

Attachment A

**Audit Risk and Compliance Committee
Annual Report
1 July 2020 to 30 June 2021**

2020/21 Annual Report to Council

2021 Annual Report to Council

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;
- internal controls;
- risk management;
- governance;
- fraud and corruption prevention;
- major legal matters;
- work health safety;
- 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, compliance 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 NSW Treasury's TPP 15-03, incorporating best practice for monitoring finance, audit, risk management, compliance and governance activities within the City.

This annual report covers the period 01 July 2020 to 30 June 2021.

Membership

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

Councillor members:

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

Independent members:

- Elizabeth Crouch AM (appointed July 2013, reappointed August 2016, Chairperson since October 2014, appointment as Chairperson to conclude on 30 June 2021 when she will become an Independent Member)
- Carolyn Walsh (appointed October 2014, reappointed October 2018 to 30 November 2022, appointment as an Independent Member will cease on 30 June 2021 when she will take up the role as Independent Chairperson)
- Ken Barker (appointed October 2014, reappointed October 2018 to 30 November 2022)

Ex-officio attendees include:

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

Invitees include:

- Representatives of the Audit Office of New South Wales
- Other officers, as requested by the Committee to present on priority issues.

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 2020/21 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
 - preparation of 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
 - 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
- 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

During the 2020/21 reporting period, the Committee held four virtual meetings (July, October, December 2020 and February 2021) and one face-to-face meeting (May 2021) held in Council Chambers. A quorum was present for 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.

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. The majority of fieldwork is undertaken through an outsourced model under the control of the Chief Internal Auditor. A panel of two service providers (RSM Australia and O'Connor Marsden & Associates) provide these outsourced internal audit services.

For the 2020/21 reporting period, the Committee:

- approved the strategic audit program for the period 2021-2024 and the annual audit plan (2021/22)
- considered regular reports from the Chief Internal Auditor on progress against the plan
- reviewed the Internal Audit Charter 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.

The 2020/21 audit plan was endorsed by the Committee at the 02 July 2020 meeting, and comprised 17 reviews. Two of these reviews were deferred to the 2021/22 program as a result of client priorities and requests.

During 2020/21, 15 reports were delivered, including six reports that were unable to be finalised in 2019/20 (due to Covid-19 related issues in essential services areas). The six remaining reviews in the current 2020/21 program are near complete and will be tabled at the December 2021 meeting of the Audit Risk and Compliance Committee.

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 internal audit recommendations

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
- reporting all overdue management action items to monitor implementation and providing follow-ups at each meeting of the Audit Risk and Compliance Committee

The Committee receives regular reports on the appropriateness of the management actions taken on high-rated, closed actions items through follow-up reviews and new audits.

The rating scale applied to internal audit reports is shown below.

Rating scale for internal audit reports

An overall rating scale for each engagement has been set by senior management and the Audit Risk and Compliance Committee as appropriate to allow allocation of resources to the areas of greatest concern. Outlined below are the ratings and their definitions.

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.

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The table below 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 actively monitors the status of outstanding action items to ensure timely closure of relevant items. There were no high-rated actions overdue as at 30 June 2019 and 30 June 2020, and one high-rated action overdue as at 30 June 2021. The Audit Risk and Compliance Committee and Internal Audit are satisfied with the progress of outstanding and overdue actions as at 30 June 2021.

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
30/06/2018	29	61	74	16	5
30/06/2019	16	62	30	48	6
30/06/2020	48	63	64	47	9
30/06/2021	47	50	78	19	6

For FY2020/21 the Committee reviewed four internal audits in which high risk issues were identified:

1. Compliance Management Framework Review
2. Councillors' Expenses Compliance Review
3. Property Portfolio Management: Community
4. Allocating Overtime & Related Payments Review

¹ Actions not completed by agreed date.

Internal Audits tabled, 2020/21

Rating: Not rated	
Engagement Name	Engagement Objective and Outcomes
2021 Review of Access to Transport for NSW's DRIVES24	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 issue TfNSW with a compliance certificate signed by the CEO and Chief Internal Auditor. There were no recommendations or improvement opportunities arising from this review.
Follow up Review – Audit Office Performance Audit of Local Infrastructure Contributions	<p>The objective of this review is to assess the adequacy of the implementation of the following four recommendations listed below made by the Auditor-General in the report tabled on 17 August 2020.</p> <p>R.1 Regularly report to senior management on the projected financial status of contributions plans. Action complete.</p> <p>R.2 Improve public reporting about expenditure of cash collected under Voluntary Planning Agreements. Action complete</p> <p>R.3 Periodically review the risk of unpaid LICs associated with complying development certificates and assess whether additional controls are required. Implementation by December 2020 - In progress/ongoing project.</p> <p>R.4 Implement security measures to ensure the integrity of key spreadsheets used to manage local infrastructure contributions. No action required.</p>
Rating: Low	
Engagement Name	Engagement Objective and Outcomes
Workforce Planning Review	<p>The focus of the engagement was to assess whether the City's People Strategy is aligned with recognised good practice for strategic workforce planning for local government as outlined in the Integrated Planning and Reporting Guidelines for Local Government NSW; and other best practice was fully utilised to inform the People Strategy such as trends and frameworks from other organisations. It also reviewed how the City has incorporated requirements from the Integrated Planning and Reporting Guidelines in the People Strategy 2019-21 and its supporting Action Plan; and determines its workforce requirements to ensure the City can achieve its future business objectives.</p> <p>No significant findings were identified during this review.</p>
Major Procurement Review	<p>Key objectives of the review included an assessment of compliance with procurement policies and procedures; the end-to-end controls of each procurement process from the identification of the need, engagement and selection; whether processes and controls are in place to ensure the City acts fairly, impartially, with integrity, transparently and lawfully; how decisions are made for procuring through Early Contractor Involvement (ECI); mechanisms in place regarding information security for both ECI and standard procurement; whether the City has mechanisms in place to detect any potential contract and procurement fraud; and value for money for both the ratepayers and the City.</p> <p>There was one medium risk and one low risk finding identified.</p>

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Rating: Low	
Engagement Name	Engagement Objective and Outcomes
Corporate Asset Management System (CAMS) Review	<p>CAMS is one of the key Fixed Asset Management applications used by the City of Sydney.</p> <p>The objective of this internal audit was to provide limited assurance that the CAMS application controls across council are appropriately designed, implemented, and operating effectively. It was achieved by assessing the adequacy of CAMS application security controls and process controls around data input, data processing and output controls.</p> <p>There is an appropriate level of governance, risk management and control of the CAMS process, and the application control environment is considered highly mature. A few minor, low risk issues were identified.</p>
Development Assessment – Probity Controls	<p>This review examined the completeness and appropriateness of probity considerations in the considerations in the development assessment process including performance of risk assessment and effectiveness of controls to adhere to probity requirements.</p> <p>Internal Audit identified two medium risk issues, one low risk issue.</p> <p>The medium risk issues relate to:</p> <ul style="list-style-type: none"> • Conflicts of interest are requested to be self-declared until completion; and • Conflicts of interest are raised through email and retained in TRIM. <p>ALL AUDIT RECOMMENDATIONS ARE COMPLETE.</p>
Application Review – Kronos	<p>This review was undertaken in accordance with the Institute of Internal Auditors Global Technology Audit Guide (IIA GTAG) 8: Auditing Application Controls guidance and includes controls over input, processing, output, data integrity, access security, logs and reports, business continuity (including data and system backup and recovery), interfaces (manual and automated), and change management.</p> <p>Internal Audit identified one medium risk issue and one low risk issue.</p> <p>The medium risk issue relates to:</p> <ul style="list-style-type: none"> • User activity logs not monitored for privileged users. <p>ALL AUDIT RECOMMENDATIONS ARE COMPLETE.</p>
Insurance Claims Management Review	<p>Specific objectives included a review of the City’s insurance claims management processes and controls, including allocation of roles and responsibilities between the Insurance & Claims section of Risk & Governance and City stakeholders; governance arrangements for insurance claims management, including the Register of Delegations for review, approval, and the appropriateness of retention for documentation required to evidence key decisions made throughout the process; and use of claims data to provide insight into the root cause and how this is communicated and acted upon.</p> <p>There were no significant findings identified during this review.</p>
2021 Review of the Street Safety Camera Program (SSCP)	<p>Internal Audit is required to undertake an annual compliance review of the City’s Street Safety Camera Program, per sections 11.3.1 and 19.2.1 of the Street Safety Camera Program’s Code of Practice. It assesses 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</p> <p>There were four low-rated findings identified around administrative processes.</p>

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<p>Property Portfolio Management: Community</p>	<p>The review was undertaken to provide a limited assurance conclusion on the adequacy of key governance and oversight controls over the City's community property portfolio management. The key objectives of the review included determining: (1) How the City ensures the community portfolio supports the achievement of the City's objectives; (2) The adequacy of policies and procedures that support community portfolio management; and (3) The mechanisms to inform decision making in relation to property utilisation, usage, achievement of maximum community benefit and whether qualitative information is available to support decisions.</p> <p>There was one low-rated finding and one improvement opportunity identified during this review. The finding relates to obtaining improved alignment with the Community Strategic Plan and Sydney 2030, and ensuring a current up to date stocktake of properties classified within the community property portfolio.</p>
<p>Rating: Satisfactory</p>	
<p>Engagement Name</p>	<p>Engagement Objective and Outcomes</p>
<p>Purchase Cards Review 2020/21</p>	<p>The objective of this internal audit was to provide limited assurance that internal controls over the purchase cards are adequate, effective, and efficient, in all material respects, in managing risks to the City. In addition, this audit had referenced both the NSW Treasury's Policy and Guidelines Paper TPP17-09 'Use and Management of NSW Government Purchasing Cards' (as its principles and recommendations for NSW Government agencies are relevant for councils) and the NSW Audit Office performance audit report "Credit card management in Local Government" issued 3 September 2020.</p> <p>Internal Audit identified one medium risk issue and one low risk issue.</p> <p>The medium risk issue relates to:</p> <ul style="list-style-type: none"> • Delegations and monitoring of purchase card transactions where credit card limits are not explicitly linked to financial delegations; and one Low rated issue which related to the overarching management of purchase cards. <p>THE MEDIUM RISK ISSUE HAD TWO RECOMMENDATIONS: ONE IS PARTIALLY COMPLET; THE OTHER IS IN PROGRESS (DUE 31 DEC 2021).</p>
<p>Accounts Receivable Operational Audit</p>	<p>Internal Audit examined the design and operating effectiveness of the business processes and internal controls in place to mitigate the risks associated with invoicing and collection of revenue and made recommendations where opportunities for improvement in controls were identified.</p> <p>This review focussed on revenue streams, including chargeable works, venue hire and miscellaneous. Key activities for this review were revenue recognition on time, completeness, accuracy, and segregation of duties in revenue and debtor management; and adequate controls in place for management to monitor debtors, write-offs and waivers, and regular reporting to provide insights on debtor ageing. The following revenue streams were excluded from scope: rates, enforcements, development applications, inspections and certifications as revenue generated from these areas are generally included in more focused reviews.</p> <p>Internal Audit identified one medium risk issue and one low risk issue.</p> <p>The medium risk issue relates to:</p> <ul style="list-style-type: none"> • The treatment of venue management transactions. <p>ALL RECOMMENDATIONS ARE COMPLETE.</p>

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Rating: Requiring improvement ²	
Engagement Name	Engagement Objective and Outcomes
Compliance Management Framework Review	<p>The International Standard Compliance Management Systems ISO 19600:2015 provides guidance for establishing, developing, implementing, evaluating, maintaining and improving an effective and responsive compliance management system within an organisation.</p> <p>The objective of the review is to provide limited assurance that the City has an effective compliance management system in place, with appropriate processes for establishing, developing, implementing, evaluating, maintaining and improving effective and responsive compliance management.</p> <p>The audit identified one high and three medium rated matters.</p> <p><i>The high and three medium rated issues relate to:</i></p> <ul style="list-style-type: none"> • no overarching, comprehensive and integrated compliance management system is currently in place as described in ISO19600-2015 [High]; • the Compliance Management Framework document issued February 2013 is overdue for review and update [Medium]; • the City of Sydney Compliance Obligations Register lacks details of current processes and controls in place to attain / monitor compliance [Medium]; and • lack of formal reporting to the Audit Risk and Compliance Committee on the effectiveness of the system for monitoring compliance [Medium]. <p>ALL RECOMMENDATIONS ARE IN PROGRESS (DUE 31 DEC 2021 – 31 MARCH 2022)</p>
Councillors' Expenses Compliance Review	<p>The key objective of the review is to assess the extent of compliance over the payment of expenses and the provision of facilities to Councillors as governed by the City's Councillors' Expenses and Facilities Policy. The review also paid due regard to requirements of Sections 252 to 254 of the Act and the supporting regulations and guidelines.</p> <p>The Office of Local Government has also issued guidelines which assist in the development of such a policy. The Councillors' Expenses and Facilities Policy lists specific services and expenses to which Councillors are entitled. There are also expense limits that apply to several categories of expenditure.</p> <p>The review identified one high risk issue and one medium risk issue.</p> <p>The high risk issue and medium risk issue relate to:</p> <ul style="list-style-type: none"> • Inadequate or missing documentation to supporting reimbursement claims [High]. A high level of non-compliance was noted, specifically in relation to retaining and or providing adequate documentation in support of the expenses claim. • Inaccuracies in expenditure reporting [Medium]. A number of occasions were found where the expenses had not been coded correctly or allocated to the wrong cost code. <p>ALL RECOMMENDATIONS ARE COMPLETE.</p>

² The Audit Risk and Compliance Committee supports steps being taken by management in response to the findings arising from all audits.

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Rating: Requiring improvement ³	
Engagement Name	Engagement Objective and Outcomes
Allocating Overtime & Related Payments Review	<p>The primary objective of the engagement was to review and report on the control environment surrounding allocation of overtime and overtime payments. Internal Audit assessed the adequacy and effectiveness of the City's allocation and payment procedures relating to overtime. The City of Sydney – Wages/Salary Award 2017 documents the 'eligibility for overtime for each employee status' which includes the requirements for overtime and rates.</p> <p>Two high risk issues and one medium risk issue were identified.</p> <p>The high risk issues relate to:</p> <ul style="list-style-type: none"> • Differing application of allocation of overtime practices across business units; and • Business Units not utilising the Workforce Dashboard to monitor overtime hours. <p>ALL RECOMMENDATIONS ARE IN PROGRESS (DUE 31 DEC 2021 – 31 MARCH 2022).</p>
Rating: Unsatisfactory	
Note: No reviews were rated as unsatisfactory during the financial year.	

Forward Audit Plan, 2021/22

The updated 3-Year Strategic Audit Program, incorporating the one year operational audit plan, was endorsed by the Executive and approved by the Audit Risk and Compliance Committee on 27 May 2021.

The approved plan comprises a risk-based program of 16 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
- Financially Sustainability

³ The Audit Risk and Compliance Committee supports steps being taken by management in response to the findings arising from all audits.

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.

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 2020/21 financial year, the ARCC:

- considered the program and status reports covering the preparation of the previous financial year (2019/20);
- received and noted the external auditor's letter covering the final audit for 2019/20;
- considered and endorsed the 2019/20 General and Special Purpose Financial Reports prior to Council's authorisation;
- reviewed Directors' attestations; and
- reviewed the external audit plan for 2020/21.

Risk management, compliance and governance

For the 2020/21 reporting period the ARCC received presentations and updates on:

- implementation of a new risk management system;
- changes to the City's risk profile;
- the City's financial position and status;
- Community recovery;
- 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.

Fraud and corruption prevention

For the 2020/21 reporting period the ARCC received updates on:

- governance activities and fraud and corruption prevention activities; and
- any current issues, investigations and outcomes.

Three investigations arising from three public interest disclosures were received during this period. One of these matters alleged conflict of interest in recruitment and was unsubstantiated. The second matter alleged maladministration in relation to project management. The investigation remains in progress at the time of finalising this report. The third matter alleged misleading information in an executive briefing note. A fact-finding investigation found that the allegation was not substantiated. However, in the course of the investigation procedural matters relating to failure to properly comply with procurement processes and conflict of interests management were identified.

In addition, one other public interest disclosure received previously was unsubstantiated.

Legal

For the 2020/21 reporting period the ARCC received:

- updates on major legal matters
 - briefings on any material litigation affecting the City.
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Workplace health and safety

On a quarterly basis, the Committee regularly reviews workplace health and safety updates, including injuries, notifiable incidents and workers compensation claims.

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 annually assesses the currency of its Charter and evaluates its performance.

CAROLYN WALSH

Chair, Audit Risk and Compliance Committee

October 2021

ELIZABETH CROUCH AM

Immediate Past Chair, Audit Risk and Compliance Committee

October 2021

