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**AUDIT RISK AND COMPLIANCE
COMMITTEE
2014/15 ANNUAL REPORT TO COUNCIL**

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1. INTRODUCTION

The Audit Risk and Compliance Committee plays an important role in the City of Sydney Council's governance framework. Its primary objectives are to:

- Assist Council in discharging its responsibilities relating to:
 - financial reporting practices;
 - business ethics, policies and practices;
 - accounting policies;
 - risk management and internal controls;
 - regulatory compliance; and
 - alignment with standards and best practice guidelines.
- Ensure the integrity of the Council's assurance functions; including internal audit, risk management and governance.

The Audit Risk and Compliance Committee's Charter sets out its roles and responsibilities and provides for oversight of the internal and external audit functions. Its structure and operation conforms to the Office of Local Government guidelines issued in September 2010 and follows best practice in the monitoring of finance, audit, risk management, compliance and governance activities conducted within the City.

This annual report covers the period 1 July 2014 to 30 June 2015.

2. MEMBERSHIP

In accordance with its charter, the Audit Risk and Compliance Committee comprised two members of Council and three independent members.

Members – Council:

- Lord Mayor Clover Moore;
- Councillor John Mant (appointed as the Lord Mayor's representative from 19 March 2014); and
- Deputy Lord Mayor Robyn Kemmis.

Members – independents:

- Greg Fletcher (Chairperson, appointed July 2009), appointment ceased 30 September 2014);
- David Irvine (appointed July 2009), appointment ceased 30 September 2014;
- Elizabeth Crouch (Chairperson since October 2014), appointed July 2013;
- Ken Barker, appointed October 2014; and
- Carolyn Walsh, appointed October 2014.

Ex-officio attendees include:

- Chief Executive Officer;
- Director Legal and Governance;
- Chief Financial Officer;
- Manager Risk and Assurance; and
- Internal Audit Manager.

Invitees include:

- Representatives of the external auditor; and
- Other officers as requested by the Audit Risk and Compliance Committee.

3. MEETINGS AND ATTENDANCE

The Audit Risk and Compliance Committee meets up to five times annually to consider matters relating to the financial affairs, audit and risk management issues of the City of Sydney.

During the 2014/2015 reporting period, the Audit Risk and Compliance Committee held four meetings; a quorum was present at all meetings.

The City of Sydney has adopted a staggered approach to rotation of Audit Risk and Compliance Committee members, including the Chairperson, to ensure continuity of knowledge and skills. In line with this approach, there was an overlap of 12 months between the outgoing Chairperson, Greg Fletcher, and incoming member and now Chairperson Elizabeth Crouch. Ms Crouch commenced as Chairperson in October 2014.

4. INTERNAL AUDIT

The role of Internal Audit is to provide independent assurance to the Council's operations. It assists Council by evaluating and assessing the effectiveness of risk management, control and governance processes.

The City's internal audit function is resourced through a co-sourced model with two internal staff, supported by a panel of three service providers (BDO Australia, O'Connor Marsden & Associates and RSM Bird Cameron).

For the 2014/2015 reporting period, the Audit Risk and Compliance Committee:

- endorsed the three year (2015/2018) and annual Internal Audit Plan (July 2015/16);
- considered regular reports from the Internal Audit Manager on Internal Audit's progress against the plan;
- approved changes to update the Internal Audit Charter;
- received a six-monthly update from the Internal Audit Manager on the status of actions taken by management to address high-risk rated findings raised in previous audit reports; and
- reviewed and endorsed the 18 internal audit reports shown in Table 2 below. The Audit Risk and Compliance Committee supported the steps being taken by management to address recommended actions.

The Audit Risk and Compliance Committee is satisfied that the internal audit plan is linked with and covers the major risks identified in the City's risk profile. Periodically the Audit Risk and Compliance Committee reviews the Internal Audit Charter to ensure appropriate organisational structures, authority, access and reporting arrangements are in place.

Monitoring Outstanding Internal Audit Action Items

There are a number of processes employed by the City to monitor outstanding management actions to audit recommendations and ensure they are being actioned. These processes include:

- each Director being accountable for monitoring the status of outstanding issues for their respective Division and reporting completion details to Internal Audit throughout the year;
- regular internal audit status reporting assists the Executive in monitoring progress of outstanding audit issues; and
- at each meeting, the Audit Risk and Compliance Committee reviews all overdue agreed management action items to monitor implementation and follow-up of audit recommendations.

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Through follow-up reviews, the Audit Risk and Compliance Committee receives a report on the appropriateness of the management actions taken on high-rated closed action items. The rating scale applied to internal audit reports is tabled below.

Table 1: Rating scale for internal audit reports

Report Risk Rating	Definition
Unsatisfactory	Numerous very high and/or high-risk issues
Requiring improvement	A small number of very high or high-risk issues and/or many medium risk issues
Satisfactory	Only isolated instances of high issues and/or a small number of medium-risk issues
Low	Only isolated instances of low to medium-risk issues
Not Rated	Applies to focused reviews where a rating may not be representative of the overall control environment, high-level or specific reviews where only a small section of an area/process is examined and investigations which are not rated.

Table 2: Internal Audits tabled at Audit Risk and Compliance Committee meetings during 2014/2015

Description of Audit Scope	
Rated - Low (minimal or no areas of concern)	
1. Access to the Roads & Maritime Services (RMS) DRIVES24 System 2013/14	<p>The Council has an agreement with Roads & Maritime Services (RMS) to access RMS' registration database called DRIVES24 system. This access is to enable the identification of the registered owner of a vehicle for infringement purposes. The agreement requires users to log all searches and record reasons for usage of the system.</p> <p>An annual audit is required to be completed to verify that the system is being used appropriately and the organisation has complied with its obligations under the agreement. No issues were identified.</p>
2. Street Safety Camera Program 2013/14	<p>The Street Safety Camera Program commenced in December 1998 to assist in the prevention of criminal offences within the City. There are 98 cameras across Central Sydney monitored 24/7 by specially trained security personnel from the City's Security & Emergency Management Operations Centre. The review assessed compliance with the key principles of the City's Street Safety Camera Program's Code of Practice 2014.</p>
3. Councillors' Expenses 2013/14	<p>Sections 252 to 254 of the <i>Local Government Act 1993</i> (the Act) require the City to annually prepare and adopt a policy for the payment of expenses and the provision of facilities to Councillors. This audit reviewed and found compliance with the Office of Local Government guidelines and the City's Councillors' Expense Policy.</p>

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Description of Audit Scope	
<p>4. Environmental Management Systems Follow-up</p>	<p>The follow up review examined the extent to which management's agreed actions have been completed and address the findings in the original report (March 2013).</p> <p>This audit found that the relevant unit managers in the Chief Operations Office have satisfactorily addressed all or most of the recommendations raised in the original audit report. Where actions remain incomplete, Audit is satisfied that there are appropriate plans are in place to address them in a reasonable timeframe.</p>
<p>5. Treasury Management</p>	<p>The City is required to safeguard its cash and investment portfolio, achieve appropriate earnings and manage its cash resources to ensure sufficient liquidity to meet its business objectives over the long, medium and short term. These functions are collectively referred to as treasury management. The review covered the period from 01 July 2013 to 30 November 2014 and provides an assessment of the processes developed by for managing and reporting on the City's surplus cash, investments, investment income and liquidity requirements. The audit found robust processes in place to manage the City's Treasury activities.</p>
<p>6. Council Resolutions</p>	<p>The <i>Local Government Act 1993</i> and <i>Local Government (General) Regulation 2005</i> provide the framework in which local government authorities in New South Wales operate. The Act requires councillors as a group to direct and control the affairs of a local government authority, allocate resources, determine policies and objectives and monitor performance (s.223 and s.232 of the Act).</p> <p>The review recommended a 'clean up' of historical TRIM data be undertaken in order to improve consistency between the status of Resolutions of Council and the recorded "Council Meeting Item Status" in TRIM. The review found a satisfactory level of control over managing and processing resolutions of Council. Since the audit, the recommended data cleansing has been done.</p>
<p>Rated - Satisfactory⁽¹⁾</p>	
<p>7. Green Square: Project Governance</p>	<p>This review was the first of a series of risk-based audit reviews of the Green Square project. The objective of these reviews is to provide limited assurance that effective controls are in place over project management to maximise the likelihood of project success within the Green Square project. The initial review examined the management and governance processes and controls in place surrounding the Green Square Program of projects.</p> <p>The review identified the need to enhance aspects of Green Square project management, such as clarifying project control group responsibilities, formally document lessons learned, providing training for project control group chairpersons and developing a Green Square governance map.</p>

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Description of Audit Scope	
8. Construction Management	<p>This audit of construction management processes was considered from the project client's perspective. The project client represents those who will manage or use the final asset/deliverable.</p> <p>A key focus of the project management process is assignment of project ownership, communication with the final asset owner and effective variation management and compliance with the City's corporate project management methodology. The review identified opportunities to better document the risks for each stage of a project and lessons learned on completion of a project. Since the audit the City's Project Management Office has run training courses on the project management methodology.</p>
9. Preventative Maintenance Processes	<p>The objective of this review was to evaluate the effectiveness of the processes Brookfield has in place over preventative maintenance in accordance with the relevant contract and the related maintenance schedules of work.</p> <p>The review was limited to examining processes Brookfield has developed to comply with the management contract with the City for three specific preventative maintenance activities, fire, electrical and mechanical maintenance. No issues of concern were noted.</p>
10. Business Continuity Management	<p>This review tested the City's Business Continuity Management (BCM) planning processes and the related Emergency Management, Crisis Management and Business Continuity Plans for the first time in a live scenario, as well as participant responses to access critical business systems for the purposes of recommencing and recovering business operations.</p> <p>The findings from the City test to manage its live scenario were satisfactory, as the key elements being tested were achieved. Key learnings and opportunities for improvement from the test include ensuring key roles and responsibilities regarding Business Continuity are clearly understood.</p>
11. IT General Controls	<p>This audit assessed the controls operating in the IT general controls environment and those controls associated with managing the IT environment in which most business applications run. In addition, the audit reassessed some of the issues/risks identified in the IT Risk Assessment completed in April 2012.</p> <p>The audit recommended the finalisation of a number of policies and procedures (for example the Patch Management Policy and associated procedures) as well as establishing an Information Management Policy. Since the audit most agreed action items from this audit have been completed.</p>

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12. Development Applications	<p>This audit reviewed the City's development application framework, system and processes and examined the major legislation and plans, as well as external and internal guidelines that direct and control the management of development applications.</p> <p>At the time of the audit, it was noted that there existed a satisfactory level of control over the management and processing of development applications. The last review of development applications was performed in early 2011 and also received a satisfactory rating.</p> <p>Since this audit there has been a marked increase in the volume of development applications which will stress test the control framework in managing the risks of this function. Processes are being developed to support the function during this time.</p>
13. s61 and s94 Developer Contributions	<p>This review tested the processes, guidelines and controls over development contributions that the City has a legislative right to seek from developers. These development contributions are known as section 61 (<i>City of Sydney Act 1988</i>) and section 94 (<i>Environmental Planning and Assessment Act 1979</i>) contributions.</p> <p>It is acknowledged that this area is complex and that there are many aspects of the process that are outside the control and jurisdiction of the City and are relevant to all councils in NSW. The key findings arising from this audit focused on the governance framework and the coordination of the systems, processes and controls around contributions plans.</p> <p>Since this audit, management have arranged focused training and developed further oversight processes. Some agreed actions remain a work in progress. Status against these is being tracked.</p>
14. Civic Collection Follow-up	<p>The civic collection comprises over 3,500 items of movable heritage with contextual significance to the buildings in which they are located or significant to the community for their associations with the civic history of the City.</p> <p>The follow up review examined the veracity of management's actions to the Civic Collection Audit (May 2013). The audit found that the relevant unit managers in the City Life Division have satisfactorily addressed all or most of the recommendations raised from the original audit report. Where actions remain incomplete, Audit is satisfied that there are appropriate plans are in place to address them in a reasonable timeframe.</p>

Description of Audit Scope	
Rated - Requiring improvement ⁽¹⁾	
<p>15. Child Protection Processes</p>	<p>This audit tested the robustness of processes and controls that ensure the City complies with relevant legislation applicable to the protection of children.</p> <p>This audit confirmed that the most critical locations, the City's childcare centres, have local processes that support compliance with legislative requirements. Further, in accordance with the NSW Office of the Children's Guardian Phase-in Schedule, the City was compliant for all permanent staff at the time of detailed testing (September 2014). Reasonable timelines were established to address these the legislative requirements. The audit noted that the City now needed to develop a suite of corporate policies, procedures or training programs to support staff across the City in all matters relating to child protection.</p> <p>Since finalising the report, much work has been done to support ongoing compliance with the legislation; this includes refining the draft Child Protection Policy, matching roles to categories (in respect to working with children checks) for the City's Human Resources & Information System, designing monitoring reports, developing training needs analysis and mapping to categories of staff. Tasks are underway and are in line with the agreed schedule of actions arising from the audit.</p>
<p>16. Design Management</p>	<p>The audit reviewed the design management activities of construction contracts including governance, the design process, budget management, risk management, selection of providers and the quality of record keeping.</p> <p>Most of the findings from this review have arisen due to the introduction of the City's project management methodology and the additional documentation required. The key themes arising from this internal audit revolved around governance aspects; focusing on transparency of processes followed, ensuring effective communication occurs with the appropriate stakeholders and at the right time, consistency of record keeping and quality of documented decision making.</p> <p>Since this audit, project management training has occurred and business processes have been redesigned.</p>
<p>17. Procurement Processes (\$10K - \$50K)</p>	<p>This review examined the extent to which three Divisions complied with the requirements of the Procurement and Contract Management Policy, Procurement Manual, Records Management Policy and Code of Conduct in respect to procurement in the \$10,000 to \$50,000 range. The review found a number of procedural areas for improvement; these included the need to update governance processes to reflect a change technology (from receipt of paper quotes to electronic), streamline and update the Procurement Manual and provide focused training on this range of procurement.</p> <p>Since the audit in late 2014, much work has been done by the Procurement Unit: the Procurement Manual has been redrafted, specific training has been developed and will be rolled out shortly, and key templates have also been revised.</p>

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Description of Audit Scope	
Not rated	
18. Child Protection Processes – Belgravia Leisure	A special review of the processes and controls in place at Belgravia Leisure as they apply to child protection procedures, including the legislated 'Working with Children Check'. The review was performed in accordance with the Australian Standard on Related Services ASRS 4400 Agreed-Upon Procedures Engagements to Report Factual Findings. The report issued was of factual findings only; no recommendations were made. No adverse findings were noted in the report.

Note (1) The Audit Risk and Compliance Committee supports the steps being taken by management in response to the findings arising from these audits.

The following table summarises the last four years of the City's management of internal audit actions/recommendations at the end of each financial year. These actions are assigned to a Division or business unit to be actioned by an agreed date. The Audit Risk and Compliance Committee notes that monitoring is active. Ongoing closure of action items remains steady. For the 2014/2015 period 51 per cent of open management actions were completed during the year; compared to 70 per cent in the prior year. This is mainly due to the large number of old matters addressed and closed out in the prior year. Internal Audit is satisfied with the status of outstanding and overdue actions as at 30 June 2015.

Table 3: Management of internal audit actions/recommendations (five years)

Year	Outstanding and Overdue Actions at Start of Year	New Actions from Audits	Actions closed	Current Actions at Year End	Actions Overdue ⁽¹⁾
30/06/2012	56	126	141	41	18
30/06/2013	41	178 ⁽²⁾	132	87	9
30/06/2014	87	158	171	74	32 ⁽³⁾
30/06/2015	74	105	92	87	8

(1) Actions not yet completed by the agreed date.

(2) Audits in the 2012/13 year were detailed and identified larger numbers of improvement actions than previous years.

(3) The majority of these action items are related to an audit over compliance with requirements for the Payment Card Industry Data Security Standard. The City worked with Westpac (the City's banker) so that the majority of these action items could be completed. As at 30 June 2015, there were three overdue actions that range from 50% to 80% complete.

5. EXTERNAL AUDIT

Through a tender process, the City appointed PricewaterhouseCoopers as the external auditor for a period of six years from 2009. The City recently went to tender for the appointment of a new external auditor. In October 2014 the Council approved the reappointment of PricewaterhouseCoopers for a term of six years.

The external auditor provides independent audit opinions on both the general and special purpose financial reports of Council. They are also required to audit the statutory returns relating to a number of the City's activities.

The Internal Audit Manager meets with the external auditor a few times a year to provide insights to the control environment and minimise overlap of audit areas of focus.

The external auditor is invited to attend each Audit Risk and Compliance Committee meeting.

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For the 2014/15 reporting period the Audit Risk and Compliance Committee has:

- considered the program and status reports covering the preparation of the 2013/14 financial reports;
- received and endorsed the external auditor's letter covering the final audit for the year ended 30 June 2014;
- considered and endorsed the 2013/14 General and Special Purpose Financial Reports prior to Council's authorisation; and
- reviewed the external audit plan for 2014/15.

6. RISK MANAGEMENT

For the 2014/15 reporting period the Audit Risk and Compliance Committee has received:

- regular updates on the implementation of enterprise risk management within the City;
- presentations on the effective management of executive level business and project risks by the Director responsible;
- updates on the status of the financial position of the City;
- updates on the progress of the capital works program;
- briefings on the City's position and response to Local Governance reform, including Fit for the Future;
- updates on the City's insurance placement and claims management programs; and
- regular reports on Workplace Health and Safety management at the City.

The Audit Risk and Compliance Committee has also considered and provided comment to the Executive on the City's strategic risks.

7. LEGAL, GOVERNANCE AND COMPLIANCE

For the 2014/15 reporting period the Audit Risk and Compliance Committee has received:

- updates on major governance, compliance and legal matters; and
- briefings on any litigation affecting the City.

8. FRAUD AND CORRUPTION PREVENTION

For the 2014/15 reporting period the Audit Risk and Compliance Committee has received updates on:

- governance activities and fraud and corruption prevention activities;
- the updated fraud and corruption prevention plan for the City; and
- any current issues, investigations and outcomes.

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9. OTHER

The Audit Risk and Compliance Committee is satisfied that the City has:

- appropriate mechanisms in place to review and implement where appropriate, relevant State Government reports and recommendations related to local government; and
- developed a performance management framework linked to organisational objectives and outcomes.

Annually, the Audit Risk and Compliance Committee assesses the currency of its Charter and its performance.

ELIZABETH CROUCH Chair, Audit Risk and Compliance Committee October 2015
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