

Hit the ground running

Webinar 4 – Risk management and internal audit

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Welcome

Acknowledgement of Country



Housekeeping

- Cameras on, microphones muted
- Time for questions after presentations
- Post questions in Team chat, or raise hand during question time
- Closed captions available
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Wendy Tuckerman, Minister for Local Government



New risk management and internal audit framework for local councils in NSW

Note: **ARIC** = audit, risk and improvement committee

IA = internal audit

RM = risk management

LG Act = *Local Government Act 1993*



Office of
Local Government

Background

Story so far

2008

– Voluntary *Internal Audit Guidelines* released by OLG

2011

– ICAC Burwood Council inquiry – found absence of IA allowed corruption to occur

2012

– Auditor-General recommends mandatory IA for councils

2013

– Independent reviews of LG Act recommend mandatory ARICs and RM (in addition to IA)

2016

– Amendments made to LG Act requiring each council to:

- proactively manage risk under new guiding principles of the LG Act
- have an ARIC 6 months after the elections held after proclamation

2017

– ICAC Botany Bay Council inquiry – had IA function but not effective, base LG model on NSW public sector model

2019

– Release of OLG discussion paper proposing new regulatory framework







2021

– Amendments proclaimed and framework released





Why do we want this in councils?

-  Ensure councils achieve their strategic objectives, operational plans, delivery programs etc in the more efficient, effective and economical way
-  Ensure better use of public money
-  Reduce opportunities for fraud and corruption
-  Create a culture of continuous improvement in councils
-  Ensure better service delivery to communities
-  Deliver increased transparency and accountability

New
NSW local government
framework



Definitions

Risk management

The coordinated activities taken by an organisation itself to:

- ✦ ensure it knows the risks it faces
- ✦ manage the impact of these risks on the organisation's ability to be successful and achieve its objectives

Internal audit

A globally accepted mechanism that provides an organisation independent advice on whether:

- ✦ it has good governance (i.e. is run well)
- ✦ is performing successfully
- ✦ is managing its risks effectively

Audit Committee

A committee of independent experts that advises the board/governing body of an organisation

- ✦ how it is performing and can improve
- ✦ whether it is fulfilling all its corporate and legal responsibilities

Uses RM and IA to make judgements and give advice

Worldwide 'three lines of defence' model

3rd line of defence:

- ❖ experts that provide independent external advice to council
- ❖ reported to governing body & GM
- ❖ e.g. independent ARIC, IA function



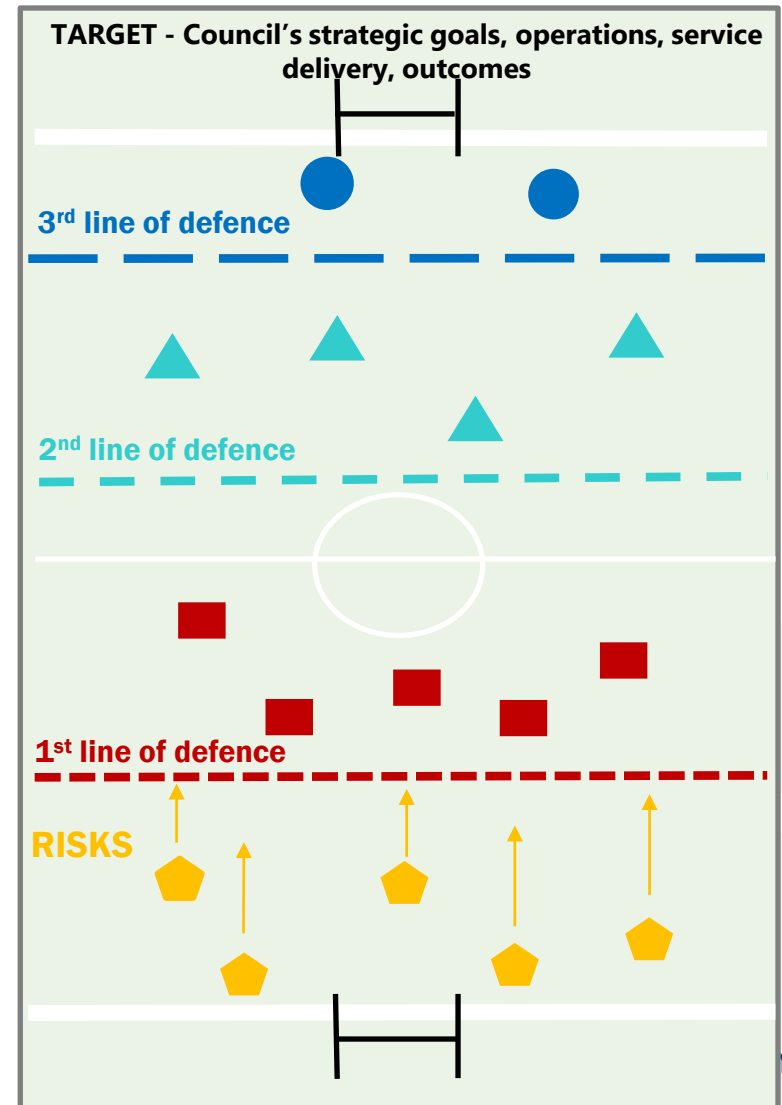
2nd line of defence:

- ❖ management actions to ensure risks are properly managed
- ❖ reported to GM
- ❖ e.g. coordinated RM framework



1st line of defence:

- ❖ everyday actions by staff to identify and manage risk
- ❖ reported to staff & managers
- ❖ e.g. council policies, procedures, rules, 'the way things are done'



Framework goals

1. Each council, county council and JO has an independent ARIC that adds value to the council

2. Each council, county council and JO has a RM framework that accurately identifies and mitigates council's risks

4. OLG establishes a strong minimum standard for these mechanisms based on internationally accepted standards and good practice

3. Each council, county council and JO has an IA function that provides independent assurance of council's functioning, performance and controls

5. All councils can comply



Statutory framework

Layer 1

Legislation – LG Act

- ❖ s 8B LG guiding principles - sound financial management and RM
- ❖ s 428A - each council must have an ARIC
- ❖ s 428B - councils can share ARICs

Layer 2

New Regulations

- ❖ Minimum regulatory requirements for ARICs, IA function and RM framework

Layer 3

New Mandatory Guidelines

- ❖ Replace the 2008 *Internal Audit Guidelines* by OLG
- ❖ Provide comprehensive guidance

Audit, risk and improvement committees



Operating principles

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

ARIC's role

ARIC
to
review over
council term:

(s 428A LG Act)

Legislative compliance

Risk management

Performance measurement

Service delivery

Internal & external audit

Fraud & corruption controls

Financial management & performance





ARIC composition

- ❖ Mandatory tiered approach with different prequalification requirements based on council's population, risk profile, revenue and proximity to urban centre

Tier 1

Rural councils, JOs, county councils

- prequalified Chair (prequalification exemption allowed)
- 2 independent/un-prequalified members
- optional non-voting councillor

Tier 2

Regional councils

- prequalified Chair
- 1 prequalified member
- 1 independent/un-prequalified member
- optional non-voting councillor

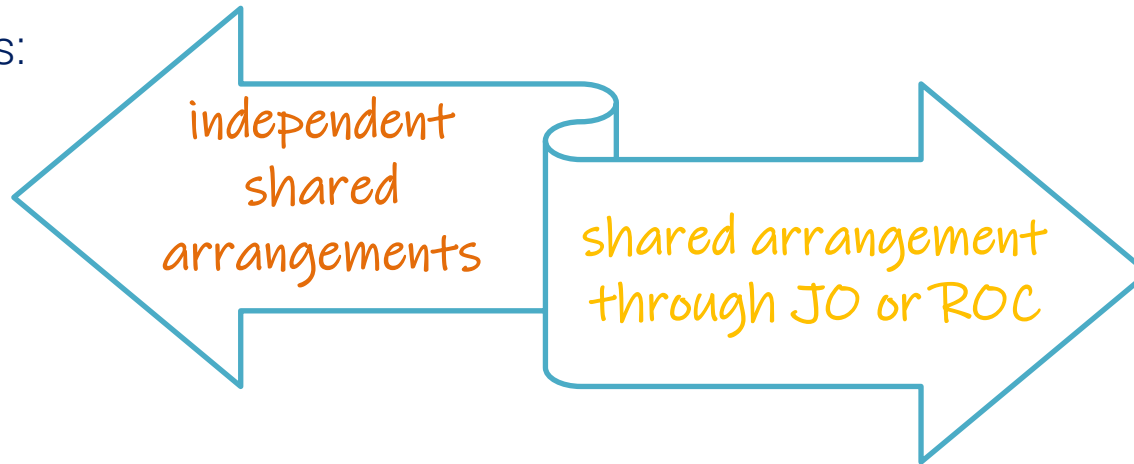
Tier 3

Metro councils
Newcastle,
Wollongong, Central
Coast, Lake
Macquarie

- prequalified Chair
- 2 prequalified members
- optional non-voting councillor

Shared arrangements

- ❖ Two options:



- ❖ Councils can share all or part of their ARIC, IA function and secretariat etc on the proviso that no council is disadvantaged from being in a shared arrangement
- ❖ County councils are encouraged to share with member council
- ❖ JOs are encouraged to establish a shared arrangement for member council that it can also use, or share with a member council



Appointment criteria – independent members

Cannot:

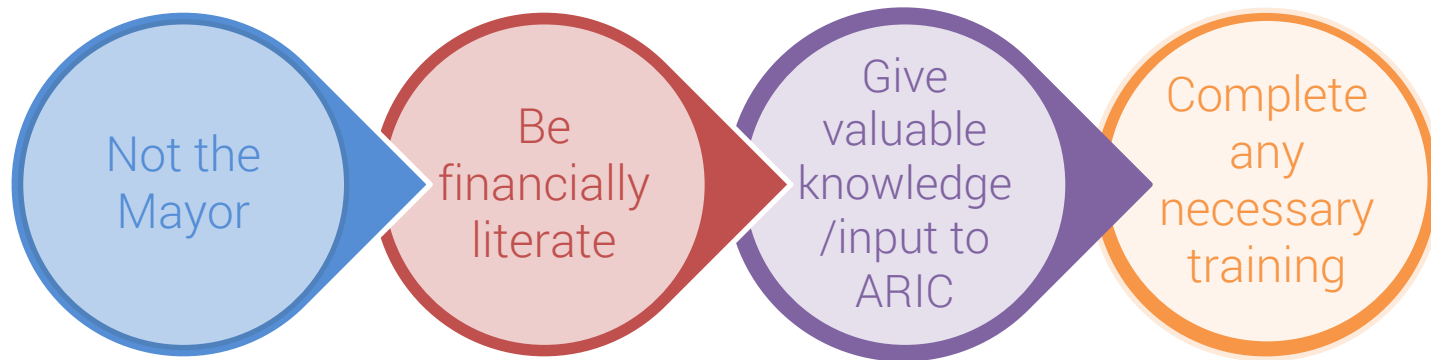
- be a current councillor of any council
- be a councillor in the previous term of the council
- be a JO non-voting representative
- have been a candidate at last election of the council
- have been a council employee during last 12 months
- be an external provider undertaking external audits of the council
- provide goods or services to the council

Un-qualified member eligibility criteria:

- be able to be an effective ARIC member
- have knowledge in an area that would provide a valuable contribution to the ARIC and council
- complete any necessary training
- have a commitment to independence
- be financially literate
- able to give direct and honest opinions

Councillor members

❖ Eligibility criteria:



- ❖ Four-year term coinciding with council term - maximum 8 years
- ❖ Appointed by governing body at first meeting of council after the election
- ❖ Appointment can be terminated at any time via resolution of the governing body
- ❖ Non-voting member to maintain ARIC's independence
- ❖ Optional for councils



ARIC roles

Chair

- Interface between ARIC and governing body
- Sets agenda
- Leads meetings
- Ensures all views are heard
- Seeks input of experts to maximise outcomes
- Collaborates with external auditor
- Oversees head of IA function
- Voting member

Independent member

- Assesses information provided about council
- Considers council's annual financial statements
- Identifies and assesses key risks and issues
- Raises and deals with tough issues, asks questions, expresses opinions frankly
- Voting member

Councillor member

- Provides important link between ARIC and governing body
- Advises ARIC of governing body's concerns
- Provides ARIC insight into local issues and council's strategic priorities
- Assists governing body to review ARIC's performance
- Non-voting member



Terms, fees, meetings

Member fees

- ❖ Set by each council, can be voluntary, superannuation applies

Term limits

- ❖ 4-year term limit, maximum 8 years, 2-year break after serving maximum term
- ❖ Tier 1 councils can seek DPIE Secretary's approval to extend Chair's maximum term if they are unable to appoint another Chair

Meetings

- ❖ At least quarterly, plus annual assurance meeting with governing body and GM
- ❖ Chair prepares 12-month forward agenda
- ❖ GM, head of IA function, RM Coordinator, external auditor, staff can attend
- ❖ Governing body decides confidentiality of meeting agenda, papers, minutes at start of council term



Other requirements

Access to council information/staff

- ❖ ARIC has direct and unrestricted access to GM, senior staff, head of IA function, council information and resources in order to fulfil its role
- ❖ Must obtain permission of GM to access other staff

Dispute resolution

- ❖ Disputes between GM and ARIC resolved by governing body
- ❖ Disputes regarding regulatory compliance resolved by DPIE

Conduct

- ❖ All members must comply with council's code of conduct and procedures
- ❖ Prequalified members must also comply with scheme's code of conduct
- ❖ GM must consult governing body before deciding disciplinary action against ARIC member to safeguard independence



ARIC governance

- ❖ Operates independently of council and governing body
- ❖ Operates according to terms of reference consistent with Model Terms of Reference issued by OLG and approved by governing body
- ❖ Terms of reference reviewed annually and each council term
- ❖ Terms of reference cover:
 - ARIC's role (customised by each council according to need within boundaries of s428A)
 - member composition, terms, appointment, dismissal, resignation, fees
 - reporting requirements to governing body



Workplans

Strategic plan (4-yearly)

- ❖ Developed by ARIC in consultation with governing body, GM and head of IA function
- ❖ Adopted by governing body at start of council term, can be varied at any time
- ❖ Sets out:
 - ARIC goals and outcomes for council term
 - key issues and risks faced by council and how ARIC will review these
 - key performance indicators

Annual plan

- ❖ Developed by ARIC in consultation with governing body, GM and head of IA function
- ❖ Sets out:
 - audits to be carried out that year
 - key goals, objectives and scope of audits
 - resources needed and key performance indicators



Quarterly reporting to councillors

Quarterly updates

- ❖ ARIC to report to governing body and GM after each ARIC meeting
- ❖ Council and ARIC to decide how update given e.g. ARIC minutes, separate report for noting, face-to-face meeting
- ❖ Quarterly update covers:
 - ❖ ARIC recommendations
 - ❖ audit findings, particularly those that require immediate response from council
 - ❖ council's progress on corrective actions
 - ❖ opportunities for longer-term improvement
 - ❖ key opinions/take-outs from meeting
- ❖ Chair/Mayor can also meet at any time



Annual reporting to councillors

Annual assessment

- ❖ Face-to-face annual assessment report and meeting between ARIC, GM and governing body
- ❖ Covers the following for current year:
 - ❖ overview of ARIC's work
 - ❖ assessment of matters considered by ARIC that governing body should be informed of
 - ❖ overview and assessment of IA function's work
 - ❖ progress against key performance indicators
 - ❖ advice on ARIC's terms of reference
 - ❖ proposed new annual workplan
 - ❖ any other advice or opinions ARIC wishes to provide
- ❖ Report provided to GM before meeting so corrective actions can be identified and agreed at meeting



End of term reporting to councillors

Strategic assessment

- ❖ Face-to-face assessment report and meeting between ARIC, GM and governing body at end of council term
- ❖ Covers the following for current council term:
 - ❖ overview of ARIC's work
 - ❖ assessment of council's performance re: s428A of LG Act overview and assessment of IA function's work progress against key performance indicators over council term
- ❖ Provides the following advice for new council term:
 - ❖ recommended corrective actions
 - ❖ advice/opinions to inform IP&R plans
 - ❖ advice on ARIC's terms of reference
 - ❖ proposed strategic workplan
- ❖ Report provided to GM before meeting so corrective actions can be identified and agreed at meeting



Review of ARIC's performance

Timing

- ❖ ARIC's performance reviewed annually by ARIC and council
- ❖ Strategic review every council term:
 - conducted by external assessor/peer, or
 - conducted by council and reviewed by external assessor/peer
- ❖ Reported to annual and 4-yearly assurance meeting between ARIC, governing body and GM

Review covers

- ❖ ARIC's terms of reference
- ❖ Collective performance of ARIC plus individual performance of members and Chair
- ❖ Collaboration between ARIC, external auditor, council and IA function
- ❖ ARIC's review and advice on s428A matters

Risk management



Operating principles

- ❖ Council accepts responsibility and accountability for RM
- ❖ Council has a RM framework that is appropriate for the council and consistent with Australian risk management standards (currently AS ISO 31000:2018)
- ❖ RM is an integral part of all council management, operations, functions and activities and it is clear who is responsible for managing each risk
- ❖ Council supports the development of a positive risk culture
- ❖ Council regularly reviews its RM framework and can flexibly adapt its RM activities to its operations and risk profiles
- ❖ Council is accountable to the community for complying with regulatory requirements



ASO ISO 31000:2018

- ❖ Councils can flexibly adapt the size and scope of their RM framework to suit their needs provided it reflects the **principles, key elements** and **processes** in the Australian RM Standards that apply to all organisations

RM Principles

- ❖ **Integrated** into all council activities
- ❖ **Structured and comprehensive** process that achieves consistent results
- ❖ **Customised** to the council
- ❖ **Inclusive** of all stakeholders
- ❖ **Dynamic** and able to respond to changes and events in a timely way
- ❖ Risk decisions are based on the **best available information**
- ❖ Takes into account **human and cultural factors**
- ❖ RM is subject to **continual improvement**



ASO ISO 31000:2018

RM key elements

- ❖ Strong **leadership and commitment** to RM
- ❖ **Integration** in council's purpose, governance, strategy, operations
- ❖ **Design** is based on council's unique needs and appropriate resources
- ❖ **Implementation** is planned, structured and effective
- ❖ **Evaluation** is regularly conducted
- ❖ Continual **improvement** in RM design and implementation

RM process

- ❖ Define scope of RM activities
- ❖ Establish internal and external context/environment council works within
- ❖ Decide performance indicators
- ❖ Define council's risk criteria/appetite
- ❖ Conduct risk assessments
- ❖ Decide risk treatment options
- ❖ Develop risk treatment plans
- ❖ Write risk reports



Responsibilities

General manager

- Operational leadership
- Approves RM policy, plans, risk reports
- Positive risk culture
- Assigns authority and accountability for RM to staff
- Annual attestation against regulatory requirements
- Approves implementation of corrective actions recommended by IA function/ARIC

RM Coordinator

- Day-to-day RM activities
- RM documentation and reports
- Ensures consistent implementation across council
- Monitoring
- RM training/advice
- Can be any staff member/s capable of the role

IA function/ARIC

- Reviews/advises on RM framework
- Assesses if risks identified and managed appropriately
- Reviews council's risk register
- Reviews integration of RM across council
- Provides advice in relation to specific projects/activities



Review and reporting

Annual assessment

- ❖ Undertaken by head of IA function
- ❖ Assesses:
 - does RM framework comply with regulatory requirements and Aust. Standards
 - is RM framework sufficiently resourced
 - does RM framework operate effectively, appropriate to council's risks
- ❖ discussed with governing body, ARIC and GM at annual assurance meeting

Strategic assessment

- ❖ Undertaken every 4-years/council term
- ❖ Review as above and also considers effectiveness of RM framework in light of council's strategic goals and objectives/IP&R framework
- ❖ Discussed with governing body, ARIC and GM at 4-yearly strategic assessment meeting

Internal audit

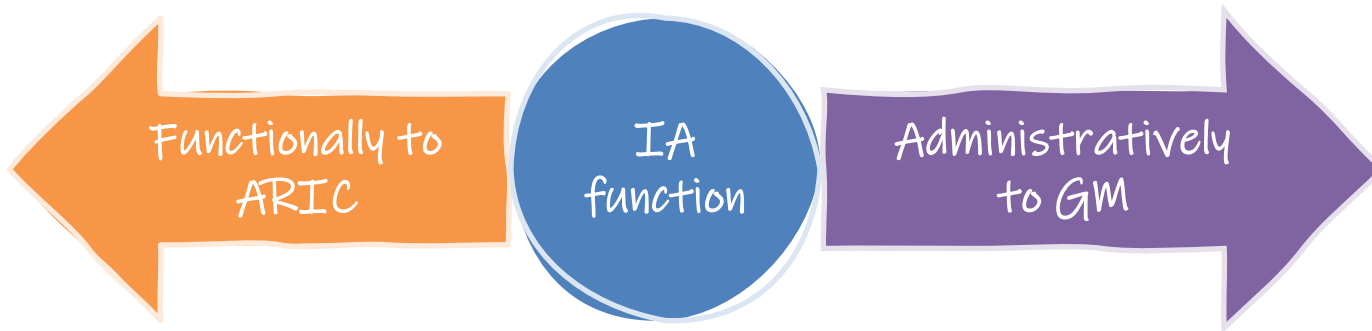


Operating principles

- ❖ IA function is independent of council and has appropriate expertise
- ❖ IA function has access to all necessary council information
- ❖ IA function is appropriately positioned within council to perform its role
- ❖ IA function has comprehensive workplans linked to council's strategic objectives and current and emerging risks
- ❖ ARIC receives relevant and timely advice from IA function
- ❖ IA function operates in compliance with international standards
- ❖ IA function adds value to the council
- ❖ IA function is accountable to the ARIC and governing body
- ❖ Council is accountable to the community for complying with IA regulatory requirements

Governance

- ❖ Dual reporting line:



- ❖ Operates according to:
 - IA Charter consistent with Model IA Charter issued by OLG
 - annual and 4-yearly workplans developed by ARIC
- ❖ IA Charter developed by ARIC in consultation with GM and head of IA function – approved by governing body and reviewed annually and each council term
- ❖ Head of IA function can meet with ARIC Chair at any time
- ❖ IA information:
 - for internal use only and property of the council
 - ARIC and external auditor can access at any time

Responsibilities

ARIC

Functional leadership of IA function

Develops IA Charter

Develops IA workplans

Assists GM to identify IA resources needed

Assesses IA findings and provides advice to council

Reviews IA function's performance

General manager/delegate

Administrative responsibility for IA function

Advises governing body of IA resources required

Ensures IA positioned appropriately in council

Supports IA function to comply with international standards

Annual attestation

IA function

Undertakes audits according to annual and strategic workplans

Supports operation of ARIC

Complies with international standards

Maintains independence from council



Structure - options

In-house

- ❖ Internal auditors employed by council
- ❖ Recommended for tier 2 and 3 councils
- ❖ Lead by **Head of IA function**:
 - council employee
 - independent of council
 - ‘chief audit executive’ in the international standards
 - conducts audits
 - supports ARIC
 - ensures IA function complies with international standards
 - monitors implementation by council of corrective actions

Outsourced

- ❖ External providers contracted to perform audits
- ❖ Recommended for tier 1 councils
- ❖ Lead by **Internal Audit Coordinator**:
 - council employee
 - coordination/administration role
 - contract management
 - liaises between ARIC and external provider
 - monitors implementation by council of corrective actions

County councils – use member council’s IA function

JOs – establish shared arrangement or use member council’s IA function



Performing audits

- ❖ IAs must be undertaken in accordance with international standards
- ❖ IA tools, techniques and methodologies approved by ARIC
- ❖ Risk information/ratings used developed and applied according to Australian RM standards
- ❖ GM/Head of IA function to develop IA policies and procedures in consultation with ARIC
- ❖ Head of IA Function to establish ongoing monitoring system to track IAs undertaken and implementation by council of corrective actions



Reporting to ARIC

Individual audit reports

- ❖ IA report provided by Head of IA function or external provider to ARIC after each audit completed
- ❖ Report includes:
 - background information, scope, objectives
 - audit process and methodology
 - findings and recommendations prioritised according to level of risk
 - recommended corrective actions
 - response/action plan from GM/responsible senior manager

Quarterly reports

- ❖ Head of IA function reports to ARIC at each ARIC meeting
- ❖ Includes:
 - audits completed that quarter
 - progress by council implementing corrective actions



Review of IA function

Annual review

- ❖ Conducted by ARIC, reported to GM and governing body at annual assessment meeting
- ❖ Reviews operation of IA function and compliance with international standards

Strategic review

- ❖ Conducted every 4-years/council term and reported to GM and governing body at strategic assessment meeting
- ❖ Includes views of external party with strong IA knowledge
- ❖ Focuses on how council has implemented the IA function:
 - is IA function independent from council
 - is resourcing sufficient
 - does IA function meet regulatory requirements
 - does IA function add value to council

Accountability



Annual attestation

- ❖ GM to publish attestation certificate each year in council's annual report indicating how council has complied during the financial year with ARIC, RM and IA regulatory requirements
- ❖ Attestation template issued by OLG
- ❖ Compliance self-assessed by GM in consultation with ARIC Chair – if Chair disagrees with content of attestation they may prepare their own and submit to OLG
- ❖ Councils can seek an exemption from the DPE Secretary from specific requirements where:
 - council cannot comply due to temporary extenuating circumstances or resourcing constraints that will significantly impact council's budget, and
 - council cannot share IA function to ensure they comply, and
 - council is pursuing alternative arrangements to ensure future compliance

Implementation
timeframes



Compliance timeframes

2022

- ❖ Each council must have an ARIC (any kind)

2024

- ❖ RM framework and IA function must comply with regulatory requirements
- ❖ Attestation for IA and RM commences

2027

- ❖ ARIC membership must comply with regulatory requirements
- ❖ Attestation for ARICs commences

Next steps

August
2021

Act amendments commenced - 18 August

Aug-Nov
2021

3 month consultation on new guidelines and model documents
24 August – 26 November

June
2022

All councils must have an ARIC (can be shared) – 4 June
New regulations and guidelines finalised

2024-
27

Full compliance:

- ❖ 2024 – RM and IA function
- ❖ 2027 – ARIC composition

Questions