



**NSW Department of Premier and Cabinet and  
NSW Department of Commerce**

**PREQUALIFICATION SCHEME: AUDIT AND RISK  
COMMITTEE INDEPENDENT CHAIRS AND MEMBERS**

**GUIDELINES FOR AGENCIES AND MEMBERS**

**May 2009**

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This document is available at:  
[www.commerce.nsw.gov.au](http://www.commerce.nsw.gov.au) > procurement > audit and risk  
committee prequalification schemes

## **INTRODUCTION**

The advice of highly skilled Audit and Risk Committee independent Chairs and Members is an important element of ensuring strong governance of NSW public sector agencies.

The NSW Department of Premier and Cabinet, in conjunction with the NSW Department of Commerce, has established the *Prequalification Scheme – Audit and Risk Committee Independent Chairs and Members* (the “Scheme”). The Scheme will assist NSW public sector agencies comply with the requirements of the NSW Treasury *Internal Audit and Risk Management Policy* (forthcoming), as it relates to the engagement of Audit and Risk Committee Independent Chairs and Members.

These guidelines are to assist agencies (and, where appropriate, statutory corporations) seeking to utilise the Scheme and should be read in conjunction with the Scheme Conditions.

## **SCHEME AIMS**

The Scheme aims to:

- improve probity standards and quality assurance by allowing for third party assessment of independent persons available for engagement to public sector Audit and Risk Committee positions; and
- streamline the engagement of suitable persons to public sector Audit and Risk Committee positions by pre-qualifying independent individuals with demonstrated skills and experience in the area.

## **CAPABILITY AREAS**

The NSW Department of Commerce will maintain a list of individuals with relevant skills and who satisfy the criteria relating to the capability areas for “Member” and “Chair” (the prequalified panel). A Chair must fulfil the requirements for both Member and Chair even if they only seek appointment as a “Chair”.

### ***Independent Chair***

1. Leadership qualities and the ability to promote effective working relationships in complex organisations.
2. An ability to communicate complex and sensitive assessments in a tactful manner to chief audit executives, senior management, board members and Ministers.
3. A sound understanding of:
  - a) the principles of good organisational governance and capacity to understand public sector accountability, including financial reporting;

- b) internal audit operations, including selection and review of chief audit executives; and
- c) risk management principles.

### ***Independent Member***

1. Extensive senior level experience in governance and management of complex organisations, an ability to read and understand financial statements and a capacity to understand the ethical requirements of government (including potential conflicts of interest).
2. Functional knowledge in areas such as: enterprise risk management; performance management; human resources management; internal and external auditing; financial reporting; accounting; management control frameworks; financial internal controls; governance (including planning, reporting and oversight); or business operations.
3. A capacity to form independent judgements and willingness to constructively challenge/question management practices and information.
4. A professional, ethical approach to the exercise of their duties and the capacity to devote the necessary time and effort to the responsibilities of a member of an Audit and Risk Committee.
5. Desirable to possess a relevant professional qualification or membership (e.g. Certified Internal Auditor, Certified Practising Accountant, Certified Practising Risk Manager, Chartered Accountant, Member of the Australian Institute of Company Directors (MAICD)).

### ***FREQUENTLY ASKED QUESTIONS***

#### ***1. How does the Scheme operate?***

The Scheme creates a framework for the prequalification of independent individuals with relevant experience and qualifications who are available to be appointed to positions of Audit and Risk Committee Independent Chair and Members, serving NSW Government agencies and statutory corporations.

Each relevant Chief Executive (or group of CEOs in the case of a shared 'cluster' committee) selects and appoints the independent Chair and Members of their respective Audit and Risk Committee from the prequalified panel based on NSW Treasury requirements, the needs of their organisation and the skill-set of the available pre-qualified panel members.

**2. Are any checks required on panel members prior to being engaged?**

Criminal record, financial status (bankruptcy) and Australian Business Number (ABN)/Registered Business Name (RBN) checks have been undertaken for all prequalified panel members as part of the prequalification process, as appropriate. Additionally, the prequalified panel member must declare any conflict of interest relating to an individual engagement and an offer must not be made or accepted if a conflict of interest becomes apparent. It is the responsibility of CEOs and panel members to ensure that any conflicts of interest are declared and managed prior to and throughout any engagement under this Scheme.

**3. How is “independent” defined?**

An independent Chair or Member should not have a recent close association with the agency or its CEO. A recently retired senior executive of an agency or a close associate of the CEO would not be defined as “independent”.

Similarly, a current or recent external provider of internal audit services to an agency would not be considered independent.

Guidelines for assessing independence and conflicts of interest are set out in the NSW Treasury *Internal Audit and Risk Management Policy* (forthcoming)

**4. Do independent Chairs and Members have to be sourced from the prequalified panel?**

Yes. From 30 April 2009, all new appointments as independent Chairs and Members must be made from the prequalified panel for NSW public sector agencies. Members of State Owned Corporation (SOC) Audit and Risk Committees are generally members of the independent Board. However, if a person who is not a member of the Board is to be appointed to a SOC Audit and Risk Committee, then the SOC is encouraged to ensure that the appointment is made from the prequalified panel.

**5. What happens to a currently serving independent Chair or Member who does not apply for pre-qualification?**

Serving independent chairs and members of existing Audit and Risk Committees from NSW public sector agencies that do not join the Scheme may continue to serve until the expiry of their current term of appointment, where a term is set. Where no term is set for the appointment, the currently serving independent chair or member needs to be qualified by 30 November 2009. Non-prequalified independent chairs or members cannot be re-appointed.

**6. Can prequalified panel members be appointed to any NSW public sector agency's Audit and Risk Committee?**

Yes. Once prequalified Chairs and Members meet the independence and conflict of interest criteria set out in NSW Treasury *Internal Audit and Risk Management Policy* (forthcoming), they can be engaged by agencies under the Scheme. It is the responsibility of the CEO to ensure that these criteria are applied before any such appointment is made. The NSW Treasury *Internal Audit and Risk Management Policy* also requires the CEO annually to attest that each independent member of the Audit and Risk Committee meets the mandated independence and conflict of interest criteria.

**7. Does the Scheme allow for prequalified panel members to be appointed to more than one Audit and Risk Committee?**

Yes. Prequalified independent Chairs or Members may be appointed to up to five NSW Audit and Risk Committees at any one time (each shared 'cluster' Committee counts as one).

It is the responsibility of both prequalified panel members and CEOs to ensure that this limit is not exceeded and that NSW Commerce is advised of all engagements. Commerce will record this information in the Audit and Risk Committee panel database. A schedule is attached to the standard letter of appointment to ensure the database is kept up to date.

**8. Can public servants be appointed to an Audit and Risk Committee?**

Current public servants from the NSW public sector employed under the *Public Sector Employment and Management Act 2002* cannot serve as an independent Member or Chair of an audit and risk committee. This is to ensure that independence, real and perceived, is maintained.

Public servants from other jurisdictions may be prequalified as independent Chairs or Members. However, the rules relating to secondary employment in their organisation will need to be satisfied, including the management of any conflict of interest, and written confirmation will need to be provided by an authorised person in their jurisdiction.

**9. On what terms are prequalified persons engaged?**

The terms of engagement are set out in the Scheme Conditions document, as updated from time to time, and the letter of engagement. The engaging agency and the panel member will need to enter into a separate written agreement for each engagement.

The standard form of agreement is set out at Schedule 2 of the Scheme Conditions. Agencies should not modify the terms of the agreement unless there are exceptional

circumstances which warrant modification. Advice can be sought from the Department of Commerce or NSW Treasury.

Note that the Scheme Conditions document includes provision to remove members from the Scheme and outlines the processes to be followed in the case of unsatisfactory performance.

Independent Chairs and Independent Members engaged under the Scheme will be remunerated at the current rate recommended by the Statutory and Other Officers Remuneration Tribunal (SOORT). These rates are reviewed every two years.

The rates applicable from 24 October 2008 are:

<b>Agency size</b>	<b>Indicator</b>	<b>Chairperson fee</b>	<b>Member fee</b>
Large	Organisations with expenditure greater than \$400m	\$20,000 per annum	\$2,000 per day
Medium	Organisations with expenditure less than \$400m but greater than \$50m	\$15,500 per annum	\$1,550 per day
Small	Organisations with expenditure less than \$50m	\$12,000 per annum	\$1,200 per day

The following fee structure is applicable to multi-Agency arrangements:

<b>Multi Agency Audit and Risk Committees</b>	<b>Fee category</b>
Up to and including three small agencies	Medium
Two or more medium agencies	Large
Any combination of small and medium agencies	Large

The rates cover all costs of Independent Chairs and Independent Members engaged under the Scheme *excluding* subsistence and travel costs outside the Sydney Metropolitan Area and/or from Interstate. The rates *include* employee related costs, data processing, the provision of personal computers, any other tools or equipment required in the provision of services, and travel costs within the Sydney metropolitan area (unless the panel member is from Interstate).

Subsistence and travel expenses outside the Sydney metropolitan area and/or where the panel member is from Interstate are to be charged at actual cost, or at the rates specified under the *Crown Employees (Public Service Conditions of Employment) Reviewed Award 2006*, whichever is the lesser.

**10. Does the NSW Cabinet need to approve the appointment of panel members before they become effective?**

Generally all external members of boards and committees need to be approved by Cabinet under the NSW Government Boards and Committees Policy. However, Cabinet does not need to approve appointments to Audit and Risk Committees as Audit and Risk Committees provide advice to agencies rather than Ministers.

**11. What induction and training will be provided to panel members?**

Panel members will be required to complete an induction course provided jointly by NSW Treasury, the Department of Commerce and the Department of Premier and Cabinet. Additional briefing sessions may also be arranged from time to time to update panel members about the Government's expectations and requirements in relation to the operation of Audit and Risk Committees. It is anticipated that each agency also will provide an induction to their committee members.

**12. Are independent Audit and Risk Committee members covered for Professional Indemnity and other insurance?**

Each NSW Government agency and its CEO is responsible for ensuring that the Audit and Risk Committee has the appropriate mix of skills and expertise to successfully implement its charter and that the agency holds insurance coverage for these activities. Each agency should consider whether its existing insurance arrangements provide sufficient coverage for Audit and Risk Committee members in relation to claims for loss or damage made against them in their capacity as members. Panel members should satisfy themselves that the agency has sufficient insurance coverage relating to their role on the Audit and Risk Committee prior to accepting an appointment and, if necessary, seek independent legal advice as to its efficacy.

**13. What are the record-keeping requirements of the Scheme?**

The appointee to an audit and risk committee is required to provide the following details to the agency and the Department of Commerce prior to the appointment taking effect:

- the name of the panel member;
- the role of the panel member
- payment and duration for each appointment;
- the nature of the appointment and any subsequent changes to an appointment; and
- details of any other appointments to NSW Government Audit and Risk Committees.

This information will be centrally maintained by the Department of Commerce.

**14. How is the performance of Audit and Risk Committee panel members monitored and reported on?**

Audit and Risk Committees are required to establish their own annual performance monitoring system consistent with professional standards. Additionally, the NSW Auditor-General may also assess the performance of panel members appointed to Audit and Risk Committees each year.

Detailed information on performance issues can be found in sections 15 to 18 of the Scheme Conditions. Agencies should follow the steps outlined in the Scheme Conditions to ensure that they observe procedural fairness in the course of performance reporting.

**15. How long will the Scheme operate for?**

The Scheme commenced 6 February 2009 and will conclude on 5 February 2013, and may be extended at the discretion of the NSW Departments of Premier and Cabinet, Treasury and Commerce.

The Scheme will be monitored by the Departments of Premier and Cabinet, Treasury and Commerce to assess whether the objectives and intent are being met. Modifications may be made at the Departments' discretion during the life of the Scheme.

## Sample Letter of Engagement and Member Acceptance

Name  
Address  
Dear Ms / Sir

You have been selected from the *Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members* to be an [independent Member or independent Chair (*delete as applicable*)] of the Department of [#] Audit and Risk Committee. The Committee meets [#] times a year, including a meeting in [#] to review the annual financial accounts. A copy of the Audit & Risk Committee Charter and Department's Code of Conduct applicable to your engagement are enclosed. The Department's most recent Annual Report is available online at [#insert url].

The conditions under which you will be engaged are detailed in the Scheme Conditions and the Scheme Guidelines issued by the NSW Treasury, NSW Department of Premier and Cabinet and the NSW Department of Commerce, copies of which are also enclosed. You will also be required to comply with any other legislation, regulations or guidelines applicable to internal audit and risk management in the NSW public sector, as they apply to Audit and Risk Committees.

You will be remunerated at the current rate for a [#] sized agency recommended by the Statutory and Other Officers Remuneration Tribunal (SOORT), which is [\$# per day or # per annum (*delete as applicable*)].

For further information regarding remuneration, subsistence, travel and insurance please refer to the Scheme Conditions and the enclosed Guidelines.

The engagement will be for [#] years starting [#]. Note that this engagement can be terminated by mutual agreement and in accordance with the Scheme Conditions.

Should you have any questions or wish to discuss your engagement, please contact me on [###].

If you wish to accept this offer please sign the declaration at the end of this letter and return it to the address set out below within 5 business days.

I look forward to receiving notice of your acceptance and to working with you on the [#] Audit and Risk Committee.

Yours sincerely

Director General

I hereby accept the offer of engagement contained in this letter and agree to carry out the services in accordance with the Scheme Conditions. I confirm that I do not have any conflict of interest that would prohibit me from accepting this engagement and will advise the agency CEO(s) and the Department of Commerce should a conflict arise during the course of my engagement. I confirm that I am not a member of more than four other NSW Government Audit and Risk Committees as outline on the attached schedule.

Print Name

Signature / /

Return a copy to Director General Department of XXX and Mr Stuart Wood, NSW Department of Commerce, McKell Building, 2-24 Rawson Place, Sydney NSW e-mail: [Stuart.Wood@commerce.nsw.gov.au](mailto:Stuart.Wood@commerce.nsw.gov.au)

**Schedule 1: Current membership of NSW Government Audit and Risk Committees**

Agency (List multiple agencies if a cluster A&R Committee )	Name of Committee	Role (Chair or Member)	Engagement Fee (p.a.)	Start Date	End Date
1.					
2.					
3.					
4.					
5.					
6.					
7.					

**Print Name**

**Signature**

**Date**

Return a copy to Director General Department of XXX and Mr Stuart Wood, NSW Department of Commerce, McKell Building, 2-24 Rawson Place, Sydney NSW e-mail: [Stuart.Wood@commerce.nsw.gov.au](mailto:Stuart.Wood@commerce.nsw.gov.au)