



Office of
Local Government

Sensitive

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SCANNED

Mr Lewis Rangott
Executive Director, Corruption Prevention
Independent Commission Against Corruption
(ICAC)
GPO Box 500
Sydney NSW 2001

RECEIVED

- 6 JAN 2020

I.C.A.C. RECORDS &
PROPERTY

Dear Mr Rangott

Thank you for your letter of 5 December 2019 about the Office of Local Government's (OLG) plan of action to implement ICAC's report and recommendations arising from the investigation into the conduct of the former City of Botany Bay Council Chief Financial Officer and others.

Please find attached an update on OLG's implementation of recommendation 9 of the report relating to the introduction of a mandatory internal audit framework for NSW councils.

Should you wish to discuss anything contained in OLG's plan of action, please contact Mr John Davies, Manager Council Governance, by phone on (02) 4428 4139 or by email at olg@olg.nsw.gov.au.

Yours sincerely

Tim Hurst
Deputy Secretary
Local Government, Planning and Policy

18/12/19



Office of Local Government's report on implementation of its action plan in response to the Investigation into the conduct of the former City of Botany Bay Council Chief Financial Officer and others – Interim Report

Recommendation 9: Mandate internal audit for councils

That the NSW Government considers adopting a model of local council oversight that is comparable to that applicable to state government agencies. This model could include:

- mandatory administration and governance directives similar to those that apply to state government agencies
- requirements concerning the composition and operation of audit committees that are similar to those that apply to state government agencies
- the requirement for council general managers to attest that audit committees are operating in accordance with requirements.

Action taken:

The *Local Government Act 1993* (the Act) was amended in 2016 to require all councils in NSW to appoint an audit, risk and improvement committee to operate as an independent mechanism to advise on the effectiveness of councils' compliance, risk management, fraud control, financial management, governance, service delivery, performance measurement and implementation of the community strategic plan and delivery program. The amendments are yet to commence.

Under the transitional provisions, councils are not required to appoint an audit, risk and improvement committee until six months after the first ordinary council election following commencement of the amendments. The Government is proposing to commence the amendments next year ahead of the September 2020 local government elections meaning that all councils will be required to appoint an audit risk and improvement committee by March 2021. Under the Act, councils are permitted to appoint shared committees.

Approximately 70% of councils have already appointed an audit, risk and improvement committee and 67% have established an internal audit function in anticipation of commencement of the new requirements.

A discussion paper, *A New Mandatory Risk Management and Internal Audit Framework for Local Councils in NSW*, was released in September 2019 for a four-month consultation period. The discussion paper describes the regulatory and policy framework that will support the implementation of mandatory risk management and internal audit in councils. The discussion paper was prepared in consultation with NSW Treasury, the Audit Office, the Institute of Internal Auditors and local government internal audit practitioners and committee members. Submissions close on 31 December 2019.

The proposed framework is informed by Australian and international risk management and internal audit standards and, as recommended by ICAC, is modelled on the framework that currently applies to NSW state government agencies. It requires councils' audit, risk and improvement committees to have the same composition as those serving NSW Government agencies, and for each general manager to annually attest that its committee and risk management framework and internal audit function, are operating in accordance with prescribed requirements.

A key consideration has been to ensure that the framework also reflects the unique structure and needs of NSW councils and to minimise administrative and resource impacts for councils. Some components of the proposed framework have therefore been adapted for these purposes.

Submissions and feedback received in relation to the discussion paper will be considered and will inform the development of regulations and guidelines. These will be finalised next year prior to the September local government elections.