



Natural  
Resources  
Commission

# Local Land Services governance audit Final report

October 2015

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## List of acronyms

AICD	Australian Institute of Company Directors
CMA	Catchment Management Authority
CRT	Cross-regional team
DPI	NSW Department of Primary Industries
ESU	Executive Support Unit
LHPA	Livestock Pest and Health Authority
LLS	Local Land Services
LLS Act 2013	<i>Local Land Services Act 2013</i>
LLS Regulation 2014	<i>Local Land Services Regulation 2014</i>
NRC	Natural Resources Commission
NSW	New South Wales
SET	Senior Executive Team

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# 1 Executive summary

The Minister for Primary Industries (the Minister) requested that the Natural Resources Commission (the Commission) conduct an independent audit of Local Land Services (LLS) governance.<sup>1</sup> The Commission developed a comprehensive audit protocol informed by a range of better practice guides<sup>2</sup> and in consultation with the Australian Institute of Company Directors and other external auditors. The audit incorporated an extensive survey of LLS board members, staff and stakeholders; interviews with LLS representatives including visits to three LLS regions; assessment of case studies; review of governance documentation; and observation of board meetings at the state and local level.

Under the *Local Land Services Act 2013 (LLS Act 2013)*, 11 local boards were established for the purpose of devolving management, strategic planning and community engagement functions to the regional level. Local boards are responsible for driving these functions in line with strategic guidance from the state level Board of Chairs, the *LLS Act 2013* and other NSW Government agency requirements. The success of LLS relies on the successful implementation of this devolved model to provide value to local customers and investors.

Although it is not the focus of this audit, it is noteworthy that at the local level, LLS has had plenty of on ground successes in emergency response, biosecurity and natural resource management within its first 18 months of operations. However, given the significance of the LLS reform, LLS has also faced a number of challenges. Establishment of LLS involved combining three legacy organisations with very different organisational cultures into a single entity, implementing a devolved organisation model funded by a range of investors, and establishing legitimacy in the community. This process has been difficult and at times progress has been slow. Nonetheless, respondents in audit interviews often expressed optimism about the high potential of LLS and an eagerness to make it a success.

Given the relatively short lifetime of LLS, it is reasonable to expect that many aspects of its governance arrangements are still maturing. The audit focused on assessing the maturity level of key aspects of governance to provide a basis for accelerating maturity and improving performance. This report also provides advice to the Minister on how LLS governance processes can be improved to meet legislative requirements and deliver better outcomes.

Survey results and interviews indicate that LLS is aware of the key issues identified in this audit. The Commission also observed a growing awareness of governance requirements and a commitment to improve practices and performance in this area. While recent progress has been made in laying the foundations to address some of the issues identified in the audit, it is too early to tell if steps taken to date will achieve significant change.

## **Findings**

The Commission identified some examples of good practice, but there are several key functional areas in which governance is still evolving. Examples of sound governance practice include the systems to promote ethical behaviours and manage conflicts of interest, relatively mature operating procedures for board meetings, and respectful and collegial relationships among board members.

Several key areas of governance require urgent attention. LLS was established with a unique and relatively complex organisational structure consisting of a Board of Chairs and 11 local boards. Evidence indicates that insufficient time and resources were given to establishing a sound governance framework with clear roles and responsibilities at the start of LLS. This has

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<sup>1</sup> Per the audit requirements in Section 24 of the *Local Land Services Act 2013*.

<sup>2</sup> Including the Performance Standard for LLS and the Audit Office of New South Wales 2015, *Governance Lighthouse – a strategic early warning signal*

resulted in an ad hoc approach with confused roles and lines of accountability and has fostered mistrust between boards and management in some cases. Local boards are particularly frustrated by the lack of clarity around decision-making at the state and local levels, and some expressed a strong feeling of marginalisation.

The Board of Chairs has not demonstrated sufficient leadership in driving a shared understanding of LLS as one government agency with local decision-making devolved to the 11 regions. While some reasonable operating procedures are in place, communication of state policies and decisions has been inadequate, resulting in confusion, wasted effort and inconsistent implementation. Further, board members are sometimes seen to be advocating on behalf of their geographic area or legacy organisation rather than consistently acting in the best interest of the state or region as a whole. The large size of the Board is also contributing to an avoidance of tackling the difficult issues and a tendency to revisit previous decisions.

Leadership and strong governance are also lacking in strategic direction setting, financial management and risk management. The strategic planning process was unsatisfactory, characterised by confused guidance and long delays from the Board of Chairs, and inconsistent implementation at the local level. Similarly, LLS has struggled to implement sound financial systems and financial responsibilities are unclear, although recent progress has been made in this area. Audit results indicate that risk management, a critical area for governance, is only recently evolving, and risk is not systematically or routinely assessed in decision-making.

The Commission has made 21 detailed findings across five categories: roles and accountability, culture and leadership, processes and systems, strategic direction and risk management and compliance. Full findings with supporting evidence are found in Section 5.

### **Recommendations**

The Commission has developed recommendations which intend to build on recent steps taken by LLS. The recommendations include the following three over-arching recommendations, which span across the more detailed recommendations listed in Section 1.1. Implementing these recommendations will provide a strong basis for overall governance within LLS.

- 1. Clarify and simplify roles and responsibilities:** As a matter of priority, LLS should define clear roles and responsibilities, particularly for boards, management, and support units. These roles and responsibilities should be consistently reflected in LLS policies and procedures, and fully adopted by all members of LLS.
- 2. Prioritise and resolve critical issues:** The Chair of the Board of Chairs should take responsibility for ensuring that the Board of Chairs urgently identifies and resolves critical state-wide issues. A governance and business plan should be developed to ensure this occurs in a timely manner. The Board of Chairs should also clarify what policy and process issues require a state-wide approach, and allow all other issues to be devolved to local boards.
- 3. Improve accountability:** The Board of Chairs should take responsibility for fundamentally improving accountability across the organisation. Given the current level of maturity, formal processes for driving accountability are necessary. These should include implementing a simple system for communicating, monitoring and enforcing regional implementation of state mandated policies, processes and systems, and initiating performance agreements for all Chairs. LLS should report progress on the implementation of these audit recommendations to the Minister and the Commission.

The over-arching recommendations are supported by a suite of more detailed recommendations related to roles and accountability, culture and leadership, processes and systems, strategic direction and risk management provided in Section 1.1.

Additionally, the Commission has identified **three recommendations for Government** as follows:

1. Adopt the recommendations within this report, and oversee implementation by LLS.
2. Request LLS to provide reports, including a timetable and progress in implementing the recommendations three months from adoption of the recommendations and on a six monthly basis thereafter.
3. Improve the governance structure by taking the following actions:
  - a. Add two independent members with appropriate corporate governance and public sector expertise to the Board of Chairs as a matter of urgency.<sup>3</sup>
  - b. Evaluate, in collaboration with the incoming Chair of the Board Chairs, the potential for reducing the number of regional representatives on the Board of Chairs, while maintaining independent members, in preparation for the next review of the *Local Land Services Act 2013*.

Recommendation 3 addresses two issues with the Board of Chairs, the size of the Board and the tendency for parochialism, which are both inhibiting the effectiveness of the Board. Reducing the size of the Board would require a change to the *LLS Act 2013* and therefore will take time. The Commission acknowledges that adding two members will increase the size of an already overly large Board from 12 to 14 members, but views that the impact of two additional members to be minimal compared to the immediate benefit of providing some independence and additional governance expertise to the Board.

## 1.1 Detailed recommendations

These detailed recommendations support the achievement of the three overarching recommendations (listed on the previous page) and address the full suite of audit findings.

### Roles and accountability

1. The Board of Chairs should provide leadership in articulating and reinforcing a clear organisational purpose that is adopted by all members of LLS and is accessible by stakeholders.
  - This purpose should be consistent with both the LLS State Strategic Plan and *LLS Act 2013*. It should also support a shared understanding that LLS is a single NSW Government statutory corporation, with 11 local boards providing tailored services in line with state priorities.
  - Decision-making, policies and communications should consistently reflect this shared purpose.
2. Clarify separation of state and local responsibilities by implementing the following actions:
  - a. Determine and communicate the separation of responsibilities between the Board of Chairs and local boards, including which issues require Board of Chairs decision-making and which issues belong to local boards.
  - b. Apply the following principles to determine which board should make which decisions:
    - Adopt the principle of only having a Board of Chairs policy if necessary for critical strategic state-wide issues, otherwise let the local boards decide.

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<sup>3</sup> Section 25 of the *LLS Act 2013* allows for the Board of Chairs to include, "such other persons with relevant skills and experience as may be appointed by the Minister."

- For governance, finance, IT, corporate services, communications and performance reporting lead a consolidation phase devising standardised policies and systems where there is a cost benefit and/or a compliance requirement for standardisation.
  - State policies should be principles based and strategic, allowing for appropriate flexibility in implementation and delivery of services at the local level.
- c. Ensure that LLS documentation consistently reflects adoption of the specified separation of responsibilities.
3. Develop a clear governance framework by:
- a. Articulating clarified roles and responsibilities, including separation of responsibilities. In particular LLS should clarify roles for the Chair of the Board of Chairs, Board of Chairs, Executive Support Unit, chairs of local boards, local boards, Senior Executive Team, cross-regional teams, and general managers.
  - b. Restructuring and resourcing the Executive Support Unit to be the Office of the Chair. The Office of the Chair should be responsible for implementing decisions of the Chair and Board of Chairs, driving coordinated activity on state-wide issues and advising the Board of Chairs on strategic state-wide issues as requested. This role should be reflected in governance documentation, including an approved terms of reference.
  - c. Clarifying the role of the Senior Executive Team. The Senior Executive team should function as an operational coordination, collaborative learning and advisory group of General Managers and the Executive Manager. This role should be clearly and consistently reflected in governance documentation, including an approved terms of reference. Implement measures to enhance communications between the Senior Executive Team and local boards.
  - d. Clarify lines of accountability between boards, Executive Support Unit (to be made the Office of the Chair), the Senior Executive Team, and General Managers.
4. Improve accountability by implementing standardised performance agreements for chairs of the twelve boards (the Board of Chairs and 11 local boards) and a standardised board performance review process.

### **Culture and leadership**

5. Board of Chairs should promote a culture of open communication, trust, transparency and accountability across all levels of LLS.
6. Continue to develop a culture of 'one LLS' and actively promote expected staff values by:
- a. Holding chairs to account to ensure all board members consistently act in the best interests of LLS as a whole when making and implementing decisions. In performance reviews for Chairs and boards, appraise consistency of behaviours and actions with organisational values and defined roles and responsibilities, including whether members consistently act in the best interest of the state.
  - b. Setting clear expectations for management and staff about acting in accordance with the best interests of LLS as a whole and within their defined roles and responsibilities. In performance reviews, appraise consistency of staff behaviours and actions with expectations and values.
  - c. Other steps as necessary to achieve a culture of 'one LLS'.

7. Improve LLS' approach to operating within Government by taking the following actions:
  - a. Develop a strategic approach to operating efficiently within the structures and processes of government.
  - b. Ensure the Office of the Chair has staff with significant government corporate experience (e.g. corporate services, contract and service level agreement negotiations, industrial relations, human resources). These staff should work with the Chief Financial Officer and Executive Manager to provide advice to the Chair of Chairs, or act as an official delegate in negotiations with other NSW and federal government agencies, Department of Industry cluster representatives and the Ministers' Offices.
8. Ensure critical issues are identified and resolved by the Board of Chairs by:
  - a. Reviewing the style of chairing, agendas and board papers to prioritise discussion and timely resolution of critical risks and opportunities.
  - b. Within the recommended performance appraisal process, monitoring whether the Board of Chairs addresses and resolves critical issues in a timely manner.
9. Introduce an external, transparent review of skills for all nominees for future board member appointments and elections to ensure that boards have the appropriate breadth of skills to adequately fulfil their responsibilities.
10. Seek a staggered approach to appointment of future board members to promote continuity.
11. Provide targeted capacity building to board members in key functional areas by:
  - a. Conducting a gap analysis of board member skills against the skills listed in the *LLS Act 2013* and *LLS Regulation 2014*.
  - b. Providing ongoing, targeted training and development in areas identified as current gaps, particularly corporate governance, strategic leadership, risk management, finance, compliance and NSW government processes.
  - c. Implement measures to foster greater cross-regional collaboration at the local board level, including informally benchmark internal governance practices across local boards, and convening forums for local board members to share learnings.
12. Monitor and enforce regional implementation of priority policies, processes and systems that have been mandated by the Board of Chairs. Require chairs of local boards (or their official delegate) to provide reports to the Office of the Chair demonstrating progress on implementation of priority Board of Chairs policies, processes and systems in their region. The Chair of Chairs should hold the chairs of local boards to account for non-conformance.

### **Processes and systems**

13. Finalise, communicate and implement LLS' draft process for developing policies and procedures. The Board of Chairs should clarify authorities for policy and procedure approval at each scale, with the policy revised accordingly prior to finalisation.
14. Review the LLS policy register in light of the proposed principles for identification of state-level versus regional policies, and LLS' draft *Policy for policy and procedure development*.
  - a. Ensure that the policy register is complete and easily accessible by all board members and staff.
  - b. Identify critical policies that are not yet established, and then implement a timetable for developing them.

- c. Review existing policies within two years (both those adopted from the cluster and developed by LLS) to ensure they are fit-for-purpose and effective.
  - d. Following this initial review, implement a rolling program of review to maintain compliance with legislative and other requirements.
15. Implement improved systems and processes for communicating Chair and Board of Chairs discussions and decisions to local boards and staff, including:
  - a. Share Board of Chairs agendas and minutes with local boards and General Managers, allowing for the Board to blackout information only where essential for confidentiality purposes.
  - b. Share Board of Chairs communiqués with all staff.
16. Finalise and adhere to a state-wide governance calendar, specifying key dates for strategic and business planning, policy development and review, performance monitoring, and compliance reporting. Ensure state and regional agendas are in line with the calendar, including agendas of board sub-committees.
17. Continue to take steps to advance financial management, performance, transparency and accountability to ensure that board members can fulfil their fiduciary obligations, and systems meet government requirements, including by taking the following actions:
  - a. The Chief Financial Officer should take the lead on improving budgeting processes to increase funding certainty for local boards and staff.
  - b. Revise the existing financial policy framework to provide clarity on roles and responsibilities for financial management at the state and local levels and confirm targets for financial performance, including balancing of regional budgets.
  - c. Review all funding sources and internal allocations across the organisation including the Office of the Chair.
  - d. Streamline accounting and reporting systems to ensure that there is a consistent approach across LLS and improved financial reporting to local boards and the Board of Chairs.
18. Complete work recently commenced to develop an organisation-wide performance evaluation framework, including key performance indicators, metrics, tools, systems and processes. Use internal feedback loops to drive timely identification and broader adoption of good practice and innovation.
19. Improve board procedures by:
  - a. Developing standardised governance charters and systems across local boards where appropriate, while allowing some regional flexibility.
  - b. Setting guidelines to ensure that board papers are strategic in nature, of a reasonable length, and provided with enough time prior to meetings for board members to fully review them.
20. Better leverage skills and expertise of the whole organisation when making state-wide policy, including reviewing the requirements in existing policy development guidelines to:
  - a. Incorporate better methods to promote collaboration with local board members and the Senior Executive Team on state policy development processes.
  - b. Ensure membership of cross-regional teams, reference groups and working groups make best use of available skills and knowledge across the organisation.

- c. Develop a skills register for board members and management.

### **Strategic direction**

21. Promptly finalise the development of state and regional strategic plans, ensuring that they appropriately address key risks and state priorities.
22. Implement measures and take sufficient time to meaningfully engage with external stakeholders on strategic directions on an ongoing basis.
23. For future strategic planning processes, the Board of Chairs is to more actively set and monitor scope, priorities, risks and timeframes.
24. Implement measures to advance the maturity of strategic direction-setting by boards. All boards should dedicate more time to strategic discussions in board meetings through standing agenda items, review of strategic plans, and discussion of progress towards strategic objectives. Ensure that board agendas allow time for open discussion of current and emerging strategic issues.

### **Risk management and compliance**

25. Improve risk management by implementing the following:
  - a. Finalise and implement a comprehensive LLS risk management system that protects and creates value for LLS. Ensure that it is transparent and inclusive, and includes mechanisms to involve stakeholders in identification of risks.
  - b. The Board of Chairs should set the strategic risk appetite for LLS at a state-level. Local boards should set risk appetite for regional service delivery while aligning with the state wide strategic risk appetite.
  - c. The Board of Chairs should ensure common state-wide risks, including compliance risks are identified and organisation-wide systems are implemented to manage and monitor these risks, consistent with better practice risk management frameworks.
  - d. Local boards should identify risks to service delivery in their regions. Adopt the risk management system set by the Board of Chairs to oversee the management of these risks.
  - e. Boards should implement measures to ensure that risk is routinely considered in strategy development and decision making. Periodically evaluate whether a proactive risk culture is developing across LLS.
26. Improve internal assurance process by:
  - a. Continuing to develop internal assurance functions consistent with the NSW Treasury Policy Paper 15-03. Review this policy paper and address any identified gaps with LLS policies and processes, and clearly identify the Chief Audit Executive.
  - b. Ensuring the membership on the state-wide Audit and Risk Committee is compliant with the Treasury Policy Paper 15-03 requirements to have non-executive, independent chair and members with appropriate skills.
  - c. Chair of Chairs ensuring there is an operational and adequately resourced internal audit function.
  - d. Clarifying roles and responsibilities for local boards in regard to internal assurance.
  - e. Finalise the development of internal audit systems and processes in a timely fashion, ensuring that these meet good practice as well as NSW Government requirements.

## 2 Overview of LLS governance audit

### 2.1 Background

In March-April 2015, the Natural Resources Commission (the Commission) conducted a risk assessment of Local Land Services (LLS) to identify priority areas for audit. This risk assessment was conducted in collaboration with LLS, the NSW and Commonwealth governments, ratepayers, and other LLS stakeholders. The results informed the development of the *Audit of Local Land Services: Two year plan 2015-17*.<sup>4</sup>

In May 2015, the Minister for Primary Industries (the Minister) endorsed the Commission's audit plan in principle, and requested the Commission complete the top two priority audits, the first of which is this audit of governance.

The Commission's audit of LLS governance commenced on 1 June 2015. A draft report was provided to LLS for response on 15 September 2015. LLS' response on the audit recommendations is provided in Section 6 of this report.

### 2.2 Objective

The Minister requested that the Commission conduct an independent performance audit of LLS governance. The purpose of the audit is to provide a pathway for developing governance maturity in LLS through process improvement and practice change. This report also provides advice to the Minister on how LLS governance processes can be improved to meet legislative requirements and enhance performance.

### 2.3 Audit approach

The Commission worked with the Australian Institute of Company Directors and referred to better practice guides to develop a strong understanding of governance. It then assessed the governance principles, procedures and policies that LLS has in place, and how well they are functioning in practice. These procedures, policies and principles were assessed against the legislative requirements and better practice set out in:

- The *Local Land Services Act 2013 (LLS Act 2013)*.
- The *Performance Standard for Local Land Services*.<sup>5</sup>
- Governance frameworks, including the Audit Office of New South Wales' *Governance Lighthouse*, which is the governance framework recommended for NSW government agencies.<sup>6</sup>

This assessment focused on rating the maturity of overall LLS governance arrangements in reference to the expectations established in the *LLS Act 2013* and better practice guides listed above.

Given that LLS has only been operating for 18 months, it is reasonable to expect that many aspects of its governance arrangements are still maturing. Assessing the maturity of LLS governance at this early stage allows for benchmarking maturity and to focus LLS on progress towards a greater maturity level and improved performance.

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<sup>4</sup> Natural Resources Commission (2015) *Audit of Local Land Services: Two year plan 2015-17*. Available at <http://www.nrc.nsw.gov.au/audit-and-assurance>.

<sup>5</sup> Natural Resources Commission (2015) *Performance Standard for Local Land Services: February 2015*. Available at <http://www.nrc.nsw.gov.au/publications#>.

<sup>6</sup> Audit Office of New South Wales (2015) *Governance Lighthouse – A strategic early warning signal*. Available at [http://www.audit.nsw.gov.au/ArticleDocuments/197/Governance\\_Lighthouse\\_2015.pdf.aspx?Embed=Y](http://www.audit.nsw.gov.au/ArticleDocuments/197/Governance_Lighthouse_2015.pdf.aspx?Embed=Y).

In this audit, LLS governance maturity was assessed according to the six categories described in Table 1. Governance maturity was assessed for LLS as a single entity, rather than on a regional or local board basis. Individual LLS regions have not been named in our findings, and this report does not include a comparative assessment of the 11 LLS regions.

LLS is a cluster agency under the Department of Industry. The Commission conducted interviews with representatives from other cluster agencies as part of this audit; however, given this is the initial audit of LLS governance, it focused largely on internal governance arrangements. Going forward, the maturity and appropriateness of cluster agency governance arrangements should also be considered for LLS. Cluster governance issues can be broad, requiring government, ministers, boards, departmental secretaries, heads of organisations, chief financial officers and management to clarify governance arrangements for the cluster.<sup>7</sup>

**Table 1: Governance maturity categories**

Category	Description
Mature	Mature, well developed
Sound	Generally sound and reliable, do not need substantial improvement
Passable	Adequate but needs improvement
Evolving	Still evolving and developing, especially in practice
Under developed	In need of developmental attention

## 2.4 Scope and methodology

The Commission adopted a risk-based audit approach. It assessed LLS governance arrangements at the state and regional scale through:

- Review of governance at the Board of Chairs level.
- Review of governance for a sample of three LLS regions: Central Tablelands LLS; Murray LLS; and North West LLS.
- Review of the whole organisation through a governance survey of board members, chairs, staff and stakeholders.
- Review of three case studies from LLS operations (wild dog policy development, the strategic planning process and administrative delegations) to explore how governance is working in practice.

The Commission assessed audit evidence collected from:

- A desktop review of LLS governance documentation.
- Interviews conducted with LLS board members, staff and key stakeholders.
- The completion of online governance self-assessment surveys by board members, staff and other relevant LLS stakeholders.
- Observation of board meetings at the state and local level.

<sup>7</sup> Audit Office of New South Wales (2015) *Governance Lighthouse – A strategic early warning signal*. Available at [http://www.audit.nsw.gov.au/ArticleDocuments/197/Governance\\_Lighthouse\\_2015.pdf.aspx?Embed=Y](http://www.audit.nsw.gov.au/ArticleDocuments/197/Governance_Lighthouse_2015.pdf.aspx?Embed=Y).

## Description of audit evidence

### Documentation review

The Commission conducted a desktop review of a sample of LLS governance documentation from the Board of Chairs and three local boards. Issues and queries that arose from the document review were followed up throughout the audit fieldwork and interview processes.

### Interviews

The Commission conducted interviews with 41 LLS representatives and stakeholders. Interviews were conducted with half the members of the Board of Chairs, over half the members of the three local boards selected for audit, and a selection of managers and staff from the three sample regions and the Executive Support Unit. Interviews were also conducted with external stakeholders in government.

### Survey approach

The Australian Institute of Company Directors assisted the Commission in delivering the survey component of the audit. Based on agreed protocols, the institute collected and reported survey results directly to the Commission with individual respondents remaining anonymous. Survey results were aggregated for inclusion in this audit report. The Commission has not identified responses of individuals or individual local boards.

Surveys were tailored for four groups of respondents: Board of Chairs members; stakeholders of the Board of Chairs (e.g. members of the Executive Support Team, the Senior Executive Team and other government agencies); local board members; and local board staff, including general managers. Respondents rated survey statements from 1 to 5 on a maturity scale ranging from *under developed* to *mature* as shown in Table 2 above. In assessing survey responses, it is important to note that the long term objective would be for all areas of governance to have achieved at least *sound* status which is a rating of 3.6 or above. In reviewing results, the Commission considered any results below *sound* to be an indication that improvements are needed to advance maturity in those areas.

### Board meeting observations

Representatives from the Commission attended LLS board meetings to observe board proceedings, discussions and dynamics. Four meetings were observed, which included the Board of Chairs and each of the three local boards selected for audit.

## Lines of inquiry

Audit evidence was collected to address four lines of inquiry based on the governance risks identified in the Commission's risk assessment.<sup>8</sup> However, this report presents the audit findings across five functional areas of governance: roles and accountability; culture and leadership; processes and systems; strategic direction; and risk management. These five areas were selected to clearly communicate the key findings that arose during the audit whilst also addressing the focus areas for the original lines of inquiry.

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<sup>8</sup> Lines of inquiry: direction-setting; decision making; behavioural leadership; and transparency and accountability.

## 3 Overview of governance

### 3.1 What is governance?

Governance refers to the processes, systems, rules and relationships used to direct and hold LLS to account for achieving outcomes.<sup>9</sup> The Audit Office of NSW defines governance as:

The high-level framework for rules, behaviours, systems and processes established to ensure entities meet their intended purpose, expectations of probity, accountability and transparency, and conform with legislative and other requirements.<sup>10</sup>

### 3.2 What is good governance?

*"Governance should be enduring, not just something done from time to time."*<sup>11</sup>

Good governance involves getting the right processes and behaviours to ensure organisational performance, legislative compliance, accountability and transparency.<sup>12, 13</sup> It "sets clear directions, a way to get there and tracks progress."<sup>14</sup> To achieve good governance, organisations need appropriate processes and procedures in place. However, these alone are not enough. Organisations also need to be driven by effective leaders and supported by a good governance culture that emphasises achievement, accountability and ethical conduct.<sup>15</sup>

The objects of the *LLS Act 2013* include establishing a governance framework to provide for the proper management and delivery of services. The act also requires LLS to exercise its functions in accordance with any state priorities for local land services,<sup>16</sup> which includes any state wide standards and targets identified in a State Government policy or plan or an intergovernmental agreement, or as advised by the Minister.<sup>17</sup>

In February 2015, the Minister approved the *Performance Standard for Local Land Services*, which includes guidance for implementing good governance practices. The Commission considered the required outcomes under the performance standard along with requirements of the *LLS Act 2013*, and other good practice guides as described in Section 2.3 in developing the findings and recommendations.

Implementation of sound governance practices and achievement of the specified outcomes provides significant organisational value. Ultimately, good governance gives government, ratepayers and the community confidence that investment is cost effective, compliant and delivers best possible outcomes while ensuring consistency and rigour.<sup>18</sup>

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<sup>9</sup> Natural Resources Commission (2015) *Performance Standard for Local Land Services: February 2015*. Available at <http://www.nrc.nsw.gov.au/publications#>.

<sup>10</sup> The Audit Office of NSW (2015) *Volume Two focusing on Universities*. Available at <https://www.audit.nsw.gov.au/publications/latest-reports/financial/volume-two-focusing-on-universities/governance>.

<sup>11</sup> Audit Office of New South Wales (2015) *Governance Lighthouse – A strategic early warning signal*. Available at [http://www.audit.nsw.gov.au/ArticleDocuments/197/Governance\\_Lighthouse\\_2015.pdf.aspx?Embed=Y](http://www.audit.nsw.gov.au/ArticleDocuments/197/Governance_Lighthouse_2015.pdf.aspx?Embed=Y).

<sup>12</sup> Natural Resources Commission (2015) *Op. cit.*

<sup>13</sup> Audit Office of New South Wales (2015) *Op. cit.*

<sup>14</sup> *Ibid.*

<sup>15</sup> *Ibid.*

<sup>16</sup> Section 14, *Local Land Services Act 2013*.

<sup>17</sup> Section 4, *Local Land Services Act 2013*.

<sup>18</sup> Natural Resources Commission (2015) *Op. cit.* p 8.

## 4 Overview of Local Land Services

### 4.1 Background

In January 2014, the NSW Government launched LLS to bring together programs and advisory services for agriculture, biosecurity, natural resource management and emergency response.<sup>19,20</sup> LLS was established as a single organisation responsible for providing integrated services delivered through 11 regions across NSW. It brought together the former Catchment Management Authorities, Livestock Health and Pest Authorities and part of the agricultural extension arm of the Department of Primary Industries. The establishment of LLS represented a significant reform to public agricultural and natural resource management service delivery in NSW, incorporating a devolved model to focus on service delivery and value for stakeholders.

LLS has been operating for just 18 months and is still in the early stages of organisational development and foundation building. Despite being a young organisation, LLS has reported numerous on ground successes, with examples including responding to the Hunter floods, the fire ant incursion in the Sydney region and Hendra virus detections.

However, given the size and significance of the reform, LLS has also faced a number of substantial challenges. The creation of LLS involved the amalgamation of three legacy organisations with different governance arrangements and diverse cultures. In addition to the usual cultural, client service and systems challenges of a start-up entity, LLS faces unique challenges due to its devolved regional structure and mix of state, federal and ratepayer investors with dynamic expectations.

These challenges cannot reasonably be fully addressed in the short term as LLS seeks to establish legitimacy in the community and create value for landholders. Despite the significant challenges LLS has faced, staff and stakeholders have expressed optimism regarding LLS' high potential to deliver locally focused, efficient and integrated services, and an eagerness to work together to make LLS a success.

Survey results indicate that LLS boards and staff are aware of the key issues identified in this audit. While recent progress has been made in laying the foundations to address some of these issues, it is too early to tell if steps taken to date will achieve significant change. It should be noted the audit largely reflects experiences under the inaugural Chair of the Board of Chairs, and it is also too early to fully assess any changes implemented by the new temporary Chair.

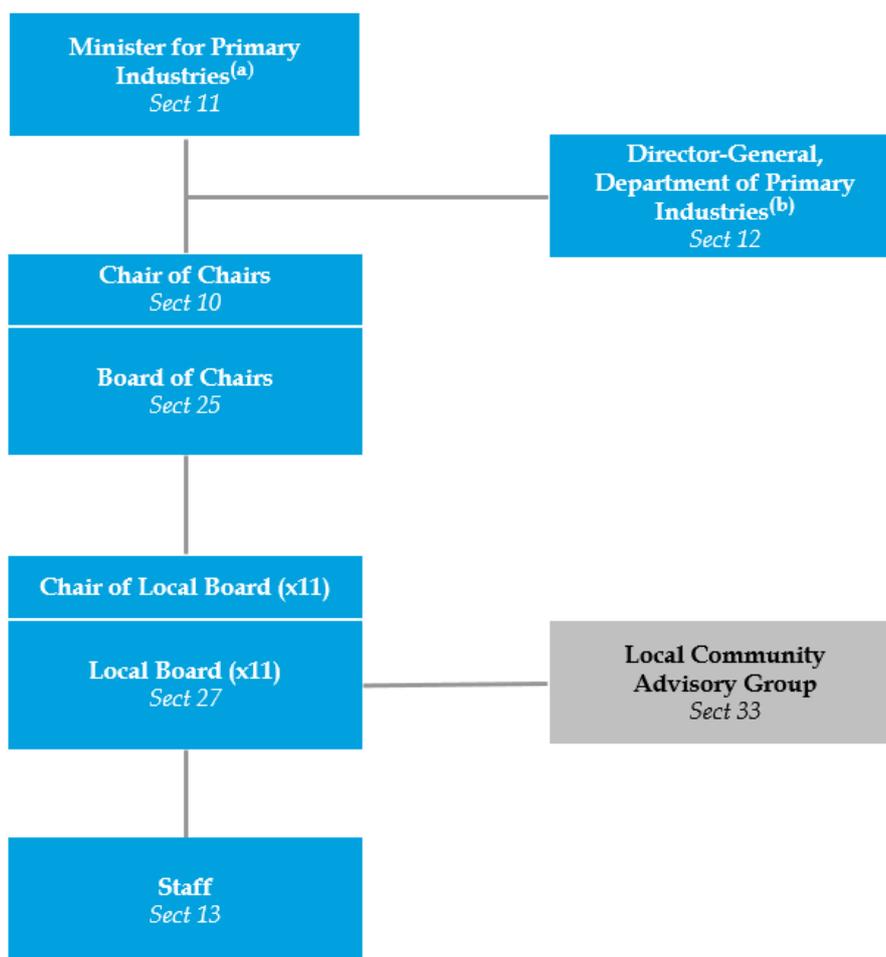
### 4.2 Organisational structure

The legal framework and foundational structure for LLS was established by the *LLS Act 2013*. An organisational chart based on the foundation structure described in the *LLS Act 2013* is shown in Figure 1. A general explanation of the key parts of this organisational structure is provided in Table 2.

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<sup>19</sup> Local Land Services (2014) *Our first year*. Available at [http://www.lls.nsw.gov.au/\\_\\_data/assets/pdf\\_file/0010/541963/lls-achievements-report-2014.pdf](http://www.lls.nsw.gov.au/__data/assets/pdf_file/0010/541963/lls-achievements-report-2014.pdf).

<sup>20</sup> *Local Land Services Act 2013*



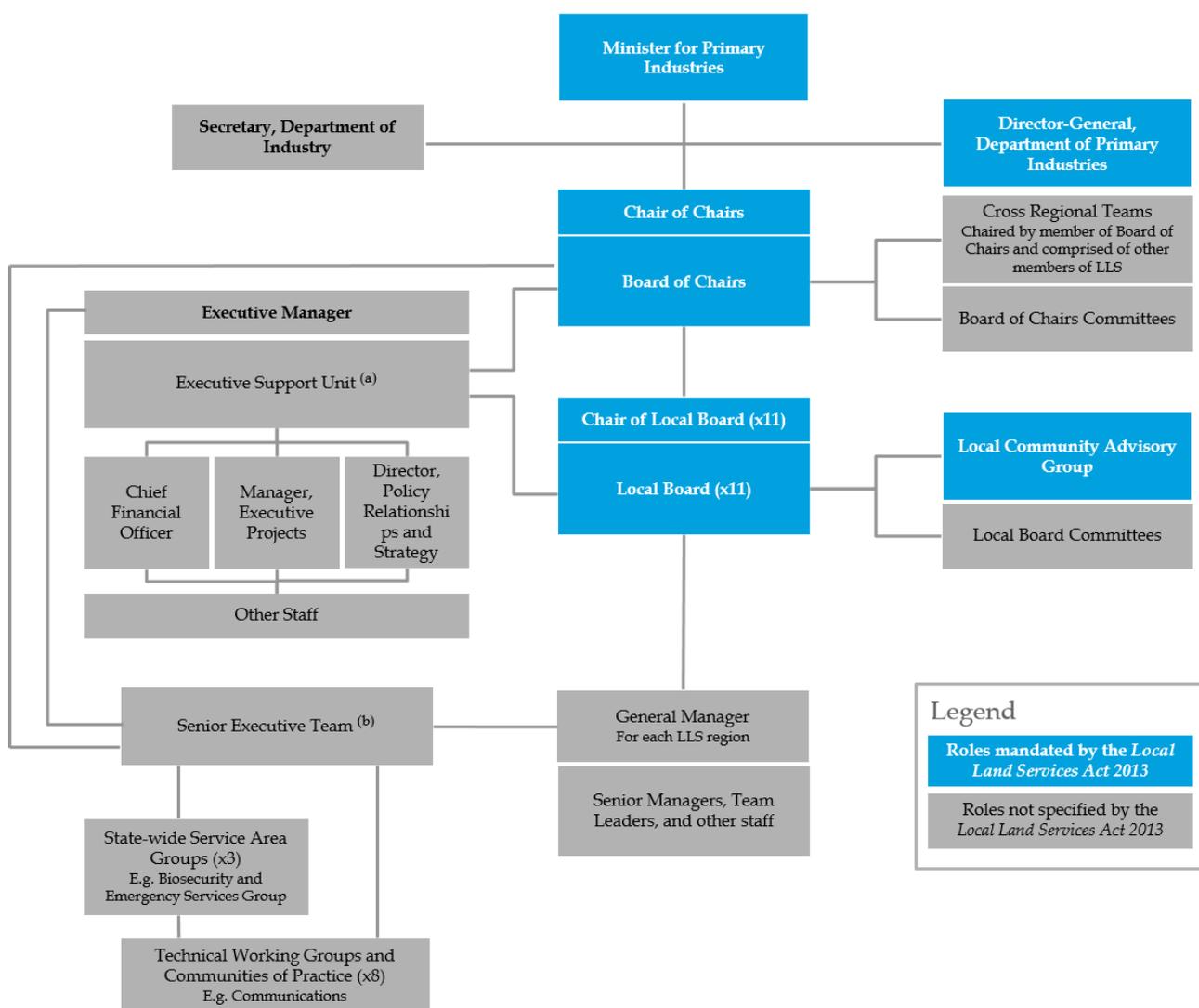
**Figure 1:** LLS organisational chart based on the *LLS Act 2013*

- (a) The Minister for the Environment has concurrence with the Minister for Primary Industries on some issues, such as the approval of strategic plans.
- (b) Under the *LLS Act 2013*, the role of the Director-General, Department of Primary Industries is limited to:
- Controlling and directing in emergency responses including biosecurity.
  - Nominating a person to be a member of the Stock Transportation Accreditation Committee.
  - Approving of LLS requests for the Minister to make pest control orders.
  - LLS may refer to the Director-General any question requiring LLS approval with respect to fences.

**Table 2:** Components of the LLS organisational structure, as described in the *LLS Act 2013*

<p><b>Minister for Primary Industries</b></p> <p>LLS is subject to the control and direction of the Minister [s. 11(1)]. The Minister may advise LLS of any state priorities, appoint and remove board members, approve strategic plans, appoint an administrator, make pest control and eradication orders, review the <i>LLS Act 2013</i>, change regions and boundaries, and arrange audits [s.4(2)(b); s.25(2c); s.27(2)(3)(7); Schedule 2; s.36(2); s.37(1); s.41; s.46(1); s.51(1); s.198(1)(2); s. 199(1)(2); s.130(1); s.149(2); s.211(1)(3); s.211(2); s. 24(1)(2)(3); s.7(1); s.44(2); s.52(2)]. The Minister may choose to delegate these functions [s.17].</p>
<p><b>Director-General of the Department of Primary Industries</b></p> <p>Where government action is required to respond to an emergency, including biosecurity emergencies, the Director-General may control the actions of LLS and its staff [s. 12(2)(3)]. The Director-General may delegate its functions [s.18].</p>
<p><b>Board of Chairs</b></p> <p>The Board of Chairs consists of a Chair of the Board of Chairs and the chairs of each local board [s.25 (1)(2)a,b].</p> <p>The Board of Chairs is responsible for making decisions relating to the functions of LLS, including service delivery, reporting, governance arrangements, strategic planning, rates and levies, administering grants and loans, and engaging with the community [s.10.(1); s.14(1)]. These functions must be carried out in accordance with state priorities for local land services and, in doing so, “members of the Board are to be guided by the principle that the public interest in the delivery of local land services in the state as a whole takes precedence over the delivery of local land services in any region” [s.14(2); s.26(2)]. The Board of Chairs must keep the Minister informed of LLS activities and respond to requests by the Minister for reports and information [s. 11(2)].</p> <p><u>Chair of the Board of Chairs</u></p> <p>The <i>LLS Act 2013</i> gives the Chair of the Board of Chairs an ‘executive-director’-type role. The Chair of the Board of Chairs is responsible for the day-to-day management of the affairs of LLS [s. 10(2)]. The Chair is also the Division Head of staff in the LLS Division of the Government Services under relevant government sector employment legislation [s. 13].</p>
<p><b>Local Boards</b></p> <p>There is a local board for each of the 11 LLS regions [s. 27(1)]. Each local board has seven members, four of which are appointed by the Minister and three of which are elected by rate papers [s. 27(2)]. However, the larger Western Region has nine board members, with an additional appointed and elected member [s. 27(3)].</p> <p>Local boards have been established to devolve operational management and planning functions to regional levels to enable targeted program and service delivery [s.3]. The functions of local boards include preparing local strategic plans, monitoring regional performance, keeping the Board of Chairs informed of local activities, making recommendations to the Board of Chairs about rates and levies, engaging with the community including the Aboriginal community, establishing local community advisory groups, providing advice to the Minister, preparing annual reports and reporting on these functions [s.29(1); s. 30(1); s.32; s.33(1)]. The <i>LLS Act 2013</i> requires that local boards exercise these functions in accordance with LLS policies, procedures and directions [s. 29(2)].</p>
<p><b>Staff</b></p> <p>Under the <i>LLS Act 2013</i>, LLS cannot employ staff, however it may arrange for the use of the services of any staff of any government agency, whether by secondment or otherwise, to exercise its functions [s. 13(1),(2)]. Staff may be employed under relevant government sector employment legislation [s.13].</p>

Although the *LLS Act 2013* established the foundational structure for LLS (Figure 1; Table 2), in practice, additional components have also been added that are not specified in the Act. These additional components were created to support organisational management, as well as other regulatory and government policy obligations. Some of these additional components include board committees, management teams and business support units. An organisational chart depicting these components of the organisation is shown in Figure 2.



**Figure 2:** LLS organisational chart 'in practice'

- (a) The Executive Support Unit provides support to the Board of Chairs and coordinates with the 11 LLS regions. The Executive Support Unit is led by an Executive Manager.
- (b) The Senior Executive Team is a group comprising the Executive Manager of the Executive Support Unit and the general managers of the LLS regions.

## 5 Audit findings

This section examines LLS governance arrangements across five functional areas: roles and accountability; culture and leadership; processes and systems; strategic direction; and risk management.

The audit findings presented in this section show that LLS governance maturity is still evolving in key functional areas. While some areas are underdeveloped and in need of attention, there are also some examples of greater maturity and sound practice.

Examples of sound governance practice include the development of systems to promote ethical behaviours and to manage conflicts of interest. Boards have also implemented reasonable systems for operating, for example charters, agendas and minutes. Board members are respectful and collegial and appreciate the diversity of skills of their fellow members. Board members, particularly at the local board level, feel that issues are debated fairly and that they have an opportunity to contribute to discussions.

Areas where governance practice is underdeveloped include the clarity of roles, responsibilities and accountabilities across the organisation. There is also a lack of unity and lack of decisiveness in the leadership, with the Board of Chairs failing to demonstrate sufficient leadership in driving a shared organisational purpose for LLS. LLS has experienced difficulties with policy communication and implementation, delays in strategic planning, and has given insufficient attention to risk management.

Full findings are described below (Sections 5.1 – 5.5). Recommendations with LLS' response are presented in the following section (Section 6).

### 5.1 Roles and accountability

#### 5.1.1 Overview

LLS is still developing a shared understanding of how its organisational structure (shown in Figure 2) should work in practice. LLS has developed various documents and processes to support an understanding of roles within the structure. However, there is still an overall lack of clarity and acceptance amongst board members, management and staff about roles, responsibilities and accountabilities across the organisation.

A full description of findings on roles, responsibilities and accountability is provided below (Sections 5.1.2 – 5.1.3).

#### 5.1.2 Roles and responsibilities

### Finding 1: Lack of clear roles and responsibilities

**The roles of the Chair of Chairs, Board of Chairs, local chairs, local boards, Executive Support Unit, cross-regional teams and the Senior Executive Team are often confused, resulting in inefficiencies and frustration.**

As detailed in Section 2 of this report, the Commission interviewed and surveyed a substantial number of LLS representatives and stakeholders to assess understanding of roles and responsibilities across the organisation. Interviewees consistently report that there is confusion in LLS about the roles and responsibilities at both the state and regional scales. Interviewees frequently noted that roles and responsibilities are unclear both within and between boards,

business units, management teams and staff. Documentation provided by LLS similarly demonstrated a lack of clarity regarding roles and responsibilities.

### **Finding 1a: Unclear separation of responsibilities between Board of Chairs and local boards**

The *LLS Act 2013* establishes a foundational structure for LLS with a Board of Chairs and 11 local boards. It outlines the structure and functions for the two types of boards, and sets out some guiding principles that they must follow in exercising these functions.

Audit evidence indicated that LLS is broadly aware of the legislated functions of each board type; however it has not clearly defined how these functions should work in practice. There is no system or process to determine which decisions and policies should be made by the Board of Chairs and which decisions should be devolved to local boards. This has created frustration and tension between the Board of Chairs and local boards, duplication of policies and processes at the state and local levels, and a public relations risk with external stakeholders.

The survey included statements for board members to assess their understanding of roles, responsibilities and other governance functions. They rated two statements about whether their board understands its roles and functions. The results indicate that the board members recognise that there is room for improvement. The Board of Chairs rated themselves on average as *passable* (3.4 and 3.3, respectively) for both statements. Local boards were somewhat more positive with average responses for the 11 local boards ranging from *passable* to *mature* (3.17-5.00), with an average response of *sound* (4.13 and 3.93) for all local boards for both statements.

Feedback received from interviews with LLS board members and management firmly underlined the lack of role clarity and separation of responsibilities between the Board of Chairs and local boards. In interviews, 10 out of 12 board members and general managers who were directly asked about this issue felt that roles, responsibilities and decision making boundaries between the Board of Chairs and local boards were unclear. Other interviewees also raised this issue when asked about governance arrangements in general. Example local board member comments included:

There are headaches around who makes different policies...the Chair of Chairs should probably dictate where the line is and what the state should be doing and what the local boards should be doing.

(We are) still trying to work out the role of the Board of Chairs and its accountabilities and responsibilities, and our own, and where the lines drawn.

Two external government stakeholders described confusion in LLS about the roles of the Board of Chairs and local boards, with one noting it creates a public relations risk and a situation where external stakeholders are not confident that LLS is effectively managing issues.

The poor role clarity and unclear separation of responsibilities between Board of Chairs and local boards was a recurring issue and key finding for this audit.

### **Finding 1b: Local board members are frustrated by their inability to influence decision making**

Regionally based organisations have greater capacity to sustain trust with their communities and to integrate services to suit different conditions. When LLS was being planned, there was

enthusiasm for the proposed flexible organisational structure, which would devolve decision making responsibilities to local communities. This devolution concept was adopted in the *LLS Act 2013*, which provides that local boards exist for the purpose of devolving management and planning functions to regional levels. Although some centralised direction setting is essential for a new organisation such as LLS, many local board members feel that during the first 18 months of operations they have not had sufficient opportunity to influence decision making in a meaningful way. They have been frustrated by their inability to effect change and improve outcomes in their regions.

In interviews, eight board members and two general managers, representing all three sample regions expressed some degree of frustration over the lack of autonomy of local boards. An example comment was:

It can be frustrating [for local boards] as everything has to go through the Board of Chairs and ESU [Executive Support Unit]... The Board of Chairs is slow. It's not working that efficiently and the local boards are not really autonomous. We're quasi directors in a way.

Interviews with local board members and their staff also revealed that local board member frustration has been caused by a combination of factors, including: local board roles being 'oversold' which has led to unrealised expectations; local board members misunderstanding their roles, including the legislative and policy framework within which they operate; local board members not being sufficiently engaged by the Board of Chairs, cross-regional teams and the Senior Executive Team in state wide decision making; poor information flow between local boards, Board of Chairs and the Senior Executive Team; and difficulties with financial management at the local board level. In interviews, board members made comments to the effect that the role is not what they expected or what was publicised. An example comment was:

Nobody [local board members] knew what they were getting involved in. It wasn't what they were expecting.

Interview feedback from board members and staff indicated that current policy development processes are not taking advantage of the skills and knowledge available across the 11 LLS regions, including the skills of the 79 local board members. Given the limited opportunities for local board members to influence decision making and policy development, many feel that their skills have been underutilised and that they have not been able to contribute to achieving positive regional outcomes.

### **Finding 1c: Unclear separation of responsibilities between boards and management**

The role of a board is typically setting the strategic direction for the organisation, whereas the role of managers is the day-to-day management of operations.<sup>21</sup> In LLS, this separation of responsibilities between local boards and management had not been clearly defined. The *LLS Act 2013* describes the functions of local boards;<sup>22</sup> however there are situations where management feel that their local board is delving too deeply into their areas of responsibility. There are also situations where local board members feel like their board is being led by

<sup>21</sup> Victorian Ombudsman (2013) *A review of the governance of public sector boards in Victoria*. Available at <https://www.ombudsman.vic.gov.au/Publications/Parliamentary-Reports/A-review-of-the-governance-of-public-sector-boards>.

<sup>22</sup> The functions of local boards include preparing local strategic plans, monitoring regional performance, keeping the Board of Chairs informed of local activities, making recommendations to the Board of Chairs about rates and levies, engaging with the community including the Aboriginal community, establishing local community advisory groups, providing advice to the Minister, preparing annual reports and reporting on these functions [*LLS Act 2013* s.29(1); s. 30(1); s.32; s.33(1)].

management. Feedback from the audit also indicated that the Board of Chairs has a tendency to become too involved in operational matters.

Survey results indicated that regional staff strongly feel that their local boards have become too involved in operational matters. Staff were asked to rate the statement that the board does not needlessly delve into matters generally reserved for management. They rated local boards on average as *passable* (2.85), which was the lowest average rating for all staff survey statements. Board of Chairs stakeholders were asked an equivalent statement, and they rated the Board of Chairs on average as *under developed* (1.5), which was the lowest average rating for all stakeholder survey statements. Consistent with most survey results, boards rated themselves somewhat higher, with local boards rating themselves on average as *sound* (3.75) and the Board of Chairs rating itself on average as *passable* (3.3).

When interviewed, senior managers of all three sample audit regions expressed concern about local boards becoming too involved in operational issues. Some board members also shared these concerns. Reasons given for board members involving themselves in operational issues included: a lack of strategic direction by local boards; a lack of local board decision making responsibilities; and involvement of senior managers during board meetings. One staff member commented that:

There's a massive disconnect between the ESU [Executive Support Unit], Board of Chairs, and local boards. There is no clarity regarding where local boards can start making decisions. The ESU, SET [Senior Executive Team] and Board of Chairs take decision making responsibility away, so they become very operational.

Local board members comments included:

It is tricky to know where to stick your nose into things that may be operational.

The [local] board lacks direction and is a bit more focused on operations because it's easier.

In one of the three sample regions, several local board members raised concerns about their board being led by management.

The lack of separation of responsibilities between boards and management has created frustration and tension in LLS, and is an issue that needs to be resolved as a matter of priority.

#### **Finding 1d: Lack of clarity on the role and funding arrangements for the Executive Support Unit**

The Executive Support Unit provides support to the Board of Chairs and coordinates the 11 LLS regions (Figure 2). The Executive Support Unit is led by an Executive Manager and includes the Chief Financial Officer and other full time executive-level and professional staff focusing on finance, policy, projects and strategy. The unit provides LLS with skills and experience in finance, management and government.

There is a general consensus that the Executive Support Unit is necessary and should have a role in LLS; however there is a lack of clarity regarding what that role is and how it is funded. In interviews, only one of the twelve board members and general managers asked about the Executive Support Unit's role felt that it was clear. Example interview comments include:

On a literal level, the ESU [Executive Support Unit] is a secretariat to the Board of Chairs and provides holistic oversight of LLS. However, LLS has not invested the time to define the roles and responsibilities of the ESU. In practice, mixed messages are given to the ESU regarding its roles and responsibilities.

The ESU's [Executive Support Unit] roles are not as clear as they could or should be. There is a range of views across the state in relation to its role. The ESU is a critical piece of LLS machinery in the first three years ... they should drive consistency, systems compliance, run interference, and continue the machinery of governance.

The ESU [Executive Support Unit] does not know if they're a support or central organisation.

Interviewees also indicated that there are tensions in LLS over the roles and responsibilities of the Executive Support Unit. One member of the Board of Chairs commented that the unit provides an efficient way of doing business and dealing with issues, rather than having to repeat everything 11 times for each of the regions. This member stated that the Executive Support Unit is undervalued by some of the local chairs because they don't understand what it does, including its role in the strategic management of LLS at a state level, and filtering information for the Minister and the 11 general managers. However, other interviewees raised concerns about the current responsibilities of the Executive Support Unit, including the unit setting policy. They commented that:

There are policy writers at the ESU [Executive Support Unit] level. It is fine to write policy set by the Board of Chairs but it's inappropriate for them to set policy in their own right and I think they are.

The ESU [Executive Support Unit] thinks it sits atop the Board of Chairs, but they sit below us. They should be there to assist all regions to do their jobs.

Concerns were also raised around the funding arrangements for the Executive Support Unit. These ranged from views that the unit was under-resourced and not funded properly, to the view that the unit needs only limited staff and has grown too large. Some interviewees also expressed concerns about funding for the Executive Support Unit coming out of local budgets and reducing their capacity to deliver on ground services.

Although there is a diversity of views on the roles and responsibilities for the Executive Support Unit, it is clear that LLS values and understands that it needs a centralised support function. This centralised support is particularly important for a new organisation like LLS that is still developing its processes and establishing its legitimacy in the community. Even with a devolved organisational structure, it is logical and cost effective to centralise corporate functions, where there is a clear need and when it creates efficiencies.

Respondents provided examples where effective state level co-ordination across the 11 regions would have created efficiencies and savings. For example, the three sample regions adopted different approaches to their risk management and internal audit functions. Two regions had developed or started to develop risk registers, one region developed its own internal audit plan as well, and the third had not developed a risk register or audit plan. Consistent enterprise-wide risk management is critical for LLS compliance and successful service delivery. Strategic guidance from state level LLS would have increased the consistency and effectiveness of risk management by establishing clear state-wide risks that all regions must address and a state level audit plan. It would also have improved efficiency by clarifying regional risk management responsibilities and potentially providing standard templates for the risk register. Such actions would have allowed regional discussions and actions to be more targeted and contributed to effective risk management across the state.

### **Finding 1e: Lack of clarity on the role of the Senior Executive Team, including its level of decision making authority**

The Senior Executive Team is a group comprising the Executive Manager of the Executive

Support Unit and the general managers of the LLS regions (Figure 2). Local board members from all three sample regions acknowledged the skills and experience of their general managers. Accordingly, the Senior Executive Team is a source of professional talent and expertise available to LLS; however there is a lack of clarity about the roles and responsibilities of the team, including its level of decision making authority.

Governance documentation provided for audit shows that attempts have been made to define the roles of the Senior Executive Team. For example, the team itself developed a governance policy with a *Senior Executive Team (SET) Terms of Reference*, which stated the purpose of the team is to be a key link between the Board of Chairs and LLS operations. This document was submitted to the Board of Chairs for approval in December 2014, but it was referred to the Audit and Risk Committee and has not yet been endorsed. Interviewees indicated that there is limited awareness of this document beyond those involved in its development. It also seems to discount the value that could be provided by local boards.

Interviewees also indicated a highly variable understanding and appreciation of the role and responsibilities of the Senior Executive Team. These views varied at the board, managerial and staff levels. Comments received included:

The Senior Executive Team is important for allowing general managers to share across the regions. They have made some recommendations to the Board of Chairs and are frustrated by the lack of response. I don't understand why the recommendations haven't been dealt with.

I have a problem with the Senior Executive Team developing policy. There's nothing in the papers saying we (the Board of Chairs) gave them authority to approve strategy.

The Senior Executive Team has also lacked authority and legitimacy in some parts of the organisation because the Board of Chairs has failed to set and communicate the boundaries for the team.

### **Finding 1f: Lack of clarity on the roles and responsibilities of cross-regional teams**

Cross-regional teams were formed by the Board of Chairs to address a variety of issues in LLS, including the development of state wide policies. Examples of cross-regional teams include the Strategic Planning Cross-regional Team, Wild Dogs Cross-regional Team and Travelling Stock Routes Cross-regional Team. Each team is chaired by a member of the Board of Chairs and is comprised of other board members, managers and staff across LLS.

To assess the effectiveness of cross-regional teams, the Commission reviewed sample documentation for teams to assess role clarity. It also conducted interviews on cross-regional teams in general, as well as a detailed review of governance for the Wild Dog Cross-regional Team. Based on this feedback, it appears that there is lack of clarity regarding the purpose of the teams and how they should function, making them inefficient and often ineffective.

The review of documentation provided for audit indicates that some attempts have been made to define the roles of the cross-regional teams. However, these attempts have been inconsistent. For example, terms of reference were provided for three of the six teams identified, one of which was a draft. It is understood that steps are being taken to implement standard terms of reference for cross-regional teams. Interviews conducted with board members and staff on the Wild Dog Cross-regional Team consistently indicated that the terms of reference was never finalised, and roles, responsibilities and objectives were unclear. As a result, the effectiveness of the team was reduced. Example interview comments included:

There was a draft terms of reference that came out fairly early, but was rarely referred to, and never ratified by the Board of Chairs.

Some very foundational governance aspects seem to be missing for the cross-regional teams.

Interviewees also indicated that cross-regional teams appear to have been formed in an ad hoc fashion. Teams are understood to have been generally formed to develop state wide policies; however, they were formed without strategic analysis from the Board of Chairs to determine whether a state wide policy was actually needed or how prescriptive the policy should be. When asked about the roles and formation of the teams, interviewees commented that:

They should have considered efficiency gains through unpacking the NSW Wild Dog Management Plan rather than developing a whole new policy.

Cross-regional teams are mostly not required. There are a small number that are working well, but there are too many.

Interview feedback also indicated that the approach to selecting members for cross-regional teams lacked transparency and did not effectively leverage the skills available in and outside of LLS. Interviewees also questioned why the teams are chaired by a member of the Board of Chairs, who they often viewed as being too busy and too far removed from the on ground issues to be effective in the role. Example interview comments included:

The balance of skills [for the cross-regional teams] doesn't seem to have been assessed.

Membership should be more 'widespread' to include members who are external to LLS, for example DPI [Department of Primary Industries] resources and private enterprise representatives.

### **Finding 1g: LLS adopted an ad hoc approach to developing governance arrangements, due to a lack of leadership from the Board of Chairs**

The objects of the *LLS Act 2013* include establishing a governance framework to provide for the proper management and delivery of local land services. However, the Board of Chairs did not clearly establish an appropriate governance framework at the inception of LLS. In order to set LLS up for success, a framework was needed to address the challenges of establishing a new organisation in government. Evidence from this audit indicates that LLS did not clearly identify or resource the priority areas for a start-up agency, which has created a major governance risk.

Many governance arrangements in LLS were established reactively without clear strategic direction from the Board of Chairs. Support bodies such as the Executive Support Unit, cross-regional teams, Senior Executive Team, and board subcommittees were established without finalised terms of reference ratified by the Board of Chairs. Further, the Executive Support Unit was not initially resourced appropriately, for example LLS did not appoint an officer to manage strategic human resource needs and it took approximately 18 months to appoint a Chief Financial Officer. These issues created confusion, omissions and overlap of functions, diluted accountabilities and added complexity to the organisational structure.

Confusion over governance arrangements was supported with statements such as:

There needs to be a governance framework that is to be adopted that points out where everyone fits in.

We are still trying to figure out what we can and can't do within the LLS system, which is causing confusion.

No one has been made accountable at the State level to put into place all the foundational stuff that should be in place.

LLS failed to clearly define the reporting lines for general managers. For example, general managers are required to report to their local boards but some interviewees indicated that they also report to the Executive Manager of the Executive Support Unit. Some coordination between the Executive Support Unit and general managers should be expected, as the establishment of a new organisation required some functions to be driven centrally by the unit. However, interviewees at both board and staff level raised concerns about blurred reporting and accountability lines for general managers. Some interviewees considered it appropriate for general managers to report to the Executive Support Unit, whereas others thought that this has occurred to an excessive extent and represents a deviation from the devolved organisational structure.

A review of governance documentation demonstrates that while some attempts have been made to clarify governance arrangements, further improvement is needed and efforts have not been driven by the Board of Chairs. For example, in 2014, the Executive Support Unit prepared a *Draft Governance Framework* and the Senior Executive Team developed the *State-wide team governance policy*, which were submitted to the Board of Chairs for approval. The Board of Chairs referred these documents to the Audit and Risk Committee and has not otherwise acted on them. Interviews indicated that there is limited awareness of these documents in LLS.

A review of sample board charters for the Board of Chairs and local boards demonstrates that charters have not been consistently finalised, do not all reflect the full legislative functions of the board, and sometimes present overlapping responsibilities with management.

The lack of a clear and comprehensive governance framework, driven by the Board of Chairs and adopted across the entire LLS organisation, is a fundamental problem underlying many of the issues identified in this audit.

### 5.1.3 Accountability within the governance system

#### Finding 2: Limited accountability within the governance system

There is limited accountability within the governance system. Although LLS has developed some processes to improve accountability, including processes to manage conflicts of interest and assess management performance, these processes are still evolving and there are opportunities for further improvement.

Accountability is one of the foundations of good governance,<sup>23</sup> which was assessed throughout the audit. Interviewees noted that LLS has been proactive in developing some accountability mechanisms, including processes to manage conflicts of interest across the organisation. A review of documentation supported this assertion, with conflict of interest documents finalised at the Board of Chairs and local board levels.

However, interviewees frequently commented that state wide decisions and policies are not being consistently implemented across the 11 local boards and regions. Apart from cultural and leadership issues, this is occurring because there are no formal processes to hold board members to account for ensuring that state wide policies and decisions are implemented as

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<sup>23</sup> Victorian Ombudsman (2013) *A review of the governance of public sector boards in Victoria*. Available at <https://www.ombudsman.vic.gov.au/Publications/Parliamentary-Reports/A-review-of-the-governance-of-public-sector-boards>.

intended. Survey results also reflected that LLS has room to improve in regards to accountability.

### **Finding 2a: Board of Chairs' decisions are not adequately monitored or enforced**

Accountability is dealt with at a high level by the *LLS Act 2013*, but the Act does not provide prescriptive mechanisms or roles to ensure that lines of accountability are maintained. Mechanisms to monitor and enforce the local implementation of Board of Chairs decisions have not been incorporated into the governance systems and processes. Interviewees noted cases where local boards have actively tried to avoid implementing decisions made by the Board of Chairs; yet there are no mechanisms in place for holding local chairs to account for implementing state wide decisions in their regions.

A review of documentation provided for the audit did not identify any adopted measures for ensuring that Board of Chairs' decisions are routinely monitored or enforced at a local level. Interview feedback from board members and managers also indicated a lack of local board accountability for implementing these decisions. Interview comments included:

There is no monitoring by the Board of Chairs of local board activity; they assume stuff happens.

Survey results indicated that LLS is not mature with regards to accountability of local boards to the Board of Chairs. Respondents were asked to rate a statement about whether the Board of Chairs holds local boards and management to account for implementing the strategy specified by the Board of Chairs. The Board of Chairs rated itself on average as *passable* (3.0) and its stakeholders rated it on average as *evolving* (1.6). They also rated a statement about whether the Board of Chairs requires reports and information for monitoring and overseeing LLS performance. The Board of Chairs rated itself on average as *passable* (3.5) and its stakeholders rated it on average as *evolving* (2.0).

The collective results from interviews, surveys and document review suggest that LLS needs stronger accountability to enforce Board of Chairs decisions through monitoring of the regions. Such monitoring may not be necessary in a fully mature organisation. However, LLS is a new organisation with 11 local boards to coordinate, and therefore greater controls in these initial stages are warranted.

### **Finding 2b: Lack of formal performance appraisal processes for boards and their chairs**

Board evaluation processes help drive improvements in governance and overall organisational performance. There is some evidence of board self-assessment processes in LLS. In interviews, two of the three sample regions indicated that they had conducted internal board performance surveys and reviews, and one board indicated that it had conducted an independent review. This is a positive step.

The Commission also looked for evidence of more formal performance review processes. A review of the documentation provided for the audit did not identify performance agreements for local chairs. In interviews, board members confirmed that there are no formal appraisal processes or performance agreements for chairs or boards.

## 5.2 Culture and leadership

### 5.2.1 Overview

Successful organisations and their leaders foster a governance culture that emphasises achievement and accountability.<sup>24</sup> Public sector leaders also have an important role in ensuring their organisations use public resources appropriately and serve both the government and the community.<sup>25</sup> LLS has been challenged with attempting to bring together three legacy organisations with different cultures in a short time frame.

Despite the challenges, LLS has developed some positive cultural attributes, including cultivating respectful relationships within boards, and between local boards and their staff. However, it has been less effective in developing a shared organisational purpose and a strong understanding of the public sector. The Board of Chairs has also lacked the leadership and decisiveness to resolve contentious issues in the organisation.

A full description of the findings on the culture and leadership in LLS is provided below (Sections 5.2.2- 5.2.4).

### 5.2.2 Shared organisational purpose

#### Finding 3: Insufficient appreciation of a shared organisational purpose in LLS

LLS' capacity to successfully deliver services and establish legitimacy in the community is dependent on a culture that supports a common understanding of the organisation's role in the public sector. However, LLS has not yet developed this common understanding and shared organisational purpose. In interviews, chairs and other board members expressed both frustration and a lack of understanding of the purposes and processes of their own organisation and how it operates within the public sector, including within cluster arrangements for NSW Government agencies. Interview and survey feedback also indicated that parochialism is a concern at both the Board of Chairs and local board levels, which is contrary to the principles and board member responsibilities established in the *LLS Act 2013*.

#### Finding 3a: Chairs' and board members' responses often revealed a lack of understanding and appreciation of the purpose and processes of their own organisation, and the public sector

Boards are responsible for setting organisational culture and values from the top down.<sup>26</sup> They must also display leadership to ensure that these values are adopted throughout the organisation.<sup>27</sup> Interview feedback indicates that chairs and board members have displayed a lack of understanding and appreciation of the organisation's purpose and the public sector in general.

<sup>24</sup> Audit Office of New South Wales (2015) *Governance Lighthouse – A strategic early warning signal*. Available at [http://www.audit.nsw.gov.au/ArticleDocuments/197/Governance\\_Lighthouse\\_2015.pdf.aspx?Embed=Y](http://www.audit.nsw.gov.au/ArticleDocuments/197/Governance_Lighthouse_2015.pdf.aspx?Embed=Y).

<sup>25</sup> Australian National Audit Office (2014) *Public sector governance: Strengthening performance through good governance*. Available at [http://www.anao.gov.au/~/\\_media/Files/Better%20Practice%20Guides/2013%202014/ANAO%20-%20BPG%20Public%20Sector%20Governance.pdf](http://www.anao.gov.au/~/_media/Files/Better%20Practice%20Guides/2013%202014/ANAO%20-%20BPG%20Public%20Sector%20Governance.pdf).

<sup>26</sup> Victorian Ombudsman (2013) *A review of the governance of public sector boards in Victoria*. Available at <https://www.ombudsman.vic.gov.au/Publications/Parliamentary-Reports/A-review-of-the-governance-of-public-sector-boards>.

<sup>27</sup> *Ibid.*

Interviews conducted with board members described a struggle between private and public sector values in LLS. Board members commented that some members emphasise commercial principles focusing on developing a profit driven business to ensure ongoing success, whereas other board members have been focused on more traditional government agency principles such as acting in the public interest.

This diversity of perspectives and experiences at the board level is healthy, but the Chair has a responsibility to facilitate discussion and ensure that decision making is consistent with the requirements of the *LLS Act 2013*, including priorities specified by the Minister. LLS did not clearly define its position in regards to public and private sector values or how its position aligns with the *LLS Act 2013*. This created confusion and reduced cohesiveness across the organisation.

Interviewees also described situations where LLS had difficulty efficiently negotiating NSW Government requirements. By way of example, two sample regions experienced difficulties in finalising office space arrangements in line with NSW Government office accommodation guidelines. This process was characterised by time consuming delays and changes in arranging office space, which was demoralising for both local boards and their staff. Example comments from board members include:

The cost and time taken with accommodation is ridiculous.

This has been a real issue for [our region]. It's a cultural issue... It's an example of state procurement issues interfering with board decisions. They weren't wrong decisions – just a matter of alignment.

Observation of board meetings and interviews with board members indicate that board members lack a consistent understanding of their role within a government agency, with members often complaining of 'government interference' and 'bureaucracy'. While there may be instances where it is reasonable and appropriate to push back on cluster requirements, LLS has not developed a strategic approach to understanding government requirements and then efficiently and effectively negotiating them.

**Finding 3b: Chairs and board members are often seen to be advocating for their geographic area or legacy organisational issues rather than focusing on the region or state as a whole in decision making**

The Board of Chairs is comprised of a Chair of the Board of Chairs and the chairs of the 11 local boards. Accordingly, 11 members have dual roles as members of the Board of Chairs and as chairs of their local boards. Interview and survey feedback indicated that some board members have difficulty managing these dual roles. Under the *LLS Act 2013*, members of the Board of Chairs must make decisions in the interest of the whole state, rather than their own region.<sup>28</sup> However, some board members have drifted from this principle, displaying parochial behaviour and advocating for their local region rather than pursuing outcomes in the best interests of the broader organisation. Interviewees also indicated that there is parochialism within individual local boards, with some board members advocating for specific geographic areas or legacy organisation issues rather than focusing on the region as a whole.

<sup>28</sup> "In exercising functions as members of the Board (of Chairs), members of the Board (of Chairs) are to be guided by the principle that the public interest in the delivery of local land services in the State as a whole takes precedence over the delivery of local land services in any region." [*LLS Act 2013*, s.26(2)]

In interviews, seven out of eleven board members who were specifically asked about parochialism respond that board members do not always act in the best interest of the whole state or whole region. Three of the five external stakeholders interviewed also describe issues with parochialism in LLS. Some of the comments made during interviews include:

The Board of Chairs is working ok, but some individuals are a bit selfish and act in their own interests.

The local chairs are having difficulty letting go of regional issues on the Board of Chairs, which is a problem with the structure.

Boards are not focused sufficiently on all areas of LLS business. There is a strong emphasis on just some components of the business particularly agricultural extension.

Survey feedback also indicates issues arising from parochialism in LLS, particularly at the Board of Chairs level. Board members were asked to rate statements about the awareness and effective discharge of responsibilities by individual board members, chairs and boards as a whole. Local boards rated themselves on average as *sound* across all statements (4.16, 4.0 and 4.01, respectively). Local board staff rated their boards on average as *passable* (3.46). The Board of Chairs rated the individual board members and the Chair on average as *sound* (3.6 and 4.0, respectively), but the board as a whole as *passable* (3.3). However, Board of Chairs stakeholders rated the board much lower, with an average rating of *evolving* (1.75). Further, despite boards rating themselves positively, survey comments indicated issues with parochialism. Example comments included:

[Some] Directors continue to advocate on behalf of their 'constituents' rather than recognising that they must act in the best interest of the organisation.

Can appear (that) Board member concerns can sometimes focus on issues surrounding the 'local backyard' rather than looking across the whole of LLS.

Interviews conducted with management, staff and external stakeholders indicate that there is also lack of a clear, shared purpose within LLS. For instance, one respondent noted:

Board members have come from legacy organisation boards [Catchment Management Authorities and Livestock Health and Pest Authorities] or departments [Department of Primary Industries], or had no organisational experience at all, and they continue to operate from that perspective.

### 5.2.3 Board effectiveness

#### Finding 4: Respectful and collegial relationships among board members and between local boards and staff

'Building relationships based on mutual respect' is a core principle of the NSW Government's Ethical Framework.<sup>29</sup> This audit identified respectful relationships as a key positive finding for LLS.

Interviews conducted with board members and staff across the organisation indicated respectful and collegial relationships among members within individual boards, particularly at the local board level. Interviewees from the three sample regions, and observation of board meetings also indicated that there are respectful and collegial relationships between local

<sup>29</sup> Public Service Commission (2013) *The Ethical Framework for the government sector*. Available at <http://www.psc.nsw.gov.au/employmentportal/ethics-conduct/behaving-ethically/behaving-ethically-guide/section-2/the-ethical-framework-for-the-government-sector>.

boards and their staff. They also indicated that board meetings are chaired fairly and local board members feel they have the opportunities to contribute to board discussions.

Survey results largely support these assertions across the organisation. In surveys, local boards gave statements about respectfulness three of the four highest scores overall. On average, they rated two statements, one about individual board member courtesy, respectfulness, honesty and candour; and the other about having the trust and confidence of fellow board members, both as *mature* (4.63 and 4.59, respectfully). The first of these statements was also one of the highest scoring survey statements by members of the Board of Chairs, who rated themselves on average as *sound* (4.2). Local boards also rated a statement about board dynamics and board member respect for the contributions of others members to board discussions on average as *sound* (4.49). This statement also received the fourth overall highest score from local board staff (3.87).

The local staff rated a statement about their local boards showing respect in their dealings with the board on average as *sound* (3.52). However there was some notable variation between responses from staff in the 11 different regions. Staff from seven of the regions rated their boards as *sound* (>3.5 to ≤4.5), but three of them rated their local board as *evolving* (>1.5 to ≤2.5).

Survey respondents rated a statement on the chair's style, including whether the chair has strong interpersonal and communication skills and respectfully engages with others. The Board of Chairs rated the Chair of the Board of Chairs as *passable* (3.44). However, this statement received the second overall highest score based on assessments by the Board of Chairs stakeholders, who rated the Chair on average as *sound* (3.6). It should be noted that an acting Chair of the Board of Chairs was appointed shortly before the survey was given, and the survey did not specify if respondents should critique the acting or former Chair.

Similarly, local boards and local board staff rated their local chairs on average as *sound* (3.66 and 3.52, respectively). Despite this relatively high average rating across the 11 local chairs, some individual chairs received lower scores. For example, two local chairs received individual average scores of *evolving* from their own local board (2.14 and 2.43). Another two local chairs received individual average scores as *evolving* from their own staff (1.8 and 2.17).

### Finding 5: Some mistrust within boards, between local boards and their staff, and between boards and both the Executive Support Unit and the Senior Executive Team

Building trust based relationships is a key behaviour for driving sustained performance and success in public sector governance.<sup>30</sup> Surveys and interviews provided mixed feedback in regards to trust within the LLS organisation. Trust within local boards and between local boards and their staff appears to be variable, particularly with regards to staff trusting their local board. Several respondents also noted a growing mistrust between the boards and the Executive Support Unit and Senior Executive Team. This stems in part from the lack of clarity in roles and responsibilities, as previously discussed. However, stronger leadership in addressing issues of trust is also needed in regards to these relationships. Survey results indicate that there is also room for the Board of Chairs to mature in regards to trust among board members.

<sup>30</sup> Australian National Audit Office (2014) *Public sector governance: Strengthening performance through good governance*. Available at [http://www.anao.gov.au/~/\\_/media/Files/Better%20Practice%20Guides/2013%202014/ANAO%20-%20BPG%20Public%20Sector%20Governance.pdf](http://www.anao.gov.au/~/_/media/Files/Better%20Practice%20Guides/2013%202014/ANAO%20-%20BPG%20Public%20Sector%20Governance.pdf).

Results from the surveys suggest that trust within LLS varies. A survey statement about board member trust and confidence in their fellow board members to enable challenging and sharing of opinions was rated on average by the Board of Chairs and local boards as *sound* (4.11) and *mature* (4.59), respectively. A statement on constructive board culture of mutual trust, inclusiveness and consensus decision making was assessed on average by the Board of Chairs and local boards as *passable* (3.10) and *sound* (4.24), respectively.

Local board staff rated a statement about their board modelling a culture of mutual trust on average as *sound*, however there was a range of responses between the different regions. Staff from seven of the regions rated their board as *sound* (>3.5 but ≤4.5), whereas staff from three other regions rated their board as *evolving* (>1.5 but ≤2.5). The Board of Chairs stakeholders rated the statement about the board modelling a culture of mutual trust on average as *passable* (2.6).

Although the issue of mistrust was not raised consistently by interviewees, those who did raise it considered it to be a significant impediment to the successful operations of LLS and a key risk to good governance. This is in part because mistrust has impacted on effective delegation of responsibility and the capacity of the Board of Chairs to deal with hard issues and decisions. Some local board members raised concerns about their chairs not openly sharing information, which has created some mistrust between the board and chair. Some interviewees suggested that the mistrust stemmed from issues with parochialism, disagreements over funding allocation, and a perception by some board members that management has not always been transparent in its operations and motives. Comments indicating lack of trust within the Board of Chairs included:

There is a lack of trust in Board [of Chairs] meetings, resulting from failure to work out the details of LLS' governance and affairs in general.

Funding is a tough crowd. That was the start of the mistrust [in the Board of Chairs]. It could be solved through a distribution model. We need to sort it.

In a previous [Board of Chairs] meeting, a resolution was passed agreeing to [an action]. However, five board members were not present - they sent their deputies in their place. At the next board meeting, most members were present and, although a resolution had already been passed, they wanted to revisit and change the decision. This highlights the lack of trust and clarity, and the propensity to cut corners and not follow proper processes.

Comments indicating a lack of board trust in the Executive Support Unit and Senior Executive Team included:

[To improve LLS governance] Address the Board of Chairs' lack of trust in the Executive Support Unit, which has been caused by an opinion that the Executive Support Unit wants to establish a centralised hierarchy.

The Senior Executive Team doesn't generally form a position and take it to the Board of Chairs - mostly because the Board of Chairs distrusts the Senior Executive Team. There's a perception that it oversteps the mark. There's a power relationship between the Board of Chairs and the Senior Executive Team that has not yet been sorted out.

At a Board [of Chairs] meeting the comment was made that there is not enough trust in the room and not enough trust of management. This may explain why the Board is down in operational detail much of the time.

## Finding 6: Lack of decisiveness in resolving challenging issues at the Board of Chairs level

The capacity of a board to deal with complex and difficult decisions is an important part of boardroom and organisational productivity.<sup>31</sup> Survey and interview results indicate that the Board of Chairs lacks decisiveness and, until recently, has avoided initiating and resolving challenging issues. Respondents also indicated that the Board of Chairs revisits decisions that were made in previous meetings.

In surveys, Board of Chairs members were asked to rate three statements about the quality of boardroom deliberations. These statements covered: preparation by board members for meetings; the constructive nature of the boardroom environment for deliberations; and the robust, challenging and focused nature of deliberations. Results from the Board of Chairs indicate that it is not yet mature in this area, as Board members rated the board on average as *passable* [3.2, 3.4 and 3.1] for all three statements. The Board of Chairs stakeholders rated the Board lower on average than it rated itself, with one statement rated as *passable* [3.0], and two as *evolving* [2.25 and 2.6]. The range of individual responses was smaller for Board of Chairs stakeholders than for the members of the Board of Chairs, indicating a stronger consistency amongst the views of stakeholders about issues with deliberations and decision making by the Board of Chairs.

Survey comments made by board members and stakeholders also indicated a lack of decisiveness from the Board of Chairs in resolving difficult issues. Example comments included:

To date ALL difficult conversations/topics have been avoided. After 18 months we are yet to deal with a number of key issues at the centre of our organisation, which are pivotal to our success and the ability for the Board to operate effectively.

Given the questions asked it seems numerous board members have not fully read or understood the issues. Even if they have, the deliberations regularly go off track as members digress into operational aspects of the topic.

The Board [of Chairs] does not have the discipline to consistently follow through with its decisions.

Interviews with Board of Chairs and local board members supported the finding that the Board of Chairs lack decisiveness and revisits decisions. Example comments included:

The Board of Chairs should adopt decisions and abide by them once they are made, not revisit them.

The Board of Chairs is not good at tackling hard issues and closing off decisions, which are often revisited.

Respondents provided various explanations for why the Board of Chairs lack decisiveness. Some commented that the board has polite and cordial relationships at the expense of tackling the hard issues like funding distribution. One board member suggested that issues with deliberations have been caused by having only limited time to read board papers prior to meetings. Another board member recognised that this access to appropriate board papers may have been an issue, but also raised concerns about board members not always reading board papers. Example comments included:

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<sup>31</sup> The Australian Institute of Company Directors (2013) *The art of boardroom productivity*. Available at <http://www.companydirectors.com.au/Director-Resource-Centre/Publications/Company-Director-magazine/2013-back-editions/May/Feature-The-art-of-boardroom-productivity>.

The ability of Directors to be well prepared for deliberations is limited by the short time available to read and digest the business papers. In most instances the business papers are not received in sufficient time, allowing only a cursory scanning prior to meetings.

Sometimes no decision is made – historically due to the information being provided not being sufficient to make a decision, for example no clear recommendations were provided... Chairs need to read board papers more, be more informed before meetings and when making decisions, know the background and intent of the papers.

One respondent also commented that there is a ‘boys club’ environment on the Board of Chairs, which restricts boardroom deliberations, particularly in regards to hard discussions. This respondent suggested that some individuals have displayed behaviour at odds with one of the survey statements about creating a constructive and open boardroom environment.

Conversely, during the local board meetings observed for the audit, challenging issues were robustly discussed by the local boards.

Quality and timeliness of Board of Chairs decision making is being hampered by two issues:

- it’s large size, and
- parochialism.

The Board of Chairs has 12 members which includes the Chair of the Board of Chairs and the chairs of the 11 local boards. The Victorian Ombudsmen conducted a review of public sector boards and reported that the size of a board can have a significant impact on its effectiveness<sup>32</sup>. The review questioned whether it is appropriate to have more than nine members on a board, noting that large boards can have difficulty making decisions. The make-up of the Board of Chairs is defined by the *LLS Act 2013*, and as such any reduction in the size of the Board of Chairs to improve the effectiveness of decision making requires a review of the legislation.

The *LLS Act 2013* states that the Minister may appoint additional members to the Board who may be from outside the LLS. Any such appointments would further increase the size of the Board of Chairs. However, despite its already large size, the board would benefit from the addition of independent members who could provide objectivity in board deliberations. The Australian Securities Exchange Corporate Governance Council’s *Corporate Governance Principles and Recommendations*<sup>33</sup> lists eight principles for corporate governance, the second of which covers structuring the board to add value. It states that a company should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties, including independent directors.

Independent members could help to counteract the tendency for parochialism of Board of Chairs members acting as regional representatives, and improve the quality of decision making. Independent members could also add value to Board of Chairs by filling any skills gaps of current members.

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<sup>32</sup> Victorian Ombudsman (2013) *A review of the governance of public sector boards in Victoria*. Available at <https://www.ombudsman.vic.gov.au/Publications/Parliamentary-Reports/A-review-of-the-governance-of-public-sector-boards>.

<sup>33</sup> Australian Securities Exchange Corporate Governance Council (2007) *Corporate Governance Principles and Recommendations with 2010 Amendments, 2<sup>nd</sup> edition*. Available at [http://www.asx.com.au/documents/asx-compliance/cg\\_principles\\_recommendations\\_with\\_2010\\_amendments.pdf](http://www.asx.com.au/documents/asx-compliance/cg_principles_recommendations_with_2010_amendments.pdf)

## 5.2.4 Board member capabilities

### Finding 7: Strong appreciation for the diversity of board members skills, although some boards would benefit from additional skills in key areas, including governance, finance and risk management

The *LLS Act 2013* states that board members should have appropriate skills and expertise. These skills are described in the *LLS Regulations 2014* and include: leadership, strategic planning and management; regional service delivery and working with government, industry and partners; financial control and risk management; primary industries; biosecurity; emergency management; natural resource management; working with Aboriginal groups; and local government.

Interview and survey results indicated that members of the Board of Chairs and local boards appreciate the diversity and skills held by their fellow members, however not all boards were confident that their board has the full mix of required skills.

In surveys, Board of Chairs and local board members rated a statement about respect for the skill, experience and knowledge of their fellow directors on average as *sound* (3.7 and 4.38, respectively). Interviewees supported these results, with board members from all three sample local boards commenting that the mix of skills on their board is good. Example comments included:

There is a cross-section of experience and by and large a good mix.

The Minister's Office did a good job selecting the appointed members. There's a good mix of skills and geographic spread.

We have an interesting dynamic with some members from former LHPA [Livestock Health and Pest Authorities], some CMA [Catchment Management Authority] experience, some from neither which gives us a rich mix and a sound mix of skills.

However, members from all three sample local boards also suggested that some additional skills would be beneficial. Key skill areas noted where additional expertise would be beneficial include governance, finance and risk management. Lack of gender diversity, with too few women board members, was also raised as a concern. Example comments from all three sample local boards included:

We have a good mix but we're lacking a little bit of expertise in natural resource management.

I would find someone with extensive experience with risk mitigation.

Diversity could be better – only one woman, but election process was a dog's breakfast and some good nominees missed out.

Some board members had limited knowledge outside farming and biosecurity.

Local boards could benefit from having at least one member with skills in accounting and finance.

Board of Chairs members also recognised that some additional skills and knowledge would be beneficial to inform discussions and achieve organisational outcomes. As for local boards, key skill areas include governance, finance and risk management. For example, board members and staff noted:

Not a lot of evidence of leadership skill – there's an opportunity to up-skill.

We have a tendency for each member to express a view on each matter, when they may not know what they don't know. As a consequence we get a consensus view but it may not be an informed view.

Board of Chairs is lacking in governance skills including risk management, audit and strategic planning.

The skills sets around the Board of Chairs table are not sufficient to do this task. There is not much experience at being executives or running organisations.

Successful execution of a government merger requires specialist leadership skills and experience. Leaders are required to navigate power struggles, negotiate a shared vision, guide cultural integration, deliver synergies and efficiencies in processes and systems and manage relationships with Ministers and key stakeholders. The LLS Board of Chairs gave insufficient attention to these unique challenges of a merged organisation, and they were therefore not addressed in a timely and decisive way. The Board of Chairs could have benefited from members with greater experience in executing successful mergers within the public sector.

Members of both the Board of Chairs and local boards undertook introductory board member training with the Australian Institute of Company Directors. This course provided board members with information on their obligations as directors. Those who attended provided positive feedback on the course. However, it takes time and ongoing effort to develop the broad range of skills required of both boards and individual board members, and to understand the functions and government requirements of LLS. In LLS, there has been few opportunities for further board member professional development, particularly in the areas of governance and risk management. Ongoing training can help ensure that boards continue to upskill. It can also assist with continuity planning by ensuring that boards have the skills to ensure momentum is uninterrupted in the case of board member turnover.

### Finding 8: Limited collaboration and communication between local boards

Collaboration and communication between the 11 local boards is limited. As a result, local boards are missing opportunities to learn from each other and to streamline processes. Collaboration between regions provides a catalyst for identifying innovative strategies, sharing good practice, and leveraging resources. It is also a vehicle for sharing and controlling risk, and supporting the achievement of shared goals and objectives. Within LLS, collaboration is critical for ensuring strategic alignment of decision-making and continuity of service delivery across borders.<sup>34</sup>

All of the local board members who were directly asked about cross-regional collaboration indicated that it has been limited at the board level. For example, one board member commented that:

The [local] board does not have any mechanisms to share with other boards. There has been no suggestion of it, and is hasn't been done.

<sup>34</sup> Natural Resources Commission (2015) *Performance Standard for Local Land Services: February 2015*. Available at <http://www.nrc.nsw.gov.au/publications#>.

## 5.3 Processes and systems

### 5.3.1 Overview

LLS has some processes and systems in place for board meetings, policy development, reporting and communication. However, documentation and interviews indicate that there are inconsistencies and confusion across the organisation, particularly with regards to policy development. Policy development processes could be improved through prioritisation of key issues, clarification of policy-development authority within LLS, better cross-regional coordination and greater consultation with relevant board members and staff. Financial management processes have also been slow to develop and require additional attention.

A full description of the findings on processes and systems in LLS is provided below (Sections 5.3.2 - 5.3.6).

### 5.3.2 Policy development

**Finding 9: The process for developing policies is unclear and there is room to improve clarity in regards to policy development authority**

The current processes for developing policies in LLS are unclear. The process for determining which policies should be developed, who they should be developed by, who they will apply to (e.g. all or part of LLS), and who has the authority to approve them (e.g. Board of Chairs, local boards, the Executive Support Unit or the Senior Executive Team) is also unclear. In particular, LLS has not established clear principles for when a state level policy is necessary, resulting in the state delving into issues that do not clearly benefit from a state wide policy.

LLS provided a recent board paper for review in the audit (entitled *Formalising policy processes*), which acknowledges that these issues exist. The board paper notes that:

There is a need to formalise processes for identifying needs, developing policies and procedures, and having them reviewed and approved by appropriate staff and executives within LLS...  
Currently only ad-hoc and informal processes exist.

At the request of the Board of Chairs, the Executive Support Unit prepared two policy development documents that were provided for audit: *Policy: LLS Policy and Procedure Development (draft)*; and *Procedure: LLS Policy and Procedure Development (draft)*. The Board of Chairs has not endorsed the policies and these documents were not referred to by interviewees who were not part of the Executive Support Unit or the Senior Executive Team.

These documents provide sound principles and concepts for policy development and could improve the policy development process in LLS. However, the draft policy is not sufficiently clear in regards to who has authority to approve which policies and procedures. While it notes there should be differences between strategic and operational policies, the audit found that the line between strategic and operational policies has not yet been sufficiently defined.

Interviews conducted with board members also indicated a lack of agreement in LLS as to whether the Executive Support Unit or the Senior Executive Team have the authority to sign off policies. Their understanding was not always consistent with the *Formalising policy processes* board paper, which states:

In general, state-level policies and procedures are signed off within the ESU [Executive Support Unit] and/or by the SET [Senior Executive Team] and/or by the Board of Chairs. Regional policies and procedures may be signed off within regions by the General Manger or local board.

LLS also provided a draft database of state wide policies. While it is good practice to have a policy database in place, this database was rarely referred to by interviewees. This indicates that it may not be well known or used across the organisation. Further, this database is not user-friendly. It is relatively long (32 pages) and merely lists policies, where to access them (e.g. Department of Primary Industries, LLS, and Trade and Investment websites), and when they were issued. It is not clear which policies have been adopted by LLS, who they apply to, or who should implement or review them or when.

### **Finding 9a: Lack of prioritisation of issues for resolution**

LLS did not provide any documentation to demonstrate that the Board of Chairs has strategically assessed which policies need to be developed and how they should be prioritised. Further, it has not strategically determined which policies should be developed by local boards for their own regions.

Local board members from two of the three sample regions expressed frustration about their region spending time and effort to develop a policy, only to find out that a similar state-wide policy will be developed and that they must adopt this policy. Example comments included:

We'll start making a policy to find out the Board of Chairs is half way through making one and we'll have to adapt to theirs. Often we feel something is a priority and we want it to move faster but we have to wait for the Board of Chairs.

The Board of Chairs put forward a policy last December that said that the regions can put together a campaign [for Category D firearms]. We had developed a campaign and we took it to the Board of Chairs. Then a [different] policy was approved by the SET [Senior Executive Team].

Board members from one region also raised concerns that it is unclear which state-wide policies are fixed, and which ones can be adapted to suit regional needs. These issues were raised by interviewees when discussing both the LLS Wild Dog Policy and the Category D Firearms policy.

LLS has also inherited many policies from its legacy organisations and from its cluster within the NSW Government. LLS does not appear to have strategically assessed if and how these policies should be applied. In addition, new policies being developed within LLS appear to be ad hoc, lack strategic focus and are slow to be developed.

### **5.3.3 Communication of policies**

#### **Finding 10: Board of Chairs decisions have been poorly communicated resulting in wasted time, confusion and duplication of effort**

The chairs of the local boards are responsible for communicating Board of Chairs decisions to their local boards and general managers. However, interviewees commented that local chairs are inconsistent in their approach to communicating information and decisions from the Board of Chairs, and formal communication from the Board of Chairs has been limited. They also noted that information flow from the Board of Chairs has been inadequate, and that

information sometimes comes from their local chair, whereas other times it comes from the Executive Support Unit, creating confusion. For example, one staff member commented that:

Communication on key decisions and policy settings from the Board of Chairs has been variable, partly due to insufficient resourcing of the ESU [Executive Support Unit].

The Board of Chairs has decided not to routinely share board papers, agendas or minutes with local boards or general managers. However, they have recently started sharing 'communiqués' to inform local board members and staff of the key outcomes from the Board of Chairs meetings. Interviewees indicated that this is an improvement, although information in the communiqués is at quite a high level. Based on interviews, the communiqués are also not being consistently shared throughout LLS. More information regarding deliberations and decision making is desired by local boards and staff to understand how issues raised were considered and resolved.

Local board members consistently raised poor communication from the Board of Chairs as a significant issue impeding the effectiveness of decision making. The strategic planning case study provided a strong example of this, demonstrating a significant lack of consistency in communication of Board of Chairs expectations and implementation of those expectations. For example, LLS provided documentation demonstrating that both the Board of Chairs and the Executive Support Unit indicated to LLS regions that a specific template, including the state mission, goals and strategies, must be used for local strategic plans. Further, in interviews, board members and staff in some regions indicated that their chair was adamant that they must stick to the state strategies and template, whereas others indicated that they did not feel this was a strict requirement.

Regional interviewees for the wild dog case study consistently indicated that communication and guidance provided by the Board of Chairs on the *LLS Wild Dog Policy* was insufficient. Most of the respondents, including members of the Wild Dog Cross-regional Team formed to develop the LLS policy, and regional managers responsible for pest management were unaware that the policy had been finalised and made available on the LLS website. Interview comments included:

The message from the Board of Chairs was not getting across the regions in a consistent manner. The *LLS Wild Dog Policy* was not on the LLS intranet. There was an email that was distributed that alluded to changes to be implemented to the policy; however since then there were no updates regarding the finalisation of the policy.

I haven't seen much policy coming from Board of Chairs in regards to what they actually expect. There has not been adequate oversight and there was no clear objective.

### 5.3.4 Board meeting procedures

#### Finding 11: Opportunities exist to refine board meeting procedures to maintain strategic focus

A key positive finding from the audit is that all of the boards evaluated in the audit consistently prepared comprehensive board papers, agendas and minutes for board meetings. Further, the Commission attended board meetings and observed there were clear protocols for census decision-making.

However, board papers provided for audit ranged in quality, with some being too long and operationally focused to guide meaningful, strategic discussion. A review of board meeting

agendas showed that they ranged in quality, with some heavily focused on operational issues, whereas others were more strategically focused.

The Commission observed four LLS board meetings as part of the audit, including one Board of Chairs meeting. It also received board papers for these meetings at the same time as the board members. These papers were not always provided sufficiently in advance to allow thorough reading. Based on observed meetings, board meetings could be more efficient and strategic with less discussion of operational matters and more time on the agenda committed to 'blue-sky' discussions on opportunities and strategic risks.

Further, in interviews, board members had varied responses when asked about the timeliness and quality of board papers. Some were satisfied, whereas others commented that they are too long or not received with sufficient time to read them in full. Several commented that the quality of the board papers has been improving over time.

### 5.3.5 Financial management

The Commission's audit of LLS governance did not consider financial performance.<sup>35</sup> However, financial management and reporting is an important part of organisational governance and a key fiduciary duty for board members. As such, we have reported some general findings in this area.

**Finding 12: The financial management system is evolving. Accurate financial reporting to boards has been lacking and responsibilities are confused. Major budgetary issues have been unresolved.**

LLS has struggled to effectively implement consistent financial management systems, in part due to difficulties with, and some resistance to, working with its enterprise management software (SAP). At the start of LLS there was a lack of leadership in regards to financial management and inconsistent regional approaches developed. A Chief Financial Officer has recently been appointed and progress has been made with improving financial reporting and accountability. However, there is still room for further improvements, including around the clarity of financial accountability of local board members.

Documents provided for audit included an *LLS Financial Performance Policy*. This policy states that "Local Regions are responsible and accountable for their individual Profit and Loss Statement...and Asset and Liability Statement." However, interviews with Board of Chairs and local board members and staff indicated a variable understanding of local board financial accountability and inconsistencies with the financial performance policy. For example, interviewees commented that:

They [local boards] don't have these [balance sheets], and they shouldn't - they are not an entity in their own right.

We [local board members] don't actually have any financial accountability.

We had significant input into new financial year budget. But there was some suggestion that the regional boards aren't actually responsible in the end for financials - the state is overall.

Interviews conducted with local board members from all three sample regions indicated that local boards have also been uncomfortable with the level of financial reporting that they are receiving. Example comments included:

<sup>35</sup> The Audit Office of NSW conducts financial audits of State public sector agencies, including LLS.

It is only recently that we have received financial reports through the system which we have any faith in. It has taken Trade and Investment far too long to meet the demands of the LLS financial environment and there seems to have been little we can do to improve the process.

The financial process and systems were inherited. The staff think it will eventually be sorted out, but the board are not confident in financial reporting.

Interviewees from all three sample regions also indicated that budgets from the state level LLS have not been clearly established, making it difficult for the local boards to manage their budgets. Comments included:

The financial stuff is very confusing – there are some aspects we are expected to make decisions on but then some areas it seems that we don't have control over. There is a lot of shuffling of money, budget keeps changing. We'll be told we think this is the right budget. We are expected to manage things that we can't actually manage because we don't have control, for instance if money is spent at state level and all regions are charged and we have to cut other areas.

You might think you've got a balanced book but you don't know. The next thing you know the ESU [Executive Support Unit] has to apply some funding and then you're out of budget, like that... Last financial year, we came in very close to balancing, then extra costs were applied by the Executive Support Unit at the last minute... We set a budget [for the Executive Support Unit]. They'll increase the costs to the regions to balance these costs. It'll knock the regions about.

The board cannot get a definite financial picture of its region.

Some interviewees indicated that while financial reporting has been an obstacle, steps taken since the appointment of the Chief Financial Officer have improved the situation and boards can now access consistent financial reports. An interview respondent indicated that since the end of 2014, all regional Boards, except one, have been consistently getting financial reports. In areas such as financial management there needs to be clear and unified state-wide systems while allowing for accurate regional reporting. LLS should continue to focus on improvements to financial management.

### 5.3.6 Performance monitoring and reporting

#### Finding 13: Lack of monitoring and performance reporting for delivery of local land services

Performance reporting is limited at the state and local scales, in part due to a lack of finalised strategic plans. There is not yet clear direction in LLS about what performance outputs and outcomes should be monitored and reported.

The *LLS Act 2013* requires LLS to report against state priorities and implementation of the strategic plans. Strategic plans have not been finalised, and state priorities have not been clearly established, leaving it unclear what LLS should be reporting in regards to performance. Board members and staff from all three regions noted that it is difficult to know what to report in the absence of strategic plans. Further, LLS did not have a consistent performance evaluation and reporting program or framework at the time of the audit. However, LLS is working with the Commission to develop an LLS performance reporting framework.

LLS produced annual reports for each region in 2014. These reports included a description of 'achievements'; however they did not report against specific targets and did not specify why or how they chose to report these particular items.

LLS regions are required to continue to report against the Catchment Action Plans until an LLS strategic plan is in place. Regional interviewees varied in their understanding of this requirement, with some regions saying they are continuing to actively use the Catchment

Action Plans and report against targets and others indicating it informed their discussion on strategic planning but isn't actively used.

LLS also appears to have limited mechanisms in place to ensure that internal feedback loops are providing for capture and rapid sharing of good practice and on-ground successes. While each region has plans for adaptive management within their own region, this has not been sufficiently extended to LLS as a whole.

## 5.4 Strategic direction

### 5.4.1 Overview

Survey results, interviews and review of documentation all support that LLS has significant room to mature in the key governance areas of strategic leadership and direction at both the state and local scales. While there are indications of improvements, boards at both levels have struggled to sufficiently focus on strategic issues. LLS regions consistently expressed frustration with a lack of strategic guidance at a state level. The Board of Chairs' active involvement in the development of the State Strategic Plan was limited and there was minimal engagement with key stakeholders at the state level to inform LLS of their expectations. Further, guidance regarding strategic plans to the LLS regions was confused, and the process for developing the plans was slow and time consuming.

### 5.4.2 Strategic direction

#### Finding 14: Strategic discussion and timely direction-setting by boards needs improvement

Strategic discussion and direction-setting by both the Board of Chairs and local boards needs further development. Boards in general are too focused on operational issues at the expense of strategic issues, and there is a strong sentiment that there is a lack of strategic leadership.

Survey results for the group of statements related to strategic direction provided by boards at the state and local level received some of the lowest average scores from the Board of Chairs and local boards, as well as from their staff and stakeholders.

For the statement relating to time dedicated by the boards to review and adapt the strategy to assure its ongoing relevance, the Board of Chairs and its stakeholders rated the board on average as *evolving* (2.4 and 1.6, respectively). Local boards and their staff rated the boards on average as *passable* (3.3 and 3.11, respectively). Similarly, for the statement related to how well boards monitor the changing environment in which they operate [to ensure that they are informed about the ongoing relevance of their chosen strategy and if any changes are needed], the Board of Chairs rated itself on average on the *low end of passable* (2.6) and its stakeholders rated it on average as still *evolving* (2.4). The local boards and their staff rated the boards on average as *passable* (3.15, and 3.06, respectively).

A review of board papers and agendas provided for audit indicated that board meetings often delve into operational issues, with limited time spent on strategic discussions. Interviewees supported this, indicating that strategic issues have not been given enough priority over operational issues in board meetings. This concern was raised at the Board of Chairs level and for two of the three local boards selected for audit.

Although some boards have been taking positive steps to increase their strategic focus by holding structured workshops and strategy meetings, interviewees indicated that boards in general still lack strategic focus. Interview comments from members of the Board of Chairs and local boards included:

There is rarely lots of valuable input around the Board of Chairs table. Discussions are not strategic and there are not enough insights.

Board of Chairs agendas are very focused on operational issues, but not strategic issues.

The (local) board lacks strategic direction and is focused on operations.

The absence of finalised strategic plans was highlighted as an impediment to boards fulfilling their roles in regards to strategic direction-setting. In two of the three local board meetings observed, the absence of a state strategic plan was noted as an impediment to proper discussion and consideration of state priorities. In interviews, stakeholders and LLS staff raised concerns over the lack of clarity regarding LLS priorities due to the absence of strategic plans. For instance:

I don't know what LLS's mission is or what they are about... It's all interrelated with having no strategic plan.

Documentation and interviews also indicate that there is room for boards to improve their planning to ensure that they address key issues and maintain focus on strategically important decisions. Some local boards have calendars in place for key board meeting topics; however these generally have a limited scope and do not cover all key decision points. Interviewees from one region noted that the Board of Chairs does not have (or has not shared) a forward work plan to identify, for example, expected reports from cross-regional teams and working groups.

### Finding 15: Board of Chairs' attention to strategic planning has been inadequate

The *LLS Act 2013*, requires the Board of Chairs to develop a state strategic plan, and local boards to develop local strategic plans in line with the state plan, as soon as practicable following the establishment of LLS. However, LLS has yet to finalise its strategic plans. The lack of attention to prompt finalisation of a state strategic plan implies a lack of understanding or appreciation by the Board of Chairs of their legislated requirements in this area.

Documentation reviewed, as well as survey results and interviews, indicated that the Board of Chairs took a limited active role in the strategic planning process. Board of Chairs and state level staff members consistently reported that the Board of Chairs abrogated their responsibility to develop the state strategic plan to the Executive Support Unit. The Executive Support Unit was instructed to develop a plan prior to an initial strategic discussion and assessment by the Board to establish their view of state priorities or goals and strategies for LLS.

The Board of Chairs required the 11 local boards to complete their plans without the state plan being complete. Many board members and staff expressed frustration with their inability to align with a state plan that did not yet exist. Staff and local boards consistently reported in interviews that the Chair of Chairs, Board of Chairs and Executive Support Unit frequently changed messages, were slow to respond to inquiries and lacked decisive leadership.

Survey results indicate that the Board of Chairs and their stakeholders acknowledge the need for improvement in the Board of Chairs' strategic planning processes. Survey statements related

to strategy development and implementation received two of the four overall lowest scores based on self-assessments by Board of Chairs members. For the statement relating to time and effort dedicated by the Board of Chairs to approving strategy for service delivery in each region: the Board of Chairs rated itself on average on the *low end of passable* (2.8). The Board of Chairs stakeholders rated the board on average as *evolving* (1.8). Similarly, for statements relating to: time and attention given in board agendas to the oversight of strategy implementation; and management reporting in relation to LLS strategy implementation and execution, the Board of Chairs rated itself on average on *the low end of passable* (2.8). Board of Chairs stakeholders rated the board on average as *evolving* (2.5).

Interview feedback indicated that the Board of Chairs did not sufficiently engage in, or lead the state strategic planning process. This feedback was heard from members of the Board of Chairs, local boards and staff. Some Board of Chairs members indicated that they did not hold sufficient strategic discussions to determine the state priorities or provide guidance for the plan. Interview comments included:

A facilitated session was held with Board of Chairs to look at KPIs for the draft state plan. This was a difficult meeting. Not all [local] chairs were across the purpose of the day, there was a lack of clarity around what was to be achieved and delivered from the session. Some chairs had not really engaged in the process prior to the session.

[The state strategic planning process was] terrible. We still don't have one after nearly two years. There was supposed to be a bare bones one ready before we started. It's hard to address state priorities without one.

There has been a lot of frustration with not getting leadership from Board of Chairs to get the strategic plans nailed.

### Finding 16: Unclear guidance from Board of Chairs and the Executive Support Unit to local boards on strategic planning

Evidence, particularly from the strategic planning case studies, indicates that guidance from Board of Chairs and Executive Support Unit has been unclear and insufficient in many areas, including the strategic planning process and establishing KPIs.

Survey responses indicate that the Board of Chairs and Executive Support Unit are not mature in regards to providing clear strategic guidance. One of the survey questions asked about the Board of Chairs working with the Executive Support Unit and regional managers in the development of the strategic direction of LLS to ensure ownership of the strategy by both board and management. The Board of Chairs assessed itself on average as *passable* (2.9) and Board of Chairs stakeholders assessed the board on averaged as *evolving* (2.4).

All 11 board members and general managers who were asked about state level guidance on the strategic plans indicated that it was unclear. These respondents represented all three sample regions. Respondents indicated that the Board of Chairs frequently changed the state plan and guidance for local plans, leading to wasted effort and frustration. Further, information coming to local boards and staff via their local chair and from the Executive Support Unit was not always consistent. Regional interview comments included:

There was frustration in preparing it [the local strategic plan] as we were waiting on the state plan from the Board of Chairs, which took a long time and had changes.

We [a LLS region] used it [the draft state strategic plan] as much as we could with the information we were given. There were changes but we didn't know why the changes were made or what the final changes were.

Interview and survey feedback also indicated that there is concern from LLS staff regarding lack of guidance for strategy development and establishment of KPIs. One staff member expressed concerns that outputs-focused KPIs will lead to perverse outcomes. Other comments included:

I think the board have a lot of ideas around KPIs but at too low a level. They need to be strategic rather than based around how many baits are issued for example. These sorts of measures would result in giving LLS hundreds of KPIs.

We are still working on strategy development and setting KPIs. Our Board seems challenged by the whole strategic planning process and how to identify KPIs that will be meaningful but will not create an extra workload in collecting data. We already collect masses of data to meet external investor reporting requirements - and ideally need to work with what we already collect.

### **Finding 17: Lack of high level engagement with key stakeholders on their expectations for LLS**

There has been a lack of high level engagement with key external stakeholders regarding their expectations of LLS to inform strategic planning and policy setting. LLS advised that other than sharing an early draft of proposed goals and strategies, they did not engage external stakeholders in the development of the state strategic plan. LLS indicated that the next step will be to consult with stakeholders on the draft plan.

Government stakeholders interviewed raised concerns about LLS' strategic direction and the state strategic planning process, including delays in the plan, lack of investor confidence and lack of communication from LLS. Comments received included:

LLS has not created their strategic intent quickly and other agencies have been placing pressure on LLS and expecting them to do things when their strategy is currently not in place.

## **5.5 Risk management and compliance**

### **5.5.1 Overview**

LLS has limited risk management and compliance systems in place, which poses a key risk to governance. Overall LLS has not developed a strong risk culture. For example, the Board of Chairs and local boards have not defined their risk appetite, and risk is not routinely assessed by boards when making decisions. LLS has acknowledged this area is a weakness and is taking steps to improve organisational risk management. An internal audit program is under development, but it is still in very early stages. Steps need to be taken quickly to improve risk management as there is currently a high potential for non-compliance due to inadequate knowledge and systems.

A full description of the findings on LLS risk management and compliance is provided below (Sections 5.5.2).

## 5.5.2 Risk management and compliance

### Finding 18: Immature risk management framework, systems and culture

LLS' risk management framework, systems and culture are currently immature, but are evolving. State-level risk documentation provided for audit included a draft risk register and a risk management policy. The risk register was under review and not complete at the time of the audit. Based on review of minutes from the Board of Chairs Audit and Risk Committee, meetings appear to address risk in an ad hoc fashion, rather than focusing on clearly prioritised high-risk issues.

Interview respondents varied in their opinion of the Board of Chairs Audit and Risk Committee. For instance, one respondent indicated that the Board of Chairs is fully aware of key risks and risk management was continuously improving; whereas another indicated that the Audit and Risk Committee has not kept up with changes in government requirements for Audit and Risk Committees.

Currently, the Board of Chairs' Audit and Risk Committee is chaired by the chair of a local board and has four other members: the acting Chair of the Board of Chairs; two local chairs; and an external member with accounting experience. The NSW Treasury Policy Paper 15-03 (TPP 15-03) *Internal Audit and Risk Management Policy for the NSW Public Sector - Policy & Guidelines Paper*<sup>36</sup> requires all members of the Audit and Risk Committee to be independent. It also requires that the Committee has a charter that reflects the 'model charter' in Annexure B of the policy. The Board of Chairs' Audit and Risk Committee has a draft charter in place that provides a sound basis for setting out the objectives, authority, composition and tenure, roles and responsibilities, reporting and administrative arrangements for the Committee. However it does not fully reflect all of the components of the 'model charter' in TPP 15-03, including requirements around annual performance reviews and terms of appointment for the chair.

In surveys, statements relating to risk management received two of the four lowest average scores based on assessments by local board members. One of these statements, relating to the establishment of an appropriate and effective risk management framework, also received one of the four lowest scores from local board staff. Both the local boards and their staff rated the boards on average as *passable* (3.12 and 2.86, respectively). For this same statement, the Board of Chairs rated itself as *passable* (3.0) and Board of Chairs stakeholders rated it as *evolving* (2.0).

In interviews, four of the five members of the Board of Chairs and state-level LLS staff who were directly asked about current risk management were critical of the risk management processes and culture at the Board of Chairs level, while one felt these were adequate. Interview comments included:

The risk management culture at the Board of Chairs level is non-existent.

We [the Board of Chairs] have not addressed risk in a structured and considered manner. The risk framework, risk register and risk management are yet to be brought before Board of Chairs. There is further need for work on this.

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<sup>36</sup> The Treasury (2015) *Internal audit and risk management policy for the NSW public sector (TPP 15-03)*. Available at [http://www.treasury.nsw.gov.au/\\_\\_data/assets/pdf\\_file/0007/126484/TPP15\\_03\\_Internal\\_Audit\\_and\\_Risk\\_Management\\_Policy\\_for\\_the\\_NSW\\_Public\\_Sector.pdf](http://www.treasury.nsw.gov.au/__data/assets/pdf_file/0007/126484/TPP15_03_Internal_Audit_and_Risk_Management_Policy_for_the_NSW_Public_Sector.pdf)

The Board of Chairs has a sufficient understanding of key risks.

LLS has not clearly established responsibilities for risk management at the regional level. Regional interviews indicated that risk management processes vary between regions. For example, two of three sample local boards had established their own Audit and Risk Committees. Opinions varied in LLS on whether local boards should even have their own audit and risk committees. There was also some disagreement as to whether LLS should have one risk framework that goes through the whole organisation or whether each region should have its own framework.

Minutes provided from a Board of Chairs Audit and Risk Committee meeting indicated that 11 LLS regions were to be reminded that they should have developed local risk registers. However, the Commission's regional interviews indicated that one region has only considered risk at the local board level through informal discussions, not through the development of a risk register or other documentation. Given that risk management is a critical area of governance, improved consistency and maturity in this area should be a matter of priority.

### Finding 19: Boards have not defined their risk appetite across functional areas

Interview feedback indicates that both state and local boards would benefit from greater consideration of their risk appetite across key functional areas. Risk appetite is a core component in any enterprise risk management approach and must be owned by the board. It can be defined as the amount and type of risk an organisation is willing to take in order to meet its strategic objectives. Risk appetite typically varies across business units, risk types and over time. The board's responsibility is to discuss and define its risk appetite, ensure it reflects its strategic objectives, stakeholder expectations and the capacity of the organisation to manage risks. The board is also responsible for ensuring that the exercise of risk management throughout the organisation is consistent with that appetite. Clear identification of risk appetite enables more consistent risk-reward decision making.

Only two Board of Chairs members indicated that the board had engaged in discussions regarding risk appetite, and one of these respondents indicated that the discussion was "a minor discussion led by the Audit and Risk Committee". Only one other Board of Chairs member interviewed discussed risk appetite, and this interviewee indicated that the board has not specifically discussed risk appetite. 'Risk' appeared as an item for discussion in only 1 of 12 sample Board of Chairs' meeting agendas provided for audit. Similarly, only one local board members mentioned risk appetite when asked about risk management, indicating that the local board had not discussed it.

Surveys statements relating to boards establishing their appetite for risk were assessed as *passable* by Board of Chairs members and their stakeholders (3.0 and 2.6, respectively), and local board members and their staff (3.43 and 3.13, respectively). Survey comments included:

While BoC [Board of Chairs] has a risk committee, there has been no discussion at board level of risk appetite.

## Finding 20: High potential for non-compliance due to inadequate knowledge and systems

Compliance assurance processes within LLS are only recently evolving. There is a high potential for non-compliance with legislation, regulations and policies due to inadequate knowledge and systems.

LLS submitted a compliance and enforcement policy for review in the audit, but this is focused on how LLS carries out its compliance and enforcement responsibilities in regards to landholders, for instance under the *Native Vegetation Act 2003*. It does not indicate the policies with which LLS needs to comply.

While survey results indicate that board members at both state and local scales feel they have adequate knowledge of the *LLS Act 2013* and compliance requirements, interviews indicate there is a lack of understanding of legislative and policy obligations amongst many board members. In regards to a survey statement about individual board members reading and understanding the relevant sections of the *LLS Act 2013*, Board of Chairs and local board members both assessed themselves on average as *sound* (4.2 and 4.13, respectively). Staff and stakeholders were not asked this question.

In interviews, board members also had varying opinions about the level of understanding among board members on their obligations under the *LLS Act 2013*. Board members from two of the sample regions commented that they undertook induction training with the Australian Institute of Company Directors, which helped inform their understanding of their compliance obligations. However, some members raised concerns that board members lack a consistent understanding of their legislated responsibilities and NSW Government policies. For example, one member of the Board of Chairs commented that compliance with legislation is a key area for improvement in LLS. Other comments included:

There is room to improve around legislation and regulations. Not all the board members are across this. They could improve how knowledgeable they are.

Governance processes are not compliant with government legislation and policy... Many policies that you would expect to see aren't there or they are just copied from a website. You would expect an agency would have built that up before it actually went live.

Recognising this gap in knowledge, the Audit and Risk Committee has started developing a compliance program to improve understanding of key legislative requirements across the organisation.

## Finding 21: Internal audit function is still developing

LLS is working to develop its internal audit function. It is understandable that LLS has not yet begun internal audits given the young nature of the organisation. However, documentation and interviews indicated that LLS has not identified key areas for internal audit or developed a plan for internal audits going forward. Additionally, LLS has not identified a Chief Audit Executive or finalised a proposed agreement to work with the Department of Industry's internal audit program.

Under the NSW Treasury Policy Paper 15-03 (TPP 15-03) *Internal Audit and Risk Management Policy for the NSW Public Sector - Policy & Guidelines Paper*,<sup>37</sup> LLS must establish an internal audit function and develop an internal audit charter. Minutes from 2015 meetings of the Audit and Risk Committee indicate LLS' intent to join Trade and Investment's [now Department of Industry] internal audit program if possible, keeping open the option for additional internal audits as necessary. However, it is not clear whether this approach has been finalised, and no evidence was provided to demonstrate that LLS has identified key areas of risk to prioritise for audit.

Based on documentation and interviews, two proposals for nominating a Chief Audit Executive were made, but neither was compliant with government policy, indicating a lack of understanding of the requirements for Audit and Risk Committees. Interviewees did not have a consistent understanding that this must be a senior employee of LLS who is not the Chief Financial Officer.

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<sup>37</sup> The Treasury (2015) *Internal audit and risk management policy for the NSW public sector (TPP 15-03)*. Available at [http://www.treasury.nsw.gov.au/\\_\\_data/assets/pdf\\_file/0007/126484/TPP15\\_03\\_Internal\\_Audit\\_and\\_Risk\\_Management\\_Policy\\_for\\_the\\_NSW\\_Public\\_Sector.pdf](http://www.treasury.nsw.gov.au/__data/assets/pdf_file/0007/126484/TPP15_03_Internal_Audit_and_Risk_Management_Policy_for_the_NSW_Public_Sector.pdf)

## 6 Recommendations with LLS response

The full list of audit recommendations with the response from LLS is provided below (Table 3).

**Table 3: Audit recommendations and LLS' response**

Description of recommendation		Local Land Services acceptance of recommendation and comments
<b>Recommendations to 'government'</b>		
G1	<b>Adopt the recommendations within this report, and oversee implementation by LLS.</b>	<b>Noted:</b> as per Board of Chairs responses below.
G2	<b>Request LLS to provide reports, including a timetable and progress in implementing the recommendations three months from adoption of the recommendations and on a six monthly basis thereafter.</b>	<b>Recommend that the Minister accept this recommendation.</b>
G3	<b>Improve the governance structure by taking the following actions:</b> a. <b>Add two independent members with appropriate corporate governance and public sector expertise to the Board of Chairs as a matter of urgency.</b> b. <b>Evaluate, in collaboration with the incoming Chair of Chairs, the potential for reducing the number of regional representatives on the Board of Chairs, while maintaining independent members, in preparation for the next review of the Local Land Services Act 2013.</b>	<b>Noted:</b> These are policy matters for the Minister.
<b>Over-arching recommendations</b>		
A1.	<b>Clarify and simplify roles and responsibilities:</b> As a matter of priority, LLS should define clear roles and responsibilities, particularly for boards, management, and support units. These roles and responsibilities should be consistently reflected in LLS policies and procedures and fully adopted by all members of LLS.	<b>Accepted.</b> This work is partly done and will be completed as a logical next step from the concurrent project on organisational effectiveness. Due December 2015.
A2	<b>Prioritise and resolve critical issues:</b> The Chair of the Board of Chairs should take responsibility for ensuring that the Board of Chairs urgently identifies and resolves critical state-wide issues. A governance and business plan should be developed to ensure this occurs in a timely manner. The Board of Chairs should also clarify what policy and process issues require a state-wide approach, and	<b>Accepted.</b> A Governance Plan and Business Plan are being developed. Governance Plan due December 2015. Business Plan due TBC.

allow all other issues to be devolved to local boards.

A3	<p><b>Improve accountability:</b> The Board of Chairs should take responsibility for fundamentally improving accountability across the organisation. Given the current level of maturity, formal processes for driving accountability are necessary. These should include implementing a simple system for communicating, monitoring and enforcing regional implementation of state mandated policies, processes and systems, and initiating performance agreements for all Chairs. LLS should report progress on the implementation of these audit recommendations to the Minister and the Commission.</p>	<p><b>Accepted.</b> Progress will be reported by the Board of Chairs to the Minister. The NRC role is performance audit, not ongoing monitoring.<sup>38</sup></p> <p>Ongoing as per recommendation G2.</p> <p>The Board of Chairs recommend a Performance Agreement should also be implemented between the Local Chair and Local Board members.</p> <p>Due February 2016.</p>
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## Supporting detailed recommendations

### Roles and accountability

1	<p>The Board of Chairs should provide leadership in articulating and reinforcing a clear organisational purpose that is adopted by all members of LLS and is accessible by stakeholders.</p> <ul style="list-style-type: none"> <li>▪ This purpose should be consistent with both the LLS State Strategic Plan and <i>LLS Act 2013</i>. It should also support a shared understanding that LLS is a single NSW Government statutory corporation, with 11 local boards providing tailored services in line with state priorities.</li> </ul> <p>Decision-making, policies and communications should consistently reflect this shared purpose.</p>	<p><b>Supported.</b> The organisational purpose is already completed in the Draft State Strategic Plan, which reflects LLS legislation and other requirements. When the State Strategic Plan is implemented, it will be reflected in all policies and communications.</p> <p>Due December 2015.</p>
2	<p>Clarify separation of state and local responsibilities by implementing the following actions:</p> <ol style="list-style-type: none"> <li>a. Determine and communicate the separation of responsibilities between the Board of Chairs and local boards, including which issues require Board of Chairs decision-making and which issues belong to local boards.</li> <li>b. Apply the following principles to determine which board should make which decisions: <ul style="list-style-type: none"> <li>- Adopt the principle of only having a Board of Chairs policy if necessary for critical strategic state-wide issues, otherwise</li> </ul> </li> </ol>	<p><b>Supported.</b> This will be implemented via Recommendation A1.</p>

<sup>38</sup> The role of the Commission is directed by the Minister. It is appropriate for LLS to report progress to the Minister (NSW Auditor-General's Report, *Implementing performance audit recommendations*, 2015), who can delegate the review and follow up function as they see fit. Follow up programs for agency implementation of audit recommendations encourages improvement in public sector performance and increases the accountability of audited agencies (Victorian Auditor-General's Report, *Responses to 2012-13 performance audit recommendations*, 2015).

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	<p>let the local boards decide.</p> <ul style="list-style-type: none"><li>- For governance, finance, IT, corporate services, communications and performance reporting lead a consolidation phase devising standardised policies and systems where there is a cost benefit and/or a compliance requirement for standardisation.</li><li>- State policies should be principles based and strategic, allowing for appropriate flexibility in implementation and delivery of services at the local level.</li></ul> <p>c. Ensure that LLS documentation consistently reflects adoption of the specified separation of responsibilities.</p>	
3	<p>Develop a clear governance framework by:</p> <ul style="list-style-type: none"><li>a. Articulating clarified roles and responsibilities, including separation of responsibilities. In particular LLS should clarify roles for the Chair of the Board of Chairs, Board of Chairs, Executive Support Unit, chairs of local boards, local boards, Senior Executive Team, Cross-Regional Teams, and General Managers.</li><li>b. Restructuring and resourcing the Executive Support Unit to be the Office of the Chair. The Office of the Chair should be responsible for implementing decisions of the Chair and Board of Chairs, driving coordinated activity on state-wide issues and advising the Board of Chairs on strategic state-wide issues as requested. This role should be reflected in governance documentation, including an approved terms of reference.</li><li>c. Clarifying the role of the Senior Executive Team. The Senior Executive team should function as an operational coordination, collaborative learning and advisory group of General Managers and the Executive Manager. This role should be clearly and consistently reflected in governance documentation, including an approved terms of reference. Implement measures to enhance communications between the Senior Executive Team and local boards.</li><li>d. Clarify lines of accountability between boards, Executive Support Unit (to be made the Office of the Chair), the Senior Executive Team, and General Managers.</li></ul>	<p><b>Supported.</b> Due December 2015.</p>
4	<p>Improve accountability by implementing standardised performance agreements for chairs of the twelve boards (the Board of Chairs and 11 local boards) and a standardised board performance review process.</p>	<p><b>Supported.</b> Chairs performance agreement due December 2015. The Board of Chairs recommend a Performance Agreement should also be implemented between the Local Chair and Local Board members.</p>

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Local arrangements due February 2016.

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## Culture and leadership

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5	Board of Chairs should promote a culture of open communication, trust, transparency and accountability across all levels of LLS.	<b>Supported.</b> This has been underway for some time as part of the Local Land Services Culture Development Project and aligns with public-sector wide values. Ongoing.
6	Continue to develop a culture of 'one LLS' and actively promote expected staff values by: <b>a.</b> Holding chairs to account to ensure all board members consistently act in the best interests of LLS as a whole when making and implementing decisions. In performance reviews for Chairs and boards, appraise consistency of behaviours and actions with organisational values and defined roles and responsibilities, including whether members consistently act in the best interest of the state. <b>b.</b> Setting clear expectations for management and staff about acting in accordance with the best interests of LLS as a whole and within their defined roles and responsibilities. In performance reviews, appraise consistency of staff behaviours and actions with expectations and values. <b>c.</b> Other steps as necessary to achieve the overall recommendation.	<b>Supported.</b> This has been underway for some time as part of the Local Land Services Culture Development Project. <b>a.</b> This will be implemented as part of Recommendation 4, above. <b>b.</b> This will be implemented as part of revised performance agreements for Senior Executives (December 2015) and a revised Performance and Development Scheme (PDS) for Local Land Services (January 2016). Noted.
7	Improve LLS' approach to operating within Government by taking the following actions: <b>a.</b> Develop a strategic approach to operating efficiently within the structures and processes of government. <b>b.</b> Ensure the Office of the Chair has staff with significant government corporate experience (e.g. corporate services, contract and service level agreement negotiations, industrial relations, human resources). These staff should work with the Chief Financial Officer and Executive Manager to provide advice to the Chair of Chairs, or act as an official delegate in negotiations with other NSW and federal government agencies, Department of Industry cluster representatives and the Ministers' Offices.	<b>Supported.</b> Much of this has been implemented. <b>a.</b> This reflects current practice and additional actions will be undertaken as required to ensure full compliance (ongoing). Details will be determined as part of the concurrent project on organisational effectiveness (December 2015). The 'official delegate' process already exists.
8	Ensure critical issues are identified and resolved by the Board of Chairs by: <b>a.</b> Reviewing the style of chairing, agendas and board papers to prioritise discussion and timely resolution of critical risks and opportunities. <b>b.</b> Within the recommended performance appraisal process,	<b>Supported.</b> This generally reflects current practice and additional actions will be implemented with a permanent Chair of Chairs is in place. Due October 2015.

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	monitoring whether the Board of Chairs addresses and resolves critical issues in a timely manner.	
9	Introduce an external, transparent review of skills for all nominees for future board member appointments and elections to ensure that boards have the appropriate breadth of skills to adequately fulfil their responsibilities.	<b>Supported.</b> This will be implemented internally and linked to Action 11, below.
10	Seek a staggered approach to appointment of future board members to promote continuity.	<b>Supported.</b> Arrangements are currently being put in place. Due October 2015.
11	Provide targeted capacity building to board members in key functional areas by: a. Conducting a gap analysis of board member skills against the skills listed in the <i>LLS Act 2013</i> and <i>LLS Regulation 2014</i> . b. Providing ongoing, targeted training and development in areas identified as current gaps, particularly corporate governance, strategic leadership, risk management, finance, compliance and NSW government processes. c. Implement measures to foster greater cross-regional collaboration at the local board level, including informally benchmark internal governance practices across local boards, and convening forums for local board members to share learnings.	<b>Supported.</b> This is linked to Action 9. a. This is linked to Action 9 and will be implemented locally (October 2015). b. This will be considered pending the implementation of Action 9 (March 2016).  This will be implemented by June 2016.
12	Monitor and enforce regional implementation of priority policies, processes and systems that have been mandated by the Board of Chairs. Require chairs of local boards (or their official delegate) to provide reports to the Office of the Chair demonstrating progress on implementation of priority Board of Chairs policies, processes and systems in their region. The Chair of Chairs should hold the Chairs of local boards to account for non-conformance.	<b>Supported.</b> Precise arrangements and timing to be determined pending outcomes of the concurrent project on organisational effectiveness which may impact on reporting lines.
<b>Processes and systems</b>		
13	Finalise, communicate and implement LLS' draft process for developing policies and procedures. The Board of Chairs should clarify authorities for policy and procedure approval at each scale, with the policy revised accordingly prior to finalisation.	<b>Supported.</b> Much of this has been implemented. Due February 2016.
14	Review the LLS policy register in light of the proposed principles for identification of state-level versus regional policies, and LLS' draft <i>Policy for policy and procedure development</i> . a. Ensure that it is complete and easily accessible by all board members and staff.	<b>Supported.</b> A review of LLS's policy register will be undertaken.

	<p><b>b.</b> Identify critical policies that are not yet established, and then implement a timetable for developing them.</p> <p><b>c.</b> Review existing policies within two years (both those adopted from the cluster and developed by LLS) to ensure they are fit-for-purpose and effective.</p> <p><b>d.</b> Following this initial review, implement a rolling program of review to maintain compliance with legislative and other requirements.</p>	
15	<p>Implement improved systems and processes for communicating Chair and Board of Chairs discussions and decisions to local boards and staff, including:</p> <p><b>a.</b> Share Board of Chairs agendas and minutes with local boards and General Managers, allowing for the Board to blackout information only where essential for confidentiality purposes.</p> <p><b>b.</b> Share Board of Chairs communiques with all staff.</p>	<p><b>Supported.</b> Due November 2015.</p>
16	<p>Finalise and adhere to a state-wide governance calendar, specifying key dates for strategic and business planning, policy development and review, performance monitoring, and compliance reporting. Ensure state and regional agendas are in line with the calendar, including agendas of board sub committees.</p>	<p><b>Supported.</b> Much of this has been implemented and the current process will be reviewed quarterly.</p>
17	<p>Continue to take steps to advance financial management, performance, transparency and accountability to ensure that board members can fulfil their fiduciary obligations, and systems meet government requirements, including by taking the following actions:</p> <p><b>a.</b> The Chief Financial Officer should take the lead on improving budgeting processes to increase funding certainty for local boards and staff.</p> <p><b>b.</b> Revise the existing financial policy framework to provide clarity on roles and responsibilities for financial management at the state and local levels and confirm targets for financial performance, including balancing of regional budgets.</p> <p><b>c.</b> Review all funding sources and internal allocations across the organisation including the Office of the Chair.</p> <p><b>d.</b> Streamline accounting and reporting systems to ensure that there is a consistent approach across LLS and improved financial reporting to local boards and the Board of Chairs.</p>	<p><b>Supported.</b> Initial work on a comprehensive review of this area of operations is underway and details will be finalised as part of the concurrent project on organisational effectiveness.</p> <p>a. Complete.</p> <p>b. Underway and will be completed by December 2015.</p> <p>c. Underway and will be finalised as part of the concurrent project on organisational effectiveness by December 2015.</p> <p>Underway and will be completed by June 2016.</p>
18	<p>Complete work recently commenced to develop an organisation-wide performance evaluation framework, including key performance</p>	<p><b>Supported.</b> Initial work underway and will be completed by December 2015 and implemented as</p>

	indicators, metrics, tools, systems and processes. Use internal feedback loops to drive timely identification and broader adoption of good practice and innovation.	part of the roll out of new strategic plans.
19	<p>Improve board procedures by:</p> <p>a. Developing standardised governance charters and systems across local boards where appropriate, while allowing some regional flexibility.</p> <p>b. Setting guidelines to ensure that board papers are strategic in nature, of a reasonable length, and provided with enough time prior to meetings for board members to fully review them.</p>	<p><b>Supported.</b> This will be implemented as part of Recommendation A2.</p>
20	<p>Better leverage skills and expertise of the whole organisation when making state-wide policy, including reviewing the requirements in existing policy development guidelines to:</p> <p>a. Incorporate better methods to promote collaboration with local board members and the Senior Executive Team on state policy development processes.</p> <p>b. Ensure membership of Cross-regional Teams, reference groups and working groups make best use of available skills and knowledge across the organisation.</p> <p>c. Develop a skills register for board members and management.</p>	<p><b>Supported.</b></p> <p>a. Current arrangements will be reviewed, noting Board Members do not have operational roles (February 2015).</p> <p>b. Current arrangements will be reviewed, noting Board Members do have operational roles and the reference groups have specific and roles prescribed in legislation (March 2016).</p> <p>c. This will be implemented as part of Recommendation 10 (December 2015).</p>
<b>Strategic direction</b>		
21	Promptly finalise the development of state and regional strategic plans, ensuring that they appropriately address key risks and state priorities.	<p><b>Supported.</b> This has commenced.</p>
22	Implement measures and take sufficient time to meaningfully engage with external stakeholders on strategic directions on an ongoing basis.	<p><b>Supported.</b> Key stakeholders are routinely consulted and this will continue.</p>
23	For future strategic planning processes, the Board of Chairs to more actively set and monitor scope, priorities, risks and timeframes.	<p><b>Supported.</b> The Board of Chairs has been actively involved in the current process and will continue their involvement.</p>
24	Implement measures to advance the maturity of strategic direction-setting by boards. All boards should dedicate more time to strategic discussions in board meetings through standing agenda items, review of strategic plans, and discussion of progress towards strategic objectives. Ensure that board agendas allow time for open discussion of current and emerging strategic issues.	<p><b>Supported.</b> As strategies roll out, Boards will focus more in these areas. Ongoing.</p>

## Risk management and compliance

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25	<p>Improve risk management by implementing the following:</p> <ul style="list-style-type: none"><li>a. Finalise and implement a comprehensive LLS risk management system that protects and creates value for LLS. Ensure that it is transparent and inclusive, and includes mechanisms to involve stakeholders in identification of risks.</li><li>b. The Board of Chairs should set the strategic risk appetite for LLS at a state-level and local boards to set risk appetite for regional service delivery while aligning with the state wide strategic risk appetite.</li><li>c. The Board of Chairs should ensure common state-wide risks, including compliance risks are identified and organisation-wide systems to manage and monitor these risks, consistent with better practice risk management frameworks, are implemented.</li><li>d. Local boards should identify risks to service delivery in their regions. Adopt the risk management system set by the Board of Chairs to oversee the management of these risks.</li><li>e. Boards should implement measures to ensure that risk is routinely considered in strategy development and decision-making. Periodically evaluate whether a proactive risk culture is developing across LLS.</li></ul>	<p><b>Supported.</b> Better resourcing of this function is being investigated. This has commenced.</p>
26	<p>Improve internal assurance process by:</p> <ul style="list-style-type: none"><li>a. Continuing to develop internal assurance functions consistent with the NSW Treasury Policy Paper 15-03. Review the policy paper and address any identified gaps with LLS policies and processes.</li><li>b. Ensuring the membership on the state-wide Audit and Risk Committee is compliant with the Treasury Policy Paper 15-03 requirements to have non-executive, independent chair and members with appropriate skills and clearly identify the Chief Audit Executive.</li><li>c. Chair of Chairs ensuring there is an operational and adequately resourced internal audit function.</li><li>d. Clarify roles and responsibilities for local boards in regard to internal assurance.</li><li>e. Finalise the development of internal audit systems and processes in a timely fashion, ensuring that these meet good practice as well as NSW Government requirements.</li></ul>	<p><b>Supported.</b> The Board of Chairs is of the view that the organisation complies with NSW Treasury Policy Paper 15-03 and the Department of Industry Internal Audit Function is meeting current needs. Better resourcing of this function is being investigated.</p>

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## 7 Conclusion

### 7.1 Audit opinion

Based on the audit work described in this report, the Commission identified areas of sound practice in governance in LLS, as well as significant areas for improvement. Examples of sound governance practice include systems to manage conflicts of interests, procedures for board meetings and respectful relationship among board members. However, when LLS was first established there was insufficient focus and resources provided to developing and effectively implementing a comprehensive governance framework fit for the purpose of a devolved organisational model. This delayed the maturity of LLS governance arrangements in key areas that now require urgent attention.

The key areas for improvement include: clarity on roles, responsibility and lines of accountability, including identification of critical issues and decision-making boundaries for state and local boards; culture and leadership; governance processes and systems; strategic direction setting; and risk management. It is recognised that LLS has begun to address some of these issues.

Given the findings outlined above, LLS has demonstrated on average an *'evolving'* level of maturity in conforming with the expectations and outcomes outlined in better practice guides for governance, including the *Performance Standard for Local Land Services*. Additionally, LLS has room to improve in regards to consistent understanding of, and compliance with, the requirements of the *LLS Act 2013*, particularly with respect to ensuring that board members fulfil their responsibility to act in the best interests of LLS overall.

The Commission recommends that the Minister endorse the recommendations specified within this report, and that LLS adopts them fully and promptly.

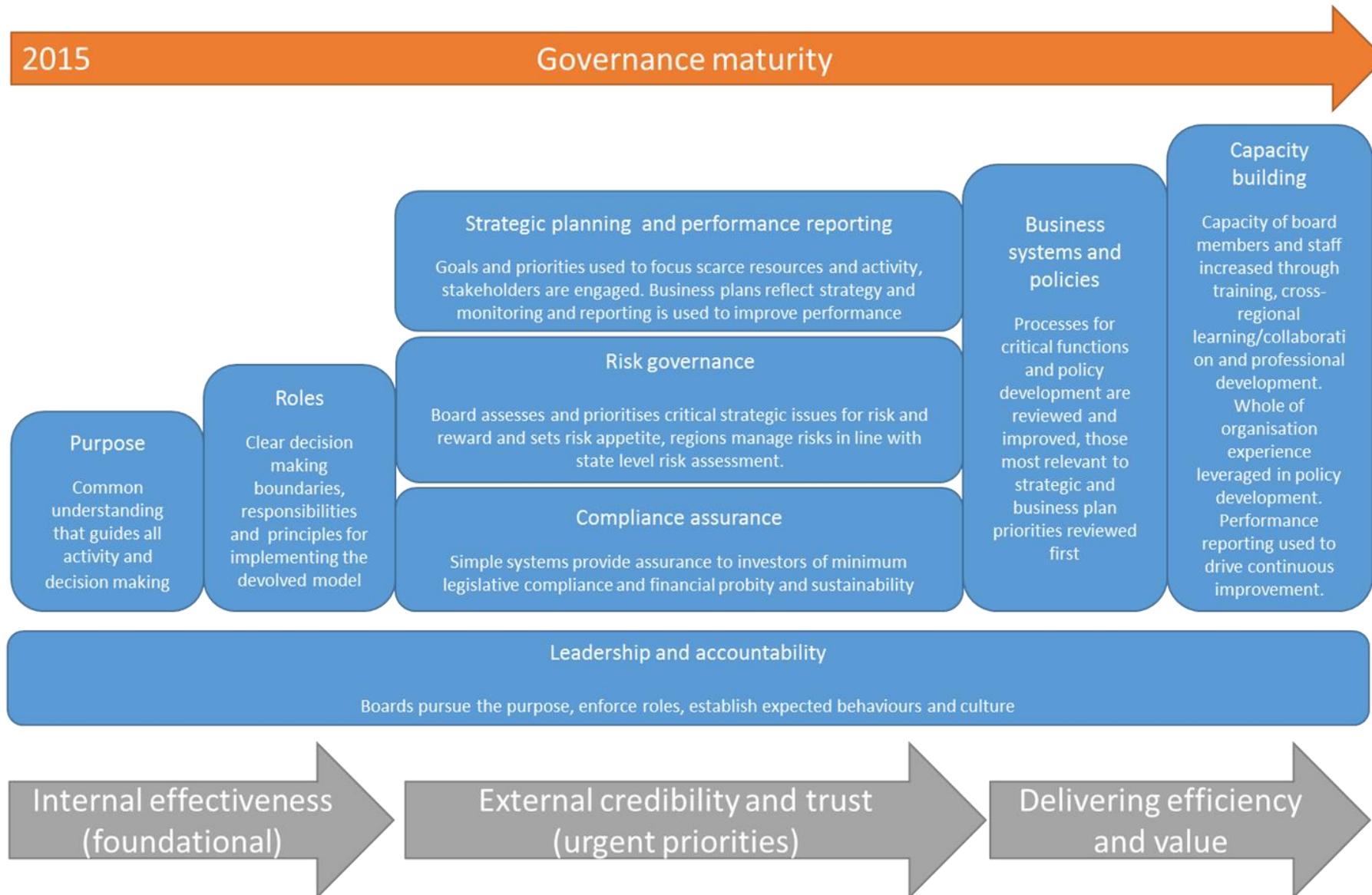
### 7.2 Implementation of audit recommendations

The Commission has developed recommendations to help guide LLS towards greater maturity in key areas of governance (Section 6). These recommendations include three *'overarching recommendations'*, which describe the fundamental steps needed to support organisation-wide improvements. A further 26 detailed recommendations have also been proposed to support achievement of the *'overarching recommendations'*.

Good governance requires the successful integration of interrelated governance functions. The Commission suggests that LLS implement these recommendations in a staged approach with the most urgent recommendations being undertaken concurrently as shown in Figure 3.

### 7.3 Next steps

The Commission will follow-up on LLS progress in addressing the recommendations in this report. It is proposed that the Chair of the Board of Chairs will be responsible for reporting an implementation timetable and progress to the Minister and the Commission initially three months after the approval of the recommendations, and on a six monthly basis thereafter. This will provide assurance to the Minister and the public that LLS governance is maturing and that it is meeting its governance obligations.



**Figure 3: Staged approach for implementing recommendations**