

## Relevant Information for Council

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**FILE:** S083523 **DATE:** 20 October 2023

**TO:** Lord Mayor and Councillors

**FROM:** Kirsten Morrin, Director Legal and Governance

**THROUGH:** Monica Barone, Chief Executive Officer

**SUBJECT:** Information Relevant To Item 6.4 – Audit Risk and Compliance Committee Annual Report to Council 2022/23

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### Alternative Recommendation

It is resolved that Council:

- (A) note the Audit Risk and Compliance Committee's 2022/23 Annual Report, as shown as Attachment A to the subject report;
- (B) ***appoint Councillor Robert Kok to participate in the interview process and preparation of recommendations to Council for the appointment of new external members to the Audit, Risk and Compliance Committee; and***
- (C) ***note that the interview panel will consist of the Chair of the Audit, Risk and Compliance Committee, a Councillor representative and the Chief Financial Officer.***

Additions shown in ***bold italics***.

### Purpose

To provide an Alternative Recommendation which appoints a Councillor representative to the interview process and preparation of recommendations to Council for the appointment of new external members to the Audit, Risk and Compliance Committee.

## **Background**

At the Corporate, Properties, Finance and Tenders Committee on 16 October 2023, further information was sought on whether Councillors were involved in the selection process currently underway to appoint a new member to the Audit, Risk and Compliance Committee.

The process is currently being undertaken in accordance with the 26 June 2023 Resolution of Council, which delegated authority to the Chair of the Audit, Risk and Compliance Committee, in conjunction with the Chief Executive Officer, to undertake a recruitment process for independent members by way of a public expression of interest process.

The expression of interest process was open between 22 September 2023 and 8 October 2023 on the City's website with advertising on the Institute of Internal Auditors job board, Sydney Morning Herald, and the Australian Financial Review. The expression of interest was also promoted through Council's newsletter and social media channels.

Applications are currently under review. In accordance with the 26 June 2023 Resolution of Council, the Chair of the Audit, Risk and Compliance Committee was proposing to undertake interviews with shortlisted candidates with members of the Executive. As noted in the 26 June 2023 Resolution of Council, a future report will be put to Council for endorsement in relation to the appointment of the new external member.

Under the current draft guidelines, the Chair is required to lead the recruitment of new independent members to the Audit, Risk and Compliance Committee with appointments to be by way of resolution of the governing body.

The Chair of the Audit, Risk and Compliance Committee, in response to the suggestions of councillors, is happy to include a Councillor representative in the interview process. It is recommended by the Chair that the one of the Councillor members of the Audit, Risk and Compliance Committee be the representative as they are familiar with the operation of the Committee.

It is recommended by the Chair that the Chief Financial Officer be involved in the interview process as there is a requirement for the external member to be recruited through the current process to hold financial qualifications.

Should the Alternative Recommendation be endorsed by Council, the Chair of the Audit, Risk and Compliance Committee will liaise with the Councillor members of the Committee to determine their availability to participate in the interview process and preparation of recommendations to Council for the appointment of new external members to the Audit, Risk and Compliance Committee, noting that a vacancy will arise from 30 November 2023.

## **Memo from Kirsten Morrin, Director Legal and Governance**

### **Attachments**

**Attachment A.** CEO MEMO 4.1 – 26.06.23 - Audit Risk and Compliance Committee Independent Expert Recruitment

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Approved

P. M. Barone

**MONICA BARONE**

Chief Executive Officer

# **Attachment A**

**CEO Memo 4.1 – 26.06.23 – Audit Risk and  
Compliance Committee Independent Expert  
Recruitment**

## Resolution of Council

**26 June 2023**

### **Item 4.1**

#### **Audit Risk and Compliance Committee Independent Expert Recruitment**

##### **Memorandum by the Chief Executive Officer**

To Council:

The Office of Local Government published the Draft Guidelines for Risk Management and Internal Audit in Local Government in NSW (the "Draft Guidelines") in December 2022. Council have been advised that compliance with these Draft Guidelines is required by 1 July 2024. The Draft Guidelines have not yet been finalised pending the making of empowering regulations. The Office of Local Government is not able to advise when these regulations will be made.

One of the independent members of the City's Audit, Risk and Compliance Committee will complete their term of appointment to the Committee in November 2023.

In consultation with the Chair of the Audit, Risk and Compliance Committee, it is recommended that Council endorse updated position descriptions which reflect the requirements of the Draft Guidelines. This will enable the conduct of an expression of interest process to identify appropriate candidates for new independent members. This process will be conducted by the Chair of the Audit, Risk and Compliance Committee in conjunction with the Chief Executive Officer in accordance with the requirements of the Draft Guidelines. The recommended appointments will be reported back to Council for endorsement in accordance with the Draft Guidelines.

Following the resignation of Jess Scully from Council in April 2023, Council is required to appoint a new Council representative on the Audit, Risk and Compliance Committee.

Once the regulations are made and the Draft Guidelines are finalised, staff will submit an updated Audit Risk and Compliance Committee Charter for Council endorsement.

**MONICA BARONE**

Chief Executive Officer

Moved by the Chair (the Lord Mayor), seconded by Councillor Davis –

It is resolved that:

- (A) Council endorse the draft position descriptions for independent members and independent chairs as shown at Attachment A to the subject memorandum, for the purposes of enabling the conduct of a public expression of interest process;
- (B) authority be delegated to the Chair of the Audit, Risk and Compliance Committee, in conjunction with the Chief Executive Officer, to undertake a recruitment process for independent members in accordance with the draft position descriptions, by way of a public expression of interest process;
- (C) Council note that recommendations in relation to the appointment of new members of the Audit, Risk and Compliance Committee will be the subject of a future report to Council for endorsement; and
- (D) Council appoint Councillor Robert Kok as Council's representative on the Audit, Risk and Compliance Committee.

Carried unanimously.

S083523

# **Attachment A**

**Draft Position Descriptions – Audit Risk  
and Compliance Committee**

## Position Description (Audit Risk and Compliance Committee) **Independent Chairperson**

<b>Division</b>	N/A
<b>Business Unit</b>	N/A
<b>Management Level</b>	N/A
<b>Grade/Band</b>	N/A
<b>Date position description approved</b>	XXXXXXX

### **Committee overview**

The City of Sydney Council has established an audit, risk and improvement committee (referred to as the Audit Risk and Compliance Committee or the ARCC) in compliance with section 428A of the *Local Government Act 1993*, section (#1bc) of the *Local Government (General) Regulation 2021* and the Departmental Chief Executive's *Guidelines for risk management and Internal Audit for local government in NSW*. These terms of reference set out the ARCC's objectives, authority, composition and tenure, roles and responsibilities, reporting and administrative arrangements.

The ARCC is independent to ensure it has no real or perceived bias or conflicts of interest that may interfere with its ability to act independently and to provide the Council with robust, objective and unbiased advice and assurance.

The ARCC has an advisory and assurance role only and exercises no administrative functions, delegated financial responsibilities or any management functions. The ARCC provides independent advice to the Council that is informed by the Council's internal audit and risk management activities and information and advice provided by staff, relevant external bodies and subject matter experts.

The ARCC must always ensure it maintains a direct reporting line to and from the Council's internal audit function and act as a mechanism for Internal Audit to report to the Council and the Chief Executive Officer on matters affecting the performance of the internal audit function.

### **Committee objective**

The objective of the ARCC is to provide independent assurance to the Council by monitoring, reviewing and providing advice about the Council's governance processes, compliance, risk management and control frameworks, external accountability obligations and overall performance.



## Independence requirements for independent chairperson

The ARCC chair must be independent to ensure there are no real or perceived bias or conflicts of interest that may interfere with their ability to act independently and can provide the council with robust, objective, and unbiased advice about how the council is functioning.

ARCC independent chair **cannot**:

- 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 the council
- be a person who has held office in the council during its previous term
- be currently employed by the council or joint organisation, or been employed during the last 12 months
- conduct audits of the 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 the 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 the council which directly affect subjects or issues considered by the ARCC
- 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 the 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 the council or a related entity which could be considered a real or perceived conflict of interest.

Current staff of the City of Sydney Council cannot serve as the chair of the ARCC, but may serve as an independent member of another council's ARIC, provided they meet the independence and eligibility criteria for membership of that council's ARIC, and the City is not participating in a shared arrangement with the other council in relation to that ARIC or the internal audit function.

## Eligibility requirements for all independent ARCC members, including the chairperson

As any independent member could be appointed by the council as the ARCC chairperson, in addition to meeting the independence requirements set out above, the following eligibility criteria apply to all independent members of the ARCC, including the chairperson.

The chair of the ARCC must possess the skills, knowledge, and experience necessary to undertake the role on the ARCC effectively and to ensure the ARCC is able to operate appropriately and effectively to support the council. The following eligibility criteria for the independent chairperson reflects the minimum standards that must be met for appointment.

## ***Essential criteria***

The chairperson of the ARCC, 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 head of the council's internal audit function, 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 the council or the environment in which it operates
  - internal audit operations, including selection and review of the head of the council's internal audit function, 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,
- 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, with at least one member having advanced skills in accounting and finance
- 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 the ARCC, and
- preparedness to undertake any training on the operation of the ARCC recommended by the chair based on their assessment of the skills, knowledge, and experience of the independent member.

## ***Desirable criteria***

All independent members of the ARCC, including the chairperson, 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).

**Note: Councils are required to undertake a criminal record and financial status (bankruptcy) check of all ARCC independent members before their appointment.**

### **Appointment of ARCC independent members, including the chairperson**

When selecting ARCC members, including the chairperson, the council should ensure the ARCC has an appropriate mix of skills, knowledge, and experience to successfully implement its terms of reference and add value.

An ARCC 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
  - internal audit, and
  - any specialised business operations of the council, where the ARCC would benefit from having a member with skills or experience in this area.

All ARCC members, including the chairperson, should have sufficient understanding of the council's financial reporting responsibilities to be able to contribute to the ARCC's consideration of the annual financial statements.

## Position Description (Audit Risk and Compliance Committee) **Independent Member**

<b>Division</b>	N/A
<b>Business Unit</b>	N/A
<b>Management Level</b>	N/A
<b>Grade/Band</b>	N/A
<b>Date position description approved</b>	XXXXXXX

### **Committee overview**

The City of Sydney Council has established an audit, risk and improvement committee (referred to as the Audit Risk and Compliance Committee or the ARCC) in compliance with section 428A of the *Local Government Act 1993*, section (#1bc) of the *Local Government (General) Regulation 2021* and the Departmental Chief Executive’s *Guidelines for risk management and Internal Audit for local government in NSW*. These terms of reference set out the ARCC’s objectives, authority, composition and tenure, roles and responsibilities, reporting and administrative arrangements.

The ARCC is independent to ensure it has no real or perceived bias or conflicts of interest that may interfere with its ability to act independently and to provide the Council with robust, objective and unbiased advice and assurance.

The ARCC is to have an advisory and assurance role only and is to exercise no administrative functions, delegated financial responsibilities or any management functions. The ARCC will provide independent advice to the Council that is informed by the Council’s internal audit and risk management activities and information and advice provided by staff, relevant external bodies and subject matter experts.

The ARCC must always ensure it maintains a direct reporting line to and from the Council’s internal audit function and act as a mechanism for Internal Audit to report to the Council and the Chief Executive Officer on matters affecting the performance of the internal audit function.

### **Committee objective**

The objective of the ARCC is to provide independent assurance to the council by monitoring, reviewing and providing advice about the Council’s governance processes, compliance, risk management and control frameworks, external accountability obligations and overall performance.

## Independence requirements for all independent members

ARCC independent members 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 the council with robust, objective, and unbiased advice about how the council is functioning.

ARCC independent members **cannot**:

- 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 the council
- be a person who has held office in the council during its previous term
- be currently employed by the council or joint organisation, or been employed during the last 12 months
- conduct audits of the 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 the 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 the council which directly affect subjects or issues considered by the ARCC
- 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 the council or a related entity which could be considered a real or perceived conflict of interest, or
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## Eligibility requirements for all independent ARCC members

As any independent member could be appointed by the council as the ARCC chair, in addition to meeting the independence requirements set out above, the following eligibility criteria apply to all independent members of the ARCC.

The chair and independent members of the ARCC must possess the skills, knowledge, and experience necessary to undertake their roles on the ARCC effectively and to ensure the ARCC is able to operate appropriately and effectively to support the council. The following eligibility criteria for all independent members reflect the minimum standards that must be met for appointment as the chair or independent member of the ARCC.

## ***Essential criteria***

All independent members of the ARCC must demonstrate the following:

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