

Attachment A

**Audit, Risk and Compliance Committee
Annual Report (1 July 2022 to 30 June 2023)**

2022/23 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 report covers the period 01 July 2022 to 30 June 2023.

Update on new charter (based on OLG model charter)

In December 2022 the OLG issued a "final draft" of guidelines for a new model charter for Audit and Risk Committees pending the making of supporting regulations, which will mandate some aspects of the arrangements. Draft regulations have not been published or put to out for consultation.

The ARCC has agreed with a request from the City's management that the current charter remain in force in the meantime until the OLG finalise the regulations.

However, the draft updated ARCC charter, based on the new OLG model, was endorsed by the ARCC with minor amendments at the 30 May 2023. Once the regulations are made and the draft Guidelines are finalised, an updated Audit Risk and Compliance Committee Charter will be submitted to Council for approval.

Membership

In accordance with its current 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), resigned from Council, 12 May 2023)
- Councillor Robert Kok (from May 2023)
- 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 01 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 01 June 2021)
- Ken Barker (appointed October 2014, reappointed October 2018 to 30 November 2022, and then extended to 23 November 2023 on 12 August 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
- External Auditors, PwC
- Other officers, as requested by the Committee to present on priority issues.

Recruitment Process for Independent Members

The draft OLG Guidelines provide that recruitment of independent members should be done in consultation with the Chair. The ARCC Chair and the Director Legal & Governance held discussions on the recruitment process for the new independent members. The recruitment process will be conducted by way of a publicly advertised expressions of interest.

As at 30 June 2023, draft regulations have not been published or put out for consultation.

Given the uncertainties of timing and issues outlined above, the CEO put a memorandum to the 26 June 2023 council meeting providing an update on the current status as advised by the OLG and with the following recommendations:

Endorsing the new position descriptions for independent members and independent chairs for the purposes of recruitment

- Noting that the Chair and the CEO will undertake a recruitment process by way of public Expression of Interest
- Noting that appointment of independent members will be reported back to Council for resolution in accordance with the draft OLG Guidelines and new draft ARCC Charter.

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 2022/23 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, updates, demonstrations, or presentations on:
 - progress made on the City's Asset Management Improvement Plan
 - Crown and Community Plans of Management Program
 - Fraud & Corruption Control Plan 2022
 - Privacy Management Plan
 - the Office of Local Government's Draft Guidelines on Risk Management and Internal Audit
 - the Office of Local Government's membership requirements for audit, risk and improvement committees
 - a demonstration of City's new Risk Management software (CAMMS)
 - the City's cybersecurity service delivery
 - the personal data protection at the City
 - the outcome of the Street Safety Camera Program's Best Practice Self-Assessment Survey 2022
 - the City's Improvement and Transformation (an overview of key projects delivering efficiency, effectiveness, and community experience improvement)
 - the OLG's Guideline on the use and management of credit cards
 - the City's waste management contractual performance and operating environment
 - Presentation on the City's Heritage Assets (trachyte kerbstones)
 - the Audit Office of NSW's reports on –
 - Local Government 2021
 - Local Government 2022
 - Regulation and Monitoring of Local Government
 - Natural disasters
 - the City's major projects

- annual Procurement and Contracts Management update
- PwC services to the Audit Office of NSW in relation to significant matters arising from the Commonwealth Senate Inquiry
- 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
- 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 2022/23 reporting period, the Committee held three virtual meetings (August, October, and December 2022) and two meetings held in person (March and June 2023). 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 2022 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 current independent member is pre-qualified on the NSW Treasury Panel for NSW Government Audit and Risk Committees.

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) – this report	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 unit is led by a chief audit executive (Chief Internal Auditor). 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 2022/23.

For the 2022/23 reporting period, the Committee:

- approved the four-year strategic audit program for the period 2023-2027 and the annual operational audit plan for 2023/24

- considered regular reports from the Chief Internal Auditor on progress against the plan
- reviewed the Internal Audit Charter, which will remain in force until the OLG finalises the regulations, 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 2022/23 audit plan was endorsed by the Committee at the 26 May 2022 meeting and comprised 25 reviews. Three of these reviews were deferred to the 2023/24 program due to client priorities and requests. The reviews deferred were (1) Financial Planning and Reporting; (2) Information Protection and Security; and (3) Contract Management.

During 2022/23, 11 reports were delivered, including three reports that were unable to be finalised in 2021/22 (due to Covid-19 related issues).

The Committee reviewed the agreed actions undertaken by management to address recommendations from all audit reports.

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, 2022/23

Meeting 1 - August 2022

Review Name	Objectives and Outcomes	Overall Rating
2022 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

Meeting 2 – October 2022 (draft financial statements only – no audit reports tabled)

Meeting 3 – December 2022

Review Name	Objectives and Outcomes	Overall Rating
Payroll (including CHRIS21) Review	<p>The primary objective of the engagement was to review the adequacy of the City's payroll processes, controls, and application controls relevant to the CHRIS21 system, for the period 1 January 2021 to 31 December 2021 (the audit period).</p> <p>An application review of CHRIS21 was undertaken in line with the Institute of Internal Auditors Global Technology Audit Guide Auditing Application Controls (IIA GTAG 8).</p> <p>All management actions have been completed.</p>	Low
Delegations Framework Review	<p>The audit focused on the design and effectiveness of the controls relating to the implementation and operation of delegations, and specifically assessed the following:</p> <ul style="list-style-type: none"> • The Instruments of Delegations are: <ul style="list-style-type: none"> - current - appropriately set - personnel responsible are aware of and complying with the relevant instrument of delegations - executed within the officer's delegated limits. 	Low

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	<ul style="list-style-type: none"> • Discretionary Authority - to ensure that all levels of authority are appropriate. • Transparency of approval process - to ensure that the approval process is transparent. • Segregation of duties - changes to temporary delegations are adequacy maintained e.g., withdrawn after the period of cover has expired and staff understand their obligations when changes to their delegations are applied. • Managed properly for absences – adequate and relevant delegations are actioned to cover absences. • Delegations are reviewed regularly to ensure appropriateness. <p>All management actions have been completed.</p>	
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Meeting 4 – March 2023

Review Name	Objectives and Outcomes	Overall Rating
Management of Fees and Charges	<p>The objective of this internal audit was to provide limited assurance that internal controls over the management of fees and charges are adequate, effective, and efficient, in all material respects in managing risks to the City.</p> <p>Two medium-rated management actions are in progress.</p>	Low
GIPA Compliance	<p>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 nominated divisions within Part 3 and Part 4 of the GIPA Act.</p> <p>All management actions have been completed.</p>	Low
Integrated Planning & Reporting Framework Review	<p>The overall objective of this review was to provide independent assurance that the City is meeting the legislative requirements of the IP&R Framework.</p> <p>All management actions have been completed.</p>	Low
Review of City of Sydney non-residential register methodology & plan for the 2021 and 2024 local government elections	<p>The key objectives of this engagement were to provide the Chief Executive Officer and Audit Risk and Compliance Committee an internal attestation on the Council Elections Unit's implementation of the non-residential register methodology and plan 2017-2021, and assurance on the Unit's methodology and plan to deliver the scheduled 2024 non-residential electoral rolls.</p> <p>All management actions have been completed.</p>	Low
Risk Management Framework Review	<p>The primary objective of the engagement was to review and report to senior management and the Audit Risk and Compliance Committee (ARCC) on the design and operational effectiveness of the Risk Management Framework (RMF) and associated practices.</p> <p>Three management actions have been completed. One management action is in progress.</p>	Satisfactory

Meeting 5 – June 2023

Review Name	Objectives and Outcomes	Overall Rating
Accounts Payable (including TechnologyOne applications) Review	<p>The primary objective of the engagement was to review and report to senior management and the Audit Risk and Compliance Committee (ARCC) on the adequacy of the City's accounts payable processes and controls, in addition to application controls relevant to the Tech1 system, for the period 1 July 2021 to 31 December 2021 (audit period). For audit representative sampling purposes, accounts payable processing for the audit period will be assessed.</p> <p>The application review of Tech1 was undertaken in line with the Institute of Internal Auditors Global Technology Audit Guide ("IIA GTAG") 8 Auditing Application Controls.</p> <p>All management actions have been completed.</p>	Low
2023 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
Parking Meter Income Review	<p>The key objectives of this engagement were to provide the Chief Executive Officer and Audit Risk & Compliance Committee an assurance on the effectiveness of controls and procedures surrounding the collection, recording and completeness of the Parking Meter revenue.</p> <p>Three management actions are in progress.</p>	Low

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 2023. The Audit Risk and Compliance Committee and Internal Audit are satisfied with the progress of outstanding and overdue actions as at 30 June 2023.

Audit Name	Meeting Tabled	Overall Rating	Total actions				Total actions in progress				Percent completion for each rating			Overall completion rate as a percentage at 30 June 2023	
			High	Medium	Low	Total	High	Medium	Low	Total	High	Medium	Low	Total	
DRIVES24 Compliance Review 2022	August 2022	Not rated (no findings)													
Payroll (including CHRIS21) Review	December 2022	Low		1	1	2						100%	100%		100%
Delegations Framework Review	December 2022	Low			4	4							100%		100%
Management of Fees and Charges *recommendations are not yet due	March 2023	Low		2		2		2*		2*					
GIPA Compliance	March 2023	Low			1	1							100%		100%
Integrated Planning & Reporting Framework Review	March 2023	Low			2	2							100%		100%
Review of City of Sydney non-residential register methodology & plan for the 2021 and 2024 local government elections	March 2023	Low			2	2							100%		100%
Risk Management Framework Review *recommendation is not yet due	March 2023	Satisfactory		4		4		1*		1*		75%			75%
Accounts Payable (including TechnologyOne applications) Review	June 2023	Low		1		1							100%		100%
DRIVES24 Compliance Review 2023	June 2023	Not rated (no findings)													
Parking Meter Income Review *recommendations are not yet due	June 2023	Low		2	1	3		2*	1*	3*					
		Total		10	11	21		5	1	6		88%	100%		96.4%

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 ¹
30/06/2020	48	63	64	47	9
30/06/2021	47	50	78	19	6
30/06/2022	19	15	16	18	0
30/06/2023	18	21	33	6	0

For FY2022/23 there were no audits tabled for which high risk issues were identified.

Forward Audit Plan, 2023/24

The updated Four-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 22 June 2023.

¹ Actions not completed by agreed date.

The approved plan for 2023/24 comprises a risk-based program of 22 reviews mapped to the City's Executive Risks, as well as 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.

During the 2022/23 financial year, the ARCC:

- considered the program and status reports covering the preparation of the previous financial year (2021/22)
- received and noted the external auditor's letter covering the final audit for 2021/22
- considered and endorsed the 2021/22 General and Special Purpose Financial Reports prior to Council's authorisation
- reviewed Directors' attestations
- reviewed the external audit plan for 2022/23.

Risk management, compliance and governance

For the 2022/23 reporting period the ARCC received presentations and updates on:

- the launch of the new risk management system
- updates to the risk management framework and proposed new guidelines for risk management from the OLG
- the City's risks including changes to the City's risk profile and related metrics
- new compliance obligations
- non-compliances and data breaches
- the City's insurance portfolio
- claims against the City
- the City's governance framework and processes.

Fraud and corruption prevention

For the 2022/23 reporting period the ARCC received updates on:

- Internal investigations and customer complaints referred from the NSW Ombudsman
- Implementation of the fraud and corruption control plan
- Governance training undertaken by employees.

One public interest disclosure received in the previous reporting period, alleging theft and misuse of council resources, was found to be partially substantiated. Three public interest disclosures were received, and investigations completed during this period. One related to alleged fraudulent overtime claims (time theft) and favourable treatment and was found to be unsubstantiated. The second matter related to alleged undeclared conflicts of interest and favourable treatment in relation to a recruitment process and was found to be unsubstantiated. The third matter related to alleged misuse of council resources, fraudulent approval of overtime (time theft), favourable treatment and failure to follow proper recruitment processes. This matter was found to be partially substantiated.

Legal

For the 2022/23 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 that, while the pandemic is now officially over, the impact on the City has been profound. As we transition back to “BAU” it is important that the impact of the pandemic is recognised in future risk assessments. The Committee has confidence that the City has an effective risk control framework to manage this and continues to strive to further mature its risk management and governance processes.

CAROLYN WALSH

Chair, Audit Risk and Compliance Committee

October 2023