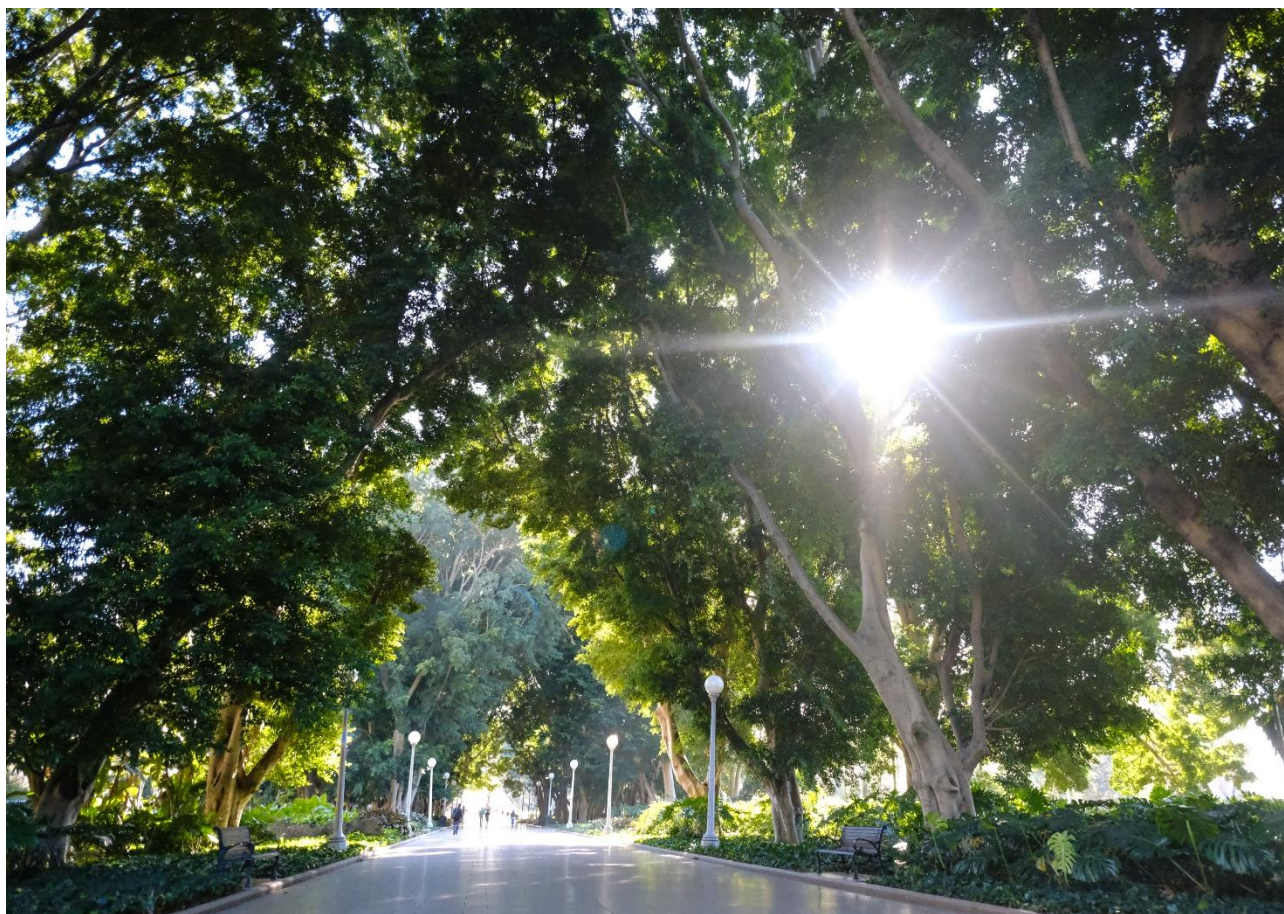


# **Attachment A**

**Audit Risk and Compliance Committee  
(ARCC) Annual Report to Council 2023/24**

# 2023/24 ARCC Annual Report to Council



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# 2023/24 Annual Report to Council

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## Introduction

The Audit Risk and Compliance Committee (ARCC) provides advice to Council on the integrity of the City's assurance functions, including internal audit, risk management, compliance, and governance.

The 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 Committee complies with the Director General's Guidelines for the purposes of section 23A of the Local Government Act 1993 and reports to Council through the Corporate, Finance, Properties and Tenders Committee, in line with the Office of Local Government's (OLG) Guidelines for Risk Management and Internal Audit for Local Government in NSW (December 2023).

In December 2023 the Local Government (General) Amendment (Audit, Risk and Improvement Committees) Regulation 2023 was made.

The new legislation commenced on 01 July 2024. The new requirements in these regulations require further resolution of Council in relation to a new Audit Risk and Compliance Committee Terms of Reference and Internal Audit Charter.

The proposed ARCC Terms of Reference, based on the OLG model Terms of Reference, was endorsed by the ARCC with minor amendments at the Committee meeting held on 20 June 2024.

These Terms of Reference will be tabled at a Council meeting following the NSW local government elections in September 2024.

This report covers the period 01 July 2023 to 30 June 2024.

## 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.

The City has a staggered approach to the 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.

Councillor members:

- Lord Mayor Clover Moore
- Councillor Robert Kok (from June 2022)
- 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 to 30 June 2025)
- Ken Barker (appointed October 2014, reappointed October 2018 to 30 November 2022, then extended to 30 November 2023)
- Stephen Horne (appointed January 2024 to a four-year term)

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.

## Recruitment Process for Independent Members

On 26 June 2023, Council endorsed updated position descriptions which reflect the requirements of the (then) draft Guidelines to enable the conduct of an expression of interest process to identify appropriate candidates for new independent members. Authority was delegated to the Chair of the Audit Risk and Compliance Committee in conjunction with the Chief Executive Officer to conduct the expression of interest and recruitment process.

The call for expressions of interest was advertised in mainstream media outlets, the City's website, and through the Institute of Internal Auditors. Applications were open from 25 September 2023 to 8 October 2023. A total of 17 expressions were received.

On 23 October 2023, Council appointed Councillor Robert Kok to participate in the interview process and preparation of recommendations to Council for the appointment of new external members to the Audit, Risk and Compliance Committee. It is noted that the selection panel

consisted of the Chair of the Audit, Risk and Compliance Committee, a Councillor representative (Councillor Rober Kok) and the Chief Financial Officer.

The selection panel recommended that Council appoint Stephen Horne to the Audit Risk and Compliance Committee for a period of four years, commencing 1 January 2024. The selection panel confirmed that the recommended appointee is eligible in accordance with the requirements of s 216E of the Local Government (General) Amendment (Audit, Risk and Improvement Committees) Regulation 2023, and that the recommended appointee is independent of the Council in accordance with s 216F (including not having had any business dealings with the Council).

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## Meetings and attendance

The Audit Risk and Compliance Committee (ARCC) met five times to consider matters relating to the financial, audit and risk management issues of the City of Sydney.

In 2023/24 the ARCC:

- endorsed the draft ARCC Terms of Reference
- endorsed the draft Internal Audit Charter
- endorsed the draft Risk Appetite Statement
- endorsed the draft Risk Management Policy and Procedure
- endorsed Compliance Obligations Policy
- received regular reports on:
  - workplace health and safety and other compliance-related matters
  - IT security, including incidents and alignment with Essential 8 requirements
  - Improvement and Transformation (an overview of key projects delivering efficiency, effectiveness, and community experience improvement)
  - progress made on the City's Asset Management Improvement Plan
  - Crown and Community Plans of Management Program
- received briefings, updates, demonstrations, or presentations on:
  - a gap analysis of the current Purchase Card Policy and the OLG credit card guidelines against the new draft Purchase Card Policy
  - management of the risk of fires relating to charging of the e-bike fleet
  - major projects update
  - asbestos contaminated mulch updates
  - updates on the implementation of the Modern Slavery and Chain of Responsibility Implementation Plans
  - Office of Local Government's Guidelines on Risk Management and Internal Audit
  - significant legislative and regulatory change updates
  - deep dive briefing on strategic risks(in-camera)
  - annual Procurement and Contracts Management update

- 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

During the 2023/24 reporting period, the Committee held two hybrid meetings (October 2023 and March 2024) and three meetings held in person (August, November 2023 and June 2024). 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 2023 meeting. No management representatives were present.

## 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 FY2023/24)	Yes
Declarations of Conflict of Interests	Yes
Internal Audit updates, as well as preparation of four 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 operational areas. 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 2023/24.

For the 2023/24 reporting period, the Chief Internal Auditor tabled at Committee meetings:

- the four-year strategic audit program for the period 2024-2028 and the annual operational audit plan for 2024/25
- regular reports from the Chief Internal Auditor on progress against the plan
- the proposed Internal Audit Charter aligned to the Office of Local Government's model internal audit charter for endorsement and will be tabled for the new Council's approval after the NSW local government elections<sup>1</sup>
- 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 Chief Internal Auditor meets in-camera with the Chair and Independent Members quarterly without management present.

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## The Internal Audit Plan, FY2023/24

The 2023/24 operational audit plan was endorsed by the Committee at the 22 June 2023 meeting and comprised 22 reviews. 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.

There were 13 reviews tabled (including two reviews from the FY2022/23 plan) during FY2023/24:

- Planning Agreements (FY2022/23 plan)
- Councillors' Expenses Compliance Review 2022 (FY2022/23 plan)
- 2023 Review of the Street Safety Camera Program
- Building Certification Process Review
- Bullying and Harassment Management: Process & Reporting
- Fraud and Corruption Control Maturity Assessment
- Treasury Management Review
- IT Disaster Recovery Plan
- IT Project Management Review
- Work Health Safety Management Review
- Implementation of Single Touch Payroll (STP) Phase 2
- Councillors' Expenses Compliance Review 2023
- 2024 Review of Access to Transport for NSW's DRIVES24.

<sup>1</sup> At the request of the CEO, the June 2023 charter remains in force until after the NSW local government elections in September 2024.



At the end of the financial year, five reviews were in the draft report stage, four reviews were in the fieldwork stage, and two reviews were in the planning/research stage.

The Committee reviewed and endorsed all management actions undertaken to address recommendations arising from audit reports.

## 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
<b>Unsatisfactory</b>	Numerous very high and/or high-risk issues
<b>Requiring improvement</b>	A small number of very high- or high-risk issues and/or many medium risk issues
<b>Satisfactory</b>	Only isolated instances of high issues and/or a small number of medium risk issues
<b>Low</b>	Only isolated instances of low to medium risk issues
<b>Not Rated</b>	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, 2023/24

For FY2023/24 there were two audits tabled for which high-risk issues were identified.

Meeting 1 - August 2023

Review Name	Objectives and Outcomes	Overall Rating
Planning Agreements Review	<p>The focus of the engagement was to:</p> <ul style="list-style-type: none"> <li>Understand whether systems, resources and controls address obligations under legislation and policies</li> <li>Understand any changes to legislation, processes, procedures, systems and resources since the review occurred to assess the impact these have on the PA process and associated risks</li> <li>Test compliance against policy and procedural documentation</li> <li>Validate and confirm the design, and operating, effectiveness of these key controls, and</li> <li>Identify opportunities to further enhance the PA process.</li> </ul> <p>All management actions have been completed.</p>	Low
Councillors' Expenses Compliance Review 2022	<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> <p>All management actions have been completed.</p>	Satisfactory
2023 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

Meeting 2 – October 2023 (review of draft financial statements only – no audit reports tabled)

## 2023/24 ARCC Annual Report to Council

### Meeting 3 – November 2023

Review Name	Objectives and Outcomes	Overall Rating
Bullying and Harassment Management: Process & Reporting	To evaluate the effectiveness of the reporting process and record-keeping in relation to the Bullying and Harassment Policy.  All management actions have been completed.	Requiring improvement
Building Certification Process Review	To review the City's processes and controls to ensure compliance with responsibilities and obligations specified in the Building & Development Certifiers Act 1028 (Section 37 – Responsibilities of individuals acting on behalf of Registered Body Corporate or Council) and Roads Act and Local Government Act to ensure that risks to the public and organisation are minimal regarding the construction hoardings.  All management actions have been completed.	Low
Fraud and Corruption Control Maturity Assessment	To understand and assess the current capability maturity of the City's fraud and corruption control framework.  Except for one improvement opportunity due by 31 December 2025, all management actions have been completed.	Maturity level rating: Medium to High (a good rating)
Treasury Management Review	To review the adequacy of the City's process and controls relating to treasury management, including liquidity and the mitigation of operational, financial, and reputational risk.  All management actions have been completed.	Low

### Meeting 4 – March 2024

Review Name	Objectives and Outcomes	Overall Rating
Information Technology Disaster Recovery Plan (ITDRP) Review	To review the adequacy of existing IT disaster recovery framework and assess alignment with better practices.  All management actions have been completed.	Satisfactory

## 2023/24 ARCC Annual Report to Council

### Meeting 5 – June 2024

Review Name	Objectives and Outcomes	Overall Rating
IT Project Management Review	<p>To review the design and operating effectiveness of the City's IT Project Management methodology and control environment.</p> <p>Three management actions are in progress.</p>	Low
Work Health Safety Management Review	<p>To review if the WHS management system meets the City's due diligence obligations under the Work Health and Safety Act 2011 (including the SafeWork NSW Code of Practice: Managing psychosocial hazards at work); that processes are operating effectively to gain assurance that the agreed remediation actions associated with notifiable incidents are completed in a timely manner, and to the extent required by the City; shared duties between the City and key contractors are clearly defined and there are appropriate processes to ensure compliance; and documentation is in place to manage and ensure worker safety and compliance to key requirements of legislation.</p> <p>All management actions in progress.</p>	Low
Implementation of Single Touch Payroll (STP) Phase 2	<p>To assess that the payroll system framework was appropriately designed and operating effectively, including assessment that the Single Touch Payroll (STP) Phase 2 implementation was consistent with the requirements of the ATO with specific focus on the application of categories and pay codes.</p> <p>No issues for management to address.</p>	Low
Councillors' Expenses Compliance Review 2023	<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> <p>All management actions have been completed.</p>	Low
2024 Review of Access to Transport for NNSW'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

## 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 overdue management action items to monitor implementation and providing follow-ups at each Committee meeting.

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

### Management of internal audit actions/recommendations

The Internal Audit unit 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 2024.

The table below summarises the 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 <sup>2</sup>
30/06/2021	47	50	78	19	6
30/06/2022	19	15	16	18	0
30/06/2023	18	21	33	6	0
30/06/2024	6	28	26	8	0

## Forward Audit Plan, 2024/25

The updated four-year Strategic Internal Audit Program, incorporating the annual operational audit plan, was endorsed by the Executive and approved by the Audit Risk and Compliance Committee on 20 June 2024.

The approved plan for 2024/25 comprises a risk-based program of 15 reviews mapped to the City's Executive Risks, as well as Improvement Focus Areas. In addition to the reviews, the plan includes an assurance mapping project, the Internal Audit unit's improvement project, and the annual confirmation to ARCC of the independence of internal audit activities from the City (as required by the Internal Audit Charter).

<sup>2</sup> Actions not completed by agreed date.

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.

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## Quality Assurance Review

A quality assurance review was performed by the Institute of Internal Auditors (IIA) during the financial year. The City's Internal Audit unit is now certified as being in conformance with the IIA's standards. While the certification will remain in effect until 2029, it will be renewed in approximately 2028 (end of term for the council).

The final results and opportunities for continuous improvement in the functioning of the ARCC is to be discussed at an ARCC workshop in November 2024.

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## External Audit

The City's external auditor is the Audit Office of New South Wales.

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 2023/24 financial year, the ARCC:

- considered the program and status reports covering the preparation of the previous financial year (2022/23)
  - received and noted the external auditor's letter covering the final audit for 2022/23
  - considered and endorsed the 2022/23 General and Special Purpose Financial Reports prior to Council's authorisation
  - reviewed Directors' attestations
  - reviewed the external audit plan for 2023/24.
- 

## Risk management, compliance and governance

For the 2023/24 reporting period the ARCC received presentations and updates on:

- The City's delegations review
- Data breaches
- Code of conduct refresher training for all staff
- A suite of updated governance risk and compliance policies
- Instances of non-compliance
- Implementation of legislation and regulatory changes

- Local child safety risk management plans
- Implementation of modern slavery requirements
- Chain of responsibility improvements
- A deep dive into how risk is managed at the City of Sydney
- Regular updates on Executive level risks
- The City's risk appetite statement
- Risk management KPIs
- A review of the City's risk management matrix
- The City's insurance program
- Third party claims
- Implementation of the OLG Risk Management requirements

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## Fraud and corruption prevention

For the 2023/24 reporting period the ARCC received updates on:

- Implementation of the annual fraud and corruption action plan
- Implementation of the new Public Interest Disclosures Act 2022
- Staff training aimed at fraud and corruption prevention
- Internal investigations
- Business unit fraud and corruption control plans

Two public interest disclosures were received during this period. One related to concerns about the probity of a procurement process was found to be unsubstantiated. The second matter related to allegations of, in particular, favourable treatment and deliberate failure to follow Council policies. This investigation was ongoing at the end of this reporting period but has subsequently been closed and the matter found to be unsubstantiated.

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## Legal

For the 2023/24 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 reviews workplace health and safety updates, including injuries, notifiable incidents, and workers compensation claims.

## Other

The Chief Internal Auditor has confirmed the independence of internal audit activities from the City as required by the ARCC-endorsed Internal Audit Charter.

The Committee assesses the currency of the Internal Audit Charter and evaluates the performance of the Internal Audit unit.

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

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.

### **CAROLYN WALSH**

Chair, Audit Risk and Compliance Committee

October 2024