



FINANCE POLICY COMMITTEE

AGENDA

3 MARCH 2022

Notice is hereby given, in accordance with the provisions of the Local Government Act 1993 that a **FINANCE POLICY COMMITTEE MEETING of ORANGE CITY COUNCIL** will be held in the **COUNCIL CHAMBER, CIVIC CENTRE, BYNG STREET, ORANGE on Thursday, 3 March 2022.**

David Waddell
CHIEF EXECUTIVE OFFICER

For apologies please contact Administration on 6393 8106.

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1 INTRODUCTION

1.1 DECLARATION OF PECUNIARY INTERESTS, SIGNIFICANT NON-PECUNIARY INTERESTS AND LESS THAN SIGNIFICANT NON-PECUNIARY INTERESTS

The provisions of Chapter 14 of the Local Government Act, 1993 (the Act) regulate the way in which Councillors and designated staff of Council conduct themselves to ensure that there is no conflict between their private interests and their public role.

The Act prescribes that where a member of Council (or a Committee of Council) has a direct or indirect financial (pecuniary) interest in a matter to be considered at a meeting of the Council (or Committee), that interest must be disclosed as soon as practicable after the start of the meeting and the reasons given for declaring such interest.

As members are aware, the provisions of the Local Government Act restrict any member who has declared a pecuniary interest in any matter from participating in the discussion or voting on that matter, and requires that member to vacate the Chamber.

Council's Code of Conduct provides that if members have a non-pecuniary conflict of interest, the nature of the conflict must be disclosed. The Code of Conduct also provides for a number of ways in which a member may manage non pecuniary conflicts of interest.

RECOMMENDATION

It is recommended that Committee Members now disclose any conflicts of interest in matters under consideration by the Finance Policy Committee at this meeting.

2 GENERAL REPORTS

2.1 INDEPENDENT MEMBERS OF THE AUDIT, RISK AND IMPROVEMENT COMMITTEE (ARIC)

RECORD NUMBER: 2022/158

AUTHOR: Charlotte O'Meara, Risk Management Lead

EXECUTIVE SUMMARY

Council has completed a public Expression of Interest process to seek interested persons to be appointed as the two independent members of the Audit, Risk, and Improvement Committee (ARIC). This report provides a recommendation to Council for the appointment of the two independent voting members for the ARIC and the adoption of the Audit Risk and Improvement Committee Charter.

This report also provides a summary of the new Office of Local Government (OLG) draft Guidelines on Risk Management and Internal Audit which change the regulatory requirements for the ARIC, including the compulsory requirement for all Councils to have an ARIC in place by 4 June 2022.

LINK TO DELIVERY/OPERATIONAL PLAN

The recommendation in this report relates to the Delivery/Operational Plan strategy "17.1 Collaborate - Provide representative, responsible and accountable community governance".

FINANCIAL IMPLICATIONS

The two independent members are remunerated. Current fees and charges have been set by the Council at \$1,050 (+GST) for the Chair per meeting and \$888 (+GST) for the other member per meeting. Councillor members of the Committee are not paid. Independent members are also entitled to claim per kilometre rate reimbursement for travel to and from meetings based on the rates in the Local Government (State) Award. As this is a Statutory Committee these funds have been allocated and budgeted on an ongoing basis.

POLICY AND GOVERNANCE IMPLICATIONS

ARIC is a Statutory Committee that must be in place by 4 June 2022 and all new requirements as denoted by the draft OLG Guidelines be implemented by June 2027.

RECOMMENDATION

1. That Council appoint Bill Gillooly and Robert Lagaida as the two independent members of the Audit, Risk and Improvement Committee until September 2024 unless otherwise resolved by Council.
2. That Council adopt the Audit, Risk, and Improvement Committee (ARIC) Charter.
3. That a formal induction on the Committee's purpose and responsibilities be arranged for Committee members.
4. That Council note the proposed requirements of the new draft OLG Guidelines.

FURTHER CONSIDERATIONS

Consideration has been given to the recommendation's impact on Council's service delivery; image and reputation; political; environmental; health and safety; employees; stakeholders and project management; and no further implications or risks have been identified.

SUPPORTING INFORMATION**Background**

Council has had an ARIC since 2009. The duties and responsibilities of the Committee are outlined in the attached Charter.

The Charter identifies the composition of the ARIC as determined by the prior Council, with two independent members, a Councillor, and the Mayor of the day as core voting members. Non-voting members who attend include the Chief Executive Officer (CEO), Risk Management Lead, Director of Corporate and Commercial Services and other subject matter experts as required from time to time.

Appointments to the ARIC terminate at the conclusion of a term of Council, therefore this term of the ARIC will be until September 2024 unless otherwise resolved by Council. The prior Council approved an expression of interest process to seek nominations for independent members of the Committee. The Councillor voting membership was resolved at Council's meeting of 15 February 2022. The Councillor membership consists of the Mayor and Councillor Duffy, with Councillor Kinghorn as an alternate.

The two independent members are remunerated. Current fees and charges have been set by the Council at \$1,050 (+GST) for the Chair per meeting and \$888 (+GST) for the other member per meeting. Councillor members of the Committee are not paid. Independent members are also entitled to claim per kilometre rate reimbursement for travel to and from meetings based on the rates in the Local Government (State) Award.

Appointment of Independent Members

The expression of interest process has been completed after advertisements were placed in local and metropolitan newspapers. Five responses were received by the closing date.

Council is provided with the attached applications which were assessed against the below assessment criteria to be appointed as independent members of the Committee. Pursuant to the current ARIC Charter one of the independent members will be elected as the Chair by the Committee:

- candidates were assessed against the criteria in the Charter and the Expression of Interest. Some of the requirements of the new draft OLG Guidelines were included in the selection criteria in the expression of interest.
- breadth of experience of candidates in similar sectors and as Directors of Board or in similar roles as a voting member and/or chair of Audit and Risk Committees.
- relevant professional knowledge and expertise in planning, accounting, financial, legal, industrial relations, enterprise risk management and/or audit.

2.1 Independent Members of the Audit, Risk and Improvement Committee (ARIC)

- independence of members. The assessment of the applicants' independence has been considered against the Charter for the Committee and the OLG Guidelines (particularly part 4) both of which are attached. In particular, the need for existing/former employees of any council to have a hiatus of two years prior to appointment to Audit and Risk Management Committees.
- reference checking of the two recommended candidates was undertaken to confirm and expand on the skills and attributes outlined in their applications.

Bill Gillooly and Robert Lagaida are recommended as the independent members of the ARIC. Both candidates presented strong applications that satisfy the selection criteria.

Draft Office of Local Government Guidelines Risk Management and Internal Audit for local councils in NSW

In 2016 the Local Government Act 1993 (NSW) was amended to require Councils to appoint an ARIC. The OLG has been working with Councils and other key stakeholders to develop a framework that will support the operation of ARICs and the establishment of a risk management and internal audit function in each council.

The new framework will be governed by the regulations and *Guidelines for risk management and internal audit for local councils in NSW*. These will prescribe the minimum standards for each Council's audit, risk and improvement committee, risk management framework and internal audit function. The draft Guidelines are attached.

The guidelines are still in draft and may be subject to change based on feedback from Local Councils. The compliance deadlines and requirements are outlined below.

Deadline	Requirement
June 2022	Councils must appoint an ARIC
June 2024	Risk Management Framework must comply with guidelines
June 2024	Internal audit function must comply with the guidelines
June 2024	Annual attestation requirements for risk management and internal audit
June 2027	Membership of ARIC must meet guidelines
June 2027	Annual attestation requirements for ARIC

Appointment of ARIC

By June 2022 each Council must have appointed an ARIC to comply with section 428A of the Local Government Act. Council is compliant with this requirement.

The ARIC must develop a strategic plan every four years to ensure that all the matters listed in section 428A of the Local Government Act are reviewed by the committee and internal audit function over each council term. The plan will be developed at the first ARIC meeting.

Membership of ARIC

The draft guidelines set out membership requirements for ARICs. Councils are not required to comply with these requirements until June 2027. The guidelines also remain in draft and are yet to be finalised by the OLG.

Orange Council is categorised as a Tier 2 Council under the Guidelines. All Tier 2 Councils must at a minimum have three members comprising:

- 1 independent chair prequalified under the NSW Government's prequalification scheme
- 1 independent member prequalified under the NSW Government's prequalification scheme
- 1 independent person that meets the eligibility criteria

The key change to the guidelines is that the Councillor members will be non-voting members of the ARIC, with the independent members the only voting members of the Committee.

This is a controversial proposed amendment and several Councils have provided submissions on this change, so the next version of the draft Guidelines may revise this requirement.

Annual attestation requirements

The draft guidelines also require the CEO to attest each year in the Council's annual report whether the Council has complied with the following requirements:

- that Council has adopted a risk management framework that is consistent with current Australian risk management standards.
- That the ARIC reviews the implementation of Council's risk management framework and issues an assessment of the effectiveness of the council's risk management framework to the governing body each council term.

This requirement will take effect in June 2027, allowing a five-year transition period.

ATTACHMENTS

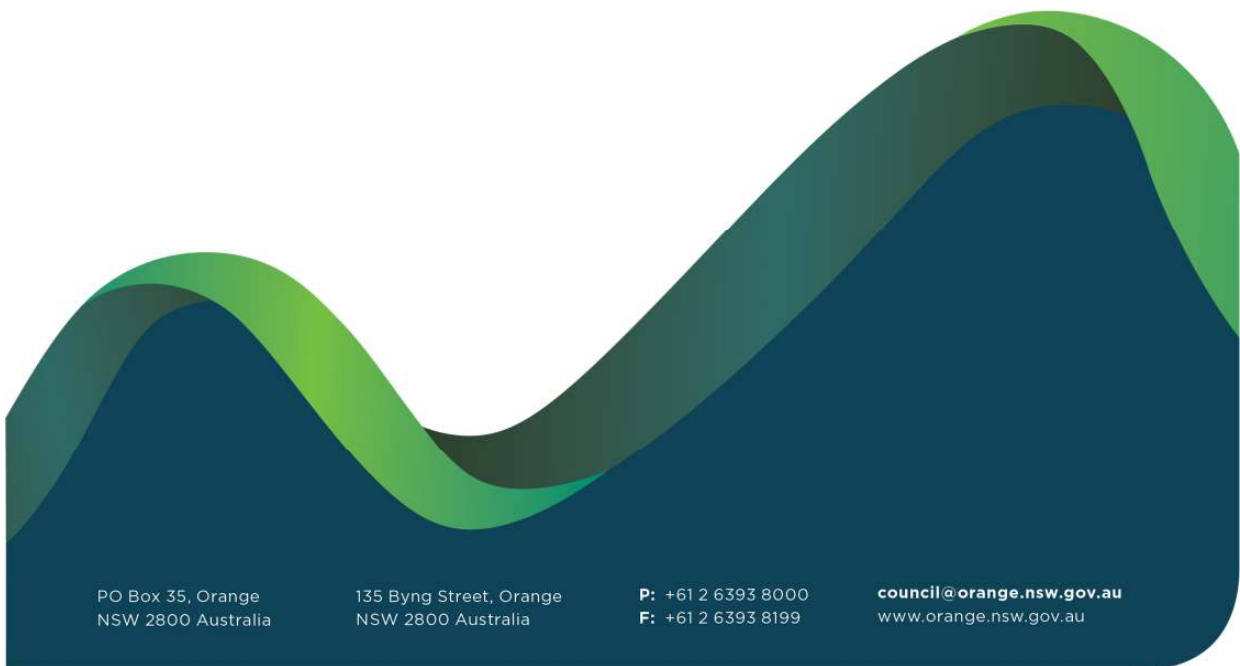
- 1 Audit, Risk and Improvement Committee (ARIC) Charter - Draft, D22/9176 [↓](#)
- 2 Expression of Interest - Audit and Risk Committee - Orange City Council - 2022 PDF, D22/8127 [↓](#)
- 3 Draft-Guidelines-for-Risk-Management-and-Internal-Audit-Framework-for-Local-Councils-in-NSW August 2021, D22/8132 [↓](#)
- 4 Letter Bill Gillooly Response to ARIC EOI 2022, D22/8143 [↓](#)
- 5 Curriculum Vitae Bill Gillooly - ARIC application - 2022, D22/8145 [↓](#)
- 6 Letter David Kortum Orange City Council - EOI ARIC - 2022, D22/7621 [↓](#)
- 7 Robert Lagaida response to ARIC EOI 2022, D22/8639 [↓](#)
- 8 Robert Lagaida - Resume, D22/8640 [↓](#)
- 9 Ron Gillard response to OCC EOI ARIC Independent member February 2022, D22/9293 [↓](#)
- 10 Les Hullick - response to OCC EOI ARIC Independent Member February 2022, D22/9292 [↓](#)



CHARTER

AUDIT, RISK AND IMPROVEMENT COMMITTEE (ARIC)

DRAFT



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DRAFT

AUDIT, RISK AND IMPROVEMENT COMMITTEE CHARTER

1 Committee Purpose

The Audit Risk and Improvement Committee (ARIC) is an advisory committee assisting the Council to fulfil its governance and oversight responsibilities.

The primary duties and responsibilities of the ARIC are to assist the Council to discharge its responsibilities relating to:

- 1.1 Financial reporting process
- 1.2 Business ethics, policies and practices
- 1.3 Management and internal controls
- 1.4 Monitoring the integrity of the Council's financial reporting practices and finance and accounting compliance
- 1.5 Reviewing internal controls, key corporate risks and financial audit related matters
- 1.6 Encouraging continuous improvement of Council's systems and practices
- 1.7 Adoption of the Internal Audit Plan
- 1.8 The Council's process for monitoring compliance with policies, laws and regulations and the Council Code of Conduct.

2 Authority

The ARIC is granted delegated authority by Council to carry out its duties and responsibilities as defined in this Charter. The ARIC has delegated authority to approve investigations into any matters within its scope of responsibility. It is empowered to:

- 2.1 Resolve any disagreements between management and the auditor regarding financial reporting (subject to confidentiality considerations).
- 2.2 Pre-approve all auditing and non-audit services.
- 2.3 After due consultation with the Chief Executive Officer, retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation.
- 2.4 Meet with Council management, external auditors, or outside counsel, as necessary.
- 2.5 The Council acknowledges that professional independence and objectivity are key attributes of an efficient and effective ARIC. The Council and Chief Executive Officer are therefore committed to uphold and guarantee the professional independence and objectivity of the ARIC.

3 Composition

- 3.1 All appointments to the ARIC shall be made by Council.
- 3.2 The ARIC will consist of:
- 3.2.1 Core Members (voting)
- Mayor of the day (or a Councillor nominated by the Mayor as his representative)
 - One Councillor
 - Two independent external members (not member of Council and one to be Chairperson)
- 3.2.2 Members (non-voting)
- Chief Executive Officer
 - Internal Auditor
 - Director responsible for corporate functions
 - One alternate Councillor Delegate who will have voting rights in the absence of the other appointed Councillor.
- 3.2.3 Invitees (non-voting)
- Representatives of the external auditor.
 - Other officers of Council as requested by the ARIC and/or the Chief Executive Officer
- 3.3 In order to maintain independence, and to comply with the recommendations of the Office of Local Government, the ARIC shall elect one of the independent members as its Chairperson.
- 3.4 The selection of independent members should be undertaken in a transparent and unbiased manner. This could include calling for expressions of interest from interested persons.

4 Tenure

- 4.1 The term of office for an ARIC member shall end on the earlier of:
- (a) the day on which the member resigns from the ARIC
 - (b) in the case of a Councillor, the day on which the Councillor ceases to be a Councillor
 - (c) two years in respect of the independent members or such other term as determined by Council
 - (d) the day on which the member's appointment is legally terminated by Council
 - (e) the day on which the member is incapacitated by law from holding such office.

- 4.2 Members are encouraged to serve multiple terms and to plan for an orderly rotation of members so that experienced members will always be serving. The ARIC should make recommendations to Council on membership.
- 4.3 In any event, the appointment of each member of the ARIC will be reviewed at the end of the first year and confirmed for the remaining period subject to satisfactory performance as determined by Council. A member may be eligible for re-appointment to the Committee for a continuous period not exceeding eight (8) years.
- 4.4 In considering new independent members for the ARIC, selection shall be influenced by:
- (a) Industry standards for similar committees, particularly relating to the appointment of independents to ARICs.
 - (b) Any guidelines issued by the NSW Government concerning Local Government ARICs.
 - (c) The attributes and experience of candidates who respond to Expressions of Interest advertisements for Independent Members.
- 4.5 The independent members on the ARIC should be remunerated for attending Committee meetings. The remuneration shall be determined by Council as part of its adopted Fees and Charges.

5 Meetings and Quorum

- 5.1 The Committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require.
- 5.2 A quorum shall not exist unless at least 3 voting members are present.
- 5.3 Members of the ARIC are generally expected to attend each meeting, in person or via tele or video-conference with the approval of the Committee Chairperson.
- 5.4 The ARIC will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary.
- 5.5 The Committee will hold private meetings with auditors (see below).
- 5.6 A meeting agenda will be provided in advance to members, along with appropriate briefing materials.
- 5.7 The Chairperson shall determine the agenda for the ARIC in conjunction with Council staff.
- 5.8 Minutes will be prepared and distributed to the ARIC members and to the next Ordinary meeting of the Council, including a report explaining any specific recommendations and key outcomes, if appropriate.
- 5.9 Meetings are to be rescheduled if there is not a quorum. The Council's Internal Auditor will minute proceedings of all meetings.

- 5.10 The Chairperson shall endeavour to conduct meetings on a “consensus basis” but formal voting on recommendations shall be required. Each member shall have one vote and a majority of those present shall be required to pass a recommendation. The Chairperson shall have a casting vote. The meetings should operate as far as practicable in accordance with the Council’s Code of Meeting Practice.

6 Confidentiality

- 6.1 The ARIC will ensure that Committee members comply with all relevant laws and Council’s policies regarding confidentiality, privacy and reporting. Committee members shall treat all information received as part of the Committee as confidential and only disclose the content to third parties with the consent of other members of the Committee.

7 Responsibilities

- 7.1 The ARIC has no executive powers, except those expressly provided by Council.
- 7.2 In carrying out its responsibilities, the Committee must at all times recognise that primary responsibility for management of Council rests with the Council and Chief Executive Officer as defined by the Local Government Act 1993. The Council and Chief Executive Officer shall ensure that reasonable resources are allocated to providing the ARIC with the information it needs to discharge its responsibilities.
- 7.3 The responsibilities of the ARIC may be revised or expanded by Council from time to time. The Committee will carry out the following responsibilities:

7.3 (a) Financial Statements

- Review significant accounting and reporting issues, including complex or unusual transactions, highly judgmental areas, recent professional and regulatory pronouncements and understand their impact on the financial statements. The ARIC can add value for Councillors and the process by reviewing the external audit objectives, timeline and process, settlement of identified issues, results of the audit and the independence of the external auditor. This would be done in consultation with the External Auditor, Internal Auditor and management.
- Review the audited annual financial statements and consider whether they are complete, consistent with information known to Committee Members and reflect appropriate accounting principles. Without having conducted its own assessment the ARIC will need to refer to management and their representations to the Committee’s enquiries. Therefore any recommendation to Council would be made under a disclaimer that refers to the Committee’s understanding of the completed audit process, the external auditor’s access to records, the co-operation of management that allowed sufficient time to complete the external audit and all issues identified in the audit have been resolved to their satisfaction.
- As part of the External Auditors presentation and management representations, review with management and the external auditors all matters required to be communicated to the Committee under generally accepted auditing standards.
- Understand how management develops interim financial information and the nature and extent of Internal Audit and External Audit involvement.

7.3 (b) Risk Management

- Review whether management has in place a current and comprehensive risk management framework and associated procedures for effective identification and management of business and financial risks, including fraud.
- Review whether a sound and effective approach has been followed in developing strategic risk management plans for major projects or undertakings.
- Review the impact of the risk management framework on Council's control environment and insurance arrangements.
- Review whether a sound and effective approach has been followed in establishing business continuity planning arrangements, including whether plans have been tested periodically.

7.3 (c) Internal Control

Consider the adequacy and effectiveness of the Council's internal control systems, incorporating the:

- Reliability and integrity of financial and operational information systems, including information technology security and control.
- Effectiveness and efficiency of operations.
- Safeguarding assets.
- Compliance with contracts, laws and regulations.
- Governance framework.
- The scope of the Internal Auditor's review of Council's internal control framework and obtain reports on significant findings and recommendations, together with management's responses.

7.3 (d) Internal Audit

- Review and recommend approval of the Internal Audit Activity Charter, activities, staffing and organisational structure of the Internal Audit function and any subsequent changes.
- Have final authority to review and approve the Annual Internal Audit Plan and all major changes to the Plan.
- Ensure there are no unjustified restrictions or limitations to the activities of Internal Audit.
- Review the effectiveness of the Internal Audit function and objectives, including compliance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

7.3 (e) External Audit

- Establish that an appropriate process is in place to give assurance that the Council complies with the Local Government Act requirements for financial reporting and auditing.
- Review the external auditors' proposed audit scope and approach, including co-ordination of audit effort with Internal Audit.
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the Council, including non-audit services and discussing the relationships with the auditors.
- Review management's responses to the recommendations in the External Auditor's management letters.
- On a regular basis, meet separately with the External Auditors to discuss any matters that the Committee or auditors believe should be discussed privately.

7.3 (f) Compliance

- Review the effectiveness of the system for monitoring compliance with laws, regulations and contracts and the results of management's investigation and follow-up of any instances of non-compliance.
- Review the findings of any examinations by regulatory agencies and any auditor observations.
- Review the process for communicating Council's Code of Conduct to Council personnel and for monitoring compliance therewith.
- Liaise with the Chief Executive Officer to obtain regular updates from management and Council's legal counsel regarding compliance matters.

7.3 (g) Reporting Responsibilities

- Regularly report to the Council about Committee activities, issues and related recommendations
- Provide an open avenue of communication between Internal Audit, the External Auditors and the Council.
- Report annually to the Council, describing the Committee's composition, responsibilities and how they were discharged and any other information required by law, including non-audit services.
- Review any other reports the Council issues that relate to Committee responsibilities.

7.3 (h) Other Responsibilities

- Perform other activities related to this Charter as requested by the Council.
- Institute and oversee special investigations as needed.
- Review and assess the adequacy of the ARIC Charter annually, requesting Council approval for proposed changes and ensure appropriate disclosure as may be required by law or regulation.
- Confirm annually that all responsibilities outlined in this Charter have been carried out.
- Evaluate the Committee's and individual members' performance on a regular basis.

7.3 (i) Individual Responsibilities of Members

Members of the ARIC are expected to:

- Understand the relevant legislative and regulatory requirements appropriate to Orange City Council.
- Contribute the time needed to study and understand the papers provided.
- Apply good analytical skills, objectivity and good judgement.
- Express opinions frankly, ask questions that go to the fundamental core of issues and pursue independent lines of enquiry.
- Declare any conflicts of interest before participating in deliberations on the issue where the conflict of interest exists. Where a conflict is deemed Significant and/or Pecuniary, the Member should be removed for the discussion and voting of the specific item.
- Attend an induction meeting at which they receive relevant information and briefings on their appointment to assist them to meet their Committee responsibilities.

Responsible Area – Corporate & Commercial Services

REVISION					
	DATE	RESOLUTION		DATE	RESOLUTION
1	June 2009	09/260	6	18 August 2020	20/252
2	November 2011	-	7	03 March 2022	
3	September 2012	12/345	8		
4	January 2013	12/358	9		
5	October 2014	14/961	10		

SUMMARY OF AMENDMENTS

Amendment Date	Section/Reference and Amendment
March 2022	<ul style="list-style-type: none"> No amendment made to Charter – put to Council for resolution because of formation of new ARIC Committee
July 2020	<ul style="list-style-type: none"> Update to Committee Name from Audit & Risk Management Committee (ARMC) to Audit, Risk & Improvement Committee (ARIC) Update references of the General Manager to the Chief Executive Officer 4.5 updated that remuneration is determined by Council in its adopted Fees and Charges. 7.3(a) removal of dot point 2 as elements covered in dot point 1. 7.3(a) removal of reference to a suitably qualified auditor. 7.3(i) inserted the following: Where a conflict is deemed Significant and/or Pecuniary, the Member should be removed for the discussion and voting of the specific item.

