

Attachment A

**Audit Risk and Compliance Committee
Annual Report (1 July 2021 to 30 June 2022)**

2021/22 ARCC Annual Report to Council



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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
- 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 20-05, incorporating best practice for monitoring finance, audit, risk management, compliance, and governance activities within the City.

This annual report covers the period 01 July 2021 to 30 June 2022.

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 HY William Chan (from December 2021, as the Lord Mayor's alternate)

Independent members:

- Carolyn Walsh (appointed October 2014, reappointed October 2018. Appointed as Independent Chairperson from 1 July 2021 to 30 June 2025)
- Elizabeth Crouch AM (appointed July 2013, reappointed August 2016, Chairperson from October 2014 to 30 June 2021. Reappointed as an Independent Member from 1 June 2021)
- Ken Barker (appointed October 2014, reappointed October 2018 to 30 November 2022*¹)

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 2021/22 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, updates, or presentations on:
 - Covid-19 and the implications for the City
 - the City's pandemic plan
 - the City's Data Strategy
 - Audit Office of NSW's Report on Local Government 2020 and Building Regulation (combustible external cladding)
 - the City's major projects
 - Crown and Community Plans of Management Program
 - Progress with the City's Asset Management Improvement Plan

¹ Ken Barker's appointment was extended to 30 November 2023 on 12 August 2022 to enable transition to the new Office of Local Government membership requirements upon commencement.

- the Office of Local Government's Draft Guidelines on Risk Management and Internal Audit
 - Annual Procurement update
 - Annual Contracts Management update
 - the City's new Risk Management System, CAMMS
 - the implementation of delegation to contractors
 - an update on local infrastructure contributions
 - IT security
- 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 City's risk profile and governance arrangement
 - reviewed updated accounting standards relevant to local government
 - maintained oversight of financial reporting and endorsement of the financial statements including securing relevant attestations from the Chief Financial Officer
 - assessed whether appropriate policies and procedures were in place and routinely reviewed those related to delegations, making recommendations on changes as appropriate

During the 2021/22 reporting period, the Committee held five virtual meetings (August, October, and December 2020 and March and May 2022). A quorum was present for all meetings.

The Committee met *in camera* with representatives of the Audit Office of NSW, prior to the review of the draft financial statements at the October 2021 meeting. No management representatives were present.

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.

Summary: Committee Report Card

ARCC Charter – Roles and Responsibilities	Compliance
Committee composition	Yes
Tenure	Yes
Skills and experience, including financial, legal and/or business expertise	Yes
Induction of new members (for FY2021/22)	Yes
Declarations of Conflict of Interests	Yes
Internal Audit updates, as well as preparation of three year internal audit plan, monitoring recommendations, review Charter annually, provide performance feedback on service providers	Yes
Risk Management, Compliance, and Governance updates, including Fraud and Corruption Prevention	Yes
Financial Management	Yes
External Audit	Yes
Meetings	Yes
Closed sessions	Yes
Minutes and papers (accurate and timely provision)	Yes
Assessment arrangements (annual)	Yes
Reporting to Council (at least annually)	Yes

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. Most 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) provided outsourced internal audit services during 2021/22.

A tender for a panel for the provision of internal audit services was sent to the market in April 2021 and the responses reviews by the Tender Evaluation Panel in May 2022. A recommendation will be sent to the Tender Review Group for approval of the Tender Evaluation Panel and finalisation.

For the 2021/22 reporting period, the Committee:

- approved the three-year strategic audit program for the period 2021-2024 and the annual operational audit plan for 2022/23
- 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 Internal Audit Plan

The 2021/22 audit plan was endorsed by the Committee at the 2 July 2022 meeting and comprised 18 reviews. Three of these reviews were deferred to the 2022/23 program due to client priorities and requests.

During 2021/22, 13 reports were delivered, including two reports that were unable to be finalised in 2021/22 (due to Covid-19 related issues in essential services areas).

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 processes in place to monitor management actions arising from audit recommendations and make sure the recommendations are being actioned. The 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.

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.

Overall Rating Scale for Reviews	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.

Internal Audits tabled, 2021/22

Meeting 1 - August 2021

Review Name	Objectives and Outcomes	Overall Rating
2021 Review of Access to Transport for NSW's DRIVES24	<p>Requirements of the Terms of Access Agreement include an annual audit of access and security, and to provide TfNSW with a compliance certificate signed by the CEO and Chief Internal Auditor.</p> <p>There were no recommendations or improvement opportunities arising from this review. Based on the attestation by the Chief Internal Auditor, a Compliance Audit Certificate declaration was issued to TfNSW, signed by the CEO.</p>	Not rated
2021 Review of 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. 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 were assessed.</p> <p>All management actions have been completed.</p>	Low
Purchase Cards Review	<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>All management actions have been completed.</p>	Satisfactory

Meeting 1 (continued)

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Review Name	Objectives and Outcomes	Overall Rating
Allocating Overtime & Related Payments	<p>The control environment surrounding allocation of overtime and overtime payments was reviewed.</p> <p>All management actions have been completed.</p>	Requiring Improvement

Meeting 2 – October 2021 (draft financial statements only – no audit reports tabled)

Meeting 3 – December 2021

Review Name	Objectives and Outcomes	Overall Rating
Accounts Receivable (and TechnologyOne module for Accounts Receivable)	<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>All management actions have been completed.</p>	Satisfactory
Property Portfolio Management: Community	<p>The adequacy and effectiveness of the City's community property portfolio management were reviewed.</p> <p>All management actions have been completed.</p>	Low
Follow-up Review – AONSW Performance Audit of Local Infrastructure Contributions	<p>The objective of this review was to assess the adequacy of the implementation of the following four recommendations listed below made by the Auditor-General in the report tabled in Parliament on 17 August 2020 (Governance and internal controls over local infrastructure contributions).</p> <p>There were no recommendations or improvement opportunities arising from this review.</p>	Not rated

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Meeting 4 – March 2022

Review Name	Objectives and Outcomes	Overall Rating
Recruitment Process Review	<p>The control environment surrounding the City's recruitment processes for remunerated employment including all internal and external recruitment was reviewed.</p> <p>One medium-rated management action was identified and is at 25% completion.</p>	Low
Facilities Management Infrastructure Maintenance Expenditure	<p>The Facilities Management Infrastructure Maintenance Expenditure processes and controls were reviewed to obtain assurance.</p> <p>One low-rated management action was identified and is at 50% completion.</p>	Satisfactory
Management of Rates and Associated Charges	<p>The controls over the rate levy process, collection, posting, debtor review and management were reviewed.</p> <p>All management actions have been completed.</p>	Satisfactory

Meeting 5 – May 2022

Review Name	Objectives and Outcomes	Overall Rating
Social Housing Operations Review	<p>The objective of this review was to review the adequacy and effectiveness of Safe City's social housing operations, functions, and stakeholder engagement.</p> <p>One medium and one low rated finding were identified.</p> <p>All management actions are in progress.</p>	Low
Pandemic Planning Review	<p>Key activities and initiatives undertaken by the City in response to the COVID-19 pandemic disruption event were reviewed, and the alignment of these to formally documented strategies, and how the lessons learned can be used to further enhance business continuity management and disaster recovery planning.</p> <p>Overall, the City has well designed and effective policies, procedures, business processes and controls in place to manage the City's pandemic response. There were no findings of material breakdown in control.</p>	Not Rated
Review Name	Objectives and Outcomes	Overall Rating
Councillors' Expenses 2021	<p>This review assessed 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>	Satisfactory

Meeting 5 (continued)

Review Name	Objectives and Outcomes	Overall Rating
	<p>The Councillors' Expenses and Facilities Policy lists specific services and expenses to which Councillors are entitled.</p> <p>There are also expense limits that apply to several categories of expenditure.</p> <p>All management actions are currently in progress.</p>	

Management of internal audit actions/recommendations

The ARCC actively monitors the status of outstanding action items to ensure timely closure of relevant items. There were no overdue high or medium actions overdue as at 30 June 2022. The Audit Risk and Compliance Committee and Internal Audit are satisfied with the progress of outstanding and overdue actions as at 30 June 2022.

Audit Name	Date Tabled	Overall Rating	Total actions				Total actions in progress				% Completion rate at 30 June 2022			
			High	Medium	Low	Total	High	Medium	Low	Total	High	Medium	Low	Total
Compliance Management Framework Review	December 2020	Requiring Improvement	1	6		7		3		3	100%	50%		57%
2021 Review of Access to Transport for NSW's DRIVES24	August 2021	Not rated (no findings)												
2021 Review of the Street Safety Camera Program (SSCP)	August 2021	Low			5	5							100%	100%
Purchase Cards Review 2020/21	August 2021	Satisfactory		2	3	5							100%	100%
Allocating Overtime & Related Payments	August 2021	Requiring Improvement	2			2					100%			100%
Accounts Receivable (and TechOne module)	December 2021	Satisfactory		4	2	6							100%	100%
Property Portfolio Management: Community	December 2021	Low			3	3								100%
Follow-up Review - AONSW Performance Audit of Local Infrastructure Contributions	December 2021	Not rated (no findings)												
Recruitment Process Review	March 2022	Low		2	1	3		1		1		50%	100%	67%
Facilities Management Infrastructure Maintenance Expenditure	March 2022	Satisfactory			1	1			1	1				100%
Management of Rates and Associated Charges	March 2022	Satisfactory		5		5							100%	100%
Social Housing Operations Review	May 2022	Low		3	3	6		3	3	6		-	-	-
Pandemic Planning Review	May 2022	Not Rated (no findings)												
Councillors' Expenses 2021	May 2022	Satisfactory		4	3	7		4	3	7		-	-	-
		Total	3	26	21	50	0	11	7	18	100%	80%	100%	91.50%

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 business unit to be actioned by an agreed date.

Year	Outstanding Actions at Start of Year	New Actions from Audits	Actions closed	Current Actions at Year End	Actions Overdue ²
30/06/2019	16	62	30	48	6
30/06/2020	48	63	64	47	9
30/06/2021	47	50	78	19	6
30/06/2022	19	15	16	18	0

For FY2021/22 the Committee reviewed one internal audit in which high risk issues were identified:

- Allocating Overtime & Related Payments Review

Recommendations from this review have been implemented.

Forward Audit Plan, 2022/23

The updated Three -Year Strategic Audit Program, incorporating the annual operational audit plan, was endorsed by the Executive and approved by the Audit Risk and Compliance Committee on 26 May 2022.

The approved plan for 2022/23 comprises a risk-based program of 16 reviews, mapped to the City's Executive Risks and Improvement Focus Areas.

The Audit Program provides assurance coverage of key business performance themes i.e., expenditure, revenue, business performance, resilience, compliance, fraud and corruption control, environment, and attestation requirements.

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.

² Actions not completed by agreed date.

During the 2021/22 financial year, the ARCC:

- considered the program and status reports covering the preparation of the previous financial year (2020/21)
- received and noted the external auditor's letter covering the final audit for 2020/21
- considered and endorsed the 2020/21 General and Special Purpose Financial Reports prior to Council's authorisation
- reviewed Directors' attestations
- reviewed the external audit plan for 2021/22.

Risk management, compliance and governance

For the 2021/22 reporting period the ARCC received presentations and updates on:

- the City's risk management system
- changes to the City's risk profile
- the City's financial position and status
- Community recovery from impacts of the Covid-19 pandemic
- Compliance obligations management at the City
- Governance training undertaken by City employees
- the City's insurance placement and claims management programs.

Fraud and corruption prevention

For the 2021/22 reporting period the ARCC received updates on:

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

Two investigations were commenced arising from public interest disclosures during this period. One of these matters alleged a failure to follow proper recruitment processes and was found to be unsubstantiated. The second matter alleged theft and misuse of council resources. The investigation of this second matter remains in progress at the time of finalising this report.

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

Legal

For the 2021/22 reporting period the ARCC received:

- updates on major legal matters
- briefings on any material litigation affecting the City.

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

Finally, I would like to acknowledge on behalf of the Committee the significant challenges the City has faced in light of the COVID pandemic in recent years. Notwithstanding these challenges, the Committee has confidence that the City has retained an effective risk control framework and continues to strive to further mature its risk management and governance processes.

CAROLYN WALSH

Chair, Audit Risk and Compliance Committee

October 2022