

ATTACHMENT A

**AUDIT RISK AND COMPLIANCE
COMMITTEE ANNUAL REPORT FOR
1 JULY 2015 TO 30 JUNE 2016**

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 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 within the City.

This annual report covers the period 01 July 2015 to 30 June 2016.

2. MEMBERSHIP

In accordance with its charter, the Committee comprises two members of Council and three independent members.

Members – Council:

- Lord Mayor Clover Moore, with Councillor John Mant appointed as the Lord Mayor's representative from 19 March 2014
- Deputy Lord Mayor Robyn Kemmis (to December 2015).

Members – Independents:

- Elizabeth Crouch (appointed July 2013, Chairperson since October 2014)
- Ken Barker (appointed October 2014)
- Carolyn Walsh (appointed October 2014).

Ex-officio attendees include:

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

Invitees include:

- Representatives of the external auditor
- Other officers as requested by the 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 2015/16 reporting period, the Committee held five 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.

4. INTERNAL AUDIT

The role of Internal Audit is to provide independent assurance to 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 Australia).

For the 2015/16 reporting period, the Audit Risk and Compliance Committee:

- endorsed the three year (2016-2019) audit plan and the annual audit plan (2015/16);
- considered regular reports from the Internal Audit Manager on progress against the annual audit plan;
- reviewed the Internal Audit Charter (no changes required);
- received a six-monthly update from the Internal Audit Manager on the status of actions taken by management to address high-risk rated findings identified in previous audit reports; and
- reviewed and endorsed the 14 internal audit reports listed in Table 2 below. The Committee supported the steps being taken by management to address the recommended actions.

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

Monitoring Outstanding Internal Audit Action Items

The City closely monitors outstanding management actions related to audit recommendations and ensures they are being actioned. This includes:

- 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 to the Executive to assist in monitoring progress of outstanding audit issues; and
- a review at each Audit Risk and Compliance Committee meeting of all overdue agreed management actions. This ensures close monitoring of the implementation and follow-up of all audit recommendations.

Through follow-up reviews, the Committee receives a report on the appropriateness of the management actions taken on high-rated closed actions 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

Rating: Low	
Engagement Name	Scope of Work
Access to the Roads and Maritime Services DRIVES24 System 2015/16	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. 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.
Councillors' Expenses 2015/16	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.
Management of Social Media	The purpose of this internal audit was to examine the City's management of the processes and controls in place in respect of social media, and to report on the adequacy of the current governance and management frameworks and the level of compliance with the City's current policies and procedures, relevant legislation, and good practice guidelines.
Fire Safety Compliance Follow-up	This assignment was a follow up of the Fire Safety Compliance Activities Review (March 2013) and the 'fire safety' related recommendations of the Building Compliance Follow-Up (September 2015). In summary, the Health & Building Unit has implemented all but one of the recommendations from these audits. The outstanding item relates to finalisation of the Compliance Policy review and the procedure for updating boarding house and backpacker accommodation register. The revised target completion date is March 2017.

Rating: Low	
Engagement Name	Scope of Work
Customs House Exhibition Management and Event Hire Process	The review evaluated whether the governance and control framework/design at Customs House are effective in managing the risks associated with the exhibitions management and events hire process.
Child Protections Processes 2015, Follow-up	The objective of this follow-up audit was to report on the status of the 2015 Internal Audit recommendations following an internal audit into the City's Child Protection Process (March 2015). It was confirmed that all internal control issues have been satisfactorily addressed and any remaining issues in progress are all process improvements.
Business Continuity Management	This review focused on the City's Business Continuity Framework, comprising the Crisis Management Plan and a selection of Business Continuity Plans across five business units as a representative sample of the planning arrangements that have been made across the organisation.
Rating: Satisfactory ⁽¹⁾	
Contract Management – Restaurant Associates, Follow-up	This engagement was a follow-up of the <i>Restaurant Associates Contract Management</i> Audit Report issued in July 2013. All reviews rated 'requires improvement' or 'unsatisfactory' are followed up some 12 - 18 months later. The scope of these reviews focus on the status of agreed management actions.
Building Certification Services	This audit reviewed the processes and controls in place which ensure the City complies with the <i>Local Government Act 1993</i> , the <i>Roads Act 1993</i> , the <i>Environmental Planning and Assessment Act 1979</i> , and the requirements of the Building Professionals Board, in providing building certification and other related approvals for building works.
Pine Street Creative Arts Centre Process	The primary purpose of this review was to assess whether the appropriate governance framework, processes and responsibilities are in place to ensure effective and efficient management of operations at the Centre.
s61 and s94 Developer Contributions, Follow-up	The objective of this review was to undertake follow-up on management actions taken to date to address the issues identified and recommendations provided in the October 2014 City of Sydney's s61 and s94 contributions review report. This includes assessing the adequacy and effectiveness of management systems and controls in place to mitigate risks associated with processing of contributions.
Contract Variation Management	The scope of this review was to determine the adequacy and effectiveness of the processes associated with contract variations, specifically in relation to IT, construction and service providers.

Rating: Requiring improvement

Engagement Name	Scope of Work
Building Compliance Follow-up	The previous review of this area focused on the key business processes followed by staff in performing building-related compliance activities. There were a number of areas where governance could be further improved including business process improvements around customer enquiries. Further reengineering of customer queries and compliance actions will ensure matters are dealt with on an “end to end” basis within relevant business units. This will deliver a more strategic, well-governed and streamlined system.
Not rated – This engagement was an assessment designed to assist the project and not an audit review.	
Non-residential Register & Rolls (NRRR)	<p>This engagement was initiated in response to recent changes to the <i>City of Sydney Act 1988</i> requiring the City to establish and maintain a register of non-residential roll electoral information for the purposes of identifying non-resident owners of rateable land and a roll of occupiers and rate-paying lessees.</p> <p>This review of NRRR project management was performed and reported on in the following stages: (1) identification of compliance requirements; (2) process and system design; (3) process and system development; data collection and input.</p> <p>In performing this review, the procedures that the City used to support the NRRR Project were examined and assessed against:</p> <ul style="list-style-type: none"> • requirements under the City of Sydney Act 1988; • the City's Project Management Guide; and, • other recognised 'good practice' project management guidance. <p>Aside from some minor areas for potential improvement, the findings of the audit noted the good project management practices were applied to the governance and oversight of the project.</p>

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 active monitoring of these actions/recommendations by management. Resolved actions continue to be closed and Internal Audit is satisfied with the status of any outstanding and overdue actions as at 30 June 2016.

Table 3: Management of internal audit actions/recommendations

Year	Outstanding Actions at Start of Year	New Actions from Audits	Actions closed	Current Actions at Year End	Actions Overdue ⁽¹⁾
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
30/06/2016	87	27	66	48	27

(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. All actions are now 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 further 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 periodically to provide insights to the control environment and minimize any potential overlap in audit's area of focus.

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

For the 2015/16 reporting period the Committee has:

- considered the program and status reports covering the preparation of the 2014/15 financial reports;
- received and endorsed the external auditor's letter covering the final audit for the year ended 30 June 2015;
- considered and endorsed the 2014/15 General and Special Purpose Financial Reports prior to Council's authorization; and
- reviewed the external audit plan for 2015/16.

6. RISK MANAGEMENT

For the 2015/16 reporting period the Audit Risk and Compliance Committee has received regular updates and briefings on:

- implementation of enterprise risk management within the City;
- the financial status of the City;
- progress of the capital works program; and,
- briefings on the City's position and response to Local Government reform, including Fit for the Future;
- the City's insurance placement and claims management programs; and
- regular reports on Workplace Health and Safety management at the City.

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

7. LEGAL, GOVERNANCE AND COMPLIANCE

For the 2015/16 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 2015/16 reporting period, the Audit Risk and Compliance Committee 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.

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 organizational objectives and outcomes.

The Committee assesses the currency of its Charter and its performance annually.

ELIZABETH CROUCH

Chair, Audit Risk and Compliance Committee
November 2016