

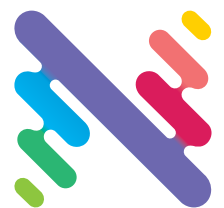
Audit and Risk Committee

Annual Report

2022/23



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City of
Newcastle

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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1. Foreword

The Audit and Risk Committee's key role is to provide independent assurance to City of Newcastle (CN). This is achieved through the monitoring, review, and provision of advice on governance processes, compliance, risk management and control frameworks, internal audit, financial management, external accountability obligations and overall performance.

The Committee's focus in 2022/23 included cyber security, employee performance and recruitment, waste management and environmental compliance. The Committee continues to increase its focus on emerging risks as well as performance and improvement. We see great benefit in enhancing the value provided by the Committee through particularly focusing on our improvement mandate.

We continue to widen our focus to where we believe the Committee can add value. Things like, major projects, coastal erosion, CN business initiatives, wider regulator/oversight activities, and local government focus areas including open and transparent governance, improving legislative compliance, fraud and corruption framework and awareness.

Special thanks to all Committee members for their insights and contributions during and between meetings. Members' ability to ask questions, evaluate answers, and probe issues has enhanced our ability to think objectively and independently.

Our annual review of performance allowed us to take stock, refresh our approach, and better engage. We work within a culture of openness and transparency, ready to accept and foster change.

Finally, our continued monitoring of the current and emerging risks along with improvement opportunities provides CN with the necessary insights and tools to address these risks, safeguard community assets, and provide a real difference to the City of Newcastle community. I commend this Annual Audit and Risk Committee report to Council.

Stephen Coates
Independent Chair
Audit and Risk Committee

2. Background

This report documents the operation and activities of the Audit and Risk Committee (Committee) for City of Newcastle (CN) from 1 July 2022 to 30 June 2023. The 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, risk, governance and external accountability activities.

Established on 19 May 2009, by a resolution of Council, the committee consists of three independent external members and two Councillor members, aligning with the Office of Local Government Internal Audit Guidelines (September 2010) and the Audit and Risk Committee Charter (adopted by Council 27 February 2018).

Operating under its charter, the Committee oversees CN's risk management control framework, legislative compliance, and internal audit, financial governance, and reporting. The Committee also reviews the external audit opinion and recommendations. The Committee reports to the elected Council at least annually.

CN's internal audit function and the Committee support the Chief Executive Officer (CEO) to oversee CN's governance and risk management, and controls, as referenced in CN's Enterprise Risk Management (ERM) Framework. CN's Internal Auditor reports to the Committee.



3. Audit and Risk Committee members



Stephen Coates
Independent Committee Chair

July 2017 – Current

Stephen joined the Committee on 1 July 2017 and is Immediate Past President of the Institute of Internal Auditors – Australia, Vice President of the Asian Confederation of Institutes of Internal Auditors, and a member of the International Internal Audit Standards Board. He is an experienced Board and Audit Committee Chair and has extensive experience leading assurance and risk advisory teams in both the private and public sector. Stephen works with Board and Committees on managing risk culture and risk frameworks and delivers training events globally on risk and risk related topics.



Greg McKenna
Independent Committee Member

June 2018 – Current

Greg joined the Committee on 25 June 2018 and was reappointed to the Independent member position in August 2021. Greg 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.



Vivek Chopra
Independent Committee Member

August 2021 – current

Vivek joined the Committee on 31 August 2021 and is currently the Head of Internal Audit and Assurance at St. Vincent De Paul Society QLD. Vivek sits on other local government Councils within QLD and Victoria and is a Board Member of a reputed Not for Profit organisation in NSW. Vivek is also the Deputy Chair of Institute of Internal Auditors Australia, QLD Chapter. Vivek lectures about Financial Accounting and Audit and Assurance at reputed QLD universities, has completed his Bachelor of Commerce degree, Masters of Accounting degree and is a FCPA and GAICD. His areas of expertise are within Internal and external audit, risk management, compliance, quality management, governance and cyber security. Vivek aspires to provide a collaborative and integrated approach to delivering sustainable and cost effective solutions.



Cr Dr John Mackenzie
Committee Member

September 2017 – current

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 Carol Duncan
Committee Member

August 2021 – current

Cr Duncan was elected to Council in September 2017 and joined the Committee in August 2021. Cr Duncan is an experienced media professional with a broadcast career of 30 years, during which she has worked in many Australian capital cities. A resident of Newcastle since 1993, Cr Duncan served on the HMRI and Newcastle Art Gallery Foundations and is the founder of the Lost Newcastle community history group of over 55,000 members. Cr Duncan has been recognised by the Walkley Foundation, the NSW Premier's Office and the NSW Cancer Council for her work as a journalist. She is also a member of the Australian Institute of Company Directors.

4. Audit and Risk Committee report card

The Committee met five times through-out 2022- 2023.

Key items of business include:

Received briefings on risk, audit actions, quarterly budget review statements and the quarterly forward internal audit plan at each meeting

Considered reports on internal and external audits

Received briefings from RSM and the Audit Office of NSW, including CN's audited financial statements

Discussed emerging risks and any general business arising

Held in-camera sessions with individual key stakeholders, including CN's CEO, Executive Director Governance and Chief Financial Officer, CN's Internal Auditor, and the Audit Office of NSW and their appointed auditor, prior to each Committee meeting.

Name	Role	Eligible	Attended
Stephen Coates	Chair	5	5
Vivek Chopra	Independent	5	5
Greg McKenna	Independent	5	5
Cr Dr John Mackenzie	Councillor	5	4
Cr Carol Duncan	Councillor	5	4

Other attendees at Committee meetings include:

CN staff:

CN's Chief Executive Officer (CEO)

Executive Director Corporate Governance and Chief Financial Officer

Executive Manager Legal & Governance

Enterprise Risk Manager

Auditor Coordinator

Governance Support Officer

Invitees:

Audit Office of NSW

CN staff requested presenting to the Committee.

Committee Charter	Compliance
<i>Committee meetings</i>	A quorum was met at every meeting.
<i>Composition</i>	3 Independent members 2 Councillors
<i>Broad range of skills and experience</i>	The Committee consists of a diverse range of extensive experience across risk management, internal audit, local government and commercial activities.
<i>Functional separation</i>	The Committee has no executive powers.
<i>Sufficient time allocated to tasks</i>	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.
<i>Probity</i>	Members declared conflicts of interest if they arose.
<i>Risk management</i>	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.
<i>Control framework</i>	The Committee effectively reviewed the controls, policies and procedures through audit reports and high-level briefings received.
<i>Compliance</i>	The Committee received and reviewed the annual calendar of Compliance and Reporting Requirements 2022/23.
<i>Fraud, corruption and control</i>	The Committee received and reviewed CN's Fraud and Corruption Control Plan.
<i>Internal audit</i>	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.
<i>External audit</i>	The Committee has continued to review CN's financial position and commitment towards achieving financial sustainability. The Committee met on 6 October 2023 to receive briefings on the draft audit and CN's financial statements in respect of the year ended 30 June 2023. A management report of significant financial matters for the year ended 30 June 2023 was reviewed.
<i>External accountability</i>	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.
<i>Financial management</i>	The Committee receives and reviews the Quarterly Budget Review report at each meeting.
<i>Self assessment</i>	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 2022/23 was completed by the Committee and attendees in July 2023.

CN co-sources its internal audit activities which are managed by in-house Internal Audit Coordinator. audit agility, autonomy, maintains independence from CN's management, and enables specialised knowledge and skills to be procured to conduct audits of high-risk areas which could impact CN's objectives.

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

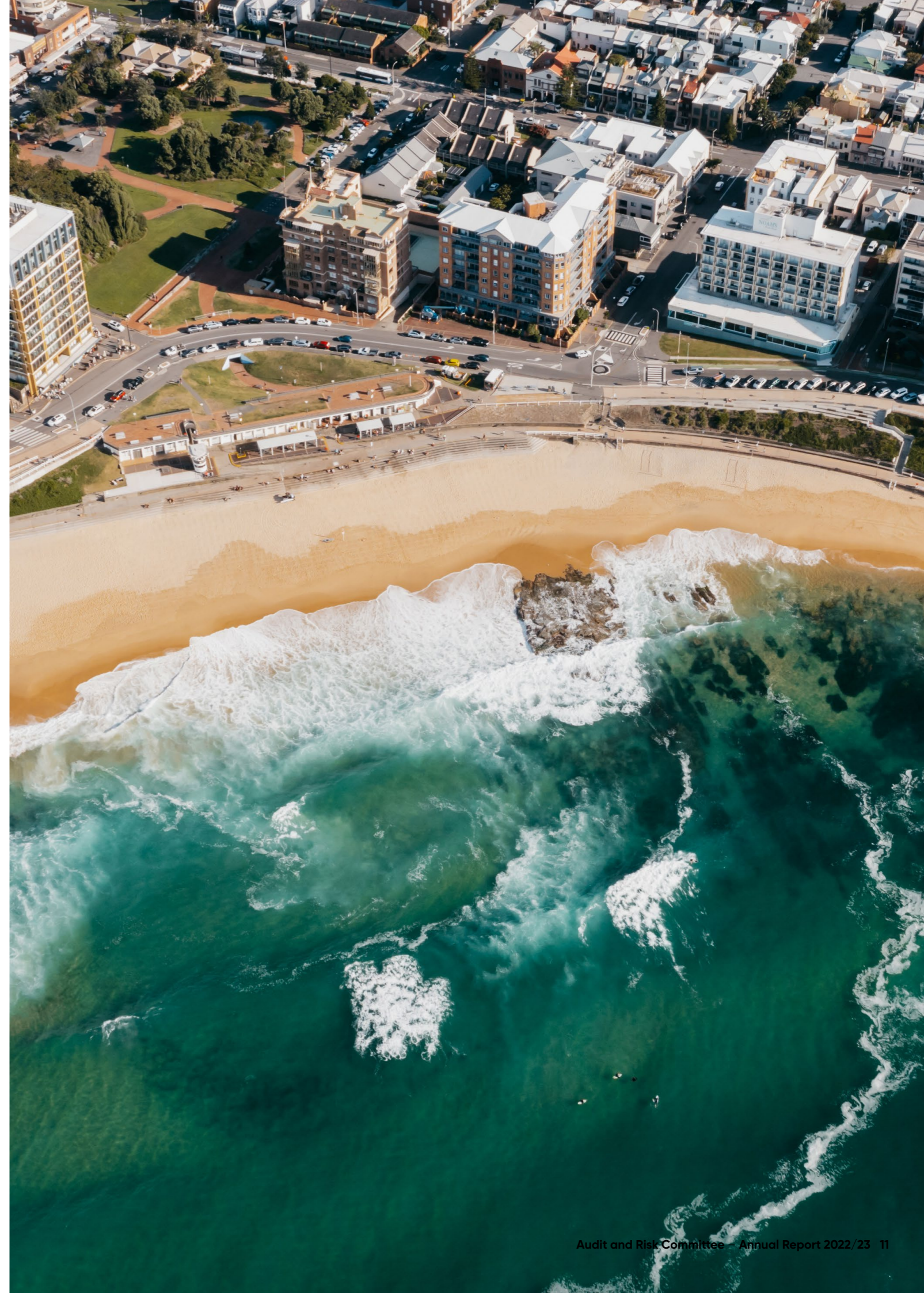
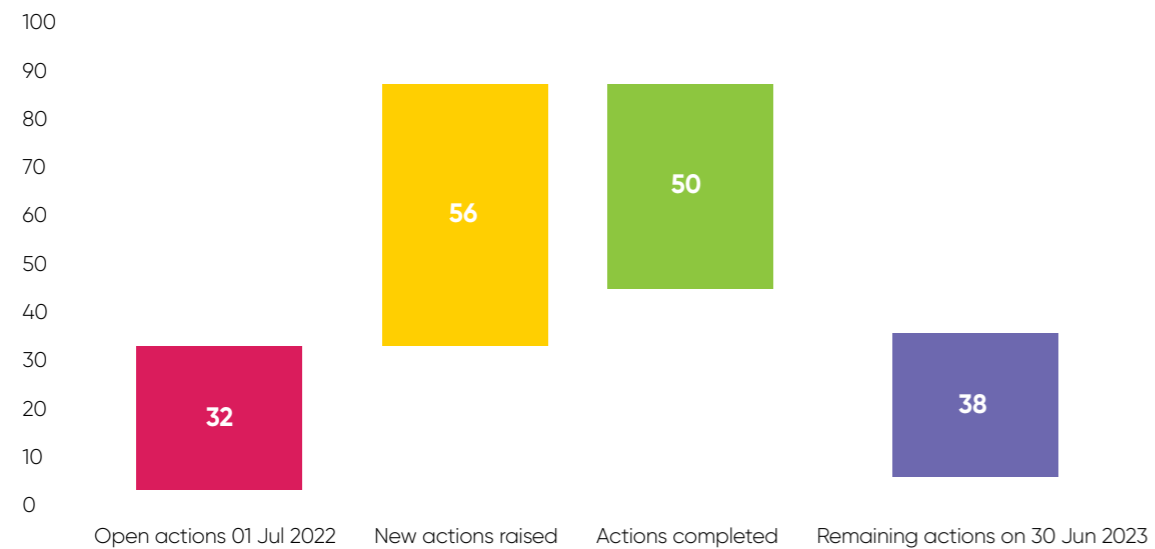
Audit	Conducted by
1 RMS Drives 2022/2023	CN
2 Project Management	Prosperity
3 Summerhill Waste Levy Audit	Centium
4 Summerhill Environment Compliance	Centium
5 Credit Card Management / PCI DSS	CN
6 National Heavy Vehicle Accreditation Scheme	CN
7 Summerhill Debtors Management (in progress as on 30 June 2023)*	CN
8 Employee Performance and Recruitment (in progress as on 30 June 2023)*	Centium

* Two (2) audits were in progress in as on 30 June 2023 and finalised in July/August 2023.

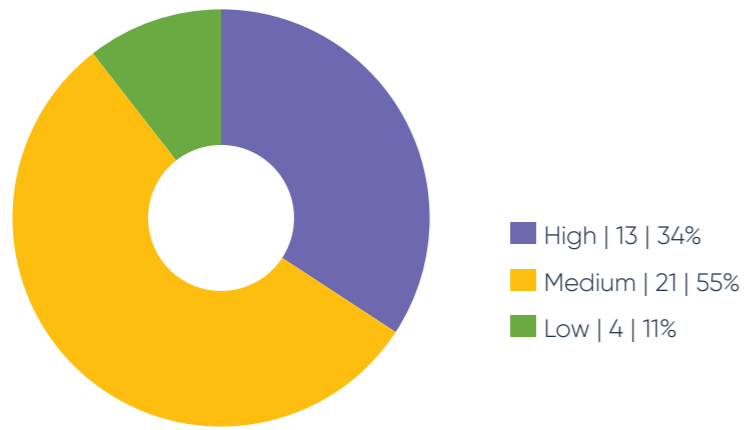
Internal audit action monitoring program

CN has a robust and established program for implementing and monitoring controls on high-risk actions to be implemented within agreed deadlines. Progress is actively monitored, and overdue actions are reported to the Governance and Risk (Executive) Committee, (GREC), and to this Committee.

This table provides an overview of the audit actions raised, closed, and reported to the Committee during 2022/2023:



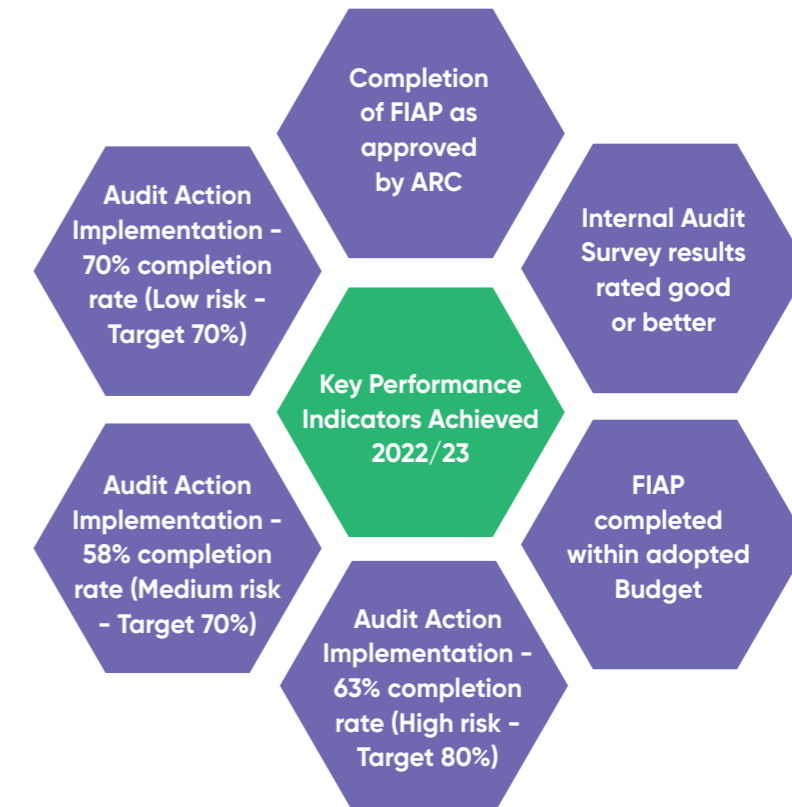
Open audit points by risk



Audit	Open actions 1 July 2022	New actions raised	Actions completed	Remaining actions 30 June 2023
Cyber Security	2	-	2	-
Overtime Assurance	3	-	3	-
Fleet Management	3	-	-	3
IT Governance and Strategy	3	-	2	1
Quality Assurance Internal Audit	13	-	13	-
Contract Management Compliance	2	-	2	-
COVID19 Grants Administration	1	-	1	-
Reserves Management	3	-	3	-
Procurement < \$250,000	2	-	1	1
Project Management	-	17	10	7
Cloud Services and IT Service Contracts	-	15	4	11
Summerhill Waste Levy	-	15	6	9
Summerhill Environmental Compliance	-	8	2	6
Credit Card Management / PCI DSS	-	1	1	-
NHVAS 2022	-	-	-	-
Total	32	56	50	38

Internal Audit Performance

The following key performance indicators ensure compliance with the standards of the International Professional Practice Framework (IPPF) for Internal Auditing (the Standards) and provide CN's Executive Leadership Team and the Committee with assurance on the effective operation of the internal audit function.





5. Enterprise Risk management

Enterprise Risk management is an integral part of CN's governance and risk framework. It provides assurance to our employees and to the community, including:

Acknowledging risk is inherent in all activities and processes

Ensuring ERM is essential for the efficient and effective governance of the organisation in its delivery of services to the community

Integrating risk management into decision-making processes improves our capacity to adapt to change and to achieve CN's long- and short-term objectives

Minimising the effect of negative risk and optimising opportunities

Accepting that we cannot eliminate risk but rather that we manage our risks within a documented and agreed risk appetite.

CN's approach to risk is aligned to the Australian Standards for Risk, integrated into our core business and embedded within planning and decision-making processes. CN has a strong risk culture to enable us to deliver our vision and purpose, with all staff being responsible for the proactive identification, escalation and management of risk.

Risk owners and managers are CN's first line of defence, as they own and manage the risks and are responsible for internal controls. CN's internal GREC functions as CN's second line, providing a governance and risk compliance and oversight function on behalf of the CEO and ELT. Internal audit is CN's third line, providing an independent risk assurance function, reporting to the Committee on a quarterly basis.

6. External Audit

Annually, the Committee receives a report from the external auditor (Audit Office of New South Wales) on the status of CN's financial statements. Audit Office Representatives act as advisors at Committee meetings.

In October 2022, the Committee received and discussed the 2021/2022 audited financial statements from both the Audit Office and external auditor RSM. Additionally, the Committee received and endorsed actions on control matters identified during the annual financial audit.

7. Committee Performance

Overall the Committee has maintained an overall "good performance" in achieving its objectives under the Committee Charter.

The Committee's performance further identified the following areas to be considered for inclusion in the internal audit program and/or agenda for the Committee meetings over the next two years:

Implementation of OLG Changes, emerging risks - along with existing spectrum of risk, governance, etc.

Significant changes to CNs operations

Legislative Compliance

Service Reviews

Impact of inflation and supply chain disruptions on construction projects and budgets

ESG risks

In accordance with the Committee's Charter, the Committee completed a self-assessment for 2022/23 which was designed to assess the Committee's performance for 2022/23 in the following areas:

Impact of climate change on natural and built assets.

Workforce shortages

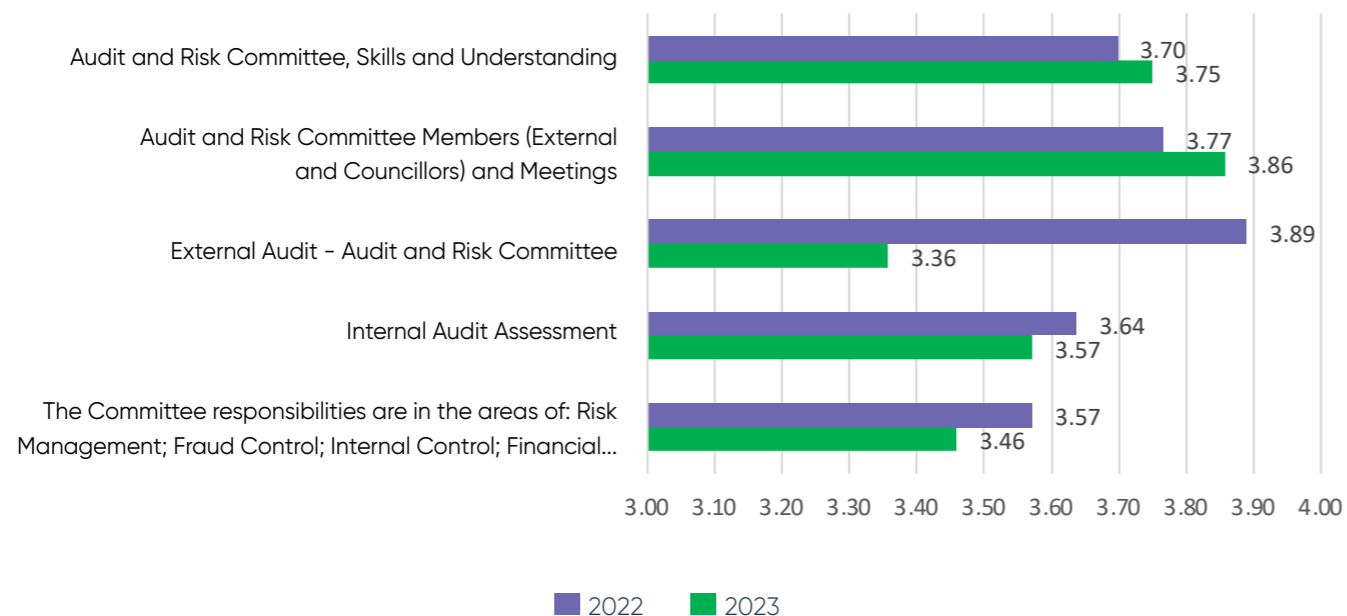
ESG, Greenwashing, psychosocial risks.

Engaging well with the elected members so that they feel the Committee is achieving its mandate, site visit of key Council operations to better inform members on risk and activities, seamless rotation of independent members.

Tech, cyber, procurement, regulatory compliance, and risk management

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

Committee Performance



Rating:

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

8. 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.

The overall audit universe was assessed to produce an overall risk and priority rating for each potential audit taking into consideration the following factors:

1. Overall risk rating linked back to the assurance map and CAMMs risk assessments
2. Whether or not it has been audited in the past
3. Whether there has been a history of audit issues
4. Service Unit Managers priority rating to place the audit on the Internal Audit program
5. Director priority rating to place the audit on the Internal Audit program
6. Impact of the auditable area on CN's Strategic Objectives (CSP)
7. Susceptibility to Fraud and Corruption

The Audit Area List of Priority was utilised to determine the annual internal audit program.

The Forward Internal Audit Plan for 2023/2024 is included at Appendix A.

Appendix A



Appendix A – Forward internal Audit Plan 2023/2024

Audit Title	Resource	Timing	Scope
RMS Drives (complete)	Internal Audit Coordinator	Q1	Compulsory Compliance Audit of the security, access and usage compliance of DRIVES data to provide an annual Compliance Audit Certificate to Roads and Maritime Services.
NHVAS (complete)	Internal Audit Coordinator	Q1	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.
Tendering and contracts compliance	Co-sourced	Q2	Key objective is to review tendering process design, compliance with legislative requirements and adherence to CN policies.
Fraud risk focus - as part of Tendering and contracts compliance	Co-sourced	Q2	Focusing on fraud risk management in awarding tenders, contract administration and variations.
Employee Performance and Recruitment (follow-up audit) (complete)	Co-sourced	Q2	The follow-up audit was aimed to review controls implemented post reporting of high-risk observation.
Special Business Rates	Co-sourced	Q3	Assess legislative compliance of special rate expenditure. This includes review of expenditure of special rates by Business Improvement Associations (BIAs).
PCI DSS Compliance	Internal Audit Coordinator	Q3	Self-assessment as outlined in the 'PCI DSS Requirements v3.2.1 - PCI Approach Tool' provided by the PCI Security Standards Council.
Test control effectiveness –			The purpose of this audit is to independently assess whether a control is effective, consideration will be given both to the design and implementation of risk actions.
People & Culture	Internal Audit Coordinator	Q3	
Legal & Governance	Co-sourced	Q4	
Finance, Property & Performance	Internal Audit Coordinator	Q4	
Review of key system controls	Co-sourced	Q4	This audit will aim to review the access and management of key IT systems that are critical for operations at CN.

