

# Annexure G

## Shared Arrangements

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The aim of Shared Arrangements is to ensure that the compliance cost of implementing the Core Requirements for agencies is proportionate to their benefit and commensurate with their risk profile. Shared Arrangements may be formed between agencies to support Accountable Authorities with implementing the Core Requirements in an efficient and effective manner.

The resources that may be shared to achieve efficiencies include sharing the cost of the:

- A. ARC (engaging independent ARC members and Chair and secretariat services), and/or
- B. CAE, and/or
- C. Internal Audit Function.

Regardless of the form of a Shared Arrangement, approval by the Cluster Secretary of Shared Arrangements does not diminish each Accountable Authority's responsibility to meet their obligations under s 3.6 of the GSF Act. This includes ensuring efficient and effective independent advice and oversight continues to be provided to each Accountable Authority, and CAEs and/or Internal Audit Functions have the capacity to operate effectively.

The below explains variations to Core Requirements 2.1, 3.1 and 3.2 for Shared Arrangements.

### Requirements of a Shared Arrangement

Accountable Authorities may enter their agency into a shared arrangement if the:

- Requirements of a Principal Department Led or Collaborative Shared ARC are met, if applicable (refer to [A. Shared Audit and Risk Committees](#) below), and/or
- Requirements of sharing a CAE and/or Internal Audit function are met, if applicable (refer to [B. Shared CAE or Internal Audit function](#) below), and
- Shared Arrangements Agreement is signed by all Accountable Authorities in the Shared Arrangement, and
- Cluster Secretary approves the Shared Arrangement.

### Shared Arrangement Agreement

All agencies entering into a shared arrangement shall agree and sign a Shared Arrangement Agreement. There is no prescribed format for an agreement, which should be drawn up to suit the needs of the participating agencies. However, the following key aspects should 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 agency
- be signed by all Accountable Authorities
- be approved by the Cluster Secretary

#### 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 agencies within the shared arrangement

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

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

Other provisions that should 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 agencies and how
- parameters on sharing key audit and risk issues between agencies within the cluster (e.g. CAE's regularly communicating with agencies in other ARC arrangements within their cluster)
- 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 agency's business and agency representatives as required (e.g. Accountable Authority, 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 agency (if applicable)
- who is responsible for ensuring the ARC charter is reviewed in accordance with this Policy
- the mechanism for formulating and delivering the annual report on the ARC's performance and for managing the ARC's performance. Input from the Accountable Authorities of all participating agencies should be considered in this performance review
- the Secretariat will be the custodian of all documentation relating to the Shared Arrangement Agreement.

### **A. Shared Audit and Risk Committees**

Under Core Requirement 3.1, the Accountable Authority of each agency is responsible for establishing efficient and effective arrangements for ARC oversight to oversee and monitor governance, risk and control issues affecting the operations of the agency. A shared ARC can be an efficient and effective means of providing ARC oversight for a number of agencies. At a cluster level, a shared ARC can leverage cost efficiencies in operating ARCs, group agencies with common functions to share the specialist skills of ARC members and improve communication between entities within the cluster.

For each cluster, the Cluster Secretary can support this by ensuring efficient and effective oversight arrangements are established within their cluster and sufficient advice and guidance is provided to each agency's Accountable Authority. The Cluster Secretary should consult with each Accountable Authority (except agencies defined as Special Offices) in their cluster to:

- a) first consider whether an agency may enter into a Principal Department Led Shared ARC, or
- b) if specific circumstances are met, consider forming a Collaborative Shared ARC or standalone ARC.

*Specific circumstances* where it may be more appropriate to form a collaborative shared ARC or a standalone ARC (rather than a Principal Department led ARC) include:

- All [Requirements of a Principal Department Led ARC](#) cannot be met
- Agency is a Special Office
- Agency has a role that requires independence from other agencies
- Agency's risk profile warrants stand-alone arrangements
- Secrecy provisions applicable to an agency could be breached if they enter a shared arrangement.

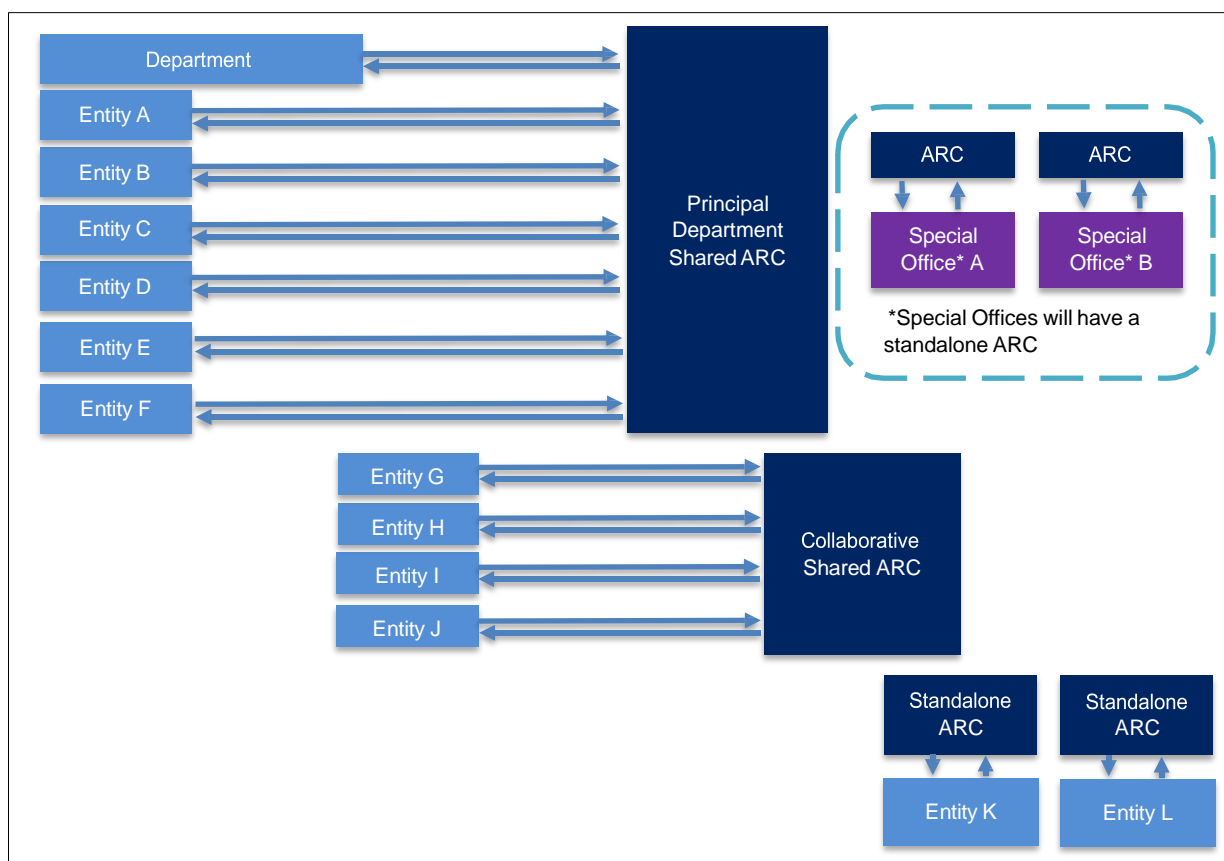
All agencies are encouraged to share key audit and risk issues with other agencies in their cluster. Regardless of which type of ARC arrangement an agency has, the sharing of information should be facilitated throughout each cluster where possible. This may include CAEs regularly communicating with the Department and agencies in other ARC arrangements within their cluster.

As mentioned above, there are two forms of Shared ARC Arrangements:

- Principal Department Led Shared ARC, or
- Collaborative Shared ARC.

Regardless of the form of arrangement, a shared ARC will operate as an individual ARC for each separate agency. This requires members of the ARC to liaise with the respective Accountable Authority, ensure separate records and confidentiality are maintained, and provide independent advice and oversight for each participating agency.

Clusters may establish any combination of ARC arrangements suitable to their risk profile and structure. Figure 5 below is an example of how a cluster may utilise a combination of ARCs.



**Figure 5:** Example of a cluster's combination of ARC arrangements

### Principal Department Led Shared ARC

In this model, the independent Chair and members of the Department's ARC extend their oversight to additional agencies within the cluster. The Principal Department led ARC provides independent advice and oversight to each Accountable Authority in the shared ARC and to the Cluster Secretary. The Principal Department defines the roles and responsibilities of participating agencies and appoints the ARC members, chair and secretariat.

The Cluster Secretary should ensure efficient and effective oversight arrangements are established within their cluster and sufficient advice and guidance is provided to each agency's Accountable

Authority. This is achieved by ensuring the below requirements of a Principal Department Led ARC are followed.

#### Requirements of a Principal Department Led ARC

- Accountable Authority for each participating agency agrees to participate in the shared ARC
- The independent ARC chair and members have the time and capacity to sufficiently cover all agencies in the ARC
- The shared ARC maintains an appropriate level of visibility of each of the agency's operations and reporting relationship with each Accountable Authority
- Accountable Authority for each agency has direct access to the ARC
- Accountable Authority for each agency shall ensure the secrecy provisions applicable to their agency are not breached if they enter the shared ARC
- Any participating agency is not a Special Office
- The risk profile of any participating agency does not warrant stand-alone arrangements
- Any participating agency does not have a role that requires independence from other agencies
- The ARC covers each agency's business separately in sequential meetings and not joint sittings (refer to the [Sequential Meeting Requirements](#) listed below)
- The ARC composition includes a sufficient number of independent members to provide adequate coverage over the agencies but a maximum of 5 ARC members, inclusive of the chair, remains the same as Core Requirement 3.1
- Shared ARC arrangements are detailed in the Shared Arrangement Agreement signed by the Accountable Authorities of all participating agencies and shall include a dispute resolution process
- The ARC has a shared ARC Charter which aligns with the model ARC Charter in this Policy (refer to [Annexure H](#) and [I](#))
  - The Charter shall outline the purpose, authority and scope of responsibility and be adapted to overseeing more than one agency
  - The Charter shall be reviewed annually by the ARC Chair in consultation with all of the Accountable Authorities in the shared arrangement
- Independent chairs and members are appointed in accordance with the Prequalification Scheme Guidelines and Conditions including remuneration
- The Cluster Secretary shall approve all shared arrangements including shared ARCs
- Unless provided for in this Shared Arrangements section, compliance is required with all other Core Requirements in this Policy including the ARC composition, code of conduct of members and chairs and annual attestation.
- *Specific to Principal Department Led ARC:*
  - Principal Department's Accountable Authority is responsible for:
    - annually reviewing the performance of the ARC Chair and members, and
    - providing formal feedback to the Chair of the ARC.
- *Sequential Meeting Requirements:*

The oversight role of an ARC is to provide advice and guidance to the Accountable Authority on the agency's governance processes, risk management and control frameworks, and its external accountability obligations. Regardless of the form of arrangement, a shared ARC will operate as an individual ARC for each separate agency and provide independent advice and oversight for each participating agency. Therefore, this requires ARC meetings to be held sequentially for each agency in the shared ARC. This includes:

  - Meeting schedule allocating time for each agency and for relevant agency representatives
  - Covering each agency's business separately
  - Depending on the size and complexity of the ARC, sequential meetings may spread over two or more meeting days if required to sufficiently cover all agencies in the ARC. A typical meeting day is a normal business day with time allocated for each agency
  - Each participating agency may contribute to agenda setting

- Shared Arrangement Agreement includes ability for Accountable Authorities and agency representatives, if necessary, to have in-camera discussions with the ARC
- Cluster representatives (including the Accountable Authority, Chief Financial Officers, Senior Accounting Officers, CROs and CAEs) may attend the ARC meetings for all agencies within their shared arrangement at the invitation of the Chair and with the consent of all participating agencies
- External audit representatives may consider that discussing individual agency matters at ARC meetings when cluster representatives are present is incompatible with the secrecy provisions in section 38 of the *Public Finance and Audit Act 1983* and their professional membership obligations. Where this is the case, the external audit representatives may seek to discuss matters with the ARC and relevant agency through in camera sessions
- External audit representatives may request in camera sessions with the ARC (and relevant agency representatives if required)
- Sequential meetings may involve the meetings being formally closed, a separate agenda and separate minutes for each agency. If different arrangements for sequential meetings are established, the Accountable Authority for each agency shall ensure the secrecy provisions applicable to their agency are not breached and each agency is allocated sufficient time to ensure adequate and dedicated ARC coverage.

### **Collaborative Shared ARC**

In this model, the Accountable Authority of each agency in the shared ARC negotiates and agrees on the administrative and resource sharing arrangements. Each agency has equal standing to decide on the ARC arrangements. The Collaborative Shared ARC provides independent advice and oversight to each Accountable Authority in the shared ARC.

Collaborative Shared ARCs are particularly suitable for agencies within the cluster that:

- share a common aim or organisational values, and/or
- deliver on similar service delivery obligations, and/or
- regularly collaborate to provide joint services.

Accountable Authorities of agencies in a Collaborative Shared ARC shall ensure the following requirements are followed:

- Meet all the [Requirements of a Principal Department Led ARC](#) above (except those indicated as specific to a Principal Department Led ARC), and
- All Accountable Authorities for agencies in the shared ARC negotiate and agree on the terms of the Shared Arrangement Agreement including:
  - roles and responsibilities of participating agencies
  - appointing one of the Accountable Authorities in the shared arrangement to be responsible for appointing the ARC members and chair, and
  - appointing a joint secretariat.
- For the annual performance review of a Collaborative Shared ARC, the Accountable Authorities of each agency are responsible for ensuring it is performed annually and feedback is provided to the ARC Chair. Agencies may collaborate in developing a performance evaluation mechanism which may include, if all agencies agree, a consolidated report rather than separate reports. The agreed mechanism should be included in the Shared Arrangement Agreement including who will be responsible for taking appropriate action where necessary.
- When including the dispute resolution process in the Shared Arrangement Agreement, it should include that all agencies are required to monitor the operation of the agreement and hold one another accountable.

Further information is provided below on the [types of shared ARCs](#).

## B. Shared CAE and internal audit functions

An agency may agree to share a CAE and/or internal audit function, unless:

- The agency is a Special Office
- The agency has a role that requires independence from other agencies
- Secrecy provisions applicable to the agency could be breached if they enter a shared arrangement
- The complexity and diversity in the business of the agency is such that a CAE and/or internal audit function shared with other agencies will not be able to attain an adequate level of understanding of all relevant issues
- There is a possibility of a substantive actual or perceived conflict of interest to arise in a shared arrangement.

The decision to share a CAE and/or Internal Audit Function is independent from the decision to share an ARC. There may be some instances where it is not appropriate for an agency to share a CAE and/or Internal Audit Function but still be able to enter a Shared Arrangement for an ARC (subject to the above requirements relating to Shared Audit and Risk Committees being met).

When reviewing a proposal to share a CAE and/or Internal Audit Function, the Cluster Secretary is to consider the likely demands on the CAE and/or Internal Audit Function as a result of the Shared Arrangement. This should include the CAE and/or Internal Audit Function having the capacity to understand the different business activities of multiple agencies and manage the larger workload. The Cluster Secretary may consult with applicable ARCs on this matter.

A Shared Internal Audit Function may be in-house, outsourced or co-sourced but the role of the CAE cannot be outsourced to an independent party. The CAE will be:

- in the case of a Principal Department Led Shared Arrangement, an employee of the principal department, or
- in the case of a Collaborative Shared Arrangement, an employee of one of the participating agencies (as agreed by the Accountable Authorities of each of the participating agencies).

The appointment of a CAE will be approved by the Accountable Authority of the employer agency. Appointments should take into account the complexities raised by the Shared Arrangement and due consideration made to appointing a CAE who is appropriately qualified and/or experienced. All CAE appointments shall be made in consultation with the members of all applicable ARCs for agencies in which the CAE will be providing services. Where the CAE is shared, the CAE will assume the responsibilities of a CAE stated in the Core Requirements of this Policy on behalf of all agencies in the Shared Arrangement (except where an agency chooses to have an independent CAE). Where an agency is participating in a Shared ARC Arrangement but wishes to have an independent CAE, the CAE shall be appointed from within that agency and in consultation with the members of the shared ARC.

The reporting lines of the CAE will accord with the requirements of this Policy. In the case of a shared ARC, the CAE will report **functionally** to the shared ARC.<sup>56</sup> In the case of a Principal Department Led Shared Arrangement, the CAE will report **administratively** to the Cluster Secretary or a Senior Executive level direct report of a Cluster Secretary. In the case of a Collaborative Shared Arrangement, the CAE will report to the Accountable Authority of one of the agencies entering into the Shared Arrangement or Senior Executive level direct report of that Accountable Authority. The operational independence of a CAE shall be paramount and the requirements of 2.1.14 in this Policy should be applied to arrangements to share a CAE to ensure this. The Shared Arrangement Agreement should clearly specify the reporting relationships of the CAE.

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<sup>56</sup> Further guidance on the reporting relationships of the CAE can be found at 2.1.14 of this Policy.



Each agency entering into an arrangement for a shared CAE should nominate a person within their organisation to be responsible for liaising with the CAE.

Where a Shared Arrangement has been established for an Internal Audit Function, an Internal Audit Charter, consistent with the Model Internal Audit Charter at Annexure A should be prepared in consultation with all applicable ARCs and endorsed by the Accountable Authority of each participating agency. The reporting relationships of the CAE(s) in a Shared Arrangement (even in those cases where one or more agencies in the Shared Arrangement have their own CAE) should be outlined in the Charter.

## **Application process for a Shared Arrangement**

It is the responsibility of the Accountable Authority for each agency to decide the appropriate assurance arrangements for their agency including whether to enter a shared arrangement.

Where the Accountable Authorities in a cluster:

- have identified an opportunity to enter into a shared arrangement,
- are satisfied that their agencies meet the above requirements of a shared arrangement, and
- have agreed to pursue a shared arrangement (i.e. Principal Department Led or Collaborative ARC and/or the sharing of a CAE and/or internal audit functions),

they shall jointly address a letter seeking approval for a shared arrangement to their Cluster Secretary.

The letter should:

- identify the agencies proposing to enter into a shared arrangement
- include a brief description of the proposed arrangement including resources to be shared (ARC and/or CAE and/or internal audit functions) and how specific Core Requirements will be varied under equivalent alternative shared arrangements (refer to the [Variations to the Core Requirements](#) table below for examples)
- address how each of the Requirements of a Principal Department Led or Collaborative shared ARC arrangement are met
- address, if applicable, how each of the requirements of sharing a CAE and/or Internal Audit function are met and details of which agency will provide the shared CAE and/or internal audit function
- Include the proposed Shared Arrangement Agreement to be signed by the Accountable Authorities of all participating agencies
- Include the Shared Audit and Risk Committee Charter
- Include, if applicable, the Internal Audit Charter.

Once approved, a copy of the letter, accompanying documents and approval documentation shall be provided to Treasury.

Documents to be provided to Treasury should be emailed to [finpol@treasury.nsw.gov.au](mailto:finpol@treasury.nsw.gov.au) and addressed to the Director, Financial Management Policy.

The above application process is repeated if there is a change to a previously approved shared arrangement (e.g. an additional agency is added to a shared ARC).

The Cluster Secretary's approval of a shared arrangement in accordance with the above requirements, and the participating agencies' compliance with the Shared Arrangement Agreement's terms, constitutes compliance with the relevant Core Requirements in this Policy. Details of the shared arrangement shall be included in the annual attestation. Refer to the [Requirements for an Attestation Statement](#) section for further details.

For the avoidance of doubt, an exemption to this Policy is not required if a Shared Arrangement is approved by the Cluster Secretary. Unless provided for in this section and by an approved Shared Arrangement, all other Core Requirements in this Policy shall be followed.

## Variations to the Core Requirements

Refer to the examples below of variations to Core Requirements 2.1, 3.1 and 3.2 for Shared Arrangements:

	Clause(s)	Core Requirement	Equivalent Shared arrangement
1	2.1.7	CAE should be appointed from within the agency by the Accountable Authority	Where a CAE role is to be shared, the Accountable Authorities entering in a shared arrangement should agree for a CAE to be appointed from one of the agencies entering into the shared arrangement (in the case of a Principal Department Led arrangement, this will be the Principal Department CAE).  The details should be set out in a Shared Arrangement Agreement and briefly described in the application.
2	2.1.9	The Accountable Authority shall consult with the ARC in appointing and removing a CAE	The Accountable Authority nominated as responsible for appointing the CAE on behalf of the other agencies in the shared arrangement is also responsible for consulting with the ARC in removing a CAE. The arrangement should be briefly described in the application.
3	2.1.14	CAE reports functionally to the ARC and administratively to the Accountable Authority	Where a CAE role is to be shared, the CAE will report administratively to the Accountable Authority of one of the agencies in the shared arrangement (in the case of a Principal Department Led arrangement, the CAE will report administratively to the Principal Department's Accountable Authority).  The details should be set out in a Shared Arrangement Agreement and briefly described in the application.  The Internal Audit and ARC charters should be amended to reflect this reporting relationship.
4	3.1.6 3.1.7	The Accountable Authority should appoint the Chair and members of the ARC	In a shared arrangement, one of the Accountable Authorities will be empowered by a Shared Arrangement Agreement to appoint the Chair and ARC members on behalf of all the other agencies participating in the arrangement (in the case of a Principal Department led arrangement, the Principal Department's Accountable Authority will select and appoint the Chair and ARC members).  The arrangement should be briefly described in the application.



	Clause(s)	Core Requirement	Equivalent Shared arrangement
5	3.2.21	The Accountable Authority shall establish a mechanism to review and report on the performance of the ARC	<p>In a collaborative shared arrangement, the mechanism and process for reviewing and reporting on the performance of the ARC as a whole, and the performance of the Chair and each member is agreed between the participating agencies.</p> <p>In the case of a Principal Department Led arrangement, the Principal Department Accountable Authority will be responsible for the ARC performance review.</p>

## Further guidance on shared arrangements

There are several relevant Core Requirements and terms stated in the Prequalification Scheme Conditions<sup>57</sup> (Scheme Conditions) which are applicable to Shared ARCs and are reiterated below for further guidance:

- Composition guidelines for the ARC will remain the same regardless of the type of shared arrangement including appointing only 'independent members' (including an 'independent chair') to the ARC. Accountable Authorities, Chief Financial Officers, Senior Accounting Officers and CAEs shall not be members of the shared ARC but may attend meetings as observers as determined by the Chair. Independent chairs and members shall be selected from the list of pre-qualified individuals in the Prequalification Scheme.
- ARCs shall meet at least four times per year or more frequently as circumstances dictate. Larger and more complex shared ARCs may require more frequent meetings in order for the ARC to effectively perform its roles and discharge its responsibilities and meetings may extend over several days. Shared ARC meetings are held sequentially, and a quorum will consist of a majority of members.
- Remuneration of the Chair and members of a shared ARC shall be in accordance with the Scheme Conditions, including as prescribed by the fee category table.
- The Scheme Conditions limits the number of committees a pre-qualified independent member can serve on to five (5) committees. Membership of a shared ARC will count as one committee for the purposes of the Scheme Conditions. Members are required to disclose membership of all shared ARCs and sub committees to the operators of the Prequalification Scheme (NSW Procurement, Treasury) and to the Accountable Authority.
- Each agency entering into a shared arrangement is required to provide an attestation to Treasury in accordance with this Policy and make a declaration in their annual report. This attestation will include details of any shared arrangement entered.

## Further guidance on the types of shared ARCs

Further information on the differences between the two types are provided below.

### Principal Department Led ARC

- The Principal Department Led ARC extends their oversight to additional agencies within their cluster
- The Principal Department articulates the roles and responsibilities of agencies participating in the shared arrangement and those agencies that choose to opt in
- The Principal Department appoints the Secretariat
- The Principal Department selects and appoints the Chair and members

<sup>57</sup> Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members – Conditions – December 2020.

- The Principal Department shall establish a Shared Arrangement Agreement with the participating agencies to formalise the arrangements
- The Principal Department's Accountable Authority is responsible for annually reviewing the performance of the ARC Chair and members, providing formal feedback to the Chair of the ARC and taking appropriate action where necessary. Input from the Accountable Authorities of other participating agencies should be considered in this review. The Principal Department should ensure that the process is documented in the Shared Arrangement Agreement
- The Principal Department should ensure that the process for managing disputes is documented in the Shared Arrangement Agreement.

### **Collaborative**

- The Accountable Authority of each agency in the shared ARC negotiates and agrees to enter into a shared arrangement.
- The Accountable Authorities of all agencies in the shared arrangement agree on the roles and responsibilities of each agency, including a joint secretariat.
- The Accountable Authority of one of the agencies is responsible for engaging the Chair and members through a process agreed upon by all the agencies entering into the shared arrangement.
- The Accountable Authorities of each agency are responsible for ensuring an annual performance review of the ARC is performed and feedback is provided to the ARC Chair. Agencies may collaborate in developing a performance evaluation mechanism which may include, if all agencies agree, a consolidated report rather than separate reports. The Shared Arrangement Agreement should document the performance appraisal process and who will be responsible for taking appropriate action where necessary.
- All agencies are required to monitor the operation of the agreement, hold one another accountable and establish a dispute resolution process as part of the Shared Arrangement Agreement.