

19 December 2019

Council Governance Team
Office of Local Government
Locked Bag 3015
Nowra, NSW 2541

Submission via olg@olg.nsw.gov.au

Dear Council Governance Team

Submission on Discussion Paper: A New Risk Management and Internal Audit Framework for Local Councils in NSW

Thank you for the opportunity to comment on the above discussion paper.

We support the NSW government in its work to ensure that it has the most robust and effective risk management and internal audit framework for local government possible. We agree that equipping local councils to effectively manage risk is essential if local government is to responsibly serve its stakeholders in an efficient and effective manner.

We therefore welcome the proposed framework guiding the establishment of independent Audit Risk and Improvement Committees (ARIC) with wide ranging oversight of the governance, service delivery and risk management activities of NSW local government. We highlighted the need for these committees as a key line of defence in managing the risks associated with fraud, misconduct and financial management that face all Australians in our recent [submission](#) to the Parliamentary Joint Inquiry into the Regulation of Auditing in Australia. This document contains a 15-point plan for addressing audit and risk within the Australian environment (our 15-point plan).

We also agree that the establishment of detailed risk management, internal audit and quality assurance functions, overseen by this committee are important additional lines of defence that will enable these ARIC's to operate effectively. However, the costs and benefits of these defences do need to be carefully weighed and so we support the recognition that councils can share their internal audit arrangements, reflecting both the costs of these reforms and lack of skilled personnel that may be available state wide, particularly in rural and regional areas.

From our review of the consultation paper the proposed framework:

- Offers an integrated approach to risk management within the council structure that reflects best practice governance and clearly identifies risk management roles for various participants (management, general manager, internal audit, audit and risk committee and external audit) within the council governance structure (see point 6 of our 15-point plan).
- Emphasises the importance of accountability for managing the internal control and risk management processes via the establishment of a separate internal audit function, overseen by the audit and risk committee (see point 7 of our 15-point plan).
- Has clear accountability and reporting lines for dealing with risk (see point 9 of our 15-point plan).

- Provides clear guidance on the role and remit of the audit and risk committee, providing a scope that addresses key issues (such as appointment, scope, independence, reporting and the required skillsets for its members) (see point 12 of our 15-point plan).

Accordingly, we consider that the new guidelines will be of considerable assistance in achieving the outcomes sought by these reforms.

In forming these views, we have identified three areas where we feel the framework could benefit from further improvement as follows:


- We note that one of the specific skills identified for the collective knowledge skills and experience of the committee (page 38 of the discussion paper) is accounting and financial management experience (with knowledge of relevant accounting and auditing standards). We support this specific inclusion but would also recommend that consideration be given to also requiring that councils ensure the committee has adequate expertise to deal with current challenges in internal control such as cyber security, fraud detection and digital reporting.
- We recommend that the framework provide more clarity around the use of the term 'assurance'. Such clarity is needed to ensure that the expectations for, and work of, the internal auditor and the ARIC are clearly anchored into the relevant professional standards and legislative requirements that are appropriate. This will be important because members of the ARIC could be drawn from professionals specialising in either internal audit or external audit both within and outside the public sector. To this end the Federal Government Department of Finance Circular [Clarification of the terms 'Audit' and 'Assurance'](#) (RMG 210) may be of assistance.
- We also recommend that the Framework clarify its relationship with the Local Government Act 2016. For example Core Requirement 1 titled 'Appoint an ARIC' begins with "It is proposed that each council... is to have an independent ARIC" when in fact this is not a proposal but a legislated requirement under Section 428A(1) that is not yet mandatory. The remainder of the Core Requirement discusses the actual operation of this committee and so modification of the title and the opening bullet of this requirement would assist in providing the needed clarity.

We note that our members are likely to have the skillsets required to be members of these new committees, or be appointed to other roles, under this new framework. Accordingly, we would be happy to assist with any communication about the implementation of these reforms and the search for suitable qualified candidates, particularly in rural and regional areas where we understand most implementation is yet to occur.

We also draw your attention to our recent report [Steadying the Tiller](#), which examines the role of audit committees in the private sector in both the UK, Australia and New Zealand from the perspective of the audit committee chair. The report identifies, on page 7, several key challenges currently facing these committees which relate to difficulties being encountered in sourcing suitably skilled personnel to adequately address the breadth of activities being overseen as well as some of the practical challenges facing audit committee chairs themselves. These findings are worthy of consideration as the framework is finalised and the report itself could be a useful resource for councils as their implementation journey for these committees progresses or begins.

The Appendix provides information about Chartered Accountants Australia and New Zealand (CA ANZ). If you have any questions about our submission, please contact Amir Ghandar, Reporting and Assurance Leader at amir.ghandar@charteredaccountantsanz.com.

Yours sincerely



Simon Grant FCA
Group Executive, Advocacy and Professional Standing



Amir Ghandar FCA
Leader, Reporting and Assurance

Appendix: About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 125,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live.

Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations. We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 13 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues. We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.