



December 2019

Office of Local Government
Locked Bag 3015
NOWRA NSW 2541

By email: olg@olg.nsw.gov.au

Dear Mr Hurst

Submission - A New Risk Management and Internal Audit Framework - Discussion Paper

The *Local Government Act 1993* was amended in August 2016 to require each council and joint organisation in NSW to appoint an audit, risk and improvement committee (ARIC).

Byron Shire Council (Council) established an Audit, Risk and Improvement Committee (ARIC) in 2009 (originally named the Internal Audit Committee) with the objective to provide professional, independent advice and assistance to Council in assessing the organisation's audit, compliance, risk and improvement performance. The current [constitution](#) is available for your information.

Council has considered the discussion paper 'A New Risk Management and Internal Audit Framework' and in consultation with the Executive Team, the Audit Risk and Improvement Committee, and Councillors, wishes to make a submission requesting that the Office of Local Government consider the following points.

Will the proposed framework achieve the outcomes sought?

The proposed framework will assist Council in improving the effectiveness of its internal audit and risk management framework, noting that Council already has a number of measures in place.

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

Acknowledging the intent of the proposed requirement for independent members, Council suggests that this requirement would not only be challenging to implement in terms of sourcing suitable members that meet the independence and prequalification requirements but that the requirement for a limited term would potentially further limit available participants.



In Council's experience, Councillors play a valuable role on ARIC which provides them with opportunities to understand the audit and risk process and monitor outcomes. Council believes that to lose this opportunity would be detrimental to effective governance.

Council currently has a 1:1 ratio of independent members and Councillors (being three of each) and suggests that this balance provides a suitable solution to ensure the integrity of the committee.

Further challenges raised by the proposed model that have been identified include the ambiguity between the roles, responsibilities, and authority of the administration, the elected body, and ARIC. For example, what is the process if Council rejects recommendations from the ARIC? There is a risk that this ambiguity could cause some tasks to be at best duplicated, and at worst, overlooked.

Does the proposed framework include all important elements of an effective internal audit and risk framework?

Council considers the proposed framework covers the important elements of an effective internal audit and risk management framework.

Is there anything you don't like about the proposed framework?

Overall Council is supportive of the proposed framework and is on track to meet the requirements within the proposed timeframes. Council does however, request that further consideration be given to the prescribed membership requirements of Audit, Risk & Improvement Committees so that, within an overarching framework, councils can have some flexibility to establish membership guidelines that are suitable to their location, organisation and operations.

Council also has concerns with the proposed extension of functions of Audit Risk & Improvement Committees, noting that the full scope is very broad and may prove unmanageable in terms of the amount of work the ARIC is realistically able to cover.

Council already has established mechanisms to monitor financial management. ARIC already considers the statutory audit of annual financial statements including systems audits during interim visits, together with internal audit reports, and reports from the Australasian Local Government Performance Excellence Program (performance benchmarking). Further involvement in financial management and Integrated Planning and Reporting could potentially give rise to conflicts between the role of ARIC and Council.

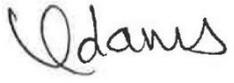
Can you suggest improvements to the proposed framework?

Council submits that consideration should be given to creating a sliding scale for payment of fees to ARIC members during the transition phase, commensurate with the actual functions performed.

There is an expectation that the role of the ARIC will expand over time to cover a range of functions with full compliance achieved by 2026 but there is no differentiation in the fees between an established ARIC that is or will be fully compliant ahead of the proposed timelines and an ARIC that has a limited focus whilst that council is developing its internal functions in line with its resources and capabilities.

Please contact me on 02 6626 7122 or vadams@byron.nsw.gov.au if you require any further information.

Yours sincerely

A handwritten signature in black ink that reads "Vanessa Adams". The signature is written in a cursive style with a large, looped initial 'V'.

Vanessa Adams
Director Corporate and Community Services