

**Internal Audit and Risk Management Policy for  
the NSW Public Sector**

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**Policy & Guidelines Paper**

## Preface

The *Internal Audit and Risk Management Policy* (the Policy) has been prepared by NSW Treasury to assist agencies to fulfil their legislative obligations under section 11 of the *Public Finance and Audit Act 1983*, which requires that departments and statutory bodies establish and maintain an effective internal audit function.

The Policy goes further than simply requiring compliance by agencies and supports effective and efficient management by promoting the use of best practice standards and frameworks and tailoring those frameworks for agencies to implement, further develop and manage. In this regard, the core requirements concerning risk management have been largely modelled on Australian/New Zealand Standard (AS/NZS) *ISO 31000: 2009 Risk management – Principles and guidelines*. The core requirements relating to an agency's internal audit function have been modelled on the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing*.

These frameworks have been adapted and tailored to meet the specific needs of the NSW public sector. In addition, the Policy establishes an overarching framework that provides agencies with an appropriate level of oversight to meet its assurance and independent advice requirements.

NSW Treasury's Financial Management Transformation (FMT) Program has been established to mobilise change and establish a new, modern financial management framework for the NSW public sector. The review and rewrite of the Policy has been undertaken within this broader context to ensure that it reflects the principles and objectives of that Program. As such, the new Policy:

- articulates clear principles and specific core requirements
- clarifies roles and responsibilities across risk management and internal audit
- recognises the diversity of the NSW public sector providing flexibility for agencies to implement and manage their affairs, and
- streamlines attestation requirements.

The Policy should be read alongside the other Policy and Guidelines papers which apply to the internal audit and risk management, including the *Risk Management Toolkit for the NSW Public Sector* (TPP 12-03) and the *Guidance on Shared Arrangements and Subcommittees for Audit and Risk Committees* (TPP 12-04).

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**Secretary**  
NSW Treasury

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### Note

General inquiries concerning this document should be initially directed to:  
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This publication can be accessed from the Treasury's website  
[<http://www.treasury.nsw.gov.au/>].

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## Contents:

	Page
<b>Preface</b>	1
<b>Executive Summary</b>	3
<b>Definitions</b>	5
<b>PART A: The Internal Audit and Risk Management Policy</b>	7
Background	7
Application of the Policy	7
Relationship to legislation and existing policies	7
Purpose and principles	8
Core requirements of the Policy	10
Requirements for attestation	11
Exceptions process	12
Transitional arrangements	13
Monitoring of policy compliance	15
<b>PART B: Instructions for implementing the core requirements</b>	16
<b>1: Risk Management Framework</b>	16
Core Requirement 1.1	16
Core Requirement 1.2	17
<b>2: Internal Audit Function</b>	21
Core Requirement 2.1	21
Core Requirement 2.2	25
Core Requirement 2.3	29
<b>3: Audit and Risk Committee</b>	32
Core Requirement 3.1	32
Core Requirement 3.2	35
Core Requirement 3.3	36
<b>Annexure A: Model Internal Audit Charter</b>	41
<b>Annexure B: Model Audit and Risk Committee Charter</b>	45
<b>Annexure C: Attestation Statement Template</b>	51
<b>Annexure D: Ministerial Determination Template</b>	54

## Executive Summary

The *Internal Audit and Risk Management Policy for the NSW Public Sector* (the Policy) is issued as a direction to those 'department heads' and 'statutory bodies' listed in Schedule 2 and Schedule 3 of the *Public Finance and Audit Act 1983*. The Policy assists agencies to implement their legislative obligations under section 11 of the *Public Finance and Audit Act 1983*, namely that they establish and maintain an effective internal audit function. In addition, the Policy seeks to strengthen internal audit, risk management and governance practices across the NSW public sector by ensuring an ongoing minimum level of compliance to provide for the efficient and effective administration of the State's resources.

To support this purpose, the Policy outlines three core principles. The core principles describe the outcomes sought through the effective implementation of Risk Management, an Internal Audit Function and Audit and Risk Committees in departments and statutory bodies.

### Principles of the Policy

1. The agency has a risk management framework in place that supports the agency to achieve its objectives by systematically identifying and managing risks to:
  - increase the likelihood and impact of positive events
  - mitigate the likelihood and impact of negative events
2. The agency's internal audit function provides timely and useful information to management about:
  - the adequacy of, and compliance with, the system of internal control
  - whether agency results are consistent with established objectives
  - whether operations or programs are being carried out as planned
3. The agency head receives relevant and timely advice on the agency's governance, risk and control frameworks and its external accountability obligations from an independent Audit and Risk Committee with appropriate expertise

The principles are supported by Core Requirements that provide agencies with instructions for implementing the Policy. The Core Requirements of the Policy are:

#### 1. Risk Management

- |                       |   |
|-----------------------|---|
| Core Requirement 1.1: | The agency head is ultimately responsible and accountable for risk management in the agency   |
| Core Requirement 1.2: | A risk management framework that is appropriate to the agency has been established and maintained and the framework is consistent with AS/NZS ISO31000:2009 |

#### 2. Internal Audit

- |                       |  |
|-----------------------|--|
| Core Requirement 2.1: | An internal audit function has been established and maintained   |
| Core Requirement 2.2: | The operation of the internal audit function is consistent with the International Standards for the Professional Practice of Internal Auditing |

Core Requirement 2.3: The agency has an Internal Audit Charter that is consistent with the content of the 'model charter'

### **3. Audit and Risk Committee**

Core Requirement 3.1: An independent Audit and Risk Committee with appropriate expertise has been established

Core Requirement 3.2: The Audit and Risk Committee is an advisory committee providing assistance to the agency head on the agency's governance processes, risk management and control frameworks, and its external accountability obligations

Core Requirement 3.3: The Audit and Risk Committee has a Charter that is consistent with the content of the 'model charter'

The Policy requires each agency head to produce an Attestation Statement for the prior financial year indicating whether it was 'compliant', 'non-compliant' or 'in transition' during the reporting period against each of the eight Core Requirements. A copy of the Attestation Statement must be published in the agency's Annual Report with a copy provided to NSW Treasury on or before 31 October each year.

Agencies will self-assess to determine whether they have been 'compliant', 'non-compliant' or 'in transition' in relation to each of the Core Requirements for the reporting period.

Where the agency is non-compliant with a Core Requirement(s) of the Policy, the agency head must mark 'non-compliant' on their Attestation Statement next to relevant Core Requirements and explain why the agency is non-compliant. The agency head must also apply to the agency's Portfolio Minister for an exception from the Core Requirement(s). A copy of the Ministerial Determination must be attached to the copy of the Attestation Statement sent to NSW Treasury.

An agency may mark 'in transition' on their Attestation Statement where the agency is in the process of transitioning its arrangements to meet new or changed requirements in this Policy for which transitional arrangements are permitted. Details of permitted transitional arrangements are outlined on page 14 of this Policy. Transitional arrangements for new agencies (listed in the Schedules of the *Public Finance and Audit Act 1983* during the reporting period are detailed in the Policy (at page 14).

Templates and model charters are provided as Annexures to this Policy. With the exception of the Ministerial Determination Template, other templates and charters must be used and adapted to the needs and circumstances of the agency. The Ministerial Determination Template has been provided as a guide only.

This Policy will be effective from 1 July 2015.

## Definitions

The following lists relevant key terms and their definitions:

**Agency** means a Department or statutory body listed in Schedules 2 and 3 of the *Public Finance and Audit Act 1983* (PFAA) excluding universities.

**Agency head** unless otherwise specified, means:

- in relation to a department, the department head as identified in column 2 of Schedule 3 of the PFAA, or
- in relation to a statutory body listed in Schedule 2 of the PFAA, the governing board or, in the absence of a governing board, the chief executive officer or the person who exercises the functions of a chief executive officer in relation to the statutory body.

**Attestation Statement** is an annual statement in which the agency head attests to the agency's compliance with the Core Requirements of this Policy. The statement is made using the format prescribed in this Policy (Annexure C). The Statement is published in the Agency's Annual Report and a copy is submitted to NSW Treasury on or before 31 October each year.

**Audit and Risk Committee (ARC)** is a committee established in accordance with this Policy to monitor, review and provide advice about the agency's governance processes, risk management and internal control frameworks, and external accountability obligations.

**Audit Office** means the Audit Office of New South Wales.

**Chief Audit Executive** heads the internal audit function in an agency and is responsible for providing strategic leadership and managing the internal audit function within the agency.

**Chief Risk Officer** is a person that has designated responsibility for designing the agency's risk management framework and for the day-to-day activities associated with coordinating, maintaining and embedding the framework in an agency.

**Cluster** refers to the "administrative arrangements that bring together a group of different legal and administrative agencies and allow similar and complementary Government services to be coordinated more effectively within the broad policy area of a particular Cluster."<sup>1</sup> Clusters are not legal entities.

**Controls** refers to existing processes, policies, devices, practices or other actions that act to minimise negative risks.

**Department** unless otherwise specified, means a person, group of persons or body specified in Column 1 of Schedule 3 of the PFAA.

**Internal audit** means 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes'<sup>2</sup>.

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<sup>1</sup> NSW Department of Premier and Cabinet, February 2013, *NSW Public Sector Governance Framework*.

<sup>2</sup> The Institute of Internal Auditors, *International Professional Practices Framework*, 2013.

**Performance management framework** refers to a framework designed to ensure that an agency's objectives are being efficiently and effectively achieved

**Practice Notes** are best practice recommendations or clarifications about audit and risk practice included in marked boxes to support the core requirements of the Policy. Practice notes are intended as guidance only and do not form part of the mandatory elements of the Policy.

**Prequalification Scheme** means the Prequalification Scheme: Audit and Risk Committees Independent Chairs and Members operated by the Department of Finance, Services and Innovation.

**Related agency**, for the purposes of this Policy, is an agency that meets one or more of the following criteria:

- is an agency that controls (the parent agency) or is controlled by another agency (this is also known as a controlled entity)
- is an agency which shares with another agency, either:
  - operations
  - resources, or
  - projects and/or service delivery areas
- is an agency co-located within the same cluster.

**Reporting period** refers to the financial year period which, for the majority of agencies, will be from 1 July to 30 June.

**Risk<sup>3</sup>** is the effect of uncertainty on objectives (Note: effect is a deviation from the expected and may be positive and/or negative).

**Risk assessment** is the overall process of risk identification, risk analysis and risk evaluation.

**Risk management** refers to the coordinated activities to direct and control an organisation with regard to risk.

**Risk management framework** refers to the set of components that provide the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout an organisation.

**Risk management process** is the systematic application of management policies, procedures and practices to the tasks of communication, consultation, establishing the context, and identifying, analysing, evaluating, treating and monitoring and reviewing risk.

**Risk management plans** identify the strategy, activities, resources, responsibilities and timeframes for implementing and maintaining risk management in an agency.

**Risk treatment** is a process to modify risk.

**Statutory body** means a person, group of persons or body specified in Schedule 2 of the PFAA.

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<sup>3</sup> Except where specifically noted, this Policy adopts the definitions in ISO: Guide 73:2009 Risk Management.

## Part A: Internal Audit and Risk Management Policy

### Background

In 2007, the Department of Premier and Cabinet (DPC) completed a performance review of internal audit capacity in the NSW public sector. The review's key recommendation was to strengthen the 'whole of government' policy and regulatory framework for the governance of internal audit and risk management.

The review outlined a 'better practice' approach to internal audit and risk management that drew on the standards endorsed by professional associations and the practice of exemplar organisations in the public and private sectors. This 'better practice' approach was incorporated in the *Internal Audit and Risk Management Policy for the NSW Public Sector* (the Policy) that was first issued as a Treasurer's Direction in 2009.

This Policy retains that approach but updates and revises the 2009 Policy.

### Application of the Policy

This Policy is issued as a Direction to:

- 'Department heads' under section 18 of the *Annual Reports (Departments) Act 1985*
- 'Statutory bodies' under section 15 of the *Annual Reports (Statutory Bodies) Act 1984*
- 'Officers of an authority' and 'accounting officers' under section 9 of the *Public Finance and Audit Act 1983*.

This Policy withdraws and replaces previous NSW Treasury Policy and Guidelines Paper TPP 09-05. This Policy will take effect from 1 July 2015.

For the purposes of this Policy, a 'department head' refers a 'department head' listed in Column 2 in Schedule 3 of the *Public Finance and Audit Act 1983*, and a 'statutory body' means a 'statutory body' listed in Schedule 2 of the *Public Finance and Audit Act 1983*<sup>4</sup>.

The Policy requires an 'officer of an authority' and 'accounting officer' (defined in section 4 of the *Public Finance and Audit Act 1983*) to do all that is necessary to ensure that the agency head is able to comply with the attestation requirements.

### Relationship to legislation and existing policies

#### Public Finance and Audit Act 1983 requirements

The Policy supports agency heads to meet their obligations under section 11 of the *Public Finance and Audit Act 1983* including setting out how agency heads can fulfil the requirement, under section 11(2) to establish and maintain an effective internal audit organisation.

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<sup>4</sup> The definition of Department is further limited in clause 2.1.12 for purposes of that clause only, where reference is made to Schedule 1, Part 1 of the *Government Sector Employment Act 2013*.



## Related Policies

The Policy must be read in conjunction with related policies and circulars including:

- NSW Treasury Policy and Guidelines Papers:
  - Risk Management Toolkit for NSW Public Sector Agencies (TPP 12-03)
  - Guidance on Shared Arrangements and Subcommittees of Audit and Risk Committees (TPP 12-04)
  - Certification of Internal Controls over Financial Information (TPP 14-05)
- Policies and circulars relating to the Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members:
  - Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members – Conditions
  - Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members – Guidelines
  - Code of Conduct: Audit and Risk Committee Chairs and Members
  - Department of Premier and Cabinet Circular No. 2009-13 – Prequalification Scheme: Audit and Risk Committees May 2009

## Purpose and Principles of the Policy

Section 11 of the *Public Finance & Audit Act 1983* makes clear that agencies are required to put in place an effective system of internal control and internal audit arrangements. These requirements are key components of sound financial management governance.

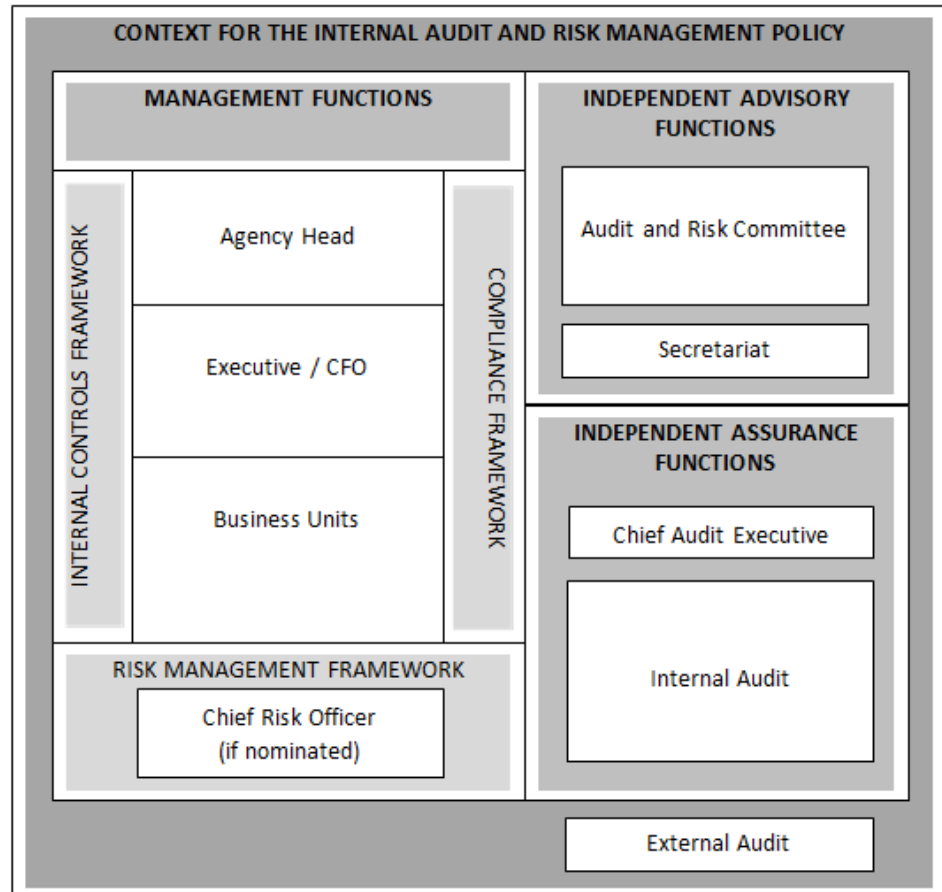
This Policy supports agency heads to meet their obligations under section 11. In addition, it seeks to strengthen internal audit, risk management and governance practices across agencies through achievement of the following three (3) Principles:

### Principles of the Policy

1. The agency has a risk management framework in place that supports the agency to achieve its objectives by systematically identifying and managing risks to:
  - increase the likelihood and impact of positive events
  - mitigate the likelihood and impact of negative events
2. The agency's internal audit function provides timely and useful information to management about:
  - the adequacy of, and compliance with, the system of internal control
  - whether agency results are consistent with established objectives
  - whether operations or programs are being carried out as planned
3. The agency head receives relevant and timely advice on the agency's governance, risk and control frameworks and its external accountability obligations from an independent Audit and Risk Committee with appropriate expertise

The Principles provide agencies with an outline of the objectives to be achieved by implementing each of the key elements of the agency's internal audit and risk management systems. As such, agencies can begin to implement a cycle of continuous improvement whereby they can assess whether their systems, processes and procedures are consistent with the spirit of the policy.

The Policy recognises that, to be effective, a governance structure will be comprised of management functions, advisory functions and assurance functions. These functions, individually and together, contribute to an environment of effective governance and informed decision-making. This structure – and the location of risk management, internal audit and the Audit and Risk Committee respectively within this structure - is illustrated at Figure 1 below.



**Figure 1:** Context for the Internal Audit and Risk Management Policy

Risk management is an integral part of good management. Effective decision-making must necessarily involve effective risk management. In essence, the successful management of risks will increase the likelihood of an agency achieving its objectives, both in the short and longer term.

A risk management framework provides a structure that will facilitate the use of a consistent risk management process wherever decisions are being made in an agency. This includes all projects, functions and activities, at all levels.

Internal audit relies on, and complements, an agency's risk management framework. The internal audit work plan should be based on an assessment of an agency's key risks and provide assurance, through independent review, that the agency controls have been designed to manage organisational risk and achieve the entity's objectives, and that these controls are operating effectively. This process of review will, in turn, identify and inform agency management of areas of new or altered risk thereby feeding back into the agency's risk management framework. Internal audit has a key advisory role to play in, among other things, providing assurance to the agency head that the design and operation of the risk management framework is effective.

The Audit and Risk Committee provides independent advice to the agency head through its monitoring and review of the agency's governance processes,

internal audit function, risk management and control frameworks, and its external accountability obligations.

It is through these distinct, yet critically interrelated, components that an agency can develop an effective governance framework to underpin informed decision-making and the achievement of its strategic and operational objectives.

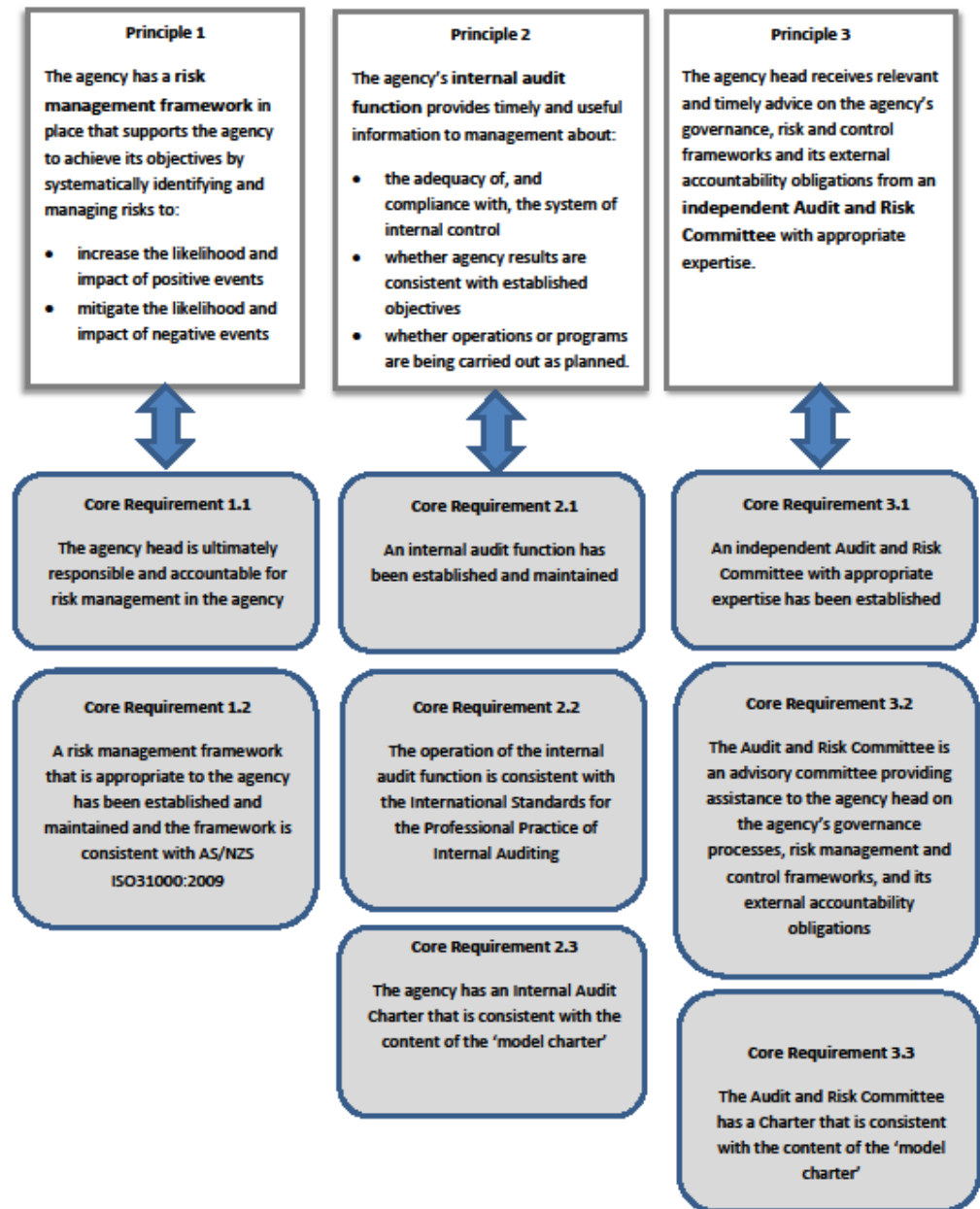
## **Core Requirements of the Policy**

Agencies must comply with the following eight (8) Core Requirements that are set out in detail in Part B of this Policy:

- 1. Risk Management Framework**
  - 1.1 The agency head is ultimately responsible and accountable for risk management in the agency
  - 1.2 A risk management framework that is appropriate to the agency has been established and maintained and the framework is consistent with AS/NZS ISO 31000:2009
- 2. Internal Audit Function**
  - 2.1 An internal audit function has been established and maintained
  - 2.2 The operation of the internal audit function is consistent with the International Standards for the Professional Practice of Internal Auditing
  - 2.3 The agency has an Internal Audit Charter that is consistent with the content of the 'model charter'
- 3. Audit and Risk Committee**
  - 3.1 An independent Audit and Risk Committee with appropriate expertise has been established
  - 3.2 The Audit and Risk Committee is an advisory committee providing assistance to the agency head on the agency's governance processes, risk management and control frameworks, and its external accountability obligations
  - 3.3 The Audit and Risk Committee has a Charter that is consistent with the content of the 'model charter'

As demonstrated in Figure 2 below, the Core Requirements are preconditions for, and support the realisation of, the Principles that provide the foundation of this Policy.

The Policy requires each agency head to attest compliance with the Core Requirements in an Attestation Statement published in the agency's annual report, with a copy provided to NSW Treasury on or before 31 October each year.



**Figure 2:** Overview of Internal Audit and Risk Management Policy

## Requirements for an Attestation Statement

The agency head is required to certify compliance with the eight (8) Core Requirements for the prior financial year (the 'reporting period') annually.

Agencies must use the relevant Attestation Statement template at Annexure C of this Policy and Guidelines Paper.

When reviewing the agency's compliance with the Policy, agencies will self-assess and determine whether they have been 'compliant', 'non-compliant' or 'in transition' in relation to each of the Core Requirements for the reporting period.

Where an agency determines that it has been compliant with a Core Requirement/s, the agency head need only note that the agency has been 'compliant' with the relevant Core Requirement(s) on the Attestation Statement. Where an agency determines that it has been 'non-compliant' or 'in transition', agencies should refer to the 'Exceptions Process' and 'Transitional Arrangement' sections below.

The agency head must publish the Attestation Statement in the organisation's Annual Report. In terms of presentation within the Annual Report, the agency head must ensure that the Attestation Statement is located in the Annual Report adjacent to the existing requirement<sup>5</sup> to disclose 'risk management and insurance activities.'

A copy of the Attestation Statement must be separately submitted to NSW Treasury on or before 31 October each year. For any non-compliance with Core Requirements, agencies will be required to also submit a copy of the relevant Portfolio Minister's exception approval.

## Exceptions Process

The exceptions process is available where an agency does not fully comply with a Core Requirement/s during a reporting period and the deficiency is not also covered by a transitional arrangement (refer Transitional Arrangements below at page 14).

Where full compliance with a Core Requirement/s during a reporting period is not possible, an agency head may apply to the agency's Portfolio Minister for an exception from the Core Requirement(s) for that reporting period provided that the agency head satisfactorily demonstrates that:

- the agency cannot comply because of:
  - temporary extenuating circumstances (not including circumstances related to transitional arrangements), or
  - substantial structural constraints, or
  - resourcing constraints that will materially impact the agency's operating budgetand
- the agency is not able to enter into appropriate<sup>6</sup> shared arrangements for compliance
- and
- current or proposed alternative arrangements will achieve outcomes equivalent to the requirement(s).

Any exception to the Core Requirement(s) for the reporting period must be determined by the Portfolio Minister.

An application by an agency head to the Portfolio Minister for a determination for an exception from the Core Requirement(s) must be in writing and:

- provide the reasons why the agency cannot comply with the requirement(s)
- and
- describe and demonstrate the agency's efforts to implement alternative arrangements and how these will achieve an outcome equivalent to the requirement(s)

The agency head must ensure that a written request to the Portfolio Minister is made prior to the reporting period in which full compliance with the Core Requirements is unable to be achieved or as soon as circumstances arise during the reporting period that will make full compliance throughout the reporting period impossible. The agency head is encouraged to use the relevant Determination Template at Annexure D of this Policy and Guidelines Paper for the purposes of making an application for exception.

<sup>5</sup> Refer *Annual Reports (Departments) Regulation 2010* and *Annual Reports (Statutory Bodies) Regulation 2010*.

<sup>6</sup> Consistent with the *Guidance on Shared Arrangements and Subcommittees for Audit and Risk Committees* (TPP 12-04).

A determination in respect of the exceptions criteria will be operative for two (2) reporting periods only and, even where the circumstances for the initial exception are ongoing, must be renewed every two (2) years.

The agency head must note on the Attestation Statement (refer Annexure C of this Policy and Guidelines Paper) that an agency has been 'non-compliant' with a Core Requirement/s and provide an explanation of the departure from the Policy. The agency head must also indicate that an exception from a Core Requirement/s has been determined by the Portfolio Minister.

In such cases, the agency head must retain documentary evidence of the Portfolio Minister's determination (for example, Annexure D) and submit this material to NSW Treasury as an attachment to the Attestation Statement on or before 31 October.

## Transitional Arrangements

There are two circumstances in which agencies are permitted to attest to being 'in transition':

- Implementation of arrangements by **new agencies** to comply with the Core Requirement/s of the Policy
- Implementation of arrangements by **existing agencies** to comply with **new** Core Requirement/s arising from the commencement of this Policy as identified in Table 1 below

The agency head must note on the Attestation Statement (refer Annexure C of this Policy and Guidelines Paper) that an agency has been 'in transition' in relation to a Core Requirement/s. The agency head must also detail in the Attestation Statement, the steps that the agency will take to achieve 'compliance' with the relevant Core Requirement(s).

Agencies taking advantage of transitional arrangements are not required to apply to the agency's Portfolio Minister for an exception from the Core Requirement(s) for that reporting period.

### New agencies

New agencies are those agencies added to either Schedule 2 or 3 of the *Public Finance and Audit Act 1983* after the date of commencement of this Policy<sup>7</sup>.

To provide reasonable time for the implementation of arrangements for compliance with the core requirements of this Policy, new agencies will be provided with a transitional period of 24 months from the date of inclusion in Schedule 2 or 3 of the *Public Finance and Audit Act 1983*.

New agencies are expected to take steps to comply with all the core requirements of the Policy during the first 24 months from the date of inclusion in Schedule 2 or 3 of the *Public Finance and Audit Act 1983*. Where audit and risk practices are not fully compliant with a Core Requirement(s) during the reporting period, the new agency will be permitted to record 'in transition' next to the relevant Core Requirement(s) in the agency's Attestation Statement (refer Annexure C), on condition that full compliance with the Core Requirement(s) is achieved within the 24 month transitional period.

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<sup>7</sup> Agencies that have changed name and been relisted in Schedules 2 or 3 of the *Public Finance and Audit Act 1983* will not be considered to be new agencies, unless their principle purpose has changed.

New agencies must also detail how the agency plans to achieve compliance within the 24 month transition period in the space provided on the Attestation Statement.

Agencies taking advantage of the transitional arrangements do not require Ministerial approval.

### Existing agencies

Existing agencies are those listed on either Schedule 2 or 3 of the *Public Finance and Audit Act 1983* at the date of commencement of this Policy.

The Policy does not alter the obligations of agencies with respect to their previous audit and risk practices and compliance with the *Internal Audit and Risk Management Policy*. The Policy continues to require agency heads to attest and report compliance with a prescribed set of 'Core Requirements' annually. The Policy does, however, make alterations to the manner in which agencies implement and maintain their audit and risk practices, processes and procedures.

To allow existing agencies to adjust and amend their audit and risk practices to be consistent with this revised Policy, the arrangements outlined in Table 1 will apply for the transitional period. Transitional arrangements do not cover other areas of non-compliance with the Policy for which a Ministerial exception will still be required.

Agencies are expected to take steps to ensure compliance with all the Core Requirements of the Policy. Where an adjustment or amendment to audit and risk practice is required and the agency is not fully compliant with a Core Requirement/s during the reporting period, the agency will be permitted to record 'in transition' next to the relevant Core Requirement(s) in the agency's Attestation Statement (refer Annexure C), on condition that steps are being taken to ensure full compliance with the Core Requirement(s) within the allowable transition period, as identified in table below.

**Table 1:** New requirements arising from the commencement of this Policy

<b>Clause</b>	<b>New requirement</b>	<b>Transition period<sup>8</sup></b>
2.1.12	In a Department <sup>9</sup> , the Chief Audit Executive must have appropriate professional certifications and qualifications and/or demonstrate high-level experience for the oversight of a highly effective internal audit function and as a source of expert professional support to agencies across the cluster.	<b>24 months</b> is provided for Secretaries to ensure that the Chief Audit Executive has appropriate professional certifications and qualifications and/or demonstrated relevant high-level experience.
2.3.1	The agency head must ensure that the internal audit function has a Charter that contains the structural elements of, and is consistent with, the content of the 'model charter' at Annexure A of this Policy.	<b>12 months</b> is provided for agencies to amend and align their Charter with the 'model charter'.
3.1.4	The Audit and Risk Committee must be comprised of only 'independent members' (including an 'independent chair').	<b>24 months</b> is provided for agencies to reconstitute their Audit and Risk Committees to contain independent members only.

<sup>8</sup> The transition period for implementing new requirements commences from the date of the commencement of the Policy.

<sup>9</sup> For the purpose of this requirement only, 'Department' is limited to those entities listed in Schedule 1, Part 1 of the *Government Sector Employment Act 2013*.

<b>Clause</b>	<b>New requirement</b>	<b>Transition period<sup>b</sup></b>
3.1.13	The initial term of membership of the Audit and Risk Committee must be at least three (3) years and must not exceed five (5) years. Members can be reappointed for a further term but the total period of membership on the Committee must not exceed eight (8) years.	<b>24 months</b> is provided for implementation of the minimum three (3) year term for Audit and Risk Committee members.
3.3.1	The agency head must ensure that the Audit and Risk Committee has a Charter that is consistent with the content of the model charter at Annexure B of this Policy.	<b>24 months</b> is provided for agencies to amend and align their Charter with the 'model charter'.

Agencies must also describe in the attestation how they plan to achieve compliance during the allowable transition period.

Agencies taking advantage of the transitional arrangements do not require Ministerial approval.

### **Monitoring of Policy compliance**

The Policy requires that agencies publish an Attestation Statement in the Annual Report each year attesting compliance with the core requirements.

The Auditor-General may undertake an assurance role in monitoring the sector's compliance with the core requirements outlined in the Policy. The Auditor-General may conduct a review of agency compliance with the Policy by conducting a compliance audit on a sample of agencies. Periodically, the Auditor-General may undertake a review of exceptions and the reasonableness of those exceptions.

NSW Treasury will, on a periodic basis and at least once each five (5) years, review the operation of the Policy to assess the efficiency and effectiveness of the arrangements, as well as to assess the sector's compliance with the core requirements outlined in the Policy. Updates to the Policy that take place between formal reviews may be made as version updates and agencies notified accordingly.



## Part B: Instructions for implementing the core requirements

### 1. Risk Management Framework

#### Principle 1:

The agency has a risk management framework in place that supports the agency to achieve its objectives by systematically identifying and managing risks to:

- increase the likelihood and impact of positive events
- mitigate the likelihood and impact of negative events

**Core Requirement 1.1 - The agency head is ultimately responsible and accountable for risk management in the agency.**

#### Definition of Risk

- 1.1.1 Except where noted, this Policy adopts the definitions in the accompanying ISO: Guide 73:2009 Risk management including:
- **Risk** being the effect of uncertainty on objectives noting that effect is a deviation from the expected and may be positive and/or negative.
- 1.1.2 In addition, for the purposes of this Policy:
- **risk management plans** identify the strategy, activities, resources, responsibilities and timeframes for implementing and maintaining risk management in an agency
  - A **Chief Risk Officer** is a person that has designated responsibility for designing the agency's risk management framework and for the day-to-day activities associated with coordinating, maintaining and embedding the framework in an agency.

#### Risk Management Roles and Responsibilities

- 1.1.3 The agency head has ultimate responsibility and accountability for risk management in the agency. The agency head's risk management related responsibilities also include promoting a positive risk culture, determining and articulating the level of risk the agency is willing to accept or tolerate, approving the agency's risk management policy and plans and ensuring these are communicated, implemented, and kept current.
- 1.1.4 The agency head is responsible for ensuring that managers and decision makers at all levels in the agency understand that they are accountable for managing risk within their sphere of authority and in relation to the decisions they take.
- 1.1.5 The agency head is responsible for ensuring that all staff (permanent, temporary or contract) are aware they are accountable for managing risk in their day to day roles, including carrying out their roles in accordance with policies and procedures, identifying risks and inefficient or ineffective controls and reporting these to the appropriate level of management.

- 1.1.6 Internal audit is responsible for providing assurance to the agency head and the Audit and Risk Committee on the effectiveness of the risk management framework including the design and operational effectiveness of internal controls.

**Practice Note – Appointing a Chief Risk Officer**

All agencies are encouraged to nominate a Chief Risk Officer who is responsible for promoting risk management within the agency, designing the agency's risk management framework and for the day-to-day activities associated with coordinating, maintaining and embedding the framework in the agency.

- 1.1.7 The roles and responsibilities of the Audit and Risk Committee with respect to risk management oversight are outlined in the Model Audit and Risk Committee Charter at Annexure B.

**Core Requirement 1.2 - A risk management framework that is appropriate to the agency has been established and maintained and the framework is consistent with AS/NZS ISO 31000:2009.**

**Risk Management Standards**

- 1.2.1 The Government has approved the application of current Australian/New Zealand Standards (AS/NZS) on risk management in the NSW public sector. The current standard is AS/NZS ISO 31000:2009 *Risk management-Principles and guidelines*. This standard sets out a generic process for managing any form of risk in a systematic, transparent and credible manner, and within any scope and context<sup>10</sup>.
- 1.2.2 The agency head must ensure that a risk management framework tailored to the needs of the agency and consistent with AS/NZS ISO 31000:2009 is established and maintained.

**Practice Note – Principles-based guidance**

AS/NZS ISO 31000:2009 consists of a set of principles, frameworks and processes aimed at improving decision making about risks and their management by reducing uncertainty and increasing the likelihood that organisational objectives will be achieved. It is not a compliance standard, but instead provides principles-based guidance on best practice.

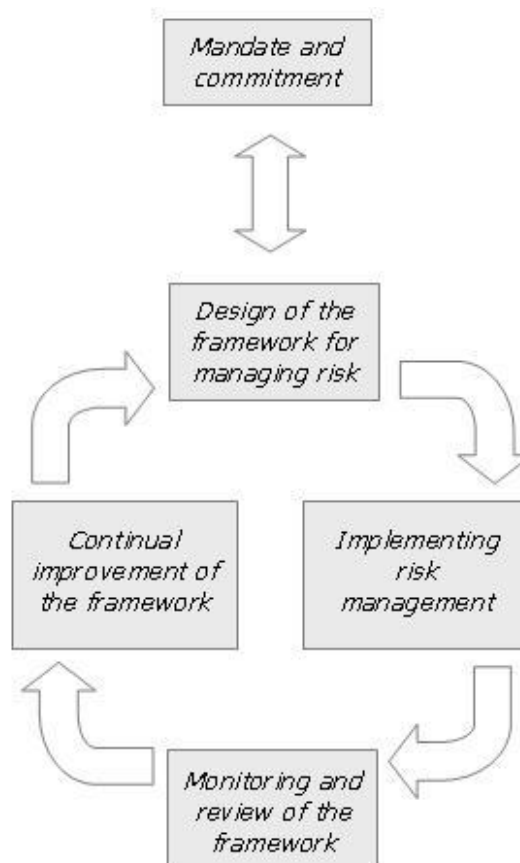
Additional guidance to support agencies to develop effective and integrated risk management frameworks and processes consistent with the Standard is contained in *TPP 12-03 Risk Management Toolkit for NSW Public Sector Agencies*.

- 1.2.3 AS/NZS ISO 31000:2009 describes a set of components that provide the foundations and organisational arrangements for designing, implementing and monitoring, reviewing and continually improving risk management throughout an organisation, as illustrated below in Figure 3.

<sup>10</sup> International Organization for Standardisation (ISO) 2009, *ISO 31000: 2009 Risk management – Principles and guidance*, ISO, Geneva.

The key elements of a risk management framework are:

- **Mandate and Commitment** – agency head and senior management provide and communicate a risk management mandate, establish a risk management policy, assign accountabilities and responsibilities and commit to implement, resource, operate, monitor and continually improve risk management
- **Design of the framework for managing risk** - a customised framework is designed to provide a structure to embed the use of a consistent risk management process wherever decisions are made in the agency
- **Implementing risk management** - a risk management plan to implement the risk management framework and policy is developed and implemented
- **Monitoring and review of the framework** - the risk management framework is monitored and reviewed to ensure it is fit for purpose and remains consistent with the agency's objectives
- **Continual improvement of the framework** - the framework is continuously enhanced to support the agency moving to a higher level of maturity in risk management



**Figure 3:** Key elements of a risk management framework  
(Adapted from AS/NZS ISO 31000:2009)

1.2.4 AS/NZS ISO 31000:2009 also identifies eleven principles that must be complied with for risk management to be effective. Risk management should:

- create and protect value
- be an integral part of all agency's activities and processes including planning and project management
- be part of decision making
- explicitly take account of uncertainties
- be systematic, structured and timely
- be based on best available information
- be tailored to the agency
- take human and cultural factors into account
- be transparent and inclusive in involving stakeholders
- be dynamic, iterative and responsive to change
- facilitate an agency's continual improvement and enhancement.

***Practice Note: Monitoring and review of Risk Management Framework and Process***

When considering the process for monitoring and review of the risk management framework, agencies should ensure that it remains fit for purpose and consistent with the agency's risk management objectives. Review methods will differ among agencies depending on:

- the maturity of the agency's risk management framework
- the resources available, and
- the aspect of the framework being assessed.

Review methods include a variety of self-assessment tools and internal audit processes. Further guidance on monitoring and review mechanisms can be found in *TPP 12-03 Risk Management Toolkit for the NSW Public Sector*.

## **Risk Management Integration**

1.2.5 Risk management is a critical component of governance arrangements in an agency, and should be embedded within an agency's planning processes, decision-making structures and operational procedures. The agency head must ensure that:

- risk management is integrated into strategic and business planning, budgeting and reporting processes
- risks are formally considered when developing and implementing policies or programs, projects and other activities including procurement
- risk management covers all relevant risk categories including strategic, operational, compliance, reputational and reporting risks
- the agency's ability to accept or tolerate risk is appropriately reflected in the internal control framework through, for example, financial and other delegations
- there is clear communication of risks and risk management practices to internal and external stakeholders
- there are agency-specific, fit-for-purpose tools, systems and processes to help all those responsible for managing risk.

## **Risk Management Culture**

- 1.2.6 Risk management is built on, and is sustained by, a positive organisational culture that promotes risk management as part of every-day decision making, and supports the acceptance, communication and management of appropriate risk at all levels in the agency. It is important that senior management take a leadership role in creating an environment that promotes positive risk management behaviour. The agency head must ensure that:
- there is clear communication of risk management practices and their benefits
  - senior managers demonstrate a commitment to risk management
  - effective risk management is positively reinforced
  - measures of risk culture and attitude are incorporated into organisational climate surveys and performance management systems.

## **Managing Project Risks**

- 1.2.7 Sound project governance arrangements are key to managing project risks. The agency head must ensure that the risk management process used to manage project risks is consistent with and linked to the agency's risk management framework, to ensure project risks are visible, rather than being managed as a discrete activity.

## **Risks that impact other agencies**

- 1.2.8 The agency head must implement processes to ensure that significant risks arising from the strategic and operational activities of the agency that affect, or are likely to affect, other agencies are formally communicated to the affected agencies.
- 1.2.9 In the communication in clause 1.2.8, the agency head must include advice of any risk management mitigation measures that the agency has in place to manage the risk, and an assessment of any residual risk to the affected agencies. Further advice must be provided if there are any material changes to this residual risk.
- 1.2.10 On receipt of advice from another agency about a risk that affects or is likely to affect an agency, the affected agency should make its own assessment of the risk and develop its own mitigation strategy.

## 2. Internal audit function

### Principle 2:

The agency's internal audit function provides timely and useful information to management about:

- the adequacy of and compliance with the system of internal control
- whether agency results are consistent with established objectives and
- whether operations or programs are being carried out as planned.

**Core Requirement 2.1 - An internal audit function has been established and maintained**

#### Definition of Internal Audit

2.1.1 This Policy adopts the Institute of Internal Auditors' (IIA) definition of 'internal audit' as 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes'.

2.1.2 The IIA definition covers two types of internal audit services:

- **assurance services** – an objective examination of evidence to provide an independent assessment of risk management, control and governance processes of the organisation, and
- **consulting services** – advisory and related client activities, the nature and scope of which are agreed upon with the client and which are intended to add value and improve an organisation's governance, risk management, and control processes without the internal auditor assuming management responsibility.

In this Policy, internal audit services may include either or both of these service categories.

#### Establishment of Internal Audit Function

2.1.3 The agency head must ensure there is an operational and adequately resourced internal audit function.

2.1.4 In this Policy, an 'internal audit function' means either an 'in-house', a 'co-sourced' or an 'out-sourced' internal audit service delivery model. The agency head must:

- determine the appropriate service delivery model for the internal audit function based on the agency's needs, which may change over time, and
- ensure that the service delivery model selected will provide assurance, independent from operational management, on risk management, control and governance processes.

### ***Practice Note – Determining appropriate Service Delivery Models***

When determining the most appropriate service delivery model for the internal audit function, agencies should consider the following factors:

- size of agency, in terms of both staffing levels and budget
- complexity of the agency's core business
- risk profile of the agency's operations
- geographical and functional distribution of the agency's operations
- viability of alternative service delivery models and the ability of the agency to attract and retain suitable staff, including professional staff for in-house service delivery, and experienced contract managers for out-sourced service delivery
- overall cost of alternative service delivery models, including the salaries and overheads of in-house professional staff, and the costs of contract management and delivery for out-sourced service delivery
- capacity of alternative service delivery models to deliver flexibility in the internal audit work-plan.

### ***Practice Note – Service Delivery Models***

Where the agency head establishes the internal audit function using an 'in-house' service delivery model, the function is defined as being exclusively or predominantly provided and managed by an agency's human resources.

Where the agency head establishes the internal audit function using 'co-sourced' service delivery, the agency provides and manages internal audit services through a combination of in-house resources and contracted services delivered by an appropriately qualified third party provider.

Where an 'out-sourced' service delivery model is established, internal audit services are provided exclusively by an appropriately qualified third party provider.

A co-sourced or out-sourced service delivery model for the internal audit function may include utilisation by the agency head of pooled internal audit resources made available through, for example, a cluster arrangement.

- 2.1.5 Where the internal audit function is established using a co-sourced or out-sourced service delivery model, the agency head must ensure that an experienced senior employee of the agency is appointed as the in-house liaison officer and/or contract manager for any internal audit services delivered by a third party provider. This is to ensure that the agency retains control of the internal audit strategic direction and is able to actively monitor the performance of the third party provider.
- 2.1.6 In all models responsibility for the internal audit function remains with the agency and the Chief Audit Executive must be an employee of the agency and cannot be outsourced, other than as a result of an appropriate shared arrangement<sup>11</sup>.

<sup>11</sup> In compliance with clause 2.1.13 or with the *Guidance for Shared Arrangements and Subcommittees of Audit and Risk Committees (TPP 12-04)*.

## Appointment of a Chief Audit Executive

2.1.7 The agency head must appoint a Chief Audit Executive to head the internal audit function. The Chief Audit Executive is the most senior officer within the agency with responsibility for internal audit<sup>12</sup>. The Chief Audit Executive position must:

- be classified at a sufficiently senior level to ensure that they are able to discuss and negotiate internal audit results with senior management on a reasonably equal footing<sup>13</sup>
- possess skills, knowledge and personal qualities that can ensure the credibility and acceptance of the internal audit function
- not be out-sourced to a service provider

2.1.8 The agency head must consult with the Audit and Risk Committee when appointing or removing a Chief Audit Executive.

2.1.9 The agency head must determine whether the Chief Audit Executive position will be a dedicated role within the agency. In doing so, the agency head must seek the advice of the Audit and Risk Committee.

It is expected that a dedicated Chief Audit Executive position would be established where the agency has more than one of the following factors:

- significant assets
- a high risk profile
- a high level of expenditure
- engages in complex transactions

2.1.10 Neither the Chief Executive Officer nor the Chief Finance Officer are to be appointed as Chief Audit Executive.

2.1.11 Where the appointed Chief Audit Executive also has responsibility for other aspects of the agency's operations that may possibly be the subject of an audit by the internal audit function, the agency must implement safeguards to prevent an actual or perceived conflict of interest arising.

### ***Practice Note: Safeguards to protect the independence and objectivity of Internal Audit***

In situations where the Chief Audit Executive also has executive responsibility for other aspects of the agency's operations, agencies may consider implementing any or all of the following safeguards to preserve the independence and objectivity of internal audit, including:

- documenting any conflicts of interest (perceived or actual) concerning the other operational roles held by the Chief Audit Executive
- assigning the role usually performed by the Chief Audit Executive during an audit assignment of any operational area which is also the responsibility of the Chief Audit Executive, to another member of the executive who is independent of the internal audit function of the agency and retains the same level of seniority of the Chief Audit Executive
- ensuring that internal audit project briefs are reviewed by the Audit and Risk Committee to ensure adequate coverage of the proposed audit, where the audit assignment concerns any operational area which is also the responsibility of the Chief Audit Executive, and

<sup>12</sup> Whether in-house, co-sourced or outsourced.

<sup>13</sup> It is not appropriate for the agency head to be appointed as the Chief Audit Executive.



- where an agency engages service providers, providing mechanisms for the service providers to raise any identified or perceived conflicts of interest with the agency head, and then (if appropriate) the Audit and Risk Committee

2.1.12 In a Department<sup>14</sup>, the Chief Audit Executive must have appropriate professional certifications<sup>15</sup> and qualifications and/or demonstrated relevant high-level experience for the oversight of a highly effective internal audit function and as a source of expert professional support to agencies across the cluster.<sup>16</sup>

2.1.13 A Chief Audit Executive may be shared, outside of the requirements and approval required by the *Guidance on Shared Arrangements and Subcommittees of Audit and Risk Committees (TPP 12-04)*, between more than one agency within a cluster where:

- there is a common agency head
- the Chief Audit Executive is a direct report to the agency head (administratively)
- the Chief Audit Executive is a dedicated role within one of the agencies
- the Chief Audit Executive heads the internal audit function for each agency and has sufficient internal resources available to him/her to properly deliver an in-house internal audit function or properly manage an outsourced internal audit function.

2.1.14 To achieve operational independence of the internal audit function, the agency head must ensure that the Chief Audit Executive has a dual reporting line. A dual reporting line means that the Chief Audit Executive must:

- report **administratively** to the agency head to facilitate day-to-day operations of the internal audit function<sup>17</sup>, and
- report **functionally** to the Audit and Risk Committee for strategic direction and accountability of the internal audit function.

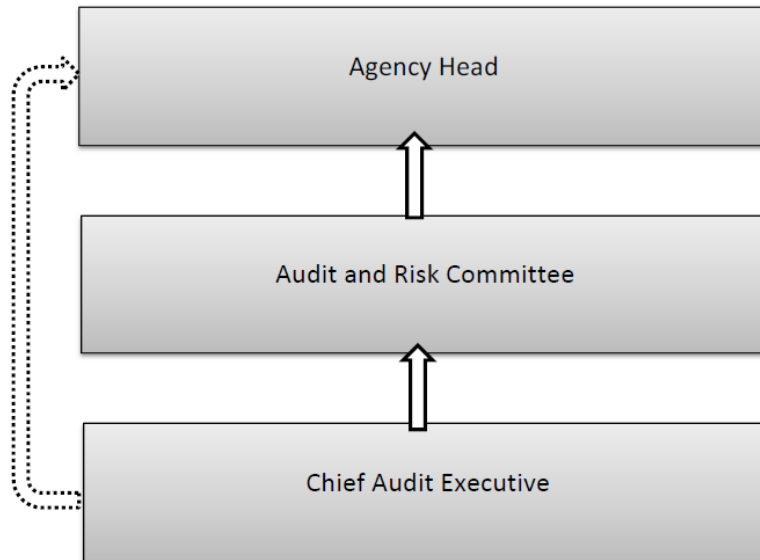
The dual reporting line must be consistent with the 'reporting line' structure in Figure 4 below. In Figure 4, the dotted line represents the 'administrative' reporting line, and the bold line represents the 'functional' reporting line:

<sup>14</sup> For the purpose of this clause only, 'Department' is limited to those entities listed in Schedule 1, Part 1 of the *Government Sector Employment Act 2013*.

<sup>15</sup> Appropriate professional certification might include those which would be recognised by the Institute of Internal Auditors, CPA Australia or the Institute of Chartered Accountants.

<sup>16</sup> This requirement may be subject to the provisions relating to transitional arrangements on page 14 of the Policy.

<sup>17</sup> In the case of a statutory body, it may be appropriate for the Chief Audit Executive to report administratively to either the chief executive of the statutory body or a delegate director of the board.



**Figure 4:** Dual reporting line structure

Where a Chief Audit Executive is shared, the Chief Audit Executive reports functionally to Audit and Risk Committee of each individual agency.

**Core Requirement 2.2 - The operation of the internal audit function is consistent with the International Standards for the Professional Practice of Internal Auditing**

**Consistency with International Standards for the Professional Practice of Internal Auditing**

- 2.2.1 The Government has approved the application of the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* (the IIA Standards) in the NSW public sector. The IIA Standards, and related professional practice guidelines, are available from the Institute of Internal Auditors website<sup>18</sup>.
- 2.2.2 The agency head must ensure that the internal audit function, as defined in this Policy, operates in accordance with the IIA Standards, unless the IIA Standards are in conflict with the *Internal Audit and Risk Management Policy* or any related NSW Government policies and guidelines.

<sup>18</sup> <https://www.iaa.org.au/technicalResources/standards.aspx>.

## **Additional Internal Audit Requirements**

### ***Internal Audit Policies and Procedures***

- 2.2.3 The agency head must ensure that the Chief Audit Executive develops and maintains policies and procedures for the internal audit function<sup>19</sup>.
- 2.2.4 Where the internal audit function is established using an outsourced service delivery model, the agency head must ensure the contract for internal audit services specifies that the external third party provider will:
- be consulted in the development and/or maintenance of the policies and procedures
  - apply audit methodologies that accord with IIA Standards
  - make the audit methodologies used accessible to the agency (subject to any licensing or other restrictions that may be in place).
- The establishment of an outsourced service delivery model does not, however, discharge the requirement for the agency to develop and maintain policies and procedures for those structural elements, other than audit methodology, listed in clause 2.2.6 below.
- 2.2.5 The Audit and Risk Committee must review and provide advice to the agency head on the internal audit policies and procedures before those policies and procedures are finalised.
- 2.2.6 The internal audit policies and procedures must be consistent with this Policy and the professional practices set out in the IIA Standards, and include the following structural elements:
- general policies and standards including the Audit Charter
  - structure, resourcing and professional development of the internal audit function
  - audit planning including strategic and annual audit planning
  - audit methodology
  - audit reports
  - recommendations and timeframes relating to monitoring and reporting
  - internal audit quality assurance and improvement
  - information management including document security
- 2.2.7 All internal audit documentation is to remain the property of, and able to be accessed by, the audited agency, including where the internal audit services are performed by an external third party provider.

### ***Audit Reports***

- 2.2.8 In addition to the requirements set out in the IIA Standards, the agency head must ensure that the internal audit function, as defined in this Policy, operates in accordance with the requirements for the reporting and monitoring of internal audit activities set out in this Core Requirement.
- 2.2.9 The Chief Audit Executive must report to the Audit and Risk Committee those internal audit findings and related recommendations that are assessed to be the most significant using methodology that risk rates audit findings, as set out below (clauses 2.2.12 – 2.2.16).

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<sup>19</sup> An audit manual is considered equivalent for the purpose of satisfying the agency's requirement to maintain policies and procedures.

- 2.2.10 The Chief Audit Executive must ensure that the Audit and Risk Committee has access to all internal audit findings, reports and related recommendations.
- 2.2.11 The Chief Audit Executive must develop and maintain policies and procedures for the reporting of internal audit findings, recommendations, and agreed action plans in the agency.

***Practice Note – Audit Reports:***

The audit report is the key means of communicating the findings and recommendations of internal audit services. It is critical that all stakeholders have confidence in the accuracy and validity of audit findings, and that appropriate standards are applied to ensure that audit recommendations are prioritised, action-oriented and cost-effective to implement. It is noted that the IIA Standards require that communications be accurate, objective, clear, concise, constructive, complete and timely.

The policies and procedures for the reporting of internal audit findings and recommendations in the agency should be drafted to ensure that each Audit Report:

- contains an overall audit conclusion and risk rating related to the audit objective(s)
- contains risk-rated audit observations
- is prepared in accordance with a stipulated report template
- is drafted and finalised within stipulated timeframes
- includes comments from the sponsor
- includes an action plan, including the individual responsible and timeframe for implementing agreed recommendations
- contains details of the review and quality processes conducted.

***Risk Rating of Audit Findings***

- 2.2.12 The Chief Audit Executive must ensure that the internal audit function adopts a methodology which risk rates audit findings for assessing and responding to audit issues. The methodology should be consistent with the current risk standard, as defined in Core Requirement 1.2 of this Policy.
- 2.2.13 The Audit and Risk Committee must review and endorse the methodology for risk rating audit findings. Once finalised, the methodology must be the basis for protocols relating to the reporting of audit findings, monitoring of the implementation of agreed actions, and the follow-up of outstanding agreed actions.
- 2.2.14 The Chief Audit Executive must ensure that every audit finding is categorised and prioritised according to the risk the audit finding represents to the agency if the recommendations related to the finding are not implemented.
- 2.2.15 The Chief Audit Executive must ensure that a common, easily understood system for risk categorisation is used to communicate the relative importance of risk ratings of findings to the Audit and Risk Committee, the agency head, and operational management

***Practice Note: Risk categorisations for audit findings***

It is good practice for agencies to align their risk categorisation system for audit findings, with the categorisation system used in the agency's risk management framework. This can help with the agency's understanding of risk. Where this is not feasible, or appropriate, agencies should ensure that the relationship and differences between various categorisation systems are clearly identified.

- 2.2.16 The Audit and Risk Committee must review the audit findings and related recommendations that have been assessed as the most significant according to the risk.

***Action Plans***

- 2.2.17 The Chief Audit Executive must ensure that a course of action for every audit finding is recommended.
- 2.2.18 The Chief Audit Executive must ensure that the recommended actions are referred to operational management for formal response. Operational management has the right to reject recommended actions on reasonable grounds. Management's reasons for rejecting actions must, however, be documented in the audit report.
- 2.2.19 The agency head must ensure that operational management prepares an action plan for every internal audit. The action plan must assign responsibility for implementation to individuals within the agency.
- 2.2.20 The agency head must ensure that all actions are implemented within proposed timeframes.

***Monitoring and follow-up of Action Plans***

- 2.2.21 The Chief Audit Executive must establish and maintain a system to monitor and follow-up progress in implementing action plans. The system should be documented in policies and procedures required under clauses 2.2.3 – 2.2.6 above.
- 2.2.22 The Chief Audit Executive must report on the progress of the implementation of the action plans to the Audit and Risk Committee
- 2.2.23 Where the Audit and Risk Committee is not satisfied with progress in implementing actions, the Audit and Risk Committee must refer the concerns to operational management and, where necessary, the agency head, so that operational management is made fully aware of the risks posed to the agency.

**Core Requirement 2.3 - The agency has an Internal Audit Charter that is consistent with the content of the 'model charter'**

**Model Charter for the Internal Audit Function**

- 2.3.1 The agency head must ensure that the internal audit function has a Charter that contains the structural elements of, and is consistent with, the content of the 'model charter' at Annexure A of this Policy.<sup>20</sup>
- 2.3.2 The Internal Audit Charter must be developed by the Chief Audit Executive and approved by the agency head on the recommendation of the Audit and Risk Committee.
- 2.3.3 The agency head is required to consider the specific circumstances of the agency and may, where appropriate, include provisions additional to those set out in the model charter, providing these do not conflict with the model charter.

**Governance of the Internal Audit Function**

- 2.3.4 The agency head must ensure there is a clear separation of operational management from the internal audit function.
- 2.3.5 As noted in 2.1.14 above, to achieve operational independence of the internal audit function, the agency head must ensure that the Chief Audit Executive has a dual reporting line.
- 2.3.6 The agency head must ensure that internal audit reporting lines are clearly documented within the Internal Audit Charter and Audit and Risk Committee Charter.
- 2.3.7 The Audit and Risk Committee reviews and makes recommendations to the agency head regarding the approval of internal audit plans.
- 2.3.8 The agency head must ensure that the internal audit function is appropriately positioned within the agency's governance framework to work with external audit and internal business units.
- 2.3.9 The agency head must ensure the internal audit function is operationally independent from the activities it audits.

**Resourcing of the Internal Audit Function**

- 2.3.10 The agency head must ensure that the internal audit function has a budget, and access to sufficient professional staff resources with the necessary capabilities, skills and experience, that are sufficient relative to the risks and assurance needs of the agency.
- 2.3.11 The agency head must determine the budget and level of resourcing taking into account recommendations made by the Audit and Risk Committee.

Where the Audit and Risk Committee considers that the level of resourcing for the internal audit function is insufficient relative to the risks facing the agency, it should draw this to the attention of the agency head. The chair of the Audit and Risk Committee must ensure that the

<sup>20</sup> This requirement may be subject to the provisions relating to transitional arrangements on page 14 of the Policy.

Committee's review of, and recommendations on, proposed allocations of resources are minuted by the Committee's secretariat.

- 2.3.12 The agency head must ensure that professional staff of the internal audit function have reasonable access to training and professional development through the relevant professional associations, e.g. Institute of Internal Auditors (IIA), CPA Australia (CPA), Institute of Chartered Accountants (CA).
- 2.3.13 The agency head must ensure that all internal audit staff are provided with sufficient and up-to-date information on the agency's objectives, risks and operations in order for them to perform their roles and discharge their responsibilities.

***Practice Note – Training and development for staff of the internal audit function***

The Chief Audit Executive should, as part of strategic planning for the internal audit function, identify the training and development needs of professional and other staff of the internal audit function including:

- the professional development needs of professional staff
- the training and development needs of other staff in order to effectively discharge their roles and responsibilities including, where a co-sourced or outsourced service delivery model is adopted, ensuring staff are equipped as informed clients in liaising with external service providers
- learning and development activities to enhance the capabilities of staff, together with their understanding and awareness of governance, risk and control issues affecting the agency.

The Chief Audit Executive should ensure that these training needs are undertaken.

**Internal Audit Quality Assurance and Improvement**

- 2.3.14 The agency head must ensure there is a documented and operational Quality Assurance and Improvement Program for the internal audit function<sup>21</sup>.
- 2.3.15 The agency's Quality Assurance and Improvement Program must include both internal and external assessments. Internal assessments must include:
- ongoing monitoring of the performance of the internal audit function, and
  - periodic self-assessments or assessment by other persons within the agency with sufficient knowledge of internal audit practices
- 2.3.16 An external assessment of the internal audit function must be conducted at least once every five (5) years by a qualified, independent assessor. That review must consider the agency's compliance with and performance against this Policy and the relevant professional standards.

<sup>21</sup> This requirement applies regardless of the Internal Audit service delivery model adopted.

**Practice Note – Nature of external assessment of internal audit function**

The internal audit function of the agency should operate in accordance with the professional standards and focus on delivering outcomes for the agency. This assessment should be carried out even where the majority of the internal audit function is outsourced to an external service provider. The assessment is not of the external service provider but rather on the internal audit function as implemented in the agency.

It is envisaged that an agency would commission an external assessment that would cover both those areas that are delivered internally (e.g. whether the Agency has an Internal Audit Charter and whether the results of audits are communicated and disseminated to appropriate parties within the agency) and those that are delivered by an external service provider (e.g. whether engagements have been performed with proficiency and due professional care). A significant component of the assessment would be whether the internal audit activity has evaluated and contributed to the improvement of governance, risk management and control processes within the agency.

The external service provider might have its own quality accreditation that an agency may require evidence of as part of the engagement process. This will, however, be unrelated to assessment of the internal audit function required by clauses 2.3.14 - 2.3.16.

**Practice Note – Process of external assessment of internal audit function**

An external assessment can be undertaken by:

1. engaging an external assessor to undertake the assessment
2. undertaking a self-assessment and engaging a qualified external reviewer to conduct an independent validation of that self-assessment

It is recognised that some agencies may incur a significant cost burden associated with an independent external engagement for the purposes of conducting an external review of the internal audit function. In these circumstances, appropriate alternative arrangements may include establishing an arrangement with another agency or agencies, to provide external review services<sup>22</sup>. When entering these arrangements, the agency head must consider both the independence<sup>23</sup> and expertise of the assessor or assessment team.

2.3.17 The results of the external assessment must be reported to the Audit and Risk Committee for advice to the agency head on the results.

<sup>22</sup> Please note that such arrangements are not permitted to be reciprocal in nature as this would not satisfy independence requirements with respect to external assessment. Agencies wishing to collaborate for the purposes of conducting an external assessment may wish to consider arrangements involving three or more agencies.

<sup>23</sup> This Policy adopts the definition of independence provided by the IIA *International Professional Practices Framework Practice Advisory 1312-1 External Assessments* for the purposes of external assessment of the internal audit function as “not having a real or apparent conflict of interest and not being part of, or under the control of, the organisation to which the internal audit activity belongs”.



### 3. Audit and Risk Committee

#### Principle 3:

The agency head receives relevant and timely advice on the agency's governance, risk and control frameworks and its external accountability obligations from an independent Audit and Risk Committee with appropriate expertise.

#### Core Requirement 3.1 - An independent Audit and Risk Committee with appropriate expertise has been established

##### Establishment of an Audit and Risk Committee

- 3.1.1 The agency head must establish an Audit and Risk Committee to oversee and monitor governance, risk and control issues affecting the operations of the agency.
- 3.1.2 The Audit and Risk Committee must have no fewer than three (3) members and no more than five (5) members<sup>24</sup>. Depending on the size and complexity of the agency, more than three members may be required for the committee to effectively discharge its responsibilities<sup>25</sup>.
- 3.1.3 The agency head must appoint the chair<sup>26</sup> and members of the Audit and Risk Committee from the panel of pre-qualified individuals maintained by the Department of Finance, Services and Innovation.<sup>27</sup>

#### **Practice Note – Appointment of members from the Prequalification Scheme**

Department of Premier and Cabinet Circular No. C2009-13 establishes the *Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members*. Instructions in this Policy should be read in conjunction with Circular No. C2009-13 and any accompanying conditions and guidelines, as updated from time to time.

##### Independence of members

- 3.1.4 The agency head must appoint only 'independent members' (including an 'independent chair') to the agency's Audit and Risk Committee from the panel of pre-qualified individuals maintained by the Department of Finance, Services and Innovation.<sup>28</sup> 'Independence' requirements are listed in clause 3.1.5<sup>29</sup>.

<sup>24</sup> Inclusive of the Chair.

<sup>25</sup> The chair is counted as one member of the Audit and Risk Committee.

<sup>26</sup> An individual must be pre-qualified as a chair on the Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members to be appointed as a chair. An individual who is prequalified as a member only cannot be appointed as a chair to an Audit and Risk Committee.

<sup>27</sup> The Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members. Further information, including Scheme Conditions and Guidelines, is available at the ProcurePoint website which is managed by NSW Procurement (NSWP), a division of the Department of Finance, Services and Innovation.

<sup>28</sup> This 'independence' requirement may be subject to the provisions relating to transitional arrangements on page 14 of the Policy.

<sup>29</sup> Prequalification does not preclude the need for the Chair and members to satisfy the requirement to be independent.

3.1.5 Members of the Audit and Risk Committee will be classified as being 'independent members' if they do not possess one or more of the following relationships:<sup>30</sup>

- is currently employed in the NSW government sector<sup>31</sup> in a role except as a non-executive director of a governing board of a statutory body<sup>32</sup>
- has been employed in a senior management role<sup>33</sup> in the appointing agency or related agency within the last three years
- has been employed in the NSW government sector in a role that can exert direct and significant influence over a service provider to the appointing agency, within the last three years
- currently performs, or has performed any services, including advisory roles, for an agency, which directly affects the subject matter of the Audit and Risk Committee of the appointing agency, within the last three years
- has a material business or other contractual relationship, or any other direct financial interest or material indirect financial interest with the appointing agency, or a related agency, which could reasonably be perceived to materially interfere with the individual's ability to act in the best interests of the appointing agency
- currently acts, or has acted as an advocate of a material interest on behalf of the appointing agency, or a related agency, or currently is, or has been, engaged in litigation or in resolving disputes between the appointing agency and third parties
- has an immediate family member or close family member who is employed in a senior management role of the appointing agency, or a related agency, or is employed in any other role which can exert direct and significant influence over the subject matter of the Audit and Risk Committee of the appointing agency.

This list prescribes the minimum key relationships that must be avoided. The appointing agency head must ensure appropriate safeguards are in place to eliminate or reduce significant threats to independence in accordance with the terms of this clause.

3.1.6 For the purposes of clause 3.1.5, non-executive directors of the governing board of a statutory body that are pre-qualified in accordance with clause 3.1.3 are not considered to be 'employed' by an agency and are eligible for appointment as chairs and members of the Audit and Risk Committee provided that they meet the other independence requirements provided in clause 3.1.5.

3.1.7 The agency head must ensure that adequate procedures are in place to preserve the independence of the chair and members of the Audit and Risk Committee.

3.1.8 The chair and members of the Audit and Risk Committee must notify the agency head immediately if a real or perceived threat to their independence arises.

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<sup>30</sup> The 'conflict of interest' relationships listed in clause 3.1.5 draw on the independence guidelines set out in Accounting Professional and Ethical Standards Board, [APES110: Code of Ethics for Professional Accountants](#), June 2006.

<sup>31</sup> Government sector as defined in the *Government Sector Employment Act 2013*.

<sup>32</sup> Current employees of all NSW government sector agencies cannot serve as members or chairs of an Audit and Risk Committee, including within their own agency. This includes statutory and special appointments other than non-executive directors of the governing board of a statutory body.

<sup>33</sup> Excluding as non-executive directors of the governing board of a statutory body.

## Qualification of members

3.1.9 When selecting Audit and Risk Committee members, the agency head must consider their suitability to the specific needs of the agency but also take reasonable steps to ensure that members collectively develop, possess and maintain, the following skills and knowledge:

- extensive knowledge of the governance and financial management of organisations in the public sector
- exceptional financial literacy, including the ability to understand and appropriately interrogate financial statements
- an understanding of the objectives and responsibilities of NSW Public Sector agencies
- a functional and operational knowledge of:
  - risk management
  - performance management frameworks
  - internal audit
  - external audit
  - financial management
  - accounting
  - internal control frameworks
  - governance (including planning, reporting and oversight)
  - business operations
  - legal and compliance frameworks
- capacity to ensure the integrity of the decision-making of the Audit and Risk Committee, including a willingness to constructively challenge management practices and information
- unwavering professionalism and ethical behaviour which exemplifies the culture of the NSW Public Service within the framework of Government Sector Core Values in section 7 of the *Government Sector Employment Act 2013*.

## Terms of members

3.1.10 The initial term of membership of the Audit and Risk Committee must be at least three (3) years and must not exceed five (5) years.

3.1.11 Members can be reappointed or extended for further term(s) but the total period of continuous membership on the Committee must not exceed eight (8) years<sup>34</sup> (inclusive of any term as chair of the Committee<sup>35</sup>)

3.1.12 Any reappointment or extension of membership on the Audit and Risk Committee must be approved only after the agency head has made a formal assessment of the member's performance as a committee member.

### ***Practice Note – Staggering member renewal dates***

Continuity of knowledge and experience on the Audit and Risk Committee is integral to its operation. It is strongly recommended that membership renewal dates be staggered so significant knowledge is not lost to the Audit and Risk Committee. Ideally, no more than one (1) member should leave the Audit and Risk Committee because of rotation in any one (1) year.

<sup>34</sup> This requirement may be subject to the provisions relating to transitional arrangements on page 14 of the Policy.

<sup>35</sup> Refer to clause 3.1.13.

## Terms of chairs

- 3.1.13 The chair of the Audit and Risk Committee must be appointed for one (1) term only for a period of at least three (3) years, with a maximum period of five (5) years. The term of appointment for the chair can be extended but any extension must not cause the total term to exceed five (5) years as a chair of the Audit and Risk Committee.

### **Practice Note – The term of the chair**

A member of the *Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members*<sup>36</sup> may be appointed as a chair either prior to or subsequent to a term as a Member. However the member's total term as chair must not exceed five (5) years and the member's total term on the Committee (inclusive of a term as chair and a term as a member) must not exceed a total of eight (8) years.

For example a member of the Prequalification Scheme might be appointed for an initial term of three (3) years as a member and then be appointed as chair of the Committee for a period of five (5) years or vice versa.

## Supplementary Terms

- 3.1.14 Individuals who have served a term of eight (8) years (including a term as chair (as relevant)) on the Audit and Risk Committee of an agency may be reappointed for a further eight (8) year term with the same agency provided that the individual has served a period of three (3) years during which they have not been appointed to the agency's Audit and Risk Committee. Their reappointment is also subject to the individual also meeting the independence requirements of the Policy in clause 3.1.5 and remaining pre-qualified in accordance with clause 3.1.3.<sup>37</sup>

**Core Requirement 3.2 - The Audit and Risk Committee is an advisory committee providing assistance to the agency head on the agency's governance processes, risk management and control frameworks, and its external accountability obligations**

## Purpose of Audit and Risk Committee

- 3.2.1 The objective of the Audit and Risk Committee is to provide independent assistance to the agency head by monitoring, reviewing and providing advice about the agency's governance processes, risk management and control frameworks and its external accountability obligations

<sup>36</sup> A member who is prequalified as a chair.

<sup>37</sup> This clause applies only to individuals seeking to be reappointed to the Audit and Risk Committee of an agency to which they have previously been appointed and they have already completed a term of eight (8) years (including any term as chair of the agency's Audit and Risk Committee).

## Responsibilities of Audit and Risk Committee

- 3.2.2 The Audit and Risk Committee is an integral component of an agency's corporate governance arrangements, and its responsibilities will generally cover the review and overview of the following areas:
- internal controls
  - risk management
  - corruption and fraud prevention
  - external accountability (including the financial statements)
  - applicable laws and regulations
  - internal audit
  - external audit.
- 3.2.3 The Audit and Risk Committee is also expected to overview the agency's financial information, which includes mandated reviews of the agency's:
- processes for management review and consideration of the financial position and performance of the agency including the frequency and nature of that review (including the approach taken to addressing variances and budget risks)
  - Chief Financial Officer Letter of Certification and supporting documentation (consistent with NSW Treasury Policy and Guidelines Paper *Certifying the Effectiveness of Internal Controls over Financial Information* (TPP 14-05))
  - early close procedures and pro-forma financial statements
  - cash management processes
  - processes for collection, management and disbursement of grants and tied funding.
- 3.2.4 The Audit and Risk Committee has no executive powers.
- 3.2.5 The Audit and Risk Committee does not have delegated financial responsibility or any management functions.

**Core Requirement 3.3 - The Audit and Risk Committee has a Charter that is consistent with the content of the 'model charter'**

### Model Charter for Audit and Risk Committee

- 3.3.1 The agency head must ensure that the Audit and Risk Committee has a Charter that is consistent with the content of the model charter at Annexure B of this Policy.<sup>38</sup>
- 3.3.2 The agency head is required to consider the specific circumstances of the agency and may, where appropriate, include provisions additional to those set out in the model charter, providing these do not conflict with the model charter.
- 3.3.3 The agency head must approve the Charter and ensure it has been distributed to all members of the Audit and Risk Committee, including all new appointments.

<sup>38</sup> This requirement may be subject to the provisions relating to transitional arrangements on page 14 of the Policy.

3.3.4 The Audit and Risk Committee must ensure that:

- the Charter is formally reviewed by the Audit and Risk Committee periodically, at least annually, to ensure its ongoing relevance, with recommendations for updates approved by the agency head
- the Charter is sufficiently detailed to ensure there is no ambiguity
- the Charter has clear guidance on key aspects of the committee's operations.

#### **Audit and Risk Committee Operations**

3.3.5 The Audit and Risk Committee must meet at least quarterly. Depending on the size and complexity of the agency, more frequent meetings may be necessary in order for the Audit and Risk Committee to effectively perform its roles and discharge its responsibilities.

3.3.6 The agency head must nominate a person(s) to provide secretariat support to the Audit and Risk Committee.

3.3.7 The appointed secretariat support is responsible for minuting the meetings of the Audit and Risk Committee. The minutes must include a record of attendance, issues, outcomes (including decisions) and action items.

3.3.8 Agency heads are encouraged to attend the meetings of the Audit and Risk Committee. Committee members, if necessary, are able to have in-camera discussions<sup>39</sup>. The chair of the Audit and Risk Committee should indicate prior to the meeting which agenda items may be of particular interest to the agency head.<sup>40</sup>

3.3.9 Nothing in this policy prevents the Chief Audit Executive, Chief Risk Officer (as relevant), external audit representatives and any other agency representatives from attending Audit and Risk Committee meetings, except where the Committee members wish to have in-camera discussions.

3.3.10 The minutes of meetings of the Audit and Risk Committee must be provided to the agency head within a reasonable time frame, as agreed between the Audit and Risk Committee and the agency head. The agreed time frame must be stated in the Audit and Risk Committee's Charter.

***Practice Note – Providing minutes to the agency head***

It is good practice to provide the minutes of the Audit and Risk Committee meeting within two (2) weeks of the meeting date to the agency head.

3.3.11 The agency head is responsible for ensuring that the Audit and Risk Committee is promptly provided with all necessary and relevant information regarding their responsibilities and operations both prior to, and during their appointment to enable them to develop and maintain a sound understanding of the:

- business of the agency
- environment in which the agency operates, and
- contribution that the Audit and Risk Committee makes to the agency.

<sup>39</sup> In the case of a governing board, the chair or a member may attend on behalf of the board, or the board may ask a nominated delegate to attend on its behalf.

<sup>40</sup> The agency head is not considered a member of the Audit and Risk Committee.

***Practice Note – Keeping the Audit and Risk Committee up-to-date***

Agencies are encouraged to implement processes and systems which enable their Audit and Risk Committees to remain up-to-date with developments concerning the NSW Public Sector relating to the Audit and Risk Committee's responsibilities, together with significant compliance, strategic and operations matters affecting the agency.

For example, an agency may wish to consider including Audit and Risk Committee members on their distribution lists for key circulars and policies issued by all central agencies, or providing briefings or access to briefings for Committee members on matters relevant to audit and risk.

- 3.3.12 The Audit and Risk Committee is to have access to operational and senior management, including the Chief Finance and/or Accounting Officer when required. The Committee may request the Chief Finance Officer or other employees to attend Committee meetings or participate for certain agenda items.
- 3.3.13 The Audit and Risk Committee may identify the need for independent, expert advice, and may request the agency head to make such expert assistance available.
- 3.3.14 The Audit and Risk Committee must have direct access (where necessary) to the internal and external auditors without operational management being present, and must meet with the internal and external auditors at least annually.

***Practice Note – Internal and external auditors***

It is good practice for agencies to ensure that processes are in place to enable both the internal audit and external auditors to provide feedback to the Audit and Risk Committee in the absence of management or other parties.

- 3.3.15 The Audit and Risk Committee can seek explanations and additional information from any employee or contractor of the agency.

**Reporting**

- 3.3.16 The agency head must ensure that processes are in place to allow the Committee, at any time, to report on any matters it deems of sufficient importance to do so. In addition, processes should be established to allow an individual Committee member to request a meeting with the agency head.
- 3.3.17 The Committee must at all times ensure it maintains a direct reporting line to and from internal audit and acts as a mechanism for internal audit to report to the agency head on functional matters.
- 3.3.18 The Committee will regularly, but at least once a year, report to the agency head on its operation and activities during the year.

***Practice Note – Annual report to the agency head***

The report should include:

- an overall assessment of the agency's risk, control and compliance framework, including details of any significant emerging risks or legislative changes impacting the agency
- a summary of the work the Committee performed to discharge its responsibilities during the preceding year
- details of meetings, including the number of meetings held during the relevant period, and the number of meetings each member attended.
- a summary of the agency's progress in addressing the findings and recommendations made in internal and external reports
- a summary of the Committee's assessment of the performance of internal audit

**Conduct of Audit and Risk Committee Members**

3.3.19 Members of Audit and Risk Committees must act in accordance with the relevant codes of conduct that apply to public sector employees.

***Practice Note – Conduct of Audit and Risk Committee Members***

Members of the Audit and Risk Committee are subject to the general principles of conduct that apply to public sector employees. Members must familiarise themselves with the relevant policies and guidelines, including:

- Code of Conduct: Audit and Risk Committee Chairs and Members
- Government Sector Core Values in section 7 of the *Government Sector Employment Act 2013*, and
- relevant agency codes of conduct.

**Dispute Resolution**

3.3.20 Where a dispute arises relating to a recommendation made to the agency head by the Audit and Risk Committee in the execution of its role and responsibilities cannot be resolved, the chair of the Audit and Risk Committee may make an oral or written request to Secretary, NSW Treasury for assistance to facilitate resolution of the matter. Where Secretary, NSW Treasury may have a conflict of interest, the matter should be referred to the Secretary, Department of Premier and Cabinet.

***Practice Note – Dispute resolution***

It is important that the chair and members of the Audit and Risk Committee develop, establish and maintain an effective working relationship with the agency's operational management, including the agency head. The chair and members of the Audit and Risk Committee must seek to resolve differences or concerns with operational management, including the agency head, by way of open negotiation.



## Performance Review of the Audit and Risk Committee

- 3.3.21 The agency head, in consultation with the chair of the Audit and Risk Committee, must establish a mechanism to review and report on the performance of the Audit and Risk Committee as a whole, and the performance of the chair and each member, at least annually.

### ***Practice Note - Performance review of the Audit and Risk Committee***

The purpose of the review mechanism is to establish a robust quality assurance and improvement process that ensures the Audit and Risk Committee continues to deliver on its Charter.

In a majority of instances the performance review will be undertaken on a self-assessment basis, unless the agency head determines that an external review is warranted.

- 3.3.22 The review should assess the performance of the Audit and Risk Committee, and the performance of the chair and members, against the Committee's Charter and may include appropriate input from the agency head, operational management, the internal and external auditors, and any other stakeholders.
- 3.3.23 In respect of the performance of the Audit and Risk Committee as a whole, the results of the review must be provided to the agency head to consider the findings and any recommendations of the review and, if required, ensure appropriate action is taken to improve the Audit and Risk Committee's performance.
- 3.3.24 The agency head may delegate the performance review function set out in clause 3.3.21 (excluding review of the chair's performance) to the Audit and Risk Committee chair, although ultimate responsibility for the integrity of the review mechanism, including the actioning of findings, rests with the agency head.
- 3.3.25 In respect of the performance of members of the Audit and Risk Committee (excluding the chair), the results of the review must be provided to the agency head, and the chair of the Audit and Risk Committee must provide formal feedback to Committee members on their performance.
- 3.3.26 In respect of the performance of the chair of the Audit and Risk Committee, the results of the chair's self-assessment must be provided to the agency head, who must then provide formal feedback to the chair on his or her performance.

## Annexure A

### Model Internal Audit Charter<sup>41</sup>

The Internal Audit functions of NSW agencies are required to have a charter that is consistent with the content of the 'model charter'. The Chief Audit Executive is required to review, in consultation with the agency head and the Audit and Risk Committee, their existing Internal Audit Charter against this model. In doing so it is important that each agency consider carefully its particular circumstances, as there may be *additional* agency specific requirements that must also be addressed.

The purpose of this Internal Audit Charter is to address the role, responsibilities, authorisation, activities and reporting relationships of the Internal Audit function. The charter should be reviewed on a regular basis to ensure that it is consistent with changes in the financial, risk management and governance arrangements of the agency, and reflects developments in Internal Audit professional practices.

#### Introduction

The [agency head] has established the [name of internal audit unit] as a key component of the [agency]'s governance framework.

This charter provides the framework for the conduct of the internal audit function in the [agency] and has been approved by the [agency head] taking into account the advice of the Audit and Risk Committee.

#### Purpose of internal audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.<sup>42</sup>

Internal audit provides an independent and objective review and advisory service to:

- provide assurance to the [agency head], and the Audit and Risk Committee, that the [agency]'s financial and operational controls, designed to manage the organisation's risks and achieve the entity's objectives, are operating in an efficient, effective and ethical manner, and
- assist management in improving the agency's business performance.

#### Independence

Independence is essential to the effectiveness of the internal audit function. Internal audit activity must be independent, and internal auditors must be objective in performing their work. Internal auditors must have an impartial, unbiased attitude and avoid any conflicts of interest.

The internal audit function has no direct authority or responsibility for the activities it reviews. The internal audit function has no responsibility for developing or implementing procedures or systems and does not prepare records or engage in original line processing functions or activities [except in carrying out its own functions].

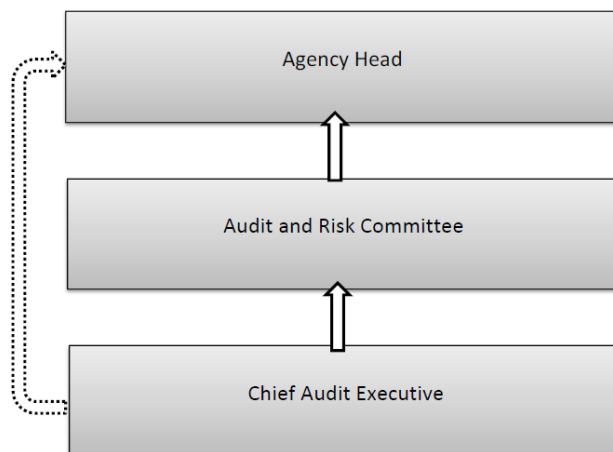
The internal audit function is responsible on a day to day basis to the Chief Audit Executive.

<sup>41</sup> This Model Internal Audit Charter is a modified version of the model charter set out in the Australian National Audit Office (ANAO) Better Practice Guide *Public Sector Internal Audit: An Investment in Assurance and Business Improvement*. Copyright Commonwealth of Australia reproduced by permission.

<sup>42</sup> As defined by the International Standards for the Professional Practice of Internal Audit (IIA) (2013). Where relevant, sections of this Charter also incorporate other elements of the International Standards for the Professional Practice of Internal Auditing.

The internal audit function, through the Chief Audit Executive, reports functionally to the Audit and Risk Committee on the results of completed audits, and for strategic direction and accountability purposes, and reports administratively to the [agency head<sup>43</sup>] to facilitate day to day operations.

The following reporting line is prescribed:



### Authority and confidentiality

Internal auditors are authorised to have full, free and unrestricted access to all functions, premises, assets, personnel, records, and other documentation and information that the Chief Audit Executive considers necessary to enable the internal audit function to meet its responsibilities<sup>44</sup>.

All records, documentation and information accessed in the course of undertaking internal audit activities are to be used solely for the conduct of these activities. The Chief Audit Executive and individual internal audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

All internal audit documentation is to remain the property of the audited [agency], including where internal audit services are performed by an external third party provider.

### Roles and responsibilities

The internal audit function must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

In the conduct of its activities, the internal audit function will play an active role in:

- developing and maintaining a culture of accountability and integrity
- facilitating the integration of risk management into day-to-day business activities and processes, and
- promoting a culture of cost-consciousness, self-assessment and adherence to high ethical standards.

<sup>43</sup> Where a shared arrangement has been established in compliance with the *Guidance on Shared Arrangements and Subcommittees of Audit and Risk Committees* (TPP 12-04), the appropriate agency head should be identified.

<sup>44</sup> Subject to any overriding legislative restrictions on information.

Internal audit activities will encompass the following areas:

**Audit activities** including audits with the following orientation:

*Risk Management*

- evaluate the effectiveness, and contribute to the improvement, of risk management processes
- provide assurance that risk exposures relating to the organisation's governance, operations, and information systems are correctly evaluated, including:
  - reliability and integrity of financial and operational information
  - effectiveness, efficiency and economy of operations, and
  - safeguarding of assets
- evaluate the design, implementation, and effectiveness of the organisation's ethics-related objectives, programs, and activities
- assess whether the information technology governance of the organisation sustains and supports the organisation's strategies and objectives

*Compliance*

- compliance with applicable laws, regulations and Government policies and directions

*Performance improvement*

- the efficiency, effectiveness, and economy of the entity's business systems and processes.

**Advisory services**

The internal audit function can advise the [agency]'s management on a range of matters including:

*New programs, systems and processes*

- providing advice on the development of new programs and processes and/or significant changes to existing programs and processes including the design of appropriate controls

*Risk management*

- assisting management to identify risks and develop risk mitigation and monitoring strategies as part of the risk management framework

*Fraud control*

- evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk
- assisting management to investigate fraud, identify the risks of fraud and develop fraud prevention and monitoring strategies.

**Audit support activities**

The internal audit function is also responsible for:

- managing the internal audit function
- assisting the Audit and Risk Committee to discharge its responsibilities
- monitoring the implementation of agreed recommendations
- disseminating across the entity better practice and lessons learnt arising from its audit activities.

**Scope of internal audit activity**

Internal audit reviews may cover all programs and activities of the [agency] together with associated entities, as provided for in relevant business agreements, memorandum of understanding or contracts. Internal audit activity encompasses the review of all financial and non-financial policies and operations.

## Standards

Internal audit activities will be conducted in accordance with this Policy and with relevant professional standards including International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

In the conduct of internal audit work, internal audit staff will:

- comply with relevant professional standards of conduct
- possess the knowledge, skills and technical proficiency relevant to the performance of their duties
- be skilled in dealing with people and communicating audit, risk management and related issues effectively
- exercise due professional care in performing their duties.

## Relationship with external audit

Internal and external audit activities will be coordinated to help ensure the adequacy of overall audit coverage and to minimise duplication of effort.

Periodic meetings and contact between internal and external audit shall be held to discuss matters of mutual interest and facilitate coordination.

External audit will have full and free access to all internal audit plans, working papers and reports.

## Planning

The Chief Audit Executive will prepare a risk-based annual internal audit work plan in a form and in accordance with a timetable agreed with the Audit and Risk Committee.

## Reporting

The Chief Audit Executive will report to each meeting of the Audit and Risk Committee on:

- audits completed
- progress in implementing the annual audit work plan, and
- the implementation status of agreed internal and external audit recommendations.

The internal audit function will also report to the Audit and Risk Committee at least annually on the overall state of internal controls in the [agency] and any systemic issues requiring management attention based on the work of the internal audit function [and other assurance providers].

## Administrative arrangements

Any change to the role of the Chief Audit Executive [and, where the internal audit function uses an outsourced service delivery model, the external service provider] will be approved by the [agency head] in consultation with the Audit and Risk Committee.

The Chief Audit Executive will arrange for an internal review, at least annually, and a periodic independent review, at least every five (5) years, of the efficiency and effectiveness of the operations of the internal audit function. The results of the reviews will be reported to the Audit and Risk Committee who will provide advice to the agency head on those results.

## Review of the charter

This charter will be reviewed at least annually by the Audit and Risk Committee. Any substantive changes will be formally approved by the [agency head] on the recommendation of the Audit and Risk Committee.

## Annexure B

### Model Audit and Risk Committee Charter<sup>45</sup>

Audit and Risk Committees of NSW agencies are required to have a Charter that is consistent with the content of the 'model charter'. The agency head and the Audit and Risk Committee are therefore required to review their existing charters against this model. Agencies should consider carefully their particular circumstances, as there may be additional agency specific requirements that must also be addressed.

The [agency head] has established the Audit and Risk Committee ('the Committee') in compliance with the *Internal Audit and Risk Management Policy for the NSW Public Sector*.

This charter sets out the Committee's objectives, authority, composition and tenure, roles and responsibilities, reporting and administrative arrangements.

#### Objective

The objective of the Committee is to provide independent assistance to the [agency head] by monitoring, reviewing and providing advice about the [agency]'s governance processes, risk management and control frameworks, and its external accountability obligations.

#### Authority

The [agency head] authorises the Committee, within the scope of its role and responsibilities, to:

- obtain any information it needs from any employee and/or external party (subject to their legal obligation to protect information)
- discuss any matters with the external auditor, or other external parties (subject to confidentiality considerations)
- request the attendance of any employee, including the [agency head], at committee meetings
- obtain external legal or other professional advice, as considered necessary to meet its responsibilities. The payment of costs for that advice by the agency is subject to the prior approval of the agency head.

#### Composition and tenure

The Committee will consist of at least three (3) members, and no more than five (5) members<sup>46</sup>, appointed by the [agency head].

The [agency head] will appoint the chair and members of the Committee. The chair is counted as one member of the Committee.

Members will be appointed for an initial period no less than three (3) years and not exceeding five (5) years, after which they will be eligible for extension or re-appointment for a further term(s) subject to a formal review of their performance (noting that the total term on the Committee will not exceed eight (8) years).

The chair must be appointed for one (1) term only for a period of at least three (3) years, with a maximum period of five (5) years. The term of appointment for the chair can be extended but any extension must not cause the total term to exceed five (5) years as a chair of the Audit and Risk Committee.

Current employees of all NSW government sector agencies<sup>47</sup> other than State Owned Corporations cannot serve as members or chairs of an Audit and Risk Committee.

<sup>45</sup> This Model Audit and Risk Committee Charter is a modified version of the model charter set out in the Australian National Audit Office (ANAO) *Better Practice Guide: Public Sector Audit Committees*. Copyright Commonwealth of Australia.

<sup>46</sup> Inclusive of the Chair.

<sup>47</sup> Government sector is defined in the *Government Sector Employment Act 2013*.

The members should collectively develop, possess and maintain a broad range of skills and experience relevant to the operations, governance and financial management of the [agency], the environment in which the [agency] operates and the contribution that the Committee makes to the [agency]. At least one member of the Committee must have accounting or related financial management experience with an understanding of accounting and auditing standards in a public sector environment.

### **Roles and responsibilities**

The Committee has no executive powers.

The Committee is directly responsible and accountable to the [agency head] for the exercise of its responsibilities. In carrying out its responsibilities, the Committee must at all times recognise that primary responsibility for management of the [agency] rests with the [agency head].

The responsibilities of the Committee may be revised or expanded in consultation with, or as requested by, the [agency head] from time to time.

The Committee's responsibilities are to:

### **Risk management**

- review whether management has in place a current and appropriate risk management framework that is consistent with AS/NZS ISO 31000:2009
- review risk management plans and provide advice to the agency head
- seek assurance from management and Internal Audit that risk management processes are operating effectively
- seek assurance from management and Internal audit as to the adequacy and effectiveness of internal controls
- review risk reports and provide advice to the agency head
- review whether a sound and effective approach has been followed in developing risk management plans for major projects or undertakings
- review the impact of the agency's risk management on its control environment and insurance arrangements
- review the agency's fraud control plan and be satisfied that the agency has appropriate processes and systems in place to capture and effectively investigate fraud related information
- review whether a sound and effective approach has been followed in establishing the agency's business continuity planning arrangements, including whether disaster recovery plans have been tested periodically.

### **Control framework**

- review whether management's approach to maintaining an effective internal control framework, including over external parties such as contractors and advisors, is sound and effective
- review whether management has in place relevant policies and procedures, and that these are periodically reviewed and updated
- determine whether the appropriate processes are in place to assess, at least once a year, whether laws, regulations, policies and procedures are complied with
- review whether appropriate policies and procedures are in place for the management and exercise of delegations
- consider how management identifies any required changes to the design or implementation of internal controls
- review whether management has taken steps to embed a culture which is committed to ethical and lawful behaviour.

## External accountability

- assess the policies and procedures for management review and consideration of the financial position and performance of the agency including the frequency and nature of that review (including the approach taken to addressing variances and budget risks)
- review procedures around early close and year-end
- review the financial statements and provide advice to the [agency head] (including whether appropriate action has been taken in response to audit recommendations and adjustments), and recommend their signing by the [agency head]
- satisfy itself that the financial statements are supported by appropriate management signoff on the statements
- review the Chief Financial Officer Letter of Certification and supporting documentation (consistent with NSW Treasury Policy and Guidelines Paper *Certifying the Effectiveness of Internal Controls over Financial Information* (TPP 14-05))
- review cash management policies and procedures
- review policies and procedures for collection, management and disbursement of grants and tied funding.
- review the processes in place designed to ensure that financial information included in the [agency]'s annual report is consistent with the signed financial statements
- satisfy itself that the [agency] has a performance management framework that is linked to organisational objectives and outcomes.

## Compliance with applicable laws and regulations

- determine whether management has appropriately considered legal and compliance risks as part of the [agency]'s risk assessment and management arrangements
- review the effectiveness of the system for monitoring the [agency]'s compliance with applicable laws and regulations, and associated government policies.

## Internal audit

- act as a forum for communication between the [agency head], senior management and internal and external audit
- review and provide advice to the [agency head] on the internal audit policies and procedures
- review the risk based audit methodology
- review the internal audit coverage and annual work plan, ensure the plan is based on the [agency]'s risk management plan, and recommend approval of the plan by the [agency head]
- advise the [agency head] on the adequacy of internal audit resources to carry out its responsibilities, including completion of the approved internal audit plan
- oversee the coordination of audit programs conducted by internal and external audit and other review functions
- review audit findings and related recommendations that have been assessed as the most significant according to the risk the audit finding represents to the agency if the recommendation(s) related to the finding are not implemented
- provide advice to the [agency head] on significant issues identified in audit reports and action taken on these issues, including identification and dissemination of good practice
- monitor management's implementation of internal audit recommendations
- review the internal audit charter to ensure appropriate organisational structures, authority, access and reporting arrangements are in place
- periodically review the performance of internal audit and the Chief Audit Executive
- provide advice to the [agency head] on the results of any external assessments of the internal audit function
- provide advice to the [agency head] on whether the Chief Audit Executive should be a dedicated role within the agency
- provide advice to the [agency head] on the appointment or replacement of the Chief Audit Executive and recommend to the [agency head] the appointment or replacement of external internal audit service providers [in the case of an outsourced or co-sourced internal audit function].



## External audit

- act as a forum for communication between the [agency], senior management and internal and external audit
- provide input and feedback on the financial statement and performance audit coverage proposed by external audit and provide feedback on the audit services provided
- review all external plans and reports in respect of planned or completed audits and monitor management's implementation of audit recommendations
- provide advice to the [agency head] on action taken on significant issues raised in relevant external audit reports and better practice guides.

## Responsibilities of members

Members of the Committee are expected to understand and observe the requirements of the Internal Audit and Risk Management Policy. Members are also expected to:

- make themselves available as required to attend and participate in meetings
- contribute the time needed to study and understand the papers provided
- apply good analytical skills, objectivity and good judgement
- abide by the relevant ethical codes that apply to employment within the NSW public sector
- express opinions frankly, ask questions that go to the fundamental core of the issue and pursue independent lines of enquiry.

## Reporting

The Committee will regularly, but at least once a year, report to the [agency head] on its operation and activities during the year. The report should include:

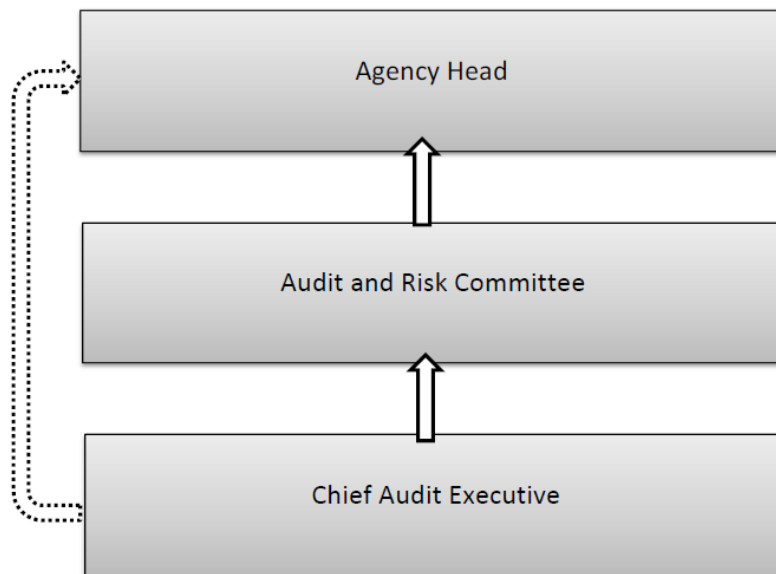
- an overall assessment of the [agency]'s risk, control and compliance framework, including details of any significant emerging risks or legislative changes impacting the [agency]
- a summary of the work the Committee performed to fully discharge its responsibilities during the preceding year
- details of meetings, including the number of meetings held during the relevant period, and the number of meetings each member attended.
- a summary of the [agency]'s progress in addressing the findings and recommendations made in internal and external reports
- a summary of the Committee's assessment of the performance of internal audit

The Committee may, at any time, report to the [agency head] any other matter it deems of sufficient importance to do so. In addition, at any time an individual committee member may request a meeting with the [agency head].

## Reporting Lines

The Committee must at all times ensure it maintains a direct reporting line to and from internal audit and act as a mechanism for internal audit to report to the [agency head] on functional matters.

The following reporting line is prescribed:



## Administrative arrangements

### Meetings

The Committee will meet at least four (4) times per year. A special meeting may be held to review the [agency]’s annual financial statements.

The chair is required to call a meeting if requested to do so by the [agency head], or another Committee member.

A meeting plan, including meeting dates and agenda items, will be agreed by the Committee each year. The meeting plan will cover all of the Committee’s responsibilities as detailed in this charter.

### Attendance at meetings and quorums

A quorum will consist of a majority of Committee members. A quorum must include at least two (2) independent members.

Meetings can be held in person, by telephone or by video conference.

The agency head may attend the meetings of the Audit and Risk Committee. Committee members, if necessary, are able to have in-camera discussions. The Chief Audit Executive, Chief Risk Officer (as relevant), external audit representatives and any other agency representatives may attend Committee meetings, except where the Committee members wish to have in-camera discussions. The Committee may also request the Chief Finance Officer or other employees attend committee meetings or participate for certain agenda items.

The Committee will meet separately with both the internal and external auditors at least once a year.

### Dispute Resolution

Members of the Committee and the [agency]’s management should maintain an effective working relationship, and seek to resolve differences by way of open negotiation. However, in the event of a disagreement between the Committee and management, including the [agency head], the chair may, as a last resort, refer the matter to NSW Treasury to be dealt with independently.

## Secretariat

The [agency head] will appoint a person to provide secretariat support to the Committee. The Secretariat will ensure the agenda for each meeting and supporting papers are circulated, after approval from the chair, at least one (1) week before the meeting, and ensure the minutes of the meetings are prepared and maintained. Minutes must be approved by the chair and circulated within [agreed time frame] of the meeting to each member and committee observers, as appropriate.

## Conflicts of interest

Once a year the Committee members will provide written declarations to the [agency head] stating they do not have any conflicts of interest that would preclude them from being members of the Committee.

Committee members must declare any conflicts of interest at the start of each meeting or before discussion of the relevant agenda item or topic. Details of any conflicts of interest should be appropriately minuted.

Where members or observers at Committee meetings are deemed to have a real, or perceived, conflict of interest it may be appropriate that they are excused from Committee deliberations on the issue where a conflict of interest exists.

## Induction

New members will receive relevant information and briefings on their appointment to assist them to meet their Committee responsibilities.

## Assessment arrangements

The [agency head], in consultation with the chair of the Committee, will establish a mechanism to review and report on the performance of the Committee, including the performance of the chair and each member, at least annually. The review will be conducted on a self-assessment basis (unless otherwise determined by the [agency head]) with appropriate input sought from the [agency head], the internal and external auditors, the Chief Risk Officer (as relevant), management and any other relevant stakeholders, as determined by the [agency head].

## Review of charter

At least once a year the Committee will review this Charter. This review will include consultation with the [agency head].

Any substantive changes to this Charter will be recommended by the Committee and formally approved by the [agency head].

Reviewed by chair of Audit and Risk  
Committee (Sign and Date)

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Reviewed by [agency head] or in accordance with a resolution of the Governing Board of the Statutory  
Body (Sign and Date)

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## Annexure C

### Internal Audit and Risk Management Policy

#### Attestation Statement Template

The *Internal Audit and Risk Management Policy for the NSW Public Sector* requires agency heads to attest to compliance with the 'core requirements' set out in the Policy annually. The agency head must publish the Attestation Statement in the organisation's Annual Report, adjacent to the existing requirement<sup>48</sup> to disclose 'risk management and insurance activities'.

A copy of the Attestation Statement for the prior reporting period must be forwarded to NSW Treasury on or before 31 October each year.

The agency head must use the relevant Attestation Statement Template to attest that for the relevant reporting period the agency was either 'compliant', 'non-compliant' or 'in transition' in relation to each of the 'core requirements'.

#### Meaning of 'compliant', 'non-compliant', or 'in transition'

For the purpose of this Policy '**compliant**' means that the agency has implemented and maintained practices consistent with the Core Requirement(s) of the Policy, for the whole of the financial year.

'**Non-compliance**' occurs where the agency has not been compliant with a Core Requirement(s) or mandatory element(s) of the Policy during the reporting period. Where a compliance breach occurs, agencies are required to follow the exceptions process and must apply to the agency's Portfolio Minister for an exception from the Core Requirement(s). A copy of the Ministerial Determination must be attached to this Attestation Statement and sent to NSW Treasury.<sup>49</sup>

An agency may mark '**in transition**' on their Attestation Statement where the agency is in the process of transitioning its arrangements to meet new or changed requirements in this Policy for which transitional arrangements have been provided. Ministerial approval is not required for Core Requirements marked as 'in transition'.

#### Attesting for Controlled Entities

Where an agency has 'control' of an entity (or subsidiary), as defined in Australian Accounting Standards, the parent agency should include the controlled entities (or subsidiary) in the Attestation Statement except where that entity is required to produce its own annual report. Where a controlled entity (or subsidiary) is scheduled under annual reporting legislation to prepare an annual report, the controlled entity (or subsidiary) must make its own Attestation.

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<sup>48</sup> Refer *Annual Reports (Departments) Regulation 2010* and *Annual Reports (Statutory Bodies) Regulation 2010*.

<sup>49</sup> The Ministerial Determination attached to the Attestation Statement provided to NSW Treasury does not need to be published in the agency's annual report.

## Internal Audit and Risk Management Attestation Statement for the 201x-201x Financial Year for [agency]

I, [agency head] am of the opinion that the [agency] has internal audit and risk management processes in operation that are, excluding the exceptions or transitional arrangements described below, compliant with the eight (8) core requirements set out in the *Internal Audit and Risk Management Policy for the NSW Public Sector*, specifically:

### Core Requirements

**For each requirement, please specify whether compliant, non-compliant, or in transition<sup>50</sup>**

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#### Risk Management Framework

- 1.1 The agency head is ultimately responsible and accountable for risk management in the agency
- 1.2 A risk management framework that is appropriate to the agency has been established and maintained and the framework is consistent with AS/NZS ISO 31000:2009

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#### Internal Audit Function

- 2.1 An internal audit function has been established and maintained
- 2.2 The operation of the internal audit function is consistent with the International Standards for the Professional Practice of Internal Auditing
- 2.3 The agency has an Internal Audit Charter that is consistent with the content of the 'model charter'

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#### Audit and Risk Committee

- 3.1 An independent Audit and Risk Committee with appropriate expertise has been established
- 3.2 The Audit and Risk Committee is an advisory committee providing assistance to the agency head on the agency's governance processes, risk management and control frameworks, and its external accountability obligations
- 3.3 The Audit and Risk Committee has a Charter that is consistent with the content of the 'model charter'

#### Membership

The chair and members of the Audit and Risk Committee are:

- [Independent] Chair, Name, Start term date, finish term date
- [Independent] Member 1, Name, Start term date, finish term date
- [Non-independent Member 1, Name, Start term date, finish term date]<sup>51</sup>
- etc

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<sup>50</sup> Where an agency notes that it has been 'non-compliant' or 'in transition', the agency head must complete the 'Departure from Core Requirements' section below.

<sup>51</sup> For those agencies with an Audit and Risk Committee that includes non-independent members at the time of commencement of this Policy and Guidelines Paper, agencies will be required to disclose non-independent members on their attestations. As per the Policy and Guidelines, agencies will have a transition period of two years from the commencement of the policy for the Committee to be reconstituted with independent members only.

**Departures from Core Requirements** (delete section as relevant)

I, [agency head] advise that the internal audit and risk management processes for [agency] depart from the following core requirements set out in the *Internal Audit and Risk Management Policy for the NSW Public Sector*:

1. The departure from the core requirements is due to the agency implementing measures to achieve compliance with new policy requirements consistent with the permitted transitional arrangements, OR
2. The circumstances giving rise to these departures have been determined by the Portfolio Minister and the [agency] has implemented [or is implementing] the following practicable alternative measures to meet the core requirements<sup>52</sup>:

Departure	Reason for departure and description of practicable alternative measures implemented/being implemented
<b>Non-Compliance</b>	
<ul style="list-style-type: none"> <li>▪ Core Requirement X</li> </ul>	<ul style="list-style-type: none"> <li>▪ Detailed description of circumstances giving rise to departure(s)</li> <li>▪ Detailed description of the practicable alternative measures implemented / being implemented to achieve equivalent level of assurance</li> </ul>
<b>In Transition</b>	
<ul style="list-style-type: none"> <li>▪ Core Requirement X</li> </ul>	<ul style="list-style-type: none"> <li>▪ Detailed description of the steps being taken to achieve compliance</li> </ul>

These processes, including the practicable alternative measures [being] implemented, demonstrate that the [agency] has established and maintained frameworks, including systems, processes and procedures for appropriately managing audit and risk within the [agency]

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[agency head] or in accordance with a resolution of the Governing Board of the Statutory Body  
(Sign and Date)

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Agency Contact Officer  
(Role and contact details)

<sup>52</sup> A copy of the relevant Ministerial Determination which supports the agency' departure from one or more of the Core Requirements must be included with the Attestation Statement.

## Annexure D

### Ministerial Determination Template

#### [Agency] compliance with the Internal Audit and Risk Management Policy for the NSW Public Sector

I, [Portfolio Minister] am of the opinion that [agency] has internal audit and risk management processes in operation that are, excluding the exceptions described below, compliant with the core requirements set out in the *Internal Audit and Risk Management Policy for the NSW Public Sector*.

I, [Portfolio Minister] understand that the following core requirements of *Internal Audit and Risk Management Policy (TPP 15-03)* have not been met:

Core Requirement	Reason for non-compliance with the core requirement

I note that the following alternative arrangements have been implemented to achieve outcomes equivalent to the requirement(s):

Summary of alternative arrangements	How the alternative arrangements will achieve equivalent outcomes

I, [Portfolio Minister] am of the opinion that the practicable alternative measures implemented demonstrate that the [agency] has established and maintained frameworks, including systems, processes and procedures for appropriately managing audit and risk within the [agency].

This exception to the core requirements of the *Internal Audit and Risk Management Policy for the NSW Public Sector (TPP15-03)* is valid for the financial year(s) (20XX-20XX)<sup>53</sup>

Portfolio Minister

(Sign and Date)

Agency Contact Officer

(Role and contact details)

<sup>53</sup> Exceptions may be sought for a maximum of two financial years.