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Mr Bjarne Nordin
Committee Manager
Public Accounts Committee

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Dear Mr Nordin

Thank you for your email of 2 March 2020 providing a copy of the transcript of the Public Accounts Committee Hearing held on 24 February 2020 along with the supplementary questions.

Transcript Corrections

With regard to corrections to the transcript, please note the following:

Mr Allen, page 16 of the transcript – paragraph beginning *'In response to your question, following the Auditor-General's report that was issued and that we are here to discuss...'* Please note the line within that paragraph, *'In terms of the public issues disclosures, the advice provided to councils was to...'* Please delete *'issues'* and replace with *'interest'* so that the line reads *'In terms of the public interest disclosures...'*

Ms Brown, page 18 of the transcript – paragraph beginning *'We have a council governance team as well...'* Please note the line within that paragraph, *'It has set up an audit risk and improvement committee—it has called it that—it is the head of the legislation...'* Please delete *'the head'* and replace with *'ahead'* so that the line reads *'...it is ahead of the legislation...'*

With regard to the question taken on notice and supplementary questions please note the following responses:

Question taken on notice

The Chair: *In talking about fraud, is there an understanding of the profile of fraud that might be prevalent or likely between metro, regional or rural councils? Would you see or expect differences in the nature of fraud that might be perpetrated in those areas? (Note: Page 19 of transcript)*

Answer:

The Office of Local Government does not undertake work on profiling fraud in local councils. This work may be undertaken by other agencies such as the Independent Commission Against Corruption (ICAC). OLG will continue to work with ICAC, the Audit Office and other relevant agencies to develop an enhanced understanding of



fraud and related issues across the sector. The ongoing work of the Audit Office in this regard is particularly important. As stated in our evidence before the Committee, the primary vehicle for this cross-agency collaboration is the Local Government Liaison Group which includes OLG, NSW Ombudsman, ICAC, Information and Privacy Commission and the Audit Office.

Supplementary questions

Question 1

The Office of Local Government response noted that it had issued advice to councils regarding their requirements under the Public Interest Disclosure Act.

- *What response have you had from councils to this advice and have you reviewed actions taken by councils individually?*
- *Are you now satisfied that all councils have established public interest disclosure policies and are in compliance with their obligations under the Act?*
- *Is any further action required?*

Answer

The oversight of the *Public Interest Disclosures Act 1994* (PID Act) falls within the responsibilities of the NSW Ombudsman. The Public Interest Disclosures Regulation 2011 requires councils to report annually on their public interest disclosure (PID) obligations. This includes providing information on whether the public authority has a public interest disclosures policy in place. Copies of the PID annual reports are required to be provided to the NSW Ombudsman. Most councils incorporate the PID annual report within the council's annual report required under section 428 of the *Local Government Act 1993*. A copy of the council's annual report is required to be posted on its website and provided to the Minister.

Each year OLG issues an annual report checklist to councils to assist them in meeting their reporting obligations. That checklist provides information on their obligations under the PID Act. Council annual report checklists are available on OLG's website.

OLG has provided guidance to councils since 2010 in relation to the function of internal audit by way of providing Internal Audit Guidelines which were developed in accordance with section 23A of the *Local Government Act 1993* (the Act). While those Guidelines were not mandatory, councils were required to consider them when developing and implementing any internal audit function.

The Act was amended in 2016 to incorporate provisions that require councils and joint organisations in NSW to appoint an audit, risk and improvement committee. This requirement will take effect from March 2021.

To assist councils with the implementation of the audit and risk legislative provisions, OLG has developed a draft internal audit and risk management framework. The proposed framework is based on international standards and the experience of Australian and NSW Government public sector agencies. The proposed framework has also been developed in consultation with NSW Treasury, the NSW Audit Office, the (then) Department of Finance, Services and Innovation, the Institute of Internal Auditors and the Local Government Internal Auditors Network. OLG has circulated that draft framework for consultation and is currently considering the submissions that have been made.

The establishment of Audit, Risk and Improvement Committees provides a mechanism for councils to continuously review and provide independent advice and assurance on their governance frameworks and risk management of their operational functions; this includes oversight of councils' fraud and corruption control frameworks. The committees' work should be supported by a risk management framework and an internal audit function. Once established, it is envisaged that the committees will undertake assurance activities by overseeing each council's internal audit function and risk management framework.

The internal audit framework will be the mechanism that requires councils to be responsible for ensuring that they have the appropriate policy frameworks in place, including legislated policy requirements such as internal reporting policies (as required under the PID Act).

Question 2

According to the Audit, most metropolitan and regional councils, and almost half of rural councils, participated in the survey.

- *Why do you think there was such a discrepancy between the response rates in rural versus metropolitan and regional councils?*

It is difficult to identify exactly why the response rate from metropolitan and regional councils was higher than those from rural councils. However, one observation would be that rural councils may not have the same corporate governance structures that are in place in many metropolitan and regional councils. Therefore, their capacity to respond to requests such as surveys may be limited.

I trust the above information in response to the questions is of assistance to the Committee.

Yours sincerely



Chris Allen
Director, Sector Performance and Intervention