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**CCL 23/02/21 – AUDIT AND RISK COMMITTEE
ANNUAL REPORT 2019/20**

PAGE 3 **ITEM-16** **Attachment A:** Audit and Risk Committee
Annual Report 2019/20

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Audit and Risk Committee

Annual Report

2019 / 20



Acknowledgment

City of Newcastle (CN) acknowledges that we operate on the grounds of the traditional country of the Awabakal and Worimi peoples.

We recognise and respect their cultural heritage, beliefs and continuing relationship with the land, and that they are the proud survivors of more than two hundred years of dispossession.

CN reiterates its commitment to address disadvantages and attain justice for Aboriginal and Torres Strait Islander peoples of this community.

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Foreword



Effective Audit and Risk Committees are critical in local government to help deliver trust and confidence in financial reporting and risk management. The City of Newcastle Audit and Risk Committee has focused its efforts in the past twelve months on ensuring the right balance of risk, trust and opportunity as we build a strong foundation for governance priorities of the future.

Risk: Our responsibilities have widened beyond financial reporting oversight to include risk, emerging risk, and social responsibility obligations. With 2020 bringing increased pressure on governments at all levels the Committee has ensured a strong focus on strategic risk, longer term horizons, and innovation. Our priority has been to support Council as it adjusts and adapts to the new balance required by stakeholders and the community.

Trust: The Committee has built a strong relationship with our assurance providers and management. This allows us to drive compliance, improvement, fraud, ethics, and culture considerations while at the same time being mindful of the external environment brought about by COVID-19. Councillor representatives and independent members maintain a strong mix of skills for the Committee and all contribute to discussions with the Chief Executive and management during each meeting. A clear demonstration of trust. A memorandum detailing the matters considered at each meeting is presented to Council after each meeting.

Opportunity: Council has led the way in responding to the 2020 external environment. In particular the Committee was briefed on key risk agenda items, a robust well-being framework for officers and the community, and strengthening cyber defences. Of note is the fact that Council officers have been requested to present externally at professional conferences and events, highlighting the leading role Council is playing in local government thought leadership.

Finally, the Committee has a clear mandate through a Terms of Reference, and we look for efficiencies in the assurance work program at Council, minimising potential duplication of effort between assurance providers. Our meetings are well structured, held at regular intervals, and action items are tracked and reported back at each meeting.

I'm pleased to commend this Annual Report to you as a summary of our activities and approach in the past twelve months.

Stephen Coates
Independent Chair
Audit and Risk Committee

Background

This annual report documents the operation and activities of the Audit and Risk Committee for City of Newcastle (CN) from 1 July 2019 to 30 June 2020.

The Audit and Risk Committee (Committee) plays a pivotal role in overseeing CN's governance and risk framework and provides independent assurance and oversight of audit processes, including internal control activities.

The Committee was established on 19 May 2009 by a resolution of Council and is made up of three independent external members and two Councillor members. This membership is in accordance with the Office of Local Government Internal Audit Guidelines (September 2010) and the Audit and Risk Committee Charter (adopted by Council 27 February 2018). All Committee member profiles are included on pages 10-11 of this report.

The Audit and Risk Committee operates under a charter adopted by the elected Council which contains the Committee's responsibilities. Broadly, these include oversight of CN's risk management control framework, legislative compliance and internal audit. The Committee also reviews the external audit opinion and recommendations and other aspects of financial governance and reporting.

CN's Internal audit function and the Committee support the Chief Executive Officer to oversee CN's governance and risk management and controls. Both functions are referenced in CN's Enterprise Risk Management Framework.

City of Newcastle

Newcastle is Australia's seventh largest city, managing an asset portfolio of \$1.9 billion, an operational budget of more than \$290 million and capital expenditure of \$91 million.

Our proactive and innovative organisation make a positive difference in our community and to the organisation through various services and initiatives to achieve the community strategic plan. As an organisation, we are focused on achieving our organisational goals while developing and inspiring our employees to reach their full potential and grow both professionally and personally. Our CREW values (Cooperation, Respect, Excellence and Wellbeing) underpin everything we do as well as how we expect all our staff to engage with one another and the community.

CN employs almost 1,300 staff across five directorates and is responsible for providing services and facilities to more than 160,000 people.



City of Newcastle



Cooperation

We work together as an organisation, helping and supporting each other



Respect

We respect diverse views and opinions and act with integrity



Excellence

We strive for quality and improvement in everything we do



Wellbeing

We develop a safe and supportive environment

Our organisation



Chief Executive Officer
Jeremy Bath

Governance

Strategy and Engagement

People and Culture

Infrastructure and Property

City Wide Services



David Clarke



Brett Smith



Fiona Leatham



Ken Liddell



Alissa Jones

Finance

Information Technology

Organisational Development

Depot Operations

Art Gallery

Legal

Major Events and Corporate Affairs

Partnering and Operations

Assets and Projects

Museum

Regulatory, Planning and Assessment

Community, Strategy and Innovation

WHS and Injury Management

Civil Construction and Maintenance

Civic Services

Transport and Compliance

Training and Learning

Property and Facilities

Libraries and Learning

Payroll

Customer Experience

Waste Services

Parks and Recreation

City of Newcastle Audit and Risk Committee

The Committee is established to provide independent assurance on risk management, control, governance and external accountability. CN's Audit Coordinator reports to the Committee. The Committee's Charter requires the Committee to report at least annually to the elected Council on its affairs and the matters it has considered.

Audit and Risk Committee members



Stephen Coates
Independent Committee Chair

Stephen joined the Committee on 1 July 2017 and is President of the Institute of Internal Auditors Australia. He is an experienced Board and Audit Committee Chair leading the Boards towards strategy, in line with transparent and accountable governance. He has extensive experience leading assurance and risk advisory teams in both the private and public-sector. Stephen consults on managing risk culture and risk frameworks and delivers training events globally on risk and risk related topics.



Stephen Horne
Independent Committee Member

Stephen joined the Committee on 1 January 2018 and has a broad portfolio of audit and risk committees spanning the Commonwealth, NSWG, and NSW and Victorian local government sectors. Stephen is a qualified Company Director (GAICD), Company Secretary (FGIA), certified internal auditor (PFIIA, CIA, CGAP), is certified in risk management assurance (CRMA), has a business degree and postgraduate qualifications in management, management communications and fraud control. Stephen has extensive experience in the fields of e-government, corporate governance, risk management, internal audit, fraud control, corruption prevention and performance reporting.



Greg McKenna
Independent Committee Member

Greg joined the Committee on 25 June 2018 and is currently the CEO of the Police Bank Limited, a Mutual Bank dedicated to serving its members and their families in the NSW Police Force, AFP, Tasmanian Police and Australian Border Force. Greg's career in Banking and Finance spans more than 30 years. He is also a member of the Australian Institute of Company Directors and holds a Bachelor of Business (Banking and Finance) from Monash University as well as a Master of Applied Finance from Macquarie University.



Cr John Mackenzie
Committee Member

Cr Mackenzie was elected to Council in September 2017 and joined the Committee in September 2017. He additionally holds the title of Dr Mackenzie and is a policy research consultant with over fifteen years' experience in academic, government and consulting roles. Dr Mackenzie brings expertise in social research, impact assessment, community engagement and evaluation. He has worked around the country on policy initiatives that bring communities together to find solutions to complex, divisive and intractable natural resource management problems, such as water allocation in the Murray Darling Basin and Indigenous water rights in Cape York and the Kimberley.



Cr Matthew Byrne
Committee Member

Cr Byrne was elected to Council in September 2017 and joined the Committee in March 2019. He holds membership on CN's Disability Inclusion Committee and Strategy and Innovation Advisory Committees as well as external committees including the Hunter and Central Coast Joint Regional Planning Panel and Lower Hunter Councils Transport Group. Cr Byrne is a Registered Nurse and Solicitor and continues to represent the collective interests of residents and the community and uphold decisions as a member of the Council.

Audit and Risk Committee attendance

In 2019/20 the Committee met five times to review internal audit reports, the internal audit program, and audited financial statements. Attendance at the 2019/20 meetings:

Name	Role	Eligible	Attended
Stephen Coates	Chair	5	5
Steven Horne	Independent	5	5
Greg McKenna	Independent	5	5
Cr John Mackenzie	Councillor	5	4
Cr Matthew Byrne	Councillor	5	1

Audit and Risk Committee report card

Committee Charter	Compliance
Committee meetings	A quorum was met at every meeting.
Composition	3 Independent members 2 Councillors
Broad range of skills and experience	The Committee consists of a diverse range of extensive experience across risk management, internal audit, local government and commercial activities.
Functional separation	The Committee has no executive powers.
Sufficient time allocated to tasks	The Committee agenda facilitated adequate time to discuss all internal audit reviews, external audit reviews, update on the progress of the implementation of audit actions.
Probity	Members declared conflicts of interest if they arose.
Risk management	Risk management key activities are reported at each meeting of the Committee. The Committee maintains interest in the implementation status of CN's Enterprise Risk Management Framework and clarification of risk data to inform business planning and decision making, including the internal audit plan.
Control framework	The Committee effectively reviewed the controls, policies and procedures through audit reports and high-level briefings received.
Compliance	The Committee received and reviewed the annual calendar of Compliance and Reporting Requirements 2019/20.
COVID-19 Pandemic	The Committee received a briefing on CN's response to the COVID-19 pandemic which included forming an Emergency Response Team, the development of business continuity plans and the establishment of a City Taskforce to oversee the recovery phases of the COVID-19 pandemic crisis.
Fraud, corruption and control	The Committee received and reviewed CN's Fraud and Corruption Control Plan.
Internal audit	Reviewed and approved the internal audit coverage and CN's internal audit plan, ensuring it considered the risk management plan. Consideration was given to the identification of significant issues identified in audit reports and action taken on issues raised, including identification and dissemination of better practices. The Committee monitored the implementation of internal audit recommendations by management.
External audit	The Committee has continued to review CN's financial position and commitment towards achieving financial sustainability. The Committee met on 19 October 2020 to receive briefings on the draft audit and CN's financial statements in respect of the year ended 30 June 2020. A management report of significant financial matters for the year ended 30 June 2020 was reviewed.

Committee Charter	Compliance
External accountability	The Committee acts as a forum for communication between the Council, the CEO, senior management, internal audit, external auditors and the Auditor Office of NSW.
Financial management	The Committee receives and reviews the Quarterly Budget Review report at each meeting.
Self assessment	The Committee conducted a self-assessment to determine the extent to which it is achieving its overall objective to provide independent assurance and assistance to CN on risk management, control, governance, and legal and regulatory obligations; and assess the performance of CN's internal audit function. The self-assessment for 2019/2020 was completed by the Committee and attendees in October 2020.



Internal audit

CN outsources 50% of the internal audit function, with Centium being the current appointed contractor for this function. Outsourcing facilitates an agile internal audit program and ensures a high level of independence and autonomy from CN's management and enables specialised knowledge and skills to be procured to conduct audits of those high-risk areas which could impact the achievement of CN's objectives.

Resources were allocated to complete nine internal audits in the 2019/2020 internal audit program. The outsourced internal audits are supported by CN's Audit Coordinator who undertakes the balance of the internal audit program and provides support to the Committee.

The Committee reviews audit reports and endorses recommendations as appropriate. Audit actions are tracked and the current status of audit action items are reported to the Governance and Risk (Executive) Committee, the Executive Leadership Team and to the Committee on a quarterly basis.

In the past 12 months, the audit function reviewed, provided assurances and recommended control and efficiency improvements across the following diverse operations:

Audit	Completed By:
RMS Drives 2018/2019	CN
Records and Information Management	Centium
Boarding House Regulatory and Improvement Review	Centium
National Heavy Vehicle Accreditation Scheme	CN
Assurance Mapping (Governance)	CN
ICT – Cyber Security	Centium
Contract Compliance (x3)	CN
Business Continuity Impact Analysis – COVID 19	CN

Snapshot of internal audit action progress

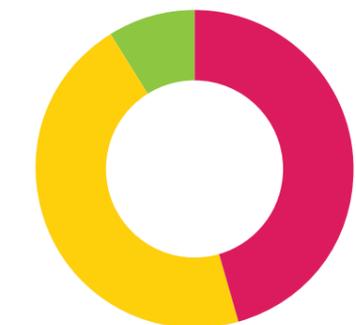
CN prepares an audit action progress report for each meeting which includes updates on all audit actions currently being implemented. Internal audit is currently monitoring the following audit actions as summarised:

Audit action overview



- Complete - 105
- On Schedule - 42
- 2nd Agreed Date - 12
- 3rd Agreed Date - 27

Audit actions by risk



- High - 37
- Medium - 37
- Low - 7

Audit	Audit Actions			Remaining Actions			Completion Rate		
	High	Medium	Low	High	Medium	Low	High	Medium	Low
Fraud, Corruption and Control	5	5	5	-	2	-	100%	60%	100%
Delegations	6	3	-	1	-	-	83%	100%	-
Procurement	8	8	5	1	-	-	88%	100%	100%
Customer Service Review	1	8	5	1	1	2	0%	88%	60%
Summerhill Environmental Compliance	-	16	4	-	6	2	-	63%	50%
External Audit 2018/2019 - A0 NSW	4	8	5	4	4	1	0%	50%	80%
Leave Management	-	8	-	-	3	-	-	63%	-
Records Management	1	11	3	1	5	1	0%	55%	67%
Boarding House Regulatory Improvement Review	10	10	-	7	6	-	30%	40%	-
NHVAS	-	6	-	-	1	-	-	83%	-
RMS Drives	-	3	-	-	-	-	0%	100%	-
IT Cyber Security	24	11	3	22	9	1	8%	18%	67%
Total	59	97	30	37	37	7	37%	62%	77%

Risk management

CN recognises that risk management is an integral part of any organisation. CN is committed to good corporate governance including creating a positive culture that promotes risk management at all levels of the organisation.

As part of CN's Governance Framework, we have transformed our enterprise risk management approach developing a strong risk culture supporting delivery of CN's vision and purpose. CN's Enterprise Risk Management (ERM) framework comprises:

- ERM Policy
- ERM Guideline
- Risk registers utilising CAMMs software
- Governance and Risk (Executive) Committee (GREC)
- Audit and Risk Committee.

With strong leadership endorsement, CN is progressively embedding the ERM framework through a four-year implementation strategy. This pillar of good governance and management practices in turn provides assurance to our community that we are operating effectively and efficiently.

Overall, CN's evolving ERM framework maturity has allowed CN to:

- Align risk management with our strategic plan enabling clear visibility to achieve our vision, goals and objectives assess the effectiveness of the internal control framework and identify where new and enhanced internal controls are necessary
- Reduce the cost of risk monitoring and reporting
- Complete an assurance mapping process across the organisation focusing on key controls to assess the level of risk associated with key processes
- embed a risk-aware and accountable culture throughout the organisation.

CN's objective is to continue the journey we are on where risk management is positively and seamlessly integrated into CN's culture with top-of-mind thinking resulting in the continual and proactive application and assessment of risk.

The Committee received regular updates and reports from the Risk Management Coordinator and the Governance and Risk Executive Committee on the establishment of the revised ERM Framework and the implementation of the software solution utilised to manage and support a consistent, effective and structured approach to the management of risk at CN.

In October 2020, CN was announced (joint) winner of the Statewide Mutual Risk Management Excellence Awards (RMEAs) for our submission which focused on the application of a bow-tie methodology to improve service delivery based on accountability, transparency and good governance all within the evolving maturity of an ERM Framework. The award is open to all NSW Member Councils and exists to promote:

- Recognition of risk management as a management structure;
- Awareness of risk management issues;
- Innovation in risk reduction; and
- Recognition of that innovation.

Governance

Good governance creates community confidence in CN. Our Governance Framework and Open and Transparent Governance Strategy are integral to good governance at CN. CN's Governance Framework comprises our Code of Conduct and Public Interest Disclosures Policy, Fraud and Corruption Control Plan, Enterprise Risk Management Framework, register of delegations and Policy Framework, ensuring that CN is well governed and that:

- We achieve our intended purpose as a local government organisation
- We are compliant with all relevant laws, codes and ethics
- Our processes and behaviours ensure that we deliver and act in an ethical way
- We meet community expectations of probity, accountability and transparency

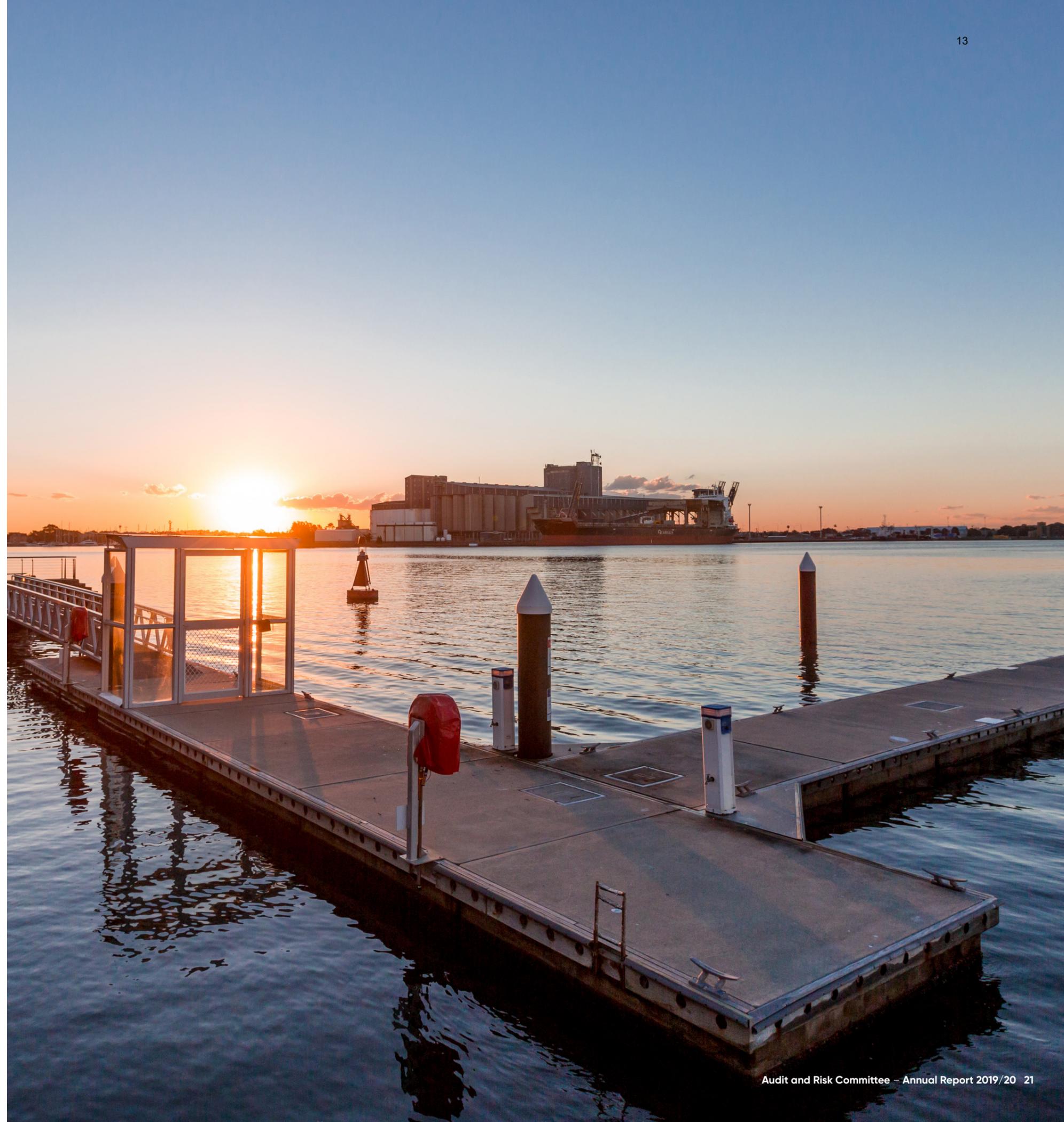
COVID-19 pandemic

CN developed an COVID-19 Emergency Response Team to oversee and guide the organisation through-out the pandemic. A key objective of the ERT was the development and implementation of business continuity plans (BCPs) based on a disruption to CN services resulting in conducting business outside of business as usual. CN's Audit Coordinator and Risk Management Coordinator were seconded to the ERT, for three months, specifically for the BCP project to assist Managers with identifying core processes for core functions, analysing risks, capturing processes and recovery plans and undertaking business impact analyses.

External audit

The Committee receives an annual report from the external auditor (Audit Office of New South Wales) on the status of CN's financial statements. Representatives from the Audit Office attend Committee meetings as advisors.

In October 2020, the Committee received a report from the Audit Office and the external auditor, RSM, and discussed the audited financial statements for the 2019/2020 financial year. The Committee also received and endorsed actions on control matters identified during the annual financial audit.



Self-assessment

In accordance with the Committee's Charter, the Committee completed a self-assessment for 2019/20 which was designed to assess the Audit and Risk Committee's performance for 2019/20 in the following areas:

Audit and Risk Committee, Skills and Understanding

The Committee understands the CN's business sufficiently to enable the Committee to fulfil its responsibilities under the Charter

The mix of skills on the Committee allows it to effectively perform its responsibilities

The Committee's overall financial literacy is adequate in light of the Committee's responsibilities

The Committee has responded appropriately and taken the required action where significant risks and/or control breakdowns have been brought to its attention

Audit and Risk Committee Members (External and Councillors) and Meetings

Committee members have attended meetings on a regular basis

Meetings have been conducted in accordance with the agenda issued and allow sufficient time to discuss complex and critical issues

Meeting agendas and supporting papers are of sufficient clarity and quality to make informed decisions

Meetings have been conducted to allow Committee members to raise any issue they believe relevant and allow for open, frank and robust discussion of all matters raised

Committee minutes are appropriately maintained and are of good quality

The Committee annual report to CN is of an appropriate quality and has been provided to us on a timely basis

The Committee has received all information, presentations, or explanations it considers necessary to fulfil its responsibilities

The Committee has reviewed and approved the annual business calendar

External Audit - Audit and Risk Committee

The Committee is satisfied that CN's annual financial reports comply with applicable legislation and Australian accounting standards and are supported by appropriate management sign-off on our financial statements

The Committee has reviewed the external audit opinion, including whether appropriate action has been taken in response to audit recommendations and adjustments

The Committee has considered contentious financial reporting matters in conjunction with CN's management and external auditors

The Committee reviewed the processes in place to ensure financial information included in the annual report is consistent with the signed financial statements

Internal Audit Assessment

The Committee has reviewed and approved the forward internal audit plan, ensuring it was developed in consultation with ELT and the Committee

The Committee considers the internal audit resources were adequate for the completion of the internal audit program

The Committee has monitored the implementation of internal audit recommendations and obtained all information and or explanations it considers relevant to the progress of implementation of audit recommendations

The Committee considers the audit reports provided as appropriate for the business needs of CN; and

(i) The reports were structured, concise and constructive

(ii) The recommendations provided were realistic and resulted in improvements to current procedures

(iii) The conclusions reached were adequately supported by relevant evidence and reflected a realistic understanding of the area under review

The Committee responsibilities are in the areas of: Risk Management; Fraud Control; Internal Control; Financial Management; Strategic Planning and Performance Reporting.

The Committee adequately understands and reviews CN's financial reporting requirements

The Committee reviews the effectiveness of the system for monitoring CN's compliance with relevant laws and regulations

The Committee adequately understands and reviews the entity's risk management framework and whether an effective approach is being followed in managing CN's major risks

The Committee understands and reviews management's systems and arrangements for maintaining effective internal controls

The Committee effectively addresses its responsibilities in respect of its review and consideration of audit plans, audit reports and identified issues

The Committee understands and reviews the effectiveness of CN's Fraud Control framework including the Fraud and Corruption Control Plan

The Committee understands and reviews the effectiveness of CN's strategic plan and delivery program

Self Assessment Performance



Aggregate Results:

- 1.0 Strongly Disagree – Below standard
- 2.0 Disagree – Poor
- 3.0 Agree – Good
- 4.0 Strongly Agree – Exceptional

Overall the Committee has achieved a good performance in achieving its objectives under the Committee Charter.

The self assessment further identified the following areas to be included in the internal audit program and/or agenda for the Committee meetings over the next two years:

- Focus on strategic risks and maturity of the ERM Framework
- Financial sustainability and business resilience
- Cyber security improvement
- Fraud and strategic management
- Senior staff succession planning and leave management and subsequent effect on service delivery
- Legislative compliance
- Outsourced management agreements

This feedback is being reviewed to be incorporated into future Committee agendas and the forward internal audit program as required.

Forward internal audit plan

CN takes a risk-based approach to formulate a three year, rolling forward internal audit plan. The audit planning process requires management to periodically consider risk levels, strategic objectives, audit history and other factors to determine audit priorities. These criteria are weighted to provide a scoring method so that audit priorities can be ranked.

In 2019/2020 CN has undertaken an assurance mapping exercise on CN's control processes to assess the level of risk associated with each process and define CN's 'Audit Universe'. The assurance mapping project is currently being conducted in coordination with the Business Continuity Plan review and is expected to be completed in March 2021. This process will form the basis of CN's three year strategic internal audit plan.

The 2020/2021 Forward Internal Audit Plan is included at Appendix A.

Appendix A

Forward Internal Audit Plan 2020/2021

#	Topic	Responsibility	Timing	Scope
1	RMS DRIVES	Audit Coordinator	Q1 2020/2021	Compulsory Compliance Audit for use of the RMS Database.
2	Cash Handling	Audit Coordinator	Q4 2019/2020 Q1 2020/2021	Assess adequacy of controls over Council's cash handling practices at identified facilities. Provide Council with reasonable assurance that internal controls operating over key financial processes (including financial reporting) are adequate and are consistent with good practice.
3	Assurance mapping (S&E, P&C, CWS, I&P)	Audit Coordinator	Q1 & Q2 2020/2021	Prepare an assurance map for Council's high-level strategic objectives, noting alignment with newly available risk profile and identified controls.
4	PCI DSS Review	Audit Coordinator, Cyber Security, Risk and Governance Manager	Q1 2020/2021	With the pending introduction of ERates a gaps analysis of the PCI DSS framework for City of Newcastle is to be completed to identify improvements to ensure full compliance with PCI DSS v3.2.
5	Rates Review	Centium	Q2 2020/2021	Seek reasonable assurance that Council's policies and procedures support compliance with relevant legislation, that rates are set in accordance with authorised pricing levels and that the processing and review of rates and billings is adequately controlled to prevent/detect error, misstatement or fraud.
6	National Heavy Vehicle Accreditation Scheme	Audit Coordinator	Q3 2020/2021	An annual internal audit and bi-annual external audit are required to maintain heavy vehicle accreditation. The audit is limited to the Maintenance Management System. Compliance Audit.
7	Fleet Review	Audit Coordinator	Q3 2020/2021	Expansion of the NHVAS audit program across all CN vehicles.
8	Treasury	Centium	Q3 2020/2021	The objective of this review is to determine whether there are appropriate, effective and efficient internal controls over the operations of Council's investments, and where possible, provide recommendations to achieve better practice.
9	IT Governance and Strategy	TBC	Q3 2020/2021	A detailed assessment of Council's IT services and the underlying processes, systems and environment to identify key risks.
10	Contract Compliance x 4	Audit Coordinator	Quarterly 2020/2021	Regular contract compliance audits in accordance with the revised Procurement Policy, Contract Management Procedure and Purchasing Procedure. Reported bi-annually to the Audit and Risk Committee
11	Overtime Review	TBC	Q3/Q4 2020/2021	Review the adequacy of CN's systems and controls for the management of overtime. Utilising data analytics conduct a review of CNs overtime over the past three years.

