

Attachment A

**Audit Risk and Compliance Committee Annual
Report for 1 July 2017 to 30 June 2018**

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 2017 to 30 June 2018.

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 Jess Scully (from September 2016)
- Councillor Robert Kok (from September 2017, as the Lord Mayor's alternate).

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 Governance
- 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 a minimum of five times annually to consider matters relating to the financial, audit and risk management issues of the City of Sydney. In 2017-18 the ARCC considered:

- the City's enterprise risk management framework;
- attended site visits to inspect major projects undertaken by the City in Sydney Park, Victoria Park and Hyde Park;
- received regular 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;
- reviewed the City's controls and fraud and corruption reporting framework;
- focused internal audit activity in line with the risk profile and 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 the Audit Office audit report and performance audit activity relevant to the City of Sydney; and,
- assessed whether appropriate policies and procedures were in place and reviewed including those related to delegations.

During the 2017/18 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 2021, and the terms for the other Independent Members expire in November 2018. Prior to the expiration of each member's current term, the Committee will consider the merits of extending current members or sourcing alternative 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. A panel of two service providers (RSM Australia and O'Connor Marsden & Associates) provide these outsourced internal audit services.

For the 2017/18 reporting period, the Audit Risk and Compliance Committee:

- approved the strategic audit program for the period 2018-2021 and the annual audit plan (2018/19);
- considered regular reports from the Chief Internal Auditor on progress against the plan;
- reviewed the Internal Audit Charter (with no amendments required);
- received updates from the Chief Internal Auditor on the status of actions taken by management to address high-risk rated findings identified in previous audit reports; and
- reviewed and endorsed the 13 internal audit reports listed in Table 2 below. The Committee supported the steps undertaken by management to address any recommended actions.

The Committee is satisfied that the internal audit plan is aligned with and responds to 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 management actions arising from audit recommendations and ensure these 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 to each meeting of the Audit Risk and Compliance Committee on all overdue management action items to monitor implementation and follow-up. The Audit Risk and Compliance Committee also receives regular presentations from risk owners on the status of key risks.

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

Rating: Low	
Engagement Name	Scope of Work
Parking Services (Parking Stations and Meters) Review	Internal Audit performed a review of the City's Parking Services with a focus on the operations on the City's parking stations and meters. Two low-rated risk issues were identified. Management have agreed with the findings and recommendations of this audit. Based on the work performed and the evidence obtained, nothing has come to our attention that would indicate that the key controls surrounding Parking Services are not designed and operating effectively.
Environmental Reporting and Data Integrity Review (the Green Report)	Internal Audit performed a review of the processes and controls surrounding the City's Environmental Reporting and Data Integrity. This review addresses Executive Risk 10 on the Corporate Risk Register which is the "Achievement of stated climate change objectives" – rated as a high risk area. The City's Environment Policy applies to all City of Sydney's operations, assets, activities and staff. An Environmental Management System (EMS) supports the City's commitment to ensuring sustainable asset management and operations. The Green Report is the City of Sydney's state of the environment report and fulfils the reporting requirements of the NSW Local Government Act 1993 and the associated Integrated Planning and Reporting Guidelines. Overall, key controls surrounding Environmental Reporting are operating effectively; with a comprehensive timetable for collation of data, use of available audited data, review of the accuracy of formulae and calculations, and regular reporting on KPIs.
Review of Green Square Project (Public Infrastructure and Development)	Internal Audit performed a review of the Green Square project in respect to those aspects for which the City is directly responsible and/or accountable. The audit focussed on assessing the overall delivery of public infrastructure and built form of the project when compared to a range of strategic, planning, design and conceptual documents produced by the City. The review also explored the extent to which private development is progressing as planned. The audit found the City is meeting its commitments to deliver public infrastructure and facilities in line with private development.
Planning Agreements Review	Internal Audit performed a review of the processes and controls in place surrounding the City's planning agreements. Planning agreements are an agreement for securing a public benefit offered by a developer in association with a development application or a change to planning controls (non-standard) or an agreement to capture the required public benefit as set out in Council's Development Control Plans. Risks associated with planning agreements include probity, compliance, strategic alignment, financial / value for money, and delivery outcomes. The audit observed that additional resources have been applied to the planning agreement coordination team to assist in ensuring clear and transparent processes in the light of increased volumes of work. The Planning Agreements Steering Committee has also been established to review and endorse planning agreements, providing an additional level of governance and oversight.

Rating: Low	
Engagement Name	Scope of Work
Assurance on ICAC Operation Ricco Findings and Recommendations (Phase 1)	<p>Internal Audit undertook a review of the development and implementation of the City of Sydney's Action Plan in response to the ICAC's 2017 report "<i>Investigation into the conduct of the former City of Botany Bay Council Chief Financial Officer and others</i>" (aka Operation Ricco).</p> <p>The objective of this engagement was to review and report to Senior Management and the Audit Risk and Compliance Committee (ARCC) on the adequacy and implementation of actions designed to address the findings and recommendations made by ICAC in its July 2017 Report. Specific objectives included: Review the actions agreed by the City to address the recommendations; and Assess the adequacy of the plan which was developed to implement the agreed actions (with respect to resourcing, allocation of responsibility, Executive support and timing).</p> <p>Internal Audit considered the actions taken in the development of the Action Plan were comprehensive and appropriate.</p> <p>Phase 2, scheduled for October 2018, will review the outcomes of the agreed actions as stated within the Action Plan.</p>
Fraud and Corruption Prevention Framework Review	<p>Internal Audit undertook a scheduled review of the City's fraud and corruption prevention framework. The City has developed and implemented a fraud and corruption prevention framework including a fraud risk assessment which has been submitted to the executive for approval.</p> <p>The scope of the engagement was to review: the existence and operation of the City's fraud and corruption prevention framework (including elements of the investigation function), and consistency with recognised and expected approaches to good practice.</p> <p>The audit considered the alignment of the City's frameworks with AS 8001-2008 Fraud and Corruption Control and NSW Audit Office Fraud control guidance; benchmarked against similar organisations where possible; assessed the effectiveness of communication of the fraud and corruption prevention framework to City employees; assessed the level of awareness of the fraud and corruption prevention framework throughout the City; considered the adequacy of fraud risk assessment undertaken; reviewed the extent of reporting of fraud and action taken; considered the operation and effectiveness of the City's fraud and corruption investigation function; and identified possible areas for improvement and recommendations to strengthen these areas. The City has a comprehensive and appropriate fraud and corruption prevention framework that aligns with requirements, guidance and recognised good practice.</p>
Purchase Card and Cabcharge Card Review	<p>The scope of this audit included the mechanisms and processes in place to measure and report on the usage, administration / management, accounting and oversight of purchase cards and Cabcharge cards. The objective was to provide some assurance that key internal controls over purchase cards and Cabcharge are adequate, effective and efficient in all material respects for managing risks to the City. It was identified that the City has appropriate control over purchase cards and Cabcharge cards; including segregation of duties, acquittal processing, receipts/tax invoicing, allocation to cost centres with appropriate expenditure reporting, and security over undelivered purchase cards.</p>

Rating: Low	
Engagement Name	Scope of Work
City Rangers (Ordinance) Operations Review	The objective of this review was to provide assurance that Ranger Ordinance compliance management policies and procedures, and internal controls are adequate, effective and efficient in managing risks to the City. The scope was to examine the mechanisms and processes in place to measure and report on the overall program management. The audit identified effective processes and controls in place; in particular regarding legislative and social amenity compliance, Ranger training and education, standard operating procedures and practice notes, and reactive and proactive monitoring and inspection by Rangers. Further, it was noted the significant improvement in procedures and practices during the past 18 months.
Review of Access to Roads & Maritime Services' DRivES24 - 2018	The City has a five year DRIVES24 Terms of Access Agreement for Local Government (dated 04 May 2015) in place with NSW Roads & Maritime Services. Requirements of the Terms of Access Agreement include an annual audit of access and security, and the issue to RMS of a compliance certificate signed by the CEO and Chief Internal Auditor. The City's Chief Internal Auditor has conducted the annual audit and found no breaches of the Agreement.
Revenue and Accounts Receivable Management Review	The primary objective of the engagement was to review the design and operating effectiveness of key internal control practices in the revenue and accounts receivable processes for the following operating income streams: general rates; commercial properties; enforcement income (parking fines); and chargeable works. The review identified that key controls are operating effectively.
Rating: Satisfactory ⁽¹⁾	
Engagement Name	Scope of Work
Parking Inspectors – PinForce Andriod Project	Internal Audit performed a review of the City's PinForce Android Project, a mobile infringement issuing technology. Based on the audit work performed and the evidence obtained, nothing has come to our attention that would indicate that the key controls surrounding the PinForce Android Project for the parking inspectors are not designed and operating effectively.
Bring Your Own Device (BYOD)	The scope of this review examined the mechanisms and processes in place to measure and report on the overall BYOD program management. The objective was to provide limited assurance that BYOD policies and procedures, internal management controls and information security controls are adequate, effective and efficient in managing the risks to the City. The audit identified that there is appropriate control over the operational implementation of the City's Bring Your Own Device (BYOD) policies and procedures. Observations of good practice were noted, in particular the appropriateness of policies and procedures, service centre / help desk support, use of mobile device management (MDM) application, and access security controls.

Rating: Requiring improvement ⁽¹⁾	
Engagement Name	Scope of Work
<i>Note: There were no internal audit reports during this financial year rated “requiring improvement”.</i>	
Rating: Not rated	
Engagement Name	Scope of Work
Councillors' Expenses Compliance Review 2017/18	<p>This review examined the effectiveness of processes and internal controls designed to mitigate the risks associated with administration of Councillors' Expenses and Facilities Policy. The key objective of the review was to assess compliance over the payment of expenses and the provision of facilities to Councillors as governed by the City's Councillors' Expenses and Facilities Policy dated August 2017. The review also had due regard to requirements of Sections 252 to 254 of the Local Government Act and the supporting regulations and guidelines.</p> <p>Systems were operating efficiently and effectively, and no adverse findings were identified during the review.</p>

(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 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 timely closure of relevant items. The Audit Risk and Compliance Committee and Internal Audit are satisfied with the status of outstanding and overdue actions as at 30 June 2018.

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⁾
30/06/2015	74	105	92	87	8
30/06/2016	87	64	66	85	27
30/06/2017	85	97	153	29	7
30/06/2018	29	61	74	16	5 ⁽²⁾

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

(2) There were no high-rated actions overdue as at 30 June 2018.

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.

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 Chief Internal Auditor meets with representatives of 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 as well as join the Committee on site visits as appropriate.

During the 2017/18 financial year, the Audit Risk and Compliance Committee has:

- considered the program and status reports covering the preparation of the previous financial year (2016/17);
- received and noted the external auditor's letter covering the final audit for the year ended 30 June 2017;
- considered and endorsed the 2016/17 General and Special Purpose Financial Reports prior to Council's authorisation;
- reviewed Directors' attestations;
- reviewed the external audit plan for 2017/18; and
- reviewed the Audit Office of NSW's Performance Audits tabled at Parliament (Shared services in local government and Fraud controls in local councils, both June 2018).

6. RISK MANAGEMENT

For the 2017/18 reporting period the Audit Risk and Compliance Committee has received:

- regular updates on the implementation of enterprise risk management within the City;
- reviews and changes to 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 and other major initiatives;
- briefings on the City's position and response in relation 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 2017/18 reporting period the Audit Risk and Compliance Committee received:

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

8. FRAUD AND CORRUPTION PREVENTION

For the 2017/18 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.

Seven matters were brought to the attention of the Audit Risk and Compliance Committee during 2017/18. Investigations were undertaken by the Governance unit with five allegations substantiated and two unsubstantiated. The substantiated matters include the misuse of City information and using City resources for non-work purposes.

The nature of these matters was reported to the ICAC in accordance with policy. ICAC elected to leave all matters with the City to investigate. There were seven matters that were investigated which involved council officers. Of the matters investigated, five were substantiated and action was taken to refer matters to Police or discipline staff as appropriate. Relevant fraud control policies and procedures have been reviewed as needed following the review of these cases.

9. REVIEW OF WORK HEALTH SAFETY

The Audit Risk and Compliance Committee regularly reviews safety updates, including workplace injuries, notifiable incidents and workers compensation claims.

10. OTHER

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

- appropriate mechanisms in place to review and implement 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 2018