

# **Attachment A**

**Audit Risk and Compliance Committee  
Annual Report for 1 July 2018 to 30 June  
2019**

## **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 2018 to 30 June 2019.

## **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, reappointed October 2018)
- Carolyn Walsh (appointed October 2014, reappointed October 2018).

Ex-officio attendees include:

- Chief Executive Officer
- Director Legal and Governance
- Chief Financial Officer
- Manager Risk and Governance
- Chief Internal Auditor

Invitees include:

- Representatives of the Audit Office of New South Wales
- 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 2018/19 the ARCC:

- considered the City's enterprise risk management framework;
- received regular reports on workplace health and safety and other compliance related matters;
- received briefings on the People Matter survey and Information and Privacy Commission NSW;
- maintained oversight of 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 NSW Audit Office audit report and performance audit activity relevant to the City of Sydney;
- assessed whether appropriate policies and procedures were in place and reviewed those related to delegations; and
- received presentations from key risk owners throughout the year.

During the 2018/19 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 2022. Prior to the expiration of each member's current term, the Committee will consider the merits of extending current members or sourcing alternative members. The Chief Executive Officer, in consultation with the Lord Mayor, confirms all new appointments or reappointments.

### **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 2018/19 reporting period, the Audit Risk and Compliance Committee:

- approved the strategic audit program for the period 2019-2022 and the annual audit plan (2019/20);
- considered regular reports from the Chief Internal Auditor on progress against the plan;
- reviewed the Internal Audit Charter (with no amendments required);
- received audit report, as well as 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 19 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 all overdue management action items to monitor implementation and follow-ups at each meeting of the Audit Risk and Compliance Committee. 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: Not rated  |  |
| <b>Engagement Name</b>   | <b>Scope of Work</b>   |
| Review of Access to Roads & Maritime Services' DRIVES24 - 2019             | 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.   |
| Review of Street Safety Camera Program 2019                                | This review is mandatory as required by the Program's Code of Practice and covers the operation of the policies and procedures. The purpose of this review was to assess compliance with the key principles of the City's Street Safety Camera Program's Code of Practice: (1) compliance with policies and procedures; (2) performance reporting; and (3) risk management. There were no significant findings.  |
| Rating: Low <sup>(1)</sup>   |  |
| <b>Engagement Name</b>   | <b>Scope of Work</b>   |
| Assurance on ICAC Operation Ricco Findings and Recommendations (Phase Two) | Assurance on ICAC Operation Ricco Findings and Recommendations has been undertaken in two phases, with this report constituting the outcomes of Phase Two. Phase One consisted of an Action Plan Assessment to support the implementation of recommendations made by ICAC. Phase Two consisted of reviewing the implementation of the agreed actions as stated within the Action Plan.<br><br>The audit identified that clear and robust frameworks have been developed which are designed to ensure that the issues observed at the City of Botany Bay Council do not occur. The City has documented clear, concise and timely steps within the Fraud Control Action Plan to minimise the risk of fraud and corruption. |
| Accounts Payable - Technology One Application Review                       | The review was undertaken to provide assurance on the adequacy of the City's processes and application controls surrounding the Accounts Payable function within the Technology One system. Overall, Internal Audit identified two low risk issues relating to: mitigating controls are not being in place for potentially conflicting Technology One access rights; and Super User access, activity and mitigating actions not independently monitored.   |
| Accounts Payable Review  | The review was undertaken to provide assurance on the adequacy of the City's control environment surrounding AP processes. Audit issues identified included: no Supplier Registration Form and written confirmation for additions/amendments to Supplier Masterfile; no Payment Request Form approval for non-PO payments; and suppliers inactive for more than 18 months remain in the Masterfile.  |
| Grants and Sponsorship   | The objective of the internal audit was to provide assurance that there were effective controls in place around the management of grants and sponsorship processes. The audit did not identify any significant findings. Two low rated matters were identified: delays in completing tasks, and minor amendments required to guidelines.   |

| Rating: Low <sup>(1)</sup>  |   |
|---|---|
| Engagement Name   | Scope of Work   |
| Government Information Public Access (GIPA) Act Compliance            | The objective of the internal audit was to assess the policy and procedures as well as the design and operating effectiveness of controls that mitigate the compliance risks associated with handling enquiries / review requests / complaints and reporting of decisions/ outcomes of review under GIPA Act. The internal audit provides limited assurance that the controls are appropriately designed, implemented and operating effectively. No matters of relating to GIPA legislative compliance were identified, and only some improvement opportunities related to processing charges and advanced deposits; consistency in processing times and fees; and formal issue of draft guideline on information access were raised in this report.  |
| Cleansing and Waste Management: Notifications & Complaints Management | This review was undertaken to provide assurance that the City's notification/complaints management and support services in the Cleansing & Waste Unit are adequate, effective and appropriate.<br><br>Several low rated issues were identified, including: lack of specific procedure for notifications and complaints management in Cleansing & Waste; monitoring and reporting of trends not being performed; "Not completed" complaints not correctly catalogued; status of some complaints received; and feedback not provided to customers on non-actioned complaints.   |
| IT Project Management Review  | The review was undertaken to provide assurance on the operating effectiveness of the IT Project Management control environment. Overall, Internal Audit identified one medium and two low risk issues relating to: approved project documentation not being available at the time of the audit; IT Project Management Guide annual review overdue; and lessons learned not formally documented within key project documents.  |
| Review of Procurement (Low value – sub \$150,000 and sub \$10,000)    | This review examined the processes and controls relating to the procurement activities for expenditures in range of sub \$10,000 and sub \$150,000. The audit identified one medium and one low rated issue: non-compliance with policies and procedures in respect to quotes, evaluation process, and records management; and compliance reporting does not consider trends on approval under exceptional circumstances.   |
| Rating: Satisfactory <sup>(1)</sup>                                   |   |
| Engagement Name   | Scope of Work   |
| Review of Children's Services, Child Protection                       | This internal audit focused on policies, procedures and practices in relation to working with children check requirements, staff entry and movement, training, categorisation of roles, investigation of allegations and disclosures, and external reporting requirements. As part of the internal audit process, we undertook sampling across the City in relevant areas that are directly engaged or interface with activities involving children.<br><br>Overall findings included that the City has a robust and comprehensive framework for child protection, there is a strong culture and high levels of awareness or risks, City staff are highly vigilant in high risk areas, the City's child protection policies and procedures are compliant to legislation, and currency of WWCC clearances are monitored.<br><br>All matters raised in the previous report of September 2016 have been resolved. Some minor process improvement matters of low probability, low risk were identified. |

| Rating: Satisfactory <sup>(1)</sup>             |   |
|---|---|
| Chris <sup>21</sup> Application Review          | The review was undertaken to provide assurance on the adequacy of processes and application controls surrounding the chris <sup>21</sup> system. One high risk issue relating to monitoring Super User access and activity was identified.  |
| Work Health and Safety Framework Review         | <p>The review was undertaken to provide assurance on the effectiveness of the City's Safety Management System with respect to WHS legislation and alignment to relevant best practice within standards such as AS 4801:2001 and ISO 45001:2018.</p> <p>This internal audit was a performance review and did not represent a certification or attestation of compliance. However, the overall opinion was that the City's Safety Management System Procedures are generally compliant with WHS legislative requirements. Internal Audit identified two high risk issues: mandatory WHS induction and training courses had not been completed by staff in some instances; and WHS Incident Register contained some overdue actions and incorrect information.</p>   |
| Councillors' Expenses Compliance Review 2018/19 | <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>   |
| Payroll Review                                  | The review was undertaken to provide a limited assurance conclusion on the adequacy of the City's Payroll processes. One issue relating the process around ensuring that temporary Employment Variations are reflected in CHRIS21 was identified.   |
| Rating: Requiring improvement <sup>(1)</sup>    |   |
| Engagement Name                                 | Scope of Work   |
| Business Continuity Management                  | <p>This audit reviewed the operating effectiveness of the City's Business Continuity Management (BCM) system at the Essential Services and Support Services 'local' level in the event of a significant incident, disaster and / or disruption. The mechanisms and processes in place to measure and report on the overall BCM program management at the following sample of business groups within Essential Services and Support Services (a total of 21 business groups): Cleansing &amp; Waste, Customer Service including Call Centre, Child and Family Services including Childcare, Direct Services including Meals on Wheels.</p> <p>The audit did not include Information Technology Disaster Recovery Planning, Emergency Management or the Crisis Management Team / Crisis Management Plan other than in the context of BCM.</p> <p>Overall the City's BCP framework is comprehensive and effective. There has however been inconsistent and non-timely application of various required elements of Business Continuity Planning across two of the four sampled business groups. This includes BCPs not being updated to reflect changed business processes and testing of BCPs not undertaken in a timely manner.</p> |

| Rating: Requiring improvement <sup>(1)</sup>                             |   |
|--|---|
| Engagement Name  | Scope of Work   |
| Data Centre Operations Review  | <p>The review was undertaken to provide assurance on the design and operating effectiveness of key internal control practices and risk mitigation actions in the management and operation of the data centres.</p> <p>Observations of good practice were noted regarding details provided in the contract between the City and the Data Centre owner; reports submitted to the City; and the clear layout of fees on the invoices.</p> <p>One high rated matter relating to monitoring and investigation of data centre performance was identified, as well as three medium rated matters relating to underperformance penalties, inactive legacy servers, and contractual arrangements with owner of the data centre operator.</p> |
| Information Technology Security Framework Review                         | <p>The objective of the engagement is to review and report on the adequacy of the Information Technology Security framework, systems and controls in place at City of Sydney. The audit was conducted with reference to benchmark standards and methodologies. Overall the audit identified all the major elements of good practice Information Technology Security.</p> <p>The audit also identified significant exposures in a number of areas, including patch management, information asset classification, and Information Technology asset inventory.</p>   |
| Fleet Insurance Claims Project   | <p>This review examined the registered vehicle accident claims processing, specifically the activities undertaken by Fleet Services. The review did not include matters pertaining to non-road registered plant, vehicles or equipment. The review also assessed the relevant policies and procedures and undertook an analysis of claims data for identification of errors and inconsistencies. The review identified two high rated issues relating to (1) absence of documented roles, responsibilities and formal process; and (2) incomplete accident report forms and approvals not being documented.</p>   |
| Rating: Unsatisfactory   |   |
| Note: No reviews were rated as unsatisfactory during the financial year. |   |

(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 progress of outstanding and overdue actions as at 30 June 2019.

**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 <sup>(1)</sup> |
|------------|--------------------------------------|-------------------------|----------------|-----------------------------|--------------------------------|
| 30/06/2016 | 87                                   | 64                      | 66             | 85                          | 27                             |
| 30/06/2017 | 85                                   | 97                      | 153            | 29                          | 7                              |
| 30/06/2018 | 29                                   | 61                      | 74             | 16                          | 5 <sup>(2)</sup>               |
| 30/06/2019 | 16                                   | 62                      | 30             | 48                          | 6                              |

(1) Actions not 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 in 2016 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 2018/19 financial year, the Audit Risk and Compliance Committee has:

- considered the program and status reports covering the preparation of the previous financial year (2017/18);
- received and noted the external auditor's letter covering the final audit for 2017/18;
- considered and endorsed the 2017/18 General and Special Purpose Financial Reports prior to Council's authorisation;
- reviewed Directors' attestations;
- reviewed the external audit plan for 2018/19; and
- reviewed the Audit Office of NSW's Performance Audits tabled at Parliament (Development assessment: pre-lodgement and lodgement in Camden Council and Randwick City Council,

Domestic waste management in Campbelltown City Council and Fairfield City Council – both June 2019).

## **6. RISK MANAGEMENT**

For the 2018/19 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 resilience of the City;
- updates on the progress of the capital works program and other major initiatives;
- 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 2018/19 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 2018/19 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.

There was one investigation arising from two public interest disclosures during this period.

## **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 organisational objectives and outcomes.

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

ELIZABETH CROUCH

Chair, Audit Risk and Compliance Committee  
October 2019