

## Internal Audit

**Summary** This Policy Directive describes the internal audit procedures and governance practices that NSW Health organisations must implement and maintain to ensure objective oversight of the organisations activities.

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## Internal Audit

### POLICY STATEMENT

All NSW Health organisations are required to maintain an effective and independent Internal Audit function.

### SUMMARY OF POLICY REQUIREMENTS

The Chief Executive must establish efficient and effective arrangements for an Audit and Risk Committee to oversee and monitor governance, risk and control issues affecting the operations of the organisation.

The Chief Executive is to appoint a Chief Audit Executive who is responsible for the Internal Audit function. The Chief Executive must consult with the Audit and Risk Committee when designating, appointing or removing a Chief Audit Executive.

The Deputy Secretary, People, Culture and Governance, NSW Health, must be notified of the intention of a NSW Health organisation to advertise for a Chief Audit Executive position, to appoint a new Chief Audit Executive, and prior to removing an appointed Chief Audit Executive.

The Chief Audit Executive is to have a dual reporting line that reports administratively to the Chief Executive to facilitate day-to-day operations of the Internal Audit function, and functionally to the Audit and Risk Committee for strategic direction and accountability of the Internal Audit function.

The Audit and Risk Committee is to have no fewer than three and no more than five Members. All Members (including the Chair) must be independent and sourced from NSW Treasury's Prequalification Scheme: *Audit and Risk Committee Independent Chairs and Members*.

The Chair of the Audit and Risk Committee is to be appointed for a single term only, of at least three years and not greater than five years. The term of appointment may be extended, but any extension must not cause the total term to exceed five years as the Chair.

The initial term for Members of the Audit and Risk Committee must be at least three years and must not exceed five years. Members may be reappointed or extended for further terms, but the total period of continuous membership on the Committee must not exceed eight years (inclusive of any term as Chair of the Committee).

NSW Health organisations are to notify the Ministry of Health and NSW Procurement of all appointments, extensions, and reappointments to, or resignations and terminations from, the organisation's Audit and Risk Committee.

Remuneration of the Chair and Members, including the Chair and Members of a shared Audit and Risk Committee, shall be in accordance with NSW Treasury's *Prequalification Scheme*

for Audit and Risk Committee Chairs and Members Scheme Conditions, as prescribed by the fee category table.

The Audit and Risk Committee must have a Charter that is reviewed annually and that is consistent with the Model Audit and Risk Committee Charter.

The Board (or Chief Executive, where Chief Executive governed), in consultation with the Chair of the Audit and Risk Committee, must ensure a mechanism is established to review and report on the Committee's performance as a whole, and the performance of the Chair and each Member of the Audit and Risk Committee, at least annually.

Shared arrangements, such as sharing the cost of the Audit and Risk Committee, the Chief Audit Executive, and/or the Internal Audit Function, may be formed between NSW Health organisations.

The Internal Audit function is to have sufficient financial resources and professional staff with the necessary skills and experience relative to the risks and assurance needs facing the organisation.

The Internal Audit function must operate in accordance with the *International Professional Practices Framework* issued by the Institute of Internal Auditors. Internal audit work must be performed in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

An Internal Audit Manual for the Internal Audit function is to be developed and maintained.

NSW Health organisations must have an Internal Audit Charter that is reviewed annually and that is consistent with the Model Internal Audit Charter.

The Audit and Risk Committee and Chief Executive are to receive an appropriate summary of findings, recommendations, and management responses for each Internal Audit report. Final copies of all Internal Audit reports are to be available at any time on request to the Audit and Risk Committee, Chief Executive and/or Board.

Management's formal response to an Internal Audit report and recommendations are to be provided within 20 business days of management receiving the report. Where there are extenuating circumstances, this timeframe may be extended by mutual agreement between management and the Chief Audit Executive.

The Audit and Risk Committee may request the Chief Audit Executive to undertake follow-up audits or reviews based on the risks posed to the organisation if the agreed actions are not implemented in a timely manner or request the person in the position responsible for implementing the agreed action plan to attend a Committee meeting to provide an update on the progress of implementation.

An external assessment of the Internal Audit function is to be conducted at least once every five years by a qualified, independent assessor selected in consultation with the Audit and Risk Committee.

An Internal Audit and Risk Management Attestation Statement is to be submitted to the Ministry of Health by 17 July each year, stating whether the NSW Health organisation has complied with this Policy Directive.

### REVISION HISTORY

Version	Approved By	Amendment Notes
PD2022_022 July 2022	Deputy Secretary, People, Culture and Governance	Key changes include: <ul style="list-style-type: none"> <li>Requirement for the Chair and all Audit and Risk Committee members to be independent and appointed from NSW Treasury's Prequalification Scheme</li> <li>Clarification on the appointment of Board members as a member of the same organisation's Audit and Risk Committee</li> </ul>
PD2016_051 October 2015	Deputy Secretary, Governance, Workforce and Corporate	Incorporating NSW Treasury TPP15_03, where relevant. Further improvements to align with maturity in devolved governance model.
PD2010_039 June 2010	Deputy Director General, Health System Support	Replaces <i>Audit and Risk Committees – NSW Health</i> (PD2008_069)
PD2008_069 December 2008	Deputy Director General, Health System Support	Rescinds PD2005_616 Complete rewrite of policy
PD2005_616 August 2005	Director General	New policy directive

## **CONTENTS**

<b>1</b>	<b>BACKGROUND</b> .....	<b>3</b>
1.1	About this document .....	3
1.2	Key Definitions .....	3
1.3	Legal and legislative framework .....	4
<b>2</b>	<b>THE INTERNAL AUDIT FUNCTION</b> .....	<b>5</b>
2.1	The Chief Audit Executive .....	5
2.2	Independence of the internal audit function .....	5
2.3	Charter for the internal audit function .....	6
2.4	Resourcing of the internal audit function .....	6
2.4.1	Professional development .....	6
2.5	Internal audit service delivery models .....	7
2.6	Internal Audit quality assurance and improvement program .....	7
2.7	Annual attestation of compliance .....	8
2.7.1	Request for an exception to policy requirements .....	8
<b>3</b>	<b>THE AUDIT AND RISK COMMITTEE</b> .....	<b>9</b>
3.1	Membership .....	9
3.1.1	Appointment of a Chair .....	9
3.1.2	Appointment of Members .....	9
3.1.3	Appointment of NSW Health organisation Board Members as Committee Members ..	10
3.1.4	Appointment of a Board Member as an Independent Member to the same organisation's Audit and Risk Committee .....	10
3.1.5	Notification of appointments .....	11
3.1.6	Codes of Conduct .....	11
3.1.7	Conflicts of Interest .....	11
3.2	Remuneration, insurance and other entitlements .....	12
3.2.1	Remuneration rates .....	12
3.2.2	Insurance .....	12
3.2.3	Other entitlements .....	13
3.3	Audit and Risk Committee Charter .....	13
3.4	Committee performance .....	13
3.5	Termination .....	14
<b>4</b>	<b>SHARED ARRANGEMENTS</b> .....	<b>15</b>

---

4.1	Sharing arrangements for an Audit and Risk Committee .....	15
4.2	Shared arrangements for a Chief Audit Executive or internal audit function .....	15
<b>5</b>	<b>INTERNAL AUDIT STANDARDS .....</b>	<b>16</b>
5.1	Standards for Internal Auditing .....	16
5.2	Internal Audit Manual.....	16
5.3	Audit reports.....	17
5.3.1	Audit findings .....	17
5.3.2	Agreed action plans.....	18
5.3.3	Monitoring the implementation of agreed action plans.....	18
5.3.4	Management of and reporting on the implementation of agreed action plans.....	18
5.4	Records management and retention .....	19
<b>6</b>	<b>APPENDICES .....</b>	<b>20</b>
6.1	Clarification of functional versus administrative reporting activity .....	20
6.2	Reporting lines for the Chief Audit Executive and the Internal Audit Function.....	21
6.3	Attributes for a Chair of an Audit and Risk Committee .....	22
6.4	Items for inclusion in shared arrangement agreements .....	23

## 1 BACKGROUND

Internal Audit is a key pillar of governance in any organisation. It 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.

The Institute of Internal Auditors-Australia notes the internal audit function provides timely and useful information about:

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

### 1.1 About this document

Under section 3.6 of the Government Sector Finance Act, the Secretary, NSW Health is required “to establish, maintain and keep under review appropriate and effective systems for risk management, internal control and assurance.”

This Policy Directive outlines the minimum requirements and standards for Internal Audit across the NSW Health system. It is complementary to the NSW Health Policy Directive *Enterprise-wide Risk Management* ([PD2022\\_023](#)) and is to be read in conjunction with the Guidelines and Conditions for NSW Treasury’s *Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members*.

While NSW Treasury’s *Internal Audit and Risk Management Policy for the General Government Sector* ([TPP20-08](#)) is only applicable to the Ministry of Health, the Mental Health Commission, Health Professional Councils and the Health Care Complaints Commission, this Policy Directive has been developed to align with the Core Principles and Core Requirements outlined in TPP20-08.

### 1.2 Key Definitions

<b>Board</b>	In this document, references to “the Board” includes the Board of any local health district, specialty health network, or Board-governed statutory health corporation, the Cancer Institute of NSW Board, Ambulance Services Advisory Board, Health Infrastructure Board, HealthShare NSW Board, and NSW Health Pathology Board.
<b>Board Member</b>	Any member appointed by the Minister to the Board of a NSW Health organisation, and any member appointed by the Minister or Secretary under the <i>Health Services Act 1997</i> to a committee, board or other body of any other NSW Health organisation.

<b>Eligible member</b>	An individual available for engagement via NSW Treasury's <i>Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members</i> , who maintains the independence criteria described in NSW Treasury's <i>Internal Audit and Risk Management Policy for the General Government Sector</i> ( <a href="#">TPP20-08</a> ).
<b>Extension of a term</b>	Where an Audit and Risk Committee Chair or Member's term is extended from the original term of appointment, up to the maximum period of five years.  For example, due to an unplanned resignation of a Committee member, the term of another Member's appointment is extended from three years to four and a half years to ensure continuity of knowledge on the Committee.
<b>NSW Health organisation</b>	A local health district, specialty health network, statutory health corporation, units of the Health Administration Corporation (including the NSW Ambulance Service, HealthShare NSW, eHealth NSW, Health Infrastructure and NSW Health Pathology), and health bodies established under their own statute, including the Cancer Institute of NSW.
<b>Reappointment</b>	Reappointment occurs when a Member's first term concludes as scheduled (or following an extension), and they are reappointed for a second term as a Member on the Committee.
<b>Term</b>	A period of appointment to the Audit and Risk Committee, of at least three, and no more than five, years.
<b>Total period of membership</b>	The cumulative (in years) of the term as Chair and the term as a Member, or the sum total of the first and second term as a Member, irrespective of whether terms are served consecutively or separately.

### **1.3 Legal and legislative framework**

- [Government Sector Finance Act 2018](#)
- [Health Services Act 1997](#)
- [Accounts and Audit Determination for Public Health Entities in NSW](#)



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## **2 THE INTERNAL AUDIT FUNCTION**

All NSW Health organisations must have an effective and adequately resourced Internal Audit function, with clear separation from operational management. The Internal Audit function must be operationally independent from the activities it audits.

The Internal Audit function must be appropriately positioned within the Organisation's governance framework to work with external audit and internal business units.

### **2.1 The Chief Audit Executive**

The Chief Executive is to appoint a Chief Audit Executive who is responsible for effectively managing the organisation's internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework.

Chief Audit Executive must:

- be classified at a sufficiently senior level to ensure that the position holder can discuss and negotiate internal audit results with senior management on a reasonably equal footing; and
- possess relevant qualifications, skills, knowledge, professional standing, and personal qualities that can ensure the credibility and acceptance of the Internal Audit function they lead.

The role of Chief Audit Executive may be a dedicated role, or it may be a responsibility within another role. The Chief Executive cannot appoint themselves or the Chief Financial Officer as the Chief Audit Executive. The Chief Audit Executive must not have the Chief Financial Officer (or equivalent) as a direct report.

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

The Chief Executive must consult with the Audit and Risk Committee when designating, appointing or removing a Chief Audit Executive.

The Deputy Secretary, People, Culture and Governance, NSW Health, must also be notified of the intention by the NSW Health organisation to advertise for a Chief Audit Executive position, to appoint a new Chief Audit Executive, and prior to removing an appointed Chief Audit Executive. Once employed, the role and function of the Chief Audit Executive is not to be amended without formal approval of the Deputy Secretary.

### **2.2 Independence of the internal audit function**

There must be a clear separation of operational management from the Internal Audit function. To achieve operational independence of the Internal Audit function, the Chief Audit Executive is to have a dual reporting line, that reports:

- administratively to the Chief Executive to facilitate day-to-day operations of the Internal Audit function, and

- 
- functionally to the Audit and Risk Committee for strategic direction and accountability of the Internal Audit function.

Clarification of administrative and functional reporting activities is included in section 6.1. The Internal Audit reporting lines are to be clearly documented within both the Internal Audit Charter and the Audit and Risk Committee Charter, as laid out in section 6.2.

### **2.3 Charter for the internal audit function**

The Chief Executive must ensure that the Internal Audit function has a Charter that is consistent with the content of the Model Charter available from the NSW Health [intranet](#).

The Internal Audit Charter must be provided to the Audit and Risk Committee for review and be endorsed for approval by the Chief Executive. The Charter may include additional provisions to those set out in the Model Charter, providing that these do not conflict with the Model Charter. Any material changes made or inclusions to the Internal Audit Charter during the review process must also be approved by the Board.

### **2.4 Resourcing of the internal audit function**

The Internal Audit function must have sufficient financial resources and professional staff with the necessary skills and experience relative to the risks and assurance needs facing the organisation.

The Chief Executive is to determine the budget and level of resourcing for the Internal Audit function in consultation with the Audit and Risk Committee.

Where the Audit and Risk Committee or Chief Audit Executive considers the level of resourcing for the Internal Audit function to be insufficient, relative to the risks and assurance needs of the organisation, it is to be drawn to the attention of the Chief Executive and, where appropriate, the Board.

#### **2.4.1 Professional development**

Professional staff of the Internal Audit function are to have reasonable access to training and professional development through the relevant professional associations.

The Chief Audit Executive must:

- ensure that the Organisation's Internal Audit staff are provided with sufficient information on the risks and operations of the organisation for them to perform their roles
- set minimum professional development targets for the organisation's Internal Audit staff
- inform the Audit and Risk Committee of planned and actual time spent on professional development each year.
- provide periodic reporting to the Audit and Risk Committee on the professional development of the Internal Audit function.

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## **2.5 Internal audit service delivery models**

NSW Health organisations are to determine the appropriate service delivery model for the internal audit function based on the organisation's needs. The model selected must provide assurance on risk management, control and governance processes that is independent from operational management.

The service delivery model may be either:

- In-house, where the internal audit function is exclusively or predominantly provided and managed by the organisation's staff
- Co-sourced, where the organisation provides and manages internal audit services through a combination of in-house resources and contracted services delivered by appropriately qualified third-party providers; or
- Outsourced, where internal audit services (except for the Chief Audit Executive role) are provided exclusively by an appropriately prequalified third-party provider.

When determining the most appropriate service delivery model for the internal audit function, organisations are to consider the:

- size of the organisation, in terms of both staffing levels and budget
- complexity of the organisation's core business
- risk profile of the organisation's operations
- geographical and functional distribution of the organisation's operations
- viability of alternative service delivery models and the ability of the organisation to attract and retain suitable staff, including professional staff for in-house service delivery, and an experienced staff 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 outsourced service delivery
- capacity of alternative service delivery models to deliver flexibility in the internal audit work-plan.

Where the internal audit function is established using a co-sourced or outsourced service delivery model, the Chief Audit Executive must be the central point of contact and/or contract manager for any internal audit services delivered by a third-party provider. This is to ensure that the Chief Audit Executive retains control of the internal audit strategic direction and can actively monitor the performance of the third-party provider.

In all models, responsibility for the internal audit function remains with the NSW Health organisation. The Chief Audit Executive shall be an employee of the organisation and cannot be outsourced.

## **2.6 Internal Audit quality assurance and improvement program**

NSW Health organisations must have a documented and operational quality assurance and improvement program for the internal audit function.

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Internal assessments are to include:

- ongoing monitoring of the performance of the internal audit function; and
- periodic assessment of the performance of the internal audit function; and
- at least annual self-assessments against *International Professional Practices Framework* mandatory requirements.

An external assessment of the internal audit function is to be conducted at least once every five years by a qualified, independent assessor selected in consultation with the Audit and Risk Committee. The external assessment is to consider the organisation's compliance with, and performance against, this Policy Directive and the mandatory components of the *International Professional Practices Framework*, including the *International Standards for the Professional Practice of Internal Auditing*.

The Chief Audit Executive may facilitate the external assessment and results must be communicated to the Audit and Risk Committee, Board, Chief Executive, and to the staff within the internal audit function.

## 2.7 Annual attestation of compliance

The Internal Audit and Risk Management Attestation Statement is an annual statement to the Secretary, NSW Health about the NSW Health organisation's conformance or otherwise to this Policy Directive, and to the NSW Health Policy Directive *Enterprise-wide Risk Management* ([PD2022\\_023](#)). Advice, opinion or feedback may be sought from the Audit and Risk Committee in relation to the organisation's compliance.

The Chief Executive is to submit the Attestation Statement, along with the Internal Audit and Risk Management compliance self-assessment for the financial year (available from the NSW Health [intranet](#)), to the Ministry of Health (via email [MOH-CGRM@health.nsw.gov.au](mailto:MOH-CGRM@health.nsw.gov.au)) by 17 July each year, stating whether the organisation complied with these Policy Directives during the financial year immediately prior.

A copy of the final completed Internal Audit and Risk Management Attestation Statement must be communicated to the Audit and Risk Committee and to the Board.

### 2.7.1 Request for an exception to policy requirements

Where a NSW Health organisation is not able to comply with any of the requirements of this Policy Directive, or with the NSW Health Policy Directive *Risk Management* ([PD2022\\_023](#)), the Chief Executive may apply in writing to the Secretary, NSW Health for an exception from the relevant policy requirement(s) prior to 31 March of the financial year for which the exception is sought. The request must include an outline of why the organisation has not been able to comply with the policy requirement/s.

A determination with respect to an exception will be for the reporting period only and, even if circumstances for the initial exception are ongoing, further exceptions must be renewed annually. Where an exception is granted, the exception must be indicated on the Attestation Statement.

The organisation's Audit and Risk Committee and Board must be notified of the request for exception.

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### 3 THE AUDIT AND RISK COMMITTEE

The Chief Executive must establish efficient and effective arrangements for an Audit and Risk Committee to oversee and monitor governance, risk and control issues affecting the operations of the organisation.

#### 3.1 Membership

The Chief Executive is to appoint and maintain an Audit and Risk Committee of no fewer than three and no more than five Members, including the Chair. All Members (including the Chair) must be independent and sourced from NSW Treasury's Prequalification Scheme: *Audit and Risk Committee Independent Chairs and Members*, on the NSW Procurement website [buy.nsw.gov.au](http://buy.nsw.gov.au).

Under the Scheme, Chairs and Members may sit on up to five public sector audit and risk committees at any one time. Except for the appointment of an entirely new Audit and Risk Committee, the appointment of Members is only to be made after consultation with the Committee Chair.

NSW Health organisations are to ensure that Members possess the skills, knowledge and experience that are relevant to, and which will enhance, the Committee's operations. An appropriate orientation must be provided, and Members are to be made aware of how to access any support when commencing their roles.

Prior to appointing a Chair, and prior to appointing or reappointing a Member, the NSW Health organisation must conduct appropriate probity checks on the candidate. These checks may include a National Criminal Record Check and Insolvency Check.

Current employees of any NSW government sector agency, other than State Owned Corporations, cannot serve as Members or Chairs on any NSW Health Audit and Risk Committee.

##### 3.1.1 Appointment of a Chair

The Chair of the Audit and Risk Committee is to be appointed for a single term only, of at least three years and not greater than five years. The term of appointment may be extended, but any extension must not cause the term to exceed five years as the Chair, or the total period of membership on the Committee to exceed eight years.

A Member who is prequalified as a Chair may be appointed as a Chair either prior, or subsequent, to a term as a Member. The recommended attributes for a Committee Chair are outlined in section 6.3.

Letter of Appointment templates for the Chair and for Members are available from the NSW Health [intranet](#).

##### 3.1.2 Appointment of Members

The initial term for Members of the Audit and Risk Committee must be at least three years and must not exceed five years. Members may have their term extended, or be reappointed for a second term, but the total period of membership on the Committee must not exceed eight years (inclusive of any term as Chair of the Committee).

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A formal assessment of a Member's performance must be undertaken prior to any reappointment or extension of membership on the Committee. A Member may only be appointed for a second term where the Chair of the Audit and Risk Committee, the Chief Executive and the Board are satisfied with the Member's performance.

Letter of Appointment templates for the Chair and for Members are available from the NSW Health [intranet](#).

### **3.1.3 Appointment of NSW Health organisation Board Members as Committee Members**

Board Members of a NSW Health organisation Board who are registered with NSW Treasury's Prequalification Scheme may be appointed as an independent Member of a NSW Health organisation's Audit and Risk Committee, provided the Member has, prior to accepting the appointment:

- consulted with their Board Chair (or Chief Executive, where Chief Executive governed) on any potential conflicts of interest issues; and
- advised the Audit and Risk Committee Chair of their existing NSW Health Organisation Board role.

### **3.1.4 Appointment of a Board Member as an Independent Member to the same organisation's Audit and Risk Committee**

A Chief Executive may appoint a maximum of one member of the organisation's Board as a Member of that same organisation's Audit and Risk Management Committee, so long as they are eligible for appointment as an independent Member per NSW Treasury's Prequalification Scheme: *Audit and Risk Committee Independent Chairs and Members*.

A Board member cannot be appointed as the Chair of that same organisation's Audit and Risk Management Committee, irrespective of whether they are eligible for appointment as an independent Chair per the Prequalification Scheme.

The Board Chair and members of an organisation's Finance and Performance Committee (including the Chair) are not eligible for appointment to the same organisation's Audit and Risk Committee, even if they are otherwise eligible under NSW Treasury's Prequalification Scheme.

Before appointing an eligible member of the organisation's Board as a Member of that same organisation's Audit and Risk Management Committee, the Chief Executive and Board Chair must consider the issues such an appointment may present, including whether the Member will have the capacity to perform both roles independently, whether the appointment has the potential to create a conflict of interest and the potential for any other issues to arise during the term of appointment.

Where a Board member of a NSW Health organisation is appointed as a Member of that same organisation's Audit and Risk Committee, the appointment, term and remuneration for the Audit and Risk Committee is independent of their appointment and term on the organisation's Board. For clarification, the Member is entitled to remuneration as per the Prequalification Scheme, however, they can choose to decline the remuneration applicable to their appointment on the Audit and Risk Committee.

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To maintain lines of communication between the Board and the Committee, Board Members of a NSW Health organisation who are not eligible for appointment as an independent Chair or Member may attend Committee meetings at the request of the Board Chair (or Chief Executive) as a non-voting observer but cannot be appointed to the Committee and are not entitled to remuneration in addition to their Board entitlement.

### 3.1.5 Notification of appointments

NSW Health organisations are to notify the Corporate Governance and Risk Management Unit of the Ministry of Health (via email [MOH-CGRM@health.nsw.gov.au](mailto:MOH-CGRM@health.nsw.gov.au)) and NSW Procurement ([AuditRiskMembers@treasury.nsw.gov.au](mailto:AuditRiskMembers@treasury.nsw.gov.au)) of the:

- appointment of a Chair and/or Members, including where a Member is appointed to the position of Chair, or where a Chair concludes their term and is then appointed to the Committee as a Member
- extension of the current term of a Chair and/or Member
- reappointment of a Member for a second term on the Committee
- resignation of the Chair and/or a Member
- termination of the Chair and/or a Member.

### 3.1.6 Codes of Conduct

The Chair and Members of Audit and Risk Committees in NSW Health organisations are subject to the NSW Health Policy Directive *Code of Conduct* ([PD2015\\_049](#)).

Chairs and Members, as a condition of their prequalification, are required to comply with the Prequalification Scheme [Code of Conduct: Audit and Risk Committee Chairs and Members](#), and are also subject to the general principles of conduct and ethics that apply to public sector employees<sup>1</sup>.

### 3.1.7 Conflicts of Interest

The [NSW Government Boards and Committees Guidelines](#) set out the process and criteria for managing conflicts of interest and imposes a duty on each Member to declare any interest that has the potential to be perceived as influencing the performance and decisions of a Committee Chair or Member.

A conflict of interest may arise when a Member could be influenced by a personal or business interest, such as through a current or recent relationship which has the potential to create an actual or perceived conflict of interest.

Examples include where a Chair or Member:

- has been employed by a NSW Health organisation in a senior management role or in a position that can exert influence over a service provider, within the last three years

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<sup>1</sup> Refer to the NSW Public Sector Commission <https://www.psc.nsw.gov.au/about-us/our-code-of-ethics-and-conduct>

- 
- has performed any services, including advisory roles, for the NSW Health Organisation which directly affects the subject matter of the Audit and Risk Committee, within the last three years.
  - has a material business or other contractual relationship (other than as a Committee Member) or any other direct financial interest or material indirect financial interest with the Health organisation, or a related organisation, which could reasonably be perceived to materially interfere with the Committee Member's ability to act in the best interests of the organisation.
  - has acted as an advocate of a material interest on behalf of an organisation, or a related organisation, or currently is, or has been, engaged in litigation or in resolving disputes between the organisation and third parties.
  - has an immediate or close family Member who is employed in a senior management role of the organisation or is employed in any other position which can exert direct and significant influence over the subject matter of the Audit and Risk Committee.

The Chief Executive of the NSW Health organisation must ensure adequate procedures are in place to preserve the independence, both real and perceived, of the Chair and Members.

## **3.2 Remuneration, insurance and other entitlements**

### **3.2.1 Remuneration rates**

Remuneration rates are prescribed under NSW Treasury's *Prequalification Scheme for Audit and Risk Committee Chairs and Members*, administered by NSW Procurement.

Remuneration of the Chair and Members, including the Chair and Members of a shared Audit and Risk Committee, shall be in accordance with the Scheme Conditions, as prescribed by the fee category table.

Superannuation must be paid to Independent Chairs and Members in accordance with the *Superannuation Guarantee (Administration) Act 1992 (Cth)* as Independent Chairs and Members are considered employees for the purpose of this legislation, regardless of the form of payment.

### **3.2.2 Insurance**

Board Members, Directors and Officers of NSW Health Boards and Committees are covered by the Treasury Management Fund (TMF) in their capacity as Members on such groups for certain wrongful acts<sup>2</sup> committed during their period of cover. Audit and Risk Committee Members are provided the same level Officer and Director indemnity as NSW Health organisation Board Members.

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<sup>2</sup> A "wrongful act" is defined under the Treasury Management Fund Policy, and may include certain acts, omissions or misstatements while acting as a Member of the Audit and Risk Management Committee. See Treasury Management Fund Policy for exact coverage.



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### **3.2.3 Other entitlements**

All reasonable claims by the Chair and Members for Committee-related expenditure are to be paid, in accordance with normal requirements imposed on employees when claiming for work-related expenses.

Reasonable expenses incurred when travelling to and from meetings may be reimbursed, provided that claims are supported by relevant receipts for expenditure. Appropriate expenditure for reimbursement includes public transport fares, taxi fares, parking fees, tolls, and use of the Chair or Member's own private vehicle.

Where the Audit and Risk Committee Chair and/or Members are unable to reasonably travel to and from meetings within one day, the NSW Health organisation, at its expense, is to arrange travel and accommodation for the Member.

All travel, accommodation and other allowances must comply with the current Public Sector Industrial Relations Circular on Meal, Travelling and Other Allowances.

### **3.3 Audit and Risk Committee Charter**

The Chief Executive must ensure that the Audit and Risk Committee has a Charter that is consistent with the Model Charter available from the NSW Health [intranet](#). The Model Charter sets out common content for Audit and Risk Committee Charters. NSW Health organisations may, where appropriate, include provisions in addition to those set out in the Model Charter, providing these do not conflict with the Model Charter.

The Board (or Chief Executive, where Chief Executive governed) must approve the Audit and Risk Committee Charter and ensure it is distributed to all Members of the Committee, including all new appointments, at the point of induction to the Committee.

The Audit and Risk Committee must ensure that the Charter:

- is formally reviewed by the Committee at least annually to ensure its ongoing relevance, with recommendations for updates approved by the Board (or Chief Executive, where Chief Executive governed)
- is sufficiently detailed and unambiguous
- has clear guidance on key aspects of the Committee's operations.

The Chair and Members of the Audit and Risk Committee must establish and maintain an effective working relationship with management, including senior executives, and must seek to amicably resolve differences or concerns with management by way of open negotiation.

Where a disputed matter cannot be resolved, the Chair of the Audit and Risk Committee may make an oral or written request to the organisation Board Chair (or Chief Executive, where Chief Executive governed). Where a disputed matter cannot be resolved locally, the matter is to be referred to the Deputy Secretary, People, Culture and Governance, then to the Secretary, NSW Health.

### **3.4 Committee performance**

The Board (or Chief Executive, where Chief Executive governed), in consultation with the Chair of the Audit and Risk Committee, must ensure a mechanism is established to review

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and report on the Committee's performance as a whole, and the performance of the Chair and each Member of the Audit and Risk Committee, at least annually.

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 obligations.

A Self-Assessment Checklist (available from the NSW Health [intranet](#)) is to be completed annually by the Committee Chair to evaluate the effectiveness of the Committee and its Members and identify opportunities for improvement. It is to be completed in coordination with each Member of the Committee and the Chief Audit Executive.

Once complete, the Checklist is to be signed by the Board Chair and Chief Executive, with copies provided to each. The signed copy of the completed Self-Assessment Checklist is to be kept as part of the organisation's formal records and be available on request from the Ministry of Health.

### **3.5 Termination**

The letter of appointment for the Chair and Members must include a provision for the removal or termination where the Chair or Member:

- becomes bankrupt, or insolvent, or enters into a scheme or arrangement with their creditors, placed under official management or receivership
- fails to carry out their role and responsibilities with due diligence and competence
- without reasonable cause suspends or breaches the terms of appointment
- commits a substantial breach of the terms of appointment and/or Codes of Conduct
- has a conflict or potential conflict of interest which will prevent them from performing their roles and responsibilities.

To terminate the services of a Chair or Member of a NSW Health organisation's Audit and Risk Committee, the Board Chair (or Chief Executive, where Chief Executive governed) must outline the reasons for the proposed termination and seek approval from the:

- Executive Director, Legal and Regulatory Services Branch, Ministry of Health
- Deputy Secretary, People, Culture and Governance, NSW Health
- Secretary, NSW Health
- Minister for Health.

The approval of the Minister is not required in circumstances where the Chair or Member has been removed from the Prequalification Scheme or otherwise become ineligible to be a member of the Scheme.

Only the Secretary, NSW Health may terminate a NSW Health organisation's Audit and Risk Committee Chair or Member's appointment.

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## 4 SHARED ARRANGEMENTS

Shared arrangements may be formed between NSW Health organisations to support Chief Executives with implementing this Policy Directive in an efficient and effective manner. The resources that may be shared to achieve efficiencies include sharing the cost of the:

- Audit and Risk Committee (engaging Members and the Chair, and for secretariat services), and/or
- Chief Audit Executive, and/or
- Internal Audit function.

All NSW Health organisations entering into a shared arrangement must seek approval from the Deputy Secretary, People, Culture and Governance. Once approved, the Chief Executives of each organisation must agree and sign a shared arrangement agreement.

While there is no prescribed format for an agreement, the agreement must include a dispute resolution process. Other aspects of a shared arrangement agreement are listed in section 6.4.

Regardless of the form of a shared arrangement, each Chief Executive remains responsible for meeting their obligations under this Policy Directive.

### 4.1 Sharing arrangements for an Audit and Risk Committee

A shared Audit and Risk Committee operates as an individual Audit and Risk Committee for each separate NSW Health organisation. This requires Members of the Committee to liaise with the respective chief executive, ensure separate records and confidentiality are maintained, and provide independent advice and oversight for each participating organisation.

Before entering into a shared arrangement for an Audit and Risk Committee, the Chief Executives considering the arrangement are to ensure the Chair and Members all have the time and capacity to sufficiently cover all organisations in the shared arrangement.

All meetings of the Committee are to be held sequentially and, depending on the size and complexity of the organisations involved in the shared arrangement, sequential meetings may spread over two or more meeting days if required to sufficiently cover all organisations. Sequential meetings are to involve the meetings being formally closed, have a separate agenda and have separate minutes for each NSW Health organisation.

### 4.2 Shared arrangements for a Chief Audit Executive or internal audit function

Before considering a shared arrangement for a Chief Audit Executive or Internal Audit function, organisations must consider the potential issues and challenges, for example managing performance, time commitments, cost allocations, and leave and succession arrangements, that such an arrangement may present.

If a NSW Health organisation is contemplating a shared arrangement for a Chief Audit Executive or Internal Audit function, the Chief Executive must consider the likely demands as a result of the shared arrangement. This includes whether the Chief Audit Executive or

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Internal Audit function will have the capacity to understand the different business activities of multiple organisations and manage the larger workload.

A Chief Audit Executive may be shared between more than one organisation if:

- the Chief Audit Executive is a direct report (administratively) to the chief executives of all the organisations involved in the shared arrangement; and
- the Audit and Risk Committee/s of the organisations involved in the shared arrangement endorse the arrangement prior to its implementation; and
- the Chief Audit Executive has sufficient internal resources available to properly deliver an in-house internal audit function or properly manage an outsourced or co-sourced internal audit function in each of the organisations; and
- the Chief Audit Executive has the authority to request and receive information from all organisations within the shared arrangement; and
- the extent of the complexity and diversity in the business of the Organisations is not so great that the Chief Audit Executive would be unable to reasonably attain an adequate level of understanding of all relevant issues; and
- It is unlikely for a substantive actual or perceived conflict of interest to arise in the shared arrangement.

A shared internal audit function may be in-house, outsourced or co-sourced, but the role of the Chief Audit Executive cannot be outsourced to an independent party.

## 5 INTERNAL AUDIT STANDARDS

### 5.1 Standards for Internal Auditing

The Chief Audit Executive must ensure that the Internal Audit function operates in accordance with the *International Professional Practices Framework* issued by the Institute of Internal Auditors.

Internal audit work must be performed in accordance with the *International Standards for the Professional Practice of Internal Auditing*. The Standards and related professional practice guidelines are available from <http://www.iaa.org.au/>.

### 5.2 Internal Audit Manual

The Chief Executive, in consultation with the Audit and Risk Committee, must ensure that the Chief Audit Executive develops and maintains an Internal Audit Manual for the internal audit function.

Where the function is established using an out-sourced service delivery model, the Chief Audit Executive must ensure that the contract for internal audit services specifies that the service provider will:

- be informed of the development of, or any changes to, the Internal Audit Manual

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- apply audit methodologies that accord with the *International Professional Practices Framework* and *International Standards for the Professional Practice of Internal Auditing*
  - make the audit methodologies used accessible to the organisation (subject to any licensing or other restrictions that may be in place).

The Audit and Risk Committee is to endorse the Internal Audit Manual for approval by the Chief Executive after ensuring that, as a minimum, the manual is consistent with the *International Professional Practices Framework* and *International Standards for the Professional Practice of Internal Auditing*.

### 5.3 Audit reports

The audit report is the key means of communicating the findings and recommendations of internal audit services. Appropriate standards must be applied to ensure confidence in the accuracy and validity of audit findings, and that audit recommendations are prioritised, action-oriented and cost-effective to implement.

Each audit report is to:

- contain an overall audit conclusion covering the effectiveness of the overall control environment and the achievement of audit objectives
- contain risk-rated audit observations
- be prepared in accordance with the internal audit report template developed or agreed by the organisation
- provide improvement observations and positive commentary, where possible
- be drafted and finalised within stipulated timeframes
- include comments from appropriate management
- include an action plan, including the individual responsible and timeframe for implementation, and
- contain details of the review and quality processes conducted.

The Audit and Risk Committee and Chief Executive are to receive an appropriate summary of findings, recommendations, and management responses for each Internal Audit report. Final copies of all Internal Audit reports are to be available at any time on request to the Audit and Risk Committee, Chief Executive and Board.

The Chief Audit Executive, with advice from the Committee, is to develop and maintain procedures for the reporting of Internal Audit findings and recommendations in the organisation.

#### 5.3.1 Audit findings

The Internal Audit function is to adopt a risk-based audit methodology. The methodology is to be used for reporting audit observations, monitoring the implementation of agreed actions, and for following-up on outstanding agreed actions.

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Audit findings are to indicate the extent of the risk associated with the finding, using the NSW Health Risk Matrix, and be applied in the context of the audited environment.

The Chief Audit Executive must ensure that risk categorisation is used to communicate the relative importance of risk rated findings to the Audit and Risk Committee, Board, Chief Executive and to management.

### **5.3.2 Agreed action plans**

Following appropriate consultation, the Chief Audit Executive is to recommend a course of action for every audit finding and ensure that recommended actions are referred to management for a formal response.

The Chief Executive must ensure that management prepares an agreed action plan for every internal audit finding, and that a responsible position within the organisation for the implementation of the agreed action plan is allocated.

Management's formal response to an Internal Audit report and recommendations are to be provided within 20 business days of management receiving the report. Where there are extenuating circumstances, this timeframe may be extended by mutual agreement between management and the Chief Audit Executive.

While management has the right to reject the recommended actions on reasonable grounds and accept the associated risk, where agreement on an action plan cannot be reached, the Chief Audit Executive must report to the Audit and Risk Committee on the areas of concern related to the audit, findings and recommendations.

### **5.3.3 Monitoring the implementation of agreed action plans**

The Chief Audit Executive must establish and maintain a system to monitor and follow-up progress of agreed action plans. The Audit and Risk Committee may request the Chief Audit Executive to undertake follow-up audits or reviews based on the risks posed to the Organisation if the agreed actions are not implemented in a timely manner, and to report on their progress to the Audit and Risk Committee.

### **5.3.4 Management of and reporting on the implementation of agreed action plans**

Management is to monitor the progress of, and report on, the implementation of agreed action plans to the Chief Audit Executive.

The Audit and Risk Committee, via the Chief Executive or Chief Audit Executive, may request the person in the position responsible for implementing the agreed action plan to attend a Committee meeting to provide an update on the progress of implementation.

Where the Audit and Risk Committee is not satisfied with progress in the implementation of the agreed actions, it must refer its concerns to the Chief Executive so that management is made fully aware of the risks posed to the organisation.

## **5.4 Records management and retention**

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 documentation from internal audits is to be retained, stored and managed in accordance with the *State Records Act 1998* and record disposal authorities approved under that Act.

All internal audit documentation is to remain the property of the NSW Health Organisation, including where the internal audit services are performed by a service provider.

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## **6 APPENDICES**

### **6.1 Clarification of functional versus administrative reporting activity**

Functional reporting involves the Audit and Risk Committee:

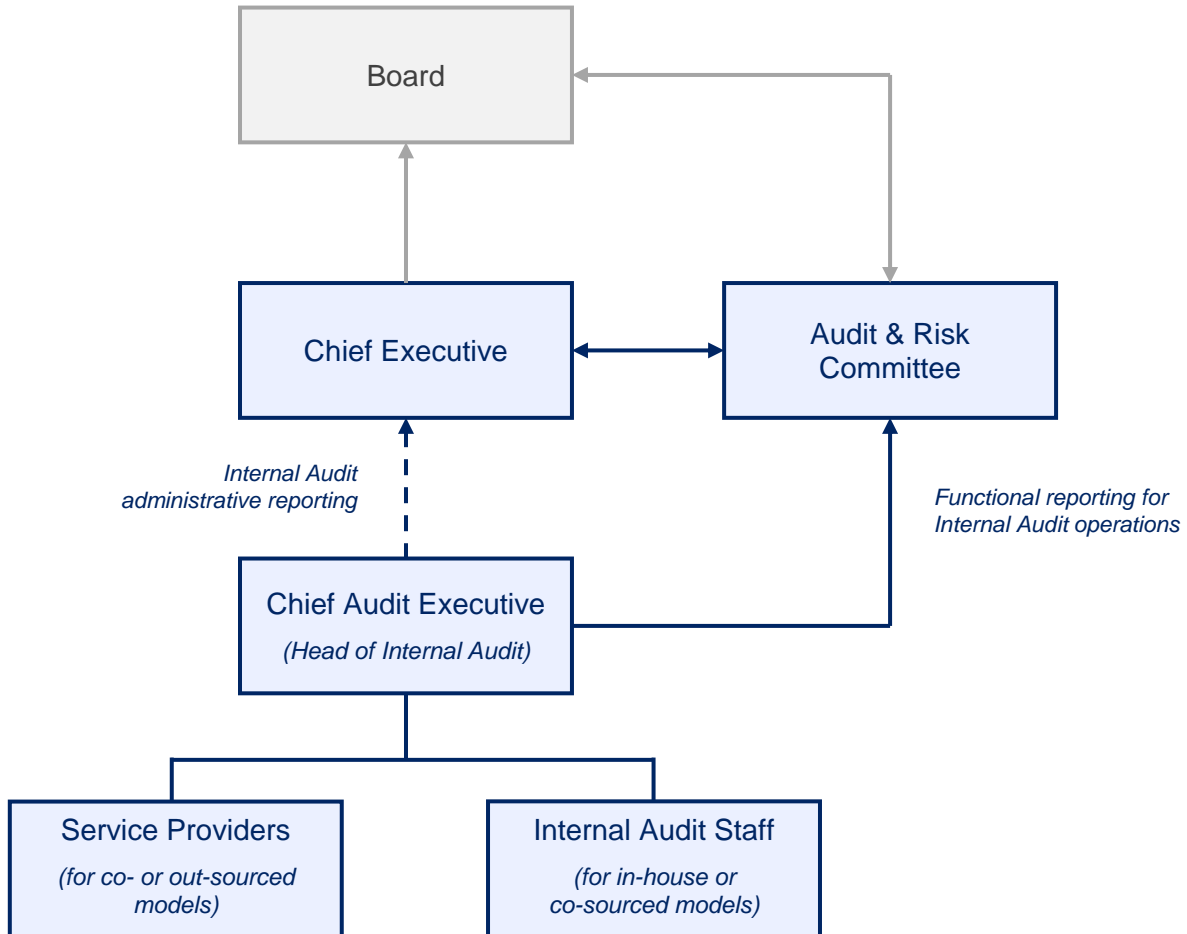
- Reviewing and endorsing the Internal Audit Charter for approval.
- Endorsing decisions regarding appointment and removal of the Chief Audit Executive, including appropriateness of grading and remuneration.
- Contributing to the formal performance assessment of the Chief Audit Executive.
- Reviewing and endorsing the Internal Audit Plan, and any changes to the plan.
- Reviewing reports on the results of audits, audit-related activities, audit team capability, audit performance, and other important matters.
- Monitoring compliance with standards, together with quality and improvement arrangements.
- Meeting privately with the Chief Audit Executive at least once a year without the Chief Executive Officer or other management present.
- Making enquiries of the Chief Audit Executive to determine any scope or budget limitations that may impede the execution of Internal Audit responsibilities.
- The implementation status of agreed internal and external audit recommendations

Administrative reporting to the Chief Executive includes:

- Internal Audit resources and annual budget.
- Provision of corporate services to Internal Audit including office accommodation, computers and equipment.
- Human resource administration, including formal and informal performance assessments.



## 6.2 Reporting lines for the Chief Audit Executive and the Internal Audit Function



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### **6.3 Attributes for a Chair of an Audit and Risk Committee**

Attributes for a Chair of an Audit and Risk Committee include:

- leadership qualities and the ability to promote effective working relationships in complex organisations
- an ability to communicate complex and sensitive assessments in a tactful and influential manner to Chief Audit Executives, Chief Executives, senior management, Board Members and Ministers
- a sound understanding of:
  - the principles of good organisational governance and capacity to understand public sector accountability, including financial reporting;
  - the business of the Ministry or statutory body or the environment in which it operates;
  - contemporary Internal Audit operations, including selection and review of Chief Audit Executives;
  - risk management principles and standards.

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## **6.4 Items for inclusion in shared arrangement agreements**

The following aspects are to be included in a shared arrangement agreement:

### *General*

- Clearly set out the terms of the arrangement including details of the shared ARC and if applicable, shared CAE and internal audit functions
- State the role and responsibilities of each NSW Health organisation
- Be signed by all Chief Executives involved in the shared arrangement
- Be approved by the Secretary, NSW Health

### *Where it is proposed to share a CAE*

- Specify the functional and administrative reporting lines of the CAE
- Include the authority of the CAE to request and receive information from all Organisations within the shared arrangement

### *Where it is proposed to share an ARC*

- Detail clear reporting lines to ensure that all participating Organisations understand the objectives and responsibilities of the shared ARC to report and provide independent advice and oversight for each participating Organisation in the shared arrangement
- Provide for shared secretariat services (including minuting, distribution and reporting packs).

### *Other provisions*

Other provisions that are to be considered in the agreement include:

- How costs will be administered and shared
- How the Committee Members will be appointed and reviewed
- Remuneration arrangements for Committee Members and cost sharing arrangements
- What information, if any, is to be shared between Organisations, and how
- Parameters on sharing key audit and risk issues between Organisations
- How information is to be provided to the CAE
- How information is to be provided to the Secretariat
- Meeting schedule, including sequencing of meetings to cover each Organisation's business and representatives as required (e.g. CE, CFO and CAE)
- How the internal audit function is to be delivered and, where an outsourced delivery model is adopted, the title of the position who is to be the in-house liaison/contract officer in each Organisation (if applicable)
- Who is responsible for ensuring the ARC charter is reviewed in accordance with this Policy

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- The mechanism for formulating and delivering the annual report on the ARC's performance and for managing the ARC's performance. Input from the Chief Executives of all participating Organisations should be considered in this performance review
  - The Secretariat will be the custodian of all documentation relating to the shared arrangement agreement.