

# Draft risk management and internal audit guidelines

November 2021



**CENTRAL NSW  
JOINT ORGANISATION**

Bathurst  
Blayney  
Cabonne  
Cowra  
Forbes  
Lachlan  
Oberon  
Orange  
Parkes  
Weddin



Chair Cr John Medcalf OAM, Mayor, Lachlan Shire Council

Central NSW  
Joint Organisation

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26 November 2021

Reference: jb:vp 211116  
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Attention Council Governance Team  
Office of Local Government  
Department of Planning, Industry and Environment  
Office of Local Government  
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Dear Governance Team,

**Re: Draft risk management and internal audit guidelines**

Local Government Regional Joint Organisations (JOs) were proclaimed in May 2018 under the NSW Local Government Act 1993. The Central NSW Joint Organisation (CNSWJO) represents over 200,000 people covering an area of more than 50,000sq kms comprising the Local Government Areas of Bathurst, Blayney, Cabonne, Cowra, Forbes, Lachlan, Oberon, Orange, Parkes, Weddin, and Central Tablelands Water.

Tasked with intergovernmental cooperation, leadership and prioritisation, JOs have consulted with their stakeholders to identify key strategic regional priorities. The CNSWJO Strategic Plan can be found here:

[https://docs.wixstatic.com/ugd/51b46b\\_31886650ecf546bc916f15e99a733b3e.pdf](https://docs.wixstatic.com/ugd/51b46b_31886650ecf546bc916f15e99a733b3e.pdf)

Central NSW Joint Organisation understands OLG is seeking the views and feedback of councils and other stakeholders on the draft *Guidelines for risk management and internal audit for local councils in NSW* prior to finalising them.

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

The Central NSW JO Board resolved in its meeting 25 November 2021, to adopt the following submission and prioritise in this response the issue that exclusion of elected representatives from

*The Central NSW JO speaks for over 157,000 people covering an area of more than 47,000sq kms comprising of Bathurst, Blayney, Cabonne, Cowra, Forbes, Lachlan, Oberon, Orange, Parkes, and Weddin.*

the ARI Committees both works against the principles of local democracy and excludes the value that elected representatives provide in audit, risk and improvement.

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.

Based on existing policy please find the following advice:

1. The Board finds it very problematic that the exclusion of elected representatives from the ARI Committees both works against the principles of local democracy and excludes the value that elected representatives provide in audit, risk and improvement.
2. CNSWJO is supportive of a strategic approach to process improvement and risk management.
3. There is no contemplation for JOs sharing arrangements which may be a better option given their similarity in size and function.
4. There is no tailored ARIC framework for JOs and given their size and role, the Tier 1 arrangements are seen as too resource intensive. 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.
5. JOs biggest risks are ones they cannot manage individually. These are the sustainability of the broader network and the lack of engagement by the State.

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. 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. Happily, the DPIE are currently trying to improve their internal processes through the Town Water Risk Reduction Program, however the outcomes of this approach remain to be seen

6. 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. Another salient example is the Review of Joint Organisations administered by the Office of Local Government. Well overdue and now unlikely to be public before the end of this Council term, Councils and JOs are now unable to use this information to inform end of term reports. This includes how to manage the two greatest risks to JOs as outlined above – neither of which they are able to manage individually.

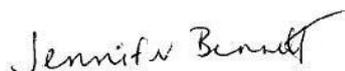
*The Central NSW JO speaks for over 157,000 people covering an area of more than 47,000sq kms comprising of Bathurst, Blayney, Cabonne, Cowra, Forbes, Lachlan, Oberon, Orange, Parkes, and Weddin.*

7. The diversion of resource required for a Joint Organisation to fulfil these guidelines will be counterproductive and is at risk of contributing to JO network failure.
8. It is noted that there has been some improvements in the framework however, the framework still diminishes the role of Councillors, is process rich and outcome poor.
9. There are opportunities for support by the JOs and please find attached a report to the JO Board on progressing a preferred approach leveraging CNSWJO's strength in aggregated procurement.
10. As advised in the last round of consultation, CNSWJO would welcome an opportunity to work collaboratively on designing a model that is workable for very small organisations in the Local Government sector such as small County Councils and JOs.

In the meantime this JO seeks exemption from the Guidelines as they currently appear. This is based on the size of JOs where should their core funding exceed \$1.5 million this could be reviewed.

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,



Jennifer Bennett  
**Executive Officer**  
Central NSW Joint Organisation (CNSWJO)

enc: Central NSW Joint Organisation 25 November Board Report (report only).

## Options for regional support in implementing Office of Local Government (OLG) guidance in audit, risk and improvement

<b>Regional Strategic Priorities</b>	<b>1.1 Governance arrangements enable inter-council co-operation.</b>
<b>Portfolio Mayor</b>	<b>Cr John Medcalf, OAM</b>
<b>Sponsoring General Manager/s</b>	<b>Mr B Byrnes and Mr G Tory</b>

Report by Jenny Bennett, dated 14 October 2021

### Recommendation/s

**That the Board note the “Options for regional support in implementing OLG guidance in audit, risk and improvement” report and**

- 1. Note that there is scope for collaboration between Councils on elements of the guidance including:
 
  - a. Coordination and administration of the Audit Risk and Improvement Committee; and**
  - b. Development and/or procurement of the various strategies, reviews and self-assessments in internal audit, assurance, improvement and risk management;****
- 2. Note that a more strategic regional approach is likely to identify opportunities for regional collaboration on improvement;**
- 3. Note that a workshop of interested General Managers in progressing a regional approach;**
- 4. Note the advice in the report on a preferred approach being:
 
  - a. Supporting a collaboration of member council staff responsible for internal audit;**
  - b. Leveraging the CNSWJO strength in procurement through coordinating a strategic approach aggregating some or all opportunities for audits, strategies, reviews and improvement; and**
  - c. Offering an optional administrative support program for ARIC for interested councils;****
- 5. Lodge a response to the OLG in line with existing policy as attached to this report; and**
- 6. This is to include that CNSWJO seeks to be exempt from the program;**

### Precis

The Office of Local Government has issued its guidance with regard to changes to Local Government to enable the new Audit and Risk Framework.<sup>19</sup> Submissions regarding this guidance are due by COB 26 November 2021.

While every Council in the region supports effective risk management, assurance and process improvement there are mixed responses to the extent to which the OLG guidance and anticipated changes to the regulatory framework are optimal. Arguably, CNSWJO is so small that it could contemplate an effective approach to ARIC requiring a much lower resourcing burden. Commentary in this regard is included in the submission.

Councils across the region have made variable investments in effective risk management, assurance and process improvement including:

1. Funding Audit Risk and Improvement Committees;
2. Funding internal auditors;
3. Funding independent audits; and
4. Internal resourcing of all audit risk and improvement processes including governance of ARIC and management of its forward program.

<sup>19</sup> [SPECIAL VARIATION GUIDELINES \(nsw.gov.au\)](https://www.nsw.gov.au/special-variation-guidelines)

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.

New ARICs must comply with the Guidelines. Existing may transition to June 2027. 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.

This report:

1. is not a business case, but provides high level advice on the potential for collaboration;
2. provides direction for a response from CNSWJO to the draft guidelines; and
3. provides direction for the longer-term approach of the CNSWJO including
  - a. seeking exemption as a Tier 1 entity; and
  - b. advice to a report to the Board on options for regional support for members in delivering on the ARI framework

## Legislative Risk and Policy Advice

Members will recall that there has been consultation on a previous round of OLG guidance on what the regulatory framework will look like to achieve these legislative requirements. CNSWJO policy response can be found at [https://www.centraljo.nsw.gov.au/content/uploads/191105\\_Submission\\_-Internal-Audit-and-Risk-to-JOs.pdf](https://www.centraljo.nsw.gov.au/content/uploads/191105_Submission_-Internal-Audit-and-Risk-to-JOs.pdf)

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:

1. an audit, risk and improvement committee that continuously reviews and provides independent advice to the council on how it is functioning and managing risk
2. a robust risk management framework that accurately identifies and mitigates the risks facing the council and its operations, and
3. 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.<sup>20</sup>

Please see more detail in attachment 2 – summary advice from OLG on Audit Risk and Improvement.

Each council, county council and joint organisation has been categorised as a tier 1 (lowest) including all Councils, CTW and CNSWJO except Bathurst and Orange, tier 2 (middle) (Bathurst and Orange) or tier 3 (highest) council for the purposes of determining the size and composition of their audit risk and improvement processes.

Tier 1 Councils, County Councils and JOs can apply for exemptions however reasons for being unable to participate will need to be given and advice will need to be provided on how they management audit, risk and improvement.<sup>21</sup>

<sup>20</sup> Ibid page 6

<sup>21</sup> Ibid p 11

### 1. Audit, risk and improvement committee

The Local Government Regulation will require 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. All Tiers, unless exempt must, at a minimum, comply with the following requirements:

- the chair of the audit, risk and improvement committee must:
  - o meet the independence requirements for committee members, and
  - o 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 will allow 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.<sup>22</sup>

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.<sup>23</sup>

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.<sup>24</sup>

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).<sup>25</sup>

Councils that share their committee, can but are not required to, also share the committee's secretariat.<sup>26</sup>

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.<sup>27</sup>

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<sup>22</sup> Ibid p 19

<sup>23</sup> Ibid p 18

<sup>24</sup> Ibid p 21

<sup>25</sup> Ibid p 22

<sup>26</sup> Ibid

<sup>27</sup> Ibid

Where Councils elect to have the optional non-voting Councillor on the committee, these will not be shared.<sup>28</sup>

For Tier 1 Councils the audit, risk and improvement committee must have 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).

There is an optional 1 non-voting councillor that meets the eligibility criteria for councillor members. Tier 1 Councils can also apply for exemptions around Chair qualification where there is guidance on capability of Chairs and how to seek exemptions will only be granted in exceptional circumstances.<sup>29</sup> Tier 2 Councils must have the same as Tier 1 PLUS one of the Committee members will need to be prequalified under the NSW Government's prequalification scheme.<sup>30</sup>

There is guidance around who can be on these Committees. No Councillors or candidates, employees (for the past 12 months), auditors, close personal relationships, non-voting JO Board members, service providers including consultants for three years regarding risk, any advocate of material interest with a perceived conflict of interest and associated family members.<sup>31</sup>

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.<sup>32</sup>

The audit, risk and improvement committee must have a mix of skills and 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;
  - 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).<sup>33</sup>

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

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<sup>28</sup> Ibid

<sup>29</sup> Ibid p 21

<sup>30</sup> Ibid

<sup>31</sup> Ibid p 23

<sup>32</sup> Ibid p 25

<sup>33</sup> Ibid p 25

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.<sup>34</sup>

The Committee must have a Terms of Reference consistent with the model terms<sup>35</sup> which it reviews annually.<sup>36</sup>

## 2. Risk Management Framework

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. 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.

The current risk management standard at the time of the release of these Guidelines is AS ISO 31000:2018 Risk Management – Guidelines. These are summarised in the Guidelines. The following are key descriptors:

- assigns risk management roles, responsibilities and accountabilities within the council
- allocates appropriate council resources for risk management
- effectively documents and communicates risk management across the council
- includes a risk management plan that provides structure for how the council will implement its risk management policy and conducts its risk management activities, and
- This plan is evaluated and improved
- Council must provide via resolution, advice to the ARIC on its risk appetite.
- The General Manager's role:
  - 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)
  - 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.

These roles can be delegated.

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

<sup>34</sup> Ibid p 28

<sup>35</sup> Ibid Appendix 3

<sup>36</sup> Ibid p 18

- 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.

The breadth and depth of this assurance role is to be determined by the council and the audit, risk and improvement committee. Some guidance is provided and Appendix 4 provides more examples. 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.

Each Council is to provide an annual self-assessment of its risk function. The annual self-assessment is to report to the general manager whether the council's risk management framework. Guidance regarding what that looks like.

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. Guidance is provided on considerations.

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.

The Local Government Regulation 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.

### **3. Internal Audit Function**

Councils can opt to have internal audit functions within councils or share them.

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. In region this has been in place between Orange and Bathurst though this is changing where Bathurst sees the efficiency of limiting internal resourcing and seeking externally supplied internal audits.

For internal audit functions established by joint organisations and shared between member councils recommendations from the OLG are 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.

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.

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.

Where ARICs need to be in place by June 2022, all councils will be required to publish their attestation certificates commencing with their 2024-2025 annual report. This means Councils have about 3 years to get their audit, risk and improvement frameworks in place. There is potential for value to be driven through a regional approach. This includes

- Hosting and renewing a panel of ARIC members that Councils can draw from;
- Sharing ARIC/s across some or all members where high level advice has been sought from Canberra JO on their business case and this is attached;
- Shared administration of ARICs;

- Shared procurement of ARIC 4 year strategies or peer reviews including identifying collaborative opportunities in the framework;
- Shared procurement/development of ARIC 1 year work plans including programmatic opportunities and aggregated procurement;
- Shared approach to annual attestation and potential resourcing;
- Shared procurement/self assessment of ARIC annual reviews;
- Shared procurement of ARIC Term reviews or peer reviews;
- Continuous ARIC education and other aggregated training support as identified;
- Shared support of Councils' risk management plan development and review including annual self-assessment of Council's risk function;
- Templates and shared approaches to policy and procedure development in risk;
- Shared coordination and/or aggregation of externally procured internal audits; and/or
- Shared internal auditors.

### Discussion

Key considerations when designing options for a shared approach to audit, risk and improvement in line with the OLG guidance for CNSWJO and members are:

- the capacity and experience of the JO for coordination, aggregation and subject area expertise;
- the flexibility of the service to deliver across tier;
- meeting members' varying needs for assurance services;
- the JO's fit with compliance functions, that is an enabler for Councils to derive value but not a regulator or fourth tier of government;
- the need for each audit risk and improvement risk management framework to be Council specific - particularly the risk management framework;
- the capacity for the JO to provide the structure, roles and responsibilities as described in the new framework; and
- value to councils.

### Roles and responsibilities

The guidance provides defined separations of various roles and responsibilities, and any shared approach will need to fit within its parameters.

Roles that could be included in potential models are:

- **Shared ARICs** – the procurement of an ARIC could be for multiples of Councils. Further work would need to be undertaken on ideal numbers of Councils and formats for shared arrangements.
- **Secretariat and administrative support for ARICs** that includes the following role by 2027 - compliance, fraud control, financial management, governance, integrated planning and reporting, service reviews, implementation of the internal audit strategic plan, delivery program and strategies; performance measurement data and performance improvement in compliance with section 428A of the Local Government Act.  
In terms of responsibilities, it would be for:
  - quarterly meetings agendas, minutes;

- coordinating the strategic framework including self-assessment and formal review – this to identify potential aggregated procurement and benchmarking opportunities; and
- following up on actions between meetings which includes on the recommendations of any audits.

There is significant potential value that can be gained by collaboration on longer term strategy by ARICs in region. For example, work could be undertaken on optimizing the nexus between IP and R, asset management and ARI.

- **Internal audit support through aggregated procurement** CNSWJO facilitates the procurement of aggregated audits, strategic work, strategic reviews.
- **Internal auditors procured through the JO** should the aggregation of strategic work show benefit in having a specialist internal audit function this can be considered.
- **Coordination and aggregation of support for Council risk management.** CNSWJO already provides some activity in coordinating risk managers and undertaking activities that provide value to members for example regional contractor induction. It is recommended that advice be sought from this group on the potential for support activities under the new guidance where the Risk Management Coordinator role as outlined in the guidance is seen as Council function.
- **Delivery of programming in process improvement.** CNSWJO already undertakes some programming in support of process improvement. Indeed all CNSWJO programming seeks to deliver value. Existing examples include:
  - the CNSWJO training service including online training;
  - the assurance programming in the water utilities alliance;
  - the code of conduct panel;
  - the NAMAFA program;
  - aggregated procurement; and
  - implementing advice from various reviews eg cyber security and best practice in aggregated procurement.

A more strategic approach to internal audit, assurance and process improvement would no doubt identify more areas where the JO can deliver value. For example the GMAC workshop on aggregated procurement identified depot, stores and asset management as being areas of interest.

The opportunities that can be realised through shared approach include:

- greater independence of the internal audit function;
- enabling benchmarking;
- cost savings;
- all of the power of the larger group;
- leveraging an organisation that is dedicated to member service and adept at negotiating in member interest; and
- reducing workload on council staff.

The risks and their management in a shared approach include:

- managing the two tiers where the approach being suggested below has managed this risk;

- the internal audit becoming too “independent” or separate from Council and thereby losing value where arguably the JO “being in the middle” will deliver better outcomes for Councils as it does with any other contract leveraging its size and culture of dogged member service;
- reputational damage to the JO from being involved in internal audit and seen as some type of regulator;
- perceptions of tier of fourth tier government;
- the internal audit function becoming “its own beast” given its need for independence with corollary financial impacts; and
- the propensity for the regulator to “grow” the role of the ARI framework with its corollary impacts on the JO and members.

Further work would need to be undertaken regarding risks.

### Financial implications

Advice from members on current expenditure is as follows:

- Direct costs range between \$20K and \$160K;
- Costs for internal audits being provided by external suppliers ranges upwards from \$5k; and
- Indirect costs are at a minimum of \$8K where staff provide advice that the follow-up on the recommendations for improvement can be substantial where 1 day per week for coordination and administration of the internal audit committee including follow-up on improvement will support two to three externally supplied audits per year.

Please find attached a report from Canberra JO informing potential costs and savings showing their intention to move to a shared internal audit service between four Councils. Their advice is that one full time staff would need to be engaged per four Councils. This is a good fit with feedback on indirect costs above.

Members will have differing views on the extent to which the audit risk and improvement framework should be resourced and in what time frame. However, there is arguably a sweet spot between the ‘sunk costs’ of ARIC administration and the value that can be derived from them. This is an area that would be explored by General Managers interested in progressing regional support as outlined in the preferred approach below.

### Preferred approach

Please see some summary advice in the following table where the yellow highlights would be included in the preferred approach.

Pink highlights are models being explored by other JOs.

Requirement	Date	Options for consideration
Council appoint an Audit, Risk and Improvement Committee	30 June 2022	<ol style="list-style-type: none"> <li>1. Establish 11 standalone independent ARIC committees.</li> <li>2. Establish a shared independent ARIC with a number of Councils led by Councils.</li> <li>3. Establish a shared independent ARIC with a number of Councils led by CNSWJO.</li> </ol>

		<ol style="list-style-type: none"> <li>4. Establish a centralised ARIC within CNSWJO to be shared across the member Councils of the Joint Organisation.</li> <li>5. CNSWJO coordinates the recruitment process for Councils as a panel or direct aggregated procurement.</li> </ol>
Membership of ARIC must be a Chair and 2 or more other persons that satisfy the eligibility requirements.	30 June 2027	<ol style="list-style-type: none"> <li>1. CNSWJO coordinates the recruitment process for Councils as a panel or direct aggregated procurement.</li> <li>2. Allows for transitioning of ARIC so various models can be explored.</li> </ol>
Allow Council to appoint a Councillor who satisfies the eligibility requirements as a non-voting member	30 June 2027	<ol style="list-style-type: none"> <li>1. Potential for regional capacity building program and/or</li> <li>2. Potential to build networks of elected reps in region.</li> </ol>
ARIC to operate in accordance with Terms of Reference based on model Terms of Reference	30 June 2022	<ol style="list-style-type: none"> <li>1. CNSWJO can include a GMAC report as part of the usual programming structural arrangements in this regard and coordinate a "Head of Internal Audit" officer group.</li> <li>2. CNSWJO provides secretariat services to ARIC.</li> </ol>
Provide ARIC direct and unrestricted access to General Manager and other Senior staff and any information and resources necessary to undertake its role	30 June 2022	<ol style="list-style-type: none"> <li>1. CNSWJO can include a GMAC report as part of the usual programming structural arrangements in this regard and coordinate a "Head of Internal Audit" officer group.</li> <li>2. CNSWJO provides secretariat services to ARIC.</li> </ol>
Adopt a strategic plan (every 4 years) to ensure that all matters in 428A are reviewed by the Committee and Internal Audit function over each Council term	30 June 2022	<ol style="list-style-type: none"> <li>1. Potential for joint procurement of strategies that enable benchmarking and further collaborative activity eg procuring internal audits, improvement in NAMA, IP and R and/or</li> <li>2. CNSWJO provides secretariat services to ARIC.</li> </ol>
Develop an annual work plan to guide its work over the forward year	30 June 2022	Potential for joint procurement/approach
Annual Assessment	30 June 2022	Potential for joint procurement/approach
Develop key performance indicators for Council's strategic 4-yearly workplan and annual work plan	30 June 2022	Potential for joint procurement/approach
Develop quarterly reporting from ARIC to the GM	30 June 2022	<ol style="list-style-type: none"> <li>1. Potential for joint procurement of strategies that enable benchmarking and further collaborative activity eg procuring internal audits, improvement in NAMA, IP and R and/or</li> <li>2. CNSWJO provides secretariat services to ARIC.</li> </ol>

ARIC Members should be designated persons	30 June 2022	CNSWJO coordinates the recruitment process for Councils as a panel or direct aggregated procurement.
Chairs should meet regularly with the GM	30 June 2022	CNSWJO provides secretariat services to ARIC.
Voting Members to meet with External Auditor at least once annually	30 June 2022	CNSWJO provides secretariat services to ARIC.
Voting Members to meet with Internal Auditor at least once annually	30 June 2022	<ol style="list-style-type: none"> <li>1. The collaborative model does not require an internal auditor as a shared service, but shared coordination.</li> <li>2. CNSWJO provides secretariat services to ARIC model would enable these meetings.</li> </ol>
Determine whether Professional indemnity and PLI is required for Chairs and Members	30 June 2022	An element of aggregated recruitment.
Implement a risk management framework for strategic and operational risks that is consistent with ISO31000	30 June 2024	<ol style="list-style-type: none"> <li>1. CNSWJO shares the administration of its risk management function with a Council.</li> <li>2. CNSWJO seeks to opt out.</li> <li>3. CNSWJO undertakes the coordination and administration of some or all of their member Councils risk management framework on behalf of the member Councils. This option must fulfil the requirements/desires of each Council, and this arrangement is to be detailed in a formal agreement.</li> </ol>
Ensure framework demonstrates Leadership and Commitment, Integration, Design, Implementation, Evaluation and Improvement.	30 June 2024	<ol style="list-style-type: none"> <li>1. CNSWJO shares the administration of its risk management function with a Council.</li> <li>2. CNSWJO seeks to opt out.</li> <li>3. CNSWJO undertakes the coordination and administration of some or all of their member Councils risk management framework on behalf of the member Councils. This option must fulfil the requirements/desires of each Council, and this arrangement is to be detailed in a formal agreement.</li> </ol>
Assign risk management roles within Council	30 June 2024	CNSWJO coordinates an existing WHS and Risk Management Group which can be reviewed for better alignment with the new framework.
ARIC must provide an assessment of the effectiveness of Council's risk management framework to the governing body each Council term as part of the Committee's 4 yearly strategic plan	30 June 2024	<ol style="list-style-type: none"> <li>1. Assessment can be procured/coordinated regionally.</li> <li>2. CNSWJO provides secretariat services to ARIC model would enable these meetings.</li> </ol>
Ensure performance targets to risk management activities can be measured against goals and objectives and obtain data needed to	30 June 2024	Activities as appropriate can be procured/coordinated regionally.

measure the impact if the risk management framework		
GM to provide Annual attestation each year in the annual report whether Council has complied with the risk management activities	30 June 2024	CNSWJO provides secretariat services to ARIC model would enable these meetings.
Internal Audit activities to operate in accordance with a Charter based on the Model Charter	30 June 2024	<ol style="list-style-type: none"> <li>1. Activities as appropriate can be procured/coordinated regionally.</li> <li>2. CNSWJO provides secretariat services to ARIC model would enable these meetings.</li> </ol>
ARIC to oversee the internal audit activities	30 June 2024	<ol style="list-style-type: none"> <li>1. Activities as appropriate can be procured/coordinated regionally.</li> <li>2. CNSWJO provides secretariat services to ARIC model would enable these meetings.</li> </ol>
Member of Council staff appointed to direct internal audit activities	30 June 2024	<ol style="list-style-type: none"> <li>1. CNSWJO can include a GMAC report as part of the usual programming structural arrangements in this regard and coordinate a "Head of Internal Audit" officer group.</li> <li>2. CNSWJO provides secretariat services to ARIC.</li> </ol>
Requires this staff member of staff to report only to the ARIC regarding internal audit activities	30 June 2024	<ol style="list-style-type: none"> <li>1. CNSWJO can include a GMAC report as part of the usual programming structural arrangements in this regard and coordinate a "Head of Internal Audit" officer group.</li> <li>2. CNSWJO provides secretariat services to ARIC.</li> </ol>
Requires ARIC to review the performance of the internal audit function each year and report to the governing body	30 June 2024	<ol style="list-style-type: none"> <li>1. Activities as appropriate can be procured/coordinated regionally CNSWJO can include a GMAC report as part of the usual programming structural arrangements in this regard and coordinate a "Head of Internal Audit" officer group.</li> <li>2. CNSWJO provides secretariat services to ARIC.</li> </ol>
Requires ARIC to review performance and efficacy of the internal audit activities once each term and report to the governing body the outcome of its review and make recommendations	30 June 2024	<ol style="list-style-type: none"> <li>1. Activities as appropriate can be procured/coordinated regionally.</li> <li>2. CNSWJO provides secretariat services to ARIC model would enable these meetings.</li> </ol>
Publish an Annual Attestation statement in the Annual Report indicating whether in the preceding financial year the ARIC, risk management framework and internal audit function complied this the Guidelines	30 June 2024	<ol style="list-style-type: none"> <li>1. Activities as appropriate can be procured/coordinated regionally.</li> <li>2. CNSWJO provides secretariat services to ARIC model would enable these meetings.</li> </ol>
ARIC must provide an annual attestation to Council each year	30 June 2027	<ol style="list-style-type: none"> <li>1. Activities as appropriate can be procured/coordinated regionally.</li> </ol>

		2. CNSWJO provides secretariat services to ARIC model would enable these meetings.
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It is suggested that any JO support for members implementing the audit risk and improvement guidance from the OLG include would fall into two areas, a coordination role leveraging the CNSWJO procurement function and an administrative role supporting a shared ARIC.

### 1. Procurement co-ordination role - potential elements

- a. Coordinating an operational team to provide feedback into the process similar to other teams CNSWJO supports. This to include a forward strategy.
- b. Establishing a panel of local ARIC members.
- c. Coordinating any training required at member/ARIC request.
- d. Collaboratively procuring various audits, strategies, reviews and process improvements eg NAMAFA under the auspices of GMAC.

Should support of this type eventuate, additional resource would be required by the procurement function of the CNSWJO. A report is currently being developed by the Board outlining how this function could be resourced.

### 2. Administration of ARIC's role - potential elements

- a. 4 Tier 1 councils share an ARIC. An approach including Tier 2 Councils can be developed at interested General Managers' request;
- b. Secretariat role of ARIC is administered through JO. This includes all aspects as listed in the guidance;
- c. It is envisaged that ARICs would primarily meet online;
- d. Includes aggregating strategy, reviews, procurement;
- e. Includes 2-3 internal audits per year externally procured and one meetings with the external auditor as directed by the guidance;
- f. Opportunity for benchmarking and extending the program to other Councils; and
- g. Process improvement as recommended in reports follow-up undertaken with GM or delegate.

Should support of this type eventuate, additional resource would be required where a ball park figure is one FTE per four Councils. Further work would need to be done on the program to keep resource to a minimum where the JO is adept at effective and efficient resourcing, for example its procurement program. The approach would require service level agreements and contracts to be negotiated.

### Submission to the OLG on the ARI guidelines.

Please find attached the draft submission to the OLG on the ARI guidelines. The key point this submission is making is that:

- CNSWJO is supportive of a strategic approach to process improvement and risk management;
- There is no contemplation for JOs sharing arrangements which may be a better option given their similarity in size and function.
- There is no tailored ARIC framework for JOs and given their size and role, the Tier 1 arrangements are seen as too resource intensive. 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.

- JOs biggest risks are ones they cannot manage individually. These are the sustainability of the broader network and the lack of engagement by the State.

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. 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. Happily, the DPIE are currently trying to improve their internal processes through the Town Water Risk Reduction Program, however the outcomes of this approach remain to be seen

- 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. Another salient example is the Review of Joint Organisations administered by the Office of Local Government. Well overdue and now unlikely to be public before the end of this Council term, Councils and JOs are now unable to use this information to inform end of term reports. This includes how to manage the two greatest risks to JOs as outlined above – neither of which they are able to manage individually.
- The diversion of resource required for a Joint Organisation to fulfil these guidelines will be counterproductive and is at risk of contributing to JO network failure.
- It is noted that there has been some improvements in the framework however, the framework still diminishes the role of Councillors, is process rich and outcome poor.
- There are opportunities for support by the JOs and please find attached a report to the JO Board on progressing a preferred approach leveraging CNSWJO's strength in aggregated procurement.
- As advised in the last round of consultation, CNSWJO would welcome an opportunity to work collaboratively on designing a model that is workable for very small organisations in the Local Government sector such as small County Councils and JOs.

**Attachment/s:**

2. Summary of the guidelines for Risk Management and Internal Audit Framework for Local Councils in NSW
3. Advice from Canberra JO on their approach to ARI