

ATTACHMENT A

**AUDIT RISK AND COMPLIANCE COMMITTEE
ANNUAL REPORT - 2016/17**

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1. INTRODUCTION

The Audit Risk and Compliance Committee (ARCC) plays an important role in the City of Sydney Council's governance framework. Its primary objectives are to assist Council in discharging its responsibilities with respect to:

- financial reporting;
- business ethics, policies and practices;
- accounting policies;
- risk management and internal controls;
- regulatory compliance; and
- alignment with standards and best practice guidelines.

The ARCC provides advice to Council on the integrity of the City'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 operations conform 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 2016 to 30 June 2017.

2. MEMBERSHIP

In accordance with its Charter, the Committee comprises two members of Council and three independent members, one of whom holds the role of Independent Chair.

Members – Council:

- Lord Mayor Clover Moore
- Councillor John Mant (to September 2016)
- Deputy Councillor Kerry Phelp (appointed as the Lord Mayor's representative, from September 2016)
- Councillor Jess Scully (from September 2016).

Members – Independents:

- Elizabeth Crouch (appointed July 2013, reappointed August 2016, 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 (ARCC) meets up to five times annually to consider matters relating to the financials, audit and risk management issues of the City of Sydney. In particular, the ARCC:

- considered the City's enterprise risk management framework;
- attended site visits to Green Square, two new childcare centres and the Street Safety Camera Operations Room;
- received reports on workplace health and safety and other compliance related matters;
- maintained oversight of changes to the risks recorded in the City's risk register including consideration of new risks that reflected changes to the City's operational environment;
- focused internal audit activity in line with the governance arrangements for the City;
- maintained oversight of financial reporting and endorsement of the financial statements including securing relevant attestations from the Chief Financial Officer;
- reviewed performance audit activity by the NSW Audit Office relevant to the City of Sydney; and,
- assessed whether appropriate policies and procedures are in place and are reviewed including those related to delegations.

During the 2016/17 reporting period the Committee held five meetings, with a quorum present at all meetings.

The City of Sydney has adopted a staggered approach to rotation of ARCC members, including the Chairperson, to ensure continuity of knowledge and skills. The Chair's term expires in 2020, the terms for the other Independent Members expire in November 2018. At approximately nine months prior to the expiration of each member's current term, the Committee will consider extending current members or sourcing replacement members.

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 is led by a Chief Audit Executive with a support officer, with field work undertaken through an outsourced model supported by a panel of three service providers (BDO Australia, O'Connor Marsden & Associates and RSM Australia).

For the 2016/17 reporting period, the Audit Risk and Compliance Committee:

- approved the strategic audit program 2016-2019 and the annual audit plan (2016/17);
- considered regular reports from the Internal Audit Manager on progress against the plan;
- reviewed the Internal Audit Charter (no changes required);
- received updates 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 19 internal audit reports listed in Table 2 below. The Committee supported the steps undertaken 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.

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:

- ensuring each Director is accountable for monitoring the status of outstanding issues for their respective Division including 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 actions; and
- reporting at each meeting the Audit Risk and Compliance Committee on all overdue management action items to monitor implementation and follow-up of audit recommendations.

The Committee receives a report on the appropriateness of the management actions taken on high-rated closed actions items through follow-up reviews and closing audits. 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 investigation outcomes are not rated.

Table 2: Internal Audits tabled at Audit Risk and Compliance Committee meetings

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

Rating: Low	
Engagement Name	Scope of Work
Permit Management, Follow-up	From FY2015/16 audit plan: This follow-up internal audit focused on the key business processes followed by staff in assessing and approving applications for both temporary road closures and work zones, the subsequent invoicing for these applications and the monitoring of site operations, once applications have been approved. The internal audit identified four medium rated issues around general policies and records management on work zones and temporary full road closures that provide guidance to staff to support legislative compliance.
Implementation of Resolutions of Council Review	The audit provides assurance that internal controls over the implementation of Resolutions of Council (ROC) are actioned and appropriate, effective and efficient in all material respects. The audit evaluated the mechanisms and processes in place to measure and report on the overall management and governance of ROC. The audit identified that most business units actively monitored the implementation of ROC and have put in place processes to monitor the implementation and so manage the risks to the City. Minor recommendations in relation to establishing uniform procedures have been implemented.
Review of Accounts Payable	The primary objective of the audit was to review the effectiveness of controls surrounding the City's accounts payable processes. The audit identified two medium risk issues and two low risk issues related to controls over amendments and segregation of duties which have been actioned.
Review of Venue Management	The City has landmark venues for hire which include the Sydney Town Hall, Paddington Town Hall and the Barnet Long Room at Customs House. The audit examined the management of these Council venues and identified three medium risk issues and one low risk issue related to improved documentation and handling of bookings.
Access to the Roads and Maritime Services DRIVES24 System 2016/17	The Council has an agreement with Roads & Maritime Services (RMS) to access RMS' registration database called DRIVES24 system to enable identification of the registered owner of a vehicle for infringement purposes. Under the agreement, an annual audit is required to verify that the system is being used appropriately. The City has complied with its obligations under the agreement.
Councillors' Expenses 2016/17	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 confirmed compliance with the Office of Local Government guidelines and the City's Councillors' Expense Policy.
Payroll Review	The CHRIS21 payroll system records new starters, variations to contracts, terminations and processes payroll payments. It is integrated with the City's financial management system (Technology One). The audit identified four low risk issues related to the need to update policy documentation, data duplication and review of access. These recommendations are being actioned.

Rating: Low	
Engagement Name	Scope of Work
UNGERBOECK (event management application)	Ungerboeck software is used as the venue management tool for the indoor premises available for public hire (Sydney Town Hall, Paddington Town Hall and Barnet Long Room in Customs House). This application is used in the end to end process from bookings to scheduling resources to invoicing for managing venues. It is also used as a central repository for all client correspondences and operational matters. The audit identified three medium risk issues related to data quality and event analytics and payment follow up which are being actioned by the City.
Legal Services (including litigation)	Internal Audit undertook a review of the City's Legal Services processes. The key objective of the Legal Services unit (i.e., Planning & Compliance, and Commercial & Property) is to protect and enhance the City's reputation and help achieve its key objectives by engaging with business to manage risk, ensure good governance while providing high quality legal support to the City. The audit identified two medium risk issues and business improvement and communication with internal clients. These are being actioned.
Non-residential Register (implementation and maintenance)	Internal Audit undertook a review of the methodology and plan for the Non-Residential Register – Transition to Business as Usual Project to maintain (per legislation) an accurate register of all those with a possible entitlement to vote at the City of Sydney's local government elections as non-residents. The legislative requirement is not limited to the four yearly cycle of local government elections. The City must be able to produce accurate non-residential rolls at any time, including when a casual vacancy occurs. The audit found no material deficiencies with the NRRR plan and methodology, with only two minor non-rated findings.
Stratified Procurement \$10K - \$50K (decentralised) Compliance	A review of the City's procurement processes for expenditure in the \$10k to \$50k range was performed. The scope included the Chief Operations Office, City Engagement and City Projects & Property Divisions. The audit identified two medium risk issues around requests for Quotations and retention of scorecards. Recommendations are being actioned.
Technology One Application	The Technology One finance system is the City's overall accounting package; the Finance One module is the basis of accounting for the City's purchases and income. The audit identified one low risk issue during the review concerning documentation around the review of access controls which has been addressed.
Street Safety Camera Review 2017	This review is mandatory as required by the Program's Code of Practice and covered the operation of the policies and procedures during July 2016 to June 2017. Our review found very strong procedural compliance with the current Code of Practice with respect to usage and provision of footage to others (persons or entities) and over physical access to the Operations Centre. We noted, as in prior reviews, senior managers within the unit maintain a rigorous culture with respect to compliance with policy, procedure and operating practices. Some minor policy and procedural changes to the administration of records management in line with the <i>State Records Act 1998</i> have been foreshadowed for 2017/18.

Rating: Low	
Engagement Name	Scope of Work
Fire Compliance Review 2017	The City's responsibilities for fire safety are prescribed in the <i>Environment Planning and Assessment Act 1979</i> and supporting Regulation. A section of the legislation covers essential fire safety measures in buildings and their adequacy to ensure the safety of building occupants. Based on the work performed and the evidence obtained, nothing has come to our attention that would indicate that the key controls surrounding fire safety compliance are not operating effectively. Minor issues related to complaint resolution, maintenance of compliance documents and review of procedures are being actioned.
Rating: Satisfactory ⁽¹⁾	
Engagement Name	Scope of Work
Time and Attendance (Kiosk)	From FY2015/16 audit plan: The focus of this internal audit was to ascertain across selected and representative areas of the business, the manner in which time and attendance data is generated, managed, used and reported. The audit identified four medium risk findings and two low risk findings related to management of records, data entry and system access. These matters are being reviewed and addressed.
Review of Emergency Response and Crisis Management	<p>The objective of this audit was to review the efficiency and effectiveness of systems and processes the City has in place, in the event of a crisis or emergency incident.</p> <p>The audit identified five medium risk issues and one low risk issue. The medium risk issues related to the definition of the crises management framework, Crisis Management Team (CMT) training and diversification of test exercises. Further areas include 'after action' reviews, monitoring of recommendations and accessibility of Crisis Management Team members during a crisis. The review also identified the need for improvements in the Emergency Management Operating System as a central repository for emergency plans; improvements in crisis management tools and the establishment of a support structure to assist the CMT. These recommendations are currently being addressed.</p>
Rating: Requiring improvement ⁽¹⁾	
Engagement Name	Scope of Work
Pathway Application, Follow-up	From FY2015/16 audit plan: The objective of this review was to undertake a follow-up on management actions taken to date to address the issues identified and recommendations provided in the May 2013 City of Sydney's Pathways review report. The primary findings of the original report related to recruit a 'Pathway Coordinator' position which has been difficult to fill. This role has now been filled and action is in place to address remaining recommendations.

Rating: Not rated	
Engagement Name	Scope of Work
Risk Management Framework Review	<p>The City of Sydney's Risk Management framework provides the foundation and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the CoS. The Internal Audit review completed comparative assessment against the City's policy and procedures, and related 'best practice' frameworks, specifically the International Risk Management standard ISO 31000:2009, and NSW Treasury TPP 15-03 and TPP 12-03.</p> <p>The City's Risk Management policy and procedures are appropriate, and the Risk Management Framework is designed and operating effectively in terms of achieving the policy objectives. The City's Risk Management framework is appropriate and performing well with respect to like organisations, and achieved an overall rating of 'Consistent – Designed' (ie. an enterprise risk management framework exists covering all major risks) with a number of individual areas, such as Culture, approaching 'Optimised'.</p>
Light Rail Agreement Review	<p>This audit was a limited assurance review assessing whether internal controls over the Light Rail Agreement were adequate, effective and efficient in managing risks to the City. There was one audit observation that representatives to the CSELR Project Committee came from two sections of the City of Sydney i.e. City Transformation and City Design. Consequently there are some opportunities for improved consistency and integration of feedback to TfNSW and the Light Rail Project stakeholders.</p>

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 is actively monitoring the status of outstanding action items to ensure regular closure of relevant items. Internal Audit is satisfied with the status of outstanding and overdue actions as at 30 June 2017.

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⁾
30/06/2014	87	158	171	74	32 ⁽²⁾
30/06/2015	74	105	92	87	8
30/06/2016	87	64	66	85	27
30/06/2017	85	97	153	29	7 ⁽³⁾

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

(2) 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.

(3) There were no high-rated actions overdue as at 30 June 2017.

5. EXTERNAL AUDIT

Following amendments to the Local Government Act 1993, the Audit Office of New South Wales formally notified the City that they will resume their role as the City's external auditors for 2016/17 and beyond. PricewaterhouseCoopers is no longer conducting the financial audits for the City.

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 minimise overlap of audit areas of focus.

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

The Audit Risk and Compliance Committee has:

- considered the program and status reports covering the preparation of the 2015/16 financial reports;
- received and noted the external auditor's letter covering the final audit for the year ended 30 June 2016;
- considered and endorsed the 2015/16 General and Special Purpose Financial Reports prior to Council's authorisation;
- reviewed Directors' attestations; and
- reviewed the external audit plan for 2016/17.

6. RISK MANAGEMENT

For the 2016/17 reporting period the Audit Risk and Compliance Committee has received:

- regular updates on the implementation of enterprise risk management within the City;
- reviewed the City's risk profile;
- 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 Government 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 Committee also considered and provided comment to the Executive on the City's strategic risks.

7. LEGAL, GOVERNANCE AND COMPLIANCE

For the 2016/17 reporting period the Audit Risk and Compliance Committee received:

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

8. FRAUD AND CORRUPTION PREVENTION

For the 2016/17 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
October 2017

