

A New Risk Management and Internal Audit Framework for Local Councils in NSW

December 2019



The CNSWJO member councils are; Bathurst Regional, Blayney Shire, Cabonne, Cowra Shire, Forbes Shire, Lachlan Shire, Oberon, Orange City, Parkes Shire and Weddin Shire. Associate members are Central Tablelands Water, Department of Premier and Cabinet (DPC) and Regional Development Australia, Central West.

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Chairman: Cr John Medcalf, OAM, Mayor, Lachlan Shire Council

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20 December 2019

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To whom it may concern,

Re: A New Risk Management and Internal Audit Framework for Local Councils in NSW

Thank you for the opportunity to provide advice regarding the new Internal Audit Risk Management Guidelines proposed OLG.

Central NSW JO and its predecessor Centroc have included risk management in its approach. This is demonstrated by its strategic plan and reporting. Further, process improvement and leading practice are also features of the work it undertakes for Councils and for itself. Current examples include:

- Best Practice in Aggregated Procurement;
- Audit of water quality program; and
- National Asset Management Audit Framework program.

While risk management and process improvement are integral to this Joint Organisation, the program for their management as suggested by the Office of Local Government is seen as unnecessary and diverting resources away from delivering outcomes including process improvement. The sad truth is that the best way to manage a risk is to do nothing.

Members in region have been working collaboratively in various ways on internal audit for some time. The discussion paper makes provision for how this is to occur in the future in the chapter "Core Requirement 9."

There are two types of collaborative arrangement described in the discussion paper. The first is Councils working together enabled through a Section 355 Committee of the Local Government Act. The second is enabled through the JO enabled under Section 377 of the Local Government Act.

Regarding the approach enabled through Section 377, Councils would need to delegate this function to the JO. Depending on the extent of the functions to be delegated, arguably this is creating another level of government and outside existing JO policy. There may be some cost savings opportunities for members but these would need to be considered in the broader context of Council control over the process.

Regarding the approach enabled through Section 355, it is more complex than Councils working in this space currently and may be a disincentive to collaboration.

There is no contemplation for JOs sharing arrangements which may be a better option given their similarity in size and function. Accordingly, The Central NSW JO Board in its meeting on 27 November resolved as follows:

Resolved	Cr B West/Cr S Ferguson
<p>That the Board note the new Internal Audit and Risk Management Guidelines advice from the Office of Local Government and</p> <ol style="list-style-type: none"> 1. provide a response that: <ol style="list-style-type: none"> a. Is supportive of a strategic approach to internal audit and risk management; b. Suggests a less prescriptive approach, than that suggested in the guidelines; c. Is not supportive of leveraging Section 377 of the Local Government Act where Councils delegate internal audit and risk management functions to the JO; d. Notes the diversion of resource required for a Joint Organisation to fulfill these guidelines will be counterproductive and is at risk of contributing to JO network failure; e. Request that JOs be exempt from the new Internal Audit and Risk Management Framework for NSW; and f. Includes Member Councils concerns; and 2. Members are encouraged to write their own responses. 	

Regarding the questions raised, this JO provides the following feedback.

- **Will the proposed internal audit framework achieve the outcomes sought?**

The guidance provided will provide a useful framework for internal audit for the Local Government sector. However, some elements and its prescription will be counter productive for all Local Government entities and for smaller Councils, Country Councils and Joint Organisations in particular. It should be noted that some Joint Organisations have less than one FTE of staff which means that there will be a significant diversion of resource to deliver the internal audit and risk management framework.

The Central NSW JO, in its risk management plan, has identified success of the broader JO network as being critical to the success of every JO. The material difference between JOs and what were the ROCs is the potential of the cooperation between State and Local government to deliver better outcomes for member Councils their communities and the State more broadly. Wherever this value proposition is threatened, for example by compliance that is not tailored to JOs, the network and its potential is at risk.

Given the Ministerial Taskforce looking at the sustainability of JOs, there is significant risk at present to the success of the JO network where the burgeoning costs of the compliance framework are exacerbating the situation.

- **What challenges do you see for your council when implementing the proposed framework?**

The substantive diversion of the Central NSW JO's limited resource in combination with the increase in direct costs to members will diminish the value the JO can provide to the State, members and the community.

There was significant discussion at the recent JO Board meeting 27 November 2019 where the main concern being expressed was the diminishment of the democratic process where the communities voice through their elected representatives is being usurped by third parties.

- **Does the proposed framework include all important elements of an effective internal audit and risk framework?**

Unfortunately for the Local Government sector, significant risks are not always within their remit to control. Take the delivery of quality secure water. Using the example of current recent drought where State owned dams and State administered regulatory are unable to assure water to communities in regional NSW. This risk was recognised in this region during the last drought with significant advocacy undertaken to try and address the problem. Unfortunately, there has been little change outside of those actions that Councils can control.

Arguably, a better approach for urban water security in regional NSW would be effected by a less paternalistic approach by the State and a shared approach to risk management. This is exactly the space the JOs can occupy leading to better outcomes across regional NSW.

An honest conversation needs to be had between the State and Local Government about what problem, or risk we are trying to manage and how it should be approached rather than the blunt instrument of increasing compliance.

- **Is there anything you don't like about the proposed framework?**

The challenge of the framework as described are summarised as follows:

- The practicality of the Annual Attestation Statement;
- The diminution of the the democratic process by giving control to non-elected third parties;
- The focus in the role statement on the control framework for financial management and external accountability framework instead of process improvement;
- The impossibility of the assurance task to be achieved with the process described; and
- The resourcing requirements for the above and for the shared arrangements as proposed.

In a nutshell, the framework diminishes the role of Councillors, is process rich and outcome poor.

- **Can you suggest any improvements to the proposed framework?**

Councils in this region all have an internal audit and risk management functions. The JO has a risk management plan where the Board reviews it quarterly. There is no doubt scope for process improvement and this region's policy is to codesign this type of work.

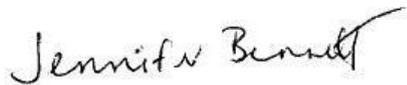
To effect this, Central NSW JO suggests that interested JOs and Councils form a task group with OLG representatives to work on:

- looking at a model where the JO provides administrative support in shared arrangements that do not require leveraging Sections 355 or 377 of the Act; and
- designing a model that is workable for very small organisations in the Local Government sector.

In the meantime this JO seeks exemption from the Guidelines as they currently appear.

If you require further information or clarification on comments in this submission, please do not hesitate to contact me on 0428 690 935.

Yours sincerely,

A handwritten signature in black ink that reads "Jennifer Bennett". The signature is written in a cursive, flowing style.

Jennifer Bennett
Executive Officer
Central NSW Joint Organisation (CNSWJO)