

# RISK MANAGEMENT AND INTERNAL AUDIT for local councils in NSW

## Guidelines

August 2021



## **GUIDELINES FOR RISK MANAGEMENT AND INTERNAL AUDIT FOR LOCAL COUNCILS IN NSW**

2021

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# Background



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## Background

The *Local Government Act 1993* ('Local Government Act') and the *Local Government (General) Regulation 2005* ('Local Government Regulation') require each council in NSW to have:

- an audit, risk and improvement committee that continuously reviews and provides independent advice to the council on how it is functioning and managing risk
- a robust risk management framework that accurately identifies and mitigates the risks facing the council and its operations, and
- an effective internal audit function that provides independent advice as to whether the council is functioning effectively and the council's internal controls to manage risk are working.

These three mandatory governance mechanisms are a vital part of the NSW Government's plan to ensure that councils are doing things the best way they can for their communities and are on track to delivering their community's goals and objectives.

Communities themselves will ultimately be the greatest beneficiaries.

If implemented effectively, audit, risk and improvement committees, risk management and internal audit will lead to councils:

- achieving their strategic objectives in the most efficient, effective and economical manner
- having better and more efficient levels of service delivery
- having increased accountability and transparency
- achieving better decision-making and having the confidence to make difficult decisions
- having increased financial stability
- achieving and maintaining compliance with all laws, regulations, internal policies and procedures, and
- better safeguarding their public assets.

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## Purpose

These guidelines have been developed to assist councils, county councils and joint organisations to comply with statutory requirements under the Local Government Act and Local Government Regulation.

They also seek to strengthen risk management and internal audit practices in NSW councils by setting a minimum standard that reflects a 'best practice' approach.

The Guidelines have been issued under the Local Government Regulation (clause #tbc) which confers on the Secretary of the Department of Planning, Industry and Environment, ('Secretary DPIE'), the power to issue guidelines on the appointment and operation of audit, risk and improvement committees and the implementation by councils, county councils and joint organisations of risk management and internal audit activities.

Councils are required under the Local Government Regulation to comply with these Guidelines when establishing and operating their audit, risk and improvement committees, risk management framework and internal audit functions.

They replace the NSW Government's *Internal Audit Guidelines for Local Government in NSW* issued in 2010.

The three core requirements outlined in the Guidelines reflect international standards and the recommendations and opinions of internal audit practitioners, councils, councillors, audit, risk and improvement committee members, risk management practitioners, government agencies, experts and community members.

They are also informed by practices in other Australian jurisdictions and give effect to the recommendations of the:

- Independent Commission Against Corruption in its inquiries into Burwood Council (2011) and Botany Bay Council (2017)

- Local Government Acts Taskforce in its review of the *Local Government Act 1993* (2013)
- Independent Local Government Review Panel in its *Revitalising Local Government* inquiry (2013), and
- various performance audits and other reviews conducted by the NSW Auditor-General since 2010.

Based on these recommendations:

- the core requirements outlined in the Guidelines relating to the operation of a council's audit, risk and improvement committee have been modelled on the *Internal Audit and Risk Management Policy for the General Government Sector (TPP 20-08)* developed by NSW Treasury and best practice in the public and private sectors
- the core requirements relating to risk management have been modelled on the current Australian risk management standard, *AS/NZS ISO 31000:2018 Risk Management – Guidelines*, and
- the core requirements relating to a council's internal audit function have been modelled on the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* (the 'International Professional Practices Framework') and best practice in the public and private sectors.

The framework balances these professional standards and best practice approaches with the unique structure, needs and operating environments of metropolitan, regional and rural councils, county councils and joint organisations across NSW.

The release of these Guidelines follows an extensive consultation process. The Office of Local Government thanks all the individuals, councils and bodies involved in the development of the risk management and internal audit regulatory framework.

## Further resources

There has been a wide range of information and guidance developed in recent times by government agencies, experts, practitioners and other bodies to help organisations establish effective audit, risk and improvement

committees, risk management frameworks and internal audit functions.

As a starting point, a list of further resources has been included at the end of each core requirement. These resources provide practical information and tools such as examples, templates, checklists and sample documents that councils may find useful when implementing these Guidelines.

## Terminology

When a joint organisation is applying these Guidelines, it should substitute the term "council" for "joint organisation", "governing body" for "board", "chairperson" for "mayor", "voting representative" for "councillor" and "executive officer" for "general manager" and "annual report" for "annual performance statement", where appropriate.

Where a county council is applying these guidelines, it should substitute the terms "county council" for "council" and "member" for "councillor", where appropriate.

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## Statutory framework

The Local Government Act and Local Government Regulation provide the statutory foundations and prescribe the desired outcomes for councils' audit, risk and improvement committees, risk management frameworks and internal audit functions.

Relevant provisions of the Local Government Act and Local Government Regulation are detailed below.

## Guiding principles of local government

The guiding principles of the Local Government Act (sections 8A, 8B and 8C) 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
- invest in responsible and sustainable infrastructure for the benefit of the local community
- 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
- ensure the current generation funds the cost of its services and achieves intergenerational equity, and
- manage risks to the local community, area or council effectively and proactively.

## Role of the governing body

To achieve these guiding principles, the Local Government Act (section 223) provides that the role and responsibilities of the governing body include:

- directing and controlling the affairs of the council in accordance with the Local Government Act

- ensuring, as far as possible, the financial sustainability of the council
- ensuring, as far as possible, that the council complies with the guiding principles of the Local Government Act
- keeping the performance of the council under review
- making the decisions necessary to ensure the council properly exercises its regulatory functions, and
- being responsible for ensuring that the council acts honestly, efficiently and appropriately.

## Role of the general manager

The Local Government Act (section 335) provides that the general manager is responsible for:

- conducting the day-to-day management of the council in accordance with the strategic plans, programs, strategies and policies of the council – this includes establishing the council's organisational structure and appointing and dismissing council staff (section 332)
- implementing, without undue delay, the lawful decisions of the council
- advising the governing body on the development and implementation of the council's plans, programs, strategies and policies, 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.

The Local Government Regulation (clause 209) also requires the general manager to 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.

## Role of a joint organisation

The Local Government Act establishes joint organisations as a strategic regional body of councils.

The role and responsibilities of a joint organisation under the Local Government Act (section 400R) are to:

- establish regional priorities for the joint organisation area and strategies and plans to deliver these priorities
- provide regional leadership for the joint organisation area and advocate for strategic regional priorities, and
- identify and take-up opportunities for intergovernmental cooperation.

Joint organisations also deliver services and provide assistance to, or on behalf of, councils, and councils are able to delegate certain functions to their joint organisation (sections 355, 379 and 400S).

The Local Government Act (section 400Y) provides that the Executive officer of a joint organisation is to:

- conduct the day-to-day management of the joint organisation in accordance with the strategic regional priorities and other plans, programs, strategies and policies of the organisation, and
- appoint, direct and dismiss staff.

## Audit, risk and improvement committee

The Local Government Act (section 428A) requires 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 on:

- whether the council is complying with all necessary legislation, regulations and other legal requirements
- 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 by the council 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 it could improve the performance of its functions more generally
- the collection of performance measurement data by the council, and
- any other matters prescribed by the Local Government Regulation (including internal audit).

The Local Government Act (section 428B) allows councils to establish a joint audit, risk and improvement committee with other councils including through joint or regional organisations of councils.

The Local Government Regulation (clause #tbc):

- requires each council to appoint an audit, risk and improvement committee comprising of a chair and two or more other persons as specified by these Guidelines
- allows councils and joint organisations to share committees
- requires the Chair and other members of an audit, risk and improvement committee to satisfy the eligibility requirements outlined in these Guidelines
- allows councils to appoint a councillor who satisfies the eligibility requirements outlined in these Guidelines as a non-voting member of its committee
- allows joint organisations to appoint a voting representative of the board who satisfies the eligibility requirements

- outlined in these Guidelines as a non-voting member of its committee
- requires each committee to operate in accordance with terms of reference adopted by the council, based on the approved Model Terms of Reference contained in these Guidelines, and
- requires councils to provide their committee with direct and unrestricted access to the general manager and other senior staff and any information and resources necessary to undertake its role.

For the purposes of section 428A(2)(i) of the Local Government Act, councils' and joint organisations' audit risk and review committees are to also keep internal audit activities under review.

The requirements for audit, risk and improvement committees in these Guidelines are detailed in core requirement 1.

## Risk management

The Local Government Regulation (clause #tbc) requires each council and joint organisation to implement a risk management framework that is consistent with the requirements specified in these Guidelines.

A council's general manager or a joint organisation's executive officer has overall responsibility for the implementation of the council's or joint organisations' risk management framework.

A council's audit, risk and improvement committee is to review and provide independent advice to the council on the implementation of its risk management framework under section 428A(2)(b) of the Local Government Act.

The requirements for risk management in these Guidelines are detailed in core requirement 2.

## Internal audit

The Local Government Regulation (clause #tbc):

- requires each council's internal audit activities to operate in accordance with a charter adopted by the council, based on the approved Model Internal Audit Charter contained in these Guidelines
- allows councils and joint organisations to share the performance of internal audit activities
- specifies that a council's audit, risk and improvement committee is to oversee the council's internal audit activities
- requires that a member of the council's staff is appointed to direct internal audit activities – for shared arrangements this can be a staff member of one of the participating councils or joint organisation in the shared arrangement
- requires this member of staff to report only to the audit, risk and improvement committee regarding internal audit activities
- requires the general manager to consider the views of the chair of the council's audit, risk and improvement committee before making any decision affecting the employment of the staff member appointed to direct internal audit activities, and
- requires the audit, risk and improvement committee to review the performance and efficacy of the council's internal audit activities once each council term and report to the governing body of the council on the outcome of its review and make recommendations.

The requirements for internal audit in these Guidelines are detailed in core requirement 3.

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## Annual attestation

The Local Government Regulation (clause #tbc) requires the general manager of a council or the executive officer of a joint organisation to publish each year an attestation statement in the council's or joint organisation's annual report indicating whether, during the preceding financial year, the council's or joint organisation's audit, risk and improvement committee, risk management framework and

internal audit function complied with these Guidelines.

An attestation certificate template is provided at **Appendix 1** and attestation requirements are highlighted with this symbol throughout these Guidelines.



The details of each member of the council's audit, risk and improvement committee must also be included in the attestation statement.

This is to ensure that the council takes independent assurance and risk management seriously and is accountable to the community for how it has implemented these requirements.

Compliance status is to be self-assessed by the general manager, in consultation with the audit, risk and improvement committee.

The general manager or executive officer must consider the views of the chair of the council's or joint organisation's audit risk and improvement committee on the content of the attestation statement when preparing the statement.

If the chair disagrees with the content of the attestation statement prepared by the general manager or executive officer, they may prepare their own report and submit this to the Secretary DPIE.

## Exemptions

There may be times where a council or joint organisation will not be able to comply with all requirements relating to its audit, risk and improvement committee, risk management framework or internal audit function.

In these circumstances, the Local Government Regulation (clause #tbc) confers on the Secretary DPIE the power to exempt the council or joint organisation from compliance with a requirement under these Guidelines where the council or joint organisation requests such an exemption. The Secretary DPIE may grant an exemption where they are satisfied that:

- the council or joint organisation cannot comply with the requirement because of temporary extenuating circumstances or resourcing constraints that will significantly impact the council's or joint organisation's budget
- the council or joint organisation is not able to enter into an agreement with another council to share the performance of internal audit activities, and
- current or proposed alternative arrangements will achieve outcomes equivalent to the requirement under these Guidelines.

Under the Local Government Regulation, a council's application to the Secretary for an exemption must be in the form and contain the information specified in these Guidelines.

Where the Secretary exempts a council from a requirement under these Guidelines, the council must publish the Secretary's approval for the exemption in their annual report.

A council is not prevented from applying for a further exemption when a previous exemption expires.

## Accountability

Councils that are non-compliant with statutory requirements and are not granted an exemption may face enforcement action under the Local Government Act.

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## Monitoring

The NSW Auditor-General may undertake an assurance role in monitoring council's compliance with the core requirements outlined in the Local Government Act, Local Government Regulation and these Guidelines.

This may include conducting sector-wide performance audits, or compliance audits of individual councils and undertaking reviews of the statutory exemptions granted by the Secretary DPIE.

# Core requirement 1:

## **Audit, risk and improvement committee**

- Each council and joint organisation has an audit, risk and improvement committee that reviews the matters referred to in section 428A of the Local Government Act

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## Guiding principles for audit, risk and improvement committees

- ❖ An audit, risk and improvement committee is independent of the council
- ❖ The committee is equipped with the relevant expertise and has the access to council resources and information necessary to fulfil its role and responsibilities effectively
- ❖ Each council receives relevant and timely advice and assurance from the committee on the matters listed in section 428A of the Local Government Act
- ❖ The work of the committee is thoroughly planned and executed, risk-based and linked to the council's strategic goals
- ❖ The committee adds value to the council and is held accountable by the governing body for its performance
- ❖ The council is accountable to the community for complying with statutory requirements relating to the committee.

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## Role and functions

Under section 428A of the Local Government Act, each council (including county councils and joint organisations) must have an audit, risk and improvement committee to independently review and advise on the following aspects of the council's operations:

- compliance
- risk management
- fraud control
- financial management
- governance
- implementation of the strategic plan, delivery program and strategies
- service reviews
- collection of performance measurement data by the council, and
- any other matters prescribed by the regulation.

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

The Local Government Regulation (clause #tbc) also requires a council's audit, risk and improvement committee to review and provide advice on the council's internal audit activities.

The audit, risk and improvement committee's role also extends to any entities established by or operated by the council.

The exact nature of each audit, risk and improvement committee's role and the specific activities it reviews on behalf of a council under section 428A of the Local Government Act will vary depending on the council's needs, risks and business functions.

These activities are to be agreed by the audit, risk and improvement committee and the council during the development of the committee's terms of reference. Suggested activities are provided in **Appendix 2**.

### Level of assurance

Audit, risk and improvement committees are to have an advisory and assurance role only. They are to exercise no administrative functions, delegated financial responsibilities or any management functions for a council.

It is expected that each audit, risk and improvement committee will provide independent advice to the council that is informed by the council's internal audit and risk management activities and information and advice provided by council staff, relevant external bodies and other subject matter experts.

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## Workplans

### Strategic work plan

It is essential that the work of the audit, risk and improvement committee is thoroughly planned and executed to ensure that no

council activity or function is missed by the committee and that councils receive value for money from their assurance investment.

**A council's audit, risk and improvement committee must develop a strategic plan every four years to ensure that all the matters listed in section 428A of the Local Government Act are reviewed by the committee and internal audit function over each council term.**



The plan must be developed by the audit, risk and improvement committee in consultation with the governing body, general manager, the head of the internal audit function and senior managers (where appropriate) and adopted by the governing body of the council at the start of the council term.

To maintain the independence of the audit, risk and improvement committee, the governing body of the council must be careful when adopting the strategic workplan not to direct the committee's work over the council term.

## Content

The nature of the strategic plan will be commensurate with the size and complexity of the council, as well as the council's risk profile, and consistent with the requirements of the International Professional Practices Framework.

At a minimum, it should document:

- the goals and expected outcomes of the audit, risk and improvement committee for the council term
- key organisational issues and risks faced by the council and how the committee will review these, and
- key performance indicators to measure progress across council terms.

When developing the council's strategic workplan, the audit, risk and improvement committee should consider at a minimum:

- the council's strategic objectives
- risks facing the council
- the work of other review activities or functions (for example, external and

performance audits, and reviews or audits by other government agencies)

- an assurance map of the council's assurance activities which may assist to determine where the Committee's and internal audit function's work should focus, and
- stakeholder expectations.

There should also be sufficient flexibility in the strategic plan to accommodate the need for additional audits on emerging risks from time to time.

The audit, risk and improvement committee may, in consultation with the council's governing body, vary the strategic work plan at any time to address new or emerging risks.

The governing body of the council may also, by resolution, request the committee to approve a variation to the strategic work plan. However, any decision to vary the strategic work plan will rest with the committee.

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

## Review

The audit, risk and improvement committee must review the four-year strategic plan at least annually to ensure that it is dynamic, relevant and 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.

## Annual work plan

**A council's audit, risk and improvement committee must develop an annual work plan to guide its work over the forward year.**



The annual work plan must be developed by the audit, risk and improvement committee in consultation with the governing body, general manager, head of the internal audit function and senior managers (where appropriate).

The annual work plan must be consistent with the requirements of the International Professional Practices Framework and identify:

- the internal audits that will be carried out during the year to support the work of the audit, risk and improvement committee
- the key goals, objectives and scope of the proposed audits
- the resources needed for each audit (for example, staffing, budget, technology), and
- key performance indicators to measure annual progress against.

The annual work plan must be flexible enough to allow it to be reviewed and adjusted as necessary throughout the year in response to any changes to the council's risks or operations.

The audit, risk and improvement committee may, in consultation with the council's governing body vary the annual work plan to address new or emerging risks.

The governing body of the council may also, by resolution, request the committee to approve a variation to the annual work plan. However, any decision to vary the annual work plan will rest with the committee.

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

## Performance measurement

The performance of each council's audit, risk and improvement committee and internal audit function, as well as the council, must be able to be assessed to measure progress and improvement.

The audit, risk and improvement committee must establish key performance indicators for

the council's strategic four-yearly workplan and annual work plan to enable the council to gauge the:

- performance of the Committee and internal audit function and the value they are providing the council, and
- council's performance regarding the matters listed in s428A so that the council can assess whether it is improving each council term in these areas.

These key performance indicators are to be reviewed and reset by the audit, risk and improvement committee for each annual work plan and strategic four-yearly work plan to ensure they reflect the changing needs of the council and the increased capacity of the Committee and internal audit function as they mature.

The general manager, in consultation with the audit, risk and improvement committee, must ensure that a data collection or performance management system is established and maintained to collect the data needed to measure progress against these key performance indicators.

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## Providing advice to the governing body

### Quarterly updates

Ongoing reporting by the audit, risk and improvement committee to the governing body (and general manager) is essential for accountability and will ensure that the governing body is kept abreast of matters considered by the Committee and any emerging issues that may influence the strategic direction of the council or the achievement of the council's goals and objectives.

It will also ensure strong linkages between the audit, risk and improvement committee, the governing body and the general manager and lead to a better functioning assurance mechanism.

The audit, risk and improvement committee must provide an update to the governing body of the council of its activities and opinions after every committee meeting.

The audit, risk and improvement committee must also provide its quarterly update to the general manager to ensure they are kept abreast of issues raised and can answer any questions the governing body may have about the committee's opinions and recommendations.

The mayor can request to meet with the Chair of the audit, risk and improvement committee at any time to discuss any issues relating to the work of the committee during the quarter.

The chair of the audit, risk and improvement committee can also request to meet with the mayor at any time.

## Content

The nature and content of the audit, risk and improvement committee's quarterly updates is to be determined by the governing body and the committee.

It could simply be providing a copy of the audit, risk and improvement committee's meeting minutes to the governing body if appropriate, or something more formal such as a report for noting by the governing body, or a face-to-face meeting between the committee, governing body and general manager to discuss important issues that have been identified.

Whatever the nature and form the update takes, the governing body and general manager must be advised, at a minimum, of:

- any formal resolutions of the audit, risk and improvement committee
- the committee's assessment of any audits conducted, including any breaches or lack of controls that require an immediate response from the council
- progress on the implementation of corrective actions
- opportunities for longer-term improvement, and

- any key opinions or 'take-outs' from the committee's meeting.

Should the governing body require additional information, a request for the information may be made to the Chair by resolution. The Chair may only provide the information requested by the governing body where the Chair is satisfied that it is reasonably necessary for the governing body to receive the information for the purposes of performing its functions under the Local Government Act.

Individual councillors are not entitled to request or receive information from the Committee.

## Annual assessment

**A council's audit, risk and improvement committee must provide an annual assessment to the governing body each year.**



This will ensure that the governing body of the council is fully informed of the audit, risk and improvement committee's work and its opinion on how council is performing.

The annual assessment must include:

- a summary and assessment of the work the audit, risk and improvement committee performed to discharge its responsibilities during the preceding year
- an overview and assessment of the work of the internal audit function
- progress against key performance indicators
- advice on the appropriateness of the committee's terms of reference
- an independent assessment and advice on the matters considered by the committee during the year that, in the committee's opinion, and based on the level of risk facing the council, the governing body should be informed of, and
- other views or opinions of the council that the committee wishes to impart.

Before providing their annual assessment to the governing body, the audit, risk and improvement committee must provide a copy



of its annual assessment report to the general manager to enable them to develop an action plan to address any issues identified.

Both the audit, risk and improvement committee's annual assessment and the general manager's action plan can then be considered jointly by the governing body at an annual assurance meeting with the committee and the general manager.

### **Annual assurance meeting**

It would be beneficial for the audit, risk and improvement committee, governing body and general manager to come together annually to discuss the committee's annual assessment of the council, how the council proposes to respond to the committee's recommendations for corrective actions and other important internal audit and risk management matters.

The governing body may wish to hold an extraordinary or additional meeting each year for this purpose.

The annual assurance meeting should also discuss:

- the audit, risk and improvement committee's annual plan and review priorities for the upcoming year, for the approval via resolution of the governing body
- any resourcing issues for the internal audit or risk management functions that the committee considers the governing body should be informed of
- any updated committee terms of reference, for approval via resolution by the governing body, and
- the general manager's annual assessment of the council's risk management function (see core requirement 2).

The mayor, chair of the audit, risk and improvement committee and general manager can invite observers or other participants to the meeting where appropriate.

## **Strategic assessment**

**A council's audit, risk and improvement committee must provide to the governing body of the council a comprehensive independent assessment every council term (i.e. four years) of all the matters listed in section 428A of the Local Government Act.**



This will ensure that the governing body of the council is fully informed of the council's performance in relation to the matters specified in section 428A of the Local Government Act and what corrective actions are required to address any issues identified.

It will also provide the governing body with essential information that will assist with strategic decision-making and resource allocation during the next council term.

Before providing their strategic assessment to the governing body, the audit, risk and improvement committee must provide a copy of its report to the general manager to enable the general manager to develop an action plan to address any issues identified during the next council term.

Given the audit, risk and improvement committee's functional responsibility for the internal audit function of the council, the committee must also develop an action plan for the governing body to address any internal audit issues identified by the Committee.

The audit, risk and improvement committee's strategic assessment and the action plans can be considered jointly by the governing body at a strategic assurance meeting held every four years.

### **Strategic assurance meeting**

It would be beneficial for the audit, risk and improvement committee, governing body and general manager to come together at the close of the council term or commencement of the new council term to discuss the committee's strategic assessment of the council, how the council proposes to respond to the committee's recommendations during the next

council term and any other important internal audit and risk management issues.

This discussion can also inform the strategic plans to be made through the integrated planning and reporting process for the next council term.

The governing body may wish to hold an extraordinary or additional meeting for this purpose.

The four-yearly assessment meeting could also discuss:

- the audit, risk and improvement committee's four-yearly strategic plan for the upcoming council term, for approval by resolution of the governing body
- a four-yearly review of the committee's terms of reference, for noting by the governing body and where applicable, an updated terms of reference for approval by resolution
- the governing body's four-yearly review of the committee's performance and action plan to address any issues identified, for approval by resolution of the governing body
- the Office of Local Government's determination of which tier the council is assigned to for the next council term for the purpose of structuring their committee.

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## Terms of Reference

It is important that each audit, risk and improvement committee has clear guidance on how it should serve the council, and that the council has input into how the committee will operate given its investment.

This will ensure there is no ambiguity between the council and the audit, risk and improvement committee, and that the council can measure the committee's performance.

**The Local Government Regulation (clause #tbc) requires a council's audit, risk and improvement committee to operate according to terms of reference consistent with the approved Model Terms of Reference provided at Appendix 3.**



The audit, risk and improvement committee's terms of reference can include additional provisions that are not inconsistent with the approved Model Terms of Reference or other requirements.

The terms of reference are to be approved by resolution of the governing body and reviewed annually by the audit, risk and improvement committee, and once each council term (i.e. four years) by the governing body.

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## Structure

Each council will have different audit, risk and improvement committee requirements depending on the council's size, needs, budget and the complexity of its operations.

For this reason, councils can either:

- establish an audit, risk and improvement committee for its own exclusive use, or
- share their committee with another council, county council or joint organisation under section 428B of the Local Government Act.

When deciding the most appropriate way to structure a council's audit, risk and improvement committee, the general manager should consider the viability and capacity of a shared committee to achieve its terms of reference 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
- expectations of stakeholders, and
- likely demands placed on the committee by other councils in the shared arrangement.

## Size and composition

Each council, county council and joint organisation has been categorised as a tier 1 (lowest), tier 2 (middle) or tier 3 (highest) council for the purposes of determining the size and composition of their audit risk and improvement committee.

These categories are detailed in **Appendix 4**.

This categorisation is based on:

- the population, population density and annual population growth or the local government area
- the proximity of the local government area to an urban or regional centre
- the council's financial status (including operating revenue and expenses)
- the grouping of the council with other similar councils according to the *Your Council* website
- the remuneration categories determined by the Local Government Remuneration Tribunal, and
- an understanding by the Office of Local Government of the council's overall performance and risk profile.

**The Local Government Regulation (clause #tbc) requires each council to appoint an audit, risk and improvement committee that has three or more members according to the council's categorisation under these Guidelines as a tier 1, tier 2 or tier 3 council.**



This is to ensure that the requirements of a council's audit, risk and improvement committee are appropriate for the council's size, risk profile, operational complexity, resources, and its ability to attract suitably qualified committee members.

While there are a number of significant differences in the size and composition of audit, risk and improvement committees established by councils under each tier, councils and joint organisations in all tiers must comply with the following requirements:

- the chair of the audit, risk and improvement committee must:
  - meet the independence requirements for committee members, and
  - be prequalified as a chair under the NSW Government's *Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members* ('prequalification scheme') (unless exemption applies)
- all other voting members must meet the independence requirements for committee members (see below)
- the Local Government Regulation (clause #tbc) allows each committee to have an optional non-voting councillor member that meets the committee's eligibility criteria for councillor members (see below), and
- the size and composition requirements of a committee are the same whether the committee is established by a council for its exclusive use or as part of a shared arrangement.

The minimum requirements for the composition of audit risk and improvement committees in each tier are set out below. It should be noted that these are the minimum requirements.

Councils can establish larger committees and include more prequalified committee members than required should they choose to do so.

### Tier review

The tier each council has been placed in will be reviewed by the Office of Local Government each council term.

Any changes must be considered by councils as part of their four-yearly review of the audit, risk and improvement committee. Where a council is re-categorised by the Office of Local Government to a higher or lower tier, the council will need to review the structure and composition of its audit, risk and improvement committee to comply with the requirements of the tier it has been placed in.

The governing body of a council can determine via resolution to either:

- comply immediately – i.e. vacate all the redundant membership positions and appoint new members that comply with the new requirements at the same time, or
- comply later - stagger compliance by allowing existing members to complete their current terms and ensure any members appointed thereafter comply with the new requirement.

Where compliance is staggered, the council can request an exemption from the Secretary DPIE from complying with the new requirement in relation to the committee's composition as part of the attestation process.

Any exemption granted will apply for two reporting periods (i.e. two years).

Councils that are categorised in a higher tier may maintain their existing arrangements where they are reviewed by the Office of Local Government and placed in a lower tier should they choose to do so.

## General purpose councils

### Tier 1 councils

All councils that are categorised as a tier 1 council are required at a minimum to have an audit, risk and improvement committee that has:

- 3 independent voting members comprising:
  - 1 chair prequalified under the NSW Government's prequalification scheme
  - 2 independent persons that meet the eligibility criteria for non-prequalified committee members (see below), and
- (optional) 1 non-voting councillor that meets the eligibility criteria for councillor members (see below).

### Exemptions

It is recognised that some small councils located in remote local government areas may find it difficult to attract and retain a

prequalified chair for their audit, risk and improvement committee.

Whilst prequalification is preferred, where a tier 1 council is unable to appoint a prequalified chair, the council can apply to the Secretary DPIE for an exemption from this requirement.

The council's application for an exemption must:

- be in writing
- outline the efforts the council has made to appoint a prequalified chair, and
- outline the reasons why the council has been unsuccessful.

The council must also demonstrate to the Secretary that any alternative chair recommended for appointment meets the following eligibility criteria:

- strong leadership qualities
- the ability to promote effective working relationships among audit, risk and improvement committee members and with the council's internal audit function and external auditor
- the ability to communicate complex and sensitive issues in a tactful manner to the governing body, general manager and council staff
- an understanding of the duties and responsibilities of the position
- a sound understanding of the council and local government
- functional knowledge in areas such as:
  - financial management and reporting
  - accounting
  - governance (including planning, reporting and oversight)
  - internal and external audit
  - performance management
  - human resources management
  - risk management
  - internal control frameworks
- they can lead effective committee meetings, and
- they have appropriate qualifications or membership to a certifying body (desirable).

Where a council is granted an exemption from this requirement by the Secretary, the exemption will apply for the duration of the chair's term.

Exemptions will only be granted in exceptional circumstances.

The Secretary may consult with the administrator of prequalification scheme when making its exemption determination.

## Tier 2 councils

All councils that are categorised as a tier 2 council are required at a minimum to have an audit, risk and improvement committee that has:

- 3 voting members comprising:
  - 1 independent chair prequalified under the NSW Government's prequalification scheme
  - 1 independent member prequalified under the NSW Government's prequalification scheme
  - 1 independent person that meets the eligibility criteria for non-prequalified committee members (see below), and
- (optional) 1 non-voting councillor that meets the eligibility criteria for councillor members (see below).

## Tier 3 councils

All councils categorised as a tier 3 council are required to have an audit, risk and improvement committee that has:

- 3-5 voting members comprising:
  - 1 independent chair prequalified under the NSW Government's prequalification scheme
  - A minimum of 2 independent members prequalified under the NSW Government's prequalification scheme, and
- (optional) 1 non-voting councillor that meets the eligibility criteria for councillor members (see below).

The audit, risk and improvement committee appointed by Tier 3 councils should be large enough to represent a balance of views and

experience, but also small enough to operate effectively.

The governing body is to determine the exact size of the audit, risk and improvement committee (3-5 members) in consultation with the chair of the committee and general manager, taking into account the needs and risk profile of the council, and likely workload of the committee.

## County councils

Given their lower risk profile, resource base and operational complexity, county councils are categorised as either tier 1 or tier 2 councils for the purpose of establishing their audit, risk and improvement committee.

Whilst a tier 1 county council can establish an audit, risk and improvement committee for its own exclusive use, for administrative and cost efficiency, it is recommended that tier 1 county councils utilise the committee of a member council/s under an independent shared arrangement (see below).

## Joint organisations

Given their lower risk profile, resource base and operational complexity, joint organisations are categorised as tier 1 councils for the purpose of establishing an audit, risk and improvement committee.

Where a joint organisation has not established an audit, risk and improvement committee within the joint organisation for its member councils as part of a joint organisation shared arrangement, for administrative and cost efficiency, it is recommended that a joint organisation utilise a committee established by one of its member councils as part of an independent shared arrangement (see below).

To ensure the audit, risk and improvement committee has an understanding of the interrelationships and needs of the joint organisation and its member councils, and of wider regional priorities, joint organisations must only enter into an independent shared arrangement with a member council/s.

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## Shared committees

Under the Local Government Act (section 428B) and Local Government Regulation (clause #tbc) councils can share an audit, risk and improvement committee. Council can:

- share their committee with another council/s, county council/s and/or joint organisation/s as part of an independent shared arrangement
- utilise a committee established by their joint organisation that is shared with all member councils
- for county councils - share their committee with a member council, or
- for joint organisation - share their committee with a member council.

These options allow councils to establish and operate their audit, risk and improvement committee in a more cost-effective way.

For all shared audit, risk and improvement committees:

- the committee must operate as an individual committee for each council in any shared arrangement and exercise their functions for each council individually
- a shared committee should only be established and utilised by councils where the committee can maintain a strong understanding of each participating council's assurance needs and is able to meet these needs
- a shared committee should only be established and utilised by councils where the committee can maintain an effective working and reporting relationship with the general manager and governing body of each participating council
- councils that are in different tiers but share their internal audit function can, but are not required to, also share their committee
- where a committee is shared by councils that are in different tiers, the requirements for the higher tier will apply to all participating councils (including joint organisations and county councils)
- councils that share their Committee, can but are not required to, also share the committee's secretariat, and

- councils should develop and sign a formal agreement with the other councils in the shared arrangement which outlines how the shared arrangement will operate and costs shared.

Where a joint organisation establishes an audit, risk and improvement committee to serve its member councils, it is at each member council's discretion whether they utilise the shared committee.

## Shared councillor members

It is important to note that where an audit, risk and improvement committee is shared between councils as part of an independently established shared arrangement, or an arrangement established by a joint organisation, and the councils elect to have a councillor member on the committee, the councillor member will not be shared by councils.

To maintain the confidentiality of the business of each council in the shared arrangement considered by the shared committee:

- the governing body of each council is to appoint one councillor member to serve on the audit, risk and improvement committee for that council only
- the councillor member is to only attend committee meetings for their council, and
- the councillor member is to receive information pertaining to their council only.

For joint organisations, the elected councillor member will be a voting representative of the board.

## Shared independent members

Unlike councillor members, the chair and independent members of shared audit, risk and improvement committees will serve all councils participating in the shared arrangement.

For audit, risk and improvement committees appointed as part of an independent shared arrangement, the councils in the shared

arrangement are to mutually agree to the independent members that will be appointed to these roles, and each council is to confirm their appointment by resolution.

For audit, risk and improvement committees appointed as part of an arrangement established by a joint organisation by its member councils, the board of the joint organisation will appoint the chair and independent members of the committee by resolution on behalf of member councils under delegation from the member councils.

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## Independence requirements

All audit, risk and improvement committee voting members must be independent to ensure they have no real or perceived bias or conflicts of interest that may interfere with their ability to act independently and can provide the council with robust, objective and unbiased advice about how the council is functioning.

**Each council must ensure that the chair and any voting member appointed to the council's audit, risk and improvement committee meets the following independence criteria.**



The independent voting committee member cannot:

- currently be a councillor of any NSW council
- be a non-voting representative of the board of a joint organisation
- be a candidate at the last election of the council
- be a person who has held office in the council during its previous term
- be currently employed by the council or a joint organisation, or been employed during the last 12 months
- conduct audits of the council on behalf of the Audit Office of NSW
- have a close personal or business relationship with a councillor or a person

who has a senior role in the council that may lead to a real or perceived conflict of interest

- 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 (or have a close family member who is) 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 which could be considered a real or perceived conflict of interest, or
- currently or have previously acted as an advocate of a material interest on behalf of the council or a related entity which could be considered a real or perceived conflict of interest.

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 chair and members of the audit, risk and improvement committee.

Likewise, the chair and members must notify the governing body and/or general manager if a real or perceived threat to their independence arises.

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## Eligibility requirements

The persons appointed as a chair or a member of an audit, risk and improvement committee must possess the skills, knowledge and experience necessary to undertake their roles on the committee effectively and to ensure the committee is able to operate appropriately and effectively to support the council.

A poorly skilled audit, risk and improvement committee may not be able to provide the assurance needed by the council and may lead to sub-optimal outcomes that jeopardise the

council's capacity to achieve its strategic objectives.

**Councils must ensure that the chair and other members of the council's audit, risk and improvement committee meet the below eligibility criteria.**



## Prequalified members

In addition to meeting the independence requirements listed above, prequalified audit, risk and improvement committee voting members must be sourced from the NSW Government's prequalification scheme.

Individuals that have been prequalified under the scheme have been assessed by an independent expert panel convened by the NSW Government as having the skills, knowledge and experience to perform the role as a chair or member of a council's audit, risk and improvement committee.

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. To preserve their independence, and as a condition of the prequalification scheme, prequalified members can be appointed to up to (#tbc) separate audit, risk and improvement committees in the NSW public sector and the NSW local government sector.

## Non-prequalified members

In addition to meeting the independence requirements listed above, non-prequalified audit, risk and improvement committee voting members must satisfy the following eligibility criteria to be appointed as a committee member.

They must:

- have the qualities and personal attributes needed to serve the council effectively in their role as a committee member
- have a functional knowledge in areas that would provide a valuable contribution to the committee and council such as:
  - local government
  - internal audit and external audit
  - risk management
  - governance
  - performance management
  - financial management and reporting
  - accounting
  - human resources management
  - internal control frameworks
  - fraud and corruption prevention
  - IT/cyber security
  - the local community, or
  - another relevant subject matter, and
- undertake any training on the operation of audit, risk and improvement committees recommended by the chair based on their assessment of the skills, knowledge and experience of the committee member.

A member of an audit, risk and improvement committee must also demonstrate the following personal qualities and attributes:

- a commitment to the independence of their role
- integrity
- a capacity to dedicate sufficient time and energy
- financial literacy, including an ability to read or understand basic financial statements, ask pertinent questions about them, and interpret and evaluate answers
- an ability to give direct and honest opinions and offer different perspectives and constructive suggestions, and
- inquisitiveness and independent judgment.

Councils must undertake a criminal record and financial status (bankruptcy) check of an independent non-prequalified audit, risk and improvement committee member before their appointment.



## Councillor members

Non-voting councillor members must satisfy the following eligibility criteria to be appointed as an audit, risk and improvement committee member. They must:

- be financially literate
- have a good understanding of one or more of the following that would provide a valuable contribution to the committee:
  - internal audit and external audit
  - risk management
  - governance
  - performance management
  - financial management and reporting
  - accounting
  - human resources management
  - internal control frameworks
  - fraud and corruption prevention
  - IT/cyber security
  - the local community, or
  - another relevant subject matter, and
- undertake any training on the operation of audit, risk and improvement committees recommended by the chair based on their assessment of the skills, knowledge and experience of the committee member.

The mayor cannot be appointed as a councillor member on a council's audit, risk and improvement committee.

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## Appointment

Audit, risk and improvement committee chairs and members are appointed by a resolution of the governing body of the council.

The governing body should first appoint the chair of the audit, risk and improvement committee, who is to then assist in the selection and appointment of the other independent committee members.

## Skills mix

When selecting individual audit, risk and improvement committee members, the

governing body of the council is required to ensure that the committee has the appropriate mix of skills, knowledge and experience to successfully implement its terms of reference and add value to the council.

The audit, risk and improvement committee should have:

- at least one member with financial expertise (for example, a qualified accountant or auditor or other financial professional with experience of financial and accounting matters), and
- a mix of skills and experience in:
  - business
  - financial and legal compliance
  - risk management, and
  - internal audit, and
  - any specialised business operations of the council, where the committee would benefit from having a member with skills or experience in this area (for example, IT skills or experience where IT systems have an important role in the council's business).

All audit, risk and improvement committee members should have sufficient understanding of the council's financial reporting responsibilities to be able to contribute to the committee's consideration of the annual financial statements.

Each individual should also have sufficient time to devote to their responsibilities as an audit, risk and improvement committee member. Where possible, the governing body should ensure that at least one other audit, risk and improvement committee member is also qualified to act as the chair, if this is ever required.

## Letter of appointment

The appointment of chairs and members of audit, risk and improvement committees should be formalised in an official letter of appointment signed by the mayor of the council.

The letter of appointment should set out the terms and conditions of the appointment including:

- duration of appointment
- role and responsibilities
- timing and location of meetings
- time commitment
- remuneration
- the management of conflicts of interest
- confidentiality
- performance appraisal, and
- termination of appointment.

## Induction

Induction of all new audit, risk and improvement committee members is vital to ensure they 'hit the ground running' in their role.

The chair is to provide a thorough induction to each new member of the audit, risk and improvement committee to ensure they understand:

- the committee's role, responsibilities and terms of reference
- the business, operations, culture, risks and controls of the council, and
- the expectations of the council about their responsibilities and performance.

This will include providing new members with any background information or documentation necessary to ensure they understand the work of the audit, risk and improvement committee.

It may also be appropriate for more detailed information or presentations to be provided from various senior staff to assist the new member to understand the operations of the council and any key challenges.

New audit, risk and improvement committee members also have an obligation to ensure that they have an appropriate understanding of the council, including its:

- operations, functions, service delivery
- key areas of risk
- internal controls, and
- financial reporting systems.

The mayor, general manager and existing chair (where appropriate) will induct a new chair.

## Membership terms

### Voting members

To ensure the audit, risk and improvement committee continues to offer new perspectives and remains independent, it is important that committee members are rotated periodically to maintain a fresh approach and avoid any perceptions of bias or conflicts of interest.

**Councils are to ensure that chairs and members serve the following time-limited terms to facilitate a rotation of knowledge and perspectives.**



The initial term of membership on an audit, risk and improvement committee is four-years (one council term).

Audit, risk and improvement committee members can be reappointed for a further term but the total period of continuous membership on the committee cannot exceed eight years (two council terms). 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 two-year break from serving on the audit, risk and improvement committee before being appointed again.

Care is to be taken to ensure that membership renewal dates are staggered so knowledge of the council's operations, financial reporting structure and other important aspects are 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.

### Exemptions

If a tier 1 council is unable to replace the chair or members of its audit, risk and improvement

committee when their maximum term limit has been reached, the council can seek the approval of the Secretary DPIE to extend their term or to reappoint the chair or committee member for a further term.

The council's request must:

- be in writing
- describe the efforts the council has made to appoint a different member, and
- explain why the council has been unsuccessful.

Exemptions will only be granted in exceptional circumstances.

## Chair

To ensure that the committee maintains a fresh approach, the initial term of a chair of an audit, risk and improvement committee on any one audit, risk and improvement committee is four-years (one council term).

The chair can be reappointed as chair for a further term but the total period served by a chair cannot exceed eight years (two council terms).

Where the chair's term expires and another chair is appointed, it is the responsibility of the outgoing chair to ensure the incoming chair is fully briefed on the ongoing work of the audit, risk and improvement committee.

This includes advising the incoming chair of:

- any activity that may be relevant to the ongoing functioning of the committee, and
- any outstanding matters of high risk to the council and outstanding audit recommendations.

## Councillor members

The initial term of a councillor member of an audit, risk and improvement committee is four years, coinciding with the term of the council.

The councillor member can be reappointed for another term (i.e. four-years), if re-elected at the council's next ordinary election, but the total period of continuous membership on the

committee cannot exceed eight years (two council terms).

The councillor member is to be appointed by the governing body at the first meeting of the council after the ordinary election.

The councillor member's term ends at the end of the council term.

## Reappointment

Prior to approving the reappointment or extension of the chair or an independent member's term, the governing body of the council must undertake an assessment of the chair's or committee member's performance.

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

In undertaking the assessment, the council, or any person appointed to undertake the assessment on behalf of the council, must consult with and consider the views of the chair (in the case of the reappointment or extension of the term of a committee member other than the chair), the general manager and any councillor member of the committee. The reappointment of members is also to be subject to the individual still meeting independence and eligibility requirements.

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## Fees

The fees a council pays to its chair and independent voting members of its audit, risk and improvement committee are to be agreed by the council and the Chair or member and reflect the time, commitment and responsibility involved in serving on the committee.

Chairs and members can serve on a committee on a voluntary basis if they choose to.

Councils should consider the fees payable under the prequalification scheme when determining the fees paid to prequalified chairs and members.

## Superannuation

Councils are obliged under the *Superannuation Guarantee Administration Act 1992* to make compulsory superannuation guarantee contributions on behalf of audit, risk and improvement committee chairs and voting members

## Roles of committee members

### Chair

The position of the chair of an audit, risk and improvement committee is pivotal to the committee's effectiveness and is the focal point for the committee's relationship with the council, the internal audit function and external auditor.

The chair acts as the interface between the audit, risk and improvement committee and the general manager and other staff, the governing body, the external auditor, and the internal audit function.

Any individual audit, risk and improvement committee member who wishes to meet with the general manager or governing body of the council to discuss any issues relating to the committee's responsibilities is to do so through the chair of the committee, and vice versa.

To be successful in their role, a chair must:

- have strong leadership qualities
- have the personal courage to raise and deal with tough issues and express opinions frankly, and to support other committee members to do the same
- be able to recommend the appointment of committee members to the governing body
- maintain effective working relationships between committee members and with the council
- keep the governing body and general manager informed and brief them on the

strategic and technical aspects of internal audits and risk and control issues

- lead effective committee meetings including:
  - planning for and setting agendas for meetings, ensuring committee members are adequately informed of matters to be considered prior to meetings and allowing sufficient time for discussion of those matters at the meeting
  - ensuring the meeting runs smoothly and that the views of members are heard
  - focus the committee's deliberations on the most important issues
  - seek the input of advisers, observers and other experts to maximise committee deliberations
  - summarise discussion outcomes and actions, including assigning responsibility and timeframes for actions
- maintain an effective working relationship with the council's external auditor
- oversee the internal audit function and be alert to external accountability and internal audit concerns
- arrange for all committee members to maintain an up-to-date knowledge of the council and its activities, including any financial or regulatory developments, and
- know the strengths and weaknesses of the committee, and individual committee members and how this may affect the opinions of the committee.

### Independent members

Independent audit, risk and improvement committee members are expected to be able to assess information provided to them about the council and to identify and assess key risks and issues.

Each member should be capable of making a valuable contribution to the committee.

To be successful in their role, a member must:

- take a professional approach to their responsibilities, including an appropriate commitment of time and effort

- know the business, culture and values of the council and take the time to understand changes that affect how the council operates and its risks
- have sufficient understanding of the council's financial reporting responsibilities to be able to contribute to the committee's consideration of the annual financial statements
- understand the role of the committee and the expectations of the council
- act in the best interests of the council
- take a professional approach
- be a good communicator and build effective relationships with the council and other committee members, and
- have the personal courage to raise and deal with tough issues, express opinions frankly, ask questions that go to the fundamental core of the issue and pursue independent lines of inquiry.

## Councillor members

Councillor members of audit, risk and improvement committees are non-voting members of committees. This is to ensure that decision making by the committee is independent of the council.

Councillor members of committees act as an important link between the governing body and the committee.

Their role is to:

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

Issues or information councillor members raise with or provide the audit, risk and improvement committee must relate to the matters listed in section 428A of the Local Government Act, the committee's terms of reference and issues being considered by the Committee.

Councillor members of audit, risk and improvement committees are not entitled to receive information about audit, risk and improvement committee activities outside of established reporting requirements.

Councillor members of audit, risk and improvement committees must conduct themselves in a non-partisan and professional manner.

Councillor members of committees must not engage in any conduct that seeks to politicise the activities of the committee or the internal audit function or that could be seen to do so.

Where councillor members of audit, risk and improvement committees engage in such conduct or in any other conduct that may bring the committee and its work into disrepute, the chair may recommend to the council, that the councillor member be removed from membership of the committee.

Where the council does not agree to the chair's recommendation, it must give reasons for its decision in writing to the chair.

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## Key relationships

### General manager

A key role of audit, risk and improvement committees is to act as an independent source of advice and opinion to both the governing body and the general manager, and to act as a forum for the resolution of any disagreements between the council and internal audit function.

The general manager, in turn, also has a key role in supporting the work and effectiveness of the audit, risk and improvement committee.

To be effective, audit, risk and improvement committees need to maintain a positive working relationship with the general manager (and vice versa) and view them as a significant source of advice and information about the council and its operations.

Chairs of audit, risk and improvement committees should meet regularly with general managers to discuss key issues and review performance.

## External audit

There are strong linkages between the work of councils' audit, risk and improvement committees and their external auditor and committees should actively engage with the external auditor.

Councils' external auditor can offer valuable insights on issues such as the effectiveness of the council's risk, controls, financial reporting, and compliance frameworks.

For the external auditor, communication with the audit, risk and improvement committee can in turn facilitate an effective and efficient audit and assist the communication of matters arising from the external audit to the council.

Audit, risk and improvement committees should:

- provide input on, and discuss, planned financial and performance audit coverage
- monitor councils' responses to financial statement management letters and performance audit reports, including the implementation of audit recommendations
- provide advice to the council on action taken on significant issues raised in relevant external auditor reports or better practice guides, and
- have a voting-members only meeting with the external auditor at least once per year so that the committee can obtain the views of the external auditor without internal audit or management advisers being present.

## Internal audit

The audit, risk and improvement committee should maintain a strong, positive relationship with the council's internal audit function and view it as a significant source of information about what is going on in the council.

The internal audit function can also assist the audit, risk and improvement committee to develop the annual and four-yearly workplans that will guide the committee's and internal audit function's work.

The chair of the audit, risk and improvement committee should routinely meet with council staff undertaking internal audit activities to discuss key issues and review performance if needed.

At least one private meeting should be held each year and any potential compromises to the internal audit activity's independence reported.

More information about this is provided in core requirement 3.

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## Meetings

The audit, risk and improvement committee must meet at least quarterly over the course of each year.

The chair of the audit, risk and improvement committee is to decide the frequency and timing of the committee's meetings and plan them annually in advance to ensure the availability of all members and observers.

Generally, meetings should correspond with major phases of the council's financial reporting, external audit and internal audit cycles.

For example, the audit, risk and improvement committee should meet to review the council's financial statements before they are certified by the council.

Audit, risk and improvement committee meetings should also correspond with meetings of the governing body, and allow

sufficient time between audit, risk and improvement committee meetings and council meetings for the committee to action any items and prepare any reports that are to be provided to the governing body at the council meeting.

Special meetings may be held, if needed, to review the council's financial statements prior to them being submitted to the governing body of the council, or to consider the audit, risk and improvement committee's annual or four-yearly assessments.

Audit, risk and improvement committee meetings can be held in person, by telephone or videoconference.

The audit, risk and improvement committee can hold additional meetings when significant unexpected issues arise, or if the chair is asked to hold an additional meeting by a committee member or the general manager.

The governing body can also resolve to request the audit, risk and improvement committee to hold an additional meeting.

Where such a request is made, the chair can decide whether the additional meeting is required, taking into consideration the issues that the governing body has requested the audit, risk and improvement committee to consider at the meeting.

## Proxies

As audit, risk and improvement committee members are appointed on the basis of their skills, knowledge and personal qualities, proxies are not permitted to attend meetings on behalf of members who are unable to attend.

## Quorum

A quorum consists of a majority of audit, risk and improvement committee independent voting members.

Where the vote is tied, the chair is to have the casting vote.

## Agenda

### Forward agenda

The chair should prepare a 12-month forward meeting agenda to ensure that the audit, risk and improvement committee covers all its responsibilities at the appropriate time of the year.

For example, the forward agenda will set out, at the appropriate meeting, the various internal and external audit reports and management responses to be tabled and discussed.

It will also allocate appropriate time for a review of the progress of the internal audit function against the annual work plan, and to follow-up the implementation of corrective actions.

### Meeting agenda

The chair of the audit, risk and improvement committee is to determine the agenda for each committee meeting.

It is recommended that the chair consult with other committee members, the general manager, the head of the internal audit function and external auditor prior to setting the agenda so that any urgent issues or risks that arise can be included.

The chair of the audit, risk and improvement committee is to decide an appropriate timescale for receiving the final agenda in the lead-up to the meeting.

## Papers

The audit, risk and improvement committee is to decide in consultation with the general manager and the head of the internal audit function an appropriate timeframe for receiving papers and other necessary information to support agenda items to be considered at each committee meeting.

## Minutes

Each audit, risk and improvement committee meeting must be minuted to preserve a record of the issues considered and the actions and decisions taken by the committee.

Audit, risk and improvement committee meeting minutes must:

- include a record of attendance
- cover each agenda item and document the discussion held and the outcome or conclusion from the discussions, including any recommendations, action points and/or allocation of tasks to relevant people
- be approved by the chair before circulation
- be provided to committee members, the governing body of the council, the general manager, the head of the internal audit function and external auditor
- be provided soon after the meeting date to ensure relevant individuals are made aware of any significant issues discussed at the meeting that need to be dealt with. The exact time period is to be determined by the committee and the general manager.

The minutes must be confirmed as an accurate record of the meeting at the next meeting of the audit, risk and improvement committee.

If any important details have been incorrectly recorded or omitted, they can be discussed and the minutes amended prior to confirmation at a subsequent meeting.

After the minutes are confirmed as an accurate record of the meeting, they must be signed by the chair.

All audit, risk and improvement committee members and observers should receive a copy of the minutes of all meetings.

## Attendance of observers

Due to the sensitive nature of issues to be discussed, audit, risk and improvement committee meetings should not be open to the public.

In addition to audit, risk and improvement committee members, the general manager and the head of the internal audit function are to attend committee meetings as non-voting observers.

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 chair of the audit, risk and improvement committee can request the following people to attend a committee meeting or to meet with the committee in order to provide additional information relevant to its role:

- council's chief financial officer (or equivalent) given their knowledge of, and responsibility for, council's financial management
- the head of the council's risk management function
- senior managers
- any councillor
- 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 attend meetings where requested and, as far as is practicable, provide the information requested.

Observers have no voting rights at audit, risk and improvement committee meetings and can be excluded from a meeting by the chair of the committee at any time where necessary.

## Private meetings

The audit, risk and improvement committee can hold closed meetings whenever it needs to discuss confidential or sensitive issues with only voting members of the committee present.

In addition to attending audit, risk and improvement committee meetings, the committee can meet privately at any time with the head of the internal audit function and/or



external auditor without the general manager present. At least one private meeting must occur annually.

- ensuring new members receive appropriate induction, and
- managing expenditures relating to the committee.

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## Confidentiality

It is at the discretion of the governing body of the council whether audit, risk and improvement committee agendas, business papers, minutes and other reports are made available to the public.

Given the sensitivity of information it is likely to contain, it is recommended that all information pertaining to the audit, risk and improvement committee and internal audit activities is to be treated as confidential unless otherwise determined by the committee or a resolution of the council.

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## Secretariat

The general manager of a council is to appoint a council employee/s to provide secretariat support to the audit, risk and improvement committee.

The main functions of this role are:

- liaising with the chair to prepare agendas for audit, risk and improvement committee meetings
- ensure that committee papers are of an appropriate standard and provided with enough time to allow appropriate review and consideration
- recording minutes of meetings
- providing assistance to the chair in arranging meetings and council site visits
- supporting the chair to prepare reports for the council
- arranging appropriate meeting facilities and equipment
- keeping members abreast of developments affecting the council that may relate to the work of the committee
- maintaining a record of when member's terms of appointment are due for renewal or termination

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## Shared arrangements

If the audit, risk and improvement committee has been established by a joint organisation, the executive officer of the joint organisation is responsible for organising secretariat support.

Councils that share their audit, risk and improvement committee can also share their secretariat function if they choose to.

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## Access to council, staff, resources and information

It is essential for the audit, risk and improvement committee to be able to access the staff and information about the council it needs to review the matters listed in section 428A of the Local Government Act and the resources necessary to undertake its other responsibilities.

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## Council staff

**A council's audit, risk and improvement committee must have direct and unrestricted access to the general manager and senior management of the council in order to fulfil its responsibilities.**



Should the audit, risk and improvement committee need to meet with another council staff member or contractor to obtain information to fulfil its role, the chair of the committee is to obtain permission from the general manager before inviting the staff member or contractor to meet with the Committee.

Subject to the general manager's permission being given, the staff member or contractor must attend.

Any disputes between the general manager and audit, risk and improvement committee regarding access to council staff are to be resolved by the governing body.

## Council resources and information

**A council's audit, risk and improvement committee must have direct and unrestricted access to any council resources or information it needs to fulfil its responsibilities.**



In its dealings with the council, the audit, risk and improvement committee should be mindful of the environment the council is operating in and the priorities that the general manager needs to manage.

The audit, risk and improvement committee should therefore keep to a minimum the demands it places on the council and utilise as far as is practicable, existing information to obtain the necessary level of assurance in relation to its responsibilities.

The audit, risk and improvement committee may only release council information to external parties that are assisting the committee to fulfil its responsibilities with the approval of the general manager, except when it is being provided to an external investigative, audit or oversight agency for the purpose of informing that agency of a matter that may warrant its attention.

After their engagement ends with a council, a chair or member of an audit, risk and improvement committee must not disclose or make use of any confidential information acquired in the course of their engagement with the council without the approval of the council.

## External advice

The audit, risk and improvement committee can obtain any external legal or other professional/expert advice it needs to exercise its responsibilities. For example, where a council has implemented a specialised IT system, the committee can seek the expert opinion of an IT specialist to assist its review of its implementation.

To minimise the potential costs to council, the governing body and the chair of the audit, risk and improvement committee must agree at the start of each council term how costs are to be met, i.e.:

- the governing body will set a fixed budget at the start of each council term for external expenses, or
- the committee will seek the governing body's permission prior to engaging external advice.

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## Disputes

Members of an audit, risk and improvement committee should maintain an effective working relationship with each other and the council and try to resolve any differences they may have professionally.

In the event of a disagreement between the audit, risk and improvement committee and the general manager or other senior managers (for example, about findings or recommendations of audits), the dispute is to be resolved by the governing body of the council.

Unresolved disputes regarding compliance with statutory or other requirements are to be referred to the Secretary DPIE in writing.

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## Conduct

Audit, risk and improvement committee members are to be held to the same ethical and behavioural standards as other officials of

the council and must comply with the council's code of conduct.

As required under the council's code of conduct, audit, risk and improvement committee members (as well as any council officials attending as observers) must declare and appropriately manage any conflicts of interest they may have in matters being dealt with by the committee.

Declarations of conflicts of interest and the actions taken to manage them must be recorded in the minutes of meetings.

Councils should identify the chairs and members of audit risk and improvement committees as 'designated persons' for the purposes of the council's code of conduct and require them to complete and submit returns of their interests.

Complaints of breaches of the council's code of conduct by audit, risk and improvement committee members are to be dealt with in accordance with the *Procedures for the Administration of the Model Code of Conduct for Local Councils in NSW*.

Under the Procedures, the general manager is responsible for managing and resolving any code of conduct complaints made against audit, risk and improvement committee members.

However, to safeguard the independence of audit, risk and improvement committee members, the general manager must consult with the governing body of the council prior to taking disciplinary action against Committee members under the Procedures.

Prequalified audit, risk and improvement committee members are also required to comply with the code of conduct governing the prequalification scheme.

Any proven breaches of the council's code of conduct should be reported by the council to the administrator of the prequalification scheme so that action can also be taken under that scheme, where appropriate.

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## Insurance

It is at each council's discretion whether professional indemnity and public liability insurance is required for chairs and members of audit, risk and improvement committee members.

In some cases, the chair or a member of an audit, risk and improvement committee may already be covered by the council's professional indemnity and public liability insurance policies or by their own insurance.

This will need to be ascertained by the council and chair or member on a case-by-case basis having regard to the terms of any relevant insurance policy.

Where a council determines that professional indemnity or public liability is absent but required, the chair or member can obtain their own insurance, or the council can consider obtaining it on their behalf.

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## Learning and development

Audit, risk and improvement committee chairs and members are encouraged to keep informed of current developments and to maintain and develop the skills, knowledge and capabilities necessary to exercise their functions effectively.

Several professional development networks and programs are available, for example, through organisations such as:

- the Australian Institute of Company Directors
- Chartered Accountants Australia and New Zealand
- The Actuaries Institute, and the
- Local Government Professionals Association.

Audit, risk and improvement chairs and members are also encouraged to serve on more than one local government committee to

extend the breadth of their experience and understanding of councils and their operations and risks.

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## Review of Committee performance

It is important that the work of each council's audit, risk and improvement committee is regularly assessed, and the committee is held accountable for its performance.

This will ensure that the audit, risk and improvement committee is providing a valuable contribution to the council and enable the governing body to determine whether any changes to the committee's terms of reference or membership are required.

**At least once each council term (i.e. four years) the governing body of the council is to conduct a review of the effectiveness of the audit, risk and improvement committee in conformance with the International Professional Practice Framework.**



This will ensure that audit, risk and improvement committees are assessed consistently across all councils and allow councils to have confidence in the work of their committees.

To conduct the review, the governing body can:

- engage a suitably qualified external assessor or peer to undertake the review, or
- undertake the review itself and engage an external assessor or peer to conduct an independent evaluation of the findings.

The external assessor or peer should have specific skills relevant to the major risks of the council and a strong understanding of what constitutes best practice in relation to the operations and performance of audit, risk and improvement committees.

## Review criteria

The review of the audit, risk and improvement committee's performance must consider:

- the appropriateness of the committee's terms of reference and whether these have been complied with
- the processes and procedures undertaken by the committee
- the collective performance of the committee – for example:
  - the quality and timeliness of assurance and advice provided by the committee to the governing body and general manager
  - the effectiveness of the committee in meeting its responsibilities
  - the relationship and quality of communication with the council and other stakeholders
- the individual performance of each member – for example, their:
  - understanding of the council, its key risk and internal controls
  - ability to act objectively and independently
  - preparation for committee meetings
  - contribution to the work of the committee through their participation in discussion and decision-making, skills and experience
- the performance of the chair, including whether the chair has (in addition to their performance as a member of the committee):
  - demonstrated positive leadership
  - maintained effective working relationships among audit, risk and improvement committee members and with the council, council's external auditor and the internal audit function
  - ensured the governing body and general manager was well informed and briefed on the strategic and technical aspects of internal audits and risk and control issues, and
  - lead effective committee meetings.
- 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

- whether the committee has effectively reviewed the factors identified in section 428A of the Local Government Act and contributed to an improvement in these areas, and
- whether the composition of the committee is appropriate and whether the council should be assigned to a different tier under these guidelines.

When conducting the review, the governing body is to consider feedback on each member's performance by the chair and councillor member of the committee and the general manager.

Self-assessments by the chair and members of the audit, risk and improvement committee can also be used.

The governing body of council is also able to request the chair of the Committee to address the council and answer any questions about the operation of the committee.

The chair of the audit, risk and improvement committee is to develop an action plan for the governing body of the council to address any issues identified in the performance review and present it to the governing body at the four-yearly assessment meeting.

- the chair and all members of the committee meet the eligibility and independence criteria required of their position, and have been appointed in accordance with prescribed membership term limits
- council's audit, risk and improvement committee operates according to terms of reference approved by the governing body of the council that are consistent with the approved Model Terms of Reference contained in these Guidelines
- council's audit, risk and improvement committee operates according to annual and four-yearly strategic plans endorsed by the governing body of the council
- council's audit, risk and improvement committee provides an annual assessment to the governing body each year, and a strategic assessment of all the matters listed in section 428A of the Local Government Act to the governing body each council term
- the council provides the committee with direct and unrestricted access to the general manager, senior management, council information and council resources so it can fulfil its responsibilities, and
- at least once each council term the governing body of the council reviews the effectiveness of the audit, risk and improvement committee.

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## Annual attestation

It is important that councils are accountable to their communities for the efficacy of their internal controls and assurance mechanisms and the operations of their audit, risk and improvement committees.

The Local Government Regulation (clause #tbc) requires the general manager to attest each year in the council's annual report whether the council has complied with the following requirements in relation to its audit, risk and improvement committee, as detailed in these Guidelines:

- council's audit, risk and improvement committee is independent of the council and has three or more members according to the council's prescribed category as a tier 1, tier 2 or tier 3 council

Further information about annual attestation requirements is also detailed in the statutory framework section of these Guidelines.

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## Resignation of committee members

Where the Chair or a member of an audit, risk and improvement committee is unable to complete their term, or does not intend to seek reappointment after the expiry of their term, they should give sufficient notice to the chair (in the case of a committee member) and the governing body (in the case of the chair) prior to their resignation to enable the council to ensure a smooth transition to a new committee member.

The notice period is to be agreed by the governing body of the council and the committee.

A member of an audit, risk and improvement committee should have the opportunity to have an exit meeting with the Chair to discuss their reason for leaving and to provide feedback on their experience serving on the committee as well as any other issues.

Resigning chairs should have the opportunity to have an exit meeting with the mayor and general manager (if appropriate).

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## Dismissal of committee members

The governing body of a council can terminate via resolution the engagement of the chair or any member of the audit, risk and improvement committee under certain circumstances before the expiry of their terms.

Dismissal of any independent chair or member is to be reported to the Office of Local Government.

## Prequalified members

A prequalified chair or member can be dismissed by the governing body before the expiry of their term where the chair or member has:

- breached the conditions of the prequalification scheme, or become ineligible under it
- breached the council's code of conduct
- performed unsatisfactorily or not to expectations, or
- declared, or is found to be in, a position of a conflict of interest which is unresolvable.

The council must also report the dismissal to the NSW government agency responsible for administering the prequalification scheme to ensure action can also be taken under the scheme, if necessary.

## Non-prequalified members

A non-prequalified independent member of the audit, risk and improvement committee can be dismissed by the governing body before the natural expiry of their term where the chair or member has:

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

## Councillor members

The position of a councillor member on an audit, risk and improvement committee can be terminated at any time by the governing body via resolution.

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## Further resources

The following resources may be useful to councils seeking more information about the establishment and operation of their audit, risk and improvement committee.

This is not an exhaustive list but provides a useful starting point for councils that seek to better understand what audit, risk and improvement committees do, and how they can be supported to add maximum value to councils.

### **[Audit Committees – A Guide to Good Practice \(3<sup>rd</sup> edition\)](#) – Auditing and Assurance Standards Board, Australian Institute of Company Directors and The Institute of Internal Auditors-Australia (2017)**

Provides a checklist to assess the performance of audit, risk and improvement committees and members.

### **[Audit Committees – A Guide to Good Practice for Local Government](#) – Victorian Government, Department of Planning and Community Development (2011)**

Provides detailed information on the activities audit, risk and improvement committees can perform in relation to external audit, financial management, risk management and internal audit.

### **[Audit Committee Guidelines – Improving Accountability and Performance](#) – The State of Queensland (Queensland Treasury and Trade) (2012)**

Provides sample:

- letter of appointment for audit, risk and improvement committee members
- self-assessment questionnaire for committee members, external peer review checklist and management feedback questionnaire when assessing committee performance, and
- committee meeting agenda.

### **[Audit Committees \(RM-G2\)](#) – Australian Government, Department of Finance**

Provides a list of professional peak bodies councils could contact to source audit, risk and improvement committee members.

### **[Chairing an Audit Committee](#) – KPMG**

Provides information about the role of audit, risk and improvement committee chairs, particularly in relation to:

- leadership, and
- managing the work of audit, risk and improvement committee members.

### **[Code of Conduct: Audit and Risk Committee Chairs and Members](#) – NSW Treasury (2015)**

Outlines the conduct requirements and ethical standards of members and chairs under the prequalification scheme.

### **[Dealing with Corruption, Fraud and the ICAC: the role of public sector Audit and Risk Committees](#) – Independent Commission Against Corruption (2020)**

Provides information about the role of audit, risk and improvement committees and risk management in relation to fraud and corruption.

### **[Establishing a skills-based audit committee](#) – Institute of Internal Auditors-Australia (2020)**

Provides an analysis matrix template to assess the skills mix of an audit, risk and improvement committee when appointing committee members.

### **[Guide for Audit & Risk Committees: Understanding Financial Statements](#) – NSW Treasury (2017)**

Provides information on activities audit, risk and improvement committee can undertake when reviewing financial statements.

### **[How can audit committee members add value?](#) – PriceWaterhouseCoopers (2011)**

Provides a checklist for measuring the performance of audit, risk and improvement committees

**[Internal Audit and Risk Management Policy for the General Government Sector \(TPP-20-08\)](#)** – NSW Treasury (2020)

Provides information on the NSW public sector risk management and internal audit policy, including:

- the operation of shared audit, risk and improvement committees in the NSW public sector
- matters to consider when deciding whether to enter into a shared arrangement, and
- recommended content for shared use agreements.

**[Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members – Guidelines for Members and Agencies](#)** – NSW Treasury (2020)

Provides information on the operation of the prequalification scheme.

**[Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members – Scheme Conditions](#)** – NSW Treasury (2020)

Provides information about the prequalification scheme's application process, including:

- the eligibility criteria for members and Chairs, and
- remuneration rates.

**[Public Sector Audit Committees: Independent assurance and advice for Accountable Authorities](#)** – Australian National Audit Office (2015)

Provides information about the role and functions of audit, risk and improvement committees, including:

- member roles and responsibilities
- how to foster good relationships between the council and committee, and
- checklists for:
  - secretariat actions
  - planning forward meeting agendas, and
  - assessing the performance of members.

**[Service Delivery Review: A how to manual for local government \(second edition\)](#)** – Australian Centre of Excellence for Local Government (2015)

Outlines the factors councils and audit, risk and improvement committees may consider when reviewing service delivery by the council.

**[Setting up the Audit Committee](#)** – PriceWaterhouseCoopers (2011)

Provides information on:

- how a council might assess the financial literacy of an audit, risk and improvement committee member, and
- best practice for inducting new committee members.

**[The Role of the Audit Committee Chair](#)** – KPMG (2019)

Provides information on the role of audit, risk and improvement committee chairs, particularly in relation to:

- running committee meetings, and
- overseeing risk management.



# Core requirement 2:

## **Risk management**

- Each council and joint organisation must implement a risk management framework that is consistent with current Australian standards for risk management

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## Guiding principles for risk management

- Each council must accept responsibility and accountability for risk management in the council
- Each council has a risk management framework that is appropriate for that council and is consistent with the accepted Australian risk management standard
- Risk management is an integral part of all council management, operations, functions and activities and it is clear who is responsible for managing each risk
- Each council supports the development of a positive risk culture
- Councils regularly review their risk management framework and can flexibly adapt their risk management activities to suit their operations and risk profiles
- Each council is accountable to the community for complying with its statutory obligation to adopt and maintain a risk management framework.

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## Standards

**Each council must manage its strategic and operational risks and implement a risk management framework that is consistent with the current Australian risk management standard and appropriate for the council's risks.**



It is recognised that each council will have different risk management requirements depending on its size, needs, budget, operational complexity and risk management maturity.

Councils have the flexibility under the Australian risk management standard to adapt the size, scope and delivery of their risk management framework provided it reflects the principles, key elements and processes set out in the standard for managing risks in any sized council or organisation.

Councils can adopt additional requirements that supplement those in the standard provided they do not conflict with the standard.

The current risk management standard at the time of the release of these Guidelines is *AS ISO 31000:2018 Risk Management – Guidelines*.

Under current licensing and copyright requirements, each council will need to purchase an individually licensed copy of *AS ISO 31000:2018* from Standards Australia to obtain a full copy of the standard.

The following is a summary of the definitions, principles, key elements and process of *AS ISO 31000:2018*.

### Definitions

The definition of 'risk' and 'risk management' adopted by councils as part of their risk management framework will be the same as that adopted in the current Australian risk management standard.

At the time of printing, *AS ISO 31000:2018* defines:

- risk as 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"*, and
- risk management as *"coordinated activities to direct and control an organisation with regard to risk"*.

### Principles

In summary, *AS ISO 31000:2018* requires a council's approach to risk management to be based on the following eight specific principles to ensure it is effective:

- **integrated** - risk management is integrated into all council activities and decision-making processes
- **structured and comprehensive** - risk management is a structured and comprehensive process that achieves consistent and comparable results

- **customised** - the risk management framework and process are customised to the council
- **inclusive** - risk management is inclusive of all stakeholders and enables their knowledge, views and perceptions to be considered
- **dynamic** - risk management is dynamic and able to respond to changes and events in an appropriate and timely manner
- **best available information** - risk management decisions are based on the best available information and takes into account any limitations and uncertainties
- **human and cultural factors** - risk management takes into account human and cultural factors, and
- **continual improvement** - risk management is continuously and periodically evaluated and improved through learning and experience.

## Key elements

To achieve these principles, *AS ISO 31000:2018* requires each council to ensure its risk management framework demonstrates the following six elements:

### Leadership and commitment

*AS ISO 31000:2018* requires risk management to be supported by a positive culture that promotes and communicates risk management as part of everyday activities and decision-making.

The standard states that this culture can only exist when management (i.e. the governing body, general manager and senior staff) demonstrate strong leadership and commitment to risk management.

Practical measures the governing body and/or general manager can take under *AS ISO 31000:2018* to exhibit strong leadership in risk management are set out further below.

## Integration

*AS ISO 31000:2018* requires that risk management be fully integrated within a council and made part of the council's purpose, governance, leadership, strategy, objectives and operations.

Risk is to be managed in every part of the council's organisational structure and every council employee be responsible for managing risk.

## Design

*AS ISO 31000:2018* requires that the design of a council's risk management framework:

- is based on the unique needs, characteristics and risks of the council, and its external and internal context
- demonstrates the council's continual commitment to risk management
- assigns risk management roles, responsibilities and accountabilities within the council
- allocates appropriate council resources for risk management, and
- effectively documents and communicates risk management across the council.

## Implementation

*AS ISO 31000:2018* requires that each council implements its risk management framework by:

- developing a risk management plan that provides structure for how the council will implement its risk management policy and conducts its risk management activities, and
- ensuring the council's risk management activities are clearly understood and practiced.

The plan should identify decision makers for risk within the council and ensure risk management processes and arrangements are well understood by the council and practiced.

## Evaluation

*AS ISO 31000:2018* requires that each council regularly evaluates the effectiveness of its risk management framework and determines whether it remains suitable.

## Improvement

*AS ISO 31000:2018* requires that each council continually adapts and improves the design of its risk management framework and how it is integrated throughout the council to help the council move to a higher level of risk maturity.

## Process

*AS ISO 31000:2018* provides each council with a systematic process to identify, assess and prioritise risks, decide how they will be managed, and document and communicate them across the council.

The process defined in *AS ISO 31000:2018* consists of the following steps:

- defining the scope of the council's risk management activities to assist in planning the council's risk management approach
- establishing the internal and external context to ensure that the council understands the internal and external environment it operates in and how risk management will impact, and be impacted by these
- deciding the performance indicators the council will use to measure the effectiveness of its risk management framework and identify gaps between its actual and desired performance
- defining the council's risk criteria/appetite – that is, the amount and type of risk that the governing body is willing to take, or not take, in order to achieve its strategic plan and objectives
- conducting risk assessments to determine what risks need to be managed
- deciding risk treatment options
- developing risk treatment plans that document how controls will be implemented, and
- writing risk reports that will document and communicate the risk management

framework to all staff and be used by the council to regularly review the risk management framework.

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## County councils and joint organisations

County councils and joint organisations have a lower risk profile than larger and more operationally complex general-purpose councils.

However, they are still responsible for the expenditure of public money, providing services (in the case of county councils), and delivering outcomes on behalf of their member councils and regions (in the case of joint organisations), and need to identify and manage risks appropriately.

Given their lower risk profiles, county councils and joint organisations can share the administration of their risk management framework with another council to reduce costs.

Alternatively, joint organisations can undertake the coordination and administration of their member councils' risk management frameworks on behalf of the councils.

Any shared risk management function must operate as an individual resource for each council in the shared arrangement and fulfil the statutory requirements for each council individually.

A shared risk management function should only be established and utilised by a county council or joint organisation where the shared function can maintain a high level of understanding and fulfilment of each council's risk management needs, as well as effective working and reporting relationships with the general manager and senior staff of each council in the shared arrangement.

Councils that establish a shared risk management function should develop and sign a formal agreement with the other councils in the shared arrangement which outlines how

the shared arrangement will operate and costs are shared.

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## Resourcing

AS ISO 31000:2018 requires each council to ensure sufficient resources are allocated to implement the council's risk management framework and deliver the internal controls needed to ensure the council's risks are appropriately managed.

In practice, this responsibility will fall to the governing body and/or general manager of the council.

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 and/or general manager makes informed budgeting decisions, the audit, risk and improvement committee is to advise of the resources it considers that the council needs to effectively implement its risk management framework, having regard to any budgetary constraints facing the council and the council's operational environment.

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## Roles and responsibilities

AS ISO 31000:2018 requires that each council assign risk management roles and responsibilities to all relevant roles within the council.

To ensure effective implementation, the standard also requires each council to

demonstrate strong leadership and commitment to risk management.

In practice, this will see the general manager, governing body and council staff take on the following responsibilities:

### Governing body – strategic leadership

Consistent with the governing body's strategic leadership role under section 223 of the Local Government Act, the governing body is responsible for setting the foundational elements of council's risk management framework and the 'tone at the top'.

This includes approving via resolution the council's risk criteria/appetite – a statement that conveys how much risk will be tolerated by the governing body in the pursuit of the strategic objectives for the council, and how risk is to be managed and decisions made within this context.

The council's risk criteria/appetite is to be approved in consultation with the audit, risk and improvement committee.

### General manager – operational leadership

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 has ultimate responsibility and accountability for risk management in the council.

The responsibility is also specified in the Local Government Regulation (clause #tbc).

This includes:

- overseeing the council's risk management framework and ensuring it is effectively communicated, implemented and reviewed regularly
- approving the council's risk management policy, plans and risk reports (where applicable)
- promoting and championing a positive risk culture

- assigning authority and accountability for risk management at appropriate levels and to appropriate staff in the council, and ensuring they are held accountable for these responsibilities
- annually attesting that council's risk management framework complies with statutory requirements (see below), 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 responsibility for key aspects of the council's risk management framework to a senior manager or group of senior managers established for this purpose.

The delegate would report to the general manager on risk management issues.

An example risk management policy is provided at **Appendix 5**.

## Risk management function – oversight and facilitation

Each council is to establish a risk management function 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 council's risk management function is a key support to the general manager in meeting their risk management responsibilities and reports directly to the general manager or their delegate.

Each council will have the flexibility to establish its risk management function based on its structure, resourcing, risk management needs and risk management maturity.

Regardless of its structure and composition, the role and responsibilities of the risk management function should include:

- supporting the general manager 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 general manager or their delegate
- 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 its role, the risk management function needs to:

- 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.

### Dual responsibilities

It is important that the risk management function is independent of line management to reduce the potential for management influence on the risks that are reported on, and to ensure independence.

Where risk management oversight or facilitation activities are performed by council staff with other council responsibilities, the council must put safeguards in place 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 other council responsibilities the risk management function has, including reporting lines, responsibilities and expectations related to the role/s
- any potential issues or conflicts of interest arising from these other roles being formally documented and communicated to the committee
- risk management staff being prohibited from undertaking risk management evaluations and reviews in relation to the council operations they are responsible for, and/or
- the committee regularly assessing that the safeguards put in place are effective.

## Internal audit function – review and assurance

Council's internal audit function is responsible for reviewing and providing advice to the audit, risk and improvement committee and the council on the effectiveness of the council's risk management framework.

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 relation to 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 and 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/appetite
  - impose risk management processes
  - decide or implement risk responses, or
  - be held accountable for risk management activities.

## Audit, risk and improvement committee – advice and assurance

An audit, risk and improvement committee's role in relation to risk management is to support the governing body and general manager to ensure that the council's risk management framework is appropriate and operationally effective.

The breadth and depth of this assurance role is to be determined by the council and the audit, risk and improvement committee and could include:

- assessing whether risks at all levels are identified, assessed and reviewed regularly by the council

- being involved in the regular review of the council's risk register
- reviewing the integration of risk management into business planning and program implementation activities, and/or
- providing assurance in relation to the management of risk or governance arrangements on individual projects, programs or activities.

**Appendix 4** provides further examples of the activities the audit, risk and improvement committee could perform in relation to risk management.

## Review and reporting

### Quarterly reporting

Each council is to ensure its risk management framework is regularly monitored and reviewed to ensure it is relevant, effective and complies with the current Australian risk management standard.

Each council is to base its ongoing monitoring and review process on its own needs, however, this should include at a minimum, providing quarterly advice from the risk management function to the general manager or their delegate.

This will ensure that risks are being correctly identified, prioritised and treated, and any emerging problems are known and rectified quickly.

### Annual assessment

Each council's risk management function is to conduct an annual self-assessment of the council's risk management framework.

The annual self-assessment is to report to the general manager whether the council's risk management framework:

- complies with statutory requirements
- is sufficiently resourced
- operates effectively, this includes whether:

- the internal control framework appropriately reflects the council's risk criteria/appetite
- 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 are current and appropriate
- 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.

The general manager should discuss the annual assessment of the council's risk management function with the governing body and audit, risk and improvement committee at the council's strategic assurance meeting held each council term.

### Strategic assessment

The Local Government Regulation (clause #tbc) requires that a council's audit, risk and improvement committee keep the implementation of a council's risk management framework under review and provide advice to the council on its implementation.



**A council's audit, risk and improvement committee must provide an assessment of the effectiveness of the council's risk management framework to the governing body each council term, as part of the committee's four-yearly strategic assessment.**



As part of the audit, risk and improvement committee's assessment of the council's risk management function, it should consider whether:

- the council is providing sufficient resources for risk management
- the council's risk management framework complies with statutory requirements, and
- the council's risk management framework operates effectively, is being complied with and supports the achievement of the council's strategic goals and objectives

The general manager is to develop an action plan for the governing body to address any risk management issues identified by the committee.

The audit, risk and improvement committee and general manager should discuss the strategic assessment and action plan with the governing body at the council's strategic assurance meeting held each council term.

## Performance measures

To ensure the effectiveness of council's risk management activities can be regularly monitored and reviewed, each council must ensure that it:

- assigns performance targets to risk management activities that can be measured against goals and objectives, and
- can obtain the data needed to measure the impact of the council's risk management framework.

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## Annual attestation

The Local Government Regulation (clause #tbc) requires the general manager to attest each year in the council's annual report whether the council has complied with the following requirements in relation to its risk management activities:

- council has adopted a risk management framework that is consistent with current Australian risk management standards and appropriate for the council's risks, and
- the council's audit, risk and improvement committee reviews the implementation of the council's risk management framework and issues an assessment of the effectiveness of the council's risk management framework to the governing body each council term.

Further information on annual attestation requirements is provided in the statutory framework section of these Guidelines.

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## Further resources

The following resources may be useful to councils seeking more information about the establishment and operation of their risk management framework. They provide examples, checklists, samples, templates and other practical tools councils could use.

This is not an exhaustive list but provides a useful starting point for councils that seek further information.

### **[A Guide to Risk Management – The State of Queensland \(Queensland Treasury\) \(2020\)](#)**

Provides guidance on how to apply the Australian risk management standard, including checklists for each stage of the risk management process.

### **[AS ISO 31000:2018 Risk Management – Guidelines – International Standards Organisation \(2018\)](#)**

The current Australian risk management standard at the time of printing (for purchase from the International Standards Organisation)

### **[Audit Committee Guidelines – Improving Accountability and Performance – The State of Queensland \(Queensland Treasury and Trade\) \(2012\)](#)**

Provides checklists of the matters audit, risk and improvement committees are to consider when reviewing a council's risk management framework and internal controls.

### **[Dealing with Corruption, Fraud and the ICAC: the role of public sector Audit and Risk Committees – Independent Commission Against Corruption \(2020\)](#)**

Provides information about the role of risk management in relation to fraud and corruption.

### **[Risk Management Toolkit for Public Sector Agencies \(TPP 12-03\) – NSW Treasury \(2012\)](#)**

Consists of three parts:

- Executive Guide (TPP 12-03a)
- Volume 1 – Guidance for Agencies (TPP 12-03b), and
- Volume 2 – Templates, Examples and Case Study (TPP 12-03c).

Provides detailed and practical advice on the various elements of the Australian risk management standards (ISO 31000), templates and worked examples.

### **[The Three Lines of Defence in Effective Risk Management and Control – Institute of Internal Auditors \(2013\)](#)**

Outlines the three lines of defence approach to risk management and the role of management and internal audit in risk management.

### **[The Role of Internal Auditing in Enterprise-Wide Risk Management – Institute of Internal Auditors](#)**

Outlines what enterprise risk management is, how it can be implemented and the role of internal audit in risk management.

### **[Victorian Government Risk Management Framework Practice Guide – Victorian Managed Insurance Agency \(2016\)](#)**

Provides guidance on how to apply the Australian risk management standard, including examples of a risk appetite/criteria statement.

# Core requirement 3:

## **Internal audit**

- Each council and joint organisation must have an independent internal audit function that reports to the audit, risk and improvement committee and is consistent with current international standards for internal audit

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## Guiding principles for internal audit

- The internal audit function operates independently and with appropriate expertise in a manner that is appropriate for the council.
- The internal audit function has access to all council information necessary to fulfil its role and responsibilities
- The internal audit function is appropriately positioned in the council's governance framework to ensure its work complements the work of other internal and external assurance providers
- The internal audit function has a comprehensive work plan linked to the council's strategic objectives and current and emerging risks
- The audit, risk and improvement committee receives relevant and timely advice from the internal audit function to ensure the committee can fulfil its role and responsibilities
- The internal audit function operates in a manner consistent with accepted international standards
- The work of the internal audit function is thoroughly planned and executed, risk-based, client-focused and linked to the council's strategic goals
- The internal audit function adds value to the council and is held accountable by the committee and governing body for its performance, and
- Each council is accountable to the community for the effective implementation of its internal audit function.

Internal audit is defined in the International Professional Practices Framework issued by the Institute of Internal Auditors as '*an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objective by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes*'.

**A council's internal audit function must operate independently of the council and internal audit activities cannot be subject to direction by the council.**



**To ensure that the internal audit function remains independent from council management it must have a dual reporting line that reports:**



- **administratively to the general manager or a sufficiently senior role in the council to ensure the internal audit function fulfils its responsibilities, and**
- **functionally to the audit, risk and improvement committee.**

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## Resourcing

The governing body and general manager of the council must ensure that the council's internal audit function is sufficiently resourced to effectively carry out its work. The chair of the audit, risk and improvement committee should be consulted on the resourcing required.

The audit, risk and improvement committee's resourcing recommendations are to be minuted by the committee.

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## Independence

**Each council in NSW, (including county council and joint organisation) must have an internal audit function to provide an independent unbiased assessment of the council's operations and risk and control activities.**



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## Internal audit charter

It is important that council's internal audit function has clear guidance on how it should serve the audit, risk and improvement committee and the council, and that the committee and council has input into how the internal audit function will operate.

This will ensure there is no ambiguity between the audit, risk and improvement committee, the council or the internal audit function and that the performance of the internal audit function can be assessed.

**The Local Government Regulation (clause #tbc) requires each council to adopt an internal audit charter, consistent with the approved Model Internal Audit Charter (Appendix 6), to guide how internal audit will be undertaken by the council and measure its effectiveness.**



The internal audit charter is to be developed by the audit, risk and improvement committee in consultation with the general manager and the head of the internal audit function and approved via resolution by the governing body of the council.

The Local Government Regulation (clause #tbc) allows councils to include additional provisions in their internal audit charter so long as they are not inconsistent with the approved Model Internal Audit Charter.

The audit, risk and improvement committee is to review the council's internal audit charter annually in consultation with the general manager and the head of the internal audit function.

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## Role of the general manager

Consistent with their role under the Local Government Act (section 355) to conduct the day-to-day management of the council, the general manager has administrative

responsibility for internal audit under the Local Government Regulation (clause #tbc).

This means that the general manager is responsible for:

- advising the governing body on the resources required for the effective functioning of the internal audit function
- ensuring appropriate administrative support is provided to support the work of the internal audit function - for example, access to council's human resources networks, payroll, work health and safety, office facilities and resources, council information etc
- ensuring that the internal audit function is appropriately positioned within the council to work with external bodies and internal business units and fulfil its role and responsibilities
- ensuring the internal audit function complies with the International Professional Practices Framework, and
- annually attesting, on behalf of the council, that the council is fulfilling its statutory obligations in relation to internal audit.

The general manager has no role in the performance of the internal audit function - for example, the conduct of internal audits, the audit techniques used, or the reporting of internal audit findings to the audit, risk and improvement committee.

## Delegation

The general manager can, in consultation with the governing body of the council and the audit, risk and improvement committee, delegate their functions in relation to the oversight of the council's internal audit function to another role in the council that is sufficiently senior to ensure the internal audit function meets its responsibilities.

In making a delegation, consideration should be given to how the delegation will influence the internal audit function's ability to achieve the internal audit charter given the:

- seniority and expertise of the delegate and demands placed on them by their other roles and responsibilities in the council

- support available to the delegate to successfully execute their delegation in relation to internal audit
- complexity of the council's core business
- risk profile of the council
- expectations of stakeholders, and
- likely demands placed on the internal audit function.

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## Role of the audit, risk and improvement committee

Under the Local Government Regulation (clause #tbc), the audit, risk and improvement committee exercises functional oversight of a council's internal audit function to ensure it operates independently from the council.

This means that the audit, risk and improvement committee is responsible for:

- assisting the governing body to identify the resources necessary for the effective functioning of the internal audit function
- setting the annual and four-yearly work plans for the internal audit function, including the audits that will be completed
- assessing the findings and recommendations of completed audits and providing the committee's advice and opinion on issues raised to the general manager and governing body of the council
- developing the internal audit charter that will guide the work of the internal audit function and how it operates, and
- reviewing the performance of the internal audit function.

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## Structure

Each council will have different internal audit function requirements depending on the council's size, needs, budget and operational complexity and can either:

- establish an internal audit function for their own exclusive use, or
- share their internal audit function with another council, county council or joint organisation.

For cost and administrative efficiency, councils are also able to:

- establish an in-house internal audit function comprising of council staff/contractors, and/or
- outsource their internal audit function to an external provider/s – for example, a private sector accounting firm, internal audit firm, internal audit contractor etc.

These options will assist councils, county councils and joint organisations:

- to establish their internal audit function in the most cost-effective way
- in remote locations that may find it difficult to appoint or retain the staff necessary to support a stand-alone internal audit function
- to access a larger resource pool than would be available to a single council, and
- create efficiencies through common systems, shared knowledge and internal audit tools.

When deciding the most appropriate way to structure a council's internal audit function, the general manager should consider the viability and capacity of a shared internal audit function to achieve the council's internal audit charter 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
- expectations of stakeholders, and
- likely demands placed on the internal audit function by other councils in the shared arrangement.

**Whatever structure is adopted, the head of a council's internal audit function must:**



- **be a council employee and cannot be outsourced, other than through a shared arrangement with another council, and**
- **meet the eligibility and independence criteria for the position.**

This is to ensure that the council retains strategic control of the internal audit function and can actively monitor its performance.

## County councils

County councils may enter into a shared arrangement with one of their constituent councils or another county council.

## Joint organisations

Joint organisations that do not host a shared internal audit function for the use of their member councils can enter into a shared arrangement with a member council.

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## In-house internal audit function

An in-house internal audit function is where internal auditors and other staff (where required) are employed by the council to conduct the internal audits and other activities in the audit, risk and improvement committee's annual and four-yearly strategic work plan.

The advantages of establishing an in-house internal audit function may include:

- council retaining ownership of internal audit information
- confidentiality of sensitive information contained in audits
- stronger direction and oversight by the council of the internal audit function with more direct control over the quality of audits conducted

- internal auditors having council-specific knowledge and experience that delivers better audit results
- greater agility to respond quickly to emerging issues, and
- the retention of corporate knowledge within the council.

Disadvantages may include:

- challenges attracting and retaining suitable staff
- specialist skills may not be available in-house
- reduced flexibility, and
- the need to provide council facilities and office space for internal audit personnel.

Councils that establish an in-house internal audit function are not limited to employing staff members and can supplement the internal audit team's work with audits undertaken by external providers where necessary.

Councils that have been categorised as a tier 2 or tier 3 council are encouraged to establish an in-house internal audit function given their:

- significant assets
- higher risk profiles
- higher levels of expenditure, and
- more complex transactions and operations.

## Head of an in-house internal audit function

Each council's internal audit function must be led by a staff member with sufficient skills, knowledge, experience and integrity to ensure it undertakes its role appropriately, meets its responsibilities to the audit, risk and improvement committee and makes a valuable contribution to the council.

The head of an in-house internal audit function (described as the 'chief audit executive' in the International Professional Practices Framework) also needs to report to the general manager or a sufficiently senior role in the council that ensures the internal audit function fulfils its responsibilities.

For some councils with larger budgets and higher risks, the head of the internal audit function will require the support of a dedicated internal audit team to fulfil the internal audit charter.

For other smaller councils, their size and risk profile may not justify additional internal audit staff and the head of the internal audit function will be sufficient.

The head of the internal audit function may also have other council responsibilities outside of internal audit.

## Role and responsibilities

For all in-house internal audit functions, regardless of size, the key responsibilities of the head of the internal audit function include:

- managing the day-to-day activities of the council's internal audit activities to ensure they add value to council
- managing the council's internal audit budget
- supporting the operation of the audit, risk and improvement committee
- approving internal audit project plans, conducting or supervising audits and assessments and providing independent advice to the committee
- monitoring the council's implementation of corrective actions that arise from the findings of audits
- fulfilling the committee's annual work plan and four-yearly strategic plan
- ensuring the council's internal audit activities comply with statutory requirements
- managing internal audit personnel and ensuring that they have the skills necessary to fulfil the role and responsibilities of the internal audit function (where appropriate), and
- contract management and oversight of supplementary external providers (where appropriate).

## Eligibility criteria

To fulfil these responsibilities, the head of the internal audit function:

- must be a council employee and cannot be outsourced, other than through a shared arrangement with another council – this is to ensure that the council retains strategic control of the internal audit function and is able to actively monitor the performance of the internal audit function
- must be independent, impartial, unbiased and objective when performing their work and free from conflicts of interest
- should possess the following skills, knowledge and experience to effectively carry out their role:
  - the credibility to ensure they can negotiate on a reasonably equal footing with the general manager (or their delegate), governing body and audit, risk and improvement committee
  - the skills, knowledge and personal qualities necessary to lead credible and accepted internal audit activities in the council
  - strong experience overseeing internal audit
  - appropriate qualifications and professional certifications, and
  - local government experience (preferred).

The head of the internal audit function must also operate and conduct their internal audit activities in accordance with the International Professional Practices Framework, including its Code of Ethics.

As a council employee, the head of the internal audit function must comply with all relevant council policies and procedures as required by other council staff members, including the council's code of conduct.

## Independence

It is important that the head of an in-house internal audit function has the functional independence to ensure that this role has the freedom necessary to independently assess and report on the way council operates. As a safeguard, the Local Government Regulation (clause #tbc) requires the general manager to consult with the chair of the audit, risk and improvement committee before



appointing or changing the employment conditions of the head of the internal audit function (including disciplinary measures).

Where dismissal occurs, the general manager must report to the governing body advising of the reasons why the head of the internal audit function was dismissed.

Where the chair of the audit, risk and improvement committee has any concerns about the treatment of the head of the internal audit function, or any action taken that may compromise the head of the internal audit function's ability to undertake their functions independently, they can report their concerns to the governing body of the council.

The head of the internal audit function is required to confirm at least annually to the audit, risk and improvement committee the independence of internal audit activities from the council.

### **Access to council staff and information**

**All internal audit personnel, including the head of an in-house internal audit function have direct and unrestricted access to council staff, the audit risk and improvement committee and council information and resources necessary to undertake their role and responsibilities.**



All council staff and contractors should have unrestricted access to the head of the internal audit function to allow them to alert them to emerging risks or internal audit related issues.

### **Internal audit team**

Any other staff members appointed to council's in-house internal audit function report directly to the head of the internal audit function.

As council employees, internal audit staff must comply with all relevant council policies and procedures including the council's code of conduct.

In-house internal auditors must also conduct internal audit activities in accordance with the International Professional Practices Framework.

Internal audit should be performed by professionals with an appropriate level of understanding of the council's culture, systems and processes to provide assurance that the internal controls in place are sufficient to mitigate the risks, that the governance processes are adequate and that organisational goals and objectives are met.

In-house internal auditors should therefore possess the following skills, knowledge and experience to effectively carry out their role:

- the skills, knowledge and experience necessary to conduct internal audit activities in the council – for example:
  - accounting
  - finance
  - economics
  - governance
  - management
  - law
  - taxation
  - fraud and corruption
  - IT
- effective interpersonal and communication skills to ensure they can partner with council staff effectively and collaboratively
- honesty, integrity and due diligence, and
- appropriate qualifications and professional certifications.

Local government experience or expertise is also strongly preferred.

### **Dual responsibilities**

To ensure the internal audit function's independence and objectivity, it is best practice that the head of the in-house internal audit function and any other members of an in-house internal audit team have no other council responsibilities other than internal audit.

However, it is recognised that some councils may find it difficult to employ a stand-alone head of an in-house internal audit function or other supporting internal auditors due to the

cost involved, the council's location and/or that the size of the council's operations and risk profile or the council's organisational structure may not warrant stand-alone employees.

Councils can therefore combine the head of the internal audit function's role and/or the role of a member of the internal audit team with another council role or responsibilities 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.

An internal audit role must not be combined with the role of the general manager, chief financial officer or risk management function as it will create conflicts of interest that cannot be resolved.

Councils can also share their head of the internal audit function with another council, county council or joint organisation as part of a shared arrangement.

Depending on the specific needs and circumstances of the council, safeguards could include:

- any potential issues or conflicts of interest arising from a dual role being formally documented in council's internal audit charter
- the audit, risk and improvement committee, or another suitably qualified and independent party, reviewing internal audit briefs, findings and recommendations before they are finalised where they concern any key risks overseen by the head of the internal audit function or internal audit team member in another role
- the head of the internal audit function or an internal audit team member not having responsibility for managing any risks or implementing any audit recommendations or corrective actions in their other role/s, and/or
- the committee including an assessment of the independence and objectivity (for internal audit purposes) of the head of the internal audit function or any internal audit team members with a dual role in their

annual assessment report to the governing body.

The endorsement of the governing body, in consultation with the audit, risk and improvement committee is also required before any combined roles can commence.

Where the head of the internal audit function has a dual role in a council, they are to remain independent and report functionally to the audit, risk and improvement committee on their internal audit responsibilities.

For other council responsibilities, the head of the internal audit function reports functionally through normal council reporting lines to the general manager.

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## Outsourced internal audit function

Where a council outsources their internal audit function, the internal audits required by the audit, risk and improvement committee are undertaken by an external provider such as an internal audit or accounting firm, or an individual practitioner.

Contract management is overseen by an employee within the council.

The advantages of using external providers for internal audit activities may include:

- flexibility
- access to a wide range of expertise and experience, especially outside of local government and provide expertise the council may not have
- provides a window to better practice methods that small councils may find difficult to access
- the ability to purchase services as and when required
- can increase internal audit's independence from the council
- overcoming challenges recruiting a head of an internal audit function or internal audit staff, and
- potential to negotiate lower fee-for-service costs.

Disadvantages may include:

- increased costs
- potential loss of corporate knowledge from the council
- difficulty building and maintaining professional relationships between council management and external contractors
- reduced oversight and control of internal audit activities
- additional in-house staff time required to source and manage external providers and contracts
- the external provider lacking council-specific knowledge
- internal audit coordinator is unlikely to be audit trained and may not have the knowledge to ensure audit quality is maintained, and
- potential confidentiality breaches.

Given their size, resources, geographical isolation, risk profiles and complexity of operations, tier 1 councils are encouraged, at a minimum, to establish an outsourced internal audit function.

## Head of an outsourced internal audit function

Compared to the head of an in-house internal audit function which personally conducts or supervises internal audits and provides their personal opinions and recommendations to the audit, risk and improvement committee, the head of an outsourced internal audit function will, in practice, primarily be a coordination and administrative role.

The key responsibilities of any council staff member assigned responsibility for leading an outsourced internal audit function is to include:

- contract management
- managing internal audit budget
- ensuring the external provider completes internal audits in line with the audit, risk and improvement committee's annual plan and four-yearly strategic plan
- forward audit reports by the external provider to the committee
- act as a liaison between the external provider and the committee

- monitoring the council's implementation of corrective actions that arise from the findings of audits and reporting progress to the Committee, and
- assisting the committee to ensure the council's internal audit activities comply with statutory requirements.

To fulfil these responsibilities, the head of an outsourced function:

- reports functionally to the audit, risk and improvement committee
- must be free from conflicts of interest
- must be a council employee and cannot be outsourced, other than through a shared arrangement with another council, county council or joint organisation - this is to ensure that the council retains control of the internal audit function and is able to actively monitor the performance of the external provider
- should possess the following skills, knowledge and experience to effectively carry out their role:
  - a good understanding of the work of audit, risk and improvement committees and internal audit, and
  - the skills, knowledge and personal qualities necessary to manage the council's contract with the external provider and liaise between the external provider and the audit, risk and improvement committee.

As a council employee, the head of an outsourced function must comply with all relevant council policies and procedures as required by other council staff members, including the council's code of conduct.

### Dual responsibilities

The head of an outsourced internal audit function can be assigned other roles and responsibilities in the council.

Where the head of an outsourced function has a dual role in a council, they are to remain independent and report functionally to the audit, risk and improvement committee in relation to their internal audit responsibilities.

For other council responsibilities, the head of an outsourced function reports functionally through normal council reporting lines to the general manager.

Councils can combine the head of an outsourced function's role with another council role or responsibilities provided that there are adequate safeguards put in place by the council to limit any real or perceived bias or conflicts of interest.

Depending on the specific needs and circumstances of the council, safeguards could include:

- any potential issues or conflicts of interest arising from a dual role being formally documented in council's internal audit charter
- the audit, risk and improvement committee endorsing the dual roles before they can commence
- the head of the outsourced function not having responsibility for managing any risks or implementing any audit recommendations or corrective actions in their other role/s, and/or
- the committee including an assessment of the independence and objectivity (for internal audit purposes) of the head of the outsourced function in their annual assessment report to the governing body.

## External provider/s

It is important that any external provider engaged by a council is independent and can objectively assess and report on the way council operates.

To ensure the independence of an external provider, the head of the outsourced function is to ensure the external provider:

- does not conduct any audits on specific council operations or area that they have worked on within the last two years
- is not the same auditor conducting the council's external audit
- is not the auditor of any contractors of the council that may be possibly subject to the internal audit, and

- is able to meet the council's statutory internal audit obligations.

The head of the outsourced function must also consult with the audit, risk and improvement committee and general manager regarding the appropriateness of the skills, knowledge and experience of any external provider before they are engaged by the council.

## Chair of the audit, risk and improvement committee

The chair of an audit, risk and improvement committee that oversees an outsourced internal audit function is likely to have greater responsibilities than that of an in-house internal audit function.

As the head of an outsourced function is largely a coordination/administrative role, committee members, and in particular the chair of the Committee, will do the 'heavy lifting' and be the primary source of advice on the findings and recommendations of audits conducted by the external provider and assurance to the council.

Councils that establish an outsourced internal audit function must ensure that their audit, risk and improvement committee has the capacity and capability to undertake this increased role.

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## Shared internal audit function

Under the Local Government Regulation (clause #tbc) councils can:

- share an internal audit function with another council or joint organisation as part of an independent shared arrangement
- utilise the internal audit function established by their joint organisation that is shared by member councils
- for county councils - share an internal audit function with a constituent council, or

- for joint organisations - share an internal audit function with a member council.

Councils can establish an in-house or outsourced internal audit function as part of a shared arrangement.

A shared internal audit function must operate as a standalone internal audit function for each participating council in the shared arrangement and satisfy statutory requirements for each participating council.

A shared internal audit function should only be established and utilised where all participating councils can be confident that the shared function can deliver a high level of understanding and fulfilment of each council's internal audit needs and maintain effective working and reporting relationships with each participating council in the shared arrangement.

Councils that establish a shared internal audit function should develop and sign a formal agreement with the other councils in the shared arrangement which outlines how the shared arrangement will operate and how costs will be shared.

## Implementation

Given the administrative complexity of an internal audit function shared between councils and reporting to multiple governing bodies and general managers, the following arrangements are recommended:

- the internal audit function is hosted by one of the councils, county councils or joint organisations in the shared arrangement
- the head of the internal audit function and any other internal audit team members are employees of the host council
- the head of the internal audit function reports administratively to the general manager (or their delegate) of the host council, and
- the general manager of the host council can only appoint or dismiss the head of the internal audit function in consultation with the general managers and audit, risk and improvement committees of each participating council.

For internal audit functions established by joint organisations and shared between member councils it is recommended that:

- the internal audit function is physically located at the offices of the joint organisation or a member council
- the head of the internal audit function reports administratively to the executive officer of the joint organisation
- the head of the internal audit function and any internal audit staff are employees of the joint organisation, and
- the Executive officer of the joint organisation can only appoint or dismiss the head of the internal audit function in consultation with the general managers and audit, risk and improvement committees of each member council.

## Head of a shared internal audit function

### In-house function

The head of a shared in-house internal audit function needs to be able to:

- liaise with the governing body and general manager of each participating council about that council's internal audit activities
- implement the annual work plan and four-yearly strategic plan for each council
- conduct or oversee the individual audits of each council and monitoring the implementation of corrective actions
- manage any contractual arrangements with external providers on behalf of each council (where required)
- attend the audit, risk and improvement committee meetings of each respective council on behalf of that council, and
- maintain separate and confidential information for each council.

### Outsourced function

The head of a shared outsourced internal audit function needs to be able to:

- manage contracts with external providers on behalf of all councils in the shared arrangement

- liaise with the audit, risk and improvement committee and general manager of each council
- coordinate the completion of audits by the external provider in line with each council's annual plan and four-yearly strategic plan
- provide audit reports by the external provider to the relevant committee and general manager and coordinate council responses
- monitor the implementation by each council of corrective actions that arise from the findings of audits and reporting progress to the committee
- assist each council's committee to ensure the council's internal audit activities comply with statutory requirements, and
- maintain separate and confidential information for each council.

## Workplans

**The work of each council's internal audit function will be guided by the strategic four-yearly workplan and annual workplan developed by the audit, risk and improvement committee (see core requirement 1).**



## Performing internal audits

It is essential that a council's internal audit function performs the council's internal audits to a high and consistent standard and that the findings and recommendations that arise from audits can be relied upon by the audit, risk and improvement committee and the council.

**Each council's internal audits must be performed in accordance with the requirements of the International Professional Practices Framework.**



The internal audit tools, techniques and methodologies used by the internal audit function must 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 consistently with the current Australian risk management standard.

## Audit reports

The head of the internal audit function must provide the findings and recommendations of internal audits to the audit, risk and improvement committee at the end of each audit.

The audit, risk and improvement committee will determine whether audit reports should be distributed to committee members out-of-session as they are completed, or at each quarterly meeting of the committee.

Each internal audit report written must reflect the requirements of the International Professional Practices Framework.

This includes:

- 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 have been prioritised according to risk, and
- a response or action plan from the general manager and/or responsible senior managers of the council.

The head of the internal audit function must 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 audit, risk and improvement committee must agree with the general manager the maximum time period the general manager has 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 should discuss their position with the head of the internal audit function or the chair of the audit, risk and improvement committee 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 are 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 head of the internal audit function is provided regular updates, or as otherwise reasonably requested, 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 with the general manager and in the committee's quarterly report to the governing body so that they are aware of the risks posed to the council.

## Ongoing monitoring

The head of the internal audit function should establish an ongoing monitoring system to track the internal audits undertaken for the

council and follow-up council's progress in implementing corrective actions.

Compliance with regulatory requirements and internal audit standards could also be included as part of ongoing monitoring and self-assessment.

If necessary, any problems identified must be reported to the audit, risk and improvement committee and general manager to ensure they can be rectified quickly before their consequences escalate.

The audit, risk and improvement committee can raise any concerns it has that may arise between meetings with the governing body via an additional report where needed. The chair of the committee can also request to meet with the mayor.

This will ensure that the governing body is fully aware of significant emerging risks posed to the council.

## Policies and procedures

The general manager, in consultation with the audit, risk and improvement committee, must develop and maintain policies and procedures to guide the operation of the council's internal audit function and the performance of internal audits.

These policies and procedures could include:

- the structure and resourcing of the internal audit function
- how internal audits will be conducted, reported, implemented and monitored
- audit methodology
- timeframes for reporting and council's response to recommendations
- how any internal audit-related disputes will be resolved
- the internal audit function's access to council staff, resources and information
- how the performance of the internal audit function will be reviewed
- communication between the audit, risk and improvement committee and internal audit function, and the internal audit function and the general manager, and

- information management including document retention, security and access to audit reports.

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## Providing advice to the audit, risk and improvement committee

Ongoing reporting to the audit, risk and improvement committee is essential to ensure that the committee is kept informed of matters considered by the internal audit function and any emerging issues that may require reporting to the governing body or general manager.

### Quarterly updates

The head of the internal audit function is to ensure that the audit, risk and improvement committee is advised at each of the committee's quarterly meetings of

- the internal audits completed during that quarter
- progress in implementing the annual work plan, and
- progress made implementing corrective actions arising from any past internal audits.

The way this information is communicated is to be decided by the audit, risk and improvement committee in consultation with the head of the internal audit function.

### Ongoing advice

The head of the internal audit function can meet with the chair of the audit, risk and improvement committee at any time, as necessary, between committee meetings.

This is particularly important to ensure that any urgent or emerging issues identified by the internal audit function can be quickly reported to the audit, risk and improvement committee

for consideration and action before their consequences escalate.

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## Internal audit documents

Internal audit documentation includes any information or documents produced or obtained by a council's internal audit function that relates to the internal audit activities of the council.

All internal audit documents:

- are for internal use only, subject to the requirements of the *Government Information (Public Access) Act 2009* (GIPA Act)
- are to remain the property of the audited council, including where internal audit services are performed by an external provider – all rights reside with the audited council
- must be documented, retained and controlled in accordance with the International Professional Practices Framework and council policies
- can be accessed by the audit, risk and improvement committee and external auditor without restriction
- can be accessed by the governing body via resolution, subject to the approval of the chair of the committee (any disputes can be referred to the Office of Local Government for resolution)
- subject to the GIPA Act, can only be released to an external party with the approval of the general manager and the chair of the committee, except where the information is being provided to an external oversight or investigative body for the purposes of informing that agency of a matter that may warrant its attention.

Any internal audit documentation provided to any individual, including members of the governing body, should be treated as strictly confidential.

The chair of the audit, risk and improvement committee may refuse to provide access to



internal audit documents or information to anyone who has previously released such information without authorisation.

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## Review of internal audit function performance

It is important that the work of each council's internal audit function is regularly assessed, and internal auditors held accountable for their performance.

This will ensure that the internal audit function is making a valuable contribution to the council and allows the audit, risk and improvement committee and the council to understand how the council is performing in relation to the matters listed in section 428A of the Local Government Act.

It will also ensure that the audit, risk and improvement committee and council can determine whether any changes to the internal audit function are required.

### Annual assessment

The audit, risk and improvement committee must review the performance of the internal audit function each year and report its findings to the governing body as part of the committee's annual assessment.

The annual assessment is to ensure that any concerns regarding the operation of the internal audit function and compliance with the International Professional Practices Framework can be dealt with before they are identified in the four-yearly strategic review, by which time their consequences may have escalated.

An annual assessment will also encourage continuous improvement of the council's internal audit activity.

The audit, risk and improvement committee is to determine the nature of this assessment. It could be conducted, for example, via a self-

assessment performed by the head of the internal audit function.

More information about the audit, risk and improvement committee's annual assessments is provided under core requirement 1.

### Four-yearly strategic assessment

**A council's audit, risk and improvement committee is to provide an assessment of the effectiveness of the council's internal audit function to the general manager and governing body in each term of the council, as part of the committee's four-yearly strategic assessment.**



This assessment is to occur regardless of whether the council has established an in-house or outsourced internal audit function, as the assessment focuses on how the council has implemented its internal audit function.

As part of the audit, risk and improvement committee's assessment of the council's internal audit function, it should consider:

- the views of an independent external party with strong knowledge of internal audit operation
- the independence of the internal audit function
- whether resourcing is sufficient
- whether the internal audit function complies with statutory requirements and the International Professional Practices Framework
- the appropriateness of annual work plans and strategic plans based on the risks facing the council
- progress against key performance indicators
- whether the internal audit function adds value and delivers outcomes for the council, and
- the appropriateness of the internal audit charter.

To ensure the views of the external party consulted are robust, the external party should have:

- strong skills, knowledge and expertise in internal audit

- a working knowledge of the International Professional Practices Framework, and
- no conflicts of interest that may result in bias or a lack of objectivity.

The audit, risk and improvement committee, in consultation with the general manager, is to develop an action plan for the governing body to address any internal audit issues identified by the committee.

The audit, risk and improvement committee's strategic assessment and action plan is to be discussed with the governing body and general manager at the strategic assurance meeting held each council term.

More information about the audit, risk and improvement committee's strategic assessment is provided under core requirement 1.

- make a public interest disclosure under the *Public Interest Disclosures Act 1994* to the:
  - Independent Commission Against Corruption (concerning corrupt conduct)
  - 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).

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## Reporting concerns about councillors or council staff

Given the nature of internal audit, there may times where the internal audit function identifies concerns about the conduct of council staff.

Where the head of the internal audit function has concerns regarding a staff member, they can:

- 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 Mayor, as required by the *Procedures for the Administration of the Model Code of Conduct for Local Councils in NSW*
- report their concerns through the council's internal reporting policy, complaints handling policy or other associated protocols, and/or

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## Annual attestation

The Local Government Regulation (clause #tbc) requires the general manager to attest each year in the council's annual report whether the council has complied with the following requirements:

- council has an internal audit function that provides an independent unbiased assessment of the council's operations and risk and control activities
- council's internal audit function reports to the audit, risk and improvement committee on internal audit matters
- the internal audit function operates independently of the council
- council's internal audit function operates according to an internal audit charter, which is consistent with the approved Model Internal Audit Charter contained in these guidelines
- council has appointed an appropriately skilled and eligible staff member to direct the council's internal audit activities or is part of a shared arrangement where a participating council has appointed a staff member to lead internal audit
- internal audit activities are conducted in accordance with the International Professional Practices Framework

- council's internal audit function operates according to annual and four-yearly strategic plans adopted by the governing body of the council
- council provides the internal audit function with direct and unrestricted access to the general manager and other staff, council information and resources so it can fulfil its responsibilities, and
- at least once each council term (i.e. four years) the audit, risk and improvement committee conducts a review of the effectiveness of the council's internal audit function.

Further information on annual attestation requirements are detailed in the statutory framework section of these Guidelines.

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## Further resources

The following resources may be useful to councils seeking more information about the establishment and operation of their internal audit function.

This is not an exhaustive list but provides a useful starting point for councils that seek to better understand internal audit, how it can be used by councils to improve performance, and practical tools, examples and templates to adapt for their own use.

### **[International Professional Practices Framework \(mandatory guidance\)](#) – Institute of Internal Auditors (2017)**

Outlines the mandatory requirements for undertaking internal auditing under the International Professional Practices Framework.

Consists of four parts:

- Core Principles for the Professional Practice of Internal Auditing
- Definition of Internal Auditing
- Code of Ethics, and
- International Standards for the Professional Practice of Internal Auditing

### **[International Professional Practices Framework \(recommended guidance\)](#) – Institute of Internal Auditors (2017)**

Provides detailed guidance on how to implement the International Professional Practice Framework.

Consists of two parts:

- Implementation Guide – assists an internal audit function to apply the standards and understand how compliance will be measured by the audit, risk and improvement committee, and
- Supplemental Guide (Practice Guides) – provides detailed processes and procedures for the internal audit function.

### **[How can audit committee members add value?](#) – PriceWaterhouseCoopers (2011)**

Provides a checklist for measuring the performance of an internal audit function.

### **[Internal Audit in Australia](#) – Institute of Internal Auditors Australia (2016)**

Provides an overview of the role of internal audit and the internal audit function, including:

- the different types of work plans that can be used to guide internal audit activity
- the skills, knowledge, experience and qualifications/certifications required of internal auditors
- performing, reporting and monitoring internal audits, and
- how to review the performance of an internal audit function, including performance measures that could be used

### **[Practice Guide – Talent Management: Recruiting, Developing, Motivating and Retaining Great Team Members](#) – Institute of Internal Auditors (2015)**

Provides guidance on how to establish an effective internal audit team (for purchase from the Institute of Internal Auditors).

### **[Quality Assessment Manual for the Internal Audit Activity](#) – Institute of Internal Auditors (2017)**

Outlines how the performance of council's internal audit function can be assessed both internally and externally against the International Professional Practices Framework.

# Implementation



Under the Local Government Act, all councils and joint organisations are required to appoint an audit, risk and improvement committee by June 2022.

Following June 2022, councils will have two years, until 30 June 2024, to comply with the risk management and internal audit requirements under these Guidelines and five years to comply with the audit, risk and improvement committee requirements.

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## Audit, risk and improvement committees

### New Committees

Councils that currently do not have an audit, risk and improvement committee must appoint a Committee by June 2022 that complies with the requirements of these Guidelines.

### Existing Committees

Councils that already have an audit, risk and improvement committee will already comply with the requirement under the Local Government Act to appoint a committee.

These councils will have until June 2027 (five years) to ensure the membership of their committees comply with these guidelines.

Additional transition time is provided to allow the terms of existing audit, risk and improvement committee members that may not otherwise be eligible for membership of the committee under the new requirements, to naturally expire.

Staged compliance will provide greater stability in the membership of existing committees, ensure the retention of corporate knowledge on the committee, and reduce demand on the prequalification scheme.

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## Risk management framework

Councils have until 30 June 2024 to ensure their risk management framework complies with these guidelines.

However, councils that already have a mature risk management framework are encouraged, for their own benefit, to comply sooner.

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## Internal audit function

As a transitional measure, councils will have until 30 June 2024 to ensure their internal audit function complies with these guidelines.

However, councils that already have an internal audit function are encouraged, for their own benefit, to comply sooner.

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## Attestation

Attestation requirements will commence in 2024 for risk management and internal audit, and 2027 for audit, risk and improvement committees.

All councils will be required to publish their attestation certificates commencing with their 2024-2025 annual report.

However, councils with more mature audit, risk and improvement committees, internal audit function and/or risk management frameworks are encouraged to consider publishing attestation certificates in their annual reports sooner.

# Appendix 1:

**Attestation template and  
Determination template**

# Internal Audit and Risk Management Attestation Statement for the [years] Financial Year for [council/joint organisation]

I am of the opinion that [council/joint organisation] has an audit, risk and improvement committee and risk management and internal audit processes that, excluding the exceptions outlined below, operate in compliance with the requirements set out in the *Local Government Act 1993* and *Local Government (General) Regulation* 2005.

Specifically:

## Audit, risk and improvement committee

Requirement	Compliance
[Council's/joint organisation's] audit, risk and improvement committee is independent of the [council/joint organisation] and has three or more members that comply with or exceed the minimum requirements for the [council's/joint organisation's] prescribed category as a [tier #tbc] council	[compliant or non/compliant]
The chair and all members of [council's/joint organisation's] audit, risk and improvement committee meet the eligibility and independence criteria required of their position, and have been appointed in accordance with prescribed membership term limits	[compliant or non/compliant]
[Council's/joint organisation's] audit, risk and improvement committee operates according to terms of reference approved by the [governing body of the council/board of the joint organisation] that are consistent with the approved Model Terms of Reference	[compliant or non/compliant]
[Council's/joint organisation's] audit, risk and improvement committee operates according to annual and four-yearly strategic plans endorsed by the [governing body of the council/board of the joint organisation]	[compliant or non/compliant]
[Council's/joint organisation's] audit, risk and improvement committee provides an annual assessment to the [governing body/board of the joint organisation] each year, and a strategic assessment of all the matters listed in section 428A of the Local Government Act to the [governing body/board] each council term	[compliant or non/compliant, include date of last strategic assessment provided]
The [council/joint organisation] provides the audit, risk and improvement committee with direct and unrestricted access to the [general manager/executive officer], senior management, [council/joint organisation] information and [council/joint organisation] resources so it can fulfil its responsibilities	[compliant or non/compliant]
At least once each council term the [governing body of the council/board of the joint organisation] reviews the effectiveness of the audit, risk and improvement committee.	[compliant or non/compliant, include date of last review]



## Membership

The chair and membership of the audit, risk and improvement committee are:

Independent chair	[name]	[start term date]	[finish term date]
Independent member	[name]	[start term date]	[finish term date]
Independent member	[name]	[start term date]	[finish term date]
Independent member <sup>1</sup>	[name]	[start term date]	[finish term date]
Independent member <sup>1</sup>	[name]	[start term date]	[finish term date]
[Councillor/board] member <sup>1</sup>	[name]	[start term date]	[finish term date]

## Risk Management

Requirement	Compliance
[Council/joint organisation] has adopted a risk management framework that is consistent with current Australian risk management standards and appropriate for the [council's/joint organisation's] risks	[compliant or non/compliant]
[Council's/joint organisation's] audit, risk and improvement committee is responsible for reviewing the implementation of [council's/joint organisation's] risk management framework and issues a strategic assessment of the effectiveness of the [council's/joint organisation] risk management framework to the [governing body/board] each council term.	[compliant or non/compliant, include date of last strategic assessment provided]

## Internal Audit

Requirement	Compliance
[Council/joint organisation] has an internal audit function that provides an independent unbiased assessment of the [council's/joint organisation's] operations and risk and control activities	[compliant or non/compliant]
[Council's/joint organisation's] internal audit function reports to the audit, risk and improvement committee on internal audit matters	[compliant or non/compliant]
[Council's/joint organisation's] internal audit function operates independently of the [council/joint organisation] and internal audit activities are not subject to direction by the [council/joint organisation]	[compliant or non/compliant]
[Council's/joint organisation's] internal audit function operates according to an internal audit charter, which is consistent with the approved Model Internal Audit Charter	[compliant or non/compliant]
[Council/joint organisation] has appointed an appropriately skilled and eligible staff member to direct the [council's/joint organisation's] internal audit activities or is part of a shared	[compliant or non/compliant]

<sup>1</sup> Delete row if optional member not appointed

Requirement	Compliance
arrangement where a participating [council/joint organisation] has appointed a staff member to direct shared internal audit activities	
Internal audit activities are conducted in accordance with the International Professional Practices Framework	[compliant or non/compliant]
[Council's/joint organisation's] internal audit function operates according to annual and four-yearly strategic plans developed by the [council's/joint organisation's] audit, risk and improvement committee and endorsed by the [governing body of the council/board of the joint organisation]	[compliant or non/compliant]
[Council/joint organisation] provides the internal audit function with direct and unrestricted access to the [council/joint organisation] staff, [council's/joint organisation's] audit, risk and improvement committee, [council/joint organisation] information and resources so it can fulfil its responsibilities	[compliant or non/compliant]
At least once each council term [council's/joint organisation's] audit, risk and improvement committee reviews the effectiveness of the [council's/joint organisation's] internal audit function and reports this to the [governing body of the council/board of the joint organisation].	[compliant or non/compliant]

## Departures from regulatory requirements

I advise that the audit, risk and improvement committee, risk management and internal audit activities for [council/joint organisation] depart from the requirements set out in the *Local Government Act 1993* and *Local Government (General) Regulation 2005* in the following ways:

Non-compliance	Reason	Alternative measures being implemented	Exemption granted by the Chief Executive of the Office of Local Government
[regulatory requirement]	[detailed description of reasons giving rise to the non-compliance]	[detailed description of the practicable alternative measures implemented to achieve equivalent level of assurance]	[yes/no]

These processes, including the alternative measures implemented, demonstrate that [council/joint organisation] has established and maintained frameworks, including systems, processes and procedures for appropriately managing audit and risk within [council/joint organisation].

[signed]  
[name and position]  
[date]

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## [Council/joint organisation] compliance with mandatory risk management and internal audit requirements

I am advised that [council/joint organisation] has not complied with the following requirements with respect to the operation of its [audit, risk and improvement committee/risk management/internal audit processes] (omit where relevant):

Requirement	Reason for non-compliance
[regulatory requirement]	[detailed description of reasons giving rise to the non-compliance]

I note that the following alternative arrangements have been implemented to achieve outcomes equivalent to the requirement/s:

Summary of alternative arrangements	How they will achieve equivalent outcomes
[summary of alternative arrangement]	[summary of how they will achieve equivalent outcomes]

I am satisfied that these alternative arrangements will achieve outcomes equivalent to the requirement/s.

This exemption from the requirements of the *Local Government (General) Regulation 2005* is valid for the financial year/s of [years].

[signed]  
[name and position]  
[date]

[Office of Local Government contact officer contact details]

# Appendix 2:

## **Audit, risk and improvement committee – role and responsibilities**



Under section 428A of the Local Government Act, each council (including county councils and joint organisations) must have an audit, risk and improvement committee to independently review and provide advice to the council regarding the following aspects of 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 must also provide information to the council for the purpose of improving council's performance of its functions.

The audit, risk and improvement committee and council are to agree on the specific activities the committee is to review based on the council's needs, risks and business functions.

The following is a list of activities audit, risk and improvement committees and councils should consider as part of the committee's 'audit', 'risk' and 'improvement' roles based on the requirements of section 428A of the Local Government Act.

This is not an exhaustive list and audit, risk and improvement committees and councils are encouraged to carefully consider the council's business operations, service delivery, financial management processes, internal audit function, external accountability requirements, risk management framework, governance arrangements and integrated planning and reporting framework to maximise the advice and assistance the committee can provide to the council.

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## Audit

### Internal audit

section 428A(2)(i)

#### Principle

Council has an effective internal audit function and receives maximum value from its internal audit activities.

#### Committee's role

- Provide overall strategic oversight of internal audit activities
- Act as a forum for communication between the governing body, general manager, senior management, the internal audit function and external audit
- Coordinate as far as is practicable, the work programs of internal audit and other assurance and review functions
- Advise the general manager and governing body of the council:
  - whether the council is providing the resources necessary to successfully deliver the internal audit function
  - if the council is complying with internal audit requirements, including compliance with the International Professional Practices Framework
  - if the council's internal audit charter is appropriate and whether the internal audit policies and procedures and audit/risk methodologies used by the council are suitable
  - of the strategic four-year plan and annual work plan of internal audits to be undertaken by the council's internal audit function
  - if council's internal audit activities are effective, including the performance of the head of the internal audit function and internal audit function
  - of the findings and recommendations of internal audits conducted, and corrective actions needed to address issues raised
  - of the implementation by council of these corrective actions

- on the appointment of the head of the internal audit function and external providers, and
- if the internal audit function is structured appropriately and has sufficient skills and expertise to meet its responsibilities

## External audit

### Principle

Council receives maximum value from its external audit activities.

### Committee's role

- Act as a forum for communication between the governing body, general manager, senior management, the internal audit function and external audit
- Coordinate as far as is practicable, the work programs of internal audit and external audit
- Provide input and feedback on the financial statement and performance audit coverage proposed by external audit and provide feedback on the audit services provided
- Review all external plans and reports in respect of planned or completed audits and monitor council's implementation of audit recommendations
- Provide advice to the governing body and/or general manager on action taken on significant issues raised in relevant external audit reports and better practice guides

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## Risk

### Compliance framework

section 428A(2)(a)

### Principle

Council has an effective compliance framework that ensures it is complying with its legal obligations and other governance and

contractual requirements when undertaking its functions.

### Committee's role

Advise the general manager and governing body of the council of the adequacy and effectiveness of the council's compliance framework, including:

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

## Risk management

section 428A(2)(b)

### Principle

Council has an effective risk management framework and internal controls that successfully identify and manage the risks it faces.

### Committee's role

Advise the general manager and governing body of the council:

#### Risk management framework

- whether the council is providing the resources necessary to successfully implement its risk management framework
- if the council has in place a current and appropriate risk management framework that is consistent with the Australian risk management standard
- whether the council's risk management framework is adequate and effective for identifying and managing the risks the council faces, including those associated individual projects, programs and other activities
- if risk management is integrated across all levels of the council and across all processes, operations, services, decision-making, functions and reporting

- of the adequacy of risk reports and documentation, for example, the council's risk register and risk profile
- whether a sound approach has been followed in developing risk management plans
- whether appropriate policies and procedures are in place for the management and exercise of delegations
- if council has taken steps to embed a culture that is committed to ethical and lawful behaviour
- if there is a positive risk culture within the council and strong leadership that supports effective risk management
- of the adequacy of staff training and induction in risk management
- how the council's risk management approach impacts on the council's insurance arrangements
- of the effectiveness of council's management of its assets, and
- of the effectiveness of business continuity arrangements, including business continuity plans, disaster recovery plans and the periodic testing of these plans.

#### Internal control framework

- if the internal controls in place are appropriate for the risk council faces
- whether staff are informed of their responsibilities and processes and procedures to implement controls are complied with
- if the council's monitoring and review of controls, including policies and procedures, is sufficient, and
- if internal and external audit recommendations to correct internal control weaknesses are implemented appropriately

## Fraud and corruption control framework

section 428A(2)(c)

### Principle

Council has an effective fraud and corruption control framework in place that minimises the incidence of fraud and corruption.

### Committee's role

Advise the general manager and governing body of the council of the adequacy and effectiveness of the council's fraud and corruption prevention framework and activities, including whether the council has:

- a fraud and corruption policy
- clearly defined responsibilities for managing fraud and corruption
- risk-based preventative and detective controls
- policies, systems and processes to respond to, investigate and report suspected fraud and corruption
- employee awareness/education measures
- robust third-party management systems
- appropriate processes and systems in place to capture and effectively investigate fraud-related information
- regular review of the fraud and corruption control framework and reporting,
- implemented applicable guidance and other better practice measures by the Independent Commission Against Corruption.

## Financial management framework

section 428A(2)(d)

### Principle

Council has an effective financial management framework, sustainable financial position and positive financial performance.

### Committee's role

Advise the general manager and governing body of the council:

#### External accountability and financial reporting framework

- if council is complying with accounting standards and external accountability requirements
- of the appropriateness of councils accounting policies and disclosures
- of the implications for council of the findings of external audits and performance audits and council's

responses and implementation of recommendations

- whether the council's financial statement preparation procedures and timelines are sound
- the accuracy of the council's annual financial statements prior to external audit, including:
  - management compliance/representations
  - significant accounting and reporting issues
  - the methods used by the council to account for significant or unusual transactions and areas of significant estimates or judgements
  - appropriate management signoff on the statements
- if effective processes are in place to ensure financial information included in the council's report is consistent with signed financial statements

#### Financial management framework

- if the council's financial management processes are adequate
- the adequacy of cash management and credit card use policies and procedures
- if there are adequate controls over financial processes, for example:
  - appropriate authorisation and approval of payments and transactions
  - adequate segregation of duties
  - timely reconciliation of accounts and balances
  - review of unusual and high value purchases

#### Financial position and performance

- if policies and procedures for management review and consideration of the financial position and performance of the council are adequate

#### Grants and tied funding policies and procedures

- if council's grants and tied funding policies and procedures are sound.

## Governance framework

section 428A(2)(e)

### Principle

Council has an effective governance framework to ensure it is appropriately directing and controlling the management of the council.

### Committee's role

Advise the governing body and general manager if the council's governance framework is sound, including the council's:

- decision-making processes
- implementation of governance policies and procedures
- reporting lines and accountability
- assignment of key role and responsibilities
- committee structure
- management oversight responsibilities
- human resources and performance management activities
- reporting and communication activities
- information and communications technology (ICT) governance, and
- management and governance of the use of data, information and knowledge.

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## Improvement

### Strategic planning

section 428A(2)(f)

### Principle

Council has an effective framework that ensures it achieves its strategic plans and objectives under the integrated planning and reporting (IP&R) framework.

### Committee's role

Advise the general manager and governing body of the council:

- of the adequacy and effectiveness of the council's IP&R processes
- if appropriate reporting and monitoring mechanisms are in place to measure progress against objectives, and



- whether the council is successfully implementing and achieving its IP&R objectives and strategies.

## Service reviews and business improvement

section 428A(2)(g) and s428A(3)

### Principle

Council has an effective framework to ensure it is delivering services and conducting its business and functions to an expected standard.

### Committee's role

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

## Performance data and measurement

section 428A(2)(h)

### Principle

Council's performance management framework ensures council can measure its performance and if it is achieving its strategic goals.

### Committee's role

Advise the general manager and governing body of the council:

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

# Appendix 3:

## **Model Terms of Reference for audit, risk and improvement committees**



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# Model Terms of Reference for local government audit, risk and improvement committees

[Council/joint organisation] has established an audit, risk and improvement committee in compliance with section 428A of the *Local Government Act 1993* and clauses (#tbc) of the *Local Government (General) Regulation 2005*. These terms of reference set out the Committee's objectives, authority, composition and tenure, roles and responsibilities, reporting and administrative arrangements.

## Objective

The objective of [council's/joint organisation's] audit, risk and improvement committee is to provide independent assurance to [council/joint organisation] by monitoring, reviewing and providing advice about the [council's/joint organisation's] governance processes, compliance, risk management and control frameworks, external accountability obligations and overall performance.

## Independence

The Committee is to be independent to ensure it has no real or perceived bias or conflicts of interest that may interfere with its ability to act independently and provide [council/joint organisation] with robust, objective and unbiased advice and assurance.

The Committee is to provide an advisory and assurance role only and is to have no administrative function, delegated financial responsibility or any management functions of the [council/joint organisation]. The Committee will provide independent advice to the [council/joint organisation] that is informed by the [council's/joint organisation's] internal audit and risk management activities and information and advice provided by [council staff/joint organisation], relevant external bodies and subject matter experts.

The Committee must at all times ensure it maintains a direct reporting line to and from the [council's/joint organisation's] internal audit function and act as a mechanism for internal audit to report to the [governing body/board] and [general manager/executive officer] on matters affecting the performance of the internal audit function.

## Authority

[Council/joint organisation] authorises the Committee, for the purposes of exercising its role and responsibilities, to:

- access any information it needs from the [council/joint organisation]
- use any [council/joint organisation] resources it needs
- have direct and unrestricted access to the [general manager/executive officer] and senior management of the [council/joint organisation]
- seek the [general manager's/executive officer's] permission to meet with any other [council/joint organisation] staff member or contractor
- discuss any matters with the external auditor or other external parties
- request the attendance of any employee at committee meetings, and
- obtain external legal or other professional advice. [Detail any prior approval needed or pre-determined budget for costs].

Information and documents pertaining to the Committee are confidential and are not to be made publicly available. The Committee may only release [council/joint organisation] information to external parties that are assisting the Committee to fulfil its responsibilities with the approval of the [general manager/executive officer], except where it is being provided to an external investigative or oversight agency for the purpose of informing that agency of a matter that may warrant its attention. [change if documentation is to be made available to the public]

## Composition and tenure

The Committee consists of [tier 1 – one independent prequalified voting Chair, two independent voting members and one non-voting councillor/board member] [tier 2 – one independent prequalified voting Chair, one independent prequalified voting member, one independent voting member and one non-voting councillor/board member] [tier 3 – one independent prequalified voting Chair, two independent prequalified voting members and one non-voting councillor member/board member], in accordance with the *Guidelines for risk management and internal audit in local councils in NSW*.

[If applicable - council/joint organisation has been granted an exemption by the Secretary of the Department of Planning, Industry and Environment from the requirement that the Chair of the Committee be prequalified under the NSW Government's *Audit and Risk Committee Independent Chairs and Members Prequalification Scheme*.]

The [governing body/board] is to appoint the Chair and members of the Committee. The Chair is counted as one member of the Committee. Current committee members are:

[name]	Independent chair (voting)
[name]	Independent member (voting)
[name]	Independent member (voting)
[name]	[Councillor/board] member (non-voting) (if applicable) [cannot be the mayor]

All committee members are to meet the independence and eligibility criteria prescribed in the *Guidelines for risk management and internal audit in local councils in NSW*.

Members will be appointed for a four-year period. Members can be reappointed for a further term, but the total period of continuous membership cannot exceed eight years. This includes any term as Chair of the Committee. Members who have served an eight-year term (either as member or Chair) must have a two-year break from serving on the Committee before being appointed again. To preserve the Committee's knowledge of [council/joint organisation], ideally, no more than one member should leave the Committee because of rotation on any one year.

Specific member terms and conditions are to be disclosed in a letter of appointment. New members will be thoroughly inducted to their role and receive relevant information and briefings on their appointment to assist them to meet their committee responsibilities.

Prior to approving the reappointment or extension of the Chair's or an independent member's term, the [governing body/board] is to undertake an assessment of the Chair's or committee member's performance. Reappointment of the Chair and members is also to be subject to the individual still meeting independence and eligibility requirements.

Members of the Committee are to possess and maintain a broad range of skills, knowledge and experience relevant to the operations, governance and financial management of [council/joint organisation], the environment in which [council/joint organisation] operates, and the contribution that the Committee makes to the [council/joint organisation]. At least one member of the Committee must have accounting or related financial management experience with an understanding of accounting and auditing standards in a local government environment. All members should have sufficient understanding of the [council's/joint organisation's] financial reporting responsibilities to be able to contribute to the Committee's consideration of the [council's/joint organisation's] annual financial statements.

[Add any relevant details about shared arrangements, if applicable].

## Role

In accordance with section 428A of the *Local Government Act 1993*, the role of the Committee is to review and provide independent advice to the [council/joint organisation] regarding the following aspects of the [council's/joint organisation's] operations:

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

The Committee must also provide information to the [council/joint organisation] for the purpose of improving [council's/joint organisation's] performance of its functions.

The Committee's specific audit, risk and improvement responsibilities under section 428A are outlined in Schedule 1 to this charter.

The Committee will act as a forum for the [council's/joint organisation's] internal audit function and oversee its planning, monitoring and reporting to ensure it operates effectively.

The Committee will have no power of direction over external audit or the manner in which the external audit is planned or undertaken but will act as a forum for the consideration of external audit findings.

The Committee is directly responsible and accountable to the [governing body of the council/board of the joint organisation] for the exercise of its responsibilities. In carrying out its responsibilities, the Committee must at all times recognise that primary responsibility for management of the [council/joint organisation] rests with the [governing body/board] and [general manager/executive officer].

The responsibilities of the Committee may be revised or expanded in consultation with, or as requested by, the [governing body of the council/board of the joint organisation] from time to time.

## Responsibilities of members

### Independent members

The Chair and members of the Committee are expected to understand and observe the requirements of the *Guidelines for risk management and internal audit for local government in NSW*. Members are also expected to:

- make themselves available as required to attend and participate in meetings
- contribute the time needed to review and understand information provided to it
- apply good analytical skills, objectivity and judgement
- act in the best interests of the [council/joint organisation]
- have the personal courage to raise and deal with tough issues, express opinions frankly, ask questions that go to the fundamental core of the issue and pursue independent lines of inquiry
- maintain effective working relationships with the [council/joint organisation]
- have strong leadership qualities (Chair)
- lead effective committee meetings (Chair), and
- oversee the [council's/joint organisation's] internal audit function (Chair).

### [Councillor/board] members (if applicable)

To preserve the independence of the Committee, the [councillor/board] member of the Committee is a non-voting member. Their role is to:

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

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

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

If the [councillor/board] member of the Committee engages in such conduct or in any other conduct that may bring the Committee and its work into disrepute, the Chair of the Committee may recommend to the [council/joint organisation], that the [councillor/board] member be removed from membership of the Committee. Where the [council/joint organisation] does not agree to the Committee Chair's recommendation, the [council/joint organisation] must give reasons for its decision in writing to the Chair.

### Conduct

Independent committee members are required to comply with the [council's/joint organisation's] code of conduct and be held to the same ethical, behavioural and conduct standards as officials of the council.

Complaints or breaches of [council's/joint organisation's] code of conduct by an independent committee member are to be dealt with in accordance with the *Procedures for the Administration of the Model Code of Conduct for Local Councils in NSW*. The [general manager/executive officer] must consult with the [governing body/board] before taking any disciplinary action against an independent committee member in response to a breach of the [council's/joint organisation's] Code of Conduct.

Prequalified Committee members are also required to comply with the code of conduct governing the NSW Government's *Audit and Risk Committee Independent Chairs and Members Prequalification Scheme*.

## Conflicts of interest

Once a year, Committee members will provide written declarations to the [council/joint organisation] stating that they do not have any conflicts of interest that would preclude them from being members of the Committee. Independent committee members are 'designated persons' and must also complete and submit returns of interest.

Committee members and observers must declare any pecuniary or non-pecuniary conflicts of interest that may have at the start of each meeting, before discussion of the relevant agenda item or issue, and when the issue arises. Where committee members and observers are deemed to have a pecuniary or a significant non-pecuniary conflict of interest, they are to remove themselves from Committee deliberations on the issue. Details of any conflicts of interest should also be appropriately minuted.

## Standards

Committee members are to conduct their work in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and [current Australian risk management standard], where applicable.

## Workplans

The work of the Committee is to be thoroughly planned and executed to ensure that all [council/joint organisation] activities and functions are reviewed. The Committee must develop a strategic plan every four years to ensure that all matters listed in Schedule 1 are reviewed by the Committee and the internal audit function over each [council/joint organisation] term. The strategic plan must be reviewed at least annually to ensure it remains appropriate.

The Committee may, in consultation with the [council's/joint organisation's] [governing body/board], vary the strategic work plan at any time to address new or emerging risks. The [governing body/board] of the [council/joint organisation] may also, by resolution, request the Committee to approve a variation to the strategic work plan. However, any decision to vary the strategic work plan must be made by the Committee.

The Committee must also develop an annual workplan to guide its work, and the work of the [name of internal audit function], over the forward year.

The Committee may, in consultation with the [council's/joint organisation's] governing body, vary the annual work plan to address new or emerging risks. The [governing body/board] of the [council/joint organisation] may also, by resolution, request the Committee to approve a variation to the annual work plan. However, any decision to vary the annual work plan must be made by the Committee.

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

## Assurance reporting

The Committee must regularly report to the [council/joint organisation] to ensure that the [council/joint organisation] is kept informed of matters considered by the Committee and any emerging issues that may influence the strategic direction of the [council/joint organisation] or the achievement of the [council's/joint organisation's] goals and objectives.

The Committee will provide an update to the [governing body/board] and [general manager/executive officer] of its activities and opinions after every Committee meeting.

The Committee will provide an annual assessment to the [governing body/board] and [general manager/executive officer] each year on the Committee's work and its opinion on how [council/joint organisation] is performing.

The Committee will provide a comprehensive assessment every council term of all the matters listed in Schedule 1 to the [governing body/board] and [general manager/executive officer].

The Committee may at any time report to the [governing body/board] or [general manager/executive officer] on any other matter it deems of sufficient importance to warrant their attention. The Mayor and Chair of the Committee may also meet at any time to discuss issues relating to the work of the Committee.

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

## Administrative arrangements

### Meetings

The Committee will meet at least [number] times per year, [including a special meeting to review the council's/joint organisation's financial statements].

The Committee can hold additional meetings when significant unexpected issues arise, or if the Chair is asked to hold an additional meeting by a committee member, the [general manager/executive officer] or the [governing body/board].

Committee meetings can be held in person, by telephone or videoconference. Proxies are not permitted if a member is unable to attend a meeting.

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

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

The [general manager/executive officer] and [head of the internal audit function] are to attend committee meetings as non-voting observers. The external auditor (or their representative) is to be invited to each committee meeting as an independent observer. The Chair can request the



[council's/joint organisation's] [Chief Finance Officer or equivalent], [head of risk management function or equivalent], [senior managers or equivalent], any [councillors/board members], any employee/contractor of the council and any subject matter expert to attend committee meetings. These individuals must attend and provide any information requested, where possible. Observers have no voting rights and can be excluded from a meeting by the Chair at any time.

The Committee can hold closed meetings whenever it needs to discuss confidential or sensitive issues with only voting members of the committee present.

The Committee must meet separately with both the [name of internal audit function] and the [council's/joint organisation's] external auditor at least once per year.

## Dispute resolution

Members of the Committee and the [council's/joint organisation's] management should maintain an effective working relationship and seek to resolve any differences they may have in an amicable and professional way via discussion and negotiation.

In the event of a disagreement between the Committee and the [general manager/executive officer] or other senior managers, the dispute is to be resolved by the [governing body of the council/board of the joint organisation].

Unresolved disputes regarding compliance with statutory or other requirements are to be referred to the Secretary of the Department of Planning, Industry and Environment in writing.

## Secretariat

The [general manager/executive officer] will appoint a [council/joint organisation] employee/s to provide secretariat support to the Committee. The secretariat will ensure the agenda for each meeting and supporting papers are circulated after approval from the Chair at least [number] weeks before the meeting and ensure that minutes of meetings are prepared and maintained. Minutes must be approved by the Chair and circulated within [agreed timeframe] of the meeting to each member.

## Resignation and dismissal of members

Where the Chair or a Committee member is unable to complete their term, or does not intend to seek reappointment after the expiry of their term, they should give [agreed timeframe] notice to the Chair and [governing body/board] prior to their resignation to enable the [council/joint organisation] to ensure a smooth transition to a new committee member.

The [governing body/board] can terminate via resolution the engagement of any Chair or independent committee member before the expiry of their term where the individual has:

- breached the conditions of, or become ineligible under the NSW Government's *Audit and Risk Committee Independent Chairs and Members Prequalification Scheme*
- breached the council's Code of Conduct
- performed unsatisfactorily or not to expectations
- been declared bankrupt or found to be insolvent
- experienced an adverse change in business status
- been proven to be in a serious breach of their obligations under any legislation, or
- declared, or is found to be in, a position of a conflict of interest which is unresolvable.

The position of a [councillor/board] member on the Committee can be terminated at any time by the [governing body/board] via resolution.

## Review arrangements

At least once every council term the [governing body/board] must conduct an external review of the effectiveness of the Committee.

These terms of reference are to be reviewed annually by the Committee and once each council term by the [governing body/board]. Any substantive changes are to be approved by the [governing body/board].

## Further information

For further information on [council's/joint organisation's] audit, risk and improvement committee contact [name] on [email address] or by phone [phone number].

Reviewed by Chair of the audit, risk and improvement committee  
[signed]  
[date]

Reviewed by [council/joint organisation] or in accordance with a resolution of the governing body  
[signed]  
[date]  
[resolution reference]  
Next review date: [date]

# Schedule 1 – Audit, risk and improvement committee responsibilities

*[Note: each council/joint organisation is to determine the responsibilities of its Committee related to each matter listed in section 428A of the Local Government Act 1993 and list them in Schedule 1 to the Committee's terms of reference. Suggested responsibilities are provided below and further detailed in core requirement 1 and Appendix 2 of these Guidelines.]*

## Audit

### Internal audit

- Provide overall strategic oversight of internal audit activities
- Act as a forum for communication between the [governing body/board], [general manager/executive officer], senior management, the internal audit function and external audit
- Coordinate, as far as is practicable, the work programs of internal audit and other assurance and review functions
- Review and advise the [council/joint organisation]:
  - on whether the [council/joint organisation] is providing the resources necessary to successfully deliver the internal audit function
  - if the [council/joint organisation] is complying with internal audit requirements, including conformance with the International Professional Practices Framework
  - if the [council's/joint organisation's] Internal Audit Charter is appropriate and whether the internal audit policies and procedures and audit/risk methodologies used by the [council/joint organisation] are suitable
  - of the strategic four-year plan and annual work plan of internal audits to be undertaken by the [council's/joint organisation's] internal audit function
  - if [council's/joint organisation's] internal audit activities are effective, including the performance of the head of the internal audit function and internal audit function
  - of the findings and recommendations of internal audits conducted, and corrective actions needed to address issues raised
  - of the implementation by [council/joint organisation] of these corrective actions
  - on the appointment of the head of the internal audit function and external providers, and
  - if the internal audit function is structured appropriately and has sufficient skills and expertise to meet its responsibilities

### External audit

- Act as a forum for communication between the [governing body/board], [general manager/executive officer], senior management, the internal audit function and external audit
- Coordinate as far as is practicable, the work programs of internal audit and external audit
- Provide input and feedback on the financial statement and performance audit coverage proposed by external audit and provide feedback on the audit services provided
- Review all external plans and reports in respect of planned or completed audits and monitor council's implementation of audit recommendations
- Provide advice to the [governing body/board] and/or [general manager/executive officer] on action taken on significant issues raised in relevant external audit reports and better practice guides

# Risk

## Risk management

Review and advise the [council/joint organisation]:

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

## Internal controls

Review and advise the [council/joint organisation]:

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

## Compliance

Review and advise the [council/joint organisation] of the adequacy and effectiveness of the [council's/joint organisation's] compliance framework, including:

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

## Fraud and corruption

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

## Financial management

Review and advise the [council/joint organisation]:

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

## Governance

Review and advise the [council/joint organisation] regarding its governance framework, including the [council's/joint organisation's]:

- decision-making processes
- implementation of governance policies and procedures
- reporting lines and accountability
- assignment of key role and responsibilities
- committee structure
- management oversight responsibilities
- human resources and performance management activities
- reporting and communication activities
- information and communications technology (ICT) governance, and
- management and governance of the use of data, information and knowledge

## Improvement

### Strategic planning

Review and advise the [council/joint organisation]:

- of the adequacy and effectiveness of the [council's/joint organisation's] IP&R processes
- if appropriate reporting and monitoring mechanisms are in place to measure progress against objectives, and
- whether the [council/joint organisation] is successfully implementing and achieving its IP&R objectives and strategies.

### Service reviews and business improvement

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

### Performance data and measurement

Review and advise the [council/joint organisation]:

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

# Appendix 4:

## Council categories



# Tier 1

## General purpose councils

### Definition:

- ❖ **Local government area is in a remote location with a population of <20,000 persons**
- ❖ **Local government area is predominantly rural or agricultural in nature with low population growth.**

- Balranald Shire Council
- Bellingen Shire Council
- Berrigan Shire Council
- Bland Shire Council
- Blayney Shire Council
- Bogan Shire Council
- Bourke Shire Council
- Brewarrina Shire Council
- Cabonne Council
- Carrathool Shire Council
- Central Darling Shire Council
- Cobar Shire Council
- Coolamon Shire Council
- Coonamble Shire Council
- Cootamundra-Gundagai Regional Council
- Cowra Shire Council
- Dungog Shire Council
- Edward River Council
- Federation Council
- Forbes Shire Council
- Gilgandra Shire Council
- Glen Innes Severn Council
- Greater Hume Shire Council
- Gunnedah Shire Council
- Gwydir Shire Council
- Hay Shire Council
- Hilltops Council
- Inverell Shire Council
- Junee Shire Council
- Kyogle Council
- Lachlan Shire Council
- Leeton Shire Council
- Liverpool Plains Shire Council
- Lockhart Shire Council
- Moree Plains Shire Council
- Murray River Council
- Murrumbidgee Council
- Muswellbrook Shire Council
- Nambucca Valley Council
- Narrabri Shire Council

- Narrandera Shire Council
- Narromine Shire Council
- Oberon Council
- Parkes Shire Council
- Snowy Valleys Council
- Temora Shire Council
- Tenterfield Shire Council
- Upper Hunter Shire Council
- Upper Lachlan Shire Council
- Uralla Shire Council
- Walcha Council
- Walgett Shire Council
- Warren Shire Council
- Warrumbungle Shire Council
- Weddin Shire Council
- Wentworth Shire Council
- Yass Valley Council

## County councils

### Definition:

- ❖ **County council is small in size and has lower operating revenue and expenses compared to other county councils**

- Castlereagh-Macquarie County Council
- Central Tablelands Water County Council
- Hawkesbury River County Council
- New England Tablelands (Noxious Plants) County Council
- Upper Hunter Council Council
- Upper Macquarie County Council

## Joint organisations

### Definition:

- ❖ **All joint organisations**

- Canberra Region Joint Organisation
- Central NSW Councils Joint Organisation
- Far North Coast Joint Organisation
- Far South West Joint Organisation
- Hunter Joint Organisation of Councils
- Illawarra Shoalhaven Joint Organisation
- Mid North Coast Joint Organisation
- Namoi Joint Organisation
- New England Joint Organisation
- Northern Rivers Joint Organisation
- Riverina and Murray Joint Organisation
- Riverina Joint Organisation



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## Tier 2

### General purpose councils

#### Definition:

- ❖ **Local government area is part of a regional urban centre that has a population <1,000,000 persons**
- ❖ **Local government area has a population of <20,000 persons or a population density of >30 persons/km<sup>2</sup> and is predominantly urban in nature**

- Albury City Council
- Armidale Regional Council
- Ballina Shire Council
- Bathurst Regional Council
- Bega Valley Shire Council
- Broken Hill City Council
- Byron Shire Council
- Cessnock City Council
- Clarence Valley Council
- Coffs Harbour City Council
- Dubbo Regional Council
- Eurobodalla Shire Council
- Goulburn Mulwaree Council
- Griffith City Council
- Kempsey Shire Council
- The Council of the Municipality of Kiama
- Lismore City Council
- City of Lithgow Council
- Maitland City Council
- Mid-Coast Council
- Mid-Western Regional Council
- Orange City Council
- Port Macquarie-Hastings Council
- Port Stephens Council
- Queanbeyan-Palerang Regional Council
- Richmond Valley Council
- Shellharbour City Council
- Shoalhaven City Council
- Singleton Council
- Snowy Monaro Regional Council
- Tamworth Regional Council
- Tweed Shire Council
- Wagga Wagga City Council
- Wingecarribee Shire Council

## County councils

#### Definition:

- ❖ **County Council provides essential utility services to the regional area and has higher revenue and operating expenses compared to other county councils**

- Goldenfields Water County Council
- Riverina Water County Council
- Rous County Council

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## Tier 3

### General purpose councils

#### Definition:

- ❖ **Local government area is part of, or on the fringe of, an urban centre that has a population >1,000,000 persons and population density of 600 persons/km<sup>2</sup>**
- ❖ **Local government area has a population of > 20,000 persons or population density of >30 persons/km<sup>2</sup> or 90% of LGA population is urban**

- Bayside Council
- Blacktown City Council
- Blue Mountains City Council
- Burwood Council
- City of Canada Bay Council
- Camden Council
- Campbelltown City Council
- Canterbury-Bankstown Council
- Central Coast Council
- Cumberland Council
- Fairfield City Council
- Georges River Council
- Hawkesbury City Council
- The Hills Shire Council
- The Council of the Shire of Hornsby
- The Council of the Municipality of Hunters Hill
- Inner West Council
- Ku-ring-gai Council
- Lake Macquarie City Council
- Lane Cove Municipal Council
- Liverpool City Council
- Mosman Municipal Council
- Newcastle City Council

- Northern Beaches Council
- North Sydney Council
- Council of the City of Parramatta
- Penrith City Council
- Randwick City Council
- Council of the City of Ryde
- Strathfield Municipal Council
- Sutherland Shire Council
- Council of the City of Sydney
- Waverley Council
- Willoughby City Council
- Wollondilly Shire Council
- Wollongong City Council
- Woollahra Municipal Council

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# Appendix 5:

## Example risk management policy



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# Example risk management policy

## Purpose

The purpose of this policy is to express [council's/joint organisation's] commitment to implementing organisation-wide risk management principles, systems and processes that ensure the consistent, efficient and effective assessment of risk in all [council's/joint organisation's] planning, decision-making and operational processes.

## Risk management framework

[Council/joint organisation] provides critical services and infrastructure to the residents, ratepayers and visitors to [area]. [Council/joint organisation] also has service agreements and contractual obligations with government and non-government agencies and organisations and has its own strategic goals and objectives that it seeks to achieve on behalf of the [area] community.

It is therefore incumbent on [council/joint organisation] to understand the internal and external risks that may impact the delivery of these services, contracts and strategic objectives and have processes in place to identify, mitigate, manage and monitor those risks to ensure the best outcome for [council/joint organisation], staff and the community. It is also our responsibility to ensure the efficient, effective and ethical use of resources and services by ratepayers, residents, staff and visitors.

[Council/joint organisation] has developed a risk management framework consistent with [Australian standard] to assist it to identify, treat, monitor and review all risks to its operations and strategic objectives and apply appropriate internal controls.

[Council/joint organisation] is committed to the principles, framework and process of managing risk as outlined in [Australian standard] and commits to fully integrating risk management within the [council/joint organisation] and applying it to all decision-making, functions, services and activities of the [council/joint organisation] in accordance with our statutory requirements.

## Responsibilities

[Council/joint organisation] aims to create a positive risk management culture where risk management is integrated into all everyday activities and managing risks is an integral part of governance, good management practice and decision-making at [council/joint organisation]. It is the responsibility of every staff member and business area to observe and implement this policy and [council's/joint organisation's] risk management framework.

All staff are responsible for identifying and managing risk within their work areas. Key responsibilities include:

- being familiar with, and understanding, the principles of risk management
- complying with all policies, procedures and practices relating to risk management
- alerting management to risks that exist within their area, and
- performing any risk management activities assigned to them as part of their daily role.

Risk management is a core responsibility for all senior staff/management at [council/organisation]. In addition to their responsibilities as staff members, senior staff/management are responsible for:

- ensuring all staff manage their risks within their own work areas. Risks should be anticipated, and reasonable protective measures taken
- encouraging openness and honesty in the reporting and escalation of risks
- ensuring all staff have the appropriate capability to perform their risk management roles
- reporting to the [general manager/executive officer] on the status of risks and controls, and
- identifying and communicating improvements in [council's/joint organisation's] risk management practices to [council's/joint organisation's] risk management function.

[Council's/joint organisation's] risk management function is available to support staff in undertaking their risk management activities.

To ensure [council/joint organisation] is effectively managing its risk and complying with its statutory obligations, [council's/joint organisation's] audit, risk and improvement committee and internal audit function is responsible for reviewing the [council's/joint organisation's]:

- risk management processes and procedures
- risk management strategies for major projects or undertakings
- control environment and insurance arrangements
- business continuity planning arrangements, and
- fraud control plan.

## Monitoring and Review

[Council/joint organisation] is committed to continually improving its ability to manage risk. [Council/joint organisation] will review this policy and its risk management framework at least annually to ensure it continues to meet the requirements of the *Local Government Act 1993*, *Local Government (General) Regulation 2005*, and the [council's/joint organisation's] requirements.

## Further information

For further information on [council's/joint organisation's] risk management policy, framework and process, contact [name] on [email address] or by phone [phone number].

[signed – General Manager/Executive officer]  
[name]  
[date]  
[review date]

# Appendix 6:

## **Model Internal Audit Charter**



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# Model Internal Audit Charter for local councils in NSW

[Council/joint organisation] has established the [name of internal audit function] as a key component of the [council's/joint organisation's] governance and assurance framework and in compliance with the *Guidelines for risk management and internal audit in local councils in NSW*. This Charter provides the framework for the conduct of the [name of internal audit function] in [council/joint organisation] and has been approved by the [governing body/board] taking into account the advice of the [council's/joint organisation's] audit, risk and improvement committee.

## Purpose of internal audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve a [council's/joint organisation's] operations. It helps a [council/joint organisation] accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes<sup>2</sup>.

Internal audit provides an independent and objective review and advisory service to provide advice to the [governing body/board], [general manager/executive officer] and audit, risk and improvement committee about the [council's/joint organisation's] governance processes, risk management and control frameworks and its external accountability obligations. It also assists the [council/joint organisation] to improve its business performance.

## Independence

[Council's/joint organisation's] [name of internal audit function] is to be independent of the [council/joint organisation] so it can provide an unbiased assessment of the [council's/joint organisation's] operations and risk and control activities.

[Name of internal audit function] reports functionally to the [council's/joint organisation's] audit, risk and improvement committee on the results of completed audits, and for strategic direction and accountability purposes, and reports administratively to the [general manager/executive officer] to facilitate day-to-day operations. Internal audit activities are not subject to direction by the [council/joint organisation] and the [council's/joint organisation's] management has no role in the exercise of the [council's/joint organisation's] internal audit activities.

The audit, risk and improvement committee is responsible for communicating any internal audit issues or information to the [governing body/board]. Should the [governing body/board] require additional information, a request for the information may be made to the Chair by resolution. The Chair may only provide the information requested by the [governing body/board] where the Chair is satisfied that it is reasonably necessary for the [governing body/board] to receive the information for the purposes of performing its functions under the Local Government Act. Individual [councillors/board members] are not entitled to request or receive information from the committee.

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<sup>2</sup> As defined by the International Standards for the Professional Practice of Internal Auditing (2017)

[Detail any delegations made by the general manager/executive officer regarding their internal audit responsibilities].

The [general manager/executive officer] must consult with the Chair of the [council's/joint organisation's] audit, risk and improvement committee before appointing or changing the employment conditions of the [head of internal audit function]. Where dismissal occurs, the [general manager/executive officer] must report to the [governing body/board] advising of the reasons why the [head of internal audit function] was dismissed.

Where the chair of the [council's/joint organisation's] audit, risk and improvement committee has any concerns about the treatment of the [head of internal audit function], or any action taken that may compromise the [head of internal audit function's] ability to undertake their functions independently, they can report their concerns to the [governing body/board].

The [head of internal audit function] is to confirm at least annually to the audit, risk and improvement committee the independence of internal audit activities from the [council/joint organisation].

## Authority

[Council/joint organisation] authorises the [name of internal audit function] to have full, free and unrestricted access to all functions, premises, assets, personnel, records and other documentation and information that the [head of the internal audit function] considers necessary to enable the [name of the internal audit function] to fulfil its responsibilities.

All records, documentation and information accessed while undertaking internal audit activities are to be used solely for the conduct of these activities. The [head of internal audit function] and individual internal audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during their work.

All internal audit documentation is to remain the property of [council/joint organisation], including where internal audit services are performed by an external third-party provider.

Information and documents pertaining to the [name of the internal audit function] are not to be made publicly available. The [name of the internal audit function] may only release [council/joint organisation] information to external parties that are assisting the [name of the internal audit function] to fulfil its responsibilities with the approval of the [general manager/executive officer], except where it is being provided to an external investigative or oversight agency for the purpose of informing that agency of a matter that may warrant its attention.

## Role

The [name of internal audit function] is to support the [council's/joint organisation's] audit, risk and improvement committee to review and provide independent advice to the [council/joint organisation] in accordance with section 428A of the *Local Government Act 1993*. This includes conducting internal audits of [council/joint organisation] and monitoring the implementation of corrective actions.

The [name of internal audit function] is to also play an active role in:

- developing and maintaining a culture of accountability and integrity
- facilitating the integration or risk management into day-to-day business activities and processes, and
- promoting a culture of high ethical standards.



[Name of internal audit function] has no direct authority or responsibility for the activities it reviews. [Name of internal audit function] has no responsibility for developing or implementing procedures or systems and does not prepare records or engage in [council/joint organisation] functions or activities (except in carrying out its own functions).

## [Head of internal audit function]

### Option 1: In-house internal audit function

[Council's/joint organisation's] [name of internal audit function] is to be led by a member of [council's/joint organisation's] staff with sufficient skills, knowledge and experience to ensure it fulfils its roles and responsibilities to the [council/joint organisation] and its audit, risk and improvement committee. The [head of internal audit function] must be independent, impartial, unbiased and objective when performing their work and free from any conflicts of interest.

Responsibilities of the [head on internal audit function] include:

- managing the day-to-day activities of the [name of internal audit function]
- managing the [council's/joint organisation's] internal audit budget
- supporting the operation of the [council's/joint organisation's] audit, risk and improvement committee
- approving internal audit project plans, conducting or supervising audits and assessments and providing independent advice to the audit, risk and improvement committee
- monitoring the [council's/joint organisation's] implementation of corrective actions that arise from the findings of audits
- fulfilling the Committee's annual work plan and four-yearly strategic plan
- ensuring the [council's/joint organisation's] internal audit activities comply with the *Guidelines on risk management and internal audit in local councils in NSW*, and
- contract management and oversight of supplementary external providers (where appropriate).

[Details of any dual responsibilities and independence safeguards]

[Details of any shared arrangements]

### Option 2: Outsourced internal audit function

[Council's/joint organisation's] [name of internal audit function] is to be led by a member of [council's/joint organisation's] staff with sufficient skills, knowledge and experience to ensure it fulfils its roles and responsibilities to the [council/joint organisation] and its audit, risk and improvement committee. The [head of internal audit function] must be independent, impartial, unbiased and objective when performing their work and free from any conflicts of interest.

Responsibilities of the [head on internal audit function] include:

- contract management
- managing the internal audit budget
- ensuring the external provider completes internal audits in line with the audit, risk and improvement committee's annual plan and four-yearly strategic plan
- forwarding audit reports by the external provider to the audit, risk and improvement committee
- acting as a liaison between the external provider and the audit, risk and improvement committee
- monitoring the [council's/joint organisation's] implementation of corrective actions that arise from the findings of audits and reporting progress to the audit, risk and improvement committee, and
- assisting the audit, risk and improvement committee to ensure the [council's/joint organisation's] internal audit activities comply with the *Guidelines on risk management and internal audit in local councils in NSW*.

[Details of any dual responsibilities and independence safeguards]

[Details of any shared arrangements]

## [Name of internal audit team]

### Option 1: In-house internal audit team

Members of the [name of internal audit function] are responsible to the [head of internal audit function].

Individuals that perform internal audit activities for [council/joint organisation] must have:

- an appropriate level of understanding of the [council's/joint organisation's] culture, systems and processes
- the skills, knowledge and experience necessary to conduct internal audit activities in the [council/joint organisation]
- effective interpersonal and communication skills to ensure they can partner with [council/joint organisation] staff effectively and collaboratively, and
- honesty, integrity and diligence.

[Details of any dual responsibilities and independence safeguards]

[Details of any shared arrangements]

### Option 2: Out-sourced internal audit team

[Council/joint organisation] is to contract an external third-party provider to undertake its internal audit activities. To ensure the independence of the external provider, the [head of internal audit function] is to ensure the external provider:

- does not conduct any audits on specific [council/joint organisation] operations or areas that they have worked on within the last two years
- is not the same provider conducting the [council's/joint organisation's] external audit
- is not the auditor of any contractors of the [council/joint organisation] that may be possibly subject to the internal audit, and
- is able to meet the [council's/joint organisation's] obligations under the *Guidelines on risk management and internal audit for local councils in NSW*.

The [head of internal audit function] must consult with the audit, risk and improvement committee and [general manager/executive officer] regarding the appropriateness of the skills, knowledge and experience of any external provider before they are engaged by the [council/joint organisation].

[Details of any shared arrangements]

## Performing internal audit activities

The work of the [name of internal audit function] is to be thoroughly planned and executed. The [council's/joint organisation's] audit, risk and improvement committee must develop a strategic plan every four years to ensure that all matters listed in Schedule 1 are reviewed by the Committee and the internal audit function over each council term. The strategic plan must be reviewed at least annually to ensure it remains appropriate.

The Committee is to also develop an annual workplan to guide the work of the internal audit function over the forward year.

All internal audit activities are to be performed in a manner that is consistent with relevant professional standards including the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and [current Australian risk management standard].

The [head of the internal audit function] is to provide the findings and recommendations of internal audits to the audit, risk and improvement committee at the end of each audit. Each report is to include a response from the relevant senior manager.

The [head of internal audit function] is to establish an ongoing monitoring system to follow up [council's/joint organisation's] progress in implementing corrective actions.

The [general manager/executive officer], in consultation with the audit, risk and improvement committee, is to develop and maintain policies and procedures to guide the operation of the [council's/joint organisation's] [name of internal audit function].

The [head of internal audit function] is to ensure that the audit, risk and improvement committee is advised at each of the committee's meetings of the internal audit activities completed during that quarter, progress in implementing the annual work plan and progress made implementing corrective actions.

## Conduct

Internal audit personnel are required to comply with the [council's/joint organisation's] code of conduct. Complaints about breaches of [council's/joint organisation's] code of conduct by internal audit personnel are to be dealt with in accordance with the *Procedures for the Administration of the Model Code of Conduct for Local Councils in NSW*. The [general manager/executive officer] must consult with the [council's/joint organisation's] audit, risk and improvement committee before any disciplinary action taken against the [head of the internal audit function] in response to a breach of the [council's/joint organisation's] Code of Conduct.

Internal auditors are also required to comply with the Code of Ethics for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

## Administrative arrangements

### Audit, risk and improvement committee meetings

The [head of the internal audit function] will attend audit, risk and improvement committee meetings as an independent non-voting observer. The [head of the internal audit function] can be excluded from meetings by the committee at any time.

The [head of the internal audit function] must meet separately with the audit, risk and improvement committee at least once per year.

The [head of the internal audit function] can meet with the chair of the audit, risk and improvement committee at any time, as necessary, in between committee meetings.

### External audit

Internal and external audit activities will be coordinated to help ensure the adequacy of overall audit coverage and to minimise duplication of effort.

Periodic meetings and contact between internal and external audit shall be held to discuss matters of mutual interest and to facilitate coordination.

External audit will have full and free access to all internal audit plans, working papers and reports.

## Dispute resolution

[Name of internal audit function] should maintain an effective working relationship with the [council/joint organisation] and the audit, risk and improvement committee and seek to resolve any differences they may have in an amicable and professional way via discussion and negotiation.

In the event of a disagreement between the [name of internal audit function] and the [council/joint organisation], the dispute is to be resolved by the [general manager/executive officer] and/or the audit, risk and improvement committee. Disputes between the [name of internal audit function] and audit, risk and improvement committee are to be resolved by the [governing body of the council/board of the joint organisation].

Unresolved disputes regarding compliance with statutory or other requirements are to be referred to the Secretary of the Department of Planning, Industry and Environment in writing.

## Review arrangements

[Council's/joint organisation's] audit, risk and improvement committee must review the performance of the internal audit function each year and report its findings to the [governing body/board]. A strategic review of the [name of internal audit function] must be conducted each council term that considers the views of an external party with a strong knowledge of internal audit on the performance of the [internal audit function] and reported to the [governing body/board].

This charter is to be reviewed annually by the Committee and once each council term by the [governing body/board]. Any substantive changes are to be approved by the [governing body/board].

## Further information

For further information on [council's/joint organisation's] internal audit activities contact [name] on [email address] or by phone [phone number].

Reviewed by [head of internal audit function]  
[sign and date]

Reviewed by Chair of the [council's/joint organisation's] audit, risk and improvement committee  
[sign and date]

Reviewed by [council/joint organisation] or in accordance with a resolution of the [governing body/board]  
[sign and date]  
[resolution reference]

## Schedule 1 – internal audit function responsibilities

*[Note: each council/joint organisation is to determine the responsibilities of its internal audit function Committee related to each matter listed in section 428A of the Local Government Act 1993 and list them in Schedule 1 to the council's/joint organisation's Internal Audit Charter. Suggested responsibilities are provided below and further detailed in core requirement 3 and Appendix 2 of these Guidelines.]*

### Audit

#### Internal audit

- Conduct internal audits as directed by the [council's/joint organisation's] audit, risk and improvement committee
- Implement the [council's/joint organisation's] annual and strategic internal audit work plans
- Monitor the implementation by [council/joint organisation] of corrective actions
- Assist the [council/joint organisation] to develop and maintain a culture of accountability and integrity
- Facilitate the integration of risk management into day-to-day business activities and processes, and
- Promote a culture of high ethical standards.

#### External audit

- Provide input and feedback on the financial statement and performance audit coverage proposed by external audit and provide feedback on the audit services provided
- Review all external plans and reports in respect of planned or completed audits and monitor [council's/joint organisation's] implementation of audit recommendations
- Provide advice on action taken on significant issues raised in relevant external audit reports and better practice guides

### Risk

#### Risk management

Review and advise:

- if the [council's/joint organisation's] has in place a current and appropriate risk management framework that is consistent with the Australian risk management standard
- whether the [council's/joint organisation's] risk management framework is adequate and effective for identifying and managing the risks the [council/joint organisation] faces, including those associated with individual projects, programs and other activities
- if risk management is integrated across all levels of the [council/joint organisation] and across all processes, operations, services, decision-making, functions and reporting
- of the adequacy of risk reports and documentation, for example, the [council's/joint organisation's] risk register and risk profile
- whether a sound approach has been followed in developing risk management plans for major projects or undertakings
- whether appropriate policies and procedures are in place for the management and exercise of delegations
- if [council/joint organisation] has taken steps to embed a culture which is committed to ethical and lawful behaviour
- if there is a positive risk culture within the [council/joint organisation] and strong leadership that supports effective risk management

- of the adequacy of staff training and induction in risk management
- how the [council's/joint organisation's] risk management approach impacts on the [council's/joint organisation's] insurance arrangements
- of the effectiveness of [council's/joint organisation's] management of its assets, and
- of the effectiveness of business continuity arrangements, including business continuity plans, disaster recovery plans and the periodic testing of these plans.

## Internal controls

Review and advise:

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

## Compliance

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

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

## Fraud and corruption

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

## Financial management

Review and advise:

- if [council/joint organisation] is complying with accounting standards and external accountability requirements
- of the appropriateness of [council's/joint organisation's] accounting policies and disclosures
- of the implications for [council/joint organisation] of the findings of external audits and performance audits and [council's/joint organisation's] responses and implementation of recommendations
- whether the [council's/joint organisation's] financial statement preparation procedures and timelines are sound
- the accuracy of the [council's/joint organisation's] annual financial statements prior to external audit, including:
  - management compliance/representations
  - significant accounting and reporting issues

- the methods used by the [council/joint organisation] to account for significant or unusual transactions and areas of significant estimates or judgements
- appropriate management signoff on the statements
- if effective processes are in place to ensure financial information included in the [council's/joint organisation's] report is consistent with signed financial statements
- if the [council's/joint organisation's] financial management processes are adequate
- the adequacy of cash management policies and procedures
- if there are adequate controls over financial processes, for example:
  - appropriate authorisation and approval of payments and transactions
  - adequate segregation of duties
  - timely reconciliation of accounts and balances
  - review of unusual and high value purchases
- if policies and procedures for management review and consideration of the financial position and performance of the [council/joint organisation] are adequate
- if [council's/joint organisation's] grants and tied funding policies and procedures are sound.

## Governance

Review and advise of the adequacy of the [council/joint organisation] governance framework, including the [council's/joint organisation's]:

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

## Improvement

### Strategic planning

Review and advise:

- of the adequacy and effectiveness of the [council's/joint organisation's] IP&R processes
- if appropriate reporting and monitoring mechanisms are in place to measure progress against objectives, and
- whether the [council/joint organisation] is successfully implementing and achieving its IP&R objectives and strategies.

### Service reviews and business improvement

Review and advise:

- if [council/joint organisation] has robust systems to set objectives and goals to determine and deliver appropriate levels of service to the community and business performance
- if appropriate reporting and monitoring mechanisms are in place to measure service delivery to the community and overall performance, and
- how the [council/joint organisation] can improve its service delivery and the [council's/joint organisation's] performance of its business and functions generally

## Performance data and measurement

Review and advise:

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

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