



20 December 2019

The Hon Minister Shelley Hancock MP
Minister for Local Government
Via email: olg@olg.nsw.gov.au

Dear Minister Hancock

A New Risk Management and Internal Audit Framework for local councils in NSW

Thank you for the opportunity to comment on the discussion paper on the proposed new risk management and internal audit framework for local councils in NSW.

Southern Sydney Regional Organisation of Councils Inc (SSROC) is an association of eleven local councils in the area south of Sydney Harbour, covering central, inner west, eastern and southern Sydney. SSROC provides a forum for the exchange of ideas between our member councils, and an interface between governments, other councils and key bodies on issues of common interest. Together, our member councils cover a population of about 1.7 million, one third of the population of Sydney.

SSROC not a council, but a group of councils. Its secretariat provides a range of services to member councils including:

- an internal audit service for member councils to use,
- a network of Governance Officers, who share knowledge, experience and work to resolve issues common to the members.

SSROC therefore has a significant interest in the proposed framework and offers the following comments in relation to it.

Will the proposed internal audit framework achieve the outcomes sought?

SSROC member councils are supportive of the new framework overall, however there is scope for improvement as outlined in following points.

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

External review costs (p25)

Core requirement 8 includes a strategic external review of the ARIC committee's operation at least once each council term. This is an unnecessary cost burden on councils that we recommend should be removed. If endorsed, then we recommend that it be funded by the State Government.

Prequalification scheme (pages 36 and 37)

Core requirement 1 includes that independent members and the Chair of the Committee be prequalified via the NSW Government's Prequalification Scheme. This requirement is likely to eliminate some current independent members and reduce the pool of members that councils can appoint. We recommend that this requirement be reviewed.

Further, there are significant restrictions on who can be the members of the Committee with a deadline of March 2021 to establish the Committee. The requirement that a Council employee who is employed or has been in the last three years cannot be on the Audit Committee may

eliminate some current independent members and reduce the pool of members that councils can appoint. Council employees and recently retired employees with no conflicts of interest can provide relevant advice, knowledge and experience that is invaluable to some audit committees in undertaking their functions. It is recommended that this requirement be reviewed.

If these requirements remain, then it also would be difficult to establish a Committee complying with all these requirements by March 2021.

An alternative could be to appoint majority of members from the panel or to review of the restrictions/ timeline or to permit the current Committee members to continue until the expiry of their term.

Fees (page 90)

The requirement that independent member fees are to be paid in accordance with the NSW Government's Prequalification Scheme will be an additional cost burden to councils as the fees in the scheme are much higher than what councils currently pay. It is recommended that this requirement be reviewed;

Disputes between the General Manager and Chief Audit Executive (page 28)

Council's resources are limited and decisions need to be made about the best use of these resources. SSROC recommends that the General Manager should have the authority to make decisions in the best interests of the council, even if this means adopting a different approach to the recommendation of ARIC. Escalating such a dispute to the Council would create animosity between ARIC and the General Manager and not contribute to a harmonious working relationship. Therefore SSROC recommends that the resolution mechanism for disputes between General Manager or council management and the Chief Audit Executive and ARIC be revised.

[Is there anything you don't like about the proposed framework?](#)

ARIC's role and responsibility (Pages 30 to 34)

It is not reasonable to expect the ARIC to provide 'assurance' and to 'assess' the effectiveness of any process, function or area, unless they are provided with the necessary information or data to carry out an evaluation, which is not a part of their core function and would be a significant body of work. The core function is fundamentally advisory and consultation. SSROC recommends that the role and responsibilities of the Audit, Risk and Improvement Committee be revised to ensure that all aspects are consistent with reasonable expectations for a committee of this nature.

[Can you suggest any improvements to the proposed framework?](#)

Conflicting roles

Page 13 of the Discussion Paper states that in order "To preserve an internal audit function's independence, it cannot be responsible or held accountable for setting an organisation's risk criteria, implementing risk management processes, deciding how an organisation responds to risk, or implementing risk responses or controls."

However, on page 55 this principle is contradicted when the paper goes on to say that smaller councils due to budget constraints may "...be able to combine the Risk Management Coordinator's role with other council responsibilities (including the Chief Audit Executive) provided that there are adequate safeguards put in place by the council to limit any cognitive bias ...". This would comprise the independence of the internal audit function.

SSROC recommends that OLG consider revising these conflicting roles to retain the independence of the internal audit function.

Attributes of the Chief Audit Executive (Page 64)

It is essential that a Chief Audit Executive has the required qualifications to be in such a critical role. Those that may take up the role without such a qualification should endeavour to acquire

appropriate qualifications at the earliest. SSROC recommends that appropriate professional qualifications for the Chief Audit Executive should be included under Essential instead of Preferred attributes.

Develop an agreed internal audit work program (Page 70)

The proposal that the plan to guide the longer-term internal audits be developed "in consultation with the governing body" is inappropriate, as they are not directly involved in the day-to-day operations of council. They are neither process owners nor risk owners who would have contributed to the development of enterprise risk management on which the audit program will be based. They are also not an independent body such as the ARIC who have been carefully selected for their role to provide guidance in developing the audit work program. SSROC recommends that this requirement be removed and replaced with a lesser role, such as informing the governing body of the development of the plan.

Auspecting Body (Page 89)

The description or configuration of how an Auspecting body should provide shared services does not include all the various arrangements that is possible between the Auspecting Body and the council. It is too prescriptive and provides no allowance for variations in the provision of services or shared services arrangement between the Auspecting body and councils.

For example, SSROC provides specialist services for its member councils to access. It provides professionally qualified, skilled internal audit consultants to provide internal audit services to council, but secretariat services are provided by the council. This arrangement has been working well for the last 10 years. And it is not economical for SSROC to maintain/provide secretariat services as well.

SSROC recommends that the section on the Auspecting Body be loosened to permit council and ROC/JOs to operate under a model that they mutually agree is efficient and effective for them. The current content of the section could be removed or moved to the table of "components to be agreed by councils" on page 91.

Composition of the Committee (Pages 28-29 & 35-36)

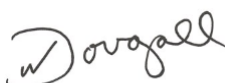
The rationale for the decision to exclude councillors from the Audit Risk and Improvement Committee has not been sufficiently addressed in the discussion paper. An alternative could be to permit individual councils to decide on the inclusion of members from the governing body in the Committee with adequate safeguards to ensure independence (with majority of independent members).

Conclusion

The comments above are made with input from SSROC councils' Governance Officers and our own Internal Audit Service. However, in order to meet the deadline for submissions it has not been possible for it to be endorsed by a formal meeting of SSROC. I will contact you should any issues arise later.

Should you have any further enquiries in relation to this letter, please contact me or SSROC's Program Manager, Helen Sloan by email ssroc@ssroc.nsw.gov.au or phone 02 8396 3800.

Yours Sincerely

A handwritten signature in black ink, appearing to read "Dougall", is placed below the "Yours Sincerely" text.

Namoi Dougall
General Manager
Southern Sydney Regional Organisation of Councils