



GOOD GOVERNANCE FRAMEWORK

PURPOSE

The purpose of this Good Governance Framework is to outline a vision for Good Governance at Hunter's Hill Council and to identify processes to implement and maintain vision. The Good Governance Framework applies to Councillors and Council administration including the General Manager, senior managers and other members of the administration team.

1. INTRODUCTION

1.1 *Why is Good Governance Important?*

Governance is the process of decision-making and the process by which decisions are implemented. Governance involves interaction between the government, the private sector and civil society.

Governments that are accountable, open and act with integrity, will earn the confidence of the public. In recent years the concept of governance has received increasing attention. Shortcomings in corporate governance have been exposed in major company failures in Australia and internationally. As a result companies and public institutions face increased public scrutiny. The community demands greater transparency, accountability and consultation from organisations whose decision affect their lives. The establishment of standards for 'Good Governance' has become increasingly important for both the public and private sectors. Organisations and institutions in both public and private sectors are realising that implementing and abiding by good governance models is essential both to survive in competitive environments, to meet public expectations and to maintain the public's trust.

Good governance improves internal process and affects the quality of outputs. Good governance is both a vision and a process. Implementing a framework of Good Governance results in better planning and decision-making, and in turn better outcomes are achieved. A governance culture that emphasises risk management, integrity, accountability and participation is more likely to know what is in the best interests of its stake holders and to act for the good of the community more often.

Good governance also ensures that local governments meet their legislative responsibilities and maintain clear lines of accountability to the community.

This will assist governments to fulfil their functions and responsibilities and constantly reinforces that the organisation is there to represent the interests of stakeholders.



1.2 *Governance in Local Government*

The nature of Governance changes according to the type of organisation and their ambitions. In local government, governance has a very broad coverage. It relates to the process of decision-making, how decisions are implemented, the structure and culture of Council administration, the policies and strategies of Council and visions for the future; the management of resources; the exercise of authority and the relationship between the government and the community it represents.

Good Governance is important in Local Government. The Government's legitimacy comes from its electors and its ability to represent their interests. As managers of public resources and representatives of citizens, the public is entitled to expect that the business of any government will be conducted with efficiency, impartiality, integrity, and consultation, and that their elected representatives will be committed to these high standards of behaviours and will ensure that their administration performs accordingly. Demonstrating Good Governance is therefore particularly important for Local Governments to effectively service the community and to foster and uphold community confidence in government.

Across Australia, more recent ideas of what constitutes Good Governance have paid particular attention to the need to encourage greater participation in the processes of local governance. As the level of government often seen as 'closest' to the population, local governments' activities relate to matters that are fundamental to people's lives and impact strongly on their quality of life. It is considered important that Councils pay particular attention to meeting public demand for clear lines of accountability, transparency and community participation.

Prior to this Good Governance in local government meant corporatisation and changes were made to the structure and organisational processes of local governments to shape them more like corporate enterprises. These changes beginning in the early 1990s focused on results and corporate planning, objective setting, program budgeting and performance monitoring including setting performance indicators and benchmarking. Governments were expected to manage the delivery of service, in more cost efficient ways and competitive tendering was encouraged as a method to achieve this. Councillors' roles become similar to other board of directors in that it involved more steering, or setting the policy framework and directions of the council. These changes facilitated better management in local



government and the practices implemented are still considered essential to Good Governance.

However, it has been realised that to achieve better local governance, Council must place more emphasis on engaging the community in governance. New ideas of Good Governance considers both the engagement of the community in the governing process, and a strong commitment to corporate management practices as essential to the governing process. This new governance involves building formal consultation process with the local community into the design and implementation of local government services and policies. Engaging the community is achieved through a variety of consultative mechanism such as surveys, focus groups, public meetings, public hearings or discussion groups, the establishment of local committees or local advisory boards, and discussions with independent local organisations that represent the interests of local people. The underlying principle is to ensure the range of stakeholders interests are heard and that their perspective is then considered in decision-making.

Improved participation strengthens decision-making as it becomes easier for councils to develop service delivery and strategies that best meet community needs and expectations. Cost-benefit analysis is then replaced with the concept of best value, which considers the ability of government to best meet community needs for service delivery while efficiently managing public resources. This also strengthens relationships between Council and the community.

2. THE ESSENTIALS FOR GOOD GOVERNANCE IN LOCAL GOVERNMENT

Excellence in governance increases the possibilities of an organisation's objectives being achieved efficiently and effectively. AS 8000/2003 – GOOD GOVERNANCE PRINCIPLES, has been produced to foster ethical behaviour in organizations and to enhance the reputation of Australian businesses.

The following principles are based on AS 8000/2003, and the essential elements for implementing good governance in Local Government.

Accountability: Accountability means Council and the individuals within it are responsible for their decisions and actions and submit themselves to appropriate external scrutiny. Council remains accountable to those who will be affected by its decisions or actions and must consider issues on their merits and take into account the views of others.



Transparency: Transparency involves clear roles and responsibilities and clear procedures for decision-making and the exercise of authority. Decisions and actions will be as open as possible and reasons for decisions given and restricting information only when the wider public interest clearly demands.

It also means that information is freely available and directly accessible to those who will be affected by such decisions and their enforcement. In order for it to be effective it may involve providing information in easily understandable forms and media.

Fairness and equity: All transactions should be made in such a way as to minimize inequalities of power.

Decisions should be made solely on merit and in accordance with statutory obligations when carrying out public business.

Honesty: All statements and actions should be made honestly and accurately, so that they may be relied upon.

This principle also notes that selective presentation of information, or the suppression of relevant information, is an act of dishonesty. Any private interests relating to public duties will be declared and steps taken to resolve any conflicts arising in such a way that protects public interest.

Integrity: Integrity involves acting impartially, ethically and in the interests of the community in the management of public funds and resources. It is dependent on the effectiveness of the organisational structure, influenced by relevant legislation and ultimately determined by the personal standards and professionalism of the individuals within the Council.

All actions must be undertaken to ensure that no person is placed under any financial or other obligation to any individual or organisation that might reasonably be thought to influence a person in the performance of their duties.

Dignity: All dealings with others should be characterized by dignity of treatment.



While people may be used for various permitted purposes, such as employment, where there is a conflict of purpose, the action that fosters human dignity should prevail. People will be treated with respect at all times.

Stewardship: Is using every opportunity to enhance the value of the public assets and institutions that have been entrusted to our care. It is important to govern Council administration so that their capacity to serve Council and the public interest is maintained or improved over time. This includes financial stability and the efficient and effective management of resources, as well as less tangible factors such as maintaining the trust of stakeholders in the Council as a whole.

It also means promoting and supporting these key principles of good governance by leadership and example and to maintain the public's trust and confidence in the integrity of the council.

Efficiency: Efficiency means processes and structure of an organisation produce results that meet the needs of society and further the aims of the organisation, while making the best use of resources at their disposal. It also encompasses the sustainable use of natural resources and the protection of the environment.

Participation: Good decision-making in local government requires mediation of the different interests in society. It is important to understand what stakeholders want and to consider the concerns of the most vulnerable in society. Consultation with community strengthens Government's ability to make decisions and achieve best value with public resources.

Responsiveness: Good governance requires that organisations try to serve all stakeholders within a reasonable timeframe. Not only should government listen to stakeholders but also they should take necessary action on consultations and input from the community. To preserve community participation it is important that people feel they can affect decisions made on their behalf.

Conflict of principles: Not all cases involving ethical dilemmas will necessarily invoke all of the above principles.



Where the solution of an ethical dilemma involves the application one ethical principle, resolving the decision must still be consistent with the other principles.

The benchmarks for an ethical organization: An ethical organization should be benchmarked by the presence, at least, of:

- (a) A formalized Code of Conduct
- (b) A committee that oversees the Code in that it hears and attempts to resolve real cases, and also monitors and suggests amendments to the Code
- (c) A training scheme for the fostering of ethical conduct; and
- (d) Regular reporting to the Council on ethical performance.

3. THE GOOD GOVERNANCE FRAMEWORK

A framework of Good Governance allows Council to articulate a vision for Governance at Hunter's Hill Council and outlines the practices and procedures needed to achieve this vision. Implementing Good Governance involves understanding how features of Good Governance relate to the existing functions, policies and procedures of Council.

The Good Governance framework identifies 5 main areas to Good Governance and discusses their relationship to Council's organisational structure and policies. The five main areas are:

1. Ethical Culture and Vision
2. Roles and Relationships
3. Decision Making and Management
4. Accountability
5. Monitoring



3.1 Ethical Culture & Vision

3.1.1 Ethical Culture

Principle: There is a positive culture that promotes openness and honesty, in which questioning is encouraged and accountability is clear.

Discussion: It is important to foster and maintain an ethical culture. Regulators, residents, ratepayers and other stakeholders expect people at Council to have a high ethical standard. A sound ethical culture provides the underlying values that allow for the development and maintenance of good corporate governance.

An ethical culture is about ethical processes. Ethical organisations should produce organisational processes that treat workers, customers, and other stakeholders fairly and responsibly. Ethical organisations by definition are responsive to Equal Opportunity issues, are transparent, display stewardship in the management of resources and encourage participation in decision-making. It involves taking into account a variety of points of views before making decisions, understanding how decisions will impact on the community and including the least powerful.

Setting and maintaining a high ethical standard upholds the integrity of the organisation and helps reduce fraud, corruption, maladministration and wastage. This upholds the respect of the community within which it operates and enhances the morale of people working at Council.

An ethical culture is guided by the policies but ultimately embodied through the actions of Council as a team and the individuals within Council. It is therefore important to have necessary policies in place and have Councillors and all employees of council complying with these policies. The ethical culture of Hunter's Hill Council is outlined through the following Council policies:

- Statement of Business ethics
- Council Values
- Gifts and benefits policy
- Conflict of interest policy
- Internal reporting
- Complaints handling
- Code of meeting practice



- Child protection
- Equal employment opportunity
- Code of Councillor Practice
- Interaction between Councillors and Staff

3.2.1 Ethical Vision

Principle: There is a clear vision and strategic plan that is produced through a comprehensive and inclusive process, which is owned by all sectors of the Council.

Discussion: Good governance is both a vision and a process. It is important to articulate a vision for the future direction of Council. As concepts of good governance change over time, Council must also continually re-evaluate its vision of Good Governance and work towards this in a cooperative and inclusive way.

Forward thinking should also be encompassed into the processes of Council, to plan for the future etc. Council's must display stewardship, using every opportunity to enhance the value of the public assets and institutions that have been entrusted to care. Innovation should be encouraged and the organisation should be willing to consider new and better ways of going about the achievement of its goals assessed critically by using appropriate risk management and other analysis.

3.3.1 Ethical Framework

An ethical culture is also reinforced through accountability mechanisms, performance reviews and external and internal audits.

Mechanism	Description
Ethical framework	An appropriate ethical framework developed using a participatory approach, which builds commitment from all employees and subject to ongoing monitoring and maintenance. Will include the development and promulgation of the other fundamental elements set out below.
Codes of behaviour	A comprehensive Code of Ethics incorporating a high level aspirational statement of values with limited detail of proscribed behaviour + a Code of Conduct that will be more prescriptive as appropriate to the entity.



Allocation of responsibility	Responsibility assigned to a senior person for ensuring the entity's ethics initiatives are implemented and monitored. This person would have a direct line of reporting to the Ethics or Conduct Committee, or another senior management body with overall responsibility for the entity's ethical culture.
Ethics or Conduct Committee	An 'Ethics or Conduct Committee', once appointed, will be the final arbiter on issues of apparent misconduct and ethical dilemmas that cannot otherwise be resolved at line-management level. It is typically also the body charged with overseeing the operation and maintenance of the entity's entire ethical framework.
Communication	Communication of the importance of ethical standards through regular dissemination of material such as newsletters and web sites.
Training	Specific ongoing training in the use of codes of behaviour and ethical tools for decision-making and feature ethics components in all training.
Reinforcement	Incorporation of an integrated ethical standard into performance management, e.g. 360-degree feedback, performance appraisal systems and remuneration strategies.
Benchmarking	A program for continuous benchmarking of ethical standards aimed at identifying improvement in the entity's ethical standards over time and between different elements of the entity—the entity should also publish the results of a written social/ethics audit to all key stakeholders.
Reporting of complaints	A mechanism for the communication of ethical concerns inside and outside the normal channels of communication.
Senior Management	Senior management group that recognizes the need for establishing and maintaining an ethical culture and actively promotes such a culture.
Compliance	A policy requiring all personnel to sign an annual statement to the effect that they have complied with all necessary corporate policies in connection with conflict of interest, disclosure of confidential information and other relevant ethics related issues.



3.2 Roles & Relationships

3.2.1 Roles

Principle: There is clarity and acceptance about roles of local government and there exists a sophisticated approach to defining and implementing these.

Discussion: Local governments are made up of two arms: a council, consisting of elected Councillors and an administration, consisting of management and employees.

Councillors

As representatives of their community, elected to provide good governance for that community, Councillors are responsible for the success of a complex body.

Councillors report to both the state government and their local community as board members, setting objectives and establishing the strategic direction of council.

Local governments have a number of functions to perform consistent with the provisions of the Local Government Act including:

- Providing Community Leadership and facilitate development
- Ensuring the delivery of quality services in an equitable and appropriate way
- Developing and enforcing local laws
- Planning and monitoring the achievement of these plans
- Administering and enforcing relevant legislation of other levels of government
- Representing and advocating on behalf of their communities
- Developing and implementing policy
- Prudently managing the community's assets.

Council is responsible for ensuring that these functions are provided ethically, efficiently and effectively in accordance with their Corporate Plan and in the interests of their communities.

Councillors are only able to exercise authority as council after they have been formally inducted and at formal Council meetings.



Decisions must be made at the Council meeting or through delegations (to officers or council committees) that are formally made by the Council, in order to be legally valid. All Councillors are accountable for the decisions the council takes whether they agree with them or not.

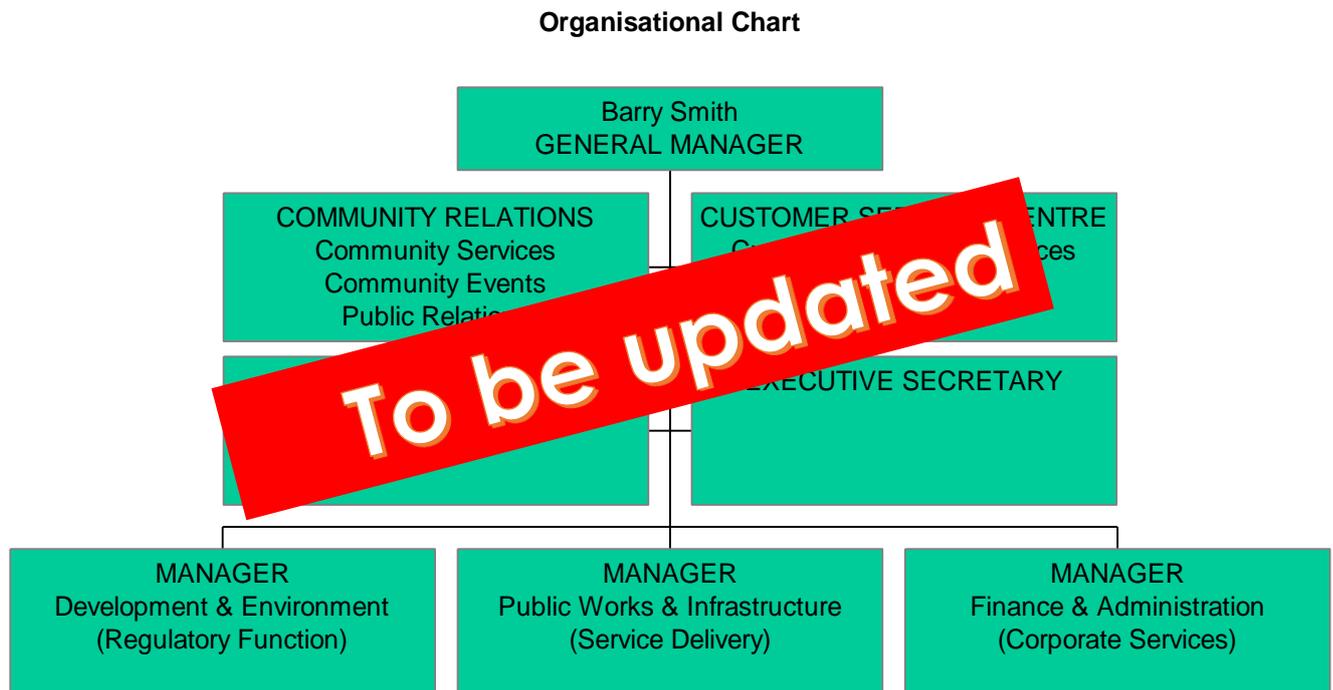
The role of Mayor as chair of Council and community leader is crucial to effective relationships with the administration and to good governance. The mayor is the leader of all Councillors, not just the majority. The Mayor should be respected by all Councillors and facilitate an inclusive approach to decision-making and involvement in Council activities in general.

Council Administration

The organisational arrangements of Council administration are locally agreed and consistent with the provisions of the Local Government Act. The administration is formally accountable to Council through the General Manager. Its role is to advise Council, implement council decisions and administer the services that the local government provides for its community. The General Manager is responsible to Council for the effectiveness of achieving Council's goals in accordance with Council's priorities and approved budget. The formal delegations made by Council to members of the administration ensure these are undertaken with appropriate legal authority (see Figure 1).



Figure 1. Hunter's Hill Council Organisational Structure



3.2.2 Working Relationships

Principle: There are effective working relationships that are promoted and supported within and between the mayor, Councillors, General Manager and administration.

Discussion: The success of Council is determined by the ability of those responsible to fulfil their tasks and communicate effectively with other responsible officers to achieve the decisions of Council.

The pursuit of excellent governance in local government needs to take into account the challenging environment of local government. Local government is a very pure form of democracy in which individuals are elected as Councillors on the basis of individual platforms that they have put to their electorates however, Council's authority is exercised on behalf of Council as a whole rather than through individual Councillors. So once elected, Councillors have to find ways of working together in the interests of the whole municipality, while remaining accountable to their electorate and all other stakeholders.

Effective communication between Councillors and Council administration is also important. It is through clear and consistent communication of the values and objectives of the organisation to staff, management and external stakeholders that an agency's



leadership most effectively supports good governance outcomes and contributes to stakeholder confidence in the organisation.

3.3 Decision-Making & Management

3.3.1 Decision Making

Principle: There are effective decision-making processes in place that reflect the transparency and accountability which underpin excellence in government.

Discussion:

The Code of Meeting Practice

The Code of Meeting Practice is a formal set of rules or procedures for the conduct of formal Council meetings in which decisions of Council are made. The code must comply with the provisions of the Local Government Act and address common procedures not covered in the legislation. It is important that all Councillors are familiar with the code and the Code should be reviewed at least every two years to ensure that it is current and relevant.

The Committee System

The committee systems are important to ensure that decisions of Council are made in an effective and efficient manner. It is often impractical and inefficient for all matters requiring consideration by council to be submitted directly to a full meeting of the Council. Councils have established committee structures to enable matters to be considered in a more appropriate way.

Committees may include standing committees of Council, which consist only of Councillors and community or advisory committees, which make recommendations and may contain members who are not Councillors. Committee members who are not Council staff or Councillors should receive appropriate training in Council's Code of Conduct and Code of Meeting Practice.

It is important from a governance point of view that all committees have in place charters or constitutions that clearly spell out their function, structure and authority. It is also important for committees to prepare regular reports on their activities and refer matters requiring decisions of Council.



3.3.2 Consultation

Principle: Consultation should be undertaken that is appropriate to the scope and potential impact of the matter. It should respect the position and opinion of all stakeholders. The outcomes of the consultation should be taken into account when the decision is made and feedback should be provided to those who participated.

Discussion: The impact of Council's decisions, activities and operations on stakeholders can be dramatic because Council undertakes so many vital roles in the community. Council therefore has a responsibility to develop a range of communication and participation methods to engage stakeholders and give them the opportunity to be involved in Council's functions.

The external stakeholders in local government are the community. The Community can be defined as the entire population of the municipality including residents, ratepayers, customers of services and can be extended to those who work in or visit the municipality or those who provide services on behalf of council.

Engagement is achieved when the community is and feels part of the overall governance of that community. A general principle is that when people are likely to be affected by an activity or decision of Council they should be told about the activity or decision and should be given the opportunity to give their views. Feeling that they can have a say over decisions that affect their lives or their community improves peoples willingness to participate in public discussion and debate and greatly improves peoples trust and confidence in Council. To preserve community participation it is important that Council is responsive and takes action on consultations and input from the community.

Consultation with community also strengthens Council's ability to make decisions and achieve best value with public resources. Giving people the opportunity to be heard, listening to them and providing them with appropriate information will help ensure that Council's activities meet stakeholder needs and strengthens government's ability to make decisions and achieve best value with public resources. In encouraging participation from stakeholders Council should comply with the requirements of the Local Government Act and other relevant legislation for community consultation.



3.3.3 *Financial Management*

Principle: there should be robust and transparent financial management established and maintained to meet local government's accountability to its stakeholders, particularly in terms of stewardship of community assets, both now and into the future.

Discussion: A key accountability of the General Manager and the Manager F&A Group Manager Corporate Governance is financial management. While council has an overall accountability, the administration and its key players have critical responsibilities for managing the organisation soundly and reporting to council.

Elected members, sitting as Council, have an overall accountability for the Council's finances. Council must prepare a Corporate Community Strategic Plan and prepare and adopt an annual operational plan (budget).

The elected body is ultimately accountable for the financial management of the local government. While the elected body should not have a hands-on role in financial management, it needs to ensure that it has the information to be satisfied that the finances are in order and that budgetary and financial planning goals are being met.

The role differentiation between the elected body and the administration is important in this area. The elected body should not be micro-managing the finances, but must demand financial reporting which provides the information it requires to meet its financial accountability responsibilities.

A council should also receive, as a minimum, quarterly financial reports comparing actual and budget revenues and expenses. Biannually, Council should ensure that a rigorous review of the current financial position be undertaken. This review should include a re-forecasting of the budget based on the known performance over the first 6 months of the financial year. The report should cover both general operations and capital expenditure on major works and projects.

The Council has ultimate accountability for organisational finances. Poor financial governance can imperil Council's existence.



What questions should the Council be asking and what information does it need?

The Council is accountable for the Corporate Plan Community Strategic Plan, the Resourcing Strategy, annual budget Delivery Program, the Annual Operational Plan monitoring progress against the Operational Plan (budget), and preparing the annual report.

What roles do the Councillors have in the preparation of the long-term financial plan and the annual operational plan (budget)?

The corporate plan Community Strategic Plan and The Resourcing Strategy demonstrates how Council plans can be achieved financially. It encompasses a number of other important policies and strategies.

The annual operational plan (budget) demonstrates how the annual business plan will be delivered.

Financial reporting is the prime means by which Council receives the information it needs to meet its accountability requirements.

What is the nature and form of the information it needs?

Financial governance is crucial. Failure in this area can be devastating for a Council because no matter how good the rest of its governance may be, financial failure can bring a Council undone.

While the above discussion generally focuses on elected members and the administration this section looks mainly at financial management from the perspective of the elected body. It is not intended to be a financial management manual. Rather, it highlights how the elected body can meet its accountability requirements.

3.3.4 *Risk Management*

Principle: An effective approach to the identification, assessment, monitoring and management of risks should be established and maintained.

Discussion: in order to achieve its objectives and operate effectively and in accordance with sound governance principles Council needs



to be aware of key risks that it faces and needs to have appropriate controls in place to deal with those risks.

Councils are exposed to a wide range of risks. If council is not aware of some risks or has not adequately assessed those risks, Council could suffer substantial financial losses, public or staff safety could be threatened or Council could be subjected to substantial adverse publicity. It is therefore critical that the risks that Council faces are effectively managed.

There are key internal control systems and processes that help Council to protect it against threats, and it is important that these systems and processes operate effectively.

Risk management helps ensure that people are aware of the risks and that they take appropriate actions to reduce the risks to acceptable levels.

The risks could be financial or non-financial. Non-financial risks could include risks of damage to the reputation of Council and individuals associated with Council, risks of adverse media attention, risks of lawsuits or prosecutions, and so on. The risks could arise as a result of environmental, legislative, regulatory, political, technological or other factors.

When identifying risks as part of the risk management process it is important to consider the inherent risks, in other words the risks that exist, independent of the controls that you might have in place to prevent or reduce those risks.

When analysing risks you should consider the likelihood of a risk occurring and the consequences for Council if it does occur.

As Council's circumstances and environment change, the risks faced by Council change.

It is therefore important that the risk management process identifies changes in the risk environment and ensures that the controls are adequate for those risks.



3.3.5 Delegations

Principle: effective delegations should be implemented and maintained.

Discussion: there are a number of provisions relating to delegations in the Local Government Act and these must be followed. Council can only delegate certain functions to certain people or bodies and some functions and powers cannot be delegated.

Delegations give people the authority to make certain decisions, perform certain functions or undertake certain activities. If the delegations are not done properly, the enforceability of decisions and actions taken may be compromised and there may be legal and administrative problems for Council.

Council cannot delegate to Council staff other than the General Manager who is responsible for staff delegations. The delegations should not include functions or powers, which the Local Government Act states are not to be delegated. Where there are delegations to committees of Councillors, they should be by Council, and in accordance with the Act.

For delegations to work properly it is important to ensure that delegations are made properly, that people understand their delegations and how to carry out the delegated activities, and that people are given adequate resources to carry out their delegations effectively.

Council and/or senior officers should not dictate how delegations of authority are to be exercised, or professional judgements made, in relation to any specific cases or circumstances. Guidelines or criteria may be established on the basis of which delegations of authority are to be exercised.

Where Council staff have delegations from outside authorities they cannot be forced to use their authority.



3.4 Accountability

3.4.1 Accountability

Principle: Council and Council administration must account for their activities and have systems in place that support and reinforce this accountability.

Discussion: Through elections residents give legitimacy to the decisions of council. Where authorisation frees the representative to act on their own initiative, accountability gives the representative new and special obligations.

Accountability means Council and the individuals within it are responsible for their decisions and actions and submit themselves to appropriate external scrutiny. Council remains accountable to stakeholders and those who will be affected by its decisions or actions. Accountability ensures that public officials exercise their powers on behalf of the community and upholds community confidence in government.

Accountability is reinforced and upheld through transparency. Local governments must seek community understanding and involvement in governance through effective communication with their communities. Communication of Council's role, processes, and decisions is required to ensure that stakeholders can have confidence in Council. Council must ensure that information is provided in easily accessible ways e.g., pamphlets, over the internet, and using a simple and clear writing style. The provision of information should be done in accordance with the Local Government Act, the Government Information (Public Access) Act legislation (freedom of information), the privacy legislation and code and other relevant legislation.

3.4.2 Performance Management

Principle: there should be an active performance management system in place that enables Councillors and the administration to be openly accountable for their performance.

Discussion: Performance management helps ensure individual accountability and the achievement of Council's objectives. Good performance management enhances trust and



encourages people to take personal responsibility for maintaining high standards of ethical conduct.

It is important to ensure that organisational objectives are clearly defined and the objectives of individual positions clearly defined and consistent with Council's objectives, priorities and strategies. Setting objectives should be accompanied with comprehensive training

Performance management provides for both recognition of high performance and early detection of performance that is not meeting expectations, allowing it to be addressed. Performance reviews should be conducted as an on-going management function.

3.4.3 *Independent Review*

Principle: local governments should establish internal structures that provide for independent review of processes and decision-making to assist the council to meet its accountability to stake holders.

Discussion: Council may consider appointing an Audit & Governance Committee Financial and Strategic Planning Advisory Committee (audit committee) to ensure that an appropriate governance regime is nurtured and maintained.

Typical duties undertaken by an audit committee will assist Council to:

- Properly discharge its responsibilities with respect to its financial management and reporting;
- Develop and maintain adequate risk assessment procedures and management of those risks;
- Comply with applicable laws and regulations;
- Manage the various audit processes, both internal and external;
- Provide general advice on specific matters, which may be referred to them by Council.

In general, audit committees can assist with the financial governance of Council, both through its activities and its existence as a source of review and comment.



Most Council audit committees have external members as well as Councillors. In appropriate circumstances, these external members can be used as a sounding board for sensitive issues.

The Council must refer its Financial Reports to Councils external auditor. Council must prepare a statement on the General Purpose Reports, as to its opinion on the reports prior to sign off by the Council. (s413 (2)(c)). This statement is included in the Financial Reports and is to be signed by 2 Councillors and authorised by council resolution.

At the end of the financial year the Auditor undertakes a statutory audit in accordance with governing legislation and accounting standards.

Following receipt of the audit opinion on the financial statements and performance statement, Council should receive a further briefing on the financial and performance outcomes for the year just ended.

The General Manager needs to satisfy Council that certain fundamentals are in place, for example:

- A modern and robust financial system with an appropriate information technology platform;
- Suitably qualified and experienced staff to manage the finances;
- A suitably qualified and appropriately independent internal auditor and/or audit committee.

3.5 Monitoring

3.5.1 Monitoring

Local government is generally subject to a high level of scrutiny and it is crucial that Councils not only comply with the principles of good governance, but also can demonstrate that they are doing so.

The New South Wales Local Government Governance Health Check (GHC) is the result of a joint project between Local Government Manager Australia (LGMA) and the Independent Commission Against Corruption (ICAC).



The GHC has been designed to give Councils a simple tool to identify key elements of corporate governance in a NSW local government context and to measure their progress in relation to each of these elements.

It is accompanied by a Manual that provides a useful reference tool to assist Councils to better understand the elements of good corporate governance, find additional resources and identify best practice.

This Governance Health check is a practical tool for Councils to assess their level of compliance with good governance principles and as an aid to help them achieve even higher levels of good governance.

3.5.2 *Measuring Council's Governance Standards*

The Governance Health Check has been designed to give Councils a simple tool to identify key elements of corporate governance in a NSW local government context and to measure their progress in relation to each of these elements on a continuous improvement scale.



The following table should be used to rank Council against each item in the Governance Health Check.

Rating	Level of Achievement
0	Council has no system or policy in place in relation to this element or has a system, which fails to meet basic legislative requirements.
1	Council is able to demonstrate the existence of an informal system or policy that addresses this element or the existence of a basic formal policy or system, which does not meet legislative requirements.
2	Council has a formal documented system or policy in relation to this element that at least meets basic standard and all legislative requirements.
3	Rating 2 plus there is evidence that the system or policy has been implemented and communicated to relevant stakeholders, with training and awareness programs, and is generally understood and adhered to.
4	Rating 3 plus there is also evidence that the effectiveness of the system or policy is regularly measured and the system or policy reviewed on a regular basis. This level involves demonstrated continuous improvement.

To maximise the benefits of the Governance Health Check it is recommended that Councils follow these simple instructions when completing the rating sheet:

1. Read the relevant section of the manual to familiarise yourself with the requirements of each element and in particular what constitutes better practice.

2. Assess your Council's status in relation to each element using the rating sheet and rating scale provided. In determining your rating you should consider what evidence you can show to justify your rating. For example, to achieve a rating of four there must be some evidence that the particular system, policy or procedure is properly reviewed – and if necessary improved – on a regular basis. Such evidence could include, for example, an annual report, which is considered by the Council's senior management team or by Council itself each year.



Another example would be a regular survey, which indicates people's views on how effective the particular policy or procedure is.

3. Examine your overall ratings. Develop an action plan for those elements where your rating is low or where you would like to improve this area. Ratings of 0 or 1 would indicate that urgent attention is required. See sample action plan below.
4. Carry out the rating process on an annual basis and compare results from previous ratings
5. If appropriate, compare your results with other councils as a means of identifying those councils that have achieved better practice in particular elements. Check with other councils for examples of their codes and guidelines.

To get full value from this Governance Health Check, senior management of Council must actively encourage an ongoing process of networking and benchmarking (comparing governance standards and practices) with other local government organisations and with any relevant government or non-government organisations.

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Supporting Policies

Councils' codes should be consistent with the policies and guidelines that council develops.



The policies listed below are relevant to, or have been developed to provide specific guidance on matters contained in this framework.

TABLE 1 – Policy Framework

Policy No.	Policies
CORP.S.1	Council Charter
CORP.S.2	Council Values
CORP.S.3	Code of Conduct
CORP.S.4	Code of Meeting practice
CORP.S.6	Code of Administrative Good Conduct
CORP.S.7	Statement of Business Ethics
CORP.S.8	Privacy Code of Practice
CORP.S.9	Councillors Oath & Affirmation
CORP.S.12	Payment of fees and expenses and the provision of facilities to councillors
CORP.S.14	Councillor Access to Information and Interaction with Staff
CORP.S.15	Conflict of interest
CORP.S.16	Gifts and benefits
CORP.S.17	Internal reporting
CORP.S.18	Media
CORP.S.19	Sponsorship
CORP.S.20	Communication
CORP.S.21	Access to information
CORP.S.22	Complaints handling
CORP.S.24	Fraud Prevention and Control
HR.1	Child protection
HR.2	Equal employment opportunity
DCP 20	Notification policy



Supporting Legislation

Councils' codes should be consistent with legislation, practice notes or guidelines that are relevant to the code.

The legislation listed below is relevant to or provides specific guidance on matters contained in this framework.

Legislation Name

Local Government Act (1993)

Local Government Regulations (2005)

Privacy & Personal Information Act (1995)

Protected Public Interest Disclosures Act
(1994)

Independent Commission Against Corruption
Act (1988)

Anti Discrimination Act (1987)

Ombudsman Act (1974)

Guideline Name

Model Code of Conduct

Model Code of Conduct Guidelines

NSW Ombudsman - Good Conduct and
Administrative Practice - Guidelines for
Councils



RELATED RESOURCES

Supporting Policies

CORP.S.1	Council Charter
CORP.S.2	Council Values
CORP.S.3	Code of Conduct
CORP.S.4	Code of Meeting practice
CORP.S.6	Code of Administrative Good Conduct
CORP.S.7	Statement of Business Ethics
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Ombudsman Act (1974)

Guideline Name

Model Code of Conduct

Model Code of Conduct Guidelines

NSW Ombudsman - Good Conduct and Administrative Practice - Guidelines for Councils

AUTHORISATION

Version Control Table

Date	Version	Res. No.	Key Changes	Author
28.11.2005	1.0	556/05	Policy adopted	D. Mcfadyen
Dec 2011	1.1	358/11	Amended by GM under DA for changes in titles and legislation	



APPENDICIES

APPENDIX 1

FINANCIAL AND STRATEGIC PLANNING ADVISORY COMMITTEE

Purpose

- To assist and advise Council in fulfilling its corporate governance and oversighting responsibilities in relation to financial management and reporting, internal control structure(s) and overall management of risk(s);
- To foster stronger governance through awareness of international best practice in financial control and management and effective committee operation.

Objectives

The objective of this committee is to assist the Council to discharge its responsibility to exercise due care, diligence and skill in relation to:

- (a) Reporting of financial information to users of financial reports;
- (b) Application of accounting policies;
- (c) Financial management;
- (d) Internal control systems;
- (e) Risk management systems;
- (f) Business policies and practices;
- (g) Protection of assets;
- (h) Compliance with applicable laws, regulations and standards;
- (i) Improving the credibility and objectivity of the accountability process (including reporting)
- (j) Providing a formal forum for communications between Councillors and senior financial management;
- (k) Improving the efficiency of the Council by delegating relevant tasks to the Committee;
- (l) Improving the effectiveness of the internal and external audit functions and being a forum for improving communications between the Council and the internal and external auditors
- (m) Facilitating the maintenance of the independence of the external auditor;



- (n) Providing a structural reporting line for internal audit and facilitating the maintenance of the objectivity of the internal audit function;
- (o) Improving the quality of internal and external reporting of financial and non-financial information.

Membership/Representation

2 Councillors and:

- Four representatives from the community (by invitation);
- One member of the Committee to have a financial background.

Non-Voting members to include:

- General Manager
- Manager Finance & Administration **Group Manager Corporate Governance** (Responsible Accounting Officer);
- Up to 2 representatives from external auditors;
- Up to 2 representatives from the appointed internal auditors;
- One of the non-voting members to act as Committee Secretary (Committee to determine).

Conduct of Committee

- Term of appointment to be for the term of 2004-08 **2008-2012** Council;
- The Committee may seek any relevant external or internal expertise as it sees appropriate to any matter before it;
- The power to call or hold a Committee meeting without the participation of one or more of the non-voting members in consultation with the Chair;
- Hold no less than 3 meetings per year;
- A quorum will consist of no less than 3 voting members.

Accountability

Main responsibilities and accountabilities can be divided into the following areas:

External Reporting

Consider the appropriateness of the entity's accounting policies and principles and any changes, as well as the methods of applying them, ensuring that they are in accordance with the stated financial reporting framework. To do this the Committee will need to request management to inform the Committee of:



- (a) Whether the methods chosen by management are consistent with Accounting Standards, Accounting Concepts and Urgent Issues Group (UIG) Consensus Views;
- (b) Any changes in significant accounting policies or their application during the reporting period;
- (c) The methods used to account for significant unusual transactions or transactions in emerging areas for which there may be no specific accounting standard, including management's reasoning in determining the appropriateness of those methods and then request the internal and external auditors to inform the Committee of their views in relation to the above.
- (d) Assess significant estimates and judgments in financial reports by enquiring of management about the process used in making material estimates and judgments and then enquire of the internal and external auditors the basis for their conclusions on the reasonableness of the management's estimates;
- (e) Review management's processes for ensuring and monitoring compliance with laws, regulations and other requirements (including Accounting Standards and the Local Government Act) relating to the external reporting by the entity of financial and non-financial information;
- (f) Assess information from internal and external auditors that affects the quality of financial reports (e.g. actual and potential material audit adjustments, financial report disclosures, non-compliance with the laws and regulations, internal control issues);
- (g) Ask the external auditor for an independent judgment about the appropriateness, not just the acceptability, of the accounting principles used and the clarity of the financial disclosure practices used or proposed to be used by the entity as put forward by management;
- (h) Review document and reports to regulators and make recommendations to the Council on their approval or amendment;
- (i) Assess the management on non-financial information in documents (both public and internal) to ensure the information does not conflict inappropriately with the financial statements and other documents and assess internal control systems covering information releases that have the potential to adversely reflect on the entity's conduct;
- (j) Review for completeness and accuracy the reporting of the entity's main corporate governance practices;
- (k) Recommend to the Council whether the financial and non-financial statements should be signed based on the Committee's assessment of them.

Related-party Transactions

Review and monitor the propriety of related-party transactions [pecuniary interests].



Internal Control and Risk Management

Assess the internal process for determining and managing key risk areas, particularly:

- (a) Non-compliance with laws, regulations, standards and best practice guidelines, including environmental and industrial relations laws;
- (b) Important judgments and accounting estimates;
- (c) Litigation and claims;
- (d) Fraud and theft;
- (e) Relevant business risks other than those that are dealt with by other specific Council Committees.
- (f) Ensure that the entity has an effective risk management system and that macro risks to the entity are reported at least annually;
- (g) Receive from management reports on all suspected and actual fraud, theft and breaches of the law;
- (h) Address the effectiveness of the entity's internal control system with management and the internal and external auditors;
- (i) Evaluate the process the entity has in place for assessing and continuously improving internal controls, particularly those related to areas of significant risk;
- (j) Assess whether management has controls in place for unusual types of transactions and/or any potential transactions that may carry more than any acceptable degree of risk;
- (k) Assess the effectiveness of and compliance with the corporate code of ethical conduct;
- (l) Meet periodically with key management, internal and external auditors and compliance staff to understand and discuss the entity's control environment.

External Audit

- (a) Review the external auditor fee(s) and be satisfied that an effective, comprehensive and complete audit can be conducted for that set fee;
- (b) At the start of each audit, agree the terms of the engagement with the external auditor;
- (c) Invite the external auditor to attend audit Committee meetings to, at least, review the audit plan, discuss audit results and consider the implications of the external audit findings for the control environment;



- (d) Together with the external auditor, review the scope of the external audit (particularly the identified risk areas) and any additional agreed upon procedures on a regular and timely basis;
- (e) Enquire of the auditor if there have been any significant disagreements with management irrespective of whether or not they have been resolved;
- (f) Monitor and critique management's responsiveness to the external auditor's findings and recommendations;
- (g) Review all representation letters signed by management and ensure that the information provided is complete and appropriate;
- (h) Provide the opportunity for a Committee members to meet with the external auditors without management personnel being present at least annually.

Internal Audit

- (a) Review the internal auditor's mission, charter and resourcing (including qualifications, skills, experience, funding and equipment);
- (b) Communicate the Committee's expectations to the internal auditor in writing;
- (c) Ensure the internal auditor reports directly to the managing director and/or the audit Committee;
- (d) Review and approve the scope of the internal audit plan and work program;
- (e) Monitor the progress of the internal audit plan and work program and consider the implications of internal audit findings for the control environment;
- (f) Monitor and critique management's responsiveness to internal audit's findings and recommendations;
- (g) Evaluate the process the entity has in place for monitoring and assessing the effectiveness of the internal auditor;
- (h) Oversee the coordination of the internal auditor with the external auditor;
- (i) Provide the opportunity for Committee members to meet with the internal auditors without management personnel being present at least once a year.

Administrative Support

- Meetings will be serviced by an administration officer;
- Meeting agendas will be distributed at least one week prior to the meeting;
- Minutes of meetings will be distributed to all committee members.



APPENDIX 2 GOVERNANCE HEALTH CHECKLIST MANUAL

Establishing and maintaining high standards of governance is crucial to the effective operation of public and private organisations, and to gaining and retaining the public's confidence in these organisations.

Local government is generally subject to a high level of and it is crucial that Councils not only comply with the principles of good governance, but also can demonstrate that they are doing so.

This Governance Health Check is a practical tool for Councils to assess their level of compliance with good governance principles and as an aid to help them achieve even higher levels of good governance.

Essentially, good governance means that the structures, activities, and operations of the organisation are conducted in accordance with the principles of legal compliance, probity, transparency, accountability, respect for people within the organisation and for other stakeholders.

Sound ethical principles such as honesty, fairness, and respect should be followed at all times. An essential component of good governance in local government is that all people involved in the direction and control of Council are aware of and comply with their roles and responsibilities.

The Local Government Act 1993 provides some guidance on the roles of Councillors, the General Manager, the Mayor, and the Public Officer.

For there to be good governance in Council there has to be leadership and commitment. Councillors, the General Manager and senior managers should clearly demonstrate their commitment to good governance.

The Governance Health Check is divided into the following sections:

- Ethics and values
- Risk management and internal control
- Decision-making processes
- Monitoring and review.



The manual provides a useful reference tool to assist Councils to better understand each of the elements, find additional resources and identify best practice. The manual is used as a guide only as it is intended to be a definitive blueprint for each element.

BIBLIOGRAPHY

1. AS 8000/2003 – Good Governance Principles
2. CPA Australia – Excellence in Governance for Local Government