

## 7.3 Risk Management and Internal Audit Framework for Local Government

REPORT BY THE EXECUTIVE MANAGER, HUMAN RESOURCES  
TO 11 DECEMBER 2019 ORDINARY MEETING  
GOV400067, COR400236

### RECOMMENDATION

#### That Council:

1. **receive the report by the Executive Manager, Human Resources on the Risk Management and Internal Audit Framework for Local Government;**
2. **endorse the submission to be made on behalf of Council to the Office of Local Government on the proposed framework.**

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### Executive summary

The Office of Local Government (OLG) has developed a draft internal audit and risk management framework to support and inform the operations of Audit Risk and Improvement Committees. The proposed framework is based on international standards and the experience of Australian and NSW Government public sector agencies who have already implemented risk management and internal audit but has been adapted to reflect the unique needs and structure of NSW councils and joint organisations.

### Disclosure of Interest

Nil.

### Detailed report

OLG is seeking feedback on the proposed framework from the local government sector and has issued a discussion paper entitled 'A New Risk Management and Internal Audit Framework for Local Councils in NSW'. The discussion paper sets out the proposed framework in detail and a snapshot guide has been distributed that summarises its key elements (Attachment 1).

OLG is inviting submissions from councils and other stakeholders on the discussion paper. Submissions should be made before 31 December 2019.

This report seeks Council's endorsement of a submission to be made on behalf of Mid-Western Regional Council (Attachment 2).

### Community Plan implications

Theme	Good Governance
Goal	An effective and efficient organisation
Strategy	Prudently manage risks association with all Council activities

## Strategic implications

### **Council Strategies**

If the framework is implemented as currently proposed, there will be strategic implications that will have to be considered.

### **Council Policies**

If the framework is implemented as currently proposed, there will be policy implications that will have to be considered.

### **Legislation**

Not Applicable.

## Financial implications

Whilst there are no immediate financial implications, if the framework is implemented as currently proposed, there will be additional costs to Council.

## Associated Risks

The requirements imposed by the framework are onerous and may not deliver the most appropriate and effective risk management and internal audit framework for local government. If the framework is implemented in its current form, Council may not have the resources and expertise to comply with the obligations required under the framework, resulting in a framework that will be unachievable.

MICHELE GEORGE  
EXECUTIVE MANAGER, HUMAN RESOURCES

2 December 2019

*Attachments:* 1. A New Risk Management and Internal Audit Framework for Local Councils in NSW - snapshot guide.  
2. Submission to OLG - Risk Management and Internal Audit Framework.

APPROVED FOR SUBMISSION:

BRAD CAM  
GENERAL MANAGER

# A NEW RISK MANAGEMENT AND INTERNAL AUDIT FRAMEWORK

for local councils in NSW

## Snapshot Guide

September 2019



**A NEW RISK MANAGEMENT AND INTERNAL AUDIT FRAMEWORK FOR LOCAL COUNCILS IN NSW – SNAPSHOT GUIDE**

2019

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## A NEW RISK MANAGEMENT AND INTERNAL AUDIT FRAMEWORK FOR LOCAL GOVERNMENT IN NSW - **Snapshot Guide**

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### Purpose

This summary guide provides a 'snapshot' of the mandatory internal audit and risk management framework that is being proposed for NSW councils.

For a full understanding of the proposed framework, please refer to the discussion paper, *A new risk management and internal audit framework for local councils in NSW*, which can be found at [www.olg.nsw.gov.au](http://www.olg.nsw.gov.au).

### Introduction

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

The Government is consulting on the proposed regulatory framework that will support the operation of these committees, and the establishment of a risk management framework and internal audit function in each council.

There will be nine core requirements that councils will be required to comply with when establishing their Audit, Risk and Improvement Committees, risk management framework and internal audit function.

These requirements are based on international standards and the experience of Australian and NSW Government public sector agencies who have already implemented risk management and internal audit.

There are also components of the proposed framework that are designed to reflect the unique needs and structure of NSW councils.

The framework will apply to councils, county councils and joint organisations.

#### Have Your Say

The NSW Government would like to know what you think of the framework being proposed.

Submissions may be made in writing by **31 December 2019** to the following addresses.

**Post:** Locked Bag 3015 NOWRA NSW 2541  
**Email:** [olg@olg.nsw.gov.au](mailto:olg@olg.nsw.gov.au)

Key questions you may wish to consider when providing your feedback include:

- will the proposed framework achieve the outcomes sought?
- what challenges do you see for your council when implementing the proposed framework?
- does the proposed framework include all important elements of an effective internal audit and risk framework?
- is there anything you don't like about the proposed framework?
- can you suggest any improvements to the proposed framework?

## Proposed regulatory framework

The NSW Government's objective is to ensure that:

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

The proposed statutory framework will consist of the following three elements:

### 1. Current provisions in the Local Government Act

#### Section 428A

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

- whether the council is complying with all necessary legislation
- the adequacy and effectiveness of the council's risk management framework, fraud and corruption prevention activities, financial management processes, and the council's financial position and performance
- the council's governance arrangements

- the achievement of the goals set out in the council's community strategic plan, delivery program, operational plan and other strategies
- how the council delivers local services and how to improve the council's performance of its functions more generally
- the collection of performance measurement data by the council, and
- any other matters prescribed by the *Local Government (General) Regulation 2005* (i.e. internal audit).

#### Section 428B

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

#### Guiding principles and roles and responsibilities

Amendments made to the Local Government Act in 2016 prescribed new guiding principles for councils and updated the prescribed roles and responsibilities of the governing body (section 223) and general manager (section 335). These amendments will operate to support the work of Audit, Risk and Improvement Committees and provide for the future establishment of a risk management and internal audit function in each council.

These guiding principles and roles and responsibilities have already commenced.

### 2. New regulations

The operation of sections 428A and 428B will be supported by new regulations in the *Local Government (General) Regulation 2005*.

These will prescribe the requirements that councils are to comply with when appointing their Audit, Risk and Improvement Committee and establishing their risk management framework and internal audit function.

The regulations will also provide for a model internal audit charter and model terms of reference for Audit, Risk and Improvement

Committees which all councils must adopt and comply with.

**3. New Guidelines**

New guidelines will be issued setting out the core requirements that each council’s Audit, Risk and Improvement Committee, risk management framework and internal audit function must comply with.

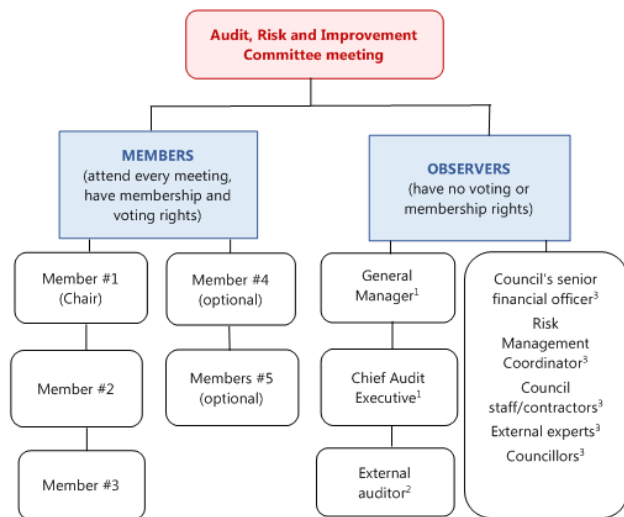
These core requirements are detailed below.

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

- Each council is to have an independent Audit, Risk and Improvement Committee that reviews all the matters prescribed in section 428A of the Local Government Act
- The Audit, Risk and Improvement Committee is to operate according to terms of reference, based on a model terms of reference, and approved by the governing body of the council after endorsement by the Committee
- The Audit, Risk and Improvement Committee is to comprise of three to five independent members who are prequalified via the NSW Government’s *Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members*
- Audit, Risk and Improvement Committee members and the Chair are to serve a three to five-year term. A member’s term cannot exceed eight years and the Chair’s term cannot exceed five years
- The Audit, Risk and Improvement Committee is to meet quarterly, with the ability to hold extra meetings if required. A council’s general manager and Chief Audit

Executive (see below) should attend except where excluded by the Committee

- Audit, Risk and Improvement Committee members are to comply with the council’s code of conduct and the conduct requirements of the NSW Government’s *Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members*
- Disputes between the general manager and/or the Chief Audit Executive are to be resolved by the Audit, Risk and Improvement Committee. Disputes with the Committee are to be resolved by the governing body of the council
- The Audit, Risk and Improvement Committee is to provide an annual assurance report to the governing body of the council and be assessed by an external party at least once each council term as part of council’s quality assurance and improvement program
- The general manager is to nominate a council employee/s to provide secretariat support to the Audit, Risk and Improvement Committee. Minutes are to be recorded for all committee meetings

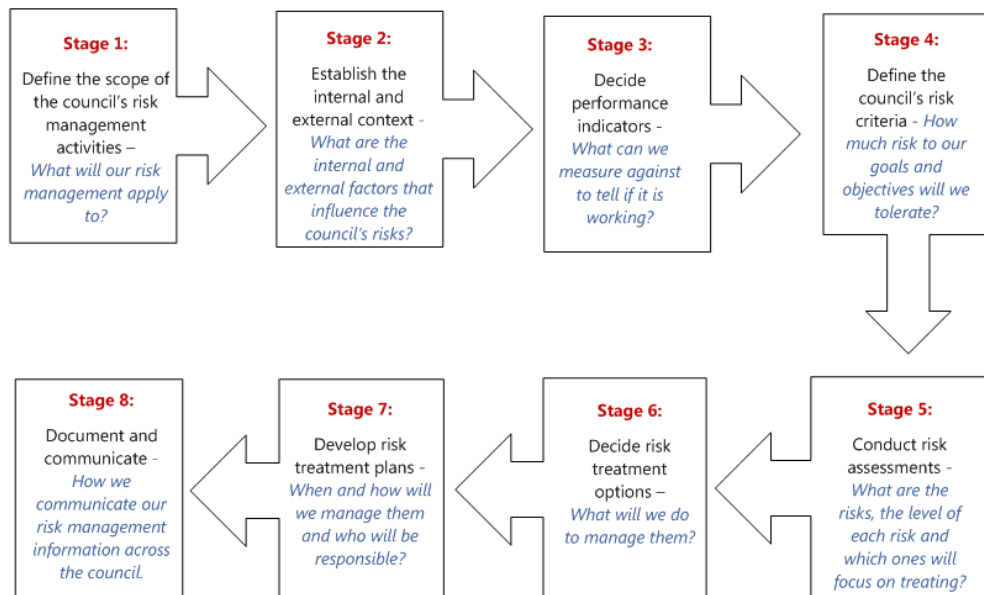


<sup>1</sup> Attends each meeting except where excluded by the Committee  
<sup>2</sup> Open invitation to attend every meeting as an independent advisor  
<sup>3</sup> When invited by the Committee to attend/give information

**Core requirement 2:**  
**Establish a risk management framework consistent with the current Australian risk management standards**

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

**Stages of a council’s risk management process**

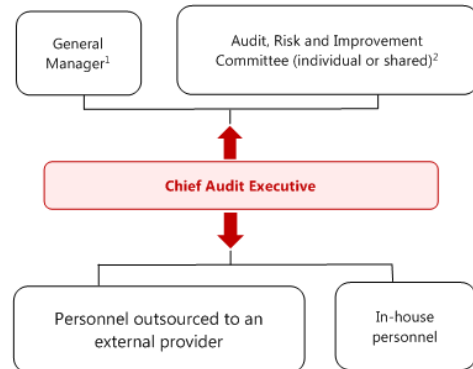




**Core requirement 3:**  
**Establish an internal audit function mandated by an Internal Audit Charter**

- Each council is to establish an internal audit function
- The governing body is to ensure that the council’s internal audit function is sufficiently resourced to carry out its work
- The governing body of the council is to assign administrative responsibility for internal audit to the general manager and include this in their employment contract and performance reviews
- The Chief Audit Executive is to develop an Internal Audit Charter, based on a model charter, which will guide how internal audit is conducted by the council. The Charter is to be approved by the governing body of the council after endorsement by the Audit, Risk and Improvement Committee

- The general manager is to ensure that, if required, the council has adequate internal audit personnel to support the Chief Audit Executive. Councils will be able to appoint in-house internal audit personnel or completely or partially outsource their internal audit function to an external provider



<sup>1</sup> reports administratively (day-to-day processes and resources)  
<sup>2</sup> reports functionally (strategic direction, accountability)

**Core requirement 4:**  
**Appoint internal audit personnel and establish reporting lines**

- The general manager is to appoint a Chief Audit Executive to oversee the council’s internal audit activities in consultation with the Audit, Risk and Improvement Committee
- The Chief Audit Executive is to report functionally to the Audit, Risk and Improvement Committee and administratively to the general manager and attend all committee meetings

**Core requirement 5:**  
**Develop an agreed internal audit work program**

- The Chief Audit Executive is to develop a four-year strategic plan to guide the council’s longer term internal audits in consultation with the governing body, general manager and senior managers. The strategic plan is to be approved by the Audit, Risk and Improvement Committee
- The Chief Audit Executive is to develop an annual risk-based internal audit work plan, based on the strategic plan, to guide the council’s internal audits each year. The work plan is to be developed in consultation with the governing body, general manager and senior managers and approved by the Audit, Risk and Improvement Committee

- The Chief Audit Executive is to ensure performance against the annual and strategic plans can be assessed

**Core requirement 6:**  
**How to perform and report internal audits**

- The Chief Audit Executive is to ensure that council’s internal audits are performed in accordance with the IPPF and current Australian risk management standards (where applicable), and approved by the Audit, Risk and Improvement Committee
- The Chief Audit Executive is to develop policies and procedures to guide the operation of the internal audit function, including the performance of internal audits
- The Chief Audit Executive is to report internal audit findings and recommendations to the Audit, Risk and Improvement Committee. Each finding is to have a recommended remedial action and a response from the relevant senior manager/s
- All internal audit documentation is to remain the property of, and can be accessed by, the audited council, including where internal audit services are performed by an external provider. It can also be accessed by the Audit Risk and Improvement Committee, external auditor and governing body of the council (by resolution)

**Core requirement 7:**  
**Undertake ongoing monitoring and reporting**

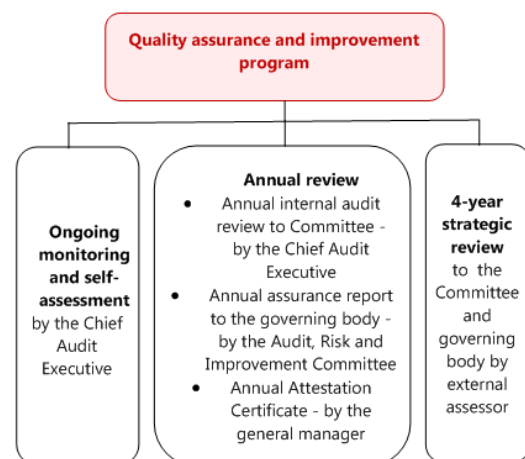
- The Audit, Risk and Improvement Committee is to be advised at each quarterly meeting of the internal audits

undertaken and progress made implementing corrective actions

- The governing body of the council is to be advised after each quarterly meeting of the Audit, Risk and Improvement Committee of the internal audits undertaken and the progress made implementing corrective actions
- The Audit, Risk and Improvement Committee can raise any concerns with the governing body of the council at any time through the Chair

**Core requirement 8:**  
**Establish a quality assurance and improvement program**

- The Chief Audit Executive is to establish a quality assurance and improvement program which includes ongoing monitoring and periodic self-assessments, an annual review and strategic external review at least once each council term
- The general manager is to publish in the council’s annual report an annual attestation certificate indicating whether the council has complied with the core requirements for the Audit, Risk and Improvement Committee and the internal audit function



## **Core requirement 9:**

### **Councils can establish shared internal audit arrangements**

- A council can share all or part of its internal audit function with another council/s by either establishing an independent shared arrangement with another council/s of its choosing, or utilising an internal audit function established by a joint or regional organisation of councils that is shared by member councils
- The core requirements that apply to stand-alone internal audit functions will also apply to shared internal audit functions, with specified exceptions that reflect the unique structure of shared arrangements
- The general manager of each council in any shared arrangement must sign a 'Shared Internal Audit Arrangement' that describes the agreed arrangements

### **Implementation timeline**

The transitional arrangements built into the Local Government Act mean that the requirement to have an Audit, Risk and Improvement Committee will not come into force until six months after the next ordinary elections in September 2020 at the earliest. Councils will therefore have until March 2021 to establish their committees.

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

As these functions are bedded down and greater time and resources become available to the Audit, Risk and Improvement Committee and the council, the role of the committee is to broaden to comply with the

remaining requirements of sections 428A of the Local Government Act.

Full compliance with section 428A of the Local Government Act will be expected by 2026.

Councils with established Audit, Risk and Improvement Committees and mature risk management and internal audit functions will be encouraged to comply sooner.

#### **→ By March 2021**

Audit, Risk and Improvement Committee established and appointed (core requirement 1 or 9 for shared arrangements)

#### **→ By December 2022**

Risk management framework developed, including appointment of a Risk Management Coordinator (core requirement 2)

Internal audit function established, including employment of a Chief Audit Executive and personnel (core requirements 3-4 or 9 for shared arrangements)

#### **→ By 2024**

Risk management framework fully implemented throughout council and operating in compliance with regulatory requirements (core requirement 2)

Internal audit function fully implemented by the council and operating in compliance with regulatory requirements (core requirements 5-8)

#### **→ By 2026**

Audit, Risk and Improvement Committee's role expanded to include compliance, fraud control, financial management, governance, integrated planning and reporting, service reviews, performance measurement data and performance improvement in compliance with section 428A of the Local Government Act.





MID-WESTERN REGIONAL COUNCIL  
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86 Market Street, Mudgee | 109 Herbert Street, Gulgong | 77 Louee Street, Rylstone  
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E [council@midwestern.nsw.gov.au](mailto:council@midwestern.nsw.gov.au)

11 December 2019

Office of Local Government  
Locked Bag 3015  
NOWRA NSW 2541

By email: [olg@olg.nsw.gov.au](mailto:olg@olg.nsw.gov.au)

Attention: Council Governance Team

Dear Sir/Madam

**RE: A New Risk Management and Internal Audit Framework for Local Council's in NSW**

At the Council meeting on 11 December 2019, Mid-Western Regional Council (MWRC) resolved to make the following submission regarding the proposed Risk Management and Internal Audit Framework.

**Overall Framework**

Council in general supports the appointment of an Audit, Risk and Improvement Committee (ARIC) and the establishment of an Internal Audit function. However it is the view of Council and Council ARIC members that the requirements imposed by the framework are too onerous. It is unreasonable to expect that rural and regional Councils in particular, will have the resources and expertise to comply with the burdensome obligations required under the framework.

Council also observes that the same obligations will apply to Joint Organisations which will also result in additional cost and burden to the Joint Organisations which are currently not receiving any Government funding. Therefore any additional cost imposed to these organisations will ultimately have to be funded by member Councils.

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

Council does not support the requirement for independent Committee members to be prequalified via the NSW Government's *Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members*. Whilst Council recognises the need for appropriately experienced and/or qualified Committee Members, the prequalification requirements could result in a complete loss of any local representation on the Committee. As Local Government is accountable to the community, such a loss would result in a Committee that has no knowledge of, or understanding of, community expectations and the context in which decisions of Council are made.

**Core Requirement 2: Establish a risk management framework consistent with the current Australian risk management standards**

Council recognises the importance of a sound risk management framework. However the framework needs to allow for the particular requirements of each Council's circumstances and resources. Council is also concerned that placing responsibility on the General Manager to publish an attestation certificate as to compliance with the risk management requirements is placing additional burden on the General Manager in addition to the other responsibilities delegated to this position.

The addition of a Risk Management Coordinator adds to the additional cost that this framework imposes on Councils. In many rural and regional areas there are skill shortages in professional positions and despite attraction and retention strategies there are still skill gaps that cannot be filled. It is therefore a strong possibility that this position, even if financed, could not be filled, resulting in Council being unable to meet this requirement.

Furthermore, the recommendation that the governing body ensures that Council is sufficiently resourced to implement an effective risk management framework, could lead to conflict with the General Manager who has the responsibility for the implementation of the framework, particularly if the function is under resourced.

**Core Requirement 3: Establish an internal audit function mandated by an Internal Audit Charter**

Council supports the establishment of an internal audit function. However the Charter needs to be flexible to allow for each Council's individual requirements and resources. It is important therefore, that Councils are afforded an opportunity to provide feedback on any Model Internal Audit Charter that is developed for Local Government.

Council is concerned that the expectation that the General Manager will be assigned responsibility for internal audit and have this included in their employment contract and performance reviews, places additional burden on the General Manager in addition to the other responsibilities delegated to this position. If the governing body does not resource this function sufficiently, this could lead to the potential for underperformance and conflict with the General Manager.

**Core Requirement 4: Appoint internal audit personnel and establish reporting lines**

It is the expectation of Council that the appointment of a Chief Audit Executive will in most rural and regional Council's be an additional resource and therefore an additional cost impost that is unreasonable and burdensome. Council reiterates that in rural and regional areas, it is extremely difficult to attract and retain staff in professional positions. It is therefore a strong possibility that Audit positions, even if financed, could not be filled, resulting in Council being unable to meet this requirement. Whilst outsourcing may be an option, it can only be through a shared arrangement with another Council or through a joint organisation of Councils. For reasons detailed later in this submission, it is the view of Council that this is not an effective solution.

**Core Requirement 5: Develop an agreed internal audit work program**

Whilst Council in general supports the establishment of an internal audit function and an annual risk based internal audit work plan, it is important that each Council can develop its own plan appropriate to Council's particular circumstances and resources.

**Core 6: How to perform and report internal audits**

Council in general supports the recommendation that internal audits are performed in accordance with the IPPF and approved by the ARIC. However Council reiterates that each Council should be able to develop its own internal audit work program according to its priorities and resources.

**Core 7: Undertake ongoing monitoring and reporting**

Whilst Council understands the need to report to the ARIC audits undertaken and progress made in implementing decisions, reporting the same information to the governing body is adding administrative burden by doubling reporting requirements. It is the view of Council that reporting the minutes of ARIC meetings to the governing body should be sufficient to keep Council informed.

**Core 8: Establish a quality assurance and improvement program**

This requirement assumes that all Councils are able to afford and employ a Chief Audit Executive. As noted previously, it is the view of Council that this requirement is unreasonable and in some circumstances will be unachievable. Therefore, in some Councils these requirements will by necessity be allocated to existing staff who won't have the capacity to undertake these tasks.

The requirement every Council term for an external strategic review is another example of additional cost to Councils. Council questions the value of the review in the context of a framework that is subject to regular audits, annual attestation certificates, quality assurance and improvement programs, multiple risk management and audit reporting requirements. It is important to not lose sight of the fact that the requirements of the framework are in addition to other resource driven and burdensome local government reporting and external audit requirements.

Council is also concerned that assigning responsibility to the General Manager to publish an attestation certificate in the Annual Report is placing extra burden on the General Manager in addition to the other responsibilities delegated to this position. This is particularly concerning in circumstances where the requirements of the framework are unreasonable and potentially unachievable.

**Core 9: Councils can establish shared internal audit arrangements**

It is the experience of Council that shared arrangements do not offer the best outcomes for Council. Councils will be at differing stages of maturity and have differing priorities with respect to the ARIC, internal audit and risk management. Putting these differences aside, a shared arrangement will still incur additional burden, cost and resources for each Council.

Council also makes the observation that the fee schedule for shared Audit, Risk and Improvement Committee members contained in the framework is likely to exceed the fees currently being paid to ARIC members in Committees already established in rural and regional areas.

**Timeline**

Whilst Council acknowledges that there is a transitional period to full implementation of the proposed framework, it does not reduce the financial impact, unreasonable resourcing requirements and administrative burden to be placed on Councils when fully implemented.

**Conclusion**

In conclusion, it is the view of Council and Council ARIC members that the requirements imposed by the framework are too onerous and will not deliver the most appropriate and effective risk management and internal audit framework for local government. It is unreasonable to expect that rural and regional Councils in particular, will have the resources and expertise to comply with the obligations required under the framework, resulting in a framework that will be unachievable.

If you require any further information please contact the undersigned.

Yours faithfully

Brad Cam  
**GENERAL MANAGER**

DRAFT