

# **Attachment A**

**Audit Risk and Compliance Committee  
Annual Report  
for 1 July 2019 to 30 June 2020**

## **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 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 the ARCC's role 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 follow 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 2019 to 30 June 2020.

## **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)
- Councillor Jess Miller (from October 2019 – November 2019, as Cr Scully's alternate)

Members – Independents:

- Elizabeth Crouch AM (appointed July 2013, reappointed August 2016, Chairperson since October 2014, appointment as Chairperson to conclude on 30 June 2021)
- Ken Barker (appointed October 2014, reappointed October 2018 to 30 November 2022)
- Carolyn Walsh (appointed October 2014, reappointed October 2018 to 30 November 2022).

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 to present on priority issues.

### **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 2019/20 the ARCC:

- considered the City's enterprise risk management framework;
- received regular reports on workplace health and safety and other compliance related matters, including safety considerations/requirements during procurement and infrastructure delivery/construction processes;
- received briefings or updates on:
  - Covid-19 and the implications for the City;
  - the City's pandemic plan;
  - Bushfire Recovery Group;
  - progress on Resilient Sydney;
  - Sustainable Sydney 2050;
  - the City's Data Strategy;
  - EU General Data Protection Regulation (GDPR);
  - the City's Cybersecurity Framework and Action Plan;
  - an independent review of superuser access and activity monitoring;
  - the transition of the Facilities Management and Property Management agreements;
  - progress with the City's Asset Management Improvement Plan;
  - Child Protection Reforms; and
  - fleet insurance claims, processes and the installation of telematics in fleet vehicles.
- 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 and risk appetite;
- reviewed the City's controls and fraud and corruption reporting framework (March 2020);
- 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 routinely reviewed those related to delegations, making recommendations on changes as appropriate;
- in-camera session with the Lord Mayor on the City's response to Covid-19; and
- attended a site visit at the Alexandra Canal Depot, including holding an ARCC meeting on site.

During the 2019/20 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 independent members, including the Chairperson, to ensure continuity of knowledge and skills. Each independent member is pre-qualified on the NSW Treasury Panel for NSW Government Audit and Risk Committees. 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 (Chief Internal Auditor) 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 2019/20 reporting period, the Audit Risk and Compliance Committee:

- approved the strategic audit program for the period 2020-2023 and the annual audit plan (2020/21);
- considered regular reports from the Chief Internal Auditor on progress against the plan;
- reviewed the Internal Audit Charter (with minor amendments); and
- received audit reports, 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.

Of the 22 scheduled audits for FY2019/20, 12 reviews were tabled, one was withdrawn, seven were not completed by 30 June due to Covid-19 related delays on the client side, and two were deferred to FY2020/21 by request, again due to Covid-19 related issues in essential service areas. All seven delayed audits are now in draft and ready to be finalised. 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 Divisions 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 providing follow-ups at each meeting of the Audit Risk and Compliance Committee.

For FY2019/20 the Committee reviewed four internal audits in which high risk issues were identified:

- 1) IT Disaster Recovery Plan (one high risk issue);
- 2) Working with Children – Contracted Service Providers (two high risk issues);
- 3) Review of Pathway Application - Modules used by City Planning, Development and Transport Division (one high risk issue); and
- 4) Data Governance Framework Review (one high risk issue).

Please refer to “Satisfactory” section of Table 2 below for further details.

The Committee receives regular reports 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	
Engagement Name	Engagement Objective and Outcomes
Asset Management Framework Review	<p>This engagement was undertaken to assess the City's existing Asset Management Framework against the ISO 55000 Asset Management Standard. This review looked at the asset owner's management of assets and supporting corporate functions having a direct impact and influence on asset management.</p> <p>The overall objective was to identify gaps in current asset management practices and develop a prioritised improvement road map for implementation. This process involved interviewing key staff, reviewing corporate policies, strategies, asset management documents, and asset operational documents and procedures.</p> <p>The City has a number of existing asset management improvement initiatives that are being progressed across the organisation in data management, mobile solutions, asset handover and reengineering the Asset Management Framework.</p> <p>Completed recommendations as at 08 October 2020: 2 Recommendations in progress: 14</p>
Review of Access to RMS DRIVES24	<p>The City has renewed a five-year DRIVES24 Terms of Access Agreement for Local Government which is in place with TfNSW's Roads and 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. There were no recommendations or improvement opportunities arising from this review.</p>
Review of Fleet Services Management of Procurement	<p>This review was undertaken to provide a limited assurance conclusion on the adequacy of the City's Fleet Management procurement processes and controls.</p> <p>Key objectives of the review included evaluating Fleet Services compliance with the City's procurement policies and procedures; assessing the end-to-end controls of the procurement process from the approved service specification to acquisition; determining whether all relevant and appropriate procurement documentation is stored as required in TRIM (the City's records management system); and identifying opportunities to enhance the efficiency and effectiveness of Fleet Services' procurement processes and related systems. Two low rated items were identified, concerning some relatively minor inconsistencies between policy and practice.</p> <p>Completed recommendations as at 08 October 2020: Nil Recommendations in progress: 2 (low)</p>
Treasury Management Review	<p>The engagement was undertaken to provide a limited assurance conclusion on the adequacy of the City's processes and controls relating to treasury management, including liquidity and the mitigation of operational, financial and reputational risk.</p> <p>The City must comply with the Local Government Act (LGA) 1993 No. 30 and the Local Government (General) Regulation 2005. This includes principles of sound financial management and funding requirements. In accordance with the provisions of Section 409(1) of the LGA, the City must have a consolidated fund and trust fund. Cash for general purpose operations is held in the consolidated fund and the City must establish and maintain at least one account with an authorised deposit-taking institution (ADI).</p>

	<p>Observations of good practice were noted during the audit and communicated to management. These included: Investment Policy and Strategy has been developed and are scrutinised at the Council's Corporate, Finance, Properties and Tenders Committee; and the City's Finance team have implemented formal processes to apply the Socially Responsible Investment (SRI) policy.</p> <p>Controls within the treasury management function are operating effectively. There were no audit recommendations arising.</p>
<p>Pre-Implementation Transformation Project Governance "Health Check"</p>	<p>The scope of this engagement was to conduct a project governance "health check" on the design and execution of recommendations made within the Project Governance Review Recommendations Report (Report) for the Project Management Office within the Chief Operations Office.</p> <p>Specific objectives included reviewing the City's processes for the development of the eight recommendations in the Report; whether there are gaps in recommendations made within the report; and any additional areas of potential project risk that have not been captured.</p> <p>This internal audit identified some opportunities for improvement, based on the assumption that the Report findings will be undertaken.</p> <p>There were no material control issues identified during this audit, and no audit recommendations arising.</p>
<p>Green Infrastructure Projects Review</p>	<p>The primary objective of the engagement was to review the performance and adequacy of the City's processes and controls for Green Infrastructure projects, and focussed on activities of the Green Infrastructure unit. The audit reviewed and evaluated a representative sample of green infrastructure projects: Town Hall Trigenation Precinct, ITAC Cogeneration, Cook and Philip Park Energy Services, Sydney Park Water Harvesting, and Renewable Energy Fund Projects (Solar Panels). It was noted that Green Infrastructure Projects are often developed, implemented, and maintained by different business units. As such, coordination and prioritisation of projects and management of stakeholder expectations, with respect to achievement of their own specific objectives, is critical.</p> <p>Good practices were in place, including well-considered and approved project plans and initiation briefs, prioritisation of projects (including analysis of emission reductions and alignment with Sustainable Sydney 2030), effective stakeholder engagement, regular status update reporting by project managers, and appropriate coordination and tracking of asset environmental budgets and performances against Sustainable Sydney 2030 targets.</p> <p>The two medium rated findings related to: (1) project documentation not being available or provided to Green Infrastructure team on handover of some projects; and (2) not all business units have objectives that completely incorporate the Sustainable Sydney 2030 strategy.</p> <p>Recommendations in progress as at 08 October 2020: 6 (all medium, none overdue)</p>
<p>Fire Safety Program Review</p>	<p>The primary objectives of the review included performing a gap analysis between mandatory fire safety requirements (including legislative) and the program/framework the City has in place to meet them; assessing the City's compliance against internal policies, procedures and practices; assessing the steps taken by the City in relation to combustible cladding, including building assessment prioritisation; and ensuring that the recording and assessment of fire safety issues and complaints and correspondence with relevant parties is in accordance with the City's risk management framework and document retention policies.</p> <p>Overall, the audit identified that the City has developed an effective fire</p>

	<p>safety program to help ensure compliance by building owners for preventing building fires and minimising their impact. These include the monitoring and actioning of overdue annual fire safety statements that are made by building owners.</p> <p>No material instances of non-compliance on the part of the City were identified.</p> <p>Recommendations in progress: 2 (both low, neither overdue)</p>
<p>Third Party Events Review</p>	<p>The objective of the engagement was to provide limited assurance that there were effective controls in place around the management of third party events processes. The audit focused on controls in relation to the management of third party events. The audit did not review event contingency planning arrangements for emergency management and business continuity objectives.</p> <p>Observations of good practice were particularly noted for the Ungerboeck event business management software system and detailed event / filming related guidelines.</p> <p>The audit identified a medium rated matter related to record keeping, whereby some documentation in support of the third party event / filming event had not been retained on file and could not be located, was not fully completed or signed off, and in some instances not available to confirm that the City had properly approved the event. Although the unit requests that these be signed and returned by clients, the City's lawyers confirmed some years ago that these documents form a statutory approval, and as such do not require signatures to be valid. Legal Services at the City confirmed the following:</p> <p><i>There is no legal requirement for an applicant to sign the final approval issued by the City to make it valid and enforceable.</i></p> <p><i>Section 68 of the LG Act sets out that a person may only carry out an activity specified in the Table to s68 with prior approval of the Council (except for specified circumstances not relevant here). Division 3 of Part 1 sets out the process for making an application, assessment and determination. Council can approve an application, approve it with conditions or refuse an application. Once Council has determined the application and notified the applicant, the approval has force. The applicant can seek a review of the decision, for example, to seek review of a decision to refuse the application or review conditions. However, once the applicant takes the approval up, it becomes enforceable.</i></p> <p>The use of a checklist will be incorporated as part of the approval process. Given the prevailing pandemic situation, this control checklist will provide a useful tool to ensure any health and safety requirements are acknowledged and addressed.</p> <p>Outstanding recommendations as at 08 October 2020: 1 (medium, overdue)</p>

Rating: Satisfactory<sup>(1)</sup>

Engagement Name	Engagement Objective and Outcomes
IT Disaster Recovery Plan	<p>This review was undertaken to provide a limited assurance conclusion on the adequacy of the City's IT disaster recovery planning processes.</p> <p>The review identified one high and two medium risk issues, relating to (1) Misalignment of IT DRP and Organisational Business Continuity Action Plan (BCAP) timeframes [High]; (2) Outdated IT DRP and TDS BCAP documents [Medium]; and (3) No formal documented IT DR and Backup restoration testing schedule [Medium]. Based on the findings above, we have assessed the City's IT DRP Capability Maturity as "Level 3 - Defined".</p> <p>Completed recommendations as at 08 October 2020: 4 (3 x medium, 1 x low)</p> <p>Recommendations in progress: 1 (high, not overdue)</p>
Working with Children – Contracted Service Providers	<p>The primary objective of the engagement was to review the adequacy of the City's processes and controls relating to the engagement, management and monitoring of contracted service providers who are working with children.</p> <p>High-risk issues relate to: (1) Child protection obligations not consistently identified and documented; and (2) Contractor induction forms not incorporating child safety. The medium risk issue relates to contractor monitoring and performance evaluation process not including child safety.</p> <p>Completed recommendations as at 08 October 2020: 1 (high)</p> <p>Recommendations in progress: 7 (1 x high, overdue; 4 high, not overdue; 2 x medium, not overdue)</p>
Review of Pathway Application (Modules used by City Planning, Development and Transport Division)	<p>The objective of this internal audit was to provide limited assurance that the Pathway system controls for the City Planning, Development and Transport Division are appropriately designed, implemented and operating effectively. This was achieved by assessing the adequacy of Pathway module (system) and process controls around data input, data processing and output controls.</p> <p>The review identified one high rated risk: Access rights to the Pathway application were not current at the time of audit fieldwork with 44% of users listed as having access no longer employees of the City of Sydney. Technology and Digital Services (TDS) have updated their distribution list for the "Staff Departure Form", which notifies that a person is leaving the employment of the City and states their date of departure. If the person has a Pathway account, the off boarding steps are carried out on the day after the advised date of departure.</p> <p>All recommendations were completed as at 08 October 2020 (1 x high; 2 x low)</p>

Data Governance Framework Review	<p>The primary objective of the engagement was to review the adequacy and effectiveness of the City's Data Governance Framework designed to ensure the security, integrity, confidentiality, and availability of the data held, and alignment with applicable legislative requirements and best practice.</p> <p>The review identified one high risk issue related to the need to develop a formal Data Governance Strategy.</p> <p>Outstanding recommendations as at 08 October 2020: 3 (1 x high; 2 x low, none overdue)</p>
Rating: Requiring improvement <sup>(1)</sup>	
<b>Engagement Name</b>	<b>Scope of Work</b>
Note: No reviews were rated at requiring improvement during the financial year.	
Rating: Unsatisfactory	
Note: No reviews were rated as unsatisfactory during the financial year.	

(1) The Audit Risk and Compliance Committee supports steps being taken by management in response to the findings arising from all 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 ARCC is actively monitoring the status of outstanding action items to ensure timely closure of relevant items. There were no high-rated actions overdue as at 30 June 2018, 30 June 2019, and 30 June 2020. (Note: There were a few high-rated recommendations that became overdue after 30 June 2020.) The Audit Risk and Compliance Committee and Internal Audit are satisfied with the progress of outstanding and overdue actions as at 30 June 2020.

**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>
30/06/2017	85	97	153	29	7
30/06/2018	29	61	74	16	5 <sup>(2)</sup>
30/06/2019	16	62	30	48	6 <sup>(2)</sup>
30/06/2020	48	63	64	47	9

(1) Actions not completed by the agreed date.

## **5. FORWARD AUDIT PLAN - FY2020/21**

The updated 3-Year Strategic Audit Program, incorporating the 1-Year Operational Audit Plan, was endorsed by the Executive and approved by the Audit Risk and Compliance Committee on 02 July 2020.

The approved plan comprises a risk-based program of 15 audit assignments. These were identified not only using (and mapped to) the City's Executive Risks, but also the City's Improvement Focus Areas:

- Community & Customer;
- Our People;
- Processes;
- Data;
- Digitally Enabled Systems; and
- Financially Sustainable.

Additionally, an audit risk assessment of key business performance themes (expenditure, revenue, environment, business performance, business resilience, compliance, fraud and corruption control, and attestation requirements) was performed.

## **6. 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 on the control environment and to minimise overlap of audit areas of focus.

The external auditor is invited to attend each ARCC meeting as well as join the Committee on site visits as appropriate.

During the 2019/20 financial year, the ARCC:

- considered the program and status reports covering the preparation of the previous financial year (2018/19);
- received and noted the external auditor's letter covering the final audit for 2018/19;
- considered and endorsed the 2018/19 General and Special Purpose Financial Reports prior to Council's authorisation;
- reviewed Directors' attestations; and
- reviewed the external audit plan for 2019/20.

## **7. RISK MANAGEMENT**

For the 2019/20 reporting period the ARCC received presentations and updates on:

- implementation of enterprise risk management within the City;
- changes to the City's risk profile;
- the City's financial position and status;
- City resilience;
- progress of the capital works program and other major initiatives;
- the City's insurance placement and claims management programs; and
- 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.

## **8. LEGAL, GOVERNANCE AND COMPLIANCE**

For the 2019/20 reporting period the ARCC received:

- updates on major governance, compliance and legal matters;
- financial and non-financial delegations to contractors; and
- briefings on any material litigation affecting the City.

## **9. FRAUD AND CORRUPTION PREVENTION**

For the 2019/20 reporting period the ARCC received updates on:

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

There were two investigations arising from two public interest disclosures during this period. One of these matters alleged partial treatment in the recruitment process. The matter was investigated and the allegation was not substantiated. The second matter alleged corrupt conduct. Initial investigation and preliminary interviews have been completed. Investigation into this matter is ongoing.

## **10. REVIEW OF WORK HEALTH SAFETY**

The ARCC regularly reviews workplace health and safety updates, including injuries, notifiable incidents and workers compensation claims.

## **11. OTHER**

The ARCC 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 2020