

STATEWIDE MUTUAL RISK MANAGEMENT CONFERENCE

Guidelines for Risk Management and Internal Audit for Local Government in NSW

Office of Local
Government

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Overview

- 2016 amendments to the Local Government Act requiring councils to appoint an audit risk and improvement committee (ARICs) took effect on 4 June last year.
- *Guidelines for Risk Management and Internal Audit for Local Government in NSW* were issued in December last year in draft form.
- Regulations will give statutory force to elements of the Guidelines.
- The Regulations are the “what” and the Guidelines are the “how”

Components of the framework

Under the new framework, councils are required to have the following:

1. an ARIC 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.

Requirements under the Local Government Act

- From **4 June 2022**, councils have been required under section 428A of the Act to appoint an ARIC.
- Councils can share an ARIC under section 428B to minimise costs.
- ARICs are required to keep under review certain aspects of councils' operations and to provide information to the governing body for the purpose of improving the council's performance of its functions.

Requirements under the Local Government Act

ARICs are required to keep the following under review:

- compliance
- risk management
- fraud control
- financial management
- governance
- IP&R implementation
- service reviews
- performance data collection
- internal audit (to be prescribed by Regulation).

The Guidelines

- The Guidelines have been issued under section 23A of the Local Government Act.
- They provide guidance on the operation of ARICs and the internal audit function and risk management by councils – they are the “how”.
- Councils are required under section 23A to consider the Guidelines when exercising their functions.

The Regulation

- The Regulation gives statutory force to key elements of the framework – it is the “what”. It:
 - prescribes membership requirements and the operations of councils’ ARICs
 - prescribes arrangements for councils’ internal audit functions
 - requires councils to adopt a risk management framework

Requirements under the Regulation: Membership requirements for ARICs

- At a minimum councils must have or share an ARIC that comprises of **one independent chair** and **at least two independent members** who meet the independence and eligibility criteria for ARIC members (based on TPP 20-08)
- Councils may appoint staff from other councils as independent members (but not as chair) of their ARIC provided they meet independence and eligibility criteria (but not where the ARIC is shared with those councils)
- Councils will have the option of appointing **one non-voting councillor member** to their ARIC.

Requirements under the Regulation: Operation of ARICs

- The Regulation will require councils to adopt terms of reference for their ARIC and to consider any model terms of reference approved by OLG (these have previously been issued).
- The Regulation will also prescribe:
 - term limits for members of ARICs (to ensure their independence)
 - arrangements for their meetings and
 - requirements to ensure they have access to the information and resources necessary to perform effectively.

Requirements under the Regulation: Internal audit

- The Regulation will:
 - require councils to adopt an internal audit charter to guide the operations of the internal audit function and to consider any model internal audit charter approved by OLG (this has previously been issued)
 - require councils to appoint a staff member to coordinate internal audit activities and require them to report to the ARIC in relation to those activities (councils can share an internal audit coordinator).
 - contain safeguards to ensure the internal audit function has access to the information and resources to be effective and to preserve its independence.
 - confer responsibility for oversight of internal audit on the ARIC.

Requirements under the Regulation: Risk management

- The Regulation will require councils to adopt a risk management framework.
- The Guidelines contain guidance on the adoption and implementation of a risk management framework.
- The Regulation confers responsibility on the ARIC to monitor and review implementation of the risk management framework and to report to the council on its operation and efficacy.

Requirements under the Regulation: Implementation timeframes

- Councils have until **1 July 2024** to ensure the membership of their ARIC complies with the prescribed requirements, establish an internal audit function that complies with the Regulation and to adopt a risk management framework.
- Commencing with the **2024-2025** annual report, general managers will be required to attest to compliance with the Regulation in the council's annual report
- The chairperson of the ARIC can provide a “dissenting” attestation to OLG if they disagree with the general manager's attestation

Requirements under the Regulation: Exemptions

- A council will be exempt from a requirement under the Regulation where:
 - it cannot comply with the requirement because of temporary extenuating circumstances or resourcing constraints that will significantly impact the council's budget, **and**
 - it cannot enter into an agreement with another council to share the performance of activities necessary to satisfy the requirement, **and**
 - current or proposed alternative arrangements will achieve outcomes equivalent to the requirement, **and**
 - it notifies OLG of the failure to comply with the Regulation within 28 days, **and**
 - it publishes a statement in its annual report about the non-compliance that includes details of the above matters.

How will the new requirements benefit councils?

- OLG sees these requirements as being key to ensuring that councils are doing things the best way they can for their communities. They will:
 - help councils achieve their strategic objectives, delivery programs and operational plans in a more efficient, effective and economical way
 - ensure better use of public money
 - reduce opportunities for fraud and corruption
 - help create a culture of continuous improvement in councils
 - ensure better service delivery to communities
 - deliver increased transparency and accountability



Questions and discussion