Risk and Improvement Committee and administratively to the general manager and attend all committee meetings</p> <p>(c) The general manager is to ensure that, if required, council has adequate internal audit personnel to support the Chief Audit Executive. Councils will be able to appoint in-house internal audit personnel or completely or partially outsource their internal audit function to an external provider</p>
<p>CORE REQUIREMENT 5: Develop an agreed internal audit work program</p> <p>(a) The Chief Audit Executive is to develop a four-year strategic plan to guide the council's longer term internal audits in consultation with the governing body, general manager and senior managers. The strategic plan is to be approved by the Audit, Risk and Improvement Committee</p> <p>(b) The Chief Audit Executive is to develop an annual risk-based internal audit work plan, based on the strategic plan, to guide council's internal audits each year. The work plan is to be developed in consultation with the governing body, general manager and senior managers and approved by the Audit, Risk and Improvement Committee</p> <p>(c) The Chief Audit Executive is to ensure performance against the annual and strategic plans can be assessed</p>
<p>CORE REQUIREMENT 6: How to performing and report internal audits</p> <p>(a) The Chief Audit Executive is to ensure that the council's internal audits are performed in accordance with the IPPF and current Australian risk management standards (where applicable), and approved by the Audit, Risk and Improvement Committee</p> <p>(b) The Chief Audit Executive is to develop policies and procedures to guide the operation of the internal audit function, including the performance of internal audits</p> <p>(c) The Chief Audit Executive is to report internal audit findings and recommendations to the Audit, Risk and Improvement Committee. Each finding is to have a recommended remedial action and a response from the relevant senior manager/s</p> <p>(d) All internal audit documentation is to remain the property of, and can be accessed by, the audited council, including where internal audit services are performed by an external provider. It can also be accessed by the Audit Risk and Improvement Committee, external auditor and governing body of the council (by resolution)</p>

<p>CORE REQUIREMENT 7: Undertake ongoing monitoring and reporting</p> <p>(a) The Audit, Risk and Improvement Committee is to be advised at each quarterly meeting of the internal audits undertaken and progress made implementing corrective actions</p> <p>(b) The governing body of the council is to be advised after each quarterly meeting of the Audit, Risk and Improvement Committee of the internal audits undertaken and the progress made implementing corrective actions</p> <p>(c) The Audit, Risk and Improvement Committee can raise any concerns with the governing body of the council at any time through the Chair</p>
<p>CORE REQUIREMENT 8: Establish a quality assurance and improvement program</p> <p>(a) The Chief Audit Executive is to establish a quality assurance and improvement program which includes ongoing monitoring and periodic self-assessments, an annual review and strategic external review at least once each council term</p> <p>(b) The general manager is to publish in the council's annual report an annual attestation certificate indicating whether council has complied with the core requirements for the Audit, Risk and Improvement Committee and the internal audit function</p>
<p>CORE REQUIREMENT 9: Councils can establish shared internal audit arrangements</p> <p>(a) A council can share all or part of its internal audit function with another council/s by either establishing an independent shared arrangement with another council/s of its choosing, or utilising an internal audit function established by a joint or regional organisation of councils that is shared by member councils</p> <p>(b) The core requirements that apply to stand-alone internal audit functions will also apply to shared internal audit functions, with specified exceptions that reflect the unique structure of shared arrangements</p> <p>(c) The general manager of each council in any shared arrangement must sign a 'Shared Internal Audit Arrangement' that describes the agreed arrangements</p>

Implementation timelines

The transitional arrangements built into the Local Government Act mean that the requirement to have an Audit, Risk and Improvement Committee will not come into force until six months after the next ordinary elections in September 2020. Councils will therefore have until March 2021 to establish their Audit, Risk and Improvement Committees in line with the regulatory requirements proposed in this discussion paper.

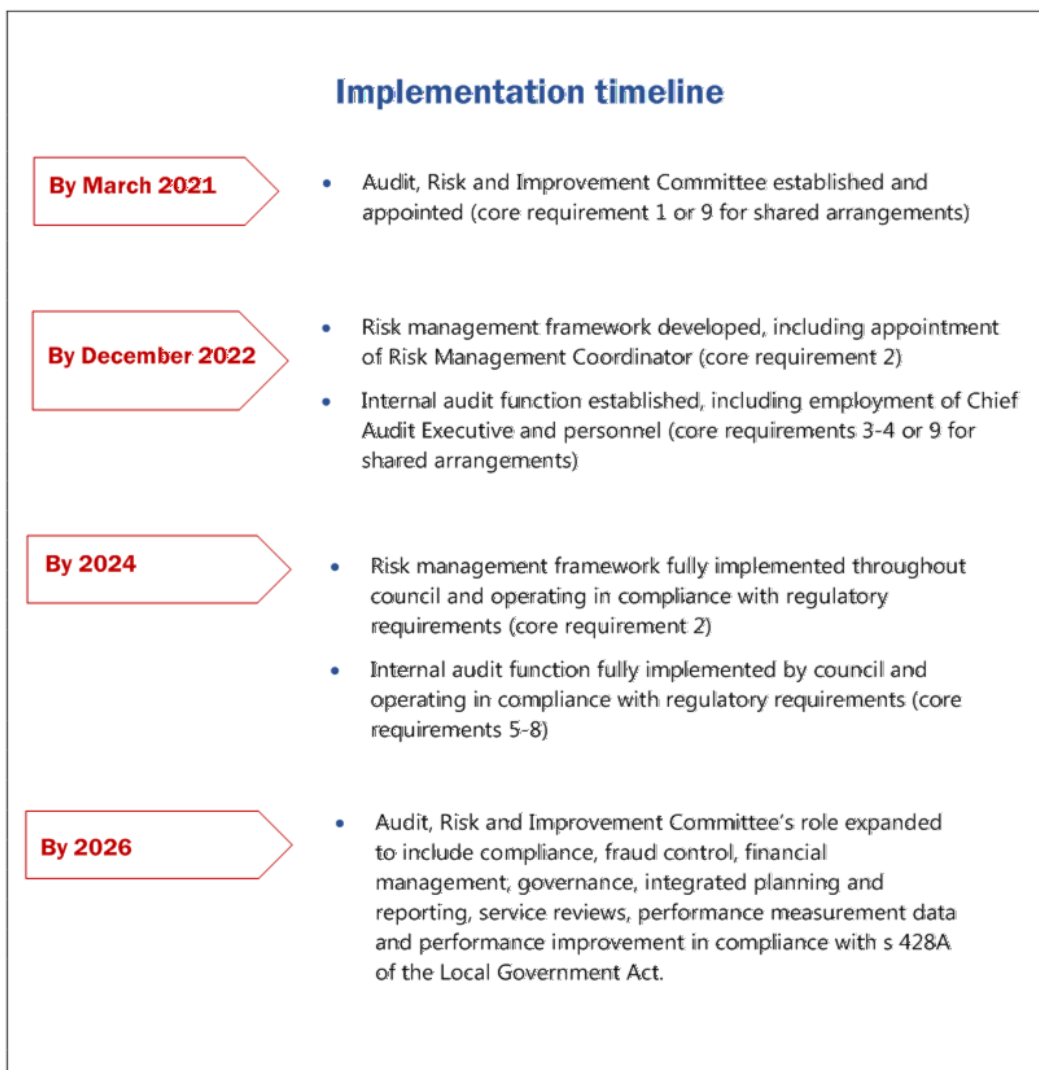
It is proposed that councils will then have a further 18 months, until December 2022, to establish and resource their internal audit function and risk management framework (guided by the Audit, Risk and Improvement Committee).

Councils' Audit, Risk and Improvement Committees will focus on ensuring the council's internal audit function and risk management framework comply with regulatory requirements during the following three years, until 2024.

As these functions are bedded down, the role of the committee is to broaden to comply with the remaining requirements of sections 428A of the Local Government Act.

Full compliance with s 428A of the Local Government Act will be expected by 2026. However, councils that already have an Audit, Risk and Improvement Committee and a mature internal audit function and risk management framework will be encouraged to comply sooner.

This implementation timeline is illustrated below.



4. Benefits of risk management and internal audit for NSW local government

Risk management and internal audit will be a valuable asset for councils.

Risk management will help each council to ensure that any risks to the achievement of its strategic goals and objectives are identified and managed effectively.

Audit, Risk and Improvement Committees and internal audit will provide councils with independent, objective assurance that they are doing things the best way that they can for their community. It will also lead to each council having effective risk management, control and governance processes which will help to instill stakeholder and community confidence in the council's ability to operate effectively.

If implemented effectively, these mechanisms will also lead to each council:

- having better and more efficient levels of service delivery
- achieving better operational consistency across council
- having a greater likelihood of achieving its goals and objectives
- using its resources more efficiently and effectively
- having improved responsiveness and flexibility
- having increased accountability and transparency
- achieving better decision-making and having the confidence to make difficult decisions
- developing good internal governance
- having increased financial stability
- being more resilient to change
- achieving and maintaining compliance with all laws, regulations, internal policies and procedures
- safeguarding its assets
- more reliable, timely and accurate financial and management reporting
- maintaining business continuity, and
- focusing on doing the right things, the right way.

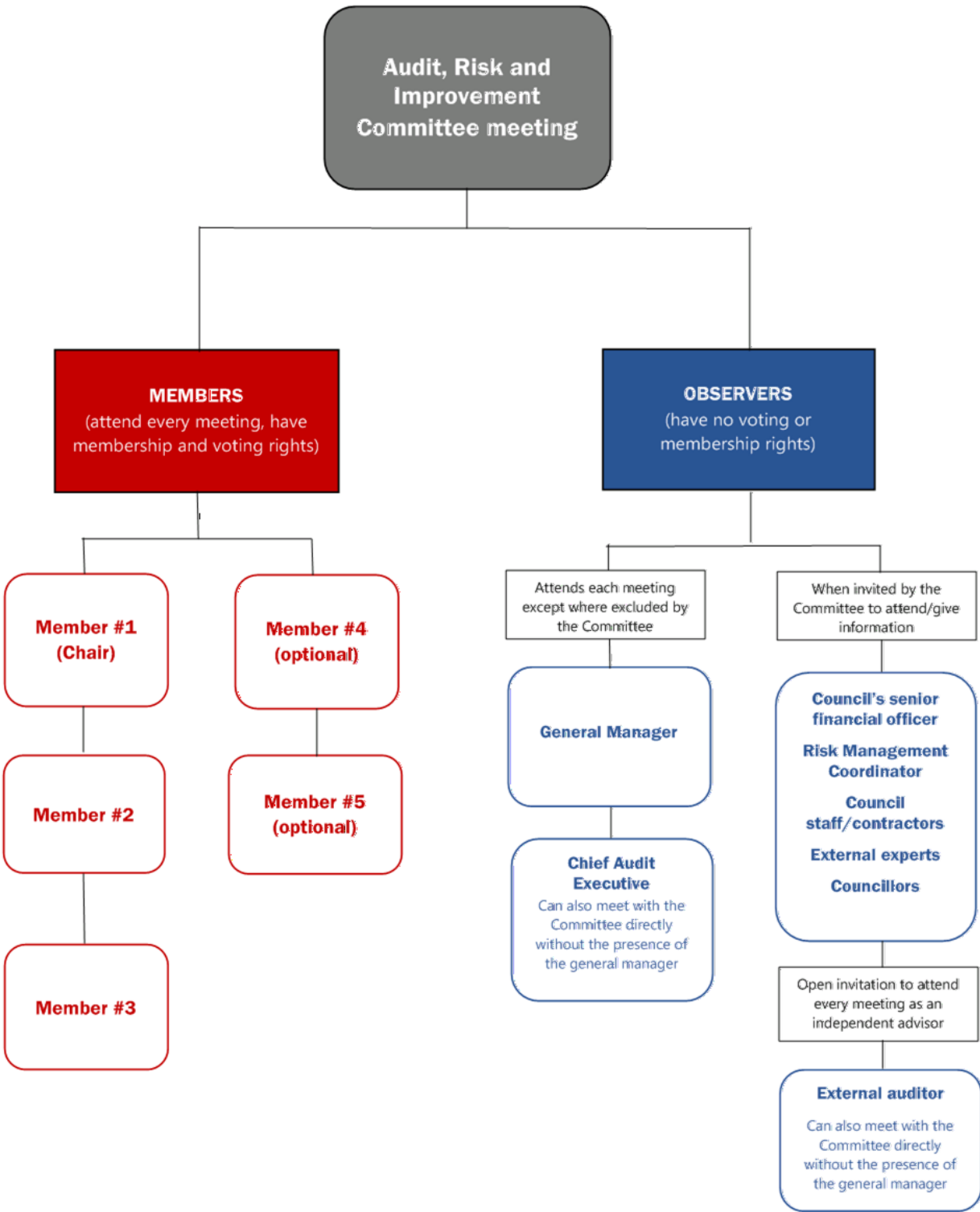
PROPOSED CORE REQUIREMENTS

Core requirement 1: **Appoint an independent Audit, Risk and Improvement Committee**

Proposal

It is proposed that:

- (a) each council (including county council/joint organisation) is to have an independent Audit, Risk and Improvement Committee that reviews all the matters prescribed in section 428A of the Local Government Act
- (b) the Audit, Risk and Improvement Committee is to operate according to terms of reference, based on model terms of reference, approved by the governing body of the council after endorsement by the Committee
- (c) the Audit, Risk and Improvement Committee is to comprise of three to five independent members who are prequalified via the NSW Government's *Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members*
- (d) Audit, Risk and Improvement Committee members and the Chair are to serve a three to five-year term. A member's term cannot exceed eight years and the Chair's term cannot exceed five years
- (e) the Audit, Risk and Improvement Committee is to meet quarterly, with the ability to hold extra meetings if required. A council's general manager and Chief Audit Executive should attend except where excluded by the Committee
- (f) Audit, Risk and Improvement Committee members are to comply with the council's Code of Conduct and the conduct requirements of the NSW Government's *Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members*
- (g) disputes between the general manager and/or the Chief Audit Executive are to be resolved by the Audit, Risk and Improvement Committee. Disputes with the Committee are to be resolved by the governing body of the council
- (h) the Audit, Risk and Improvement Committee is to provide an annual assurance review to the governing body of the council and be assessed by an external party at least once each council term as part of the council's quality assurance and improvement program, and
- (i) the general manager is to nominate a council employee/s to provide secretariat support to the Audit, Risk and Improvement Committee. Minutes must be recorded for all committee meetings.



Description

(a) Each council (including county council/joint organisation) is to have an independent Audit, Risk and Improvement Committee that reviews all matters prescribed in section 428A of the Local Government Act

Each council in NSW, (including county council/joint organisation), will be required to have an independent Audit, Risk and Improvement Committee that reviews all matters prescribed in section 428A of the Local Government Act.

It is recognised that each council will have different Audit, Risk and Improvement Committee requirements depending on its size, needs, budget and complexity of operations. To provide councils greater flexibility, they can either:

- directly appoint an Audit, Risk and Improvement Committee for their exclusive use
- utilise a joint Committee established by their joint or regional organisation of councils that is shared by member councils, or
- share their Committee with another council/s in close proximity or of their choosing as part of an independent shared arrangement.

It is recommended that county councils, due to their size, enter into a shared arrangement with one of their member councils or utilise an internal audit function established by a joint or regional organisation of councils.

Some of the requirements for shared arrangements will differ from those of stand-alone Audit, Risk and Improvement Committees established for a council's exclusive use (as described in core requirements 1-8). Core requirement 9 outlines the specific requirements of shared arrangements.

Role and functions

Under section 428A of the Local Government Act, each council must have an Audit, Risk and Improvement Committee to keep under review the following aspects of the council's operations:

- (a) compliance
- (b) risk management
- (c) fraud control
- (d) financial management
- (e) governance
- (f) implementation of the strategic plan, delivery program and strategies
- (g) service reviews
- (h) collection of performance measurement data by the council, and
- (i) any other matters prescribed by the regulation (i.e. internal audit).

The Committee will also provide information to the council for the purpose of improving council's performance of its functions.

The Audit, Risk and Improvement Committee is to provide an advisory and assurance role only, and is to have no administrative function, delegated financial responsibility or any management functions.

Audit, Risk and Improvement Committees will be required to give independent advice and assurance to the general manager and the governing body of the council on the issues listed in the following table. It is envisaged that these items will be standing items on agenda of each committee meeting. Beyond this, committees will have the flexibility to address the unique challenges and operating environment of each council.

It will be a matter for each council to decide whether or not it's Audit, Risk and Improvement Committee also serves any entities formed by the council.

Audit, Risk and Improvement Committee: role and responsibilities

Audit

Issue (s 428A)	Committee's role and responsibilities
Internal audit	<p>Advisory:</p> <ul style="list-style-type: none"> • providing overall strategic and executive direction for internal audit activities • advising the general manager and governing body of the council of the resources necessary to successfully deliver the internal audit function • assessing the adequacy and effectiveness of council's internal audit activities • acting as a forum for communication between the governing body, general manager, senior management, the internal audit function and external audit • overseeing the coordination of audit programs conducted by internal and external audit and other review functions, and • ensuring the council achieves maximum value from its internal audit activities. <p>Review:</p> <ul style="list-style-type: none"> • the appropriateness of council's Internal Audit Charter, internal audit policies and procedures • audit/risk methodologies used • the findings/recommendations of internal audit activities, particularly recommendations that have been assessed as the most significant according to the risk to the council if they are not implemented • the effectiveness of corrective actions implemented • compliance with statutory requirements • the performance of the Chief Audit Executive and the internal audit function as part of the council's internal audit quality improvement program • the findings of any external reviews of the internal audit function <p>Endorsement of:</p> <ul style="list-style-type: none"> • the council's Internal Audit Charter, internal audit strategic four-year plan and annual work plan, and • the appointment and remuneration of the Chief Audit Executive
External audit	<p>Advisory:</p> <ul style="list-style-type: none"> • acting as a forum for communication on external audit issues, and • advising on the findings of external audits and monitoring the implementation by the council of any recommendations for corrective action.

Risk

Issue (s 428A)	Committee's role and responsibilities
Risk management	<p>Advisory – advising whether:</p> <ul style="list-style-type: none"> the council has provided sufficient resources for risk management and staff are able to carry out their risk management responsibilities the council's risk management framework complies with current Australian risk management standards the council's risk management framework operates effectively and supports the achievement of council's strategic goals and objectives management has embedded a positive risk management culture risk management is fully integrated into all aspects of the council, including decision-making processes and operations risks are formally considered when developing and implementing all council policies, programs, projects and other activities, including procurement major risks have been identified and assessed by the council and appropriate risk treatments have been implemented that reflect council's risk criteria risk information is captured and communicated in a timely manner across the council, enabling management and staff to carry out their responsibilities there are council-specific, fit-for-purpose tools, systems and processes to help all those responsible for managing risk to fulfil their responsibilities, and the council's risk management policies, procedures and plans are being complied with. <p>Review the appropriateness and effectiveness of the council's:</p> <ul style="list-style-type: none"> risk criteria internal control framework risk register and risk profile risk reports risk management framework in relation to its insurance arrangements, and business continuity plans and natural disaster plans (including periodic testing). <p>Endorsement of:</p> <ul style="list-style-type: none"> the council's risk management policy, risk management plan and risk criteria prior to their approval by the governing body of the council, and the council's risk profile and risk register/s prior to their approval by the general manager.
Control framework	<p>Providing independent assurance on the following internal controls implemented by the council to manage specific categories of risk:</p> <p><u>The council's compliance framework</u> - advising whether:</p> <ul style="list-style-type: none"> management has embedded a culture which is committed to lawful and ethical behaviour the council has in place necessary policies and procedures and that these are periodically reviewed and updated the council is complying with all necessary legislation, regulations, policies and procedures management has appropriately considered all legal and compliance risks as part of the council's risk assessment and management arrangements delegations are properly managed and exercised, and the council's system for monitoring compliance is effective

Issue (s 428A)	Committee's role and responsibilities
	<p><u>The council's fraud and corruption framework</u> - advising whether the:</p> <ul style="list-style-type: none"> • council's fraud and corruption prevention plan and activities are adequate and effective, and • council has appropriate processes and systems in place to capture and effectively investigate fraud-related information <p><u>The council's financial management and external accountability framework</u> – including:</p> <ul style="list-style-type: none"> • advising whether the council's financial management processes are adequate • assessing the policies and procedures for council management's review and consideration of the council's current and future financial position and performance and the nature of that review (including the approach taken to addressing variances and budget risks) • advising on the adequacy of early close and year-end review procedures, and • reviewing council's financial statements, including: <ul style="list-style-type: none"> ○ providing input and feedback on council's financial statements ○ advising whether council is meeting its external accountability requirements ○ advising whether appropriate action has been taken in response to audit recommendations and adjustments ○ satisfying itself that the financial statements are supported by appropriate management signoff ○ reviewing the 'Statement by Councillors and Management' (made pursuant to s 413(2)(c) of the Local Government Act) ○ reviewing the processes in place designed to ensure that financial information included in the council's annual report is consistent with the signed financial statements ○ reviewing cash management policies and procedures ○ reviewing policies and procedures for the collection, management and disbursement of grants and tied funding, and ○ satisfying itself that the council has a performance management framework that is linked to organisational objectives and outcomes. <p><u>The council's governance framework</u> – including:</p> <ul style="list-style-type: none"> • advising on the adequacy and robustness of the processes and systems that the council has put in place to govern day-to-day activities and decision-making, and • reviewing whether controls over external parties such as contractors and advisors are sound and effective.

Improvement

Issue (s 428A)	Committee's role and responsibilities
Strategic planning	<ul style="list-style-type: none"> advising whether the council is achieving the objectives and goals it set out in its community strategic plan and has successfully implemented its delivery program, operational plan and other strategies
Service delivery	<ul style="list-style-type: none"> advising how the council is delivering local services and how it could improve its service delivery performance
Performance data and measurement	<ul style="list-style-type: none"> assessing the adequacy of the performance indicators and data the council uses to measure its performance

Learning and development program

Some councils, particularly larger metropolitan councils, already have an established risk management and internal audit framework and have been successfully been using these assurance methods for some time. They may just need to make some adjustments to their frameworks to comply with the proposed requirements.

There are other councils that are just starting this journey - for example, they may have appointed an Audit, Risk and Improvement Committee and are now beginning the process of bedding down internal audit and risk management in their councils.

There are also some councils, particularly in rural areas, who do not have any type of internal audit or risk management in place yet, and are starting to think about how this might work for their council.

There is an opportunity for councils to learn from each other's knowledge and experiences, especially during the initial implementation stage.

A sharing and learning program for Audit, Risk and Improvement Committees will be established to facilitate sharing information between committees about how they implement s428A of the Local Government Act and perform the other regulatory requirements placed upon them.

A sharing and learning program for councils (general managers, Chief Audit Executives and/or Risk Management Coordinators) will also be established to facilitate the sharing of information and learning from each other, particularly between councils that have already established a strong internal audit and risk management function and those that are just starting this journey.

The development of these programs will be guided by similar programs established by the Australian Government and bodies such as Chartered Accountants Australia and New Zealand, the Australian Institute of Company Directors and the Actuaries Institute.

(b) The Audit, Risk and Improvement Committee is to operate according to terms of reference, based on model terms of reference, approved by the governing body of the council after endorsement by the Committee

Each Audit, Risk and Improvement Committee is to prepare terms of reference to define how it is structured and how it will operate. The terms of reference are to be approved by the governing body after endorsement by the Committee. The terms of reference can also be used by the council as a benchmarking tool to measure the effectiveness of the committee.

The general manager is to ensure that each member of the Audit, Risk and Improvement Committee, including new appointments, are provided with a copy of the terms of reference and a formal induction.

Each Audit, Risk and Improvement Committee's terms of reference are to comply with Model Terms of Reference⁴⁸. This is consistent with councils being required to adopt policies based on model documents (for example, the Model Code of Conduct and the Model Code of Meeting Practice).

The Model Terms of Reference will require each Audit, Risk and Improvement Committee's terms of reference to:

- set out the committee's objectives, authority, composition, tenure, roles, responsibilities, duties, reporting lines, reporting and administrative arrangements
- be sufficiently detailed to ensure there is no ambiguity, and
- have clear guidance on key aspects of the committee's operations.

The Audit, Risk and Improvement Committee will be able to include additional provisions in its terms of reference as long as they do not conflict with the Model Terms of Reference or the IPPF. This will ensure any matters not contemplated by the Model Terms of Reference are addressed by councils in a robust way that complies with internationally recognised industry standards.

As part of the council's quality assurance and improvement program, where the Audit, Risk and Improvement Committee's Terms of Reference include additional provisions, they are to be reviewed annually by the Audit, Risk and Improvement Committee, and once each council term (i.e. four years) by an external party.

(c) The Audit, Risk and Improvement Committee is to comprise of three to five independent members who are prequalified via the NSW Government's Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members

Appointment and size of the Committee

The Audit, Risk and Improvement Committee is to be appointed by the governing body of the council. Councils may find it practical to establish a small committee of councillors and the general manager to conduct the selection process and make appointment recommendations to the larger governing body.

⁴⁸ The Model Terms of Reference will be drafted by the Office of Local Government in consultation with councils based on the final internal audit framework developed following consultation on this discussion paper

Each council's Audit, Risk and Improvement Committee is to have no fewer than three members and no more than five members. The Chair is to be counted as a member of the committee. The exact size of the committee is to be determined by the governing body of the council, in consultation with the general manager, taking into account the size and complexity of the council's operations and risk profile.

The Chair of the Audit, Risk and Improvement Committee is to act as the interface between the Committee and the general manager, the Committee and the governing body of council, and the Committee and the Chief Audit Executive.

Independence of members

All Audit, Risk and Improvement Committee members must be independent. To be classified as 'independent', a member must be both:

1. Free of any relationships that could be perceived to result in bias or a conflict of interest or interfere with their ability to act independently.

This means an independent committee member cannot:

- be a councillor of any council in Australia, a candidate at the last election of a council or a person who has held office in a council during its previous two terms
- be employed (currently or during the last three years) by any council in Australia
- have a close personal or business relationship with a councillor or a person who has a senior role in the council
- be a current service provider to the NSW Audit Office, or have been a service provider during the last three years
- currently, or within the last three years, provided any material goods or services (including consultancy, legal, internal audit and advisory services) to the council which directly affect subjects or issues considered by the Audit, Risk and Improvement Committee
- be a substantial shareholder, owner, officer or employee of a company that has a material business, contractual relationship, direct financial interest or material indirect financial interest with the council or a related entity, or have an immediate or close family member who is, which could be perceived to interfere with the individual's ability to act in the best interests of the council
- currently or previously acted as an advocate of a material interest on behalf of the council or a related entity, or

2. Selected from the panel of prequalified audit and risk committee independent chairs and members administered by the NSW Government⁴⁹.

The evaluation criteria for prequalification as a member on the Panel includes⁵⁰:

- extensive senior level experience in governance and management of complex organisations
- an ability to read and understand financial statements

⁴⁹ The NSW Government's *Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members* streamlines selection processes by providing an impartial third party assessment of independent persons seeking appointment to public sector Audit and Risk Committee positions. Individuals prequalified under the scheme have satisfied key skills, knowledge and experience criteria that ensure they will be able to undertake their role on an audit committee effectively. Further information about the scheme can be found at <https://www.procurepoint.nsw.gov.au/scm2421>. The scheme's prequalification criteria may be amended to ensure that members who wish to work with local government satisfy the unique needs and requirements of councils.

⁵⁰ See the prequalification scheme's conditions at <https://tenders.nsw.gov.au/dfs/?event=public.scheme.show&RFTUUIID=32C22F9B-DCD8-D61D-59601E7558E2FA26> for more information on the scheme's prequalification criteria. These criteria may be amended in relation to council Audit, Risk and Improvement Committees to ensure that members who wish to work with local government satisfy the unique needs and requirements of councils.

- a capacity to understand the ethical requirements of government (including potential conflicts of interest)
- functional knowledge of areas such as:
 - risk management
 - performance management
 - human resources management
 - internal and external auditing
 - financial reporting
 - accounting
 - management control frameworks
 - financial internal controls
 - governance (including planning, reporting and oversight), or
 - business operations
- a capacity to form independent judgements and willingness to constructively challenge/question management practices and information
- a professional, ethical approach to the exercise of their duties
- the capacity to devote the necessary time and effort to the responsibilities of a member of an Audit, Risk and Improvement Committee, and
- possession of a relevant professional qualification or membership (for example, Certified Internal Auditor, Certified Practising Accountant, Chartered Accountant, Certified Practising Risk Manager, Graduate Member of the Australian Institute of Company Directors) is desirable.

Chairs must also possess:

- leadership qualities and the ability to promote effective working relationships in complex organisations
- an ability to communicate complex and sensitive assessments in a tactful manner to chief audit executives, senior management, board members and Ministers
- a sound understanding of:
 - the principles of good organisational governance and capacity to understand public sector accountability, including financial reporting
 - the business of the department or statutory body or the environment in which it operates
 - internal audit operations, including selection and review of chief audit executives, and
 - risk management principles.

A person prequalified under the scheme as a 'committee member' can only be appointed as a member of an Audit, Risk and Improvement Committee – they cannot be appointed as the Chair. Similarly, only a person pre-qualified as a 'Chair' can be appointed as the Chair of an Audit, Risk and Improvement Committee.

Satisfying both these criteria will ensure Audit, Risk and Improvement Committee chairs and members are sufficiently skilled and experienced and have no real or perceived conflicts of interest. It is important to note that prequalification does not automatically mean that an individual satisfies the independence requirements listed in criteria 1 above.

Living in a local government area is not, in itself, to be considered as impacting a person's ability to be independent of council.

Both the governing body of the council and the general manager must ensure that adequate procedures are in place to preserve the independence of the Audit, Risk and Improvement Committee Chair and committee members. Likewise, the chair and members must notify the governing body and/or general manager if a real or perceived threat to their independence arises⁵¹.

Knowledge, skills and experience collectively needed on the committee

When selecting individual Audit, Risk and Improvement Committee members, the governing body of the council will be required to ensure that the committee as a collective body has the appropriate mix of skills, knowledge and experience to successfully implement its terms of reference and add value to the council.

At least one member of the Audit, Risk and Improvement Committee should have accounting or financial management experience with an understanding of accounting and auditing standards in a local government context.

Each individual should also have sufficient time to devote to their responsibilities as an Audit, Risk and Improvement Committee member.

Fees paid to members and the Chair

Fees paid to Audit, Risk and Improvement Committee members and the Chair are to be the same as those currently paid under the NSW Government's prequalification scheme, as set out in the table below, subject to any changes to the scheme. Members will be able to serve on Audit, Risk and Improvement Committees on a voluntary basis.

The rates include all reasonable costs incurred by members and the Chair engaged under the scheme excluding subsistence and travel costs if travelling into the Sydney metropolitan area from interstate. Subsistence and travel expenses outside the Sydney metropolitan area and/or where the panel member is from interstate are to be charged at the actual cost, or at the rates specified under the *Crown Employees (Public Service Conditions of Employment) Reviewed Award 2009*, whichever is the lesser.

The method of payment (e.g. payroll, invoice) will be at the discretion of the council.

Council size	Indicator	Chair fee (excluding GST)	Member fee (excluding GST)
Large	Expenditure greater than \$400 million	\$20,920 per annum	\$2,092 per meeting day including preparation time
Medium	Expenditure between \$50 million and \$400 million	\$16,213 per annum	\$1,621 per meeting day including preparation time
Small	Expenditure less than \$50 million	\$12,552 per annum	\$1,255 per meeting day including preparation time

⁵¹ As part of their inclusion in the prequalification scheme and prior to their engagement taking effect, chairs and members will be required to provide the council and NSW Government and the details of any other panels they are already on or any other significant appointments within or outside the local government sector (including their nature, duration, payments to the NSW Government agency administering the scheme). Currently under the scheme, members are only permitted to be appointed to five separate audit committees in the NSW public sector. This requirement will be updated to also include the NSW local government sector.

(d) Audit, Risk and Improvement Committee members and the Chair are to serve a three to five-year term. A member's term cannot exceed eight years and the Chair's term cannot exceed five years

The initial term of membership of an Audit, Risk and Improvement Committee member on any one Audit, Risk and Improvement Committee will be three to five-years to ensure that the committee maintains a fresh approach. Members can be reappointed or extended for a further term/s but the total period of continuous membership on any one committee will not be able to exceed eight years. This includes any term as Chair of the committee. Individuals who have served an eight-year term (either as a member or Chair) must have a three-year break from serving on the committee before being appointed again.

The terms of appointments will commence on the date the legislation is commenced. This includes for any existing members of Audit, Risk and Improvement Committees already established by councils who will remain members under the new arrangements.

Membership is to be regularly rotated to keep a fresh approach and avoid any perceptions of bias or conflicts of interest. Care is to be taken to ensure that membership renewal dates are staggered so knowledge is not lost to the Audit, Risk and Improvement Committee when members change. Ideally, no more than one member should leave the committee because of rotation in any one year.

Each council is to provide a thorough induction to each of its Audit, Risk and Improvement Committee members.

When approving the reappointment or extension of a membership term on the Audit, Risk and Improvement Committee, the governing body of the council is to consider a formal assessment by the Mayor (in consultation with the general manager) of the member's or Chair's performance on the committee.

The Council may engage an external reviewer to undertake this assessment if they choose. Joint or regional organisations may wish to engage an external reviewer that the mayors of member councils can utilise for this purpose.

The reappointment of members is also to be subject to the individual still meeting the independence and prequalification requirements outlined above.

The governing body can appoint the Chair for one term only for a period of three to five-years. The Chair's term can be extended but any extension must not cause the total term of the Chair to exceed five years.

(e) The Audit, Risk and Improvement Committee is to meet quarterly, with the ability to hold extra meetings if required. A council's general manager and Chief Audit Executive should attend except where excluded by the Committee

The Audit, Risk and Improvement Committee is to meet at least quarterly over the course of each year. A special meeting may be held, if needed, to review the council's financial statements.

Meetings can be held in person, by telephone or videoconference.

The committee is to ensure that its meeting agenda covers all of its responsibilities, as outlined in the committee's terms of reference, and all the items included in council's annual internal audit work plan.

The Audit, Risk and Improvement Committee will also be able to hold additional meetings when significant unexpected issues arise, or the Chair is asked to hold an additional meeting by the majority of committee members, the general manager, or the governing body of the council (by resolution). The Chair will be responsible for deciding if an additional meeting will be held. To enhance accountability, the ability to hold additional meetings is to be documented in the committee's terms of reference.

Any individual Audit, Risk and Improvement Committee member who wishes to meet with the general manager or governing body of the council to discuss internal audit issues is to do so through the Chair of the committee, and vice versa.

Agenda and minutes

The agenda for each Audit, Risk and Improvement Committee meeting is to be circulated at least one week before the meeting. It is to include as standing items all the lines of defence listed in section 428A of the Local Government Act - internal audit, external audit, risk management, compliance, fraud and corruption, financial management, governance, strategic planning, service delivery and performance measurement.

Audit, Risk and Improvement Committee meeting minutes are to:

- include a record of attendance, items of business considered, decisions and actions arising
- be approved by the Chair before circulation
- be provided to the governing body to enable councillors to keep abreast of assurance issues throughout the year, as well as the general manager, Chief Audit Executive and external auditor
- be provided within two weeks of the meeting date to ensure relevant individuals are made aware of any significant issues discussed at the meeting that need to be dealt with, and
- be treated as confidential unless otherwise specified by the committee - public access should be controlled to maintain confidentiality in accordance with council policy.

Quorum

A quorum is to consist of a majority of Audit, Risk and Improvement Committee members. Where the vote is tied, the Chair is to have the casting vote.

Attendance of non-voting observers at committee meetings

Audit, Risk and Improvement Committee meetings will not be open to the public.

In addition to Audit, Risk and Improvement Committee members, the general manager and the Chief Audit Executive are to attend committee meetings as non-voting observers, except where they are excluded by the committee.

The NSW Auditor-General, as council's external auditor, or their representative, is to be invited to each committee meeting as an independent non-voting observer and can choose whether to attend. The committee can also exclude the external auditor if needed.

The Audit, Risk and Improvement Committee will be able to request to meet with any of the following non-voting individuals whenever necessary in order to seek additional information or explanations:

- privately with the Chief Audit Executive and/or external auditor without the general manager present (this is to occur at least annually)
- council's Chief Financial Officer (or equivalent) given their knowledge of, and responsibility for, council's financial management
- council's Risk Management Coordinator
- any councillor (the Chair of the Committee only)
- any employee or contractor of the council, and/or
- any external independent expert or external party whose advice is needed (subject to confidentiality considerations).

These individuals must comply with the Audit, Risk and Improvement Committee's request.

Others may, with the agreement of the Audit, Risk and Improvement Committee, attend as non-voting observers at committee meetings, but such persons will have no membership or voting rights. The committee can also exclude any of these observers from meetings as needed.

The Audit, Risk and Improvement Committee can also request any written reports or other risk management reports from council's senior management, or other related information as necessary, to enable it to fulfil its assurance role in relation to council's risk management framework. The Committee can also request senior managers to present at Committee meetings to discuss their activities and risks.

The committee will be able to hold closed ('in-camera') meetings whenever it needs to discuss confidential or sensitive issues with only committee members of the Audit, Risk and Improvement Committee present.

The Audit, Risk and Improvement Committee can obtain such external legal or other professional or subject matter expert advice, as considered necessary to meet its responsibilities. The service provider and payment of costs for that advice by the council is subject to the prior approval of the governing body of the council.

Access to council, staff, resources and information

The Audit, Risk and Improvement Committee is to have direct and unrestricted access to the general manager, senior management and staff and contractors of the council in order to perform its role.

The Audit, Risk and Improvement Committee is also to have direct and unrestricted access to the council resources and information it needs to perform its role.

The Audit, Risk and Improvement Committee may only release council information to external parties with the approval of the general manager. The general manager's approval is not required where the information is being provided to an external investigative, audit or oversight agency such as, but not limited to, the Office of Local Government, the NSW Audit Office, the Independent Commission Against Corruption or the NSW Ombudsman for the purpose of informing that agency of a matter that may warrant its attention.

(f) Audit, Risk and Improvement Committee members are to comply with the council's Code of Conduct and the conduct requirements of the NSW Government's Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members

Under section 440 of the Local Government Act, independent Audit, Risk and Improvement Committee members are subject to and required to comply with the council's Code of Conduct. Complaints or breaches of council's code of conduct will be dealt with in accordance with the *Procedures for the Administration of the Model Code of Conduct for Local Councils in NSW*⁵². Committee members should also be deemed to be a 'designated person' and required to complete and submit returns of interests.

As required under the Model Code of Conduct, Audit, Risk and Improvement Committee members must declare any pecuniary or significant non-pecuniary conflicts of interest at the start of each Committee meeting, before discussion of the relevant agenda item or issue, or when the issue arises. Details of any conflicts of interest should also be appropriately minuted.

Where Audit, Risk and Improvement Committee members or observers at Committee meetings are deemed to have a real or perceived conflict of interest they are to remove themselves from Committee deliberations on the issue.

Given they will have been selected from the NSW Government's panel of prequalified Audit and Risk Committee Independent Chairs and Members, members will also be required to comply with that scheme's conduct requirements⁵³.

(g) Disputes between the general manager and/or Chief Audit Executive are to be resolved by the Audit, Risk and Improvement Committee. Disputes with the Committee are to be resolved by the governing body of the council

Members of the Audit, Risk and Improvement Committee should maintain an effective working relationship and try to resolve any differences they may have via open negotiation.

However, in the event of a disagreement between the council management and the Chief Audit Executive (for example, about findings or recommendations of audits), it is to be resolved by the Audit, Risk and Improvement Committee. Disputes between the council management and the Audit, Risk and Improvement Committee are to be resolved by the governing body.

Unresolved disputes regarding compliance with statutory or other requirements are to be referred to the Office of Local Government in writing for its resolution.

⁵² The Procedures can be found at <http://www.olg.nsw.gov.au/sites/default/files/Procedures-for-Administration-of-Model-Code-of-Conduct.pdf>

⁵³ The prequalification scheme's code of conduct can be found at <https://www.procurepoint.nsw.gov.au/scm2421>

(h) The Audit, Risk and Improvement Committee is to provide an annual assurance report to the governing body of the council and be assessed by an external party at least once each council term as part of the council's quality assurance and improvement program

Annual assurance report

As part of council's quality assurance and improvement program, the Audit, Risk and Improvement Committee is to provide an annual assurance report to the governing body which provides:

- a summary of the work the committee performed to discharge its responsibilities during the preceding year
- advice on the appropriateness of the Committee's terms of reference (where the Committee's terms of reference contain additional clauses to those contained in the Model Terms of Reference)
- an overall assessment of the following aspects of council's operations in accordance with section 428A of the Local Government Act:
 - 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
 - any other matters prescribed by the regulation (i.e. internal audit), and
- any other information to help the council improve the performance of its functions.

This will ensure that the governing body of the council receives the committee's independent views about these matters in accordance with legislative requirements each year. It will also enable the governing body to assess the work of the Committee each year.

Strategic external review

At least once each council term (i.e. four years) an external strategic review of the effectiveness of the Audit, Risk and Improvement Committee is to be conducted to assess how the committee is functioning. This will provide accountability and ensure that the governing body of the council can assess how the committee's performance and whether any changes to the committee's terms of reference or membership are required.

This strategic external review is to consider:

- whether the Committee has fulfilled its terms of reference
- the appropriateness of the Committee's terms of reference (where the Committee's terms of reference contain additional provisions to those contained in the Model Terms of Reference)
- the performance of Committee members and whether any change of membership is required
- the way the Committee, external auditor, council and internal audit function work together to manage risk and support the council and how effective this is, and
- whether the work of the Committee has contributed to the improvement of the factors identified in section 428A of the Local Government Act.

The external review is to address the collective performance of the Audit, Risk and Improvement Committee, as well as the individual performance of each member and the Chair. In considering the outcomes of the external strategic review, the review is to consider feedback on each member's performance by the Chair of the Committee, mayor and general manager. The governing body of council will be able to request the Chair of the committee to address the council and answer any questions about the operation of the committee.

Dismissal of committee members and the Chair

The governing body of council may terminate the engagement of the Chair or a member of the Audit, Risk and Improvement Committee where the Chair or member has:

- breached the conditions of the prequalification scheme
- breached the council's Code of Conduct
- performed unsatisfactorily, or
- declared, or is found to be in, a position of a conflict of interest which is unresolvable.

Termination can only occur with the approval of the Chief Executive of the Office of Local Government and is to be reported to the agency which is responsible for administering the Audit, Risk and Improvement Committee prequalification scheme. Approval is not needed for termination where the Chair or member has become ineligible or removed from the prequalification scheme by the agency administering the scheme. Dismissal is automatic in these situations.

(i) The general manager is to nominate a council employee/s to provide secretariat support to the Audit, Risk and Improvement Committee. Minutes are to be recorded for all committee meetings

The general manager will be required to nominate a council employee/s to provide secretariat support to the Audit, Risk and Improvement Committee. The main functions of this role are to be:

- minuting Audit, Risk and Improvement Committee meetings
- preparing agendas, and
- providing the committee with any information it needs to fulfil its responsibilities.

Core requirement 2: **Establish a risk management framework consistent with current Australian risk management standards**

Proposal

It is proposed that:

- (a) each council (including county council/joint organisation) is to establish a risk management framework that is consistent with current Australian standards for risk management
- (b) the governing body of the council is to ensure that council is sufficiently resourced to implement an appropriate and effective risk management framework
- (c) each council's risk management framework is to include the implementation of a risk management policy, risk management plan and risk management process. This includes deciding council's risk criteria and how risk that falls outside tolerance levels will be treated
- (d) each council is to fully integrate its risk management framework within all of the council's decision-making, operational and integrated planning and reporting processes
- (e) each council is to formally assign responsibilities for risk management to the general manager, senior managers and other council staff and ensure accountability
- (f) each council is to ensure its risk management framework is regularly monitored and reviewed
- (g) the Audit, Risk and Improvement Committee and the council's internal audit function are to provide independent assurance of risk management activities, and
- (h) the general manager is to publish in the council's annual report an attestation certificate indicating whether the council has complied with the risk management requirements.

Description

(a) Each council (including county council/joint organisation) is to establish a risk management framework that is consistent with current Australian standards for risk management

Each council in NSW (including county council/joint organisation) will be required to implement a risk management framework that is consistent with the current Australian risk management standard – currently AS ISO 31000:2018⁵⁴. The framework is to take an enterprise risk management approach which applies to all council activities and risks, not just well-recognised risks such as work health and safety, insurable risks and disaster recovery planning.

⁵⁴ Where ISO 31000:2018 is superseded following a future review by the International Organisation of Standardisation or Standards Australia, councils are to conform to the most current Australian risk management standard. AS ISO 31000:2018 can be found at <https://www.standards.org.au/standards-catalogue/sa-snz/publicsafety/ob-007/as--iso--31000-colon-2018>

The definition of risk management adopted by councils will be the same as that adopted in AS ISO 31000:2018. Risk management comprises of "coordinated activities to direct and control an organisation with regard to risk". Risk is the "effect of uncertainty on objectives, where an effect is a deviation from the expected. It can be positive, negative or both, and can address, create or result in opportunities and threats".

It is recognised that each council will have different risk management requirements depending on its size, needs, budget, complexity of operations and risk management maturity (i.e. the extent to which risk management has already been implemented in the council). Councils will have the flexibility under AS ISO 31000:2018 to choose the size, scope and delivery of their risk management activities so long as they include a number of key structural components (see below).

Where a council wishes to impose requirements that are additional to the proposed framework, it will be able to do so provided the requirements conform to AS ISO 31000:2018 and do not conflict with regulatory requirements.

(b) The governing body of the council is to ensure that council is sufficiently resourced to implement an appropriate and effective risk management framework

The governing body of each council is to provide the resources needed to:

- implement a risk management framework appropriate to the council, and
- deliver the risk treatments and internal controls needed to ensure the council's risks are appropriately managed.

This forms part of the governing body's responsibility for approving the council's budget.

These resources include the necessary:

- human resources (with appropriate skills and experience)
- technology, equipment, tools and information management systems for managing risk
- documented processes and procedures, and
- professional development and training for staff to ensure they can fulfil their risk management responsibilities.

To ensure that the governing body makes informed budgeting decisions, the Audit, Risk and Improvement Committee is to advise the governing body of the resources needed, having regard to any budgetary constraints and the council's operational environment.

Where the Audit, Risk and Improvement Committee considers the resourcing provided for risk management is insufficient relative to the risks facing the council, it is to draw this to the attention of the general manager and the governing body of the council. The Chair of the Committee is to also ensure that the Committee's funding recommendations are minuted by the Committee's secretariat.

The governing body will also be responsible for approving key elements of the council's risk management framework, including the council's risk management policy, risk management plan and risk criteria, following their endorsement by the Audit, Risk and Improvement Committee (see below).

(c) Each council's risk management framework is to include the implementation of a risk management policy, risk management plan and risk management process. This includes deciding the council's risk criteria and how risk that falls outside tolerance levels will be treated

In compliance with AS ISO 31000:2018, each council's risk management framework is to comprise the following key elements:

Risk management policy

Each council will be required to adopt a risk management policy that communicates the commitment of the governing body and the general manager to risk management, and how risk management will be undertaken by the council. The risk management policy is to be approved by the governing body, after endorsement by the Audit, Risk and Improvement Committee.

The council's risk management policy is to describe, at a minimum:

- The council's risk management objectives and priorities, and how these are linked to the council's strategic plans and objectives
- how risk management will be integrated into the overall culture of the council, core business activities and decision-making
- the council's risk criteria
- how the council's risk management policy sits within, and is supported by the council's other policies
- who in the council is accountable and responsible for managing risk in the council
- the resources that will be made available, and
- how the council's risk management performance will be reviewed, measured, reported and improved.

The council's risk management policy can also provide guidance to council staff on the council's commitment to:

- integrating risk management into the council's procedures and practices
- communicating the council's approach to managing risk
- coordinating the interface between risk management and other assurance activities, for example, the Audit, Risk and Improvement Committee, the council's internal audit function and external audit, and
- incorporating risk management into internal staff induction and professional development programs.

The council's risk management policy is to be reviewed at least once each council term, or within one year if there is a significant restructure or change.

Risk management plan

Each council is to develop and implement a risk management plan that provides a structure for how the council will implement its risk management policy and conduct its risk management activities. The chief purpose of the plan is to ensure that the council's arrangements for managing risks are clearly understood and practiced, and identifies where, when and how different types of decisions relating to risk are made across the council and by whom.

To do this, it must include:

- the activities the council will undertake to implement its risk management policy
- roles, accountabilities and responsibilities in relation to risk management
- the timeframes for risk management activities

- how risk management processes will be implemented and maintained (see below)
- resourcing requirements (people, IT and physical assets)
- training and development requirements
- performance measures that will be used to evaluate the success of the council's risk management framework, and
- how and when the council's risk management framework will be reviewed.

Depending on the size, complexity and nature of the council, the council may require a single risk management plan or a hierarchy of linked risk management plans.

The governing body is to approve the council's risk management plan, and any changes made to it, after endorsement by the Audit, Risk and Improvement Committee.

Risk management plans should be living documents and regularly reviewed to reflect current and emerging risks as circumstances change.

Risk management process

The risk management process is a systematic way of identifying, assessing and prioritising risks, deciding how they will be managed, and documenting and communicating this across the council. A summary diagram of the risk management process is provided below.

Each council's risk management process is to include the following stages to ensure its risks are managed effectively. Each stage is to be performed in accordance with AS ISO 31000:2018, using qualitative, semi-quantitative or quantitative methods and techniques that best suit the council's operations, risk management maturity and decision-making needs. NSW Treasury has released a *Risk Management Toolkit for NSW Public Sector Agencies* that councils can use to help them establish their risk management framework⁵⁵.

All knowledgeable council staff are to be involved and councils are encouraged to access external expertise where required.

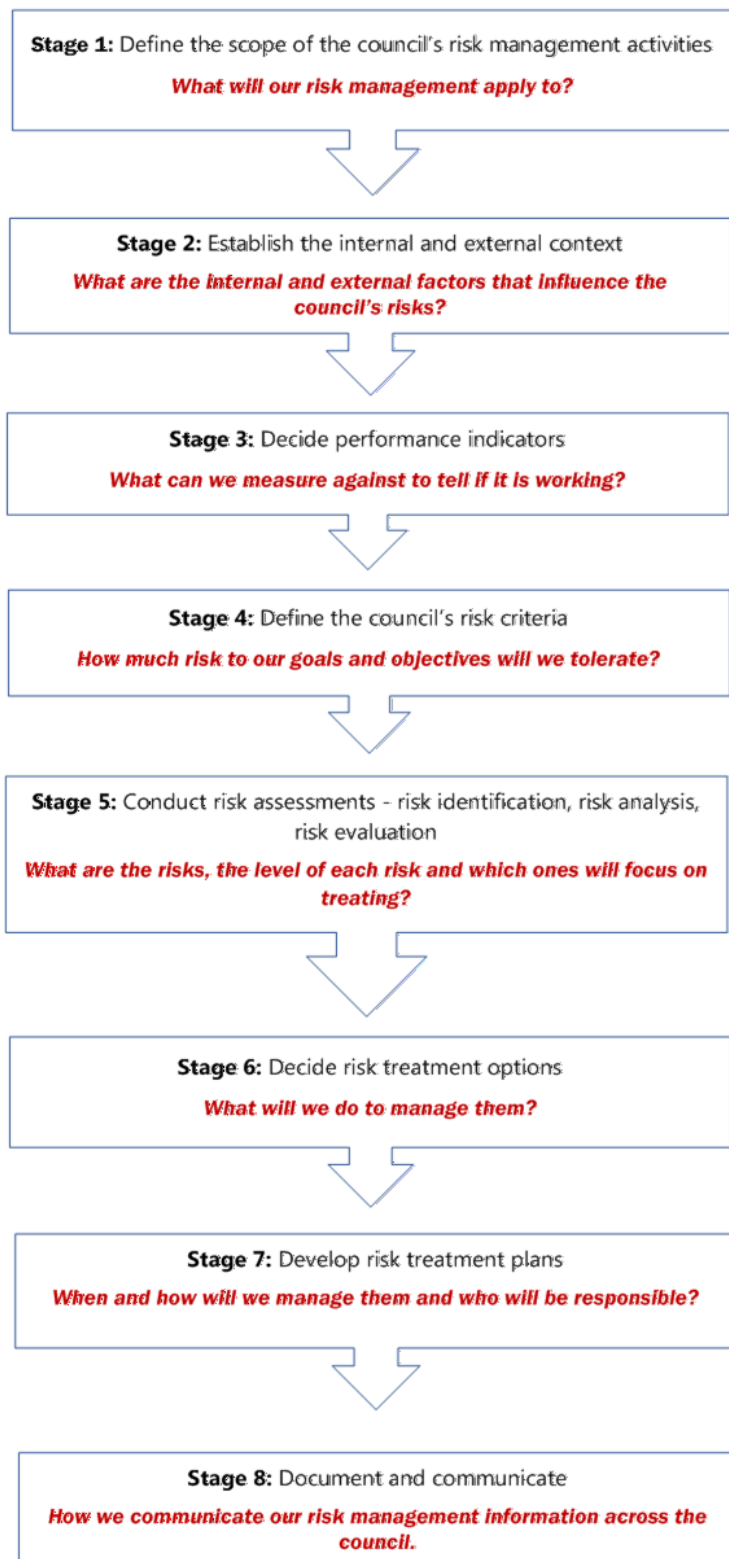
Stage 1: Define the scope of the council's risk management activities

The council is to decide and document the scope of its risk management activities to assist in planning the council's risk management approach. The scope to be decided includes aspects such as:

- the objectives of the council's risk management framework and outcomes expected
- the resources required to plan and develop the framework
- who is responsible for planning and developing the framework
- what records will be kept, and
- what will be the relationship of the risk management framework to other council projects, processes and activities.

⁵⁵ The *Risk Management Toolkit for Public Sector Agencies* (TPP 12-03) can be found at <https://www.treasury.nsw.gov.au/information-public-entities/governance-risk-and-assurance/internal-audit-and-risk-management/risk>

Stages of council's risk management process



Stage 2: Establish the internal and external context

The council is to ensure that it understands and documents the internal and external environment or parameters it operates in and how risk management will impact, and be impacted by these. Factors to be taken into consideration should include internal, political, economic, socio-cultural, technological, legal, and environmental trends and drivers that influence the council's operating environment and can be a source of risk.

Stage 3: Decide performance indicators

The council is to decide the performance indicators it will use to measure the effectiveness of its risk management framework and identify gaps between its actual and desired performance. The performance indicators selected need to be able to be easily measured on an ongoing basis, easily interpreted and understood by staff and management, and provide a meaningful picture of the council's risk management performance.

Stage 4: Define the council's risk criteria

The council is to decide its risk criteria - that is, the amount and type of risk that it is willing to take, or not take, in order to achieve its strategic plan and objectives. It should also define criteria to evaluate the significance of risk based on the council's values, objectives and resources. This will ensure that all council staff have a common understanding of how to evaluate whether a risk is significant and requires a response. It will also ensure that ongoing decision-making about specific activities is consistent across the council.

While the council's risk criteria must be established at the beginning of the risk assessment process, it is dynamic and should be continually reviewed and amended as changes occur to the council's internal or external context.

The council's risk criteria is to be approved by the governing body of the council, after endorsement by the Audit, Risk and Improvement Committee.

Stage 4: Conduct risk assessments

The council is to conduct risk assessments using the following three-step process⁵⁶:

- risk identification – as a first step to assessing what risks need managing, the council is to identify and categorise any risks it is aware of that may help or prevent the council from achieving its strategic goals and objectives. Risk categories could include, for example, council governance risks, fraud and corruption risks, financial risks, compliance risks, risks to council policies, programs and projects, risks to the continuity of operations and services, environmental damage risks, work health and safety risks, purchasing and procurement risks and reporting risks
- risk analysis - once each risk is identified, the council is to assess the effectiveness of any controls that already exist to reduce or enhance the likelihood of a particular event and manage the nature and magnitude of any consequences. This will enable the council to determine the overall level of risk that exists, and
- risk evaluation - once the overall level of risk is determined, the council is to assess and decide which risks require further treatment, and in what order of priority. This is to involve comparing the overall level of risk that exists (based on the risk analysis performed) to the council's risk criteria.

⁵⁶ In addition to AS ISO 31000:2018, *IEC/ISO 31010 Risk management – risk assessment techniques* provides additional guidance on each step of the risk assessment process. This standard can be found at <https://www.iso.org/standard/51073.html>

Those risks that fall outside the risk levels the council is willing to tolerate are to be proactively managed. The least tolerable risks are to be given the highest priority.

Stage 5: Decide risk treatment options

The council is to determine a strategy for the treatment of each risk. A decision should be made to either:

- minimise the risk by implementing controls (see stage 6)
- avoid the risk by adopting alternative approaches (for example, revising the timing of a project, choosing a different delivery model)
- transfer the risk to another party which has greater control over the risk, or is less susceptible to the impact of the risk (for example, insurance), or
- accept the risk and develop contingency plans to minimise the impact should the risk eventuate.

Stage 6: Develop risk treatment plans

The council is to develop risk treatment plans that document how the control will be implemented and integrated into the council's day-to-day management and operational processes. Risk treatment plans are to include:

- the rationale, actions to be taken and expected outcome of control
- who is responsible for implementing the control
- resources required
- timeframes, and
- necessary monitoring and reporting, including the performance indicators that will be used to measure the controls effectiveness.

The general manager is to approve the council's risk treatment plans.

Stage 7: Document and communicate

The council is to develop risk reports to summarise and communicate to all staff what risks the council faces. These reports will also be used by the council to regularly review the risk management framework.

Each council's risk reports will vary, dependent on the needs, complexity and risk maturity of each council. At a minimum, however, they should include:

- a risk profile – this is a high-level status report which describes the priorities and management of risk across the council. It provides an overall picture of a council's risk profile, identifies risk priorities, explains the rationale for decisions made about individual risks and allows those responsible for managing particular risks to see how their risks/controls fit into the council's overall risk management framework, and
- risk registers – these describe and prioritise each individual risk, including its cause/s, impact/s and control/s. They also outline who in the council is responsible for managing individual risks.

Risk reports are to be approved by the general manager, following endorsement by the Audit, Risk and Improvement Committee.

(d) Each council is to fully integrate its risk management framework within all of the council's decision-making, operational and integrated planning and reporting processes

The council's risk management framework must be integrated within all of the council's decision-making processes, governance structures, operational procedures and integrated planning and reporting processes for it to be successful.

For effective risk integration to occur, each council must ensure that, in addition to its risk management policy, plan and process, it implements the following supporting elements:

Risk management culture

A poor risk management culture can lead to poor risk management outcomes.

Each council is to foster a positive risk management culture that ensures that the task of managing risks is not seen by management and staff as an additional responsibility or burden, but a normal part of everyday activities and decision-making. A positive risk management culture relies on strong leadership, commitment, reinforcement and communication from the general manager and senior management of the council.

Risk management communication

Poor communication about risk management can lead to a lack of ownership for managing risk.

Each council is to ensure there is clear communication and consultation about risk management to ensure all staff have a common understanding of:

- the basic principles of risk management
- why the council undertakes risk management and how it relates to the council's strategic plans and objectives
- the basis on which decisions within the council are made and the reasons why particular actions are required to manage risk
- the council's risk criteria and risk management policy, plan and priorities
- staff responsibilities and accountabilities for managing certain risks, and
- how to notify new or emerging risks or when something goes wrong or is not working.

The way each council communicates risk management to its staff will vary depending on its needs, organisational structure, existing communication methods and risk maturity. Communication mechanisms could include, for example, specific risk reports relating to key drivers, trends, incidents, risks or business units, formal training programs, information sessions and informal communication such as staff newsletters.

Risk management information system/s

Each council's risk management framework is to be supported by a robust risk management information system that manages risk-related reports, registers, information, documents, policies and procedures. Easy access to information will ensure the council is able to monitor risks/controls and make informed decisions about any further action needed.

The size, complexity and risk management maturity of a council, and the nature of its risk information, will influence the type of risk management information system that it requires. For smaller councils, Microsoft Word or Excel documents that record, report and communicate risk may be appropriate. Larger councils may need to purchase a custom-made product or system.

(e) Each council is to formally assign responsibilities for risk management to the general manager, senior managers and other council staff and ensure accountability

It is the responsibility of all council managers and staff to manage risk.

For risk management to be effective, all staff (permanent, temporary and contractors) must be aware of the risks that relate to their day-to-day roles and activities and their responsibility for managing these risks and following risk management policies and procedures.

To provide accountability, risk management responsibilities are to be clearly articulated in the job descriptions and performance measurement processes of all relevant managers and staff.

Managers and staff with risk management responsibilities are to also have the necessary skills, knowledge and experience required to fulfil their risk management responsibilities, as well as attitudes and behaviours that support risk management.

General manager and senior managers

Consistent with the general manager's role under section 335 of the Local Government Act to conduct the day-to-day management of the council, the general manager will have ultimate responsibility and accountability for risk management in the council.

This includes:

- approving the council's risk management plan, risk treatment plans, risk register and risk profile
- recommending the council's risk management policy and risk criteria for the endorsement of the Audit, Risk and Improvement Committee and approval of the governing body
- overseeing the council's risk management framework and ensuring it is effectively communicated, implemented and reviewed regularly
- promoting and championing a positive risk culture
- ensuring that all council managers and staff (permanent, temporary or contract) understand their risk management responsibilities and that these are included in all job descriptions, staff induction programs, performance agreements and performance appraisals
- annually attesting that council's risk management framework complies with statutory requirements, and
- approving the council's implementation of corrective actions recommended by the council's internal audit function, external audit and Audit, Risk and Improvement Committee.

Depending on the council's needs, resources and organisational structure, and to assist the integration of risk management across the council, the general manager may wish to delegate key aspects of the council's risk management framework to a group of senior managers established for this purpose. The senior management group would report to the general manager on risk management issues.

Tasks delegated to a council's senior management group could include:

- developing the council's risk management policy
- determining the council's risk criteria
- leading the risk management process - for example, evaluating the council's internal and external context, identifying, assessing and prioritising risks and developing risk treatment plans and internal controls
- developing the council's risk register and risk profile
- communicating and implementing the council's risk management policy and plans across council

- advising/reporting on the performance and implementation of the council's risk management framework to the general manager, and
- reviewing recommendations for corrective actions from the Chief Audit Executive and council's internal audit function and determining council's response.

The senior management group is to meet regularly to enable it to fulfil its functions. Council's Risk Management Coordinator is to attend senior management group meetings. The senior management group can also invite the Chief Audit Executive.

Responsibilities for risk management assigned to the general manager and senior managers are to be included in their employment contract and performance reviews.

Risk Management Coordinator and risk management function

The general manager is to appoint a Risk Management Coordinator who will be responsible for the day-to-day activities required to implement the council's risk management framework and provide specialist risk management skills and knowledge.

The Risk Management Coordinator is to report directly to the general manager or a member of the senior management group in relation to council's risk management function.

Whilst this role has been titled as the 'Risk Management Coordinator', councils will be free to use whatever title they wish to refer to this function (for example, Chief Risk Officer, Risk Manager etc.).

The role and responsibilities of the Risk Management Coordinator are to include:

- supporting the senior management group by coordinating and providing clear and concise risk information, advice and/or reports that can be used in planning and decision-making
- coordinating the various activities relating to risk management within the council
- helping to build a risk management culture within the council, including facilitating and driving risk management at the strategic and operational level within the council and ensuring consistency in practice
- ensuring there are easily accessible systems and processes in place to enable all staff to conveniently undertake risk management in their day-to-day work
- ensuring risk management processes are applied consistently across the council
- organising appropriate staff risk management training and development
- developing and maintaining a risk reporting framework to enable regular advising/reporting of key risks, and the management of those risks, to the senior management group
- supporting council staff with their risk management obligations and providing staff with advice and tools to ensure risk management compliance
- implementing effective risk management communication mechanisms and information system/s
- establishing and maintaining an ongoing monitoring system to track the risk management activities undertaken within council and assessing the need for further action
- assessing risk management information for completeness, accuracy and consistency (for example, risk registers, risk treatment plans), and
- preparing advice or reports for the Audit, Risk and Improvement Committee and attending Committee meetings (where requested).

In order to fulfil their role, the Risk Management Coordinator must:

- have a well-developed understanding of the council and its operations
- have the skills, knowledge and leadership qualities required to support and drive risk management
- have sufficient authority to intervene in instances where risk management efforts are being hampered by a lack of cooperation or through lack of risk management capability or maturity, and

- be able to add value to the risk management process by providing guidance and support in managing difficult risk, or risks spread across a number of the council's business units or operational areas.

Each council will have the flexibility to establish its risk management function based on its structure, resourcing, risk management needs and risk management maturity.

For some councils with larger budgets and higher risks, the Risk Management Coordinator will require dedicated staff to help implement the council's risk management framework. For other councils, their size and risk profile may not justify additional risk management staff and the Risk Management Coordinator will be sufficient.

While best practice would see a stand-alone Risk Management Coordinator employed by each council, it is recognised that some smaller or rural councils may find it difficult to employ a stand-alone Risk Management Coordinator due to the cost involved, the council's remote location and/or that the council's risk management framework may not require a full-time stand-alone employee.

Councils will, therefore, be able to combine the Risk Management Coordinator's role with other council responsibilities (including the Chief Audit Executive) provided that there are adequate safeguards put in place by the council to limit any cognitive bias (which can lead to faulty risk assessments and decision-making errors).

Depending on the specific needs and circumstances of the council, these safeguards could include:

- the Audit, Risk and Improvement Committee being informed of the Risk Management Coordinator's additional role, including the reporting lines, responsibilities and expectations related to the role
- any potential issues or conflicts of interest arising from the other operational roles held by the Risk Management Coordinator being formally documented and communicated to the Audit, Risk and Improvement Committee
- the Risk Management Coordinator being prohibited from undertaking risk management evaluations and reviews in relation to the council operations they are responsible for. Another senior staff member will conduct these and will report directly to the general manager on the results
- if the Chief Audit Executive and Risk Management Coordinator is a combined role, any independent review of council's risk management framework must be undertaken by an independent external party, and
- the Audit, Risk and Improvement Committee regularly assessing that the safeguards put in place are effective.

Council managers

Responsibility for managing specific policy, project and program risks generally rests with council managers across the council. This includes council managers being responsible, within the sphere of their authority, for:

- promoting awareness of risks and risk treatments that must be implemented
- ensuring council staff are implementing the council's risk management framework as developed and intended and performing their risk management responsibilities
- identifying risks that will affect the achievement of the council objectives
- establishing and/or implementing specific policies, operating and performance standards, budgets, plans, systems and/or procedures to manage risks, and
- monitoring the effectiveness of risk treatment and internal controls.

All other council staff

All council staff are to be responsible for:

- helping to identify risks in their business unit
- implementing risk treatment plans within their area of responsibility
- following standard operating procedures (where applicable), and
- communicating or escalating new risks that emerge to their manager.

(f) Each council is to ensure its risk management framework is regularly monitored and reviewed

The senior management group is to establish and maintain an ongoing monitoring and review process of the information gathered from council's risk management process⁵⁷ to ensure its risk management framework is up-to-date and relevant. It will also enable the senior management group to report to the general manager, governing body of the council and Audit, Risk and Improvement Committee when required about the council's risk management framework.

Each council is to base its ongoing monitoring and review process based on its own needs, however, this should include at a minimum the following two key elements:

1. **Quarterly advice from the Risk Management Coordinator to the senior management group assessing the council's risk profile and risk registers** – this will ensure that risks are being correctly identified, prioritised and treated, and any emerging problems are known and rectified quickly. Any changes are to be captured in updates to the council's risk profile and risk register, and relevant risk treatment plans.
2. **An annual self-assessment at the end of each financial year by the senior management group of the quality of the council's risk management framework** – this is to assess the operation of the risk management framework during the preceding financial year and to ensure:
 - the council is providing sufficient resources for risk management and staff are able to carry out their risk management responsibilities
 - the council's risk management framework complies with AS ISO 31000:2018
 - the council's risk management framework operates effectively and supports the achievement of council's strategic goals and objectives
 - management has embedded a positive risk culture
 - the council's risk criteria is appropriately reflected in council's internal control framework
 - the council takes an enterprise risk management approach that is fully integrated into all aspects of the council, including decision-making processes and operations
 - risks are formally considered when developing and implementing all council policies, programs, projects and other activities, including procurement
 - risk management covers all relevant risk categories including strategic, operational, compliance, reputational and reporting risks
 - major risks have been identified and assessed by the council and appropriate risk treatments have been implemented that reflect the council's risk criteria
 - the council's internal controls are effective and appropriate
 - the council's risk register and risk profile is current and appropriate

⁵⁷ This includes ongoing monitoring and review of the scope of the council's risk management framework, the context the council operates in, the council's risk criteria, the results of the council's risk assessment, controls implemented, risk treatment plans and risk reports such as the council's risk profile and risk registers

- risk information is captured and communicated in a timely manner across the council, enabling management and staff to carry out their responsibilities, and
- the council's risk management policies, procedures and plans are being complied with.

Ultimately the general manager is responsible for the implementation of the council's risk management framework, and ensuring that risks are being managed appropriately. Each council will have the flexibility to decide, based on its own needs and resources, how and when the senior management group reports risk information to the general manager and the governing body of the council.

Standards Australia has released *HSB 158-2010 Delivering assurance based on ISO 31000:2009 Risk management – Principles and guidelines*⁵⁸ which may assist councils to monitor and review their risk management frameworks.

Performance management system

The senior management group is to ensure the effectiveness of the risk management framework can be assessed. This will require the senior management group and Risk Management Coordinator to ensure that:

- approved risk treatment plans have performance targets that can be measured against goals and objectives, and
- a data collection system is maintained to obtain the data needed to measure the impact of the council's risk management framework.

Performance targets are to be set annually by the senior management group, in consultation with the general manager and the Audit, Risk and Improvement Committee.

(g) The Audit, Risk and Improvement Committee and the council's internal audit function are to provide independent assurance of risk management activities

Role of the Audit, Risk and Improvement Committee

The Audit, Risk and Improvement Committee will be responsible for providing independent assurance to the general manager and governing body that the council's risk management framework is appropriate and working effectively.

This includes advising whether:

- the council is providing sufficient resources for risk management and staff are able to carry out their risk management responsibilities
- the council's risk management framework complies with AS ISO 31000:2018
- the council's risk management framework operates effectively and supports the achievement of the council's strategic goals and objectives
- management has embedded a positive risk management culture
- the council's risk criteria is appropriately reflected in the council's internal control framework
- the council takes an enterprise risk management approach that is fully integrated into all aspects of the council, including decision-making processes and operations

⁵⁸ More information about HSB 158-2010 can be found at <https://www.standards.org.au/standards-catalogue/sa-snz/publicsafety/sb-007/hb--158-2010>. Please note that this standard is based on the previous risk management standard ISO 3100:2009 and may possibly be updated.

- risks are formally considered when developing and implementing all council policies, programs, projects and other activities, including procurement
- risk management covers all relevant risk categories including strategic, operational, compliance, reputational and reporting risks
- major risks have been identified and assessed by the council and appropriate risk treatments have been implemented that reflect the council's risk criteria
- the council's internal controls are effective and appropriate
- the council's risk register and risk profile is appropriate
- risk information is captured and communicated in a timely manner across the council, enabling management and staff to carry out their responsibilities
- there are council-specific, fit-for-purpose tools, systems and processes to help all those responsible for managing risk to fulfil their responsibilities, and
- the council's risk management policies, procedures and plans are being complied with.

The Audit, Risk and Improvement Committee's role and responsibilities in relation to risk management are to be documented in its terms of reference.

The frequency and nature of the Committee's assurance to the general manager and governing body is to be determined by the Committee in consultation with the general manager and governing body of the council.

At a minimum, the Audit, Risk and Improvement Committee is to be required to provide an annual assessment of the council's risk management framework as part of its annual assurance report to the governing body of the council. This will ensure that the governing body of the council receives the Committee's independent and objective opinion about the risk management activities conducted each year. It will also support the governing body in the exercise of its oversight role under the Local Government Act.

Reporting to the Audit, Risk and Improvement Committee

The Audit, Risk and Improvement Committee is to determine in consultation with the general manager what information it needs from the council to fulfil its risk management assurance role. Information requirements are to be based on the council's risk management maturity, the resources available and the aspect of the risk management framework being assessed.

Review or information requirements could include, for example:

- advice from the senior management group to each quarterly meeting of the Audit, Risk and Improvement Committee providing an overview of the council's risks and controls and whether significant risks have been identified, assessed and responded to appropriately
- annual advice from the senior management group about the implementation of the council's risk management framework - for example, whether it conforms with AS ISO 31000:2018, the risk process has been implemented effectively, there is a positive risk culture, the council's risk register and profile are appropriate, the council's risk management policy and procedures are being complied with, and/or
- an independent strategic review by the internal audit function or an external party at least once each council term (i.e. four years) assessing adequacy of the risk management framework.

The Audit, Risk and Improvement Committee will also be informed by any findings or recommendations made by the council's external auditor in relation to risk management.

The senior management group will be required to develop an action plan for the general manager and the Audit, Risk and Improvement Committee to address any risk management issues identified by the Committee.

Role of the internal audit function

The council's internal audit function will support the Audit, Risk and Improvement Committee to fulfil its assurance responsibilities through the audit of particular risks, as identified in the internal audit function's work plan. The role of the council's internal audit function in relation to risk management is to be documented in the council's Internal Audit Charter.

Given the need to maintain the independence and objectivity of the internal audit function, the following boundaries are to apply with respect to the role of the internal audit function in the council's risk management framework:

- it is to be clear that council management remains responsible for risk management
- the internal audit function is to provide advice, challenge and support management's decision-making, as opposed to taking risk management decisions themselves
- the internal audit function should not:
 - manage any of the risks on behalf of the council
 - set the council's risk criteria
 - impose risk management processes
 - decide or implement risk responses, or
 - be held accountable for risk management activities.

(h) The general manager is to publish in the council's annual report an attestation certificate indicating whether the council has complied with the risk management requirements

The general manager will be required to annually publish an attestation statement in the council's annual report indicating whether, during the prior financial year, the council was 'compliant', 'non-compliant' or 'in transition' against each of the above-mentioned requirements of the council's risk management framework.

Compliance status is to be self-assessed based on the results of the senior management group's annual self-assessment. The table on page 84 lists the proposed compliance categories and follow-up action that will be required.

The general manager is to ensure that a copy of the attestation statement and the exception approval from the Chief Executive Officer of the Office of Local Government (if applicable) is published in the council's annual report. A copy of the attestation statement is to also be provided to the Office of Local Government.

The Chair of the Audit, Risk and Improvement Committee is to also sign the attestation statement where he/she agrees that it is a true and accurate reflection of the council's compliance status against statutory requirements.

Core requirement 3:

Establish an internal audit function mandated by an Internal Audit Charter

Proposal

It is proposed that:

- (a) each council (including county council/joint organisation) is to establish an internal audit function
- (b) the governing body is to ensure that the council's internal audit function is sufficiently resourced to carry out its work
- (c) the governing body of the council is to assign administrative responsibility for internal audit to the general manager and include this in their employment contract and performance reviews, and
- (d) the Chief Audit Executive is to develop an Internal Audit Charter, based on a model charter, which will guide how internal audit is conducted by the council. This Charter is to be approved by the governing body of council after endorsement by the Audit, Risk and Improvement Committee.

Description

(a) Each council is to establish an internal audit function

Each council in NSW, (including county council/joint organisation), will be required to have an internal audit function that reports functionally to the Audit, Risk and Improvement Committee and is independent from council management.

The definition of internal audit adopted by councils will be the same as that adopted in the IPPF - internal audit is *"an independent, objective, assurance and consulting activity designed to add value and improve [council's] operations. It helps [council] accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes"*.

It is recognised that each council will have different internal audit requirements depending on its size, needs, budget and complexity of operations. To provide councils greater flexibility, each council will have the freedom to determine the size and scope of their internal audit activities. Councils will also have the flexibility to decide how to deliver their internal audit function. They can either:

- establish a stand-alone internal audit function for their exclusive use
- utilise a joint internal audit function established by their joint or regional organisation of councils that is shared by member councils, or
- share their internal audit function with another council/s in close proximity or of their choosing as part of an independent shared arrangement.

It is recommended that county councils, due to their size, enter into a share arrangement with one of their member councils or utilise an internal audit function established by a joint or regional organisation of councils.

Some of the requirements for shared arrangements will differ from those of stand-alone internal audit functions established for a council's exclusive use (as described in core requirements 1-8). Core requirement 9 outlines the specific requirements of shared arrangements.

Where a council wishes to impose requirements that are additional to the proposed framework, it will be able to do so provided the requirements comply with the IPPF and do not conflict with statutory requirements.

(b) The governing body is to ensure that council's internal audit function is sufficiently resourced to carry out its work

The governing body will be required to ensure that the council's internal audit function is sufficiently resourced to effectively carry out its work⁵⁹. This is in line with the governing body's responsibility for the council's budget and other resourcing decisions. To ensure that the governing body makes informed budgeting decisions, the Audit, Risk and Improvement Committee is to advise the governing body of the resources needed.

Where the Audit, Risk and Improvement Committee considers the resourcing provided for internal audit activities is insufficient relative to the risks facing the council, it is to draw this to the attention of the general manager and the governing body of the council. The Chair of the Committee is to also ensure that the Committee's funding recommendations are minuted by the Committee's secretariat.

(c) The governing body of the council is to assign administrative responsibility for internal audit to the general manager and include this in their employment contract and performance reviews

Consistent with the general manager's role under section 335 of the Local Government Act to conduct the day-to-day management of the council, the general manager will be responsible for the **administrative** delivery of council's internal audit function. This means that the general manager will be required to:

- advise the governing body of the funding needed to adequately resource the internal audit function when making final budget decisions
- align the internal audit budget to approved work plans and recommendations made by the Audit, Risk and Improvement Committee
- allocate the funds needed to engage internal audit personnel or external providers with the technology, skills and experience necessary to meet the risk and assurance needs of the council
- provide appropriate administrative support, for example, access to council's human resources networks, payroll, work health and safety, office facilities and resources etc., and
- ensure that the council's internal audit activities are appropriately positioned within the council to work with external audit and internal business units and to operate independently.

The general manager will have no role in the exercise of the internal audit (for example, the conduct of internal audits, development of work plans, audit techniques used, reporting to the governing body and Audit, Risk and Improvement Committee etc.). The general manager's administrative responsibilities in relation to internal audit are to be included in the general manager's employment contract and regular performance reviews to ensure accountability. The Office of Local Government will amend the general manager's standard contract under section 338 of the Local Government Act to reflect this requirement.

⁵⁹ The Institute of Internal Auditors has developed the *Audit Intelligence Suite* which can be used to obtain a general picture of the potential resources needed for an internal audit function based on benchmark costs across the corporate and public sectors. For access (cost involved), go to <https://www.theiia.org/centers/aec/Pages/benchmarking.aspx>

(d) The Chief Audit Executive is to develop an Internal Audit Charter, based on a model charter, which will guide how internal audit is conducted by the council. This Charter is to be approved by the governing body of the council after endorsement by the Audit, Risk and Improvement Committee

Each council will be required to adopt an 'Internal Audit Charter' to guide how internal audit will be undertaken by that council and measure its effectiveness.

The Internal Audit Charter is to be developed by the council's Chief Audit Executive in consultation with the Audit, Risk and Improvement Committee and approved by the governing body of the council after endorsement by the Committee.

Each council's Internal Audit Charter is to comply, at a minimum, with a Model Internal Audit Charter⁶⁰. This is consistent with councils being required to adopt policies based on other model documents (for example, the Model Code of Conduct and the Model Code of Meeting Practice).

The Model Internal Audit Charter will:

- define the purpose, authority and responsibility of the internal audit function
- establish internal audit's position, role and responsibilities within the council
- describe the importance of the independence of the internal audit function and how this will be maintained
- define the roles and responsibilities of those involved in the council's internal audit activities
- assign responsibility for appointing and dismissing the Chief Audit Executive
- describe how internal audit activities are to be undertaken (i.e. the scope of assessments, writing internal audits and work plans, performing internal audits, communicating results, writing audit reports and monitoring the implementation of corrective actions)
- describe the quality assurance and improvement program
- describe administrative arrangements, HR support and budget provided to support the internal audit function
- define reporting relationships
- define internal audit's relationship with the external auditor, and
- authorise access to internal audit information.

Councils will be able to include additional provisions in their Internal Audit Charter so long as they do not conflict with the Model Internal Audit Charter or the IPPF. This will ensure any matters not contemplated by the Model Charter are addressed by councils in a robust way that complies with internationally recognised standards.

Where the council's Internal Audit Charter contains additional provisions not included in the Model Internal Audit Charter, the Chief Audit Executive is to review the Charter annually as part of the council's internal audit quality assurance and improvement program. A strategic review is to also be undertaken once each council term (i.e. four years). Changes to the Charter are to be approved by the governing body of the council after endorsement by the Audit, Risk and Improvement Committee.

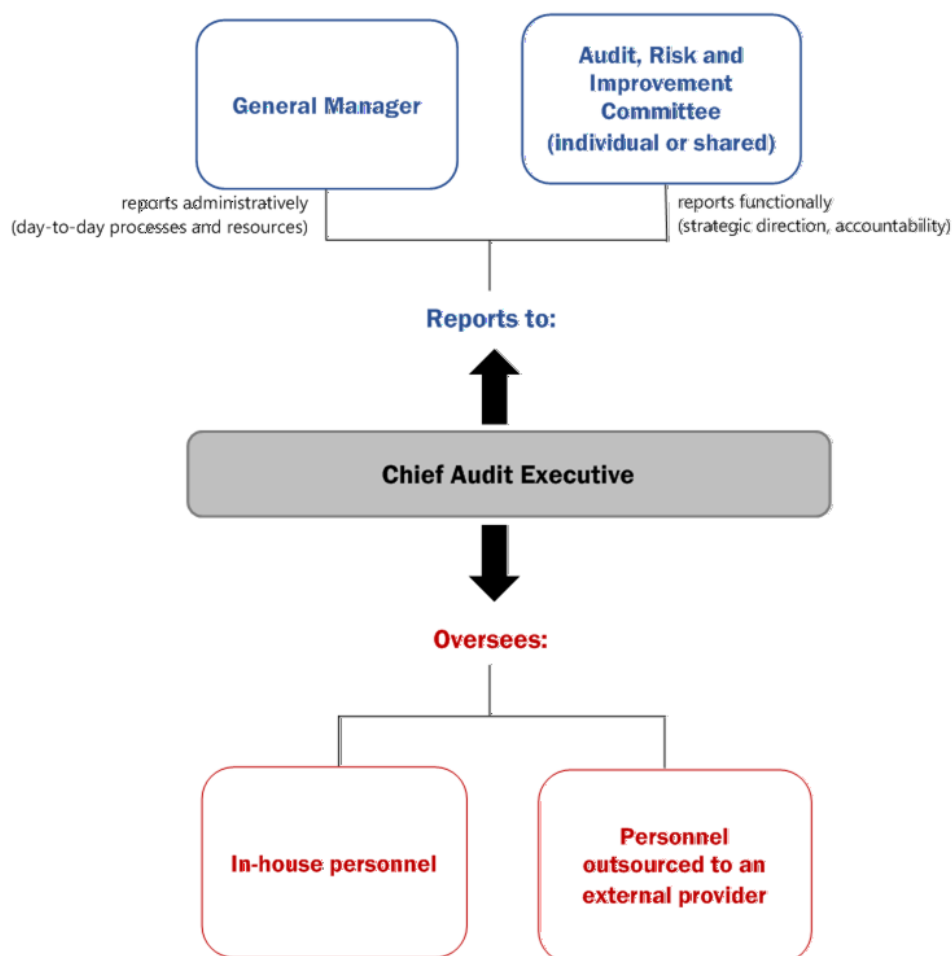
⁶⁰ The Model Internal Audit Charter will be drafted by the Office of Local Government in consultation with councils based on the final internal audit framework developed following consultation on this discussion paper

Core requirement 4: **Appoint internal audit personnel and establish reporting lines**

Proposal

It is proposed that the:

- (a) general manager is to appoint a Chief Audit Executive to oversee the council's internal audit activities in consultation with the Audit, Risk and Improvement Committee
- (b) Chief Audit Executive is to report functionally to the Audit, Risk and Improvement Committee and administratively to the general manager and attend all committee meetings, and
- (c) general manager is to ensure that, if required, the council has adequate internal audit personnel to support the Chief Audit Executive. Councils will be able to appoint in-house internal audit personnel, or completely or partially outsource their internal audit function to an external provider.



Description

(a) The general manager is to appoint a Chief Audit Executive to oversee the council's internal audit activities in consultation with the Audit, Risk and Improvement Committee

Attributes of the Chief Audit Executive

The general manager, in consultation with the Chair of the Audit, Risk and Improvement Committee, will be required to appoint a Chief Audit Executive to oversee the council's internal audit activities. The term 'Chief Audit Executive' has been used throughout this discussion paper to reflect the terminology used in the IPPF and NSW public sector internal audit model. However, each council is able to describe this role as it chooses, for example, Chief Internal Auditor, Chief Audit Officer etc.

The Chief Audit Executive is to

- be independent, impartial, unbiased and objective when performing their work and free from conflicts of interest. This also means that the Chief Audit Executive cannot undertake internal audit activities on any council operations or services that he/she has held responsibility for within the last five years.
- be a council employee and the most senior member of staff in council responsible for internal audit (but not the general manager or council's senior financial officer)
- cannot be outsourced to an external service provider, except where the council has entered into a shared arrangement with another council or as part of their joint or regional organisation of councils
- possess the following skills, knowledge and experience to effectively carry out their role:

Essential

- the credibility to ensure they are able to negotiate on a reasonably equal footing with the general manager and councillors of the council, as well as the Audit, Risk and Improvement Committee, and
- the skills, knowledge and personal qualities necessary to lead credible and accepted internal audit activities in the council

Preferred

- high-level experience overseeing internal audit, and
- appropriate professional certifications such as those recognised by the Institute of Internal Auditors (Certified Internal Auditor), Certified Professional Accountants Australia or Chartered Accountants Australia and New Zealand.

This will ensure that the internal audit function of each council is led by someone with the skills, knowledge, experience and integrity needed to establish and effectively oversee a council's internal audit functions. It will also ensure that the council retains control of the internal audit strategic direction and is able to monitor the performance of any external service provider.

Oversight

It is important that the Chief Audit Executive has the functional independence to ensure that this role has the freedom necessary to independently assess and report on the way council operates. However, the Chief Audit Executive, as a member of staff under the Local Government Act, must also be appointed by and accountable to the general manager.

As a safeguard, to ensure the functional independence of the Chief Audit Executive, the general manager is to consult with the Chair of the Audit, Risk and Improvement Committee before appointing or dismissing the Chief Audit Executive, or making any change to the Chief Audit Executive's

employment conditions. Where dismissal occurs, the general manager is to report to the governing body advising of the reasons why the Chief Audit Executive was dismissed.

Where the Chair of the Audit, Risk and Improvement Committee has any concerns about the treatment of the Chief Audit Executive, or any action taken that may compromise the Chief Audit Executive's ability to undertake their functions, they must report their concerns to the governing body of the council.

Responsibilities

The key responsibilities of the Chief Audit Executive include:

- managing the day-to-day direction and performance of the council's internal audit activities to ensure they add value to council
- supporting the operation of the Audit, Risk and Improvement Committee
- ensuring the council's internal audit activities comply with statutory requirements, the IPPF and the council's needs
- developing, implementing and reviewing the council's Internal Audit Charter, policies and procedures, work plans and quality assurance and improvement program
- providing advice to the Audit, Risk and Improvement Committee and governing body of the council on the adequacy and effectiveness of the council's governance frameworks, risk management practices and internal controls
- confirming the implementation by the council of corrective actions that arise from the findings of internal audit activities, and
- managing internal audit personnel and ensuring that they have the skills necessary to perform audits and are up to date on current issues affecting the council and on audit techniques and developments.

Where a council has outsourced its internal audit activities to an external provider, the Chief Audit Executive will be responsible for:

- overseeing the service contract and the quality of audits conducted by the external provider (including overseeing the quality assurance and improvement program)
- ensuring that the council retains control of the strategic direction of internal audit activities
- reporting to the general manager and the governing body of the council on the adequacy and effectiveness of the council's governance frameworks, risk management practices and internal controls (based on the findings provided by the external provider)
- confirming the council's implementation of corrective actions that arise from the findings of audits
- developing policies and procedures that guide the audits conducted by the external provider
- developing the internal audit annual work plan and strategic plan
- ensuring audit methodologies used by the external provider comply with the IPPF and are accessible to the council (subject to any licensing restrictions), and
- supporting the operation of the Audit, Risk and Improvement Committee.

Combining Chief Audit Executive with other responsibilities

It is recognised that some smaller rural councils may find it difficult to employ both a stand-alone Chief Audit Officer and stand-alone Risk Management Coordinator due to the cost involved, council's remote location and/or that the council's risk management function and internal audit function may not require full-time stand-alone employees.

Whilst it is not best practice, it is recognised that combining the Chief Audit Officer role with the Risk Management Coordinator role may make it easier for smaller or remote councils to establish their risk management framework and internal audit function.

Councils will, therefore, be able to combine the Chief Audit Officer's role with the Risk Management Coordinator role provided there are adequate safeguards put in place by the council to limit any real or perceived bias or conflicts of interest that may lead to faulty decision-making and cognitive bias. The endorsement of the Audit, Risk and Improvement Committee will also be required before the combined role can commence.

Depending on the specific needs and circumstances of the council, safeguards could include:

- the Audit, Risk and Improvement Committee being informed of the Chief Audit Executive's dual role, including reporting lines, responsibilities and expectations related to the role
- any potential issues or conflicts of interest arising from the dual role being formally documented in council's Internal Audit Charter
- internal audit briefs being reviewed by the Audit, Risk and Improvement Committee to ensure adequate coverage of the proposed audit, where it concerns any key risks overseen by the Chief Audit Executive in their role as Risk Management Coordinator
- the Audit, Risk and Improvement Committee, or a qualified external party, reviewing internal audit findings and recommendations before they are finalised
- the council's quality assurance program including an external assessment of the Chief Audit Officer's independence and objectivity (for internal audit purposes) in relation to their Risk Management Coordinator role, and
- the Audit, Risk and Improvement Committee regularly assessing that the safeguards put in place are effective.

(b) The Chief Audit Executive is to report functionally to the Audit, Risk and Improvement Committee and administratively to the general manager, and attend all committee meetings

To ensure that internal audit operates independently, the Chief Audit Executive will have a dual reporting line and report:

- **administratively to the general manager** - to facilitate the day-to-day operations of internal audit (for example, in relation to budgeting, accounting, internal audit staff leave and disciplinary matters, internal communications, administration of policies and procedures), and
- **functionally to the Audit, Risk and Improvement Committee** - for the strategic direction, performance and accountability of internal audit activities and personnel.

The general manager must not take any action impacting on the employment of the Chief Audit Executive, including through performance management or disciplinary processes, without consulting with the Chair of the Audit, Risk and Improvement Committee.

The Chief Audit Executive will be required to confirm at least annually to the Audit, Risk and Improvement Committee the independence of internal audit activities.

Access to council staff and information

To achieve the degree of independence necessary to effectively carry out internal audit activities, the Chief Audit Executive will automatically have direct and unrestricted access to the general manager and senior managers of the council, as well as the Audit Risk and Improvement Committee (through the Chair).

Any council staff member or contractor will also be able to directly alert the Chief Audit Executive of emerging risks or internal audit related issues.

The Chief Audit Executive is to have direct and unrestricted access to all council staff, resources and information necessary for the performance of internal audit activities.

Reporting concerns about councillors or council staff

Where a Chief Audit Executive has concerns regarding the general manager or senior council staff, they will be able to:

- raise their concerns with the Chair of the Audit, Risk and Improvement Committee (if it relates to the effectiveness of the internal audit function)
- report breaches of the council's Code of Conduct to the general manager, or by the general manager to the Mayor⁶¹
- report their concerns through the council's internal reporting policy, complaints handling policy or other associated protocols, and/or
- make a public interest disclosure under the *Public Interest Disclosures Act 1994* to the:
 - Independent Commission Against Corruption (concerning corrupt conduct)⁶²
 - NSW Ombudsman (concerning maladministration)
 - NSW Auditor General (concerning serious and substantial waste of public money)
 - Office of Local Government (concerning serious and substantial waste in local government and breaches of pecuniary interest obligations), and/or
 - Information and Privacy Commissioner (concerning government information contraventions).

Code of Conduct

The Chief Audit Executive is to comply with the council's Code of Conduct, as well as the Code of Ethics in the IPPF.

Breaches of the council's Code of Conduct by the Chief Audit Executive are to be reported in writing to the general manager of the council in the first instance. The general manager should notify the Chair of the Audit, Risk and Improvement Committee of any such allegations and their outcome.

(c) The general manager is to ensure that, if required, the council has adequate internal audit personnel to support the Chief Audit Executive. Councils will be able to appoint in-house internal audit personnel or to completely or partially outsource their internal audit function to an external provider

Regardless of size, each council will be required to have an appropriately resourced internal audit function when section 428A of the Local Government Act commences.

For some councils with larger budgets and higher risks, this will require dedicated internal audit staff to support the Chief Audit Executive to deliver the internal audit function. For other councils, their size and risk profile may not justify additional internal audit staff and the Chief Audit Executive will be sufficient.

For councils that require additional internal audit personnel, options include having a dedicated in-house team, co-sourcing arrangements, or outsourcing their audits to an external provider.

⁶¹ As required by the *Procedures for the Administration of the Model Code of Conduct for Local Councils in NSW*

⁶² Under section 11 of the *Independent Commission Against Corruption Act 1988*, the Chief Audit Executive must report any suspected corrupt activity to the Independent Commission Against Corruption

In determining the most appropriate option for the delivering the council's internal audit function, the general manager should consider the:

- size of the council in terms of both staffing levels and budget
- geographical and functional distribution of the council's operations
- complexity of the council's core business
- risk profile of the council's operations
- council's integrated planning and reporting framework
- the viability of alternative service delivery models (for example, whether council could attract and retain suitable in-house internal audit staff or experienced contract managers for out-sourced service delivery)
- overall cost of alternative service delivery models, including the salaries and overheads of in-house internal audit personnel compared to the costs of contract management and delivery for out-sourced services, and
- capacity of alternative service delivery models to deliver flexibility in the internal audit work plan.

Whichever model a council chooses, the internal audit function, including the appointment of internal audit personnel, is to be overseen by the Chief Audit Executive.

The Chief Audit Executive must be a council employee and cannot be outsourced, other than through a shared arrangement with another council or through a joint or regional organisation of councils.

Employing in-house internal audit personnel

Internal audit personnel report directly to the Chief Audit Executive.

In-house internal audit personnel can be appointed on a full-time or part-time basis. They will be required to comply with the council's Code of Conduct and the Code of Ethics in the IPPF and are to have no executive, managerial or operational powers, authorities, functions or duties except those relating to internal audit. They also cannot have any responsibility for managing any risks or implementing any audit recommendations, including those made by external audit.

Position descriptions for in-house internal audit staff are to require:

- appropriate qualifications
- proficiency in internal audit and accounting principles and techniques (particularly if working extensively with financial information and reports)
- knowledge of economics, management practices, commercial law, taxation, finance, quantitative methods, fraud and internal audit technology, and
- effective interpersonal and communication skills.

Outsourcing internal audits to an external provider

Providing that independence requirements are adhered to, councils can contract their internal audit function to an external internal audit service provider. Examples of providers include private sector accounting firms with a specialist internal audit division, boutique firms that specialise in internal audit, and internal audit contractors.

The advantages of using external providers for internal audit activities include⁶³:

- flexibility
- access to a wide range of expertise
- the ability to access the service as and when required, and
- the ability to pool resources with other councils to purchase external services as part of a shared arrangement.

Disadvantages include loss of corporate knowledge, lack of proximity and possible increased costs.

If a council chooses to outsource its internal audits, the Chief Audit Executive is to be the contract manager of the service and is to ensure that:

- an appropriately qualified external provider is conducting the audit in compliance with relevant standards
- the performance of the external provider is actively monitored, and
- the external provider:
 - does not undertake audit work regarding operations or services they have been responsible for, or consulted on, within the last two years
 - is not the same auditor providing council's external audit services
 - is not the auditor of any contractors of the council (and therefore subject to council's internal audits)
 - does not undertake other contract work for the council in addition to internal audit
 - has authority to implement the work program approved by the Audit, Risk and Improvement Committee
 - is rotated, or some other method is established, to address risks caused from having the same auditors auditing the same unit/functional area over a prolonged period of time, and
 - uses audit methodologies that comply with the IPPF and are accessible to the council (subject to any licensing restrictions that may be in place).

⁶³ *Internal Audit in Australia* published by The Institute of Internal Auditors - Australia (2016) provides a useful comparison of the advantages and disadvantages of different internal audit function delivery models (page 23 onwards).

Core requirement 5:

Develop an agreed internal audit work program

Proposal

It is proposed that, for each council, the Chief Audit Executive will:

- (a) develop a four-year strategic plan to guide the council's longer-term internal audits in consultation with the governing body, general manager and senior managers. The strategic plan is to be approved by the Audit, Risk and Improvement Committee
- (b) develop an annual risk-based internal audit work plan, based on the strategic plan, to guide the council's internal audits each year. The work plan is to be developed in consultation with the governing body, general manager and senior managers and approved by the Audit, Risk and Improvement Committee, and
- (c) ensure performance against the annual and strategic plans can be assessed.

Description

- (a) The Chief Audit Executive is to develop a four-year strategic plan to guide the council's longer-term audits in consultation with the governing body, general manager and senior managers. The strategic plan is to be approved by the Audit, Risk and Improvement Committee**
-

The Chief Audit Executive will be required to develop a strategic plan every four years based on the council's risk profile to ensure that areas or activities with higher risks are audited over the longer term and that no higher risk area or activity is forgotten. This should align with the council's integrated planning and reporting framework and timetable.

The four-year strategic plan is to be developed in consultation with the Audit, Risk and Improvement Committee, governing body, general manager and senior managers. Final approval is to be given by the Committee.

The purpose of the plan is to decide and outline what council areas or activities will be covered in any given year, and if the area/activity is not covered in a given year, when it will be scheduled for review during the four-year period. It is to include:

- a description of the goals/objectives of internal audit
- key organisational issues and risks faced by the council, in order of priority, and
- which council areas will be audited over the four years, prioritised according to risk.

The Chief Audit Executive is to review and update the four-year strategic plan at least annually to ensure that it still aligns with the council's risk profile. This will also ensure that the council remains on track with its audits and any slippage in progress can be quickly addressed.

(b) The Chief Audit Executive is to develop an annual risk-based internal audit work plan, based on the strategic plan, to guide the council's audits each year in consultation with the governing body, general manager and senior managers. The work plan is to be approved by the Audit, Risk and Improvement Committee

The Chief Audit Executive will be required to develop an annual risk-based work plan for the council's internal audits based on:

- the priorities set by the council's four-year internal audit strategic plan
- the council's strategic goals and objectives, developed through the integrated planning and reporting framework
- the information obtained as part of the council's risk assessment process and the council's material risks
- any findings or risks raised by the NSW Auditor-General in its external audits of the council and sector-wide performance audits
- external factors such as industry trends or emerging issues, and
- any special requirements of the Audit, Risk and Improvement Committee.

The annual work plan is to be developed in consultation with the Audit, Risk and Improvement Committee, governing body, general manager, and senior managers. Final approval is to be given by the Committee.

The annual work plan is to identify:

- the key risks facing the council
- the key goals and objectives of the proposed audits
- the audits that will be carried out during the year and rationale for selecting each, having regard to areas of most significant risk to achieving the council's strategic objectives
- the resources needed for each audit (for example, staffing, budget, technology), including any external expertise needed
- the timing and duration of each audit
- the performance measures that will be used to measure against goals and objectives (described below)
- any areas not included in the work plan, which in the opinion of the Chief Audit Executive, should be reviewed, and
- quality assurance activities (where applicable).

The annual work plan is to be flexible enough to allow the Chief Audit Executive to review and adjust it as necessary in response to any changes to the council's risks or operations. Significant changes are to be approved by the Audit, Risk and Improvement Committee.

(c) The Chief Audit Executive is to ensure performance against the annual and strategic plans can be assessed

To establish the quality assurance and improvement program and to collect the data and information required to review the council's internal audit activities:

- the Chief Audit Executive will need to ensure internal audit work plans have performance indicators that can be measured against goals and objectives⁶⁴, and
- the general manager will need to ensure that a data collection or performance management system is established and maintained to collect the data needed to measure the impact of the internal audit function.

Performance indicators are to be set annually by the Audit, Risk and Improvement Committee, in consultation with the Chief Audit Executive and the general manager of the council.

⁶⁴ *Internal Audit in Australia* published by The Institute of Internal Auditors - Australia (2016) lists a range of examples of performance indicators that councils could consider when selecting their performance indicators

Core requirement 6:

How to perform and report internal audits

Proposal

It is proposed that:

- (a) the Chief Audit Executive is to ensure that the council's internal audits are performed in accordance with the IPPF and current Australian risk management standards (where applicable), and approved by the Audit, Risk and Improvement Committee
- (b) the Chief Audit Executive is to develop policies and procedures to guide the operation of the internal audit function, including the performance of internal audits
- (c) the Chief Audit Executive is to report internal audit findings and recommendations to the Audit, Risk and Improvement Committee. Each finding is to have a recommended remedial action and a response from the relevant senior manager/s, and
- (d) all internal audit documentation is to remain the property of, and can be accessed by, the audited council, including where internal audit services are performed by an external provider. It can also be accessed by the Audit, Risk and Improvement Committee, external auditor and governing body of the council (by resolution).

Description

- (a) The Chief Audit Executive is to ensure that the council's internal audits are performed in accordance with the IPPF and current Australian risk management standards (where applicable), and approved by the Audit, Risk and Improvement Committee**
-

Each council's internal audits are to be performed in accordance with statutory requirements, and the IPPF (only where the IPPF does not conflict with statutory requirements).

The internal audit methodologies used (that is, the tools or techniques used by internal auditors to conduct internal audits and analyse the information or data obtained) are also to be approved by the Audit, Risk and Improvement Committee.

Where risk information or ratings are used during the internal audit process, they must be developed and applied consistent with current Australian risk management standards. This means the Chief Audit Executive is responsible for ensuring that any risk information used in internal audits or any risk ratings given to internal audit findings and recommendations (for example, the risk of not implementing a recommendation) must be developed and assigned in a way that complies with AS ISO 31000:2018 and is consistent with council's risk management framework.

Performing internal audits

The Chief Audit Executive will be responsible for approving the project plan for each internal audit, supervising how each internal audit is conducted, and for any significant judgements made throughout each internal audit (including those performed by an external provider).

Each audit undertaken is to consist of following steps:

- **planning the internal audit** – which includes:
 - preliminary research
 - defining the audit's scope and criteria
 - defining the audit's objectives
 - timing
 - audit budget, and
 - information needed to perform the audit (for example, access to people, documents, systems)
- **performing the internal audit** – is to consider:
 - the objectives and purpose of the activity being reviewed
 - any risks to these objectives and the effectiveness of existing controls
 - opportunities to improve the efficiency and effectiveness of the activity, how risks are managed and council's performance more broadly
- **documenting and reporting the internal audit** - which includes:
 - documenting the evidence collected and analysed
 - producing working papers to support the findings and recommendations made
 - writing an audit report, and
 - discussing internal audit results with relevant staff and management.

It is best practice that each internal audit report is to be appropriately supervised and approved by a person not conducting the audit to ensure its findings and recommendations are accurate. Larger councils that employ or contract more than one internal auditor are encouraged to embed this practice into their audit process.

(b) The Chief Audit Executive is to develop policies and procedures to guide the operation of the internal audit function, including the performance of internal audits

The Chief Audit Executive is to ensure that the council develops and maintains policies and procedures to guide the operation of the internal audit function and the performance of internal audits. These policies and procedures should address:

- the structure, resourcing and professional development of the internal audit function
- strategic and annual audit planning
- audit methodology
- audit reports
- ongoing monitoring and reporting
- conducting internal audits and the quality assurance and improvement program
- resolving differences in professional opinion/judgements regarding internal audits
- communication between the governing body of the council, Audit, Risk and Improvement Committee, general manager, Chief Audit Executive and council staff - particularly of non-compliance or sensitive information, and
- information management including document retention, security and access to audit reports.

The Audit, Risk and Improvement Committee is to review and provide advice to the general manager of the council on all internal audit policies and procedures before they are finalised.

Where the internal audit function is outsourced, the Chief Audit Executive will be required to ensure that the external provider is consulted in the development and/or maintenance of internal audit policies and procedures.

(c) The Chief Audit Executive is to report internal audit findings and recommendations to the Audit, Risk and Improvement Committee. Each finding is to have a recommended remedial action and a response from the relevant senior manager/s

The Chief Audit Executive will be required to report the findings and recommendations of internal audits to the Audit, Risk and Improvement Committee at the end of each audit.

Each internal audit report written must include:

- necessary background information, including the objective and scope of the audit
- the audit processes and methodology used
- findings and recommendations based on the audit's objectives, prioritised according to their level of risk
- recommended remedial actions to address problems identified, which:
 - are risk-rated (that is, clearly show the severity of risks identified by the audit, focus management attention on high risks that need prompt attention and allow resources to be first applied to high risks rather than low risks), and
 - have been agreed to by the general manager and responsible senior managers of the council.

The Chief Audit Executive will be responsible for ensuring that each internal audit report (or supporting working papers) contains sufficient information that would enable another internal or external auditor to reach the same conclusions.

A copy of each internal audit report is to be provided to the Audit, Risk and Improvement Committee at the Committee's next quarterly meeting, or distributed out-of-session before the next meeting.

The council's response to internal audit report recommendations

The Chief Audit Executive is to provide a draft of each report to the responsible senior manager/s so that a response to each recommendation from each relevant business unit can be included in the final report that is submitted to the Audit, Risk and Improvement Committee. The general manager will have a maximum of ten working days to approve and provide the council's response to the Committee.

Responsible senior managers will have the right to reject recommended corrective action/s on reasonable grounds, but must discuss their position with the Chief Audit Executive before finalising the council's position with the general manager. Reasons for rejecting the recommendation/s must be included in the final audit report.

For those recommendations that are accepted, responsible senior managers will be required to ensure that:

- an action plan is prepared for each recommendation that assigns responsibility for implementation to a council staff member/s and timeframes for implementation
- all corrective actions are implemented within proposed timeframes, and
- the Chief Audit Executive is provided regular updates, or as otherwise reasonably requested by the Chief Audit Executive, in relation to the implementation of the internal audit action plan.

Where corrective actions are not implemented within agreed timeframes, the Audit, Risk and Improvement Committee can invite the responsible senior manager to explain why implementation has not occurred and how the resulting risk is being addressed in the interim.

The Audit, Risk and Improvement Committee can raise any concerns it may have about the council's response to internal audit reports in the committee's quarterly report to the governing body.

(d) All internal audit documentation is to remain the property of, and can be accessed by, the audited council, including where internal audit services are performed by an external provider. It can also be accessed by the Audit, Risk and Improvement Committee, external auditor and the governing body of the council (by resolution)

The Chief Audit Executive will be responsible for ensuring internal audit information (in whatever form) is documented, retained and controlled in accordance with the council's policies and any legislative or IPPF requirements. Internal audit documentation includes any information or documents produced or obtained by council's internal audit function that relates to the internal audit activities of the council.

All audit documentation is to remain the property of the audited council and can be accessed by the audited council, the Audit, Risk and Improvement Committee and the external auditor. This includes where the internal audits are performed by an external provider. Authorised access to internal audit documents must be outlined in council's Internal Audit Charter.

The governing body can also request access to internal audit information via a resolution of the council. The Audit, Risk and Improvement Committee is to decide the governing body's request. Any disputes between the governing body and the committee are to be referred to the Office of Local Government for resolution.

Apart from external audit purposes, it is envisaged that internal audit reports will be for internal council use only, subject to the requirements of the *Government Information (Public Access) Act 2009*. Approval must be obtained from Chief Audit Executive or Audit, Risk and Improvement Committee before internal audit reports are provided to any other person or external party.

The Chief Audit Executive or the Audit, Risk and Improvement Committee must obtain approval from the general manager prior to releasing any internal audit documents to external parties.

The general manager's approval is not required where the information is being provided to an external oversight or investigative such as, but not limited to, the Office of Local Government, the Audit Office, the Independent Commission Against Corruption or the NSW Ombudsman, for the purposes of informing that agency of a matter that may warrant its attention.

Core requirement 7:

Undertake ongoing monitoring and reporting

Proposal

It is proposed that an ongoing monitoring and reporting system be established where the:

- (a) Audit, Risk and Improvement Committee is advised at each quarterly meeting of the internal audits undertaken and progress made implementing corrective actions
- (b) governing body of the council is advised after each quarterly meeting of the Audit, Risk and Improvement Committee of the internal audits undertaken and the progress made implementing corrective actions, and
- (c) Audit, Risk and Improvement Committee can raise any concerns with the governing body of the council at any time through the Chair.

Description

(a) The Audit, Risk and Improvement Committee is to be advised at each quarterly meeting of the internal audits undertaken and progress made implementing corrective actions

Ongoing monitoring and reporting to the Audit, Risk and Improvement Committee is essential to ensure that any emerging problems are identified and rectified quickly before their consequences escalate, especially in relation to material risks. It will also ensure that a clear message is sent that these matters are important and are being reviewed at the most senior levels in council.

To ensure this occurs, the Chief Audit Executive is to establish and maintain an ongoing monitoring system to track the internal audits undertaken within the council and follow-up the council's progress in implementing corrective actions. For smaller councils, this could simply be in a table or spreadsheet format.

The Chief Audit Executive is to ensure that the Audit, Risk and Improvement Committee is advised at each of the Committee's quarterly meetings of

- the number of internal audits completed during that quarter, including providing copies of the audit reports and advice on their findings
- progress in implementing the annual work plan
- progress made implementing corrective actions arising from any past internal audits, and
- any concerns the Chief Audit Executive may have.

The way this information is communicated is to be decided by the Audit, Risk and Improvement Committee in consultation with the Chief Audit Executive.

(b) The governing body of the council is to be advised after each quarterly meeting of the Audit, Risk and Improvement Committee of the internal audits undertaken and the progress made implementing corrective actions

Ongoing monitoring and reporting by the Audit, Risk and Improvement Committee to the governing body of the council is essential for accountability. It will also ensure that the governing body is kept abreast of the internal audits conducted and any emerging issues that may influence the strategic direction of the council or the achievement of the council's goals and objectives.

The governing body of the council is to be advised of the internal audits undertaken and progress made implementing corrective actions and any significant or emerging risk issues after each quarterly meeting of the Audit, Risk and Improvement Committee.

The governing body and the Audit, Risk and Improvement Committee is to decide how the Committee's advice is to be communicated. Options include providing the governing body with:

- a formal monitoring report from the Committee – this report would be for information only and a decision at the council meeting would not be required
- copies of the minutes of the Audit, Risk and Improvement Committee's meeting, or
- where appropriate, copies of the relevant agenda papers considered by the Committee at its quarterly meeting.

(c) The Audit, Risk and Improvement Committee can raise any concerns with the governing body of the council at any time through the Chair

Where the Audit, Risk and Improvement Committee is concerned about the progress of implementing corrective actions, or an internal audit-related issue arises, the Committee will be able to provide an additional report to the governing body of the council. This will ensure that the governing body is fully aware of the risks posed to the council.

The Chair of the Audit, Risk and Improvement Committee can also request at any time a meeting with the governing body of the council to discuss an internal audit-related issue.

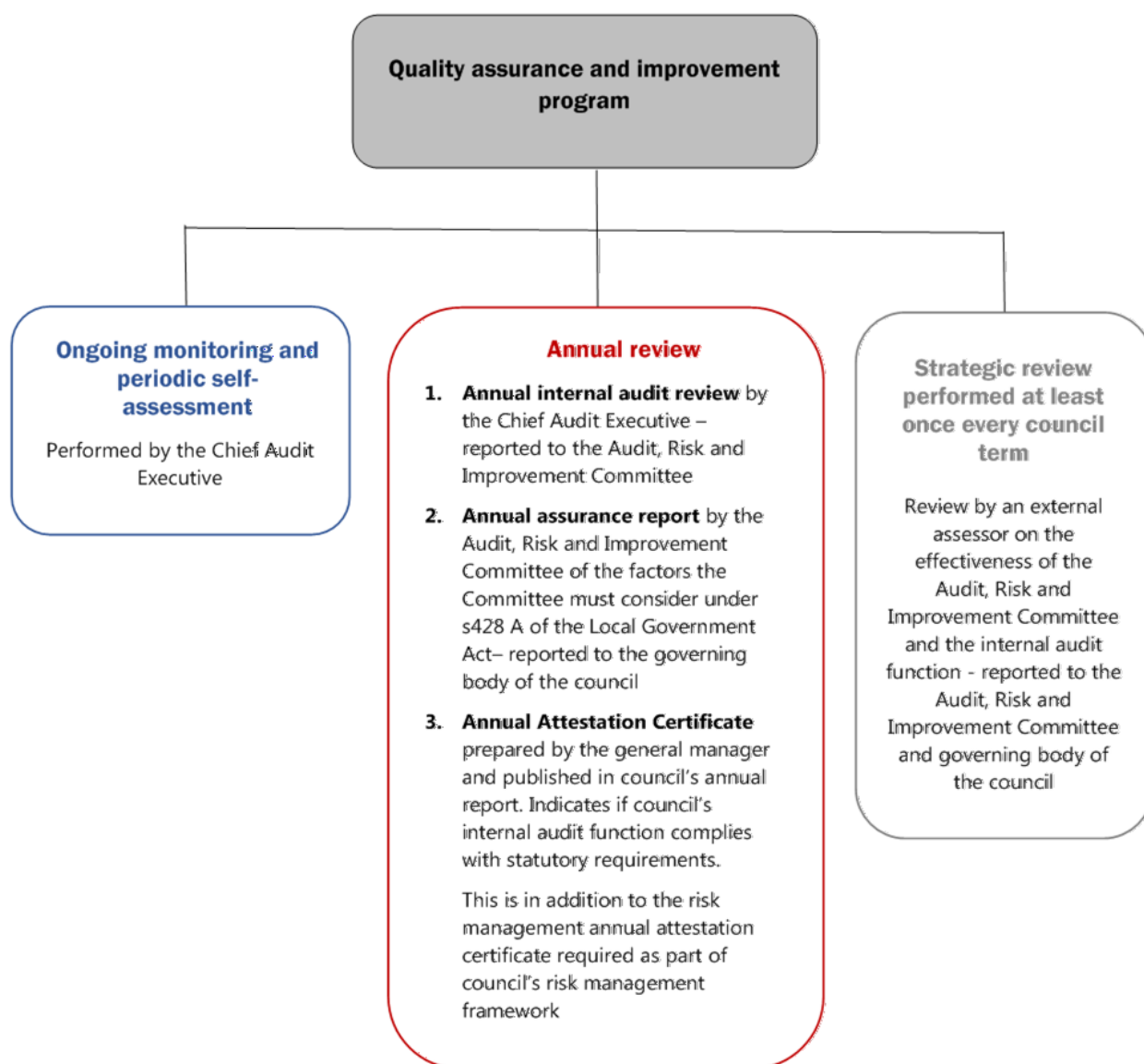
Similarly, the governing body of the council can request by resolution at any time to meet with the Chair of the Audit, Risk and Improvement Committee regarding an internal audit-related issue.

Core requirement 8: **Establish a quality assurance and improvement program**

Proposal

It is proposed that:

- (a) the Chief Audit Executive is to establish a quality assurance and improvement program which includes ongoing monitoring and periodic self-assessments, an annual review and strategic external review at least once every council term, and
- (b) the general manager is to publish in the council's annual report an annual attestation certificate indicating whether the council has complied with the core requirements for the Audit, Risk and Improvement Committee and the internal audit function.



Description

(a) The Chief Audit Executive is to establish a quality assurance and improvement program which includes ongoing monitoring and periodic self-assessments, an annual review and strategic external review at least once each council term

The Chief Audit Executive is to ensure that there is a documented and operational quality assurance and improvement program for assurance activities that is reported to the governing body of the council. The quality assurance and improvement program is to consist of three key elements:

- 1. Ongoing monitoring and periodic self-assessments** by the Chief Audit Executive
- 2. An annual review** at the end of each financial year by the:
 - Chief Audit Executive on the performance of the internal audit function for the Audit, Risk and Improvement Committee, and
 - Audit, Risk and Improvement Committee on its responsibilities under section 428A of the Local Government Act for the governing body of the council,
- 3. A strategic external review at least once every council term** (i.e. four years) by an external party which is reported to the Audit, Risk and Improvement Committee and the governing body of the council.

These are described in greater detail below.

Ongoing monitoring and periodic self-assessments

The Chief Audit Executive is to undertake ongoing monitoring and periodic self-assessments of the internal audit function throughout the year to validate that it is operating effectively and delivering quality and value.

Monitoring and self-assessments could consider, for example:

- compliance with regulatory requirements and the IPPF
- the quality and supervision of audit work performed
- standardised work practices
- communication practices
- timeliness of audit activities
- any professional development or training required
- client satisfaction and the degree to which stakeholder expectations are being met
- the adequacy of internal audit policies
- progress towards key performance indicators, and
- any weaknesses or areas that need improvement.

The Chief Audit Executive is to implement any changes necessary to address deficiencies identified through ongoing monitoring and periodic self-assessment.

Annual performance review

The annual review (performed at the end of each financial year) is to assess the assurance activities that occurred over the preceding financial year. It is to consist of the following two elements, which together will ensure that the council's assurance activities are comprehensively assessed and any issues identified.

1. An annual internal audit review by the Chief Audit Executive for the Audit, Risk and Improvement Committee which assesses:

- how effectively council has implemented the internal audit function (for example, that findings are communicated and implemented appropriately, resourcing is sufficient, the Internal Audit Charter remains appropriate etc.)
- how the internal audit function has performed against the annual work plan and performance targets, and
- how the internal audit function and activities comply with statutory requirements and the IPPF and
- the independence of the internal audit function.

This will ensure that the Audit, Risk and Improvement Committee receives the Chief Audit Executive's advice on the effectiveness of the internal audit function each year. It will also enable the general manager to complete the council's annual attestation certificate (see below).

2. An annual assurance review by the Audit, Risk and Improvement Committee for the governing body of the council which includes:

- a summary of the work the Committee performed to discharge its responsibilities during the preceding year
- advice on the appropriateness of the Committee's terms of reference (where they contain additional clauses that are not included in the Model Terms of Reference)
- an overall assessment of the following aspects of the council's operations in accordance with section 428A of the Local Government Act:
 - 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
 - any other matters prescribed by the regulation (i.e. internal audit), and
- information to help the council improve the performance of its functions.

This will ensure that the governing body of council receives the Audit, Risk and Improvement Committee's independent assurance about these matters in accordance with legislative requirements each year. This will support the governing body in the exercise of its oversight role under the Local Government Act.

The general manager and senior managers are to be advised of the findings and outcomes of the annual review and the Chief Audit Executive is to develop an action plan for the Audit, Risk and Improvement Committee, governing body of the council and general manager to address any issues identified in the annual review.

Strategic external review

An external assessment of council's assurance activities is to be conducted at least once every council term (i.e. four years) by a qualified, independent assessor according to the IPPF quality assessment framework. Requiring compliance with the IPPF will ensure that each council can have confidence in the findings and that councils are assessed consistently across the sector.

The strategic review is to be commissioned by the governing body of the council and reported to the Audit, Risk and Improvement Committee, governing body and the general manager. The Chief Audit Executive is to develop an action plan for the Committee, governing body of the council and general manager to address any issues identified in the external review.

The external review is to include the following two components:

- **the effectiveness of the Audit, Risk and Improvement Committee**, including:
 - whether the Committee has fulfilled its terms of reference
 - the appropriateness of the Committee's terms of reference (where the Committee's terms of reference contain additional provisions not contained in the Model Terms of Reference)
 - the performance of Committee members
 - the way the Committee, external auditor, council and internal audit function work together to manage risk and support the council and how effective this is, and
 - whether the Committee has contributed to the improvement of the factors identified in section 428A of the Local Government Act.

The external review is to address the collective performance of the Audit, Risk and Improvement Committee and the individual performance of each member and the Chair. The review is to consider feedback on each member's performance by the Chair of the Committee, mayor and general manager.

This component of the four-yearly external review will provide accountability and ensure that the governing body of the council can assess how the Audit, Risk and Improvement Committee is functioning and whether any changes to the Committee's terms of reference or membership are required.

In considering the outcomes of the external strategic review, the governing body of the council will be able to request the Chair of the Committee to address the council and answer any questions about the operation of the Committee.

- **the effectiveness of the internal audit function**, including:
 - the independence of the internal audit function
 - whether resourcing is sufficient
 - whether the internal audit function complies with statutory requirements and the IPPF
 - the appropriateness of annual work plans and strategic plans based on the risks facing the council
 - whether the internal audit function adds value and delivers outcomes for the council, and
 - the appropriateness of the Internal Audit Charter (where it includes additional provisions not contained in the Model Internal Audit Charter).

This component of the strategic external review will ensure that the governing body of the council is able to assess whether the internal audit function is effective and adding value to the council and whether any changes are required. The governing body of the council will be able to request the Chair of the Audit, Risk and Improvement Committee and/or the Chief Audit Executive to address the council and answer any questions about the internal audit function.

External assessor

The governing body will be able to commission the strategic external review by either engaging an external assessor to undertake the assessment, or by undertaking a self-assessment and engaging a qualified external reviewer to conduct an independent evaluation of that self-assessment.

The external assessor must have, at a minimum:

- no real or perceived conflicts of interest
- certification as an internal auditor
- knowledge of internal audit and external assessment practices, and
- sufficient recent experience in internal audit at a management level which demonstrates a working knowledge of statutory requirements and the IPPF.

The strategic review report is to outline the qualifications of the assessor and any potential conflicts of interest.

(b) The general manager is to publish in the council's annual report an annual attestation certificate indicating whether the council has complied with the core requirements for the Audit, Risk and Improvement Committee and internal audit function

The general manager will be required to annually publish an attestation statement in the council's annual report indicating whether, during the prior financial year, the council was 'compliant', 'non-compliant' or 'in transition' against each of the core requirements of the Audit, Risk and Improvement Committee and council's internal audit framework. The certificate can be combined with the risk management attestation certificate required as part of the council's risk management framework.

Compliance status is to be self-assessed based on the results of the annual performance review. The following table lists the proposed compliance categories and follow-up action that will be required.

Councils that are 'non-compliant' can apply to the Chief Executive Officer of the Office of Local Government for an exemption from statutory requirements. The Chief Executive Officer will be able to grant exemptions to any or all statutory requirements and will be able to impose conditions on the exemption given.

An exemption will only be granted where:

- a council cannot comply because of temporary extenuating circumstances, substantial structural constraints or resourcing constraints that will materially impact the council's operating budget
- the council is not able to enter into a shared arrangement with another council/s in order to comply (for internal audit only), and
- current or proposed alternative arrangements will achieve outcomes equivalent to the requirements.

The maximum period an exemption can apply will be 24 months (two reporting periods). Any further exemption must be reapplied for.

The council's application for an exemption must:

- be in writing
- be made prior to the reporting period in which full compliance with statutory requirements cannot be achieved or as soon as circumstances arise during the reporting period that will make full compliance throughout the reporting period impossible
- provide the reasons why the council cannot comply with statutory requirements, and
- describe and demonstrate the council's efforts to implement alternative arrangements and how these will achieve an outcome equivalent to the requirements.

The general manager is to ensure that a copy of the attestation statement and the exception approval from the Chief Executive Officer of the Office of Local Government (if applicable) is published in the council's annual report. A copy of the attestation statement is to also be provided to the Office of Local Government.

The Chair of the Audit, Risk and Improvement Committee is to also sign the attestation statement where they agree that it is a true and accurate reflection of the council's compliance status against statutory requirements.

Proposed compliance status for attestation certificates

Definition	Further requirements
COMPLIANT	
The council is 'compliant' if it has implemented and maintained practices consistent with statutory requirements for the whole of the financial year	The council is to provide a copy of its attestation statement to the Office of Local Government and publish the attestation certificate in the council's annual report.
NON-COMPLIANT	
<p>The council is 'non-compliant' if:</p> <ul style="list-style-type: none"> it has not implemented and maintained a risk management framework or internal audit practices consistent with statutory requirements for the whole of the financial year, or the council's Audit, Risk and Improvement Committee and internal audit function has been in place for more than five years but has not been externally assessed (for internal audit only) 	<p>The general manager will be required to apply to the Chief Executive Officer of the Office of Local Government for an exemption from statutory requirements</p> <p>The council's application for an exemption must:</p> <ul style="list-style-type: none"> be in writing be made prior to the reporting period in which full compliance with statutory requirements cannot be achieved or as soon as circumstances arise during the reporting period that will make full compliance throughout the reporting period impossible provide the reasons why the council cannot comply with statutory requirements, and describe and demonstrate the council's efforts to implement alternative arrangements and how these will achieve an outcome equivalent to the requirements. <p>The general manager must ensure a copy of the attestation statement and the Chief Executive Officer's exemption approval (if applicable) is published in the council's annual report. A copy of the council's attestation statement is also to be sent to the Office of Local Government.</p> <p>The council will also have to explain on the attestation statement why it is not compliant and if it has received an exemption from the Chief Executive Officer.</p>
IN TRANSITION	
<p>The council is 'in transition' if it is transitioning its operations to the statutory requirements during the financial year because:</p> <ul style="list-style-type: none"> it is a newly constituted council established after the risk management and internal audit requirements of the Local Government Act and Regulation came into force (a two-year transition period will be granted in this instance), or the requirements that are not complied with have been newly prescribed within the last two years and the council is in the process of implementing them. 	<p>Councils taking advantage of the transitional arrangements will not be required to apply for approval from the Chief Executive Officer of the Office of Local Government. However, councils must be actively taking steps during the two-year (for internal audit) and five-year (for risk management) transitional period to commence implementation and detail how the council plans to achieve compliance within this period.</p> <p>The council is to provide a copy of its attestation statement to the Office of Local Government.</p>

Core requirement 9: **Councils can establish shared internal audit arrangements**

Proposal

It is proposed that:

- (a) a council can share all or part of its internal audit function with another council/s by either establishing an independent shared arrangement with another council/s of its choosing, or utilising an internal audit function established by a joint or regional organisation of councils that is shared by member councils
- (b) the core requirements that apply to stand-alone internal audit functions will also apply to shared internal audit functions, with specified exceptions that reflect the unique structure of shared arrangements, and
- (c) the general manager of each council in any shared arrangement must sign a 'Shared Internal Audit Arrangement' that describes the agreed arrangements.

Description

(a) A council can share all or part of its internal audit function with another council/s by either establishing an independent shared arrangement with another council/s of its choosing, or utilising an internal audit function established by a joint or regional organisation of councils that is shared by member councils

Councils that do not want to establish a stand-alone internal audit function will be able to:

- share all or part of their internal audit function with another council/s of their choosing as part of an independent shared arrangement, or
- utilise a joint internal audit function established by their joint or regional organisation of councils that is shared with other member councils.

These options will:

- assist smaller councils to implement their internal audit function in a more cost-effective way where:
 - a full-time committee, Chief Audit Executive or internal audit function is not necessary
 - the council's risk profile does not warrant stand-alone arrangements, and/or
 - the cost of having a stand-alone arrangements will significantly and unacceptably impact the council's operating budget
- assist councils in remote locations that may find it difficult to employ or appoint the suitably qualified personnel that are necessary to support a stand-alone internal audit function
- allow councils to access a larger resource pool than would be available to a single council
- create efficiencies through common systems, shared knowledge and internal audit tools, and
- potentially lower audit costs.

When deciding the most appropriate way to establish a council's internal audit function, the general manager should consider the viability and capacity of a shared Audit, Risk and Improvement Committee, Chief Audit Executive or internal audit function to meet their responsibilities given the:

- size of the council in terms of both staffing levels and budget
- geographical and functional distribution of the council's operations
- complexity of the council's core business

- risk profile of the council's operations
- expectations of stakeholders, and
- likely demands placed on the committee, Chief Audit Executive or internal audit function by other councils in the shared arrangement.

A shared arrangement should only be established where the shared internal audit function can maintain a high level of understanding and oversight of each council's operations and internal audit function, as well as effective working and reporting relationships with the general manager and governing bodies of each council.

(b) The core requirements that apply to stand-alone internal audit functions will also apply to shared internal audit functions, with specified exceptions that reflect the unique structure of shared arrangements

The majority of the core requirements outlined in this discussion paper that apply to stand-alone internal audit functions will also apply to shared internal audit arrangements.

This means that any shared internal audit function must operate as an individual resource for each council that meets each council's unique internal audit needs. In terms of roles and responsibilities:

- the **Audit, Risk and Improvement Committee** is to operate as an individual committee for each council in any shared arrangement⁶⁵. This includes the committee:
 - providing independent assurance and oversight for each council
 - endorsing each council's Internal Audit Charter, annual work plan and four-year strategic plan
 - holding individual meetings for each council that are separately minuted⁶⁶ and observers being invited to only attend that part of the committee meeting that relates to their council
 - liaising with the respective governing bodies and general managers of each council in relation to that council's internal audit issues
 - approving individual performance indicators for each council based on that council's needs and operations
 - fulfilling the requirements of each council's quality assurance and improvement program and conducting a separate annual review for each individual council based on that council's internal audit activities which is reported to the governing body of that council
 - maintaining separate and confidential information for each council
- the **Chief Audit Executive** (who may be employed by one of the participating councils or by a joint or regional organisation of councils) is to work separately with each council in any shared arrangement to implement the internal audit function for that council. This includes the Chief Audit Executive:
 - liaising with the governing body and general manager of each separate council about that council's internal audit activities
 - individually developing and implementing the annual work plan and four-year strategic plan for each council, based on each council's individual requirements and in consultation with that council's general manager
 - developing and maintaining internal audit policies and procedures for each council based on that council's needs and operations

⁶⁵ Under the NSW Government's prequalification scheme, membership on any shared Audit, Risk and Improvement Committee will count as one towards the limit of five memberships allowed for a committee member

⁶⁶ Individual meetings for each council can be held sequentially but joint or shared meetings discussing multiple councils must not be held (apart from common agenda items, for example, the Audit, Risk and Improvement Committee's terms of reference, Internal Audit Charter etc.)

- conducting the individual audits of each council
- confirming the implementation by the council of corrective actions that arise from the findings on internal audit activities
- submitting to each respective council an individual report after each internal audit and liaising with the general manager of each respective council (and governing body where necessary) on that council's internal audit issues
- managing any contractual arrangements for externally provided internal audit personnel on behalf of each council in the shared arrangement
- fulfilling the requirements of each council's quality assurance and improvement program and conducting a separate annual review for each individual council based on that council's internal audit activities which is reported separately to the Audit, Risk and Improvement Committee
- attending the Audit, Risk and Improvement Committee meetings of each respective council on behalf of that council
- maintaining separate and confidential information for each council
- providing independent assurance and oversight for each council, and
- **internal audit personnel** (who may be employed by one of the participating councils or by a joint or regional organisation of councils or supplied through an external provider) are to operate as an individual internal auditor/internal audit team for each council in any shared arrangement. This includes internal audit personnel conducting the individual internal audits of each council.

Given there are multiple councils and therefore multiple decision-making bodies involved, shared arrangements will have a number of unique requirements that will be different to those that apply to a stand-alone internal audit function. These are described below.

Unique requirements for independent shared arrangements

Decision-making body

The governing body and general manager of a council are the key decision-makers in a council in relation to internal audit. However, given that any shared arrangement will have more than one governing body and general manager, decision-making in relation to a shared internal audit function is likely to be administratively complex.

To simplify and streamline decision making, councils in an independent shared arrangement will be required to establish a committee comprising of councillors from each of the participating councils under section 355 of the Local Government Act. This committee will make the following decisions (where applicable) about the Audit, Risk and Improvement Committee, Chief Audit Executive or internal audit function that would otherwise be made by the governing body of each council, and each council will be required to delegate these decisions to the committee:

- approving the Internal Audit Charter (after endorsement by the Audit, Risk and Improvement Committee), so it can then be adopted by each individual council
- determining the size of the shared Audit, Risk and Improvement Committee
- appointing and dismissing members and the Chair of the shared Audit, Risk and Improvement Committee
- approving the terms of reference of the Audit, Risk and Improvement Committee (after endorsement by the Committee), so it can then be adopted by each individual council, and
- approving internal audit policies and procedures (in consultation with the Audit, Risk and Improvement Committee and the general managers of each participating council), so they can then be adopted and implemented by each individual council.

Where an Audit, Risk and Improvement Committee is shared, each council in the shared arrangement will still be required to adopt and implement their own Internal Audit Charter, terms of reference for the Audit, Risk and Improvement Committee, and internal audit policies and procedures.

Committee members will be required to consult with other members of the governing body of their council on any decisions made. All other functions assigned to the governing body of a council in core requirements 1-8 will remain with each individual council.

Auspecting body

Where the Chief Audit Executive and other internal audit personnel are shared by councils, these positions must be employed by one of the participating councils in the shared arrangement and located together to work effectively. The Chief Audit Executive must also report administratively to the general manager of the council that employs them.

This will create greater administrative efficiency by reducing reporting and communication lines. It will also ensure that:

- the Chief Audit Executive reports administratively to one general manager on behalf of all councils in the independent shared arrangement
- the Chief Audit Executive, in-house internal audit staff and secretariat staff will be employees of, and located at the auspecting council and have access to necessary administrative and HR support, and
- the Chief Audit Executive and internal audit staff will be subject to the Code of Conduct of the auspecting council.

Administrative responsibility and oversight of the shared internal audit function should be exercised by an administrative oversight committee comprising of all general managers of the participating councils.

The administrative oversight committee will have the following responsibilities in relation to the Audit, Risk and Improvement Committee:

- ensuring adequate procedures are in place to protect the independence of the Audit, Risk and Improvement Committee
- overseeing arrangements for secretariat support for the Audit, Risk and Improvement Committee, and
- receiving written declarations from members that they do not have conflicts of interest that may preclude them from serving on the Audit, Risk and Improvement Committee.

The administrative oversight committee will also have the following responsibilities in relation to the Chief Audit Executive and internal audit staff:

- recommending the appointment and dismissal of the Chief Audit Executive (in consultation with the Audit, Risk and Improvement Committee and governing bodies of each council) – the ultimate decision will be made by the employing general manager, and
- recommending any changes impacting the employment of the Chief Audit Executive (in consultation with the Audit, Risk and Improvement Committee) – the ultimate decision will be made by the employing general manager.

Allegations of breaches of the auspecting council's Code of Conduct by the Chief Audit Executive or internal audit staff are to be dealt with by the auspecting general manager, in consultation with the other general managers.

The general managers of each council will be required to attend the Audit, Risk and Improvement Committee meetings related to their council and to undertake all other functions in relation to internal audit referred to general managers in core requirements 1-8.

Unique requirements for joint/regional organisation shared arrangements

Decision-making body

The member councils of a joint or regional organisation are to delegate their decision making authority in relation to internal audit under section 377 of the Local Government Act to the Board of their joint or regional organisation of councils. The Board will make the decisions that would have otherwise been made by the governing body of each council. This includes:

- adopting the Internal Audit Charter on behalf of each member council (after endorsement by the Audit Risk and Improvement Committee)
- appointing and dismissing members and the Chair of the shared Audit, Risk and Improvement Committee
- adopting the terms of reference of the Audit, Risk and Improvement Committee on behalf of each member council (after endorsement by the Audit, Risk and Improvement Committee), and
- adopting internal audit policies and procedures on behalf of each member council (in consultation with the Audit, Risk and Improvement Committee and the general managers of each participating council).

All other functions assigned to the governing body of a council in core requirements 1-8 will remain with each individual council.

Auspecting body

The shared internal audit function is to be undertaken on behalf of member councils by the joint or regional organisation of councils. This will mean that:

- the Chief Audit Executive will report administratively to the executive officer of the joint/regional organisation
- the Chief Audit Executive, in-house internal audit staff and secretariat staff will be employees of the joint or regional organisation. The Chief Audit Executive and in-house internal audit staff may be located at the joint or regional organisation or at one of the member councils and have access to necessary administrative and HR support supplied through the joint or regional organisation or council, and
- the Chief Audit Executive and internal audit staff will be required to comply with the Code of Conduct of the joint or regional organisation⁶⁷.

The executive officer of the joint/regional organisation will also, on behalf of, and in consultation with each general manager in the shared arrangement, take on the administrative responsibility of some aspects of the shared internal audit function.

In relation to the Audit, Risk and Improvement Committee, this includes:

- determining the size of the Audit, Risk and Improvement Committee
- ensuring adequate procedures are in place to protect the independence of the Audit, Risk and Improvement Committee
- arranging secretariat support for the Audit, Risk and Improvement Committee, and
- receiving written declarations from members that they do not have conflicts of interest that may preclude them from serving on the Audit, Risk and Improvement Committee.

⁶⁷ Where the Code of Conduct of the joint or regional organisation differs from the Model Code of Conduct, the Model Code of Conduct will apply.

In relation to the Chief Audit Executive and internal audit staff, this includes:

- appointing and dismissing the Chief Audit Executive (in consultation with the Audit, Risk and Improvement Committee and governing bodies of each council)
- deciding any changes that may impact the employment of the Chief Audit Executive (in consultation with the Audit, Risk and Improvement Committee), and
- dealing with breaches of the joint/regional organisation's code of conduct by the Chief Audit Executive or internal audit staff.

The general manager of each council will be required to attend the Audit, Risk and Improvement Committee meetings that relate to their council and exercise all other functions of the general managers in relation to internal audit described in core requirements 1-8.

Internal audit requirements for joint organisations

It is important to note that, like councils, joint organisations will also be required to appoint an Audit, Risk and Improvement Committee and have an internal audit function.

The Audit, Risk and Improvement Committee appointed by the joint organisation on behalf of member councils is therefore also to operate as the Audit, Risk and Improvement Committee for the joint organisation and the Chief Audit Executive appointed by the joint organisation is also to oversee the internal audit function for the joint organisation in addition to member councils.

Fees for shared Audit, Risk and Improvement Committee members

The following fee structure that currently applies under the NSW Government's prequalification scheme for Audit and Risk Committee Chairs and Members will apply to all shared arrangements, subject to any change.

Shared Audit, Risk and Improvement Committees	Fee category (based on stand-alone internal audit functions)	Chair fee (excluding GST)	Member fee (excluding GST)
Up to and including three small councils	Medium	\$16,213 per annum	\$1,621 per meeting day including preparation time
Two or more medium councils	Large	\$20,920 per annum	\$2,092 per meeting day including preparation time
Any combination of small and medium councils	Large	\$20,920 per annum	\$2,092 per meeting day including preparation time

(c) The general manager of each council in any shared arrangement must sign a 'Shared Internal Audit Arrangement' that describes the agreed arrangements

The general manager of each council in any shared arrangement will be required to sign a 'Shared Internal Audit Resourcing Agreement' with the other councils in the shared arrangement which agrees the following components.

Shared Internal Audit Resourcing Agreement

Issue	Components to be agreed by councils
Audit, Risk and Improvement Committee	<ul style="list-style-type: none"> Number of committee members Term of committee membership Process for appointing and dismissing the Chair and committee members, including skills and capability requirements Content, approval and review of the committee's terms of reference Process for reviewing the committee's performance Secretariat support arrangements for the committee The committee's meeting schedule, including the sequencing of meetings to cover each council's requirements and when and how emergency committee meetings can be called Process for the committee to request others to attend committee meetings or provide additional information about internal audit matters Arrangements for the provision of information by the committee to the Chief Audit Executive and internal audit personnel, as well as the governing body and general manager of each council
Auspecting arrangements	<ul style="list-style-type: none"> What the auspecting arrangements will be What the responsibilities of each council will be Roles, responsibilities and reporting lines of the internal audit function
Chief Audit Executive and internal audit personnel	<ul style="list-style-type: none"> Whether internal audit personnel are in-house or contracted through an external provider Chief Audit Executive and internal audit personnel's purpose, scope, authority, delegations, role, responsibilities and reporting lines HR matters such as recruitment processes, disciplinary matters, employment conditions, HR support, remuneration Process for reviewing the performance of the Chief Audit Executive and internal audit personnel as part of each council's quality assurance and improvement program
Administrative arrangements	<ul style="list-style-type: none"> Content of the Internal Audit Charter as well as how it is approved and reviewed How costs will be determined, administered and shared How disputes between councils in the shared arrangement will be resolved How conflicts of interest, disciplinary or performance issues regarding Audit, Risk and Improvement Committee members, the Chief Audit Executive and internal audit personnel are to be dealt with Information management and record-keeping What information, if any, will be shared between councils How much time the internal audit function spends on each council Composition of the s 355 committee and the process for appointing and removing members (for independent shared arrangements) Establishment and operation of the general manager's administrative oversight committee (for independent shared arrangements) Process for agreeing contractual arrangements with external providers Procedures and safeguards to be put in place to preserve the independence of the internal audit function

NEXT STEPS

Have Your Say

In developing the risk management and internal audit framework proposed in this paper, the Office of Local Government has considered the recommendations of various inquiries conducted by the Local Government Acts Taskforce, the Independent Local Government Review Panel and the Independent Commission Against Corruption, and the internal audit frameworks of other jurisdictions.

The Institute of Internal Auditors, NSW Treasury, the Department of Finance, Services and Innovation, the NSW Audit Office and the Executive of the Local Government Internal Auditors Network have also provided valuable feedback on earlier drafts of this discussion paper.

We now want to hear from you.

Key questions to consider

- Will the proposed internal audit framework achieve the outcomes sought?
- What challenges do you see for your council when implementing the proposed framework?
- Does the proposed framework include all important elements of an effective internal audit and risk framework?
- Is there anything you don't like about the proposed framework?
- Can you suggest any improvements to the proposed framework?

Submissions may be made in writing by **31 December 2019** to the following addresses.

Post

Locked Bag 3015
NOWRA NSW 2541

Email:

olg@olg.nsw.gov.au

Submissions should be marked to the attention of the Council Governance Team.

Next steps

Feedback will be considered when finalising the risk management and internal audit framework.

Once finalised, the Office of Local Government will notify councils of the new requirements and the steps and timeline for implementation.

Further information

For more information, please contact the Council Governance Team on (02) 4428 4100 or via email at olg@olg.nsw.gov.au.

RESOURCES USED

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APPENDIX 1 – TIMELINE OF KEY INFLUENTIAL EVENTS

When	Who	What
2008	Office of Local Government ⁶⁸	<p>Internal Audit Guidelines for local government in NSW</p> <p>The Office of Local Government issued <i>Internal Audit Guidelines</i> under section 23A of the Local Government Act. The Guidelines sought to assist councils to put into place effective risk management and internal audit processes. This was in recognition that many councils wished to have a risk management framework and internal audit function and wanted guidance on how to achieve this. The Guidelines included:</p> <ul style="list-style-type: none"> • the aims and objectives of risk management and internal audit in councils • how a risk management framework and an internal audit function is to be overseen, structured and operated • the roles, responsibilities and reporting lines of relevant staff • the need for internal audit charters, and • the establishment, structure and function of audit and risk management committees.
2010	Office of Local Government ⁶⁹	<p>Internal Audit Guidelines for local government in NSW - updated⁷⁰</p> <p>A survey of councils conducted by the Office of Local Government to ascertain the progress made towards implementing the 2008 Guidelines found that while more than 50% of councils reported that they had an internal audit function, there were areas where the Guidelines needed to be clarified to improve compliance. The Guidelines were updated to:</p> <ul style="list-style-type: none"> • provide more guidance on the requirements for an independent audit committee • expand the conflicts of interest provisions, and • clarify the role of the general manager in the internal audit function.

⁶⁸ Then the Department of Local Government

⁶⁹ Then the Division of Local Government in the Department of Premier and Cabinet

⁷⁰ Division of Local Government (2010) *Internal Audit Guidelines*

When	Who	What
2011	Independent Commission Against Corruption	<p>Burwood Council Inquiry</p> <p>The Independent Commission Against Corruption found in its <i>Investigation into alleged corrupt conduct involving Burwood Council's General Manager and others</i>⁷¹ that the absence of internal audit at Burwood Council was a significant factor that allowed corruption to occur at that council. The Commission recommended that:</p> <ul style="list-style-type: none"> • internal audit be legislatively mandated for local councils in NSW, and • in the case of small councils, the possibility of councils sharing an internal audit function should also be provided as an option. <p>The Commission also made a number of specific recommendations regarding internal audit functions in NSW councils:</p> <ul style="list-style-type: none"> • it be made a legislative requirement that council's internal audit committee be able to meet without the general manager present as this would preserve its capacity to meet as an independent body • it be made a legislative requirement that the general manager of a council report to the governing body any decision to dismiss an internal auditor and the reason for the decision. This will help protect internal auditors from dismissal as a result of conducting an audit involving the conduct of a general manager • the Local Government Act be amended to confer powers on internal auditors similar to those conferred on external auditors. These powers should include full and free access to council information in order to carry out the internal audit function and the power to direct general managers, councillors and staff to produce documents and answer questions • clause 9.2(d) of the <i>Model Code of Conduct for Local Councils in NSW</i> be amended to permit councillors to provide information directly to internal auditors. This amendment was considered necessary to increase internal auditors' potential sources of information, and • the reporting structure for councils' internal audit function include provision for the governing body of the council to receive information about the outcome of audits. <p>Specific to Burwood Council, but relevant to councils state-wide, the Commission also recommended that:</p> <ul style="list-style-type: none"> • council's audit and risk committee be chaired by a person independent of council • the governing body of the council receive regular updates on the outcome of internal audits • council's internal audit function monitor compliance with the Councillor Expenses and Facilities Policy, any policy for the payment of out-of-pocket expenses to the general manager and staff and council's system for allocating work to legal practitioners as part of its oversight role, and • council's internal audit function conducts audits of the authorisation certification and approval processes for expenditure that is unusual or infrequent.

⁷¹ Independent Commission Against Corruption (2011) *Investigation into the alleged corrupt conduct involving Burwood Council's general manager and others*

When	Who	What
2012	NSW Auditor-General	<p>Monitoring Local Government report⁷²</p> <p>The NSW Auditor-General found that over 75 councils had some sort of internal audit function and recommended that amendments be made to the Local Government Act (or other suitable alternative measures) that enable the Office of Local Government to make directions to require councils to have an Audit, Risk and Improvement Committee, internal audit function and fraud control procedures. The NSW Auditor-General also recommended that the Office of Local Government use council internal audit reports to identify councils at financial risk and identify matters which warrant attention.</p>
2013	Local Government Acts Taskforce	<p>Review of the Local Government Act 1993</p> <p>The Local Government Acts Taskforce recommended in its report, <i>A new Local Government Act for NSW and Review of the City of Sydney Act 1988</i>⁷³, that the Act be amended to:</p> <ul style="list-style-type: none"> • legislate financial governance principles councils are to abide by • require councils to implement a financial governance framework that includes risk management, audit, internal controls and independent verification of financial reporting • require councils to incorporate risk management, accountability, value for money and probity in procurement, approval, enforcement and capital expenditure processes, and • require all decisions to incorporate considerations of risk management and long-term sustainability. <p>The Taskforce conducted extensive public and sector consultation in formulating its recommendations.</p>
2013	Independent Local Government Review Panel	<p>Independent Local Government Review Panel</p> <p>The Independent Local Government Review Panel found that, as at 2013, 50% of NSW councils had an Audit, Risk and Improvement Committee and/or some form of internal audit process. However, those that did tended to focus primarily on compliance, risk and fraud control and had committees that were strongly embedded within the council and answerable primarily to the general manager. This could generate conflicts of interest.</p> <p>The Panel recommended in its report, <i>Revitalising Local Government</i>⁷⁴, that the 2010 Internal Audit Guidelines issued by the Office of Local Government be made mandatory under the Local Government Act and that each council be required to have an internal audit function. Under the mandatory framework the Panel specifically recommended that:</p> <ul style="list-style-type: none"> • each council's internal audit function focus on adding value and continuous improvement rather than compliance, risk and fraud control • all councils with expenditures over a set amount (e.g. \$20 million per annum) be required to have an Audit, Risk and Improvement Committee and associated internal audit function with broad terms of reference covering financial management, good governance, performance in implementing the community

⁷² NSW Auditor-General (2012) *NSW Auditor-General's Report - Monitoring local government: Department of Premier and Cabinet, Division of Local Government*

⁷³ Local Government Acts Taskforce (2013) *A New Local Act for New South Wales and Review of the City of Sydney Act 1988*

⁷⁴ Independent Local Government Review Panel (2013) *Revitalising Local Government. Final Report of the NSW Independent Local Government Review Panel*

When	Who	What
		<p>strategic plan and delivery program, service reviews, collection of required indicator data, continuous improvement and long-term sustainability</p> <ul style="list-style-type: none"> • each Audit, Risk and Improvement Committee should have a majority of independent members and an independent Chair, and the general manager should be precluded from being a committee member (but not from attending committee meetings) • the Chair be required to report biannually to a council meeting on council's financial management, governance processes and opportunities for continuous improvement • councils be able to share their internal audit functions under the auspices of joint organisations, and • the NSW Auditor-General conduct issue-based performance audits relating to internal audit. <p>The Panel conducted extensive public and sector consultation in formulating its recommendations.</p>
2016	NSW Parliament	<p>Amendments to the Local Government Act 1993</p> <p>In response to the recommendations of the Independent Local Government Review Panel, the Local Government Act was amended⁷⁵ to require all councils to have an Audit, Risk and Improvement Committee to keep under review the following aspects of council's operations:</p> <ul style="list-style-type: none"> • compliance • risk management • fraud control • financial management • governance • implementation of the strategic plan, delivery program and strategies • service reviews • council's performance, and • the collection of performance measurement data by the council. <p>Guiding principles were included in the Act to require councils to have sound policies and processes for risk management and to effectively and proactively manage risks to the local community and council.</p> <p>The roles and responsibilities of the governing body, mayor, councillors were also updated and include the need to comply with the guiding principles and keep the performance of the council under review.</p> <p>The amendments followed an extensive public consultation process.</p>
2017	Independent Commission Against Corruption	<p>Botany Bay Council Inquiry</p> <p>The Independent Commission Against Corruption found, in its <i>Investigation into the conduct of the former City of Botany Bay chief financial officer and others</i>⁷⁶, that whilst Botany Bay Council did have an internal audit function:</p> <ul style="list-style-type: none"> • it lacked independence from council's management and was prevented by the general manager from investigating the key operational areas and financial aspects of the council where corruption was occurring

⁷⁵ The Local Government Act was amended via the *Local Government Amendment (Governance and Planning) Act 2016*

⁷⁶ Independent Commission Against Corruption (2017) *Investigation into the former City of Botany Bay Council Chief Financial Officer and others*. ICAC Report July 2017

When	Who	What
		<ul style="list-style-type: none"> • it was never able to directly present information or audit reports to the Audit, Risk and Improvement Committee or meet with the Committee to discuss concerns without the general manager present • it did not use risk ratings to determine what audits would be conducted which enabled key areas (where corruption was occurring) to be missed • the council's Audit, Risk and Improvement Committee was ineffective and did not properly examine the council, internal audit function or monitor the implementation of corrective actions, or report to the governing body • standard controls were frequently ignored, e.g. management letters • key financial staff in the council lacked the capabilities to perform their role • the governing body thought it was unable to request more information about audit activities • the governing body of council did not properly consider external audit reports or implement recommended corrective actions, and • corruption and misuse of public money was able to occur unabated. <p>The Commission recommended that the internal audit model to be developed under the 2016 amendments to the Act be comparable to that which applies to state government agencies. The Commission specified in particular that the NSW Government:</p> <ul style="list-style-type: none"> • issue mandatory administration and governance directives to local government similar to those that apply to state government agencies • require the composition and operation of audit committees to be similar to those that apply to state government agencies (i.e. all independent members), and • require the general managers of each council to regularly attest that its audit committee is operating in accordance with requirements. <p>The Commission also noted that had the NSW Auditor-General been conducting council's external audits (as now occurs) the corrupt conduct would have been detected much more quickly than it was.</p> <p>Specific to Botany Bay Council, but relevant to councils state-wide, the Commission also recommended that:</p> <ul style="list-style-type: none"> • council ensures that the implementation of both internal and external audit recommendations is considered by the governing body of the council when evaluating the performance of the general manager • council undertake a risk assessment (including an assessment of fraud and corruption risks) to inform its internal audit plan • council ensures that its internal audit function operates independently from management by reporting functionally to its Audit, Risk and Improvement Committee • council ensures that it has a robust system in place to monitor and report on the implementation of internal audit recommendations that is independent from management, and • the general manager reviews the Audit, Risk and Improvement Committee's effectiveness and the adequacy of its arrangements to ensure that it fulfils the responsibilities of its charter and provides sufficient assistance to the governing body on governance processes.

When	Who	What
2018	NSW Auditor-General	<p>Report on Local Government 2017</p> <p>The NSW Auditor-General released her first audit of the NSW local government sector⁷⁷ in April 2018 following the 2016 Local Government Act amendments. In relation to internal audit, the NSW Auditor-General found that, out of a combined 128 local councils and 10 county councils:</p> <ul style="list-style-type: none"> 85 councils (62%) have an Audit, Risk and Improvement Committee and 53 (38%) do not. This is further broken down by location: <ul style="list-style-type: none"> 32 metropolitan councils (94%) have a committee and 2 (6%) do not 29 regional councils (78%) have a committee and 8 (22%) do not 23 rural councils (40%) have a committee and 34 (60%) do not 1 county council (10%) has a committee and 9 (90%) do not 86 council have a supporting internal audit function and 52 councils (38%) do not. This is further broken down by location: <ul style="list-style-type: none"> 31 metropolitan councils (91%) have an internal audit function and 3 (9%) do not 29 regional councils (78%) have an internal audit function and 8 (22%) do not 24 rural councils (42%) have an internal audit function and 33 (58%) do not 2 county councils (20%) have an internal audit function and 8 (80%) do not, and 102 councils (74%) have either an Audit, Risk and Improvement Committee or an internal audit function and 36 councils (26%) have neither. <p>The Auditor-General also found that of the councils that did have a risk management framework in place, many of them were outdated and did not have accurate risk registers, risk policies and/or procedures. Many councils also had significant risks that were not being managed appropriately and were consequently affecting the governance, financial sustainability, asset management and legislative compliance of the council. 55% of Committees were also not reviewing the financial statements of councils.</p> <p>The NSW Auditor-General recommended in relation to risk management and internal audit that:</p> <ul style="list-style-type: none"> the Office of Local Government introduce a requirement for all councils to establish internal audit functions the Office of Local Government update its 2010 Internal Audit Guidelines Audit, Risk and Improvement Committees review the financial statements of councils councils could strengthen governance by implementing risk management and/or ensure their existing risk management framework includes IT, and councils should early adopt the proposed requirement to establish an Audit, Risk and Improvement Committee.

⁷⁷ NSW Auditor-General (2018) *Report on Local Government 2017*

When	Who	What
2019	NSW Auditor-General	<p>Report on Local Government 2018</p> <p>The NSW Auditor-General⁷⁸ found in her 2018 report that out of a combined 128 councils and 10 county councils, the number that have an:</p> <ul style="list-style-type: none"> ○ Audit, Risk and Improvement Committee increased from 85 (62%) in 2017 to 97 (70%), and ○ internal audit function increased from 86 (62%) in 2017 to 92 (67%). <p>The NSW Auditor-General attributed these increases to the 2016 amendments to the Local Government Act that mandate Audit, Risk and Improvement Committees and internal audit functions from March 2021.</p> <p>The councils yet to establish an Audit, Risk and Improvement Committee and internal audit function are mainly rural and county councils (50-60% of rural and county councils are non-compliant). Most metropolitan councils have a Committee and all have an internal audit function.</p> <p>For those councils that did have an Audit, Risk and Improvement Committee:</p> <ul style="list-style-type: none"> • 98% of Committees have an Audit, Risk and Improvement Committee Charter • 94% of Committees have an independent Committee Chair • 90% of Committees are advised of significant, complex or contentious financial reporting issues • 87% of Committees monitor progress in addressing internal and external audit recommendations • 83% of Committees have a majority of members who are independent • 81% of Committees review the council's risk register • 48% of Committees perform an annual self-assessment of their performance. <p>For those councils that did have an internal audit function:</p> <ul style="list-style-type: none"> • 95% have a documented internal audit plan • 90% of Audit, Risk and Improvement Committees review the internal audit plan • 85% of internal audit plans align with the council's risk register, and • 61% of Committees assess the performance of the internal audit function. <p>In relation to risk management, the NSW Auditor-General found that:</p> <ul style="list-style-type: none"> • 120 (87%) councils have a risk management policy and 18 (13%) councils do not • 100 (72%) councils have a risk register and 38 (28%) councils do not, and • 126 (91%) councils' risk registers align with their strategic objectives and 12 (9%) do not. <p>The NSW Auditor-General also recommended that councils:</p> <ul style="list-style-type: none"> • strengthen their risk management policies and practices • manage a number of specific high-risks better • implement stronger internal controls • improve fraud control, IT, asset management, procurement and contract management policies and practices, and • implement a legislative compliance framework tailored to the size and risk profile of the council.

⁷⁸ NSW Auditor-General (2019) *Report on Local Government 2018* (see erratum)





NSW Treasury

PREQUALIFICATION SCHEME: AUDIT AND RISK COMMITTEE INDEPENDENT CHAIRS AND MEMBERS

SCHEME CONDITIONS

September 2019

SCHEDULE OF DOCUMENT AMENDMENTS

Revision Number	Date	Update Description
0.	18 December 2008	Document Original - first publication
1.	20 January 2009	<p>Clause 11.1 amended for review of the Assessment Committee's decision.</p> <p>Clause 12.2 requiring Professional Indemnity Insurance deleted and sub-clauses of Section 12 renumbered</p> <p>Clause 15.1(b) deleted and sub-clauses of Section 15 renumbered</p> <p>Clause 17.1(j) added regarding termination of panel membership</p> <p>Clause 17.3 deleted and amendments made to clauses 17.4 and 17.5, and sub-clauses of Section 17 renumbered.</p> <p>Schedule 1, Form A amended to highlight the Applicant.</p> <p>Schedule 1, Form B amended to highlight policy and/or government portfolio areas</p> <p>Schedule 1, Form D <i>Insurance</i> deleted</p> <p>Schedule 1, Form E to Form G renumbered and new Form D amended deleting <i>Accreditation</i> and replaced with <i>prequalification</i>.</p>
2.	January 2013	<p>A number of revisions made to the scheme. Some key changes are listed below:</p> <p>Terms such as Agency Head/CEO/Board replaced by "department head or governing board of a statutory body" to align with TPP 09-05.</p> <p>Department of Services Technology & Administration's name updated to Department of Finance and Services (DFS).</p> <p>The Scheme duration deleted. The Scheme will operate until further notice.</p> <p>Scheme contact details updated</p> <p>Introduction updated to refer to Treasury Policy Paper TPP 09-05</p> <p>Definitions: a number of definitions updated and clarified</p>

		<p>Clause 3.3 updated to specify that Agencies can view a summary of the capability and experience of Applicants to assist in determining a Panel Member's suitability for a specific engagement</p> <p>Clause 6 amended to reflect new remuneration rates for Independent Chairs and Members.. Clarified that the rates include all costs excluding subsistence and travel costs outside the Sydney Metropolitan Area and/or from Interstate. The effective date of the new rates made retrospective from 1 February 2011.</p> <p>Clause 7.1 amended DSTA's name to DFS</p> <p>Clauses 7.3, 7.5, and 8.1 amended</p> <p>Clause 8.2 inserted as a new clause to make explicit applicants that are ineligible to serve as Independent Chairs or Members of an Audit and Risk Committee.</p> <p>Clause 11 deleted and content incorporated in Clause 18</p> <p>Clause 11.4 (a) inserted to introduce a requirement to comply with the <i>Code of Conduct: Audit and Risk Committee Chairs and Members</i>.</p> <p>Clause 11.5 inserted to specify the maximum number of Audit and Risk Committees a panel member can be engaged</p> <p>Clauses 11.6 and 11.7 inserted to clarify panel members' confidentiality obligations</p> <p>Clause 12 updated contact details</p> <p>Clause 13 amended</p> <p>Clause 15 amended to align with TPP 09-05</p> <p>Clause 16 inserted as a new clause containing a separate provision relating to removal from individual audit and risk committees.</p> <p>Clause 17.1 amended</p> <p>Clause 17.1(a) amended to include reference to the Code of Conduct for Independent Chairs and Members</p> <p>Clause 17.1(b) inserted relating to bankruptcy</p> <p>Clause 17.1(g) amended to cover serious breach of legislation</p>
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		<p>Former Clauses 17.2 and 17.3 deleted and content incorporated in Clauses 16.1 and 16.3 respectively</p> <p>Former Clause 17.4 renumbered to 17.2. Change in Department name reflected</p> <p>Clause 18 amended to incorporate former Clause 11 (Request Review of Decision) and clarify the process</p> <p>Clause 20 amended to refer to Code of Conduct and TPP 09-05</p> <p>Clauses 21, 22 and 23 amended</p> <p>Schedule 1, Part A amended to delete reference to "Organisation" from "Application/Organisation Details"</p> <p>Schedule 1, Part C 2.3 aligned with Scheme Conditions</p> <p>Schedule 1, Part D amended to include "sub committees"</p> <p>Schedule 1, Form "Other Significant appointments within and outside the NSW Public Sector" inserted</p> <p>Schedule 1, Part F Item A amended to replace reference to "Organisation" with "Applicant"</p> <p>Schedule 1, Part F amended to include, and require acknowledgement of, information about the use and disclosure of personal information</p> <p>Schedule 2 amended to refer to:</p> <ol style="list-style-type: none"> TPP 09-05, Code of Conduct: Audit and Risk Committee Chairs and Members, Confidentiality requirements, Panel member's acceptance
3.	10 December 2013	Replaced references to 'Mr Nigel Tucker' with 'Mr Ricky Leong'.
4.	31 Jan 2014	Replaced references to 'Principal Strategist' with 'Mr Ricky Leong'.
5.	31 March 2014	Clause 3.1 amended to apply only to 'confidential information' submitted with an application.
6.	October 2014	<p>Contact details for NSW Treasury updated.</p> <p>NSW Department of Finance and Services updated to NSW Office of Finance and Services.</p> <p>Director General replaced with Chief Executive Officer.</p> <p>References to the Contractor and Consultant Management System (CCMS) database updated to read GOView Database.</p>
7.	29 January 2015	Clause 6.1 amended to remove references to Statutory and Other Officers Remuneration Tribunal

10. ARIC Implications Report
Attachment B Scheme Conditions

8.	02 March 2015	Replaced references to Mr Ricky Leong with Rhonda Humphrey
9.	July 2015	Update name changes, contact changes, and Treasury Policy change to TPP 15-03.
10.	July 2016	Replaced the link to the application form with the link to the online application process on ProcurePoint.
11.	July 2019	Rollover update, Department change, email change, contact changes
12.	Sept 2019	Contact changes, further Department name change corrections

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CONTACT DETAILS

The Financial Management Governance and Analytics Branch (FMGA) within, NSW Treasury, is responsible for all matters relating to Treasury Policy Paper 15-03, *'Internal Audit and Risk Management for the NSW Public Sector'*.

If you require information regarding the Policy, contact

Greg McGarr
Director, Financial Management Governance and Analytics
NSW Treasury
GPO Box 5469
Sydney NSW 2001

e-mail: finpol@treasury.nsw.gov.au

Ph: 02 92283764

For matters related to the operation of the Scheme:

Rhonda Humphrey
NSW Procurement
NSW Treasury
Level 11, McKell Building
2-24 Rawson Place
Sydney NSW 2000

e-mail: AuditRiskMembers@treasury.nsw.gov.au

Ph: 02 8522 7949

1 INTRODUCTION

Treasury Policy Paper TPP 09-05, *Internal Audit and Risk Management Policy for the NSW Public Sector* was first issued in August 2009. The Policy has since been reviewed, updated, and is now TPP 15-03 *Internal Audit and Risk Management Policy for the NSW Public Sector* (The Policy). The Policy requires agencies to maintain organisational arrangements that provide additional assurance, independent from operational management, on internal audit and risk management.

TPP 15-03 mandates a set of core requirements that departments and statutory bodies must implement. Specifically, Core Requirement 3.1 requires agencies to establish an independent Audit and Risk Committee with appropriate expertise.

TPP 15-03 requires Independent Chairs and Members to be drawn from the Panel of prequalified individuals maintained through this *Prequalification Scheme, Audit and Risk Committee Independent Chairs and Members*, established under Department of Premier and Cabinet Circular C2009-13, Prequalification Scheme: Audit and Risk Committees.

The Panel comprises highly skilled members with extensive experience across a range of policy areas, is an important element in ensuring strong governance of NSW public sector agencies and provides a valuable contribution to the NSW public sector.

2 DEFINITIONS

Agency means a Department or statutory body listed in Schedules 2 and 3 of the *Public Finance and Audit Act 1983* (PFAA) excluding universities.

Appeals Committee means the committee to be convened and chaired by a senior executive of NSW Treasury. The Appeals Committee will consist of a senior executive of NSW Treasury as Chair, a representative of a relevant professional body (e.g. Institute of Internal Auditors) and senior executives from the Department of Premier and Cabinet, and NSW Procurement.

Applicant means a person who has submitted an application for admission to the Scheme.

Application means a written application for admission to the Scheme in the form prescribed in Schedule 1.

Assessment Committee means the committee responsible for determining the membership of the Panel to be formed under the Scheme in accordance with clause 7.1.

Audit and Risk Committee means the committee established by an Agency or group of agencies to provide independent oversight and assurance. A Panel Member may be engaged by an agency to be an Independent Chair or Member of an Audit and Risk Committee.

Panel means the list of Panel Members assessed as suitable for engagement by agencies as Independent Chairs and/or Members of agency Audit and Risk Committees.

Panel Member means a person who has applied for, and been granted admission to, the Panel by the Assessment Committee.

Performance Report means a report submitted in accordance with clause 14.

Scheme means the Prequalification Scheme: Audit and Risk Committees Independent Chairs and Members owned by NSW Treasury and administered by NSW Procurement.

3 CONFIDENTIALITY

- 3.1 Confidential information submitted with an Application will be treated as confidential by NSW Government agencies unless otherwise required by law.
- 3.2 Information submitted with an Application may be subject to investigation, reference checking, searches, interviews, enquiries, and confirmation. Applicants are deemed to have authorised any such action.
- 3.3 Agencies seeking to engage Independent Chairs or Members can view a summary of the capability and experience of Applicants to assist in determining a Panel Member's suitability for a specific engagement.

4 NSW GOVERNMENT PROCUREMENT POLICY FRAMEWORK

- 4.1 Panel Members must adhere to the *NSW Government Procurement Policy Framework* at all times.
- 4.2 Any breach of the *NSW Government Procurement Policy Framework* may result in the termination of an engagement and/or removal from the Scheme.

5 APPLICATIONS FOR PREQUALIFICATION

- 5.1 Applications must be complete using the form provided in etenders site. Link to form available from Procurepoint site.
- 5.2 Applications must be submitted via the etenders site as instructed within the application. s
- 5.3 Only those Applications which fully satisfy all requirements set out in these Scheme Conditions and that are fully completed will be considered by the Assessment Committee.

6 REMUNERATION

- 6.1 Independent Chairs and Members engaged via this scheme will be remunerated at the rates outlined in clause 6.2 below. These will be reviewed every two years.

6.2 The rates applicable from 1 February 2011 are:

Agency size	Indicator	Chairperson fee (ex GST)	Member fee (ex GST)
Large	Organisations with expenditure greater than \$400m	\$20,920 per annum	\$2,092 per meeting day including preparation time
Medium	Organisations with expenditure less than \$400m but greater than \$50m	\$16,213 per annum	\$1,621 per meeting day including preparation time
Small	Organisations with expenditure less than \$50m	\$12,552 per annum	\$1,255 per meeting day including preparation time

6.3 The following fee structure is applicable to multi-agency (shared) arrangements:

Multi Agency (shared) Audit and Risk Committees	Fee category
Up to and including three small agencies	Medium
Two or more medium agencies	Large
Any combination of small and medium agencies	Large

6.4 The rates are exclusive of GST.

6.5 The method of payment shall be at the discretion of the agency. Payment may be made either through the agency payroll or against an invoice.

6.6 The rates shall include *all* costs of the Independent Chair or Member excluding subsistence and travel costs outside the Sydney Metropolitan Area and/or from Interstate.

6.7 Subsistence and travel expenses outside the Sydney metropolitan area and/or where the Panel Member is from Interstate are to be charged at actual cost, or at the rates specified under the *Crown Employees (Public Service Conditions of Employment) Reviewed Award 2009*, whichever is the lesser.

7 PREQUALIFICATION PROCESS

- 7.1 The Assessment Committee will determine the membership of the Panel to be formed under the Scheme. The Assessment Committee will be convened by a senior representative from the NSW Treasury, and will also comprise senior representatives from NSW Department of Customer Service and the NSW Department of Premier and Cabinet, the Institute of Internal Auditors (or other professional body) and a practising internal auditor. The Committee may interview a short list of Applicants for inclusion in the Scheme.
- 7.2 The Panel to be formed under the Scheme will be composed of Applicants who are deemed to be qualified following the assessment of an Application submitted in the form prescribed in Schedule 1 and in accordance with the Scheme Conditions.
- 7.3 Applications may be made at any time.
- 7.4 Applications will be assessed periodically at the discretion of the Assessment Committee.

8 EVALUATION CRITERIA

- 8.1 Applications will be assessed according to the following evaluation criteria:
1. *Applicants for the role of Audit and Risk Committee Member must demonstrate:*
 - a. Extensive senior level experience in governance and management of complex organisations, an ability to read and understand financial statements and a capacity to understand the ethical requirements of government (including potential conflicts of interest).
 - b. Functional knowledge in areas such as risk management, performance management, human resources management, internal and external auditing, financial reporting, accounting, management control frameworks, financial internal controls, governance (including planning, reporting and oversight), or business operations.
 - c. a capacity to form independent judgements and willingness to constructively challenge/question management practices and information.
 - d. a professional, ethical approach to the exercise of their duties and the capacity to devote the necessary time and effort to the responsibilities of a Member of an Audit and Risk Committee.
 - e. Possession of a relevant professional qualification or membership [e.g. Certified Internal Auditor, Certified Practising Accountant, Certified Practising Risk Manager, Member of the Australian Institute of Company Directors (MAICD)] is desirable.
 2. *Applicants for the role of Audit and Risk Committee Chair, as well as meeting the requirements for selection as an Audit and Risk Committee Member outlined above, must demonstrate*
 - a. leadership qualities and the ability to promote effective working relationships in complex organisations.

- b. an ability to communicate complex and sensitive assessments in a tactful manner to chief audit executives, senior management, board members and Ministers.
- c. a sound understanding of:
 - the principles of good organisational governance and capacity to understand public sector accountability, including financial reporting;
 - the business of the department or statutory body or the environment in which it operates;
 - internal audit operations, including selection and review of chief audit executives; and
 - risk management principles.

- 8.2 Current employees of all NSW public sector agencies cannot serve as Independent Members or Chairs of an Audit and Risk Committee (refer to Guidelines).

This includes all agencies and employees in the Government service (Public Service Departments, Non-Public Service Divisions and Special Employment Divisions), the Teaching Service, NSW Police and the NSW Health Service. For the purposes of this Scheme it will also include statutory and special appointments other than non-executive directors of the governing board of a statutory body. For the avoidance of doubt it is clarified that non-executive directors of the governing board of a statutory body are eligible to be appointed as independent chairs and members of Audit and Risk Committees subject to satisfying the conflict of interest criteria and requirements set out in Sections 3.1.5 of TPP 15-03. This is to ensure that independence, real and perceived, is maintained.

Public servants from other jurisdictions may be prequalified as Independent Chairs or Members. However, the rules relating to secondary employment in their organisation will need to be satisfied, including the management of any conflict of interest, and written confirmation will need to be provided by an authorised person in their jurisdiction.

9 INTERVIEW WITH ASSESSMENT COMMITTEE

- 9.1 Where further clarification is required, an Applicant may be provided with the opportunity to attend an interview with members of the Assessment Committee.

10 NOTIFICATION OF ASSESSMENT OUTCOME

- 10.1 The Assessment Committee may accept an Application (with or without limitation) or reject the Application.
- 10.2 NSW Procurement will notify all Applicants of the outcome of their Application in writing.

11 SPECIAL REQUIREMENTS

Membership of the Panel under the Scheme is subject to the following conditions:

- 11.1 For each Audit and Risk Committee to which the Panel Member is engaged, the Panel Member will enter into a contract with the individual agency concerned, unless other arrangements are specified by the agency.
- 11.2 The Panel Member may be subject to criminal record and financial status (bankruptcy) checking at any time.
- 11.3 Any potential conflict of interest arising for the Panel Member in relation to an individual engagement is to be declared prior to engagement by the agency.
- 11.4 The Panel Member must comply with:
 - (a) the *Code of Conduct: Audit and Risk Committee Chairs and Members* (refer to Attachment 1 to the sample letter of engagement), and
 - (b) the relevant agency's Code of Conduct.
- 11.5 Panel Members may be engaged to a maximum of 5 Audit and Risk Committees established in accordance with TPP 15-03. NSW Procurement should be informed of all engagements. It is the responsibility of both prequalified Panel Members and the department head or the governing board of a statutory body to ensure this limit is not exceeded.
- 11.6 Independent Chair or Members of an Audit and Risk Committee will not disclose without lawful authority:
 - (a) any secret or confidential information acquired by him or her as a consequence of his or her role as an Independent Chair or Member of an Audit and Risk Committee
 - (b) any secret or confidential information acquired by him or her from any document to which he or she has access to as a consequence of his or her role as an Independent Chair or Member of an Audit and Risk Committee
- 11.7 Upon termination of an engagement an Independent Chair or Member of an Audit and Risk Committee, will not, without lawful authority, disclose or make any use of any confidential or secret information acquired as a consequence of his or her role as an Independent Chair or Member of an Audit and Risk Committee.

12 NOTIFICATION OF ENGAGEMENTS AND CHANGES TO PANEL MEMBER STATUS

Panel members must immediately inform the NSW Procurement of any engagement to or resignation from an Audit and Risk Committee or of any significant change in their capability, contact details or address by writing/email with full details to:

Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members
Attention: Rhonda Humphrey, NSW Procurement
NSW Treasury
Level 11
McKell Building
2-24 Rawson Place
SYDNEY NSW 2000

Email: AuditRiskMembers@treasury.nsw.gov.au

13 UPGRADING OF PREQUALIFICATION

13.1 The Assessment Committee may upgrade a Panel Member's status under the Scheme from Member only to Chair and Member where:

- (a) the Panel Member has submitted a written application seeking such an upgrade, including documentation and other material in support of his or her request.
- (b) The Panel Member is assessed by the Assessment Committee as meeting the criteria for Audit and Risk Committee Chairs.

14 PERFORMANCE REPORTING BEHAVIOUR

14.1 Panel Member performance monitoring and reporting shall be conducted in accordance with the following principles:

- (a) the mutual objective of the parties is to achieve continuous performance improvement;
- (b) open, proactive and objective performance monitoring and periodic formal reporting is required;
- (c) performance issues being promptly addressed by the parties concerned; and
- (d) performance issues being discussed openly with the Panel Member to ensure that concerns (such as dissatisfaction with performance) do not come as a surprise prior to formal notification.

15 PERFORMANCE MANAGEMENT

15.1 The department head or governing board of a statutory body must establish a mechanism for reporting on the performance of the Audit and Risk Committee as a whole as well as the performance of the Chair and each Member.

15.2 As a minimum, an annual assessment of the operation of the Audit and Risk Committee, including the performance of the Chair and members is required.

15.3 The Auditor-General may conduct a review of agency compliance with TPP 15-03. This may include mechanisms to examine the performance of the Audit and Risk Committee.

- 15.4 Where there is an adverse report on the performance or conduct of a Panel Member, a copy should be provided to the department head or governing board of a statutory body, the Panel Member and the Secretary NSW Treasury.
- 15.5 If the Panel Member disagrees with an adverse report, the department head or governing board of a statutory body and the Panel Member should attempt to resolve the disagreement in the first instance.
- 15.6 Where an adverse report is amended, the department head or governing board of a statutory body will advise the Secretary, NSW Treasury.

16 REMOVAL OF INDEPENDENT MEMBER FROM INDIVIDUAL AUDIT AND RISK COMMITTEES

- 16.1 The department head or governing board of a statutory body may terminate the engagement of an independent Chair or Member of an Audit and Risk Committee where the Chair or Member has:
- (a) breached the Scheme Conditions or code of conduct; or
 - (b) provided unsatisfactory performance on the particular committee; or
 - (c) declared or is found to be in a position of conflict of interest which is unresolvable.
- 16.2 The department head or governing board of a statutory body may only terminate the engagement of an Independent Chair or Member from the Audit and Risk Committee with approval of the relevant Minister or, in the case of a State Owned Corporation, the concurrence of the Board and Shareholder Minister. The approval of the relevant Minister is not required in circumstances where the Independent Chair or Member has been removed from the Scheme or otherwise become ineligible to be a member of the Scheme (e.g. commenced employment in the NSW Government service).
- 16.3 Where a department head or governing board of a statutory body terminates the engagement of a Member of an Audit and Risk Committee, the department head or governing board of a statutory body will then advise in writing:
- (a) the Audit and Risk Committee Member of the decision to terminate his or her engagement on the relevant Audit and Risk Committee; and
 - (b) the Secretary of the Treasury of the decision who will arrange for the GoView database to be updated accordingly.

17 REMOVAL FROM THE SCHEME

- 17.1 Membership of the Panel will be reassessed and may be terminated by the Assessment Committee if the Member has:
- (a) breached the Scheme Conditions or Code of Conduct; or
 - (b) been declared bankrupt or found to be insolvent; or
 - (c) been the subject of substantiated reports of unsatisfactory performance

for other NSW Government agencies; or

- (d) been determined by the Appeals Committee as not suitable for future work; or
- (e) experienced an adverse change in capacity or capability; or
- (f) experienced an adverse change in business status; or
- (g) been proven to be in serious breach of his or her obligations under any NSW legislation; or
- (h) otherwise failed to meet the standards required of the Scheme in terms of its project outcomes, client satisfaction and ethical business practices.

17.2 Before membership of the Scheme is formally revoked under clause 17.1, the Secretary, NSW Treasury will advise the Panel Member of the matters prompting the proposed action and will give the Panel Member the opportunity to provide reasons as to why the revocation should not occur.

18 APPEALS

18.1 Should an Applicant and/or Panel Member believe that there are substantive grounds for a review of:

- (a) the Assessment Committee's decision not to admit the Applicant to the Scheme; or
- (b) the decision to terminate Panel Member's engagement to an individual Audit and Risk Committee under Section 16; or
- (c) the Assessment Committee's decision to terminate Panel Member's membership of the Scheme under Section 17.

The Applicant and/or Panel Member may appeal to the Appeals Committee referred to in clause 18.2, the decision in writing, providing full details of the reasons for the request, sent to:

Prequalification Scheme: Audit and Risk Committee Independent Chairs
and Members
Attention: Rhonda Humphrey, NSW Procurement
NSW Treasury
Level 11
McKell Building
2-24 Rawson Place
SYDNEY NSW 2000

18.2 The Appeals Committee will be convened and chaired by a senior executive of NSW Treasury. The Appeals Committee will consist of a representative of a relevant professional body, and a senior executive of the NSW Department of Premier and Cabinet, NSW Treasury (Chair) and the NSW Customer Service. The Appeals Committee is not to include any of the original members of the Assessment Committee, although their advice may be sought. The Appeals

Committee will assess the merits of the Applicant's case. NSW Treasury will inform the Applicant in writing of the outcome of the review.

19 PUBLICITY

- 19.1 Panel Members must not advertise, promote or publicise in any form their admission to the Scheme without written consent of NSW Treasury.

20 APPLICANT'S ACKNOWLEDGMENT

- 20.1 In applying for membership, the Applicant agrees to the Scheme Conditions and the Code of Conduct and to accepting the roles and responsibilities outlined in TPP 15-03 on being engaged to an ARC.

21 DISCLAIMER

- 21.1 The Assessment Committee reserve the absolute discretion to:
- (a) accept an Application with or without conditions;
 - (b) reject an Application; and
 - (c) revoke a Panel Member's admission to the Scheme.
- 21.2 NSW Treasury will not be held liable for any costs or damages incurred by the Panel Member in the exercise of such discretion.

22 PREQUALIFICATION NO GUARANTEE OF WORK

- 22.1 The receipt of prequalification by an Applicant does not guarantee:
- (a) continuity of the prequalification during the duration of the Scheme; or
 - (b) that engagements or work of any kind or quantity will be offered.

23 REVIEW AND DEVELOPMENT OF THE SCHEME

- 23.1 The Scheme will be monitored by NSW Treasury to assess whether the objectives and intent of the Scheme are being met. Modifications may be made at any time at NSW Treasury's discretion.

SCHEDULE 1

**PREQUALIFICATION SCHEME: AUDIT AND RISK COMMITTEE INDEPENDENT CHAIRS
AND MEMBERS**

APPLICATION FORM

**The Application Form previously
provided at Schedule 1 has been
superseded.**

Please refer to [ProcurePoint](#)
for the current application process.

SCHEDULE 2
**PREQUALIFICATION SCHEME: AUDIT AND RISK COMMITTEE INDEPENDENT CHAIRS
AND MEMBERS - EXAMPLE LETTER OF ENGAGEMENT/ACCEPTANCE**

Name
Address

Dear Ms / Sir

You have been selected from the *Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members* to be an [independent member or independent chair (*delete as applicable*)] of the Department of [#] Audit and Risk Committee. The Committee meets [#] times a year including a meeting in [#] to review the annual financial accounts. A copy of NSW Treasury's *Internal Audit and Risk Management Policy for the NSW Public Sector* (TPP15-03), the Audit and Risk Committee Charter and Department's Code of Conduct applicable to your engagement are attached. The Department's most recent Annual Report is available online at [#insert url].

The conditions under which you will be engaged are detailed in the Scheme Conditions dated [#] issued by the NSW Treasury. You are also required to agree to abide by the attached *Code of Conduct: Audit and Risk Committee Chairs and Members*, and comply with any other legislation, regulations or guidelines applicable to internal audit and risk management in the NSW public sector, as they apply to Audit and Risk Committees. In particular, your roles and responsibilities as an Independent Chair or Member are outlined in TPP15-03 and in the Audit and Risk Committee charter.

You will be remunerated at the current rate for a [#] sized agency as prescribed in the Prequalification Scheme Conditions of [\$# per day or # per annum (*delete as applicable*)]. For further information regarding remuneration, subsistence and travel please see section 6 of the Scheme Conditions.

The engagement will be for [#] years starting [#]. Note that this engagement can be terminated by mutual agreement and in accordance with the Scheme Conditions.

During your engagement as a Chair or Member (amend as applicable) of the Audit and Risk Committee you will not disclose without lawful authority:

- any secret or confidential information acquired by you as an Independent Chair or Member of an Audit and Risk Committee;
- any secret or confidential information acquired by you from any document to which you have access to as an Independent Chair or Member of an Audit and Risk Committee

Upon termination of your engagement as a Chair or Member (amend as applicable) of an Audit and Risk Committee you will not, without lawful authority, disclose or make any use of any confidential or secret information acquired by you in your role as an Independent Chair or Member of an Audit and Risk Committee.

Should you have any questions or wish to discuss your engagement, please contact me on [###].

If you wish to take up this offer please sign the declaration at the end of this letter and return it to this Office within 5 business days.

I look forward to receiving your acceptance and to working with you on the [#] Audit and Risk Committee.

Yours sincerely

Department Head or in accordance with a resolution of the Governing Board of the Statutory Body

I hereby accept the offer of engagement contained in this letter and agree to carry out the services in accordance with the Scheme Conditions. I confirm that I:

- accept the roles and responsibilities outlined for Independent Chairs and Members in TPP 15-03 and in the Audit and Risk Committee charter.
- agree to abide by the Code of Conduct: Audit and Risk Committee Chairs and Members.
- am willing to undergo a criminal record and financial status check if required.
- do not have any conflict of interest that would prohibit me from accepting this engagement and will advise the department head or the governing board of a statutory body and NSW Procurement should a conflict arise during the course of my engagement.
- am not a Member of more than four other NSW Government Audit and Risk Committees as outlined on the attached schedule.

Print Name

Signature

/ /

Return a copy to Department Head or the Governing Board of the Statutory Body and Rhonda Humphrey NSW Procurement, Level 11, McKell Building, 2-24 Rawson Place, Sydney NSW 2000 e-mail:
AuditRiskMembers@treasury.nsw.gov.au

ATTACHMENT 1

CODE OF CONDUCT: AUDIT AND RISK COMMITTEE CHAIRS AND MEMBERS

(insert here)

ATTACHMENT 2: Current membership of NSW Government Audit and Risk Committees

Agency (List multiple agencies if on a cluster based shared Audit and Risk Committee)	Name of Committee	Role (Chair or Member)	Engagement Fee (p.a.)	Start Date	End Date
1.					
2.					
3.					
4.					
5.					
6.					
7.					

Print Name

Signature

Date

Return a copy to the Department Head or the Governing Board of the Statutory Body and Rhonda Humphrey, NSW Procurement , Level 11, McKell Building, 2-24 Rawson Place, Sydney NSW 2000 e-mail: AuditRiskMembers@treasury.nsw.gov.au

ATTACHMENT 3: Current membership of sub committees of NSW Government Audit and Risk Committees

Agency (List multiple agencies if a cluster Audit and Risk Committee)	Name of Committee	Name of sub committee	Role (Chair or Member)	Engagement Fee (p.a.)	Start Date	End Date
1.						
2.						
3.						
4.						
5.						
6.						
7.						

Print Name

Signature

Date

Return a copy to the Department Head or the Governing Board of the Statutory Body and Rhonda Humphrey, NSW Procurement, Level 11, McKell Building, 2-24 Rawson Place, Sydney NSW 2000 e-mail: AuditRiskMembers@treasury.nsw.gov.au

ATTACHMENT 4: Other Significant appointments within and outside the NSW Public Sector

List other significant appointments (ie other than to Audit and Risk Committees) both within and outside the NSW public service and briefly describe your role.

Organisation	Role	Start Date	End Date

Add more rows if necessary

Print Name

Signature

Date

Return a copy to the Department Head or the Governing Board of the Statutory Body and Rhonda Humphrey, NSW Procurement, Level 11, McKell Building, 2-24 Rawson Place, Sydney NSW 2000, e-mail: AuditRiskMembers@treasury.nsw.gov.au

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NSW Treasury,

**PREQUALIFICATION SCHEME: AUDIT AND RISK
COMMITTEE INDEPENDENT CHAIRS AND MEMBERS**

GUIDELINES FOR AGENCIES AND MEMBERS

September 2019

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SCHEDULE OF DOCUMENT AMENDMENTS

Revision Number	Date	Update Description
0.	4 May 2009	Document Original - first publication
1.	Jan 2013	<p>A number of revisions have been made to the Scheme Guidelines. Some key changes are listed below.</p> <p>Terms such as Agency Head/CEO/Board replaced by “department head or governing board of a statutory body” to align with TPP 09-05</p> <p>Department of Services Technology & Administration’s name updated to Department of Finance and Services (DFS)</p> <p>Contact Details updated</p> <p>Introduction: amended to reflect the change in policy ownership</p> <p>Capability Area: amended to reflect the new department name</p> <p>Independent Chair 3 (b) inserted to align with Scheme Conditions.</p> <p>Independent Member 2, “enterprise” deleted from “enterprise risk management”</p> <p>Frequently Asked Questions</p> <p>Question 1 amended to replace CEO with department head or governing board of statutory body</p> <p>Question 2 amended to clarify the timing for undertaking checks</p> <p>Question 3 amended to insert a new paragraph to refer to TPP 09-05, and the Code of Conduct: Audit & Risk Committee Independent Chairs and Members. The word “recently” is also defined.</p> <p>Question 4 amended to include engagement of panel member/s for sub committees</p> <p>Question 5 amended to emphasise the requirement for members to be prequalified</p> <p>Question 7 amended</p> <p>Question 8 amended to identify applicants that are ineligible to serve as a Chair or member of an Audit and Risk Committee</p>

10. ARIC Implications Report
Attachment C Scheme Guidelines

		<p>Question 9 amended to reflect the new remuneration rates as stated in the Scheme Conditions</p> <p>Question 10 “appointment” replaced with “engagement”</p> <p>Question 11 department name updated. Clarified that DFS and Treasury will provide information sessions while induction will be responsibility of agencies</p> <p>Question 13 amended to include requirement to record details of any other significant appointments within and outside the public sector</p> <p>Question 14 amended to refer to the requirements in TPP 09-05 for the performance assessment of Audit and Risk Committees</p> <p>Question 15 deleted</p> <p>Attachments deleted</p>
2.	Jan 2015	<p>Amended question 9 to remove references to the Statutory and Other Offices Remuneration Tribunal</p> <p>Replaced references to the NSW Department of Finance and Services with NSW Office of Finance and Services</p> <p>Amended NSW Treasury contact person</p> <p>Amended OFS contact person</p>
3.	July 2015	Update of Department name change, contact name and Treasury Policy TPP 15-03.
4.	July 2019	Department Change, email change
5.	Sept 2019	Contact updates, Department changes

CONTACT DETAILS

Financial Management and Accounting Policy Branch, NSW Treasury, is responsible for all matters relating to Treasury Policy Paper 15-03, *Internal Audit and Risk Management for the NSW Public Sector*.

If you require information regarding the Policy, contact:

Greg McGarr
Director Financial Management Governance and Analytics

NSW Treasury
GPO Box 5469
Sydney NSW 2001
e-mail: finpol@treasury.nsw.gov.au
Ph: 02 9228 3764

The NSW Procurement manages the operational aspects of the Scheme. For matters related to the operation of the Scheme contact:

Rhonda Humphrey
NSW Treasury
NSW Procurement
Level 11, McKell Building
2-24 Rawson Place
Sydney NSW 2000
e-mail: AuditRiskMembers@treasury.nsw.gov.au
Ph: 02 9372 7649

<https://www.procurepoint.nsw.gov.au/before-you-buy/prequalification-schemes-0/audit-and-risk-committee-independent-chairs-and-members>

INTRODUCTION

1.

The advice of highly skilled Audit and Risk Committee independent Chairs and Members is an important element of ensuring strong governance of NSW public sector agencies.

The NSW Department of Premier and Cabinet, established the *Prequalification Scheme – Audit and Risk Committee Independent Chairs and Members* (the “Scheme”). The Scheme assists NSW public sector agencies in complying with the requirements of the NSW Treasury Policy Paper 15-03 *Internal Audit and Risk Management Policy for the NSW Public Sector*, (the “Policy”) as it relates to the engagement of Audit and Risk Committee Independent Chairs and Members. Policy responsibility for the Scheme was transferred to NSW Treasury with effect from June 2012.

These guidelines are to assist agencies (and, where appropriate, State Owned Corporations) seeking to utilise the Scheme and should be read in conjunction with the Scheme Conditions.

SCHEME AIMS

The Scheme aims to:

- improve probity standards and quality assurance by allowing for third party assessment of independent persons available for engagement to public sector Audit and Risk Committee positions; and
- streamline the engagement of suitable persons to public sector Audit and Risk Committee positions by pre-qualifying independent individuals with demonstrated skills and experience in the area.

CAPABILITY AREAS

NSW Procurement will maintain a list of individuals with relevant skills and who satisfy the criteria relating to the capability areas for “Member” and “Chair” (the prequalified panel). A Chair must fulfil the requirements for both Member and Chair even if they only seek engagement as a “Chair”.

Independent Chair

1. Leadership qualities and the ability to promote effective working relationships in complex organisations.
2. An ability to communicate complex and sensitive assessments in a tactful manner to chief audit executives, senior management, board members and Ministers.
3. A sound understanding of:

- a) the principles of good organisational governance and capacity to understand public sector accountability, including financial reporting;
- b) the business of the department or statutory body or the environment in which it operates;
- c) internal audit operations, including selection and review of chief audit executives; and
- d) risk management principles.

Independent Member

- 1. Extensive senior level experience in governance and management of complex organisations, an ability to read and understand financial statements and a capacity to understand the ethical requirements of government (including potential conflicts of interest).
- 2. Functional knowledge in areas such as: risk management; performance management; human resources management; internal and external auditing; financial reporting; accounting; management control frameworks; financial internal controls; governance (including planning, reporting and oversight); or business operations.
- 3. A capacity to form independent judgements and willingness to constructively challenge/question management practices and information.
- 4. A professional, ethical approach to the exercise of their duties and the capacity to devote the necessary time and effort to the responsibilities of a Member of an Audit and Risk Committee.
- 5. Desirable to possess a relevant professional qualification or membership [e.g. Certified Internal Auditor, Certified Practising Accountant, Certified Practising Risk Manager, Chartered Accountant, Graduate Member of the Australian Institute of Company Directors].

FREQUENTLY ASKED QUESTIONS

1. How does the Scheme operate?

The Scheme creates a framework for the prequalification of independent individuals with relevant experience and qualifications who are available to be engaged to positions of Audit and Risk Committee Independent Chair and Members, serving NSW Government departments and statutory bodies.

Each relevant department head or governing board of a statutory body selects and engages the independent Chair and Members of their respective Audit and Risk Committee from the prequalified panel to meet the Policy's requirements, the needs of their organisation and the skill set of the available pre-qualified panel members.

2. Are any checks required to be undertaken?

Criminal record and financial status (bankruptcy) checks may need to be undertaken as appropriate, at any time. Additionally, the prequalified panel member must declare any potential conflict of interest relating to an individual engagement and an offer must not be made or accepted if a conflict of interest becomes apparent. It is the responsibility of the department head or governing board of a statutory body and panel members to ensure that any conflicts of interest are declared and managed prior to and throughout any engagement under this Scheme.

3. How is "independent" defined?

Guidelines for assessing independence and conflicts of interest are set out in the NSW Treasury *Internal Audit and Risk Management Policy for the NSW Public Sector (TPP 15-03)*. Clause 3.1.5 of TPP 15-03 outlines a non-exhaustive list of threats to independence as well as relationships that must be avoided. Independent Members must notify the department head or governing board of a statutory body immediately if a real or perceived threat to independence arises.

An independent Chair or Member should not have a recent close association with the agency or its Chief Executive Officer (CEO). A recently (less than 3 years) retired senior executive of an agency or a close associate of the CEO would not be defined as "independent".

Similarly, a current or recent external provider of internal audit services to an agency would not be considered independent.

Requirements for the continuous disclosure of conflict of interest are contained in the *Code of Conduct: Audit and Risk Committee Independent Chairs and Members*. (Refer to Attachment 1 to the sample letter of engagement in the Scheme conditions).

1.

4. Do independent Chairs and Members have to be sourced from the prequalified panel?

Yes. From 30 April 2009, all new engagements as independent Chairs and Members must be made from the prequalified panel for NSW public sector agencies. Non-executive directors of the governing board of a statutory body that are pre-qualified are eligible for

appointment as chairs and members of the Audit and Risk Committee. Agencies are also encouraged to engage independent members from the panel to serve on any sub committees established by the Audit and Risk Committee with the approval of the department head or governing board of a statutory body.

5. *What happens to a currently serving independent Chair or Member who does not apply for pre-qualification?*

The Policy mandates the selection of independent Chairs or Members from the Scheme which provides a pool of individuals who have been subject to an impartial selection and qualification process.

Where an independent Chair or Member who is not pre-qualified continues to serve on an Audit and Risk Committee, then the department head or governing board of a statutory body will need to apply to the Portfolio Minister for an exception to this requirement.

6. *Can prequalified panel members be engaged to any NSW public sector agency's Audit and Risk Committee?*

Once prequalified Chairs and Members meet the independence and conflict of interest criteria set out in NSW Treasury TPP 15-03 *Internal Audit and Risk Management Policy for the NSW Public Sector*, they can be engaged by agencies under the Scheme. It is the responsibility of the department head or governing board of a statutory body to ensure that these criteria are applied before any such engagement is made. The NSW Treasury *Internal Audit and Risk Management Policy for the NSW Public Sector* also requires the department head or governing board of a statutory body annually to attest to compliance with the core requirements of TPP 15-03. Core Requirement 3.1.4 requires that each independent Member of the Audit and Risk Committee meet the mandated independence and conflict of interest criteria.

7. *Does the Scheme allow for prequalified panel members to be engaged to more than one Audit and Risk Committee?*

Yes. Prequalified independent Chairs or Members may be engaged to up to five NSW Audit and Risk Committees at any one time (each shared Committee overseeing more than one agency counts as one as does each individual Committee within a 'cluster').

It is the responsibility of both prequalified panel members and the department head or governing board of a statutory body to ensure that this limit is not exceeded and that NSW Procurement is advised of all engagements. NSW Procurement will record this information in the Audit and Risk Committee panel database. A schedule is attached to the standard engagement letter to ensure the database is kept up to date.

8. *Can public servants be engaged as independent Chairs or Members of an Audit and Risk Committee?*

No. Current employees of all NSW public sector agencies cannot serve as independent Members or Chairs of an Audit and Risk Committee, including within their own agency. This includes all agencies and employees in the Government service (Public Service Departments, Non-Public Service Divisions and Special Employment Divisions), the Teaching Service, NSW Police and the NSW Health Service. For the purposes of this Scheme it will also include statutory and special appointments other than non-executive directors of the governing board of a statutory body. For the avoidance of doubt it is clarified that non-executive directors of the governing board of a statutory body are eligible to be appointed as independent chairs and members of Audit and Risk Committees subject to satisfying the conflict of interest criteria and requirements set out in Sections 3.1.5 of TPP 15-03. This is to ensure that independence, real and perceived, is maintained.

Public servants from other jurisdictions may be prequalified as independent Chairs or Members. However, the rules relating to secondary employment in their organisation will need to be satisfied, including the management of any conflict of interest, and written confirmation will need to be provided by an authorised person in their jurisdiction.

9. *On what terms are prequalified persons engaged?*

The terms of engagement are set out in the Scheme Conditions document, as updated from time to time, and the letter of engagement. The engaging agency and the panel member will need to enter into a separate written agreement for each engagement.

The standard form of agreement is set out at Schedule 2 of the Scheme Conditions. Agencies should not modify the terms of the agreement unless there are exceptional circumstances which warrant modification. Advice can be sought from NSW Procurement.

Note that the Scheme Conditions include provisions to remove members from the Scheme and outlines the processes to be followed in the case of unsatisfactory performance.

Independent Chairs and Members engaged under the Scheme will be remunerated in accordance with the rates below. These rates are reviewed every two years.

The rates applicable from 1 February 2011 are:

Agency size	Indicator	Chairperson fee (ex GST)	Member fee (ex GST)
Large	Organisations with expenditure greater than \$400m	\$20,920 per annum	\$2,092 per meeting day including preparation time
Medium	Organisations with expenditure less than \$400m but greater than \$50m	\$16,213 per annum	\$1,621 per meeting day including preparation time
Small	Organisations with expenditure less than \$50m	\$12,552 per annum	\$1,255 per meeting day including preparation time

The following fee structure is applicable to multi-Agency ('shared') arrangements:

Multi Agency Audit and Risk Committees	Fee category
Up to and including three small agencies	Medium
Two or more medium agencies	Large
Any combination of small and medium agencies	Large

The rates are exclusive of GST.

The method of payment shall be at the discretion of the agency. Payment may be made either through the agency payroll or against an invoice.

The rates include all costs of independent Chairs and independent Members engaged under the Scheme *excluding* subsistence and travel costs outside the Sydney Metropolitan Area and/or from Interstate.

Subsistence and travel expenses outside the Sydney metropolitan area and/or where the panel member is from Interstate are to be charged at actual cost, or at the rates specified under the *Crown Employees (Public Service Conditions of Employment) Reviewed Award 2009*, whichever is the lesser.

10. Does the NSW Cabinet need to approve the engagement of panel members before they become effective?

No. Generally all external members of boards and committees need to be approved by Cabinet under the NSW Government Boards and Committees Policy. However, Cabinet does not need to approve engagements to Audit and Risk Committees as Audit and Risk Committees provide advice to agencies rather than Ministers.

11. What information will be provided to panel members?

Panel members will be able to attend information sessions provided by NSW Treasury. Information sessions may be arranged from time to time or as a result of a significant change to the Internal Audit & Risk Management Policy. It is anticipated that each agency also will provide an induction to their committee members.

12. Are independent Audit and Risk Committee members covered for Professional Indemnity and other insurance?

Each department head or governing board of a statutory body is responsible for ensuring that the Audit and Risk Committee has the appropriate mix of skills and expertise to successfully implement its charter and that the agency holds insurance coverage for these activities. Each agency should consider whether its existing insurance arrangements provide sufficient coverage for Audit and Risk Committee members in relation to claims for loss or damage made against them in their capacity as members. Panel members should satisfy themselves that the agency has sufficient insurance coverage relating to their role on the Audit and Risk Committee prior to accepting an engagement and, if necessary, seek independent legal advice as to its efficacy.

13. What are the record-keeping requirements of the Scheme?

Independent Chairs and Members engaged to an Audit and Risk Committee are required to provide the following details to the agency and NSW Procurement prior to the engagement taking effect:

- the name of the panel member;
- the role of the panel member;
- payment and duration for each engagement;
- the nature of the engagement and any subsequent changes to an engagement;
- details of any other engagements to NSW Government Audit and Risk Committees, including any sub committees of Audit and Risk Committees, and
- details of any other significant appointments within and outside of the public sector.

This information will be centrally maintained by NSW Procurement.

14. How is the performance of Audit and Risk Committee panel members monitored and reported on?

Clauses 3.3.21 – 3.3.26 of TPP 15-03 set out the requirements for the performance assessment of Audit and Risk Committees. It is the responsibility of the department head or governing board of a statutory body, in consultation with the Chair of the Audit and Risk Committee, to establish a mechanism to review and report on the performance of Audit and Risk Committees as a whole, and the performance of the Chair and each Member, at

least annually. The department head or governing board of a statutory body may delegate the performance review function to the Audit and Risk Committee Chair. The review could take the form of a self-assessment with input from key stakeholders.

Detailed information on performance issues can be found in sections 14 to 18 of the Scheme Conditions. Agencies should follow the steps outlined in the Scheme Conditions to ensure that they observe procedural fairness in the course of performance reporting.

10. ARIC Implications Report
Attachment D Shared ARIC Cost Analysis

YASS VALLEY COUNCIL
SHARED AUDIT, RISK AND IMPROVEMENT COMMITTEE COST ANALYSIS

STAND ALONE MODEL - ARIC

Council	Expenditure FY19	Council Size	Annual Chair Fee (ex GST)*	Annual Member Fees assuming (excluding GST)*	Total Fees
Yass valley Council	32 million	Small	\$ 12,552.00	\$ 14,700.00	\$ 27,252.00
Upper Lachlan Shire	29 million	Small	\$ 12,552.00	\$ 14,700.00	\$ 27,252.00
Goulburn Mulwaree Council	61 million	Medium	\$ 16,213.00	\$ 19,452.00	\$ 35,665.00
Total Fees			\$ 41,317.00	\$ 48,852.00	\$ 90,169.00

***Assumptions**

1. Fees paid to Audit, Risk and Improvement Committee members and the Chair are to be the same as those currently paid under the NSW Government's prequalification scheme.
2. ARIC membership comprises of three (3) members
3. ARIC meets 4 times per year
4. Each council has a stand-alone ARIC

SHARED MODEL A - ARIC

Model A assumes the Shared ARIC meets four times a year and serves all Partner Council at each meeting (Members are only compensated for 4 meeting per annum)

Council	Expenditure FY19	Council Size	Annual Chair Fee (ex GST)*	Annual Member Fees assuming (excluding GST)	Total Fees (ex GST)
Yass valley Council	32 million	Small			
Upper Lachlan Shire	29 million	Small	\$ 20,920.00	\$ 25,104.00	\$ 46,024.00
Goulburn Mulwaree Council	61 million	Medium			
Total Fees			\$ 20,920.00	\$ 25,104.00	\$ 46,024.00

SHARED MODEL B - ARIC

Model B assumes that each meeting instance of the ARIC represents in effect 3 separate ARIC meetings (one for each Partner Council) and is charged on that basis (Members are compensated for 12 meetings per annum)

Council	Expenditure FY19	Council Size	Annual Chair Fee (ex GST)	Annual Member Fees assuming (excluding GST)	Total Fees (ex GST)
Yass valley Council	32 million	Small			
Upper Lachlan Shire	29 million	Small	\$ 20,920.00	\$ 75,312.00	\$ 96,232.00
Goulburn Mulwaree Council	61 million	Medium			
Total Fees			\$ 20,920.00	\$ 75,312.00	\$ 96,232.00

POTENTIAL SAVINGS - MODEL A (EQUAL SPLIT APPROACH)

Council	Stand-Alone ARIC Fees (ex GST)	Shared ARIC Fees (Ex GST)	Total savings
Yass valley Council	\$ 27,252.00	\$ 85,341.33	\$ 11,910.67
Upper Lachlan Shire	\$ 27,252.00	\$ 85,341.33	\$ 11,910.67
Goulburn Mulwaree Council	\$ 35,665.00	\$ 85,341.33	\$ 20,323.67
Total			

POTENTIAL SAVINGS - MODEL A (POPULATION-BASED APPROACH)

Council	Stand Alone ARIC Fees	Share of Population (2018)	Shared ARIC Fees (Equal Split)	Total savings
Yass valley Council	\$ 27,252.00	30.40%	\$ 83,991.30	\$ 13,260.70
Upper Lachlan Shire	\$ 27,252.00	14.30%	\$ 5,581.43	\$ 20,670.57
Goulburn Mulwaree Council	\$ 35,665.00	55.30%	\$ 25,451.27	\$ 10,213.73
Total	\$ 90,169.00	100.00%	\$ 46,024.00	\$ 44,145.00

POTENTIAL SAVINGS - MODEL B (EQUAL SPLIT APPROACH)

Council	Stand-Alone ARIC Fees (ex GST)	Shared ARIC Fees (Ex GST)	Total savings
Yass valley Council	\$ 27,252.00	\$ 32,077.33	\$ 4,825.33
Upper Lachlan Shire	\$ 27,252.00	\$ 32,077.33	\$ 4,825.33
Goulburn Mulwaree Council	\$ 35,665.00	\$ 32,077.33	\$ 3,587.67
Total			

POTENTIAL SAVINGS - MODEL B (POPULATION BASED APPROACH)

Council	Stand Alone ARIC Fees	Share of Population (2018)	Shared ARIC Fees (Equal Split)	Total savings
Yass valley Council	\$ 27,252.00	30.40%	\$ 29,254.53	\$ 2,002.53
Upper Lachlan Shire	\$ 27,252.00	14.30%	\$ 13,761.18	\$ 13,490.82
Goulburn Mulwaree Council	\$ 35,665.00	55.30%	\$ 53,216.30	\$ 17,551.30
Total	\$ 90,169.00	100.00%	\$ 96,232.00	\$ 6,063.00