

# Annual Report

Audit and Risk Committee

2018/19

[newcastle.nsw.gov.au](http://newcastle.nsw.gov.au)

Bogey Hole



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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# Foreword



Effective Audit and Risk Committees are critical in local government to help deliver trust and confidence in financial reporting and risk management. As the City of Newcastle Audit and Risk Committee responsibilities are widening beyond financial reporting oversight to include risk, emerging risk, compliance, improvement, fraud, ethics, and culture considerations we are mindful of key factors that drive our effectiveness.

**Transparency:** In this regard our meetings are minuted, and a memorandum detailing the matters considered is presented to Council after each meeting. In addition, we regularly have in attendance members of the management team to provide input and advice in our discussions. Lastly the Committee is supported by the Chief Executive who attends most meetings as an observer.

**Communication:** Our agendas and meeting papers are clearly presented by management and provide meaningful insight into Council operations. We interact via telephone and email between meetings to keep matters under review and oversight as necessary. We have unrestricted access to Council's internal and external auditors as necessary, and they have direct access to the Committee if necessary.

**Composition:** Your committee is made up of a strong mix of skills from independent members and Councillor representatives who all challenge management as necessary and contribute to the discussion of committee business during meetings.

**Efficient & Effective ways of working:** We have 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.

A handwritten signature in black ink, appearing to read 'Steve'.

**Stephen Coates**  
Independent Chair  
Audit and Risk Committee



# Background

Newcastle

This annual report documents the operation and activities of the Audit and Risk Committee for City of Newcastle (CN) from 1 July 2018 to 30 June 2019.

The Audit and Risk Committee (Committee) plays a pivotal role in the governance framework to provide CN with 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 Charter 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.

The Committee has no power or direction over the external audit or the manner in which the external audit is planned or undertaken. The Committee has no executive powers. It cannot make decisions on behalf of CN or direct CN officers in the performance of their duties. Internal audit and the Committee support the Chief Executive Officer to oversee CN's 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.



1,250 Employees



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

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

Governance



Finance

Legal

Regulatory,  
Planning and  
Assessment

Strategy and  
Engagement



Information  
Technology

Major Events and  
Corporate Affairs

Corporate and  
Community  
Planning

People  
and Culture



Organisational  
Development

HR Operations

WHS and Injury  
Management

Training  
and Learning

Payroll

Infrastructure  
and Property



Depot  
Operations

Assets  
and Projects

Civil  
Construction and  
Maintenance

Property  
and Facilities

City Wide  
Services



Appointed in 19/20

Art Gallery

Museum

Civic Services

Libraries  
and Learning

Customer  
Experience

Parks and  
Recreation

Waste Services

# 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 Internal 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 is an independent member of nine Audit Risk and Improvement Committees through-out NSW and Victoria. 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 Chair of the Police Bank group which includes bank of Heritage Isle in Tasmania and the Department of Home Affairs. He also runs Markets, Trading and Economics consultancy and focuses on the machinations of the global economy and markets. Greg is a member of the Australian Institute of Company Directors and writes for Business Insider's Research stream including changes to technology, the workforce and consumers.



**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.



**Cr Jason Dunn**  
Former Committee Member

Cr Dunn was elected to Council in September 2012. He joined the Committee in September 2017 and resigned in March 2019. He continues to represent residents and ratepayers, providing leadership and guidance to the community and making considered and informed decisions as a member of the Council.



# Audit and Risk Committee attendance

In 2018/19 the Committee met five times to review internal audit reports, the internal audit program, and audited financial statements. Attendance at the 2018/19 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	3
Cr Jason Dunn	Councillor	3	1
Cr Matthew Byrne	Councillor	1	1

# Audit and Risk Committee report card

Committee Charter	Compliance
Committee meetings	A quorum was met at every meeting.
Composition	3 Independent members and 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 2018/19.
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 10 October 2019 to receive briefings on the draft audit and CN's financial statements in respect of the year ended 30 June 2019. A management report of significant financial matters for the year ended 30 June 2019 was reviewed.
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 2018/2019 was completed by the Committee and attendees in October 2019.

# Internal audit

CN outsources 60% 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 2018/2019 internal audit program.

The outsourced internal audits are supported by CN's Internal Audit Coordinator who undertakes the remaining 40% of the internal audit function 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.



# Snapshot of internal audit progress

2018-2019  
Audit action overview



Complete	40	35%
On Schedule	34	30%
2nd Agreed Date	23	20%
New Recommendations	17	15%

**Complete:** Actions completed.  
**On Schedule:** Actions expected to be completed by their target date.  
**2nd Agreed Date:** Actions extended past their original target date, due to resourcing and/or priorities.  
**New Recommendations:** Recommendations arising 30 June 2019.

2018-2019  
Balance audit actions by risk



Medium	44	59%
Low	17	23%
High	13	18%

Summary of Internal Audits	Audit Action Overview			Outstanding Audit Actions by Risk		
	Total Actions	Complete	To Be Completed	High	Medium	Low
RMS Drives 2017-2018	1	1				
Fraud, Corruption and Control	15	11	4		2	2
Delegations	9	8	1	1		
National Heavy Vehicle Accreditation Scheme	2	2				
Procurement	22	3	19	7	7	5
Customer Service Review	14	3	11	1	6	4
RMS Drives 2018-2019	1	1				
Community Facilities (Management Agreements)	8	3	5		5	
Summerhill Environmental Compliance	20	3	17		13	4
<b>Total</b>	92	35	57	9	33	15
Prior Year & External Audits						
Audit Office of NSW	14		14	4	8	2
Leave Management	8	5	3		3	
<b>Total</b>	114	40	74	13	44	17

# Risk management

The Enterprise Risk Management (ERM) Framework was reviewed and amended to incorporate the requirements of ISO 31000:2018 *Risk Management Guidelines*. The ERM Framework provides a foundation for responding to uncertainty through a structured and consistent approach. This approach facilitates risk-informed decision making aligned with the strategic, operation and project specific objectives of CN. The ERMF integrates the processes for managing risks and controls into CN's overall governance, strategy and planning, performance improvement, reporting processes, policies, values and culture.

The ERM Framework takes into account the internal and external context in which CN operates. The ERM Framework comprises:

**Policy (Framework):** to formally outline policy principles and commitment.

**Risk Management Guideline and supporting tools:** designed to be read in conjunction with this Policy and to guide, direct and assist everyone to better understand the principles of risk management and to adopt consistent processes for managing risks.

**Risk Register:** principle repository for risks across CN. The Risk Register enables areas to analyse risks, monitor controls and prioritise treatment actions. The Risk Register is captured in an online database which also facilitates the assignment of risks, controls and risk treatments to responsible owners and standardised reporting of risks.

**Governance and Risk Executive Committee:** responsible for oversight of risk management across CN.

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.

# 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 2019, the Committee received a report from the Audit Office and the external auditor, RSM, and discussed the audited financial statements for the 2018/2019 financial year. The Committee also received and endorsed actions on control matters identified during the annual financial audit.



Bathers way walk, Bar Beach

# Self-assessment

In accordance with the Committee's Charter, the Committee completed a self-assessment for 2018/19, which was designed to assess the Audit and Risk Committee's performance for 2018/2019 in the following areas:

**Audit and Risk Committee, Skills and Understanding**

- The Committee understands the CN's business sufficiently to enable the Committee to fulfill 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 fulfill 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



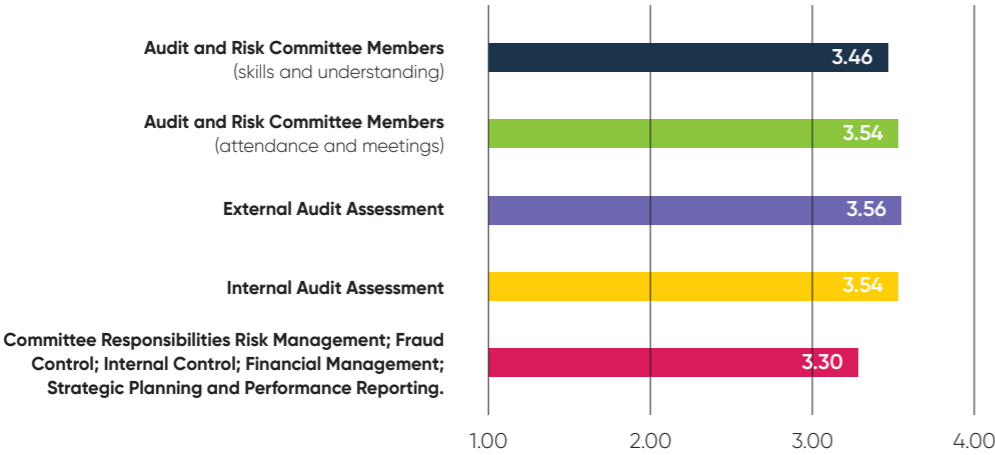
**Internal Audit Assessment**

- 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 Categories



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



Performance across all categories is rated above 'Good'.

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:

- Identification and discussion of emerging risks
- Identification and discussion of legal risks
- Significant changes in operating models
- Project Management
- ICT and Cyber Security
- Contract Management
- Embedding the Enterprise Risk Management in CN's daily operations
- Proactive role in reviewing the infrastructure backlog methodology

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





Newcastle Art Gallery

# 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. The 2019/2021 forward internal audit plan was approved by the Committee on 16 May 2018.

Due to the subsequent organisational redesign (which commenced 1 July 2018) combined with the change in internal audit services provider, the approved three year plan was reviewed and amended to incorporate the existing three year plan into a high level strategic approach to Internal Audit that incorporates a specific focus on current and emerging risks to CN.

As at the date of this report, CN is in the process of completing assurance mapping across Service Units to identify key high-risk areas over which assurance is required. CN's Risk Management and Internal Audit team are utilising the CAMMS software system to build and document the risk registers and internal control framework which will form the basis of a rolling assurance map for CN. This framework will allow high risk areas to be identified as they emerge.

The 2019-2020 Forward Internal Audit Plan is included at Appendix A.

## Appendix A

Forward Internal Audit Plan 2019/2020

#	Topic	Responsibility	Timing	Scope
1	RMS Drives	Internal Audit Co-ordinator	Q1 2019/2020 Complete	Compulsory compliance audit for use of the RMS database.
2	Records and Information Management	Centium	Q1 2019/2020 Complete	Assess the extent to which CN complies with mandatory obligations such as the State Records Act as well as the standards and policies issued by the State Records Authority, such as GA39 (for local government).
3	Boarding House Regulatory Improvement Review	Centium	Q2 2019/2020	Assess the key steps and decision-making points in relation to the regulatory and legal action taken by CN over a 12 month period in relation to boarding houses.
4	Cash Handling	Internal Audit Co-ordinator	Q2/3 2019/2020	Assess adequacy of controls over CN's cash handling practices at identified facilities. Provide CN with reasonable assurance that internal controls operating over key financial processes (including financial reporting) are adequate and are consistent with good practice.
5	Overtime Review	Internal Audit Co-ordinator	Q2/3 2019/2020	Review the adequacy of CN's systems and controls for the management of overtime. Utilising data analytics to conduct a review of CNs' overtime over the past three years.
6	Assurance Mapping (including IT)	Internal Audit Co-ordinator and Risk Management Co-ordinator	Q3&4 2019/2020	Prepare an assurance map for CN's high-level strategic objectives, noting alignment with newly available risk profile and identified controls.
7	National Heavy Vehicle Accreditation Scheme	Internal Audit Co-ordinator	Q3 2019/2020	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.
8	Project Management (including contractor management performance)	Centium	Q3 2019/2020	A detailed review of CN's Project Management methodology and processes, including substantive sample-based testing of projects and related contracts (i.e. contractor performance management).
9	ICT- Cyber Security	Centium	Q3 2019/2020	To assess the adequacy of CN's current cyber security protection and management capabilities.
10	ICT- Strategy & Governance	Centium	Q4 2019/2020	An assessment of CN's IT services and the underlying processes, systems and environment to identify key risks.
11	Rates Review	Internal Audit Co-ordinator	Q3 2019/2020	To seek reasonable assurance that CN'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.

Our vision

In 2030, Newcastle will be a smart, liveable and sustainable global city



[newcastle.nsw.gov.au](http://newcastle.nsw.gov.au)