

# Internal Audit Framework

Version #1

Based on the Office of Local Government's Risk Management & Internal Audit for Local Government in  
NSW Guidelines – November 2023



murray river  
council

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## 1. INTRODUCTION

Under Section 428A of Local Government Act 1993, each Council must have an Audit, Risk and Improvement Committee (ARIC or the Committee) to independently review and provide advice to Council regarding the following aspects of Council's operations:

- ▶ Compliance
- ▶ Risk management
- ▶ Fraud control
- ▶ Financial management
- ▶ Governance
- ▶ Implementation of the strategic plan, delivery program and strategies
- ▶ Service reviews
- ▶ Collection of performance measurement data by Council, and
- ▶ Any other matters prescribed by the regulation (i.e. internal audit).

The Local Government Act 1993 (the 'Act'), the Local Government (General) Regulation 2021 (the 'Regulation') and the Guidelines for Risk Management and Internal Audit for Local Government in NSW (the Guidelines) require each Council in NSW to have:

- ▶ An ARIC that continuously reviews and provides independent advice to Council on how it is functioning and managing risk;
- ▶ A robust Risk Management Framework that accurately identifies and mitigates the risks facing Council and its operations; and
- ▶ An effective internal audit function that provides independent advice as to whether Council is functioning effectively and Council's internal controls to manage risk are working.

These three (3) mandatory governance mechanisms are key to ensuring that Council is doing things the best they can for their communities and are on track to delivering their community's goals and objectives.

Communities themselves will ultimately be the greatest beneficiaries.

If implemented effectively, ARIC, risk management and internal audit will lead to Council:

- ▶ Achieving their strategic objectives in the most efficient, effective and economical manner;
- ▶ Having better and more efficient levels of service delivery;
- ▶ Having increased accountability and transparency;
- ▶ Achieving better decision-making and having the confidence to make difficult decisions;
- ▶ Having increased financial stability;
- ▶ Achieving and maintaining compliance with all laws, regulations, internal policies and procedures; and
- ▶ Better safeguarding their public assets.

The Committee must also provide information to Council for the purpose of improving Council's performance of its functions.

The ARIC and Council are to agree on the specific activities the Committee is to review based on Council's needs, risks and business functions.

## 2. PURPOSE / BACKGROUND

This Framework has been developed to assist Murray River Council (MRC) to comply with statutory requirements under the Act and the Regulation.

It also seeks to strengthen risk management and internal audit practices by setting a minimum standard that reflects a 'best practice' approach.

The three core requirements reflect international standards and the recommendations and opinions of internal audit practitioners, Councils, Councillors, ARIC members, risk management practitioners, government agencies, experts and community members.

This Framework is based on the Office of Local Government's Risk Management & Internal Audit for Local Government in NSW Guidelines – December 2022 that replaces the NSW Government's Internal Audit Guidelines for Local Government in NSW issued in 2010.

## 3. SCOPE

MRC's ARIC has an advisory and assurance role only.

The ARIC will exercise no administrative functions, delegated financial responsibilities or any management functions for Council.

The Committee will provide independent advice to Council that is informed by Council's internal audit and risk management activities and information and advice provided by Council employees, relevant external bodies and other subject matter experts.

## 4. LEGISLATION

- ▶ Local Government Act 1993 (NSW)
- ▶ Local Government (General) Regulations 2021 (NSW)
- ▶ Government Information (Public Access) Act 2009 (NSW)
- ▶ Public Interest Disclosures Act 1994 (NSW)
- ▶ Superannuation Guarantee (Administration) Act 1992 (CTH)

## FRAMEWORK

The Act and the Regulation provide the statutory foundations and prescribe the desired outcomes for the three (3) mandatory governance mechanisms - Council's ARIC, Risk Management Framework and the internal audit function.

The Regulation prescribes the following requirements in relation to the membership and operations of Council's ARIC:

- ▶ Council, must by resolution, appoint an ARIC comprising of a Chair and at least two or more other persons as voting members of the Committee (Section 216 C).
- ▶ The Chair and Independent Members of Council's ARIC must satisfy the independence and eligibility criteria prescribed by the Regulation (Sections 216 D, 216 E and 216 F).
- ▶ Council must not appoint a person to be the Chair or an Independent Member of Council's ARIC unless they satisfy the independence and eligibility criteria.
- ▶ Council may appoint one Councillor as a non-voting member of its ARIC (Section 216 C). A Councillor appointed as a non-voting member of the ARIC should satisfy the eligibility criteria for Councillor members of Committees (Section 216 M).
- ▶ For the purposes of Section 428A (2) (i) of the Act, Council's ARIC are to keep under review internal audit activities (Section 216 M).
- ▶ Council must adopt by resolution, a Terms of Reference for their ARIC that are consistent with the OLG's Model Terms of Reference for Committees approved by the Departmental Chief Executive. (Section 216 K).

- ▶ Council's ARIC must exercise its functions in accordance with the Terms of Reference adopted by Council (Section 216 K).
- ▶ Council must provide their ARIC with such access to the CEO, other senior management of Council and any information and resources of Council as may be necessary for the Committee to exercise its functions (Section 216 L).

## 5. GUIDING PRINCIPLES

### 5.1. GENERAL

The guiding principles of Section 8A, 8B and 8C the Act requires MRC to carry out its functions in a way that provides the best possible value for residents and ratepayers.

The guiding principles also specify Council is to:

- ▶ Spend money responsibly and sustainably and align general revenue and expenses;
- ▶ Invest in responsible and sustainable infrastructure for the benefit of the local community;
- ▶ Effectively manage their finances and assets and have sound policies and processes for performance management and reporting, asset maintenance and enhancement, funding decisions and risk management practices;
- ▶ Ensure the current generation, funds the cost of its services and achieves intergenerational equity; and
- ▶ Manage risks to the local community area and/or Council effectively and proactively.

### 5.2. AUDIT, RISK & IMPROVEMENT COMMITTEE

- ▶ The ARIC is independent of Council;
- ▶ The Committee is equipped with the relevant expertise and has access to Council resources and information necessary to fulfil its role and responsibilities effectively;
- ▶ Council receives relevant and timely advice and assurance from the Committee on the matters listed in Section 428A of the Act;
- ▶ The work of the Committee is thoroughly planned and executed, risk-based and linked to Council's strategic goals;
- ▶ The Committee adds value to Council and is accountable to Council for its performance; and
- ▶ Council is accountable to the community for complying with statutory requirements and this Framework relating to the Committee.

### 5.3 RISK MANAGEMENT

- ▶ Council must accept responsibility and accountability for risk management in Council;
- ▶ Council has a Risk Management Framework that is appropriate for Murray River Council (MRC) and is regularly monitored and reviewed to ensure it is relevant, effective and is consistent with the accepted Australian risk management standard;
- ▶ Risk management 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 review their Risk Management Framework and can flexibly adapt their risk management activities to suit their operations and risk profiles;
- ▶ Council is accountable to the community for complying with its statutory obligation to adopt and maintain a Risk Management Framework; and
- ▶ Council continually adapts and improves the design of its Risk Management Framework and how it is integrated throughout Council to help move to a higher level of risk maturity.

## 5.4 INTERNAL AUDIT

- ▶ The internal audit function operates independently and with appropriate expertise in a manner that is appropriate for Council and provides an independent unbiased assessment of Council's operations and risk and control activities;
- ▶ The internal audit function has access to all Council information necessary to fulfil its role and responsibilities;
- ▶ The internal audit function is appropriately positioned in Council's Governance Framework to ensure its work complements the work of other internal and external assurance providers;
- ▶ The internal audit function has a comprehensive work plan linked to Council's strategic objectives and current and emerging risks;
- ▶ The ARIC receives relevant and timely advice from the internal audit function to ensure the Committee can fulfil its role and responsibilities;
- ▶ The internal audit function operates in a manner consistent with accepted international standards;
- ▶ The work of the internal audit function is thoroughly planned and executed, risk-based, client-focused and linked to Council's strategic goals;
- ▶ The internal audit function adds value to MRC and is held accountable by the Committee and Council for its performance; and
- ▶ Council is accountable to the community for the effective implementation of its internal audit function.

## 5.5 INDEPENDENCE

Council must ensure that the Chair and Independent Members of Council's ARIC meet the independence criteria (Section 6.4.1 of this 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 Council's Risk Management Framework:

- ▶ It is to be clear that Council management remains responsible for risk management;
- ▶ The internal audit function is to provide advice, 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 Council;
  - Set Council's risk criteria/appetite;
  - Impose risk management processes;
  - Decide or implement risk responses; and/or
  - Be held accountable for risk management activities.

Council has an internal audit function that provides an independent unbiased assessment of Council's operations and risk and control activities.

Council's internal audit function must operate independently of Council and internal audit activities cannot be subject to direction by Council.

To ensure that the internal audit function remains independent from Council management it must have a dual reporting line that reports:

- ▶ Administratively to the CEO or a sufficiently senior role in Council to ensure the internal audit function fulfils its responsibilities; and
- ▶ Functionally to the ARIC.

## 5.6 RESOURCING

Council and the CEO must ensure that Council's ARIC, risk management and internal audit functions are sufficiently resourced to effectively carry out its work.

To ensure that Council and/or CEO makes informed budgeting decisions, the ARIC is to advise the resources it considers that Council needs to provide to effectively implement its function, the Risk Management Framework and the delivery of internal audit functions, having regard to any budgetary constraints facing Council and Council's operational environment.

The ARIC Chair should be consulted on the resourcing required.

The ARIC's resourcing recommendations are to be minuted by the Committee.

These resources will include the necessary:

- ▶ Human resources (with appropriate skills and experience);
- ▶ Technology, equipment, tools and information management systems;
- ▶ Documented processes and procedures; and
- ▶ Professional development and training.

ARIC's resourcing recommendations are to be minuted by the Committee.

## 5.7 INTERNAL AUDIT CHARTER

It is important that Council's internal audit function has clear guidance on how it should support the ARIC and Council. The Committee and Council has input into how the internal audit function will operate.

This will ensure there is clarity in the relationships between the ARIC, Council and the Internal Auditor/s and that the performance of the internal audit function can be assessed.

The Regulation (Section 216 O) requires each Council to adopt an Internal Audit Charter to guide how internal audits will be undertaken by Council that is consistent with the approved OLG's Model Internal Audit Charter.

The Internal Audit Charter is to be developed by the ARIC, in consultation with the CEO and the Internal Audit Coordinator (IA Coordinator) and approved by resolution of Council.

Council may include additional provisions in their Internal Audit Charter so long as they are not inconsistent with the approved OLG's Model Internal Audit Charter.

The ARIC is to review Council's Internal Audit Charter annually in consultation with the CEO and the IA Coordinator.

## 5.8 TERMS OF REFERENCE

It is important that each ARIC has clear guidance on how it should serve Council and that Council has input into how the Committee will operate given its investment.

This will ensure clarity in the relationship between Council and the ARIC and that Council can measure the Committee's performance.

The Regulations (Section 216 K) requires Council's ARIC to operate according to a Terms of Reference that are consistent with the approved OLG's Model Terms of Reference.

The ARIC's Terms of Reference can include additional provisions that are not inconsistent with the approved OLG's Model Terms of Reference or other requirements.

The Terms of Reference are to be approved by resolution of Council and reviewed annually by the ARIC. Additionally the Terms of Reference must be reviewed and readopted once each Council term by Council.



## 5.9 DELEGATION

The CEO can, in consultation with Council and the ARIC, delegate their functions in relation to the oversight of Council's internal audit function to another role in Council that is sufficiently senior to ensure the internal audit function meets its responsibilities.

In making a delegation, consideration should be given to how the delegation will influence the internal audit function's ability to achieve the Internal Audit Charter considering the:

- ▶ Seniority and expertise of the delegate and demands placed on them by their other roles and responsibilities in Council;
- ▶ Support available to the delegate to successfully execute their delegation in relation to internal audit;
- ▶ Complexity of Council's core business;
- ▶ Risk profile of Council;
- ▶ Expectations of stakeholders; and
- ▶ Likely demands placed on the internal audit function.

## 6. STRUCTURE

Each Council will have different ARIC requirements depending on the Council's size, needs, budget and the complexity of its operations.

For this reason, Council can either:

- ▶ Establish an ARIC for their exclusive use; or
- ▶ Share their committee with another Council, County Council or Joint Organisation.

For cost and administrative efficiency, Councils may also:

- ▶ Establish an in-house internal audit function comprising of Council employees (supplemented with contractors as may be required); and/or
- ▶ Outsource their internal audit function to an external provider/s – for example, a private sector accounting firm, internal audit firm, internal audit contractor etc.

These options will assist Council:

- ▶ To establish their internal audit function in the most cost-effective way;
- ▶ To source expert internal audit personnel in locations where it may be difficult to recruit staff with the necessary skill set;
- ▶ To access a larger resource pool than would be available to a single Council; and
- ▶ Create efficiencies through common systems, shared knowledge and internal audit tools.

When deciding the most appropriate way to structure Council's internal audit function, the CEO should consider the viability and capacity of a shared internal audit function to achieve Council's Internal Audit Charter given the:

- ▶ Size of the council in terms of both staffing levels and budget;
- ▶ Geographical and functional distribution of Council's operations;
- ▶ Complexity of Council's core business;
- ▶ Risk profile of Council;
- ▶ Expectations of stakeholders; and
- ▶ Likely demands placed on the internal audit function by other Councils in the shared arrangement.

Whatever structure is adopted, the IA Coordinator must:

- ▶ Be a Council employee and cannot be outsourced, other than through a shared arrangement with another Council; and
- ▶ Meet the eligibility and independence criteria for the position.

This is to ensure that Council retains strategic control of the internal audit function and can actively monitor its performance.

**Murray River Council has opted for an independent ARIC.**

## 6.1 IN-HOUSE INTERNAL AUDIT FUNCTION

An in-house internal audit function is one where Internal Auditor/s and other staff (where required) are employed by Council to conduct the internal audits and other activities in the ARIC's Annual Plan and four-year Strategic Work Plan.

The advantages of establishing an in-house internal audit function may include:

- ▶ Council retaining ownership of internal audit information;
- ▶ Confidentiality of sensitive information contained in audits;
- ▶ Stronger direction and oversight by Council of the internal audit function with more direct control over the quality of audits conducted;
- ▶ Internal Auditor/s having Council-specific knowledge and experience that delivers better audit results;
- ▶ Greater agility to respond quickly to emerging issues; and
- ▶ The retention of corporate knowledge within Council.

Disadvantages may include:

- ▶ Challenges attracting and retaining suitable staff;
- ▶ Specialist skills may not be available in-house;
- ▶ Reduced flexibility; and
- ▶ The need to provide Council facilities and office space for internal audit personnel.

Councils that establish an in-house internal audit function are not limited to employing staff members and can supplement the internal audit team's work with audits undertaken by external providers where necessary.

## 6.2 OUTSOURCED INTERNAL AUDIT FUNCTION

Where Council outsources their internal audit function, the internal audits programmed by the ARIC are undertaken by an external provider such as an internal audit or accounting firm, or an individual practitioner.

Contract management is overseen by an employee within Council.

The advantages of using external providers for internal audit activities may include:

- ▶ Flexibility;
- ▶ Access to a wide range of expertise and experience that Council may not otherwise have in-house;
- ▶ Provides a window to better practice methods for smaller Councils they may otherwise find difficult to access;
- ▶ The ability to purchase services as and when required;
- ▶ Can increase internal audit's independence from Council;
- ▶ Overcoming challenges recruiting a head of an internal audit function and internal audit staff; and
- ▶ Potential to negotiate lower fee-for-service costs.

Disadvantages may include:

- ▶ Increased costs;
- ▶ Potential loss of corporate knowledge from Council;
- ▶ Difficulty building and maintaining professional relationships between Council management and external contractors;
- ▶ Reduced oversight and control of internal audit activities;
- ▶ Additional in-house staff time required to source and manage external providers and contracts;
- ▶ The external provider lacking Council specific knowledge ;
- ▶ IA Coordinator is unlikely to be audit trained and may not have the knowledge to ensure audit quality is maintained; and
- ▶ Potential confidentiality breaches.

Given their size, resources, geographical isolation and risk profiles, rural and smaller regional Councils are encouraged, at a minimum, to establish an outsourced internal audit function.

**Murray River Council has opted for an outsourced internal audit function.**

### **Chair**

The Chair of an ARIC overseeing an outsourced internal audit function is likely to have greater responsibilities than a Chair overseeing an in-house internal audit function. Because the coordinator of an outsourced internal audit function is largely a coordination/administrative role.

The Chair and the Independent Members of the ARIC will do much of the 'heavy lifting' and will be the primary source of advice on the findings and recommendations of audits conducted by the external provider and assurance to Council.

Councils that establish an outsourced internal audit function must ensure that their ARIC has the capacity and capability to undertake this enhanced role.

### **Internal Audit Coordinator**

Compared to the coordinator of an in-house internal audit function which directly conducts or supervises internal audits and provides opinions and recommendations to the ARIC, the IA Coordinator of an outsourced internal audit function will, in practice, primarily be a coordination and administrative role.

### **External provider/s**

It is important that any external provider engaged by Council is independent and can objectively assess and report on the way council operates.

To ensure the independence of an external provider, the IA Coordinator of an outsourced internal audit function must ensure the external provider:

- ▶ Does not conduct any audits on specific Council operations or areas that they have worked on within the last two (2) years;
- ▶ Is not the same auditor conducting Council's external audit;
- ▶ Is not the auditor of any contractors of Council that may be subject to the internal audit; and
- ▶ Can satisfy the requirements in the Guidelines relating to internal audit.

The IA Coordinator of the outsourced internal audit function must also consult with the ARIC and the CEO regarding the appropriateness of the skills, knowledge and experience of any external provider before they are engaged by Council.

### 6.3 SIZE AND COMPOSITION

Murray River Council is required to have an ARIC that is appropriate for Council's size, risk profile, operational complexity, resources and its ability to attract suitably qualified Independent and Councillor Members.

At a minimum, the ARIC must comprise of the following:

- ▶ An independent Chair who meets the independence criteria and the eligibility criteria for Committee Chairs prescribed by the Regulation (and Section 6.4 and 6.5 of this Framework); and
- ▶ At least two Independent Members who meet the independence criteria and the eligibility criteria for independent Members prescribed by the Regulation (Section 6.4 and 6.5 of this Framework).

Council also has the option of appointing one non-voting Councillor member to their Committee who meets the eligibility criteria for Councillor Members of Committees.

The Mayor cannot be appointed as a Councillor Member of Council's ARIC.

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.

Council can establish larger Committees and appoint more Committee Members than the minimum required should they choose to do so but may only appoint one non-voting Councillor member.

Council is to determine the exact size of the ARIC in consultation with the Chair of the Committee and CEO, taking into account the needs and risk profile of Council and likely workload of the Committee.

### 6.4 CRITERIA FOR ARIC MEMBERS

#### 6.4.1 INDEPENDENCE

The Chair and all Independent Members of ARIC must be independent to ensure they have no real or perceived bias or conflicts of interest that may interfere with their ability to act independently and can provide Council with robust, objective and unbiased advice about how Council is functioning.

The Chair and Independent Members **must not**:

- ▶ Currently be a Councillor of any NSW Council;
- ▶ Be a non-voting representative of the board of the Joint Organisation;
- ▶ Be a candidate at the last election of Council;
- ▶ Be a person who has held office in Council during its previous term;
- ▶ Be currently employed by Council or Joint Organisation, or been employed during the last 12 months;
- ▶ Conduct audits of Council on behalf of the Audit Office of NSW;
- ▶ Have a close personal or business relationship with a Councillor or a person who has a senior role in Council that may lead to a real or perceived conflict of interest;
- ▶ Currently, or within the last three years, provided any material goods or services (including consultancy, legal, internal audit and advisory services) to Council which directly affect subjects or issues considered by the ARIC;
- ▶ Be (or have a close family member who is) a substantial shareholder, owner, officer or employee of a company that has a material business, contractual relationship, direct financial interest or material indirect financial interest with Council or a related entity which could be considered a real or perceived conflict of interest; or
- ▶ Currently or have previously acted as an advocate of a material interest on behalf of Council or a related entity which could be considered a real or perceived conflict of interest.

Current employees of Council may serve as an Independent Member of another Council's ARIC but not as its Chair.

Current Council employees may only serve on another Council's ARIC if they meet the independence and eligibility criteria for membership of the Committee and their employer is not participating in a shared arrangement with the other Council in relation to the ARIC or the internal audit function.

The CEO will require the approval of Council, under Section 353 of the Act, before they can serve as an Independent Member of another Council's ARIC. Other Council employees will require the approval of the CEO.

Both Council and the CEO must ensure that adequate procedures are in place to preserve the independence of the Chair and Members of the ARIC.

Likewise, the Chair and Independent Members must notify Council and/or the CEO if a real or perceived threat to their independence arises.

## **6.5 ELIGIBILITY**

The person/s appointed as the Chair or an Independent Member of the ARIC must possess the skills, knowledge and experience necessary to undertake their roles on the Committee effectively and to ensure the Committee can operate appropriately and effectively to support Council.

A poorly skilled ARIC may not be able to provide the assurance needed by Council and may lead to sub-optimal outcomes that jeopardise Council's capacity to achieve its strategic objectives.

The following eligibility criteria for the ARIC Chair and Independent Members reflect the minimum standards persons must meet to be appointed as the Chair or Member of Council's ARIC.

Council may require the ARIC Chair and Independent Members to satisfy more onerous eligibility criteria if they choose to do so.

### **6.5.1 CHAIRS**

In addition to meeting the independence requirements specified in Section 6.4.1, the ARIC Chair must satisfy the following minimum eligibility criteria to be appointed as a Chair. Ideally, they will also be able to demonstrate the desirable criteria.

#### **Essential criteria**

The ARIC Chair must demonstrate the following:

- ▶ Leadership qualities and the ability to promote effective working relationships in complex organisations;
- ▶ An ability to communicate complex and sensitive assessments in a tactful manner to the IA Coordinator, CEO, senior management and the Mayor and Councillors;
- ▶ A sound understanding of:
  - The principles of good organisational governance and capacity to understand local government accountability, including financial reporting;
  - The business of Council or the environment in which it operates;
  - Internal audit operations, including selection and review of Council's Internal Auditor/s; and
  - Risk management principles.
- ▶ Extensive senior level experience in governance and management of complex organisations, an ability to read and understand financial statements and a capacity to understand the ethical requirements of government (including potential conflicts of interest);
- ▶ Functional knowledge in areas such as risk management, performance management, human resources management, internal and external auditing, financial reporting, accounting, management control frameworks, internal financial controls, governance (including planning, reporting and oversight), or business operations;
- ▶ A capacity to form independent judgements and a willingness to constructively challenge/question management practices and information, and

- ▶ A professional, ethical approach to the exercise of their duties and the capacity to devote the necessary time and effort to the responsibilities of the Chair of an ARIC.

### **Desirable criteria**

Possession of a relevant professional qualification or membership (e.g., Institute of Internal Auditors (IIA), CPA Australia (CPA) and Chartered Accountants Australia and New Zealand (CA)) is desirable.

## **6.5.2 INDEPENDENT MEMBERS**

In addition to meeting the independence requirements specified in Section 6.4.1, Independent Members of an ARIC must satisfy the following eligibility criteria to be appointed as an Independent Member. Ideally, they will also be able to demonstrate the desirable criteria.

### **Essential criteria**

Independent Members of the ARIC must demonstrate the following:

- ▶ An ability to read and understand financial statements and a capacity to understand the ethical requirements of government (including potential conflicts of interest);
- ▶ Functional knowledge in areas such as risk management, performance management, human resources management, internal and external auditing, financial reporting, accounting, management control frameworks, internal financial controls, governance (including planning, reporting and oversight), or business operations;
- ▶ A capacity to form independent judgements and willingness to constructively challenge/question management practices and information;
- ▶ A professional, ethical approach to the exercise of their duties and the capacity to devote the necessary time and effort to the responsibilities of an Independent Member of an ARIC; and
- ▶ Preparedness to undertake any training on the operation of an ARIC, recommended by the Chair, based on their assessment of the skills, knowledge and experience of the Independent Member.

### **Desirable criteria**

Ideally, Independent Members of the ARIC should also meet the following criteria, but these are not essential:

- ▶ Extensive senior level experience in governance and management of complex organisations; and
- ▶ Possession of a relevant professional qualification or membership (e.g., Institute of Internal Auditors (IIA), CPA Australia (CPA) and Chartered Accountants Australia and New Zealand (CA)).

### **Criminal record and financial status checks**

Council must undertake a criminal record and a financial status (bankruptcy) check of the ARIC Chair and Independent Members before their appointment.

The ARIC Chair and Independent Members must not be undischarged bankrupts or have been charged with or convicted of a serious criminal offence.

## **6.5.3 COUNCILLOR MEMBERS**

To be appointed as a non-voting ARIC member a Councillor must demonstrate the following:

- ▶ An ability to read and understand financial statements and a capacity to understand the ethical requirements of government (including potential conflicts of interest);
- ▶ A good understanding of one or more of the following: risk management, performance management, human resources management, internal and external auditing, financial reporting, accounting, management control frameworks, internal financial controls, governance (including planning, reporting and oversight), or business operations;

- ▶ A capacity to form independent judgements and willingness to constructively challenge/question management practices and information;
- ▶ A professional, ethical approach to the exercise of their duties and the capacity to devote the necessary time and effort to the responsibilities of a Councillor Member of an ARIC; and
- ▶ Preparedness to undertake any training on the operation of an ARIC, recommended by the Chair, based on their assessment of the skills, knowledge and experience of Councillor Member.

The Mayor cannot be appointed as a Councillor member of Council's ARIC.

## 7. APPOINTMENT

The ARIC Chair and Independent Members are appointed by a resolution of Council.

Council should first appoint the ARIC Chair, who is to then assist in the selection and appointment of the other Independent Members.

### 7.1 SKILLS MIX

When selecting individual ARIC members, Council should ensure the Committee has the appropriate mix of skills, knowledge and experience necessary to successfully implement its Terms of Reference and add value to Council.

The ARIC 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, and
  - Internal audit, and
  - Any specialised business operations of 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 Council's business).

All ARIC members should have sufficient understanding of Council's financial reporting responsibilities to be able to contribute to the Committee's consideration of the annual financial statements.

Each Independent Member should also have sufficient time to devote to their responsibilities as an ARIC member.

Where possible, Council should ensure that at least one other ARIC member is also qualified to act as the Chair if this is ever required.

### 7.2 LETTER OF APPOINTMENT

The appointment of the Chair and Independent Members of the ARIC is to be formalised in an official letter of appointment signed by the Mayor.

The letter of appointment should set out the terms and conditions of the appointment including:

- ▶ Duration of appointment;
- ▶ Role and responsibilities;
- ▶ Timing and location of meetings;
- ▶ Time commitment;
- ▶ Remuneration;

- ▶ The management of conflicts of interest;
- ▶ Confidentiality;
- ▶ Performance appraisal; and
- ▶ Termination of appointment.

### 7.3 INDUCTION

Induction of all new ARIC members is vital to ensure they 'hit the ground running' in their role.

The Chair is to provide a thorough induction to each new member of the ARIC to ensure they understand:

- ▶ The Committee's role, responsibilities and Terms of Reference;
- ▶ The business, operations, culture, risks and controls of Council; and
- ▶ The expectations of Council about their responsibilities and performance.

This will include providing new members with any background information or documentation necessary to ensure they understand the work of the ARIC. It may also be appropriate for more detailed information or presentations to be provided from various senior staff to assist the new member to understand the operations of Council and any key challenges.

New ARIC members also have an obligation to ensure that they have an appropriate understanding of Council, including its:

- ▶ Operations, functions, service delivery
- ▶ Key areas of risk
- ▶ Internal controls, and
- ▶ Financial reporting systems.

The Mayor, CEO and existing Chair (where appropriate) will induct a new Chair.

## 8. MEMBERSHIP TERMS

### 8.1 VOTING MEMBERS

To ensure the ARIC continues to offer new perspectives and remains independent, it is important that Independent Members are rotated periodically to maintain a fresh approach and avoid any perceptions of bias or conflicts of interest.

Council is to ensure that the Chair and Independent Members serve the following time-limited terms, Under Section 216 G of the Regulation, to facilitate a rotation of knowledge and perspectives.

The initial term of membership on an ARIC is to be not more than four (4) years.

ARIC members can be reappointed for a further term, of up to four (4) years, but the total period of continuous membership on the Committee cannot exceed eight (8) years (two terms). This includes any term as Chair of the Committee.

Chairs or Independent Members who have served an eight (8) year term must have a two (2) year break from serving on the Murray River Council's ARIC before being eligible to be appointed to Council's ARIC again.

Care is to be taken to ensure that membership renewal dates are staggered so knowledge of Council's operations, financial reporting structure and other important aspects are not lost to the ARIC when members change.

Ideally, no more than one (1) member should leave the Committee because of rotation in any one year.



### **Exemptions**

If Council is unable to replace the Chair or Independent Members of its ARIC when their maximum term limit has been reached, Council can seek the approval of the Departmental Chief Executive to extend their term or to reappoint the Chair or Independent Member for a further term. (see section 216G of the Regulation)

Council's request must:

- ▶ Be in writing
- ▶ Describe the efforts Council has made to appoint a different member, and
- ▶ Explain why Council has been unsuccessful.

Exemptions will only be granted in exceptional circumstances.

### **8.2 CHAIR**

To ensure that the Committee maintains a fresh approach, the initial term of a Chair of an ARIC on any one ARIC is four (4) years (one term).

The Chair can be reappointed as Chair for up to one (1) further term, but the total period served by a Chair on the same Committee cannot exceed eight (8) years (two terms).

Where the Chair's term expires and another Chair is appointed, it is the responsibility of the outgoing Chair to ensure the incoming Chair is fully briefed on the ongoing work of the ARIC.

This includes advising the incoming Chair of:

- ▶ Any activity that may be relevant to the ongoing functioning of the Committee, and
- ▶ Any outstanding matters of high risk to Council and outstanding audit recommendations.

### **8.3 COUNCILLOR MEMBERS**

The initial term of a Councillor member of an ARIC is four (4) years, coinciding with the term of Council.

Councillor Member can be reappointed for another term (i.e. four-years), if re-elected at Council's next ordinary election, but the total period of continuous membership on the Committee cannot exceed eight (8) years (two terms).

Councillor Member is to be appointed by Council at the first meeting of Council after the ordinary election.

Councillor Member's term ends at the end of Council term.

### **8.4 REAPPOINTMENT**

Prior to approving the reappointment or extension of the Chair or an Independent Member's term, Council must undertake an assessment of the Chair's, Independent and Councillor Member's performance.

Council may engage an external reviewer to undertake this assessment if they choose.

In undertaking the assessment, Council, or any person appointed to undertake the assessment on behalf of Council, must consult with and consider the views of the Chair (in the case of the reappointment or extension of the term of Independent and/or Councillor Member other than the Chair), the CEO and any Councillor Member of the Committee.

Council, or any person appointed to undertake the assessment on behalf of Council, should also consider whether the person's skills, knowledge and experience align with Council's requirements, as set out in the Committee's Terms of Reference and four (4) year Strategic Workplan (Section 24 of this Framework), to ensure that they continue to add value to the Committee.

The reappointment of the Chair, Independent and/or Councillor Member is also subject to that person still meeting independence and eligibility requirements.

## 9. RESIGNATION OF COMMITTEE MEMBERS

Where the Chair or an Independent Member of an ARIC is unable to complete their term or does not intend to seek reappointment after the expiry of their term, they should give sufficient notice to the Chair (in the case of a Committee Member) and Council (in the case of the Chair) prior to their resignation to enable Council to ensure a smooth transition to a new Independent Member or Chair.

The notice period would ideally be a minimum of two (2) months.

An Independent Member of the ARIC should have the opportunity to have an exit meeting with the Chair to discuss their reason for leaving and to provide feedback on their experience serving on the Committee as well as any other issues.

A resigning Chair should have the opportunity to have an exit meeting with the Mayor and CEO (if appropriate).

## 10. DISMISSAL OF COMMITTEE MEMBERS

The Council can terminate the appointment of the Chair and any member of the ARIC by resolution before the expiry of their terms under certain circumstances.

The dismissal of the Chair or an Independent Member of a Committee is to be reported to the Office of Local Government within 28 days. (Section 216 H of the Regulation).

### 10.1 DISMISSAL CRITERIA

The Chair or an Independent Member of the ARIC can be dismissed by Council before the expiry of their term where they have:

- ▶ Breached Council's Code of Conduct;
- ▶ Performed unsatisfactorily or not to expectations;
- ▶ Declared, or are found to be in, a position of a conflict of interest which is unresolvable;
- ▶ Been declared bankrupt or are found to be insolvent;
- ▶ Experienced an adverse change in business status;
- ▶ Been charged with a serious criminal offence;
- ▶ Been proven to be in serious breach of their obligations under any legislation; or
- ▶ Experienced an adverse change in capacity or capability.

### 10.2 COUNCILLOR MEMBERS

The appointment of a Councillor Member to an ARIC can be terminated at any time by Council by resolution.

## 11. FEES AND ALLOWANCES

The fees Council pays to the Chair and Independent Members of its ARIC are to be agreed between Council and the Chair or Independent Member and reflect the time, commitment and responsibility involved in serving on the Committee.

It is recommended that the fees paid to ARIC voting members is based on the same principles as those paid to the Councillors but paid on a per meeting basis.

That the payment be based on the Local Government Remuneration Tribunal's Determination and adjusted for payments made after the 1<sup>st</sup> July annually.

That the remuneration payment for each meeting by calculated as follows:

- ▶ The Chair is remunerated up to the amount equivalent to the standard monthly payment for a Murray River Council Councillor for each meeting attended.
- ▶ The Independent Members are remunerated up to the amount equivalent to 75% of the standard monthly payment for a Murray River Council Councillor for each meeting attended.

Chairs and Independent Members can serve on the ARIC on a voluntary basis if they choose to.

### 11.1 SUPERANNUATION

Council is obliged under the Superannuation Guarantee (Administration) Act 1992 to make compulsory superannuation guarantee contributions on behalf of the ARIC Chair and Independent Members, where they are remunerated.

### 11.2 TRAVEL

Council **will not** provide overseas travel for members of the Committee.

Travel to attend ARIC meeting will be paid.

Allowance for the use of a private vehicle will be reimbursed by kilometre at the rate paid to Councillors.

Details of any claim for travel should be invoiced to Council – including date, distance and the purpose of the travel being claimed – valid receipts (not EFPOS) should be attached where relevant.

Council will not pay any traffic or parking infringements.

## 12. INSURANCE

Section 382 of the Act, states that Council must make arrangement for its adequate insurance against public and professional liability. The Public and Professional Liability Policy, held by Council, indicates that members of any Committee established by Council under the Act or any other enabling legislation are covered.

Insurance protection is only provided if a claim arise out of or in connection with the Chair or Independent Member's performance of his/her ARIC duties, or when exercising the functions as a member. All insurances are subject to any limitation or conditions as set out in the Policy.

## 13. LEARNING AND DEVELOPMENT

The Chair and Independent Members are encouraged to keep informed of current developments and to maintain and develop the skills, knowledge and capabilities necessary to exercise their functions effectively.

Several professional development networks and programs are available, for example, through organisations such as:

- ▶ The Institute of Internal Auditors
- ▶ The Australian Institute of Company Directors
- ▶ Chartered Accountants Australia and New Zealand
- ▶ The Actuaries Institute, and the
- ▶ Local Government Professionals Association.

The Chair and Independent Members are also encouraged to serve on more than one local government Committee to extend the breadth of their experience and understanding of Councils and their operations and risks.

Attendance at conferences, professional development, or travel for ARIC business by the Chair or Independent Members is to be approved in advance by the CEO.

The application must be in writing and outline:

- ▶ Details of the proposed professional development;
- ▶ Relevance of the topics and presenters to current Council and ARIC priorities and business and the exercise of Committee duties;
- ▶ Cost of the conference or seminar; and
- ▶ Available budget.

Council will meet the reasonable cost of registration fees, transportation and accommodation associated with attendance at training, conferences or seminars preapproved by Council. Council will also meet the reasonable costs of meals when they are not included in the conference fees.

Accommodation and any other costs incurred will be booked by Council.

When such costs are paid by Council and the ARIC member does not attend the conference or seminar, then the individual shall be personally liable to repay all amount paid by Council.

The Councillor member should have ARIC matters listed in their professional development plan.

Preference will be given to on-line training activities.

## 14. CONDUCT

ARIC members are required to observe the same ethical and behavioural standards as other Council officials and must comply with Council's Code of Conduct (Committees) Policy and the Code of Conduct Procedures (collectively the Code of Conduct).

As required under Council's Code of Conduct, ARIC members must declare and appropriately manage any conflicts of interest they may have in matters being dealt with by the Committee.

Declarations of conflicts of interest and the actions taken to manage them must be recorded in the minutes of meetings.

Council has identify the Chair and Independent Members of their ARIC as 'designated persons' for the purposes of Council's Code of Conduct which requires them to complete and submit returns of interests.

Complaints in regard to breaches of Council's Code of Conduct by ARIC members are to be dealt with in accordance with the Murray River Council's Code of Conduct Procedures (the Procedures).

Under the Procedures, the CEO is responsible for managing Code of Conduct complaints about the Chair and Independent Members of the ARIC. However, as a safeguard, the CEO should consult with Council before taking disciplinary action under the Procedures against the Chair or an Independent Member of Council's ARIC.

## 15. MEETINGS

The ARIC must meet at least quarterly over the course of each year. (Section 216 J of the Regulation)

The ARIC Chair is to decide the frequency and timing of the Committee's meetings and plan them annually in advance to ensure the availability of all members and observers.

Generally, meetings should correspond with major phases of Council's financial reporting, external audit and internal audit cycles.

ARIC meetings should also correspond with meetings of Council and allow sufficient time between ARIC meetings and Council meetings for the Committee to action any items and prepare any reports that are to be provided to Council at the Council meeting.

ARIC meetings can be held in person, by telephone or videoconference.

Special meetings may be held, if needed, to review Council's Financial Statements prior to them being submitted to Council, or to consider the ARIC's annual or four-yearly assessments.

The ARIC can hold additional meetings when significant unexpected issues arise, or if the Chair is asked to hold an additional meeting by a Committee Member or the CEO.

Council can also resolve to request the ARIC to hold an additional meeting.

Where such a request is made, the Chair can decide whether the additional meeting is required, taking into consideration the issues that Council has requested the ARIC to consider at the meeting.

The ARIC may meet up to a total of six (6) times per financial year without the need to seek permission from the Mayor to hold additional meetings.

The Chair and the Independent Members have an obligation to make every endeavour to attend all the Committee meetings – either in person or by video link.

Committee members that are aware, in advance, that they cannot attend a scheduled meeting, either in person or by video link, they should apply for a leave of absence.

If a Committee member fails to attend two (2) consecutive meetings without a leave of absence or submitting an apology for a meeting, the elected Council can, by resolution, dismiss the Committee member.

A meeting between the Chair and the Committee member should be held to discuss the non-compliance with the Framework, prior to any action taken.

## 15.1 PROXIES

As ARIC members are appointed on the basis of their skills, knowledge and personal qualities, proxies are not permitted to attend meetings on behalf of members who are unable to attend.

## 15.2 QUORUM AND VOTING

A quorum consists of a majority of ARIC voting members.

Where the vote is tied, the Chair has the casting vote.

## 15.3 AGENDA

### Forward agenda

The Chair should prepare a 12-month forward meeting agenda to ensure that the ARIC covers all its responsibilities at the appropriate time of the year.

The forward agenda will set out, at the appropriate meeting, the various internal and external audit reports and management responses to be tabled and discussed.

It will also allocate appropriate time for a review of the progress of the internal audit function against the Annual Workplan, and to follow-up the implementation of corrective actions.

### Meeting agenda

The ARIC Chair is to determine the agenda for each Committee meeting.

It is recommended that the Chair consult with other Committee Members, the CEO, IA Coordinator and External Auditor prior to setting the agenda so that any urgent issues or risks that arise can be included.

## 15.4 PAPERS

Meeting papers, for consideration at a Committee meeting, should be distributed, wherever possible, five (5) working days prior to the scheduled meeting date.

## 15.5 MINUTES

Each ARIC meeting must be minuted to preserve a record of the issues considered and the actions and decisions taken by the Committee.

ARIC meeting minutes must:

- ▶ Include a record of attendance;
- ▶ Cover each agenda item and document the discussion held and the outcome of discussions, including any recommendations, action points and/or allocation of tasks to relevant people;
- ▶ Be approved by the Chair before circulation;
- ▶ Be provided to Committee Members, Council, the CEO, the IA Coordinator and External Auditor;

- ▶ Be provided soon after the meeting date to ensure relevant persons are made aware of any significant issues discussed at the meeting that need to be dealt with. The exact time period is to be determined by the Committee and the CEO.

The minutes must be confirmed as an accurate record of the meeting at the next meeting of the ARIC.

If any important details have been incorrectly recorded or omitted, they can be discussed and the minutes amended, prior to confirmation at a subsequent meeting.

After the minutes are confirmed as an accurate record of the meeting, they must be signed by the Chair.

All ARIC members and observers should receive a copy of the minutes of all meetings.

## 15.6 ATTENDANCE OF OBSERVERS

Due to the potentially sensitive nature of the issues to be discussed, ARIC meetings should not be open to the public.

In addition to ARIC members, the CEO and the IA Coordinator should attend Committee meetings as non-voting observers.

The NSW Auditor-General, as Council's External Auditor, or their representative, is to be invited to each Committee meeting as an independent non-voting observer and can choose whether to attend.

The ARIC Chair can request the following people to attend a Committee meeting or to meet with the Committee to provide additional information relevant to its role:

- ▶ Council's Chief Financial Officer (or equivalent) given their knowledge of, and responsibility for, Council's financial management;
- ▶ The head of Council's risk management function;
- ▶ Senior managers
- ▶ Any Councillor
- ▶ Any employee or contractor of Council (with the CEO's permission), and/or
- ▶ Any external independent expert or external party whose advice is needed (subject to confidentiality considerations).

These persons must attend meetings where requested and must, as far as is practicable, provide the information requested.

Observers have no voting rights at ARIC meetings and can be excluded from a meeting by the Chair of the Committee at any time where necessary.

## 15.7 PRIVATE MEETINGS

The ARIC can hold closed meetings whenever it needs to discuss confidential or sensitive issues with only voting members of the Committee present.

In addition to attending ARIC meetings, the Committee can meet privately at any time with the IA Coordinator and/or External Auditor without the CEO present.

## 16. CONFIDENTIALITY

It is at the discretion of Council to decide whether ARIC agendas, business papers, minutes and other reports are made publicly available.

Given its potential sensitivity, it is recommended that all information pertaining to the ARIC and internal audit activities is treated as confidential unless otherwise determined by the Committee or a resolution of Council.

Council and the ARIC should also consider the guiding principles of the Government Information (Public Access) Act 2009 and whether it is in the public interest to proactively disclose or release information and whether there is an overriding public interest against doing so.

## 17. SECRETARIAT

The CEO is to appoint a Council employee/s to provide secretariat support to the ARIC.

The main functions of this role are:

- ▶ Liaising with the Chair to prepare agendas for ARIC meetings;
- ▶ Ensure that Committee papers are of an appropriate standard and provided with enough time to allow appropriate review and consideration;
- ▶ Recording minutes of meetings;
- ▶ Providing assistance to the Chair in arranging meetings and Council site visits;
- ▶ Supporting the Chair to prepare reports for Council;
- ▶ Arranging appropriate meeting facilities and equipment;
- ▶ Keeping members informed of developments affecting Council that may relate to the work of the Committee;
- ▶ Maintaining a record of when member's terms of appointment are due for renewal or termination;
- ▶ Ensuring new members receive appropriate induction; and
- ▶ Managing expenditures relating to the Committee.

## 18. ROLES AND RESPONSIBILITIES

The exact nature of each ARIC's role and the specific activities it reviews on behalf of Council under Section 428A of the Act will vary depending on Council's needs, risks and business functions.

These activities are to be agreed between the ARIC and Council during the development of the Committee's Terms of Reference.

### 18.1 ROLE OF COUNCIL

Section 223 of the Act provides that the role and responsibilities of Council include:

- ▶ Directing and controlling the affairs of Council in accordance with the Act;
- ▶ Ensuring, as far as possible, the financial sustainability of Council;
- ▶ Ensuring, as far as possible, that Council complies with the guiding principles of the Act;
- ▶ Keeping the performance of Council under review;
- ▶ Making the decisions necessary to ensure Council properly exercises its regulatory functions;
- ▶ Being responsible for ensuring that Council acts honestly, efficiently and appropriately.
- ▶ Establishing the foundational elements of Council's Risk Management Framework and setting the 'tone at the top'; and
- ▶ Council's risk criteria/appetite is to be approved in consultation with the ARIC.

### 18.2 ROLE OF THE CEO

A key role of the ARIC is to act as an independent source of advice and opinion to both Council and the CEO and to act as a forum for the resolution of any disagreements between Council and internal audit function.

The CEO, in turn, also has a key role in supporting the work and effectiveness of the ARIC.

To be effective, the ARIC needs to maintain a positive working relationship with the CEO (and vice versa) and view them as a valuable source of advice and information about Council and its operations.

The ARIC Chair should meet regularly with the CEO to discuss key issues and review performance.

Section 335 of the Act provides that the CEO is responsible for:

- ▶ Conducting the day-to-day management of MRC in accordance with the strategic plans, programs, strategies and policies of Council – this includes establishing Council’s organisational structure and appointing and dismissing Council employees (Section 332);
- ▶ Implementing, without undue delay, the lawful decisions of Council;
- ▶ Advising Council on the development and implementation of MRC’s plans, programs, strategies and policies; and
- ▶ Ensuring that the Mayor and other Councillors are given timely information and advice and the administrative and professional support necessary to effectively discharge their functions.
  - Advising Council on the resources required for the effective functioning of the internal audit function;
  - Ensuring appropriate administrative support is provided to support the work of the internal audit function - for example, access to Council’s human resources networks, payroll, work health and safety, office facilities and resources, Council information etc;
  - Ensuring that the internal audit function is appropriately positioned within Council to work with external bodies and internal business units and to fulfil its role and responsibilities;
  - Ensuring the internal audit function complies with the International Professional Practices Framework;
  - Overseeing Council’s Risk Management Framework and ensuring it is effectively communicated, implemented and reviewed regularly;
  - Promoting and championing a positive risk culture; and
  - Approving Council’s implementation of corrective actions recommended by Council’s internal audit function, external audit and ARIC.

Sections 209 and 216 of the Regulations also requires the CEO to ensure that:

- ▶ Council complies with all legal financial obligations, including the keeping of accounting records;
- ▶ Effective measures are taken to secure the effective, efficient and economical management of financial operations within each division of Council’s administration;
- ▶ Authorised and recorded procedures are established to provide effective control over Council’s assets, liabilities, revenue and expenditure and secure the accuracy of the accounting records; and
- ▶ Lines of authority and the responsibilities of members of MRC’s employees for related tasks are clearly defined; and
- ▶ Annually attesting, on behalf of Council, that Council is complying with the Regulation in relation to internal audit.

The CEO has no role in the performance of the internal audit function, including the conduct of internal audits, the audit techniques used and the reporting of internal audit findings to the ARIC.

## **18.3 ROLE OF COMMITTEE AS A WHOLE**

### **18.3.1 GENERAL**

Section 428A of the Act requires Council to establish an ARIC to continuously review and provide independent advice to the CEO and Council on:

- ▶ Whether Council is complying with all necessary legislation, regulations and other legal requirements;



- ▶ The adequacy and effectiveness of Council's Risk Management Framework, fraud and corruption prevention activities, financial management processes, and Council's financial position and performance;
- ▶ Council's governance arrangements;
- ▶ The achievement by Council of the goals set out in Council's Community Strategic Plan, Delivery Program, Operational Plan and other strategies;
- ▶ How Council delivers services and how it could improve the performance of its functions more generally;
- ▶ The collection of performance measurement data by Council; and
- ▶ Any other matters, including internal audit functions, prescribed by the Regulation.

The Regulation prescribes the following requirements in relation to the membership and operations of Council's ARIC.

- ▶ Council must by resolution appoint an ARIC comprising of a Chair and at least two or more other persons as voting members (Known as Independent Members) of the Committee (Section 216 C).
- ▶ The Chair and the Independent Members of Council's ARIC must satisfy the independence and eligibility criteria prescribed by the Regulation (Sections 216 D, 216 E and 216 F).
- ▶ Council must not appoint a person to be the Chair or an Independent Member of Council's ARIC unless they satisfy the independence and eligibility criteria prescribed by the Regulation and specified in Section 6.4 and 6.5 of this Framework.
- ▶ Council may appoint one Councillor as a non-voting member of its ARIC (Section 216 C). Councillors appointed as a non-voting member of the ARIC should satisfy the eligibility criteria for Councillor members of the Committee.
- ▶ Council must adopt by resolution, Terms of Reference for their ARIC's and must consider the OLG's Model Terms of Reference for Committees approved by the Departmental Chief Executive contained in the Guidelines when doing so (Section 216 K).
- ▶ Council's ARIC must exercise its functions in accordance with the Terms of Reference adopted by the Council (Section 216 K).
- ▶ Council must provide their ARIC with such access to the CEO and other senior management of MRC and any information and resources of Council as may be necessary for the Committee to exercise its functions (Section 216 L).
- ▶ It is expected that each ARIC will provide independent advice to Council that is informed by Council's internal audit and risk management activities and information and advice provided by council employees, relevant external bodies and other subject matter experts.

### **18.3.2 RISK MANAGEMENT**

An ARIC's role in relation to risk management is to support Council and CEO and to ensure that Council's Risk Management Framework is appropriate, operationally effective and provide advice to Council on its operation and efficacy (Section 216 S).

The breadth and depth of this assurance role is to be determined by Council and the ARIC and could include:

- ▶ Assessing whether risks at all levels are identified, assessed and reviewed regularly by Council;
- ▶ Being involved in the regular review of Council's Risk Register;
- ▶ Reviewing the integration of risk management into business planning and program implementation activities, and/or
- ▶ Providing assurance in relation to the management of risk or governance arrangements on individual projects, programs or activities.

### **18.3.3 INTERNAL AUDIT**

Under the Regulation (Section 216 M, 216 P & 216 R), the ARIC exercises functional oversight of a Council's internal audit function to ensure it operates independently from Council.

This means that the ARIC is responsible for:

- ▶ assisting Council to identify the resources necessary for the effective functioning of the internal audit function;
- ▶ Setting the Annual Plan and four-year Strategic Workplan for the internal audit function, including the audits that will be completed;
- ▶ Assessing the findings and recommendations of completed audits and providing the Committee's advice and opinion on issues raised to the CEO and Council;
- ▶ Developing the Internal Audit Charter that will guide the work of the internal audit function and how it operates; and
- ▶ Reviewing the performance of the internal audit function.

The Regulation (Section 216M) also requires Council's ARIC to review and provide advice on Council's internal audit activities.

The ARIC's role also extends to any entities established by or operated by Council.

The exact nature of each ARIC's role and the specific activities it reviews on behalf of Council under Section 428A of the Act will vary depending on Council's needs, risks and business functions.

These activities are to be agreed between the ARIC and Council during the development of the Committee's Terms of Reference.

The Regulation prescribes the following requirements in relation to internal audit:

- ▶ Council's internal audit functions must operate in accordance with the requirements specified in this Framework;
- ▶ Council must adopt by resolution, an Internal Audit Charter that is consistent with the OLG's Model Internal Audit Charter approved by the Departmental Chief Executive;
- ▶ Council's internal audit function must be undertaken in accordance with the Internal Audit Charter adopted by Council;
- ▶ Council's internal audit activities are to be undertaken under the oversight and direction of Council's ARIC;
- ▶ An employee appointed by the CEO to direct and coordinate internal audit activities is to report to the ARIC on those activities;
- ▶ An employee of Council appointed to direct and coordinate internal audit activities is not to be subject to direction in the performance of internal audit activities by anyone other than the ARIC;
- ▶ All internal audit personnel must have direct and unrestricted access to Council employees, the ARIC and Council information and resources necessary to undertake their role and responsibilities;
- ▶ The CEO must consult with the Chair of Council's ARIC on any decision affecting the employment of the employee appointed to direct and coordinate Council's internal audit activities and must consider the Chair's views before making the decision; and
- ▶ The ARIC must review the performance and efficacy of Council's internal audit activities once in each term of Council and report to Council on the outcome of its review and make recommendations.

## **18.4 ROLE OF COMMITTEE MEMBERS**

### **18.4.1 CHAIR**

The position of the Chair of an ARIC is pivotal to the Committee's effectiveness and is the focal point for the Committee's relationship with Council, the internal audit function and External Auditor.

The Chair acts as the interface between the ARIC and the CEO and other staff, Council, the External Auditor and the internal audit function.

Any individual ARIC member who wishes to meet with the CEO or Council to discuss any issues relating to the Committee's responsibilities is to do so through the Chair of the Committee, and vice versa.

To be successful in their role, a Chair must:

- ▶ Have strong leadership qualities;
- ▶ Have the personal courage to raise and deal with tough issues and express opinions frankly and to support the Independent and Councillor Members to do the same;
- ▶ Be able to recommend the appointment of Independent Members to Council;
- ▶ Maintain effective working relationships between Independent Members and with Council;
- ▶ Keep Council and CEO informed and brief them on the strategic and technical aspects of internal audits and risk and control issues;
- ▶ Lead effective Committee meetings including:
  - Planning for and setting agendas for meetings, ensuring Independent and Councillor Members are adequately informed of matters to be considered prior to meetings and allowing sufficient time for discussion of those matters at the meeting;
  - Ensuring the meeting runs smoothly and that the views of members are heard;
  - Focus the Committee's deliberations on the most important issues;
  - Seek the input of advisers, observers and other experts to maximise Committee deliberations; and
- Summarise discussion outcomes and actions, including assigning responsibility and timeframes for actions;
- ▶ Maintain an effective working relationship with Council's External Auditor;
- ▶ Oversee the internal audit function and be alert to external accountability and internal audit concerns;
- ▶ Act in the best interests of Council;
- ▶ Arrange for all Committee Members to maintain an up-to-date knowledge of Council and its activities, including any financial or regulatory developments; and
- ▶ Know the strengths and weaknesses of the Committee and individual Members and how this may affect the opinions of the Committee.

#### **18.4.2 INDEPENDENT MEMBERS**

Independent Members of the ARIC are expected to be able to assess information provided to them about Council and to identify and assess key risks and issues.

Each member should be capable of making a valuable contribution to the Committee.

To be successful in their role, a member must:

- ▶ Take a professional approach to their responsibilities, including an appropriate commitment of time and effort;
- ▶ Know the business, culture and values of Council and take the time to understand changes that affect how Council operates and its risks;
- ▶ Have sufficient understanding of Council's financial reporting responsibilities to be able to contribute to the Committee's consideration of the annual financial statements;

- ▶ Understand the role of the Committee and the expectations of Council;
- ▶ Act in the best interests of Council;
- ▶ Be a good communicator and build effective relationships with Council, the Independent and Councillor Members and the IA Coordinator, and
- ▶ Have the personal courage to raise and deal with tough issues, express opinions frankly, ask questions that go to the fundamental core of the issue and pursue independent lines of inquiry.

#### **18.4.3 COUNCILLOR MEMBERS**

The Councillor Member of the ARIC are non-voting members of the Committee. This is to ensure that decision making by the Committee is independent of Council.

The Councillor Member of Committee act as an important link between Council and the Committee.

Their role is to:

- ▶ Relay to the Committee any concerns Council may have regarding Council and issues being considered by the Committee;
- ▶ Provide insights into local issues and the strategic priorities of Council that would add value to the Committee's consideration of agenda items;
- ▶ Advise Council (as necessary) of the work of the Committee and any issues arising from it; and
- ▶ Assist Council to review the performance of the Committee each Council term.

Issues or information the Councillor Member raise with or provide the ARIC must relate to the matters listed in Section 428A of the Act, the Committee's Terms of Reference and issues being considered by the Committee.

ARIC's Councillor Member is not entitled to receive information about ARIC activities outside of established reporting requirements and must conduct themselves in a non-partisan and professional manner.

The Councillor Member of the Committee must not engage in any conduct that seeks to politicise the activities of the Committee or the internal audit function or that could be seen to do so.

Where a Councillor member of an ARICs engages in such conduct or in any other conduct that may bring the Committee and its work into disrepute, the Chair may recommend to Council, that Councillor member be removed from membership of the Committee.

Where Council does not agree to the Chair's recommendation, it must give reasons for its decision in writing to the Chair.

#### **18.5 ROLE OF THE INTERNAL AUDIT COORDINATOR and INTERNAL AUDIT FUNCTION**

The head of the internal audit function, the IA Coordinator, of an outsourced internal audit function will, in practice, primarily be a coordination and administrative role.

The key responsibilities of any Council employee assigned responsibility for leading an outsourced internal audit function include:

- ▶ Contract management;
- ▶ Managing the internal audit budget;
- ▶ Ensuring the external provider completes internal audits in line with the ARIC's Annual Plan and four-year Strategic Work Plan;
- ▶ Forwarding audit reports by the Internal Auditor/s to the ARIC;
- ▶ Acting as a liaison between the Internal Auditor/s and the ARIC;

- ▶ Monitoring Council's implementation of corrective actions that arise from the findings of audits and reporting progress to the ARIC, and
- ▶ Assisting the ARIC to ensure Council's internal audit activities comply with this Framework;

To fulfil these responsibilities, the IA Coordinator:

- ▶ Reports functionally to the ARIC;
- ▶ Must be free from conflicts of interest;
- ▶ Must be a Council employee and cannot be outsourced, other than through a shared arrangement with another Council, county Council or joint organisation – this is to ensure that Council retains control of the internal audit function and is able to actively monitor the performance of the external provider;
- ▶ Should possess the following skills, knowledge and experience to effectively carry out their role:
  - A good understanding of the work of ARICs and internal audit; and
  - The skills, knowledge and personal qualities necessary to manage Council's contract with the external provider and liaise between the external provider and the ARIC.

As a Council employee, the IA Coordinator must comply with all relevant Council policies and procedures, including Council's Code of Conduct.

The ARIC should maintain a strong, positive relationship with Council's internal audit function and view it as a significant source of information about what is going on in Council.

The internal audit function can also assist the ARIC to develop the Annual Workplan and four (4) year Strategic Workplan that will guide the Committee's and internal audit function's work.

The ARIC Chair should routinely meet with Council employees undertaking internal audit activities to discuss key issues and review performance if needed.

### **Dual responsibilities**

Where the IA Coordinator has a dual role in a Council, they are to remain independent and report functionally to the ARIC in relation to their internal audit responsibilities.

For other Council responsibilities, the IA Coordinator reports functionally through normal Council reporting lines to the CEO.

Council can combine the IA Coordinator's role with other responsibilities provided there are adequate safeguards put in place by Council to limit any real or perceived bias or conflicts of interest.

Depending on the specific needs and circumstances of Council, safeguards could include:

- ▶ Any potential issues or conflicts of interest arising from a dual role being formally documented in Council's Internal Audit Charter;
- ▶ The IA Coordinator not having responsibility for managing any risks or implementing any audit recommendations or corrective actions in their other role/s, and/or
- ▶ The Committee including an assessment of the independence and objectivity (for internal audit purposes) of the IA Coordinator in their Annual Assessment report to Council.

## **18.6 ROLE OF INTERNAL AUDITOR/S**

It is important that any Internal Auditor/s, engaged by Council, is independent and can objectively assess and report on the way Council operates.

To ensure the independence of an Internal Auditor/s, the IA Coordinator must ensure that they:

- ▶ Do not conduct any audits on specific Council operations or areas that they have worked on within the last two (2) years;
- ▶ Is not the same auditor conducting Council's external audit (Audit Office appointed);

- ▶ Is not the auditor of any contractors of Council that may be subject to the internal audit; and
- ▶ Can satisfy the requirements in this Framework relating to internal audit.

The IA Coordinator must also consult with the ARIC and CEO regarding the appropriateness of the skills, knowledge and experience of any Internal Auditors before they are engaged by Council.

## **18.7 EXTERNAL AUDITORS**

There are strong linkages between the work of Council’s ARIC and their External Auditor. The Committee should actively engage with the External Auditor.

Council’s External Auditor can offer valuable insights on issues such as the effectiveness of Council’s risk, controls, financial reporting, and compliance frameworks.

For the External Auditor, communication with performance audit reports, including the implementation of audit recommendations.

The ARIC should:

- ▶ Provide input on and discuss planned financial and performance audit coverage;
- ▶ Monitor Council’s responses to financial statement management letters and performance audit reports, including the implementation of audit recommendations;
- ▶ Provide advice to Council on action taken on significant issues raised in relevant External Auditor reports or better practice guides; and
- ▶ Have a voting-members only meeting with the External Auditor at least once per year so that the Committee can obtain the views of the External Auditor without internal audit or management advisers being present.

## **19. SPECIFIC AREAS OF REVIEW**

The ARIC and Council are to agree on the specific activities the Committee is to review based on the council’s needs, risks and business functions.

The following is a list of activities the ARIC and Council should consider as part of the Committee’s ‘audit’, ‘risk’ and ‘improvement’ roles based on the requirements of section 428A of the Act.

This is not an exhaustive list and ARIC and Council are encouraged to carefully consider Council’s business operations, service delivery, financial management processes, internal audit function, external accountability requirements, risk management framework, governance arrangements and integrated planning and reporting framework to maximise the advice and assistance the Committee can provide to Council.

### **19.1 AUDIT**

<b>INTERNAL AUDIT</b>	
<b>Principle</b>	<b>Council has an effective internal audit function and receives maximum value from its internal audit activities.</b>
<b>Legislation</b>	Section 428A(2)(i) of the Local Government Act
<b>Committee’s role</b>	<ul style="list-style-type: none"> <li>▶ Provide overall strategic oversight of internal audit activities;</li> <li>▶ Act as a forum for communication between Council, CEO, senior management, the internal audit function and external audit;</li> <li>▶ Coordinate, as far as is practicable, the work programs of internal audit and other assurance and review functions;</li> <li>▶ Advise the CEO and Council:               <ul style="list-style-type: none"> <li>▪ Whether Council is providing the resources necessary to successfully deliver</li> </ul> </li> </ul>

	<p>the internal audit function;</p> <ul style="list-style-type: none"> <li>▪ If Council is complying with internal audit requirements, including compliance with the <u>International Professional Practices Framework</u>;</li> <li>▪ If Council's <u>Internal Audit Charter</u> is appropriate and whether the internal audit policies and procedures and audit/risk methodologies used by Council are suitable;</li> <li>▪ Of the four-year <u>Strategic Work Plan</u> and <u>Annual Work Plan</u> of internal audits to be undertaken by Council's internal audit function;</li> <li>▪ If Council's internal audit activities are effective, including the performance of the IA Coordinator and the internal audit function;</li> <li>▪ Of the findings and recommendations of internal audits conducted and corrective actions needed to address issues raised;</li> <li>▪ Of the implementation by Council of the corrective actions;</li> <li>▪ On the appointment of the head of the internal audit function/ IA Coordinator and Internal Auditor/s; and</li> <li>▪ If the internal audit function is structured appropriately and has sufficient skills and expertise to meet its responsibilities.</li> </ul>
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EXTERNAL AUDIT	
<b>Principle</b>	<b>Council receives maximum value from its external audit activities.</b>
<b>Legislation</b>	Section 428A(2)(i) of the Local Government Act
<b>Committee's role</b>	<ul style="list-style-type: none"> <li>▶ Act as a forum for communication between Council, CEO, senior management, the internal audit function and external audit.</li> <li>▶ Coordinate as far as is practicable, the work programs of internal audit and external audit.</li> <li>▶ Provide input and feedback on the financial statement and performance audit coverage proposed by external audit and provide feedback on the audit services provided.</li> <li>▶ Review all external plans and reports in respect of planned or completed audits and monitor Council's implementation of audit recommendations.</li> <li>▶ Provide advice to Council and/or CEO on action taken on significant issues raised in relevant external audit reports and better practice guides.</li> </ul>

## 19.2 RISK

COMPLIANCE FRAMEWORK	
<b>Principle</b>	<b>Council has an effective compliance framework that ensures it is complying with its legal obligations and other governance and contractual requirements when undertaking its functions.</b>
<b>Legislation</b>	Section 428A(2)(a) of the Local Government Act
<b>Committee's role</b>	<p>Advise the CEO and governing body of the council of the adequacy and effectiveness of Council's <u>Compliance Framework</u>, including:</p> <ul style="list-style-type: none"> <li>▶ if Council has appropriately considered legal and compliance risks as part of the Council's <u>Risk Management Framework</u></li> <li>▶ how Council manages its compliance with applicable laws, regulations, policies, procedures, codes, and contractual arrangements, and</li> </ul>

	▶ whether appropriate processes are in place to assess compliance.
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**RISK MANAGEMENT**

<b>Principle</b>	<b>Council has an effective Risk Management Framework and internal controls that successfully identify and manage the risks it faces.</b>
<b>Legislation</b>	Section 428A(2)(b) of the Local Government Act
<b>Committee's role</b>	<p>Advise the CEO and Council on the following:</p> <p><b><u>Risk management framework</u></b></p> <ul style="list-style-type: none"> <li>▶ Whether Council is providing the resources necessary to successfully implement its <u>Risk Management Framework</u>;</li> <li>▶ If Council has in place a current and appropriate <u>Risk Management Framework</u> that is consistent with the Australian risk management standard;</li> <li>▶ Whether Council's <u>Risk Management Framework</u> is adequate and effective for identifying and managing the risks Council faces, including those associated with individual projects, programs and other activities;</li> <li>▶ If risk management is integrated across all levels of Council and across all processes, operations, services, decision-making, functions and reporting;</li> <li>▶ Of the adequacy of risk reports and documentation, for example, Council's <u>Risk Register</u> and risk profile;</li> <li>▶ Whether a sound approach has been followed in developing risk management plans;</li> <li>▶ Whether appropriate policies and procedures are in place for the management and exercise of delegations;</li> <li>▶ If Council has taken steps to embed a culture that is committed to ethical and lawful behaviour;</li> <li>▶ If there is a positive risk culture within Council and strong leadership that supports effective risk management;</li> <li>▶ Of the adequacy of staff training and induction in risk management;</li> <li>▶ How Council's risk management approach impacts on Council's insurance arrangements;</li> <li>▶ Of the effectiveness of Council's management of its assets; and</li> <li>▶ Of the effectiveness of business continuity arrangements, including <u>Business Continuity Plans</u>, <u>Disaster Recovery Plans</u> and the periodic testing of these plans.</li> </ul> <p><b><u>Internal control framework</u></b></p> <ul style="list-style-type: none"> <li>▶ If the internal controls in place are appropriate for the risk Council faces;</li> <li>▶ Whether Council employees are informed of their responsibilities and processes and procedures to implement controls are complied with;</li> <li>▶ If Council's monitoring and review of controls, including policies and procedures, is sufficient; and</li> <li>▶ If internal and external audit recommendations to correct internal control weaknesses are implemented appropriately.</li> </ul>

**FRAUD AND CORRUPTION CONTROL FRAMEWORK**

<b>Principle</b>	<b>Council has an effective fraud and corruption control framework in place that minimises the incidence of fraud and corruption.</b>
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<b>Legislation</b>	Section 428A(2)(c) of the Local Government Act
<b>Committee's role</b>	<p>Advise the CEO and Council of the adequacy and effectiveness of Council's fraud and corruption prevention framework and activities, including whether Council has:</p> <ul style="list-style-type: none"> <li>▶ A <u>Fraud and Corruption Policy</u>;</li> <li>▶ Clearly defined responsibilities for managing fraud and corruption;</li> <li>▶ Risk-based preventative and detective controls;</li> <li>▶ Policies, systems and processes to respond to, investigate and report suspected fraud and corruption;</li> <li>▶ Employee awareness/education measures;</li> <li>▶ Robust third-party management systems;</li> <li>▶ Appropriate processes and systems in place to capture and effectively investigate fraud-related information;</li> <li>▶ Regular review of the fraud and corruption control framework and reporting; and</li> <li>▶ Implemented applicable guidance and other better practice measures by the <u>Independent Commission Against Corruption (ICAC)</u>.</li> </ul>

<b>FINANCIAL MANAGEMENT FRAMEWORK</b>	
<b>Principle</b>	<b>Council has an effective financial management framework, sustainable financial position and positive financial performance.</b>
<b>Legislation</b>	Section 428A(2)(d) of the Local Government Act
<b>Committee's role</b>	<p>Advise the CEO and governing body of Council on the following:</p> <p><b>External accountability and financial reporting framework</b></p> <ul style="list-style-type: none"> <li>▶ If Council is complying with accounting standards and external accountability requirements;</li> <li>▶ Of the appropriateness of Council's accounting policies and disclosures;</li> <li>▶ Of the implications for Council of the findings of external audits and performance audits and Council's responses and implementation of recommendations;</li> <li>▶ Whether Council's financial statement preparation procedures and timelines are sound;</li> <li>▶ The accuracy of Council's <u>Annual Financial Statements</u> prior to external audit, including: <ul style="list-style-type: none"> <li>▪ Management compliance/representations;</li> <li>▪ Significant accounting and reporting issues;</li> <li>▪ The methods used by Council to account for significant or unusual transactions and areas of significant estimates or judgements;</li> <li>▪ appropriate management signoff on the statements.</li> </ul> </li> <li>▶ If effective processes are in place to ensure financial information included in Council's <u>Annual Report</u> is consistent with signed financial statements.</li> </ul> <p><b><u>Financial management framework</u></b></p> <ul style="list-style-type: none"> <li>▶ If Council's financial management processes are adequate;</li> <li>▶ The adequacy of cash management and credit card use policies and procedures;</li> <li>▶ If there are adequate controls over financial processes, for example: <ul style="list-style-type: none"> <li>▪ Appropriate authorisation and approval of payments and transactions;</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>▪ Adequate segregation of duties;</li> <li>▪ Timely reconciliation of accounts and balances;</li> <li>▪ Review of unusual and high value purchases.</li> </ul> <p><b><u>Financial position and performance</u></b></p> <ul style="list-style-type: none"> <li>▸ If policies and procedures for management review and consideration of the financial position and performance of the council are adequate.</li> </ul> <p><b><u>Grants and tied funding policies and procedures</u></b></p> <ul style="list-style-type: none"> <li>▸ If Council's grants and tied funding policies and procedures are sound.</li> </ul>
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<b>GOVERNANCE FRAMEWORK</b>	
<b>Principle</b>	<b>Council has an effective governance framework to ensure it is appropriately directing and controlling the management of Council.</b>
<b>Legislation</b>	Section 428A (2) (e) of the Local Government Act
<b>Committee's role</b>	<p>Advise Council and the CEO if Council's <u>Governance Framework</u> is sound, including Council's:</p> <ul style="list-style-type: none"> <li>▸ Decision-making processes ;</li> <li>▸ Implementation of governance policies and procedures;</li> <li>▸ Reporting lines and accountability;</li> <li>▸ Assignment of key roles and responsibilities;</li> <li>▸ Committee structure;</li> <li>▸ Management oversight responsibilities;</li> <li>▸ Human resources and performance management activities;</li> <li>▸ Reporting and communication activities;</li> <li>▸ Technology (ICT) governance; and</li> <li>▸ Management and governance of the use of data, information and knowledge.</li> </ul>

### 19.3 IMPROVEMENT

<b>STRATEGIC PLANNING</b>	
<b>Principle</b>	<b>Council has an effective framework that ensures it achieves its strategic plans and objectives under the integrated planning and reporting (IP&amp;R) framework.</b>
<b>Legislation</b>	Section 428A(2)(f) of the Local Government Act
<b>Committee's role</b>	<p>Advise the CEO and governing body of Council:</p> <ul style="list-style-type: none"> <li>▸ Of the adequacy and effectiveness of Council's IP&amp;R processes;</li> <li>▸ If appropriate reporting and monitoring mechanisms are in place to measure progress against objectives; and</li> <li>▸ Whether Council is successfully implementing and achieving its IP&amp;R objectives and strategies.</li> </ul>

<b>SERVICE REVIEWS AND BUSINESS IMPROVEMENT</b>	
<b>Principle</b>	<b>Council has an effective framework to ensure it is delivering services and conducting its business and functions to an expected standard.</b>
<b>Legislation</b>	Section 428A(2)(g) and Section 428A(3) of the Local Government Act
<b>Committee's</b>	▸ Act as a forum for communication and monitoring of any audits conducted by

<b>role</b>	<p>external bodies and the implementation of corrective actions (for example, NSW government agencies, Commonwealth government agencies, insurance bodies);</p> <ul style="list-style-type: none"> <li>▶ Advise the CEO and governing body of the council:             <ul style="list-style-type: none"> <li>o if the council has robust systems to set objectives and goals to determine and deliver appropriate levels of service to the community and business performance:                 <ul style="list-style-type: none"> <li>▪ If appropriate reporting and monitoring mechanisms are in place to measure service delivery to the community and overall performance, and</li> <li>▪ How Council can improve its service delivery and Council's performance of its business and functions generally.</li> </ul> </li> </ul> </li> </ul>
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PERFORMANCE DATA AND MEASUREMENT	
<b>Principle</b>	<b>Council's performance management framework ensures Council can measure its performance and if it is achieving its strategic goals.</b>
<b>Legislation</b>	Section 428A(2)(h) of the Local Government Act
<b>Committee's role</b>	<p>Advise the CEO and Council:</p> <ul style="list-style-type: none"> <li>▶ If Council has a robust system to determine appropriate performance indicators to measure the achievement of its strategic objectives</li> <li>▶ The performance indicators Council uses are effective, and</li> <li>▶ Of the adequacy of performance data collection and reporting.</li> </ul>

## 20. ANNUAL ATTESTATION

It is important that Council are accountable to their communities for the efficacy of their internal controls and assurance mechanisms and the operations of their ARICs.

The CEO is required under the Regulation to publish an Annual Attestation Statement each year in Council's Annual Report indicating whether, during the preceding financial year, Council's ARIC, Risk Management Framework and internal audit function complied with the requirements prescribed in the Regulation.

The Regulation prescribes the following requirements in relation to attestation:

- ▶ Attestation statement signed by the CEO on Council's compliance with the requirements prescribed in the Regulation relating to the membership and operations of its ARIC, its Risk Management Framework and internal audit function (Section 216 T).
- ▶ The CEO must consult with the Chair of Council's ARIC on the content of the attestation statement and must consider the Chair's views when preparing the statement (Section 216 T).
- ▶ If the ARIC Chair disagrees with the content of the attestation statement prepared by the CEO, they may prepare their own attestation statement and submit this to the Departmental Chief Executive (section 216 T).

The Attestation Statement outlines:

- ▶ Each member of Council's ARIC and their details;
- ▶ Attestation operates to ensure that Council takes independent assurance and risk management seriously and is accountable to the community for how it has implemented these requirements; and
- ▶ Council's compliance status is to be self-assessed by the CEO, in consultation with the ARIC.

### 20.1 EXEMPTIONS

There may be times where Council may not be able to comply with all requirements relating to the ARIC, Risk Management Framework or internal audit function.

The Regulation exempts Council from compliance with a requirement under the Regulation in certain circumstances.

The Regulation provides that Council is not required to comply with a requirement under the Regulation where:

- ▶ Council cannot comply with the requirement because of temporary extenuating circumstances or resourcing constraints that will significantly impact Council's budget; and
- ▶ Council cannot enter into an agreement with another Council or Joint Organisation to share the performance of activities necessary to satisfy the requirement; and
- ▶ Current or proposed alternative arrangements will achieve outcomes equivalent to the requirement under the Regulation; and
- ▶ Council notifies the Departmental Chief Executive of the failure to comply with the Regulation within 28 days; and
- ▶ Council publishes a statement in its Annual Report about the non-compliance that includes details of the above matters.
- ▶ Council provides the internal audit function with direct and unrestricted access to the CEO and other staff, Council information and resources so it can fulfil its responsibilities, and
- ▶ That at least once each Council term (i.e. four years), the ARIC conducts a review of the effectiveness of Council's internal audit function.
- ▶ Council has adopted a Risk Management Framework that is consistent with current Australian risk management standards and is appropriate for Council's risks, and
- ▶ Council's ARIC reviews the implementation of Council's Risk Management Framework and issues an assessment of the effectiveness of Council's Risk Management Framework to Council each Council term.

It is important that Council is accountable to their communities for the efficacy of their internal controls and assurance mechanisms and the operations of their ARICs.

## 21. MONITORING

Council's compliance with the core requirements of the Act, the Regulation and the Guidelines will be monitored by the Office of Local Government.

The NSW Auditor-General may also undertake an assurance role in monitoring Council's compliance. This may include conducting sector-wide performance audits, or compliance audits of individual councils and undertaking reviews of exemptions granted by the Departmental Chief Executive.

## 22. ACCESS TO COUNCIL, EMPLOYEES, RESOURCES AND INFORMATION

It is essential for the ARIC to be able to access employees and information about Council it needs to review the matters listed in Section 428A of the Act and the resources necessary to undertake its other responsibilities.

### 22.1 COUNCIL EMPLOYEES

Council's ARIC must have direct and unrestricted access to the CEO and senior management of Council in order to fulfil its responsibilities.

Should the ARIC need to meet with another Council employee or contractor to obtain information to undertake its role, the Chair of the Committee is to obtain permission from the CEO before inviting the employee or contractor to meet with the Committee.

Subject to the CEO's permission being given, the employee or contractor must attend.

Any disputes between the CEO and ARIC regarding access to Council employees are to be resolved by Council.

## 22.2 COUNCIL RESOURCES AND INFORMATION

Council's ARIC must have direct and unrestricted access to any Council resources or information it needs to fulfil its responsibilities.

In its dealings with Council, the ARIC should be mindful of the environment Council is operating in and the priorities that the CEO needs to manage.

The ARIC should therefore keep to a minimum the demands it places on Council and utilise as far as is practicable, existing information to obtain the necessary level of assurance in relation to its responsibilities.

The ARIC may only release Council information to external parties that are assisting the Committee to fulfil its responsibilities with the approval of the CEO, except when it is being provided to an external investigative, audit or oversight agency for the purpose of informing that agency of a matter that may warrant its attention.

After their engagement ends with a Council, a Chair or member of an ARIC must not disclose or make use of any confidential information acquired in the course of their engagement with Council without the approval of Council.

## 22.3 EXTERNAL ADVICE

The ARIC can obtain any external legal or other professional/expert advice it needs to exercise its responsibilities. For example, where Council has implemented a specialised IT system, the Committee can seek the expert opinion of an IT specialist to assist its review of its implementation.

Council will set an annual budget item for external expenses for the ARIC, if this amount is expended the Committee will seek Council's permission prior to engaging further external advice.

## 23. DISPUTES

Members of the ARIC should maintain an effective working relationship with each other and Council and try to resolve any differences they may have professionally.

In the event of a disagreement between the ARIC and the CEO or other senior managers (for example, about findings or recommendations of audits), the dispute is to be resolved by Council.

Unresolved disputes regarding compliance with this Framework (the Guidelines) are to be referred to the Departmental Chief Executive in writing.

## 24. WORKPLANS

The work of Council's internal audit function will be guided by the four (4) year Strategic Workplan and Annual Workplan developed by the ARIC.

### 24.1 STRATEGIC WORKPLAN

It is essential that the work of the ARIC is thoroughly planned and executed to ensure that no Council activity or function is missed by the Committee and that Council receive value for money from their assurance investment.

Council's ARIC must develop a Strategic Workplan every four (4) years to ensure that all the matters listed in Section 428A of the Act are reviewed by the Committee and considered by the internal audit function when developing their risk-based program of internal audits.

The plan must be developed by the ARIC in consultation with Council, CEO, the IA Coordinator and senior managers (where appropriate) and adopted by Council at the start of Council term.

To maintain the independence of the ARIC, Council must be careful when adopting the Strategic Workplan not to direct the Committee's work over Council term.

#### 24.1.1 CONTENT

The nature of the Strategic Workplan will be commensurate with the size and operational complexity of Council and its risk profile, and consistent with the requirements of the International Professional Practices Framework.

At a minimum, it should document:

- ▶ The goals and expected outcomes of the ARIC for Council term;
- ▶ Key organisational issues and risks faced by Council and how the Committee will review these; and
- ▶ Key performance indicators to measure progress across Council term.

When developing Council's Strategic Workplan, the ARIC should consider at a minimum:

- ▶ Council's strategic objectives
- ▶ Risks facing Council;
- ▶ The work of other review activities or functions (for example, external and performance audits, and reviews or audits by other government agencies);
- ▶ An assurance map of Council's assurance activities which may assist to determine where the Committee's and internal audit function's work should focus; and
- ▶ Stakeholder expectations.

There should also be sufficient flexibility in the Strategic Workplan to accommodate the need for additional audits on emerging risks from time to time.

The ARIC may, in consultation with Council, vary the Strategic Workplan at any time to address new or emerging risks.

Council may also, by resolution, request the Committee to approve a variation to the Strategic Workplan. However, any decision to vary the Strategic Workplan will rest with the Committee.

When considering whether to vary the Strategic Workplan, the Committee must consider the impact of the variation on the internal audit function's existing workload and the completion of pre-existing priorities and activities identified under the Strategic Workplan.

#### **24.1.2 REVIEW**

The ARIC must review the four (4) year Strategic Workplan at least annually to ensure that it is dynamic, relevant and aligns with Council's risk profile.

This will also ensure that Council remains on track with its audits and any delay in progress can be quickly addressed.

### **24.2 ANNUAL WORKPLAN**

Council's ARIC must develop an Annual Workplan to guide its work over the forward year.

The Annual Workplan must be developed by the ARIC in consultation with Council, CEO, IA Coordinator and senior managers (where appropriate).

The Annual Workplan must be consistent with the requirements of the International Professional Practices Framework and identify:

- ▶ The internal audits that will be carried out during the year to support the work of the ARIC;
- ▶ The key goals, objectives and scope of the proposed audits;
- ▶ The resources needed for each audit (for example, staffing, budget, technology); and
- ▶ Key performance indicators to measure annual progress against.

The Annual Workplan must be flexible enough to allow it to be reviewed and adjusted as necessary throughout the year in response to any changes to Council's risks or operations.

The ARIC may, in consultation with Council vary the Annual Workplan to address new or emerging risks.

Council may also, by resolution, request the Committee to approve a variation to the Annual Workplan. However, any decision to vary the Annual Workplan will rest with the Committee.

When considering whether to vary the Annual Workplan, the Committee must consider the impact of the variation on the internal audit function's existing workload and the completion of pre-existing priorities and activities identified under the Annual Workplan.

### 24.3 PERFORMANCE MEASUREMENT

The performance of Council's ARIC and internal audit function must be able to be assessed to measure progress and improvement.

The ARIC must establish key performance indicators for Council's four (4) year Strategic Workplan and Annual Workplan to allow Council to gauge the:

- ▶ Performance of the Committee and internal audit function and the value they are providing to Council, and
- ▶ Council's performance regarding the matters listed in Section 428A of the Act, so that Council can assess whether it is improving each Council term in these areas.

These key performance indicators are to be reviewed and refreshed by the ARIC for each Annual Workplan and four (4) year Strategic Workplan.

To ensure they reflect the changing needs of Council and the increased capacity of the Committee and internal audit function as they mature.

The CEO, in consultation with the ARIC, must ensure that a data collection or performance management system is established and maintained to collect the data needed to measure progress against these key performance indicators.

## 25. PROVIDING ADVICE

Ongoing reporting to the ARIC is essential to ensure that the Committee is kept informed of matters considered by the internal audit function and any emerging issues that may require reporting to Council or the CEO.

### 25.1 QUARTERLY UPDATES

Ongoing reporting by the ARIC to Council (and CEO) is essential for accountability and will ensure that Council is kept informed of matters considered by the Committee and any emerging issues that may influence the strategic direction of Council or the achievement of Council's goals and objectives.

It will also ensure strong linkages between the ARIC, Council and the CEO and lead to a better functioning assurance mechanism.

The ARIC must provide an update to Council of its activities and opinions after every Committee meeting.

The ARIC must also provide its quarterly update to the CEO to ensure they are kept informed of issues raised and can answer any questions Council may have about the Committee's opinions and recommendations.

The Mayor can request to meet with the ARIC Chair at any time to discuss any issues relating to the work of the Committee during the quarter.

The ARIC Chair can also request to meet with the Mayor at any time.

Council should, at a minimum, providing quarterly advice from the risk management function to the CEO or their delegate.

This will ensure that risks are being correctly identified, prioritised and treated, and any emerging problems are known and rectified quickly.

#### 25.1.1 CONTENT

The nature and content of the ARIC's quarterly updates is to be determined by Council and the Committee.

As a minimum, Council will be provided a copy of the ARIC's meeting minutes. However, a more formal report for noting by Council or a face-to-face meeting between the Committee, Council and CEO to discuss important issues that have been identified, may be appropriate from time to time.

Whatever the nature and form the update takes, Council and CEO must be advised, at a minimum, of:

- ▶ Any formal resolutions of the ARIC;
- ▶ The Committee's assessment of any audits conducted, including any breaches or deficiencies in controls that require an immediate response from Council;
- ▶ Progress on the implementation of corrective actions;
- ▶ Opportunities for longer-term improvement; and
- ▶ Any key opinions or 'take-outs' from the Committee's meeting.

Should Council require additional information, a request for the information may be made to the Chair by resolution. The Chair is only required to provide the information requested by Council where the Chair is satisfied that it is reasonably necessary for Council to receive the information for the purposes of performing its functions under the Act.

Individual Councillors are not entitled to request or receive information from the Committee.

## 25.2 ANNUAL ASSESSMENT

### 25.2.1 ARIC

Council's ARIC must provide an Annual Assessment Statement to Council each year.

This will ensure that Council is fully informed of the ARIC's work, including the internal audit and risk management functions and its opinion on how Council is performing.

Council may wish to hold an extraordinary or additional meeting each year for this purpose.

- ▶ The ARIC's Annual Workplan and review priorities for the upcoming year, for the approval by resolution of Council;
  - ▶ Any resourcing issues for the internal audit or risk management functions that the Committee considers Council should be informed of;
  - ▶ Any updated Committee Terms of Reference, for approval by resolution by Council; and
- The CEO's annual assessment of Council's risk management function.

The Annual Assessment Statement must include:

- ▶ A summary and assessment of the work the ARIC performed to discharge its responsibilities during the preceding year;
- ▶ An overview and assessment of the work of the internal audit function;
- ▶ Progress against key performance indicators;
- ▶ Advice on the appropriateness of the Committee's Terms of Reference;
- ▶ An independent assessment and advice on the matters considered by the Committee during the year that, in the Committee's opinion, and based on the level of risk facing Council, Council should be informed of; and
- ▶ Other views or opinions on Council that the Committee wishes to share.

### 25.2.2 RISK MANAGEMENT

Council's risk management function is to conduct an annual self-assessment of Council's Risk Management Framework.

The annual self-assessment is to report to the CEO whether Council's Risk Management Framework:



- ▶ Complies with this Framework (the Guidelines);
- ▶ Is sufficiently resourced;
- ▶ Operates effectively, this includes whether:
  - The internal control framework appropriately reflects Council's risk criteria/appetite;
  - Risks are formally considered when developing and implementing all Council policies, programs, projects and other activities, including procurement;
  - Risk management covers all relevant risk categories including strategic, operational, compliance, reputational and reporting risks;
  - Major risks have been identified and assessed by Council and appropriate risk treatments have been implemented that reflect Council's risk criteria;
  - Council's internal controls are effective and appropriate;
  - Council's Risk Register and risk profile are current and appropriate;
  - Risk information is captured and communicated in a timely manner across Council, enabling management and staff to carry out their responsibilities; and
  - Council's risk management policies, procedures and plans are being complied with.

The CEO should discuss the annual assessment of Council's risk management function with Council and the ARIC at Council's strategic assurance meeting held each council term.

### **25.2.3 INTERNAL AUDIT**

The Annual Assessment is to ensure that any concerns regarding the operation of the internal audit function and compliance with the International Professional Practices Framework can be dealt with before they are identified in the four-yearly strategic review, by which time their consequences may have escalated.

An annual assessment will also encourage continuous improvement of Council's internal audit activities.

Before providing their Annual Assessment Statement to Council, the ARIC must provide a copy of its Annual Assessment Statement to the CEO to allow him/her to develop an Action Workplan to address any issues identified.

Both the ARIC's Annual Assessment Statement and the CEO's Action Plan can then be considered jointly by Council at an annual assurance meeting with the Committee and the CEO.

The ARIC is to determine the nature of this assessment. It could be conducted, for example, via a self-assessment performed by the IA Coordinator.

The Mayor, ARIC Chair and CEO can invite observers or other participants to the meeting where appropriate.

### **25.3 ANNUAL ASSURANCE MEETING**

It would be beneficial for the ARIC, Council and the CEO to come together annually to discuss the Committee's Annual Assessment Statement of Council, how Council proposes to respond to the Committee's recommendations for corrective actions and other important internal audit and risk management matters.

Council may wish to hold an extraordinary or additional meeting each year for this purpose.

The annual assurance meeting should also discuss:

- ▶ The ARIC's Annual Workplan and review priorities for the upcoming year, for the approval by resolution of Council;
- ▶ Any resourcing issues for the internal audit or risk management functions that the Committee considers Council should be informed of;

- ▶ Any updated Committee Terms of Reference, for approval by resolution by Council, and
- ▶ The CEO's annual assessment of Council's risk management function

The Mayor, ARIC Chair and CEO can invite observers or other participants to the meeting where appropriate.

## 25.4 STRATEGIC ASSESSMENT

### 25.4.1 ARIC

Council's ARIC must provide to Council a comprehensive independent assessment every Council term (i.e. four years) of all the matters listed in Section 428A of the Act that have been reviewed during Council term.

This will ensure that Council is fully informed of Council's performance in relation to the matters specified in Section 428A of the Act and what corrective actions are required to address any issues identified.

It will also provide Council with essential information that will assist with strategic decision-making and resource allocation during the next Council term.

Before providing its Strategic Assessment Statement to Council, the ARIC must provide a copy of its report to the CEO to allow the CEO to develop an Action Plan to address any issues identified during the next Council term.

Given the ARIC's functional responsibility for the internal audit function of Council, the Committee must also develop an Action Plan for Council to address any internal audit issues identified by the Committee.

The ARIC's Strategic Assessment Statement and the Action Plan can be considered jointly by Council at a strategic assurance meeting held every four years.

### 25.4.2 RISK MANAGEMENT

The Regulation (Section 216C) requires Council's ARIC to keep the implementation of a Council's Risk Management Framework under review and provide advice to Council on its implementation.

Council's ARIC must provide an assessment of the effectiveness of Council's Risk Management Framework to Council each Council term, as part of the Committee's four-yearly strategic assessment.

As part of the ARIC's assessment of Council's risk management function, it should consider whether:

- ▶ Council is providing sufficient resources for risk management;
- ▶ Council's Risk Management Framework complies with the Guidelines; and
- ▶ Council's Risk Management Framework operates effectively, is being complied with and supports the achievement of Council's strategic goals and objectives.

The CEO is to develop an Action Plan for Council to address any risk management issues identified by the Committee.

The ARIC and CEO should discuss the strategic assessment and Action Plan with Council at Council's strategic assurance meeting held each Council term.

### Performance Measures

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 Council's Risk Management Framework.

### 25.4.3 INTERNAL AUDIT

Council's ARIC is to provide an assessment of the effectiveness of Council's internal audit function to the CEO and Council in each term of Council, as part of the Committee's four-yearly strategic assessment.

This assessment is to occur regardless of whether Council has established an in-house or outsourced internal audit function, as the assessment focuses on how Council has implemented its internal audit function.

As part of the ARIC's assessment of Council's internal audit function, it should consider:

- ▶ the views of an independent external party with strong knowledge of internal audit operation;
- ▶ the independence of the internal audit function;
- ▶ whether resourcing is sufficient;
- ▶ whether the internal audit function complies with this Framework (the Guidelines) and the International Professional Practices Framework;
- ▶ the appropriateness of Annual and Strategic Workplans based on the risks facing Council;
- ▶ progress against key performance indicators;
- ▶ whether the internal audit function adds value and delivers outcomes for Council; and
- ▶ the appropriateness of the Internal Audit Charter.

To ensure the views of the external party consulted are robust, the external party should have:

- ▶ strong skills, knowledge and expertise in internal audit;
- ▶ a working knowledge of the International Professional Practices Framework, and;
- ▶ no conflicts of interest that may result in bias or a lack of objectivity.

The ARIC, in consultation with the CEO, is to develop an Action Plan for Council to address any issues identified by the Committee in relation to the performance of the internal audit function.

The ARIC's strategic assessment and Action Plan is to be discussed with Council and CEO at the strategic assurance meeting held each Council term.

## 25.5 ANNUAL STRATEGIC ASSURANCE MEETING

It would be beneficial for the ARIC, Council and CEO to come together at the close of Council term or commencement of the new Council term to discuss the Committee's strategic assessment of Council, how Council proposes to respond to the Committee's recommendations during the next Council term and any other important internal audit and risk management issues.

This discussion can also inform the strategic plans to be made through the integrated planning and reporting process for the next Council term.

Council may wish to hold an extraordinary or additional meeting for this purpose.

The four-yearly assessment meeting could also discuss:

- ▶ The ARIC's four-year Strategic Workplan for the upcoming Council term for approval by resolution of Council;
- ▶ A four-yearly review of the Committee's Terms of Reference, for noting by Council and where applicable, an updated Terms of Reference for approval by resolution;
- ▶ Council's four-yearly review of the Committee's performance and Action Plan to address any issues identified, for approval by resolution of Council.

## 26 REVIEW OF PERFORMANCE

It is important that the work of the ARIC, including the internal audit function, is regularly assessed, and that the Committee is accountable for its performance.

This will ensure that the ARIC is making a valuable contribution to Council and allow Council to determine whether any changes to the Committee's Terms of Reference or membership are required and they are performing in relation to the matters listed in Section 428A of the Act.

At least once each Council term (i.e. four years), Council is to conduct a review of the effectiveness of the ARIC in conformance with the International Professional Practice Framework.

This will ensure that the ARIC is assessed consistently across all Councils and allow Council to have confidence in the work of their Committees.

To conduct the review, Council can:

- ▶ Engage a suitably qualified external assessor or peer to undertake the review; or
- ▶ Undertake the review itself and engage an external assessor or peer to conduct an independent evaluation of the findings.

The external assessor or peer should have specific skills relevant to the major risks of Council and a strong understanding of what constitutes best practice in relation to the operations and performance of ARICs.

### **Review Criteria**

The review of the ARIC's performance must consider:

- ▶ The appropriateness of the Committee's Terms of Reference and whether these have been complied with;
- ▶ The processes and procedures undertaken by the Committee;
- ▶ The collective performance of the Committee – for example:
  - The quality and timeliness of assurance and advice provided by the Committee to Council and CEO;
  - The effectiveness of the Committee in meeting its responsibilities; and
  - The relationship and quality of communication with Council and other stakeholders;
- ▶ The individual performance of each member – for example, their:
  - Understanding of Council, its key risks and internal controls;
  - Ability to act objectively and independently;
  - Preparation for Committee meetings; and
  - Contribution to the work of the Committee through their participation in discussion and decision-making, skills and experience
- ▶ The performance of the Chair, including whether the Chair has (in addition to their performance as a member of the Committee):
  - Demonstrated positive leadership;
  - Maintained effective working relationships among ARIC members and with Council, Council's External Auditor and the internal audit function;
  - Ensured Council and CEO was well informed and briefed on the strategic and technical aspects of internal audits and risk and control issues; and
  - Lead effective Committee meetings.
- ▶ The way the Committee, External Auditor, Council and internal audit function work together to manage risk and support Council and how effective this is;
- ▶ Whether the Committee has effectively reviewed the matters identified in Section 428A of the Act and contributed to an improvement in these areas; and
- ▶ Whether the composition of the Committee is appropriate.

When conducting the review, Council is to consider feedback on each member's performance by the Chair and Councillor member of the Committee and the CEO.

Self-assessments by the Chair and members of the ARIC can also be used.

Council can also request the Chair of the Committee to address Council and answer any questions about the operations of the Committee.

The ARIC Chair is to develop an Action Plan for Council to address any issues identified in the performance review and present it to Council at the four yearly assessment meeting.

## 27. INTERNAL AUDIT ACTIVITIES

### 27.1 PERFORMING INTERNAL AUDITS

It is essential that Council's internal audit function performs Council's internal audits to a high and consistent standard and that the findings and recommendations that arise from audits can be relied upon by the ARIC and Council.

Council's Internal Audits must be performed in accordance with the requirements of the International Professional Practices Framework.

The internal audit tools, techniques and methodologies used by the internal audit function must be approved by the ARIC.

Where risk information or ratings are used during the internal audit process, they must be developed and applied consistently with the current Australian risk management standard.

### 27.2 AUDIT REPORTS

The IA Coordinator must report the findings and recommendations of Internal Audits to the ARIC when they are finalised.

The ARIC will determine whether audit reports should be distributed to Committee Members out-of-session as they are completed or at each quarterly meeting of the Committee.

Each Internal Audit report must reflect the requirements of the International Professional Practices Framework.

This includes:

- ▶ Necessary background information, including the objective and scope of the audit;
- ▶ The audit processes and methodology used;
- ▶ Findings and recommendations based on the audit's objectives, prioritised according to their level of risk;
- ▶ Recommended remedial actions to address problems identified which have been prioritised according to risk; and
- ▶ A response or Action Plan from the CEO and/or responsible senior managers of Council.

Before reports are finalised, the IA Coordinator must provide a draft of each report to the Directors for comment so that a response to each recommendation from each relevant business unit is included in the final report submitted to the ARIC.

Timeframes for management responses to Internal Audit recommendations are to be agreed between the CEO, the IA Coordinator and ARIC Chair.

Directors may reject recommended corrective action/s on reasonable grounds but should discuss their position with the IA Coordinator or the ARIC Chair before finalising Council's position with the CEO.

Reasons for rejecting the recommendation/s must be included in the final audit report.

For the recommendations that are accepted, Directors are required to ensure that:

- ▶ An Action Plan is prepared for each recommendation that assigns responsibility for implementation to a Council employee/s and timeframes for implementation;
- ▶ All corrective actions are implemented within proposed timeframes; and
- ▶ IA Coordinator is provided regular updates in relation to the implementation of the internal audit Action Plan.

Where corrective actions are not implemented within agreed timeframes, the ARIC can invite the Director to explain why implementation has not occurred and how the resulting risk is being addressed in the interim.

The ARIC can raise any concerns it may have about Council's response to internal audit reports with the CEO and in the Committee's quarterly report to Council so that they are aware of the risks posed to Council.

The IA Coordinator is to ensure that the ARIC is advised at each of the Committee's quarterly meetings of:

- ▶ The internal audits completed during that quarter;
- ▶ Progress in implementing the Annual Work Plan; and
- ▶ Progress made implementing corrective actions arising from any past internal audits.

The way this information is communicated is to be decided by the ARIC in consultation with the IA Coordinator.

### 27.3 ONGOING MONITORING

The IA Coordinator should establish an ongoing monitoring system to track the internal audits undertaken for Council and follow-up Council's progress in implementing corrective actions.

Key risks or emerging issues must be reported to the ARIC and CEO to ensure they can be rectified quickly before their consequences escalate.

The ARIC can raise any concerns it has that may arise between meetings with Council via an additional report where needed. The Chair of the Committee can also request to meet with the Mayor.

This will ensure that Council is kept informed of significant emerging risks posed to Council.

The IA Coordinator can meet with the ARIC Chair at any time, as necessary, between Committee meetings.

This is particularly important to ensure that any urgent or emerging issues identified by the internal audit function can be quickly reported to the ARIC for consideration and action before their consequences escalate.

### 27.4 POLICIES AND PROCEDURES

The CEO, in consultation with the ARIC, must develop and maintain policies and procedures to guide the operation of Council's internal audit function and the performance of internal audits.

These policies and procedures could include:

- ▶ The structure and resourcing of the internal audit function;
- ▶ How internal audits will be conducted, reported, implemented and monitored;
- ▶ Audit methodology;
- ▶ Timeframes for reporting and Council's response to recommendations;
- ▶ How any internal audit-related disputes are to be resolved;
- ▶ The internal audit function's access to Council employees, resources and information;
- ▶ How the performance of the internal audit function will be reviewed;

- ▶ Communication between the ARIC and internal audit function, and the internal audit function and the CEO; and
- ▶ Information management including document retention, security and access to audit reports.

## 28. INTERNAL AUDIT DOCUMENTS

Internal audit documentation includes any information or documents produced or obtained by a Council's internal audit function that relates to the internal audit activities of Council.

All internal audit documents:

- ▶ Are for internal use only, subject to the requirements of the Government Information (Public Access) Act 2009 (GIPA Act);
- ▶ Are to remain the property of Council, including where internal audit services are performed by an external provider – all rights reside with Council;
- ▶ Must be documented, retained and controlled in accordance with the International Professional Practices Framework and Council policies;
- ▶ Can be accessed by the ARIC and External Auditor without restriction;
- ▶ Can be accessed by Council by resolution, subject to the approval of the ARIC Chair (any disputes can be referred to the Office of Local Government for resolution);
- ▶ Subject to the GIPA Act, can only be released to an external party with the approval of the CEO and the ARIC Chair, except where the information is being provided to an external oversight or investigative body for the purposes of informing that agency of a matter that may warrant its attention.

Any internal audit documentation provided to any individual, including members of Council, should be treated as strictly confidential.

The ARIC Chair may refuse to provide access to internal audit documents or information to anyone who has previously released such information without authorisation.

## 29. REPORTING CONCERNS ABOUT COUNCILLORS OR COUNCIL EMPLOYEES

Given the nature of internal audit, there may be times when the internal audit function identifies concerns about the conduct of Council employee.

Where the IA Coordinator has concerns regarding an employee, they can:

- ▶ Raise their concerns with the ARIC Chair (if it relates to the effectiveness of the internal audit function)
- ▶ Report breaches of Council's Code of Conduct to the CEO, or by the CEO to the Mayor, as required by the Code of Conduct Procedures.
- ▶ Report their concerns through Council's Internal Reporting Policy, Customer Feedback and Complaints Management Policy or other associated protocols, and/or
- ▶ Make a public interest disclosure under the Public Interest Disclosures Act 1994 to the:
  - Independent Commission Against Corruption (concerning corrupt conduct);
  - NSW Ombudsman (concerning maladministration);
  - NSW Auditor General (concerning serious and substantial waste of public money);
  - Office of Local Government (concerning serious and substantial waste in local government and breaches of pecuniary interest obligations); and/or
  - Information and Privacy Commissioner (concerning government information contraventions).

## 30. MONITORING

Council's compliance with the core requirements of the Act, the Regulations and this Framework (the Guidelines) will be monitored by the Office of Local Government.

The NSW Auditor-General may also undertake an assurance role in monitoring Council's compliance. This may include conducting sector-wide performance audits, or compliance audits of individual Councils and undertaking reviews of exemptions granted by the Departmental Chief Executive.

### 30.1 ACCOUNTABILITY

If Council that does not comply with the Guidelines, and are not granted an exemption, they may face enforcement action under the Act.

### 30.2 EXEMPTIONS

There may be times where Council may not be able to comply with all requirements relating to the ARIC, Risk Management Framework or internal audit function.

In these circumstances, the Regulation confers on the Departmental Chief Executive the power to exempt Council from compliance with a requirement under the Guidelines where Council requests such an exemption.

The Regulation provides that the Departmental Chief Executive may, on an application by Council, exempt Council from compliance with a requirement under these Guidelines for such a period specified by the Departmental Chief Executive where they are satisfied that:

- ▶ Council cannot comply with the requirement because of temporary extenuating circumstances or resourcing constraints that will significantly impact Council's budget;
- ▶ Council 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 under the Guidelines.

A Council's application to the Departmental Chief Executive for an exemption must be in the form and contain the information specified in the Guidelines.

The Regulation provides that where the Departmental Chief Executive exempts Council from compliance with a requirement under the Guidelines, Council must publish the Departmental Chief Executive's approval of the exemption in their annual report.

A Council is not prevented from applying for a further exemption when a previous exemption expires.

## 31. ASSOCIATED DOCUMENTS, DEFINITIONS AND ACRONYM

### External:

- ▶ NSW Treasury - Internal Audit & Risk Management Policy for the General Government Sector
- ▶ Australian Standard - AS/NZS ISO 31000:2018 Risk Management – Guidelines
- ▶ Institute of Internal Auditors (IIA) - Standards for the Professional Practice of Internal Auditing
- ▶ Institute of Internal Auditors - International Professional Practices Framework,
- ▶ OLG - Model Terms of Reference for Committees approved by the Departmental Chief Executive.
- ▶ OLG - Risk Management & Internal Audit for Local Government in NSW Guidelines – November 2023 including the Model Internal Audit Charter and the Model Terms of Reference
- ▶ Local Government Remuneration Tribunal's Determination

### Internal:

- ▶ MRC Policy – Code of Conduct (Committees) Policy
- ▶ MRC Policy – Risk Management Policy



- ▶ MRC Policy - Internal Reporting Policy
- ▶ MRC Policy – Customer Feedback and Complaints Management Policy
- ▶ MRC Policy – Fraud and Corruption Policy
- ▶ MRC Procedure – Code of Conduct Procedures
- ▶ MRC Document - Internal Audit Charter
- ▶ MRC Document – Risk Management Framework
- ▶ MRC Document – Risk Register
- ▶ MRC Document - Terms of Reference
- ▶ MRC Document – Attestation Statement
- ▶ MRC Document – Governance Framework
- ▶ MRC Document – Compliance Framework
- ▶ MRC Document – Annual Workplan, Annual Assessment Statement, Strategic Workplan, Strategic Assessment Statement and Action Plan.
- ▶ MRC Document – Business Continuity Plan and Disaster Recovery Plans
- ▶ MRC Document – Community Strategic Plan, Operational Plan, Delivery Plan and Annual Report.

Definitions and Acronyms:

Term	Definition
Internal Auditor/s	Out-sourced internal audits are conducted by on behalf of Council.
External Auditor/s	Appointed by the Audit Office
Internal Audit	an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objective by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. (International Professional Practices Framework)
Risk	the “effect of uncertainty on objectives, where an effect is a deviation from the expected. It can be positive, negative or both, and can address, create or result in opportunities and threats (AS ISO 31000:2018)
Risk Management	The coordinated activities to direct and control an organisation with regard to risk (AS ISO 31000:2018)

**32. DOCUMENT CONTROL**

Version No.	Details	Dates	CM9 Reference	Resolution No.
1	Initial Issue	DRAFT		

Council reserves the right to review, vary or revoke this procedure at any time  
This Framework is scheduled for review in 2028.

**NOTE:**

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**DISCLAIMER:**



This document was formulated to be consistent with Murray River Council's legislative obligations and with the scope of Council's powers. This document should be read in conjunction with relevant legislation, guidelines and codes of practice. In the case of any discrepancies, the most recent legislation should prevail. This document does not constitute legal advice. Legal advice should be sought in relation to particular circumstances and liability will not be accepted for losses incurred as a result of reliance on this document.

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**APPENDIX 1:**

**FURTHER RESOURCES**

**ARIC**

The following resources may be useful to Councils seeking more information about the establishment and operation of their ARIC.

This is not an exhaustive list but provides a useful starting point for Councils that seek to better understand what ARICs do, and how they can be supported to add maximum value to Councils.

<p><b><u>Audit Committees – A Guide to Good Practice (3rd edition)</u></b> Auditing and Assurance Standards Board, Australian Institute of Company Directors and The Institute of Internal Auditors-Australia (2017)</p>	<p>Provides a checklist to assess the performance of ARICs and members.</p>
<p><b><u>Audit Committees – A Guide to Good Practice for Local Government</u></b> Victorian Government, Department of Planning and Community Development (2011)</p>	<p>Provides detailed information on the activities ARICs can perform in relation to external audit, financial management, risk management and internal audit.</p>
<p><b><u>Audit Committee Guidelines – Improving Accountability and Performance</u></b> The State of Queensland (Queensland Treasury and Trade) (2012)</p>	<p>Provides sample:</p> <ul style="list-style-type: none"> <li>▶ letter of appointment for ARIC members</li> <li>▶ self-assessment questionnaire for Committee Members, external peer review checklist and management feedback questionnaire when assessing Committee performance, and Committee meeting agenda.</li> </ul>
<p><b><u>Audit Committees (RM-G2)</u></b> Australian Government, Department of Finance</p>	<p>Provides a list of professional peak bodies Councils could contact to source ARIC members.</p>
<p><b><u>Chairing an Audit Committee</u></b> KPMG</p>	<p>Provides information about the role of ARIC Chairs, particularly in relation to:</p> <ul style="list-style-type: none"> <li>▶ leadership, and</li> <li>▶ managing the work of ARIC members.</li> </ul>
<p><b><u>Dealing with Corruption, Fraud and the ICAC: the role of public sector Audit and Risk Committees</u></b> Independent Commission Against Corruption (2020)</p>	<p>Provides information about the role of ARICs and risk management in relation to fraud and corruption.</p>
<p><b><u>Establishing a skills-based audit committee</u></b> Institute of Internal Auditors-Australia (2020)</p>	<p>Provides an analysis matrix template to assess the skills mix of an ARIC when appointing Committee Members.</p>
<p><b><u>Guide for Audit &amp; Risk Committees: Understanding Financial Statements</u></b> NSW Treasury (2017)</p>	<p>Provides information on activities ARIC can undertake when reviewing financial statements.</p>
<p><b><u>How can audit committee members add value?</u></b> Price Waterhouse Coopers (2011)</p>	<p>Provides a checklist for measuring the performance of ARICs.</p>
<p><b><u>Setting up the Audit Committee</u></b> Price Waterhouse Coopers (2011)</p>	<p>Provides information on:</p> <ul style="list-style-type: none"> <li>▶ how a Council might assess the financial literacy of an ARIC member, and</li> <li>▶ best practice for inducting new Committee Members.</li> </ul>

<p><b><u>Internal Audit and Risk Management Policy for the General Government Sector (TPP-20-08)</u></b> NSW Treasury (2020)</p>	<p>Provides information on the NSW public sector risk management and internal audit policy, including:</p> <ul style="list-style-type: none"> <li>▶ the operation of shared ARICs in the NSW public sector</li> <li>▶ matters to consider when deciding whether to enter into a shared arrangement, and</li> <li>▶ recommended content for shared use agreements</li> </ul>
<p><b><u>Public Sector Audit Committees: Independent assurance and advice for Accountable Authorities</u></b> Australian National Audit Office (2015)</p>	<p>Provides information about the role and functions of ARICs, including:</p> <ul style="list-style-type: none"> <li>▶ member roles and responsibilities</li> <li>▶ how to foster good relationships between Council and Committee, and</li> <li>▶ checklists for:             <ul style="list-style-type: none"> <li>▪ secretariat actions</li> <li>▪ planning forward meeting agendas, and</li> <li>▪ assessing the performance of members</li> </ul> </li> </ul>
<p><b><u>Service Delivery Review: A how to manual for local government (second edition)</u></b> Australian Centre of Excellence for Local Government (2015)</p>	<p>Outlines the factors Councils and ARICs may consider when reviewing service delivery by Council.</p>
<p><b><u>The Role of the Audit Committee Chair</u></b> KPMG (2019)</p>	<p>Provides information on the role of ARIC Chairs, particularly in relation to:</p> <ul style="list-style-type: none"> <li>▶ running Committee meetings, and</li> <li>▶ overseeing risk management.</li> </ul>

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## INTERNAL AUDIT

The following resources may be useful to councils seeking more information about the establishment and operation of their internal audit function.

This is not an exhaustive list but provides a useful starting point for councils seeking to better understand internal audit, how it can be used by councils to improve performance, and practical tools, examples and templates to adapt for their own use.

<p><b><u>International Professional Practices Framework (mandatory guidance)</u></b> Institute of Internal Auditors (2017)</p>	<p>Outlines the mandatory requirements for undertaking internal auditing under the International Professional Practices Framework. Consists of four parts:</p> <ul style="list-style-type: none"> <li>▶ Core Principles for the Professional Practice of Internal Auditing</li> <li>▶ Definition of Internal Auditing</li> <li>▶ Code of Ethics, and</li> <li>▶ International Standards for the Professional Practice of Internal Auditing</li> </ul>
<p><b><u>International Professional Practices Framework (recommended guidance)</u></b> Institute of Internal Auditors (2017)</p>	<p>Provides detailed guidance on how to implement the International Professional Practice Framework. Consists of two parts:</p> <ul style="list-style-type: none"> <li>▶ Implementation Guide – assists an internal audit function to apply the standards and understand how compliance will be measured by the ARIC, and</li> <li>▶ Supplemental Guide (Practice Guides) – provides detailed processes and procedures for the internal audit function.</li> </ul>
<p><b><u>How can audit Committee Members add value?</u></b> Price Waterhouse Coopers (2011)</p>	<p>Provides a checklist for measuring the performance of an internal audit function.</p>
<p><b><u>Internal Audit in Australia</u></b> Institute of Internal Auditors Australia (2016)</p>	<p>Provides an overview of the role of internal audit and the internal audit function, including:</p> <ul style="list-style-type: none"> <li>▶ the different types of work plans that can be used to guide internal audit activity</li> <li>▶ the skills, knowledge, experience and qualifications/certifications required of internal auditors</li> <li>▶ performing, reporting and monitoring internal audits, and</li> <li>▶ how to review the performance of an internal audit function, including performance measures that could be used</li> </ul>
<p><b><u>Practice Guide – Talent Management: Recruiting, Developing, Motivating and Retaining Great Team Members</u></b> Institute of Internal Auditors (2015)</p>	<p>Provides guidance on how to establish an effective internal audit team (for purchase from the Institute of Internal Auditors).</p>
<p><b><u>Quality Assessment Manual for the Internal Audit Activity</u></b> Institute of Internal Auditors (2017)</p>	<p>Outlines how the performance of Council's internal audit function can be assessed both internally and externally against the International Professional Practices Framework.</p>

## RISK MANAGEMENT

The following resources may be useful to councils seeking more information about the establishment and operation of their risk management framework. They provide examples, checklists, samples, templates and other practical tools councils could use.

This is not an exhaustive list but provides a useful starting point for councils that seek further information.

<p><b><u>A Guide to Risk Management</u></b> The State of Queensland (Queensland Treasury) (2020)</p>	<p>Provides guidance on how to apply the Australian risk management standard, including checklists for each stage of the risk management process.</p>
<p><b><u>AS ISO 31000:2018 Risk Management</u></b> Guidelines – International Standards Organisation (2018)</p>	<p>The current Australian risk management standard at the time of printing (for purchase from the International Standards Organisation)</p>
<p><b><u>Audit Committee Guidelines – Improving Accountability and Performance</u></b> The State of Queensland (Queensland Treasury and Trade) (2012)</p>	<p>Provides checklists of the matters ARICs are to consider when reviewing a Council's Risk Management Framework and internal controls.</p>
<p><b><u>Dealing with Corruption, Fraud and the ICAC: the role of public sector Audit and Risk Committees</u></b> Independent Commission Against Corruption (2020)</p>	<p>Provides information about the role of risk management in relation to fraud and corruption.</p>
<p><b><u>Risk Management Toolkit for Public Sector Agencies (TPP 12-03)</u></b> NSW Treasury (2012)</p>	<p>Consists of three parts:</p> <ul style="list-style-type: none"> <li>▶ Executive Guide (TPP 12-03a)</li> <li>▶ Volume 1 – Guidance for Agencies (TPP 12-03b), and</li> <li>▶ Volume 2 – Templates, Examples &amp; Case Study (TPP 12-03c).</li> </ul> <p>Provides detailed and practical advice on the various elements of the Australian risk management standards (ISO 31000), templates and worked examples.</p>
<p><b><u>The Three Lines of Defense in Effective Risk Management and Control</u></b> Institute of Internal Auditors (2013)</p>	<p>Outlines the three lines of defence approach to risk management and the role of management and internal audit in risk management.</p>
<p><b><u>The Role of Internal Auditing in Enterprise-Wide Risk Management</u></b> Institute of Internal Auditors</p>	<p>Outlines what enterprise risk management is, how it can be implemented and the role of internal audit in risk management.</p>
<p><b><u>Victorian Government Risk Management Framework Practice Guide</u></b> Victorian Managed Insurance Agency</p>	<p>Provides guidance on how to apply the Australian risk management standard, including examples of a risk appetite/criteria statement.</p>