

Item 3.

Audit, Risk and Compliance Committee Annual Report to Council 2023/24 and Audit Risk and Compliance Committee - Membership, Terms of Reference, Internal Audit Charter, Strategic Work Plan and Risk Appetite Statement

File No: S083523

Summary

In December 2023 the Local Government (General) Amendment (Audit, Risk, and Improvement Committees) Regulation 2023 was made under the Local Government Act 1993. The NSW Office of Local Government (OLG) also issued their guidelines to councils.

These guidelines articulate clear principles and specific core requirements for Audit Risk and Compliance Committees, internal audit and risk management functions. The requirements align with *the Institute of Internal Auditors' International Professional Practices Framework* (IPPF or the standards). This report advises the Council of newly established requirements for the Audit Risk and Compliance Committee (ARCC) and tables various reports and associated documents for the Council's adoption. These are:

- Audit Risk and Compliance Committee Annual Report to Council 2023/24
- Audit Risk and Compliance Committee Strategic Work Plan 2024-2028
- Audit Risk and Compliance Committee Terms of Reference
- Internal Audit Charter
- Recommendations for the appointment of additional external independent members for the Audit Risk and Compliance Committee
- Risk appetite statement

Additionally, under the Local Government (General) Regulation 2021 s 216C Council may appoint one councillor, who must not be the Lord Mayor, to the Audit Risk and Compliance Committee.

Recommendation

It is resolved that:

- (A) Council note the Audit Risk and Compliance Committee's 2023/24 Annual Report as shown at Attachment A to the subject report;
- (B) Council approve the Audit Risk and Compliance Committee's Strategic Work Plan 2024 - 2028 as shown at Attachment B to the subject report;
- (C) Council approve the Audit Risk and Compliance Committee's Terms of Reference at Attachment C to the subject report;
- (D) Council approve the Internal Audit Charter as shown at Attachment D to the subject report;
- (E) Council adopt the Risk Appetite Statement as shown at Attachment E to the subject report; and
- (F) Council approve the appointment of Rosemary Milkins and Robert Lagaida as additional independent members for the Audit Risk and Compliance Committee for a four year period commencing from 1 December 2024; and
- (G) Council appoint Councillor _____ as the council representative member to the Audit Risk and Compliance Committee for a period of four years.

Attachments

- Attachment A.** Audit Risk and Compliance Committee (ARCC) Annual Report to Council 2023/24
- Attachment B.** Audit Risk and Compliance Committee - Strategic Work Plan 2024 - 2028
- Attachment C.** Audit Risk and Compliance Committee - Terms of Reference
- Attachment D.** Internal Audit Charter
- Attachment E.** Risk Appetite Statement
- Attachment F.** CVs of Recommended Additional Members for the Audit Risk and Compliance Committee

Background

1. The primary objectives of the Audit Risk and Compliance Committee (ARCC) are to:
 - (a) assist the Council in discharging its responsibilities in relation to:
 - (i) financial reporting practices;
 - (ii) business ethics, policies and practices;
 - (iii) accounting policies;
 - (iv) risk management and internal controls; and
 - (v) compliance with laws, regulations, standards and best practice guidelines; and
 - (b) ensure the integrity of the internal audit function.
2. The council authorises the Audit Risk and Compliance Committee, within the scope of its role and responsibilities, to:
 - (a) obtain any information it needs from any employee or external party (subject to their legal obligations to protect information);
 - (b) discuss any matters with the external auditor or other external parties;
 - (c) request the attendance of any employee or councillor at ARCC meetings; and
 - (d) subject to confidentiality considerations, obtain external legal or other professional advice considered necessary to meeting its obligations.
3. In December 2023, the Local Government (General) Amendment (Audit, Risk and Improvement Committees) Regulation 2023 was made under the Local Government Act 1993 (the "Act"). These provisions are now in force as part of the Local Government (General) Regulation 2021 (the "Regulation"). The Office of Local Government has also published the Guidelines for Risk Management and Internal Audit (the "guidelines") under s 23A of the Act.
4. The guidelines require each council in NSW to have:
 - (a) an audit, risk and improvement committee that continuously reviews and provides independent advice to the council on how it is functioning and managing risk;
 - (b) a robust risk management framework that accurately identifies and mitigates the risks facing the council and its operations; and
 - (c) an effective internal audit function that provides independent advice as to whether the council is functioning effectively and the council's internal controls to manage risk are working.
5. Additionally, the guidelines articulate clear principles and specific core requirements that align with the Institute of Internal Auditors International Profession Practices Framework (IPPF or the standards) for internal audit functions.

6. The guidelines clarify roles and responsibilities across risk management and internal audit, promote efficient and effective oversight arrangements, and streamline attestation requirements.
7. This report presents for Council's adoption several documents which are required to be adopted by Council under the Act, Regulation or guidelines.

Audit Risk and Compliance Committee Annual Report to Council 2023/24

8. The Audit Risk and Compliance Committee is required by its previous charter and the new Office of Local Government Model Terms of Reference to report annually to the council. This report (Attachment A) covers 1 July 2023 to 30 June 2024.

Audit Risk and Compliance Committee Strategic Work Plan 2024 - 2028

9. The Audit Risk and Compliance Committee Strategic Work Plan is at Attachment B to this report. The Strategic Work Plan has been developed under the guidelines, which require the Audit Risk and Compliance Committee to develop a strategic work plan every four years to ensure all matters listed in section 428A of the Local Government Act 1993 are reviewed by the Audit Risk and Compliance Committee and considered by the Internal Audit unit when developing their risk-based program of internal audits.
10. The Audit Risk and Compliance Committee Strategic Work Plan 2024-2028 was developed by the Audit Risk and Compliance Committee in consultation with the Council, the Chief Executive Officer, the Chief Internal Auditor, and senior managers (where appropriate) and is to be tabled for adopted by the Council at the start of the Council term.
11. The nature of the Audit Risk and Compliance Committee Strategic Work Plan is commensurate with the size and operational complexity of the Council and its risk profile and consistent with the requirements of the *Institute of Internal Auditors' International Professional Practices Framework* (IPPF or the standards). It contains:
 - the goals and expected outcomes of the ARCC for the council term;
 - key organisational issues and risks faced by the Council and how the ARCC will review these; and
 - key performance indicators to measure progress across the Council term.
12. When developing the Audit Risk and Compliance Committee Strategic Work Plan for the Council, the Audit Risk and Compliance Committee considered these points:
 - the Council's strategic objectives;
 - risks facing the Council;
 - the work of other review activities or functions (e.g., external and performance audits, and reviews or audits by other government agencies);
 - an assurance map of the Council's assurance activities which may assist to determine where the Audit Risk and Compliance Committee's and the Internal Audit unit should focus; and
 - stakeholder expectations.

13. There is also sufficient flexibility in the Audit Risk and Compliance Committee Strategic Work Plan to accommodate the need for additional audits on emerging risks from time to time.
14. The Audit Risk and Compliance Committee may, in consultation with the Council, vary its strategic work plan at any time to address new or emerging risks.
15. The Council may also, by resolution, request the Audit Risk and Compliance Committee to approve a variation to the strategic work plan. However, any decision to vary its strategic work plan rests with the Audit Risk and Compliance Committee. When considering whether to vary its strategic work plan, the Audit Risk and Compliance Committee must consider the impact of the variation on the Internal Audit unit's existing workload and the completion of pre-existing priorities and activities already identified. This strategic work plan meets these requirements.
16. The Audit Risk and Compliance Committee Strategic Work Plan incorporates:
 - objectives and purpose;
 - Audit Risk and Compliance Committee responsibilities and meeting planner;
 - Checklist of requirements for end-of-council term reporting; and
 - Four-Year Internal Audit strategic work plan.
17. The Audit Risk and Compliance Committee must review its Strategic Work Plan at least annually to ensure it is dynamic, relevant, and aligns with the council's risk profile.

Audit Risk and Compliance Committee Terms of Reference

18. Although the Audit Risk and Compliance Committee has had a charter in place for many years, based on NSW Treasury's TPP 09-05, in accordance with the guidelines it is recommended that Council adopt the Office of Local Government's model terms of reference with only minor additions or amendments. All additions to the terms of reference are consistent with the guidelines and for the most part represent additional details such as timeframe, etc. These updated terms of reference have been endorsed by the Audit Risk and Compliance Committee.
19. The new proposed Audit Risk and Compliance Committee terms of reference are at Attachment C to this report. These new terms of reference will replace the existing Audit Risk and Compliance Committee Charter.
20. The key additional provisions over and above the Office of Local Government model terms of reference are as follows:
 - that expenditure by the Audit Risk and Compliance Committee on external legal or other legal fees be with the prior approval of the Chief Executive Officer, reflecting that Audit Risk and Compliance Committee is not able to vote expenditure on behalf of Council;
 - that current committee members be listed on the City's website;

- that provision be included to enable up to two additional Audit Risk and Compliance Committee independent members to be appointed from time to time. This is consistent with the guidelines' requirement for a minimum of three independent members (including the chair). This will enable the City to better stage and transition the current membership arrangements over the next year as the terms of both the chair and one independent member will come to an end on 30 June 2025.
- a provision confirming the Audit Risk and Compliance Committee can meet in-camera to discuss specific issues if required.

Internal Audit Charter

21. Although the Internal Audit unit has had a charter in place for many years, based on NSW Treasury's TPP 09-05 and the Office of Local Government's Model Charter for Audit 2010, we have entirely adopted the Internal Audit model charter published with the guidelines with only minor additions. The new Internal Audit Charter is at Attachment D to this report. All additions to the charter are consistent with the guidelines. This proposed Internal Audit Charter has been endorsed by the Audit Risk and Compliance Committee.
22. The Office of Local Government's guidelines seek to articulate clear principles and specific core requirements that align with the *Institute of Internal Auditors' International Professional Practices Framework* (IPPF or the standards) for internal audit functions as updated, clarify roles and responsibilities across internal audit, and promote efficient and effective oversight arrangements.

Risk appetite statement

23. The Guidelines also require the Council to have a risk appetite statement endorsed by the Audit Risk and Compliance Committee and adopted by the Council.
24. The Risk Appetite Statement is a central part of the City's risk management framework. It describes the amount of risk the Council is willing to accept in pursuit of its goals and as such, is designed to guide actions and decision-making across the organisation.
25. The Risk Appetite Statement has been endorsed by the Audit Risk and Compliance Committee and is presented to Council at Attachment E for adoption.

Appointment of additional external independent members for the Audit Risk and Compliance Committee

26. On 26 June 2023, Council endorsed updated position descriptions which reflect the requirements of the (then) draft guidelines to enable an expression of interest process to identify appropriate candidates for the role of independent members. Authority was delegated to the chair of the Audit Risk and Compliance Committee in conjunction with the Chief Executive Officer to conduct the expression of interest and recruitment process.
27. On 23 October 2023, Council appointed the 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.

28. A call for expressions of interest was advertised in mainstream media outlets, the City's website, and via the Jobs Board through the Institute of Internal Auditors website. Applications were open from 2 July 2024 to 21 July 2024. A total of 18 applications were received.
29. The selection panel consisted of the Acting Chair of the Audit Risk and Compliance Committee, Councillor Kok, the Director Legal and Governance, and the Manager Financial Planning and Reporting. It is noted that the selection panel held five interviews on 21 August 2024.
30. It is recommended that Council appoint Rosemary Milkins and Robert Lagiada to the Audit Risk and Compliance Committee for a period of four years, commencing 1 December 2024 in accordance with the new Audit Risk and Compliance Committee Terms of Reference. The selection panel confirms that the recommended appointees are eligible in accordance with the requirements of s 216E of the Local Government (General) Amendment (Audit, Risk and Improvement Committees) Regulation 2023, and that the recommended appointees are independent of Council in accordance with s 216F (including not having had any business dealings with the Council).
31. The CVs of the recommended appointees are provided at Attachment E to the subject report.

Appointment of Councillor member

32. Under the Regulation s 216C Council may appoint one councillor, who must not be the Lord Mayor, to the Audit Risk and Compliance Committee. It is noted that the councillor member of the committee may not vote. The guidelines set out the eligibility criteria for the councillor member of the Audit Risk and Compliance Committee which include:
 - (a) an ability to read and understand financial statements and a capacity to understand the ethical requirements of government (including potential conflicts of interest);
 - (b) a good understanding of one or more of the following:
 - (i) risk management
 - (ii) performance management
 - (iii) human resources management
 - (iv) internal and external auditing
 - (v) financial reporting
 - (vi) accounting
 - (vii) management control frameworks
 - (viii) internal financial controls
 - (ix) governance (including planning, reporting and oversight);
 - (c) a capacity to form independent judgments and willingness to constructively challenge/question management practices and information;

- (d) 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 audit, risk and compliance committee; and
 - (e) preparedness to undertake any training on the operation of audit, risk and compliance committees recommended by the chairperson based on their assessment of the skills, knowledge and experience of the councillor member.
33. The regulation provides that the Lord Mayor cannot be appointed as a councillor member. However, as per the model terms of reference, the Lord Mayor is recommended to attend meetings of the Committee as an observer. The guidelines provide that the term of appointment for councillor members is four years, coinciding with the term of the Council.

Key Implications

Strategic Alignment - Sustainable Sydney 2030-2050 Continuing the Vision

34. Sustainable Sydney 2030-2050 Continuing the Vision renews the communities' vision for the sustainable development of the city to 2050. It includes 10 strategic directions to guide the future of the city, as well as 10 targets against which to measure progress. This report is aligned with the following strategic directions and objectives:
- (a) Direction 1 - Responsible governance and stewardship - the recommendations outlined in this report will ensure that the Council is compliant with the requirements outlined in the Regulation and the Guidelines, as well as maintaining the strength and independence of the City's Audit, Risk and Compliance Committee.

Organisational Impact

35. The Audit Risk and Compliance Committee has been in place since 2002 and there will be no impact from the adoption of the recommendations in this report.

Risks

36. If the new Audit Risk and Compliance Committee Terms of Reference, Internal Audit Charter and Risk Appetite statement are not adopted by Council our audit committee arrangements and risk management will be non-compliant with the Regulation and the guidelines.

Financial Implications

37. The cost of additional external members appointed to the Audit Risk and Compliance Committee is anticipated to be around \$10,000 for the financial year and can be funded through savings in the Legal and Governance Division budget.

Relevant Legislation

- 38. Local Government Act, 1993 - sections 23A and 428A.
- 39. Local Government (General) Regulation 2021.
- 40. Guidelines for Risk Management and Internal Audit for Local Government in NSW - Office of Local Government (November 2023).

Critical Dates / Time Frames

- 41. Additional external members of the Audit Risk and Compliance Committee are required to be appointed before 30 June 2025, when the appointments of the current chair and one other independent member expire.

KIRSTEN MORRIN

Executive Director Legal and Governance

Barry Munns, Chief Internal Auditor