

AUDIT, RISK AND IMPROVEMENT COMMITTEE

ANNUAL ASSURANCE REPORT 2019/20

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1. Introduction

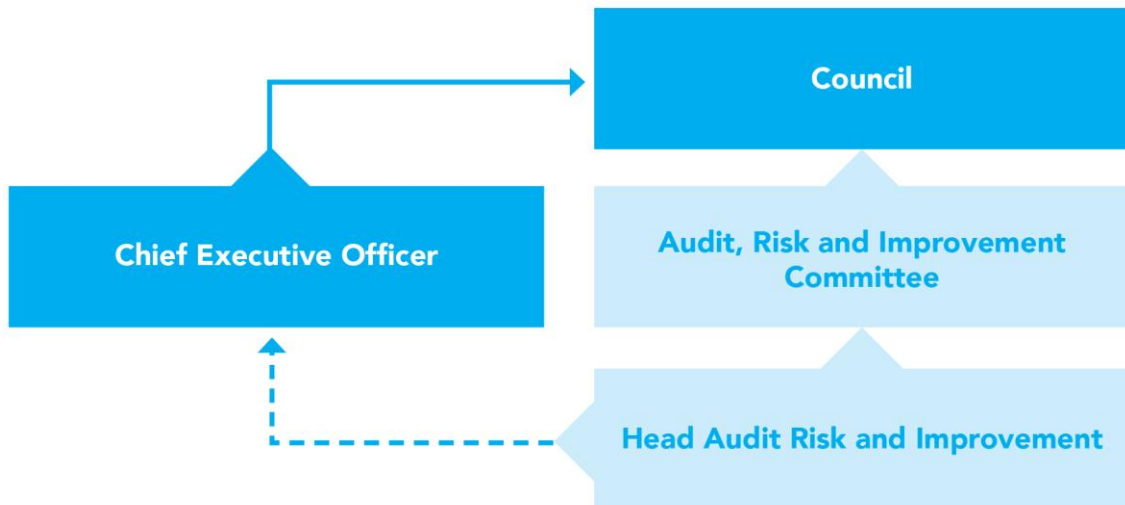
Liverpool City Council's Audit, Risk and Improvement Committee (ARIC) provides Council with independent assurance and assistance on its risk management, control, governance, and external reporting responsibilities.

2. Purpose of this report

The Annual Assurance Report is designed to provide the governing body a summary of the work performed by the Committee to discharge its responsibilities during the preceding year. The report covers the period 1 July 2019 to 30 June 2020.

3. Audit, Risk and Improvement Committee

The Liverpool City Council ARIC was established under the Local Government Act 1993 as an advisory committee of Council to provide independent assurance on risk management, control, governance and external accountability.



The Committee provides independent oversight of Council's risk management, control, governance and external accountability. Council's Internal Audit function reports to the Committee.

4. Member Profiles

The Committee includes three independent members and two Councillors (Deputy Mayor and nominated Councillor). Independent members appointed by Council on 26 July 2017 are presented below.

Independent Voting Members



Andrew McLeod (Chair)

Extensive experience in Executive roles both in Local Government and the Private sector. Andrew McLeod's re-appointment has assisted in providing stability and continuity to the work and functioning of the ARIC.



Stephen Horne

Qualified internal auditor, Director and Company Secretary. Former Assistant Auditor-General, Past President of Institute of Internal Auditors Australia (2013-2015), former CEO of NSW Internal Audit Bureau (nine years), member of nine NSW Council audit committees.



John Gordon

Former Senior Audit / Assurance Partner with PwC, Chair and Independent Member on fourteen Audit Committees in Local and State Government; qualified as a Chartered Accountant, Chartered Secretary and Certified Practising Accountant with over 36 years' experience in the private, State and Local Government sectors.

Non-Independent Voting Members

| Name | Membership dates |
|---|-------------------------------|
| Councillor Shelton Councillor Karnib | October 2018 – September 2020 |

| Name | Membership dates |
|--|------------------------|
| Councillor Shelton Councillor Hadid | October 2020 – Current |

5. Meetings held during the year

The Committee held four ordinary meetings during the 2019/20 financial year. Council's 2019/20 Audited Annual Financial Statements were presented to the Committee on 11 November 2020 for endorsement.

| Attendance/Meeting Date (July 2019 - June 2020) | | | |
|---|---------------------|---------------------|--------------------|
| 26 July 2019 | 18 October 2019 | 7 February 2020 | 1 May 2020 |
| Independents | | | |
| Andrew McLeod | Andrew McLeod | Andrew McLeod | Andrew McLeod |
| Stephen Horne | Stephen Horne | Stephen Horne | Stephen Horne |
| John Gordon | John Gordon | John Gordon | John Gordon |
| Councillors (Voting Non-independents) | | | |
| Deputy Mayor Karnib | Deputy Mayor Karnib | Deputy Mayor Karnib | Not Present |
| Councillor Shelton | Councillor Shelton | Councillor Shelton | Councillor Shelton |
| Other key attendees | | | |
| NSW Audit Office, Director Financial Audit Services | | | |
| NSW Audit Office, Audit Leader | | | |

6. Summary of Work Performed

The table below represents a summary of the responsibilities discharged by the Committee under Section 428A of the Local Government Act, and ARIC Charter during the reporting period.

| Financial Management and External Accountability | |
|--|---|
| 1 | External Annual Engagement Plan |
| 2 | Annual Financial Statements |
| 3 | Interim Management Letter |
| 4 | Final Management Letter |
| 5 | External Auditors In-Camera Session |
| Audit and Risk Management | |
| 6 | Enterprise Risk Management Framework |
| 7 | Annual Self-Assessment of Council's Risk Management Framework |
| 8 | Enterprise Risk Management Reporting |

| | |
|--|--|
| 9 | High Risk / Strategic Projects |
| 10 | Insurance Arrangements |
| 11 | Business Continuity Planning (BCP) |
| 12 | Disaster Recovery Planning |
| 13 | Annual / Strategic Internal Audit Plan |
| 14 | Audit Outcomes |
| 15 | Internal / External Audit Recommendations |
| 16 | Quality Assurance & Improvement Program |
| 17 | Strategic External Quality Assurance Review |
| Governance, Compliance and Fraud Control | |
| 18 | Legal Affairs |
| 19 | Council Policies and Procedures |
| 20 | Governance and legislative compliance |
| 21 | Fraud and Corruption Prevention |
| 22 | Probity |
| 23 | Public interest disclosures (PIDs) & Complaints |
| 24 | Code of Conduct Complaints |
| Implementation of Council's Strategic Plan, Delivery Program and Strategies | |
| 25 | Integrated Planning and Reporting (IP&R) Framework |
| Service Reviews and Collection of Performance Measurement Data | |
| 26 | Process Improvements |
| 27 | Service Reviews |
| 28 | Customer Experience |
| 29 | Procurement |
| 30 | Work Health and Safety (WHS) |
| Information for the purpose of improving Council's performance of its functions | |
| 31 | Annual Assurance Report |
| 32 | Audit, Risk and Improvement Committee Charter |
| 33 | Internal Audit In-Camera Session |
| 34 | Minute Circulation |
| Other functions | |
| 35 | Audit, Risk and Improvement Committee Work Plan |
| 36 | Audit, Risk and Improvement Committee Performance |
| 37 | Training for ARIC members |
| 38 | Secretarial support |

7. Overall Assessment of Key Responsibility Areas

The Committee has assessed the key responsibility areas as outlined in the Liverpool Audit, Risk and Improvement Committee Charter as follows:

| Responsibility | Assessment |
|---|---|
| Financial Management and External Accountability | <p>The Committee is again pleased to advise that the Council's financial statements were provided with an unmodified audit opinion. The Committee have reviewed the items on this year's management letters and will continue to monitor Council's approach to addressing these items. There have been a number of discussions at the Committee in relation to how to address these items, so they do not appear in future years.</p> |
| Audit and Risk Management | <p>Overall, the Committee is satisfied with the level of assurance provided by the Internal Audit function, over the effectiveness of internal control and risk management, to Council and the Committee. The Committee reviewed and endorsed the annual plans to guide audit and risk during the period.</p> <p>The activities of Council's Internal Audit function are guided through a risk-based Internal Audit Plan. The plan is a living document that is revised as new risks emerge. The Committee continues to receive updates on audit projects and activities, and the actions management is taking to address the reported findings.</p> <p>Council has implemented a continuous improvement program (Annual Enterprise Risk Management Plan) to further enhance risk management maturity across all levels of Council. The Committee continues to provide oversight over Council's enterprise risks (strategic, operational and compliance risks) in conjunction with the quarterly reports provided to the elected representatives of Council and the Executive Management Team (EMT).</p> <p>The most significant and emerging risk Council faced during the period was the impact of COVID-19 on Council. This new risk amongst other emerging risks is incorporated into the ERM system. The committee is satisfied with the controls and risk treatments taken by management to manage this risk. The risk itself will remain as a high residual risk (post controls) for the foreseeable future until such time that the national pandemic has been addressed and improvement in the local economy noticeably recovered.</p> |
| Governance, Compliance and Fraud Control | <p>Overall, Council has a strong governance framework in place.</p> <p>The Committee have noted that the policy register had a number of policies which were overdue. Management have implemented a new automated system to capture and monitor all policies to ensure timely review. A new policy standard was also introduced to reduce the amount of policies and streamline policy review processes to make these more manageable.</p> |
| Implementation of Council's Strategic Plan, Delivery program and Strategies | <p>The Committee reviews Biannual reports assessing Council's progress of 107 principal activities against the KPI's and milestones outlined in the Delivery Program 2017-2022 and Operational Plan 2019-2020.</p> |

| Responsibility | Assessment |
|--|--|
| | <p>The Committee acknowledges that Council experienced unexpected natural disasters, including bushfires, floods and the current COVID-19 pandemic. This uncertainty has brought about continuous and rapid change in Council's daily operations including the cancellation of major events and the closure of several Council facilities. This has impacted the local community, economy and Council's operations and financial performance.</p> <p>Council's priority during this period was the safety of residents and staff. Council followed federal and state government advice and developed local initiatives tailored to meet the needs of the community. This included a comprehensive package to support local businesses affected by the COVID-19 pandemic and a range of capital works.</p> <p>By the end of June 2020, 69 per cent of the 107 Principal Activities in the Delivery Program were on track or completed and 31 per cent were affected by the COVID-19 pandemic.</p> |
| Service Reviews and Collection of performance measurement data | <p>The Committee continues to provide oversight over process improvements, customer experience, procurement and Work Health & Safety.</p> <p>No formal service reviews have been conducted at Council during the period. However, the Committee notes that since the end of the financial year, Council endorsed a new approach to Zero Based Costing and review of services.</p> |
| Other functions | <p>The performance and effectiveness of the Committee for 2019/20 was reviewed in September 2020. Overall, the stakeholder assessment was very positive, further information is available under separate heading.</p> |

8. Key Outcomes

8.1 Annual Financial Statements 2019/20

The COVID-19 pandemic has had significant impact on Council's operations which is reflected in the financial statements.

In April 2020, Council endorsed several initiatives to support its ratepayers and business community. Apart from a general slowdown in business activities, several Council facilities, services and events were affected due to mandatory restrictions which resulted in reduced revenues.

Council recognised the financial difficulties experienced by ratepayers and suspended its debt collection activity which resulted in higher than normal level of outstanding rates and annual charges at 30 June 2020.

The pandemic is expected to have a continued impact on Councils operations in 2020/21.

An industry trend of ratepayers deferring their rate payment to a later date was observed last year. COVID-19 further fuelled the trend with Council recording outstanding debt ratio outside the benchmark.

8.2 Liverpool Civic Place

The development of the Western Sydney Airport at Badgerys Creek will attract significant investment and jobs to Liverpool. The Greater Sydney Commission (GSC) sees Liverpool as a strategic centre and collaboration area with the potential to become a health and education hub.

Liverpool City Council's (Council) vision for the southern end of Liverpool CBD is for a major development to act as a catalyst in activating the area. The redevelopment of 52 Scott Street into the proposed Liverpool Civic Place Project (LCP) seeks to execute on this vision. LCP provides space for Council, community, retail, education, hotel and commercial uses on the southern end of the Liverpool CBD.

LCP is listed as a strategic project within Council's Delivery Program. The project consists of both Council and developer works involving Council offices, a new library, parking, hotel and commercial office space.

The Committee continues to provide oversight over the project and discusses updates from Council's Project Control Group and professional advisors as appropriate, at each meeting.

Prosperity Audit Services has completed an independent review on Liverpool City Council in relation to the Liverpool Civic Place Project. The review was conducted at the request of the Council and was conducted during April and May 2020. The Committee provided advice and oversight over the external review.

The report highlighted consequences of Council being unable to fulfil the PDA executed with the developer as substantial and noted that Council has no right of termination available under the PDA without default by the developer.

The key recommendations from the review was for Council to:

- Secure tenant(s) with signed tenancy agreement(s) as soon as practicable to reduce the annual financial risk on the cash flow forecast and provide security for debt funding arrangements.
- Finalise debt funding arrangements as soon as practicable to reduce the risk of Council being unable to fulfil its obligations under the PDA.
- LCP projected cashflows and NPV should be reassessed with respect to the financial impact of the COVID-19 pandemic on Council finances.

The Committee discussed the proposed management actions to address the reported findings and was satisfied with the intended course of actions.

8.3 COVID-19 Pandemic

The most significant and emerging risk Council faced during the period was the impact of COVID-19 on operations. The emerging risks was incorporated into Council's ERM system for regular monitoring and actioning by management. The committee is satisfied with the controls and risk treatments taken by management to manage this

risk. The risk itself will remain as a high residual risk (post controls) for the foreseeable future until such time that the national pandemic has been addressed and improvement in the local economy noticeably recovered.

Council has been holding Critical Incident Response Team (CIRT) meetings to address Council's Business Continuity since 5 March 2020. The CIRT guidance and action have followed the Commonwealth & State Government advice and directives.

The independent ARIC members attend Councils CIRT meeting in April 2020 via a Video Teams Meeting and have been receiving regular updates on the action Council takes.

The Chief Financial Officer advised that Council is estimating a \$4 to \$5 million loss in user charges for Q4 in the 2019/20 year. With this said, there is sufficient funding in the account and term deposits will be kept aside once they mature. There are no cash flow issues at present.

8.4 Voluntary Planning Agreement Financial Exposure

The ARIC raised concerns over the financial risk associated with a Voluntary Planning Agreement (VPA), particularly where bonds held do not match the cost of delivery where the bonds are held over a long period of time.

The Committee is satisfied that there is flexibility in the existing Policy to make changes to process and procedure relating to VPAs that will minimise the financial risk to Council associated with the delivery of incomplete work items by Council.

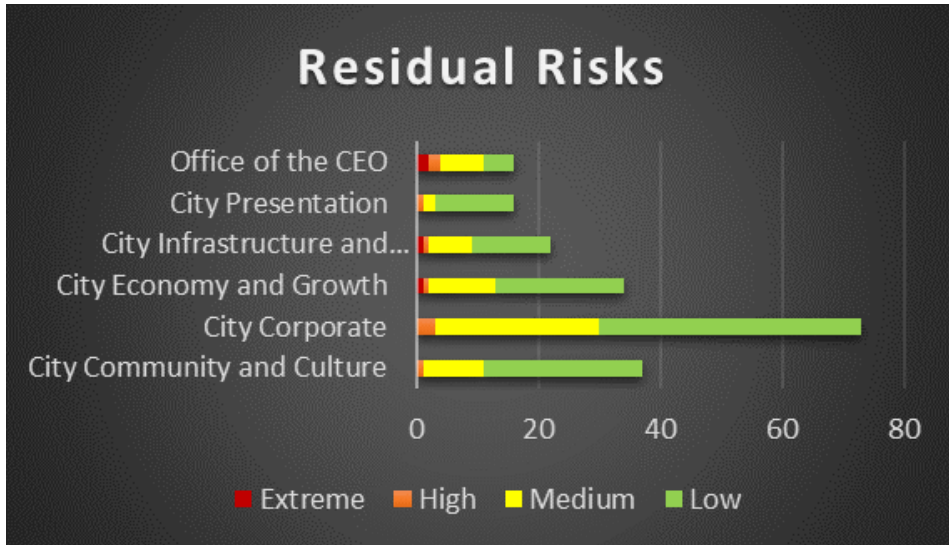
8.5 Proactive Monitoring of Private Certified Developments

Council explored the possibility of instituting Proactive Building Inspections of buildings under construction where Council is not the appointed Certifier. The Committee expressed concerns over Council taking on responsibilities regulated by other bodies and advised Council of the risk in doing so.

8.6 Enterprise Risk Management

Council had 25 strategic, 38 compliance and 135 operational risks at 30 June 2020. Council has an established risk appetite statement and have committed to reducing these risks by establishing the appropriate controls (risk treatments) for those risks above Council's risk appetite level. The Committee will continue to monitor the progress of these treatments.

The following graph represents the residual risks of Council's by Department.

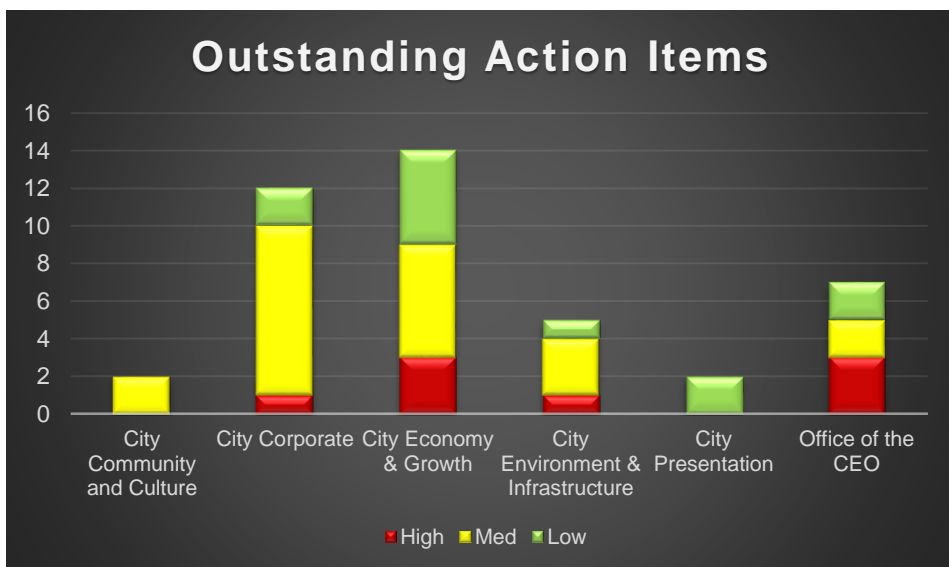


8.7 Open & Overdue Audit Actions

Recommendations in audit reports highlight actions that are expected to improve performance when implemented and generally address risks to the successful delivery of outcomes. The appropriate and timely implementation of recommendations that have been agreed by management is an important part of realising the full benefit of an audit.

Successful implementation of audit recommendations requires strong senior management oversight. While the ARIC do not undertake management responsibilities and are not a substitute for management controls, they have a role in ensuring that the anticipated benefits of audit reports are realised, through the effective and timely implementation of audit recommendations.

A total of 95 audit actions remained open as at 30 June 2020. 66% of the outstanding items were within due date with the remaining items either due or overdue. The Committee continues to monitor the overdue and high-risk outstanding items and is satisfied with the overall progress made on the implementation of audit action items.

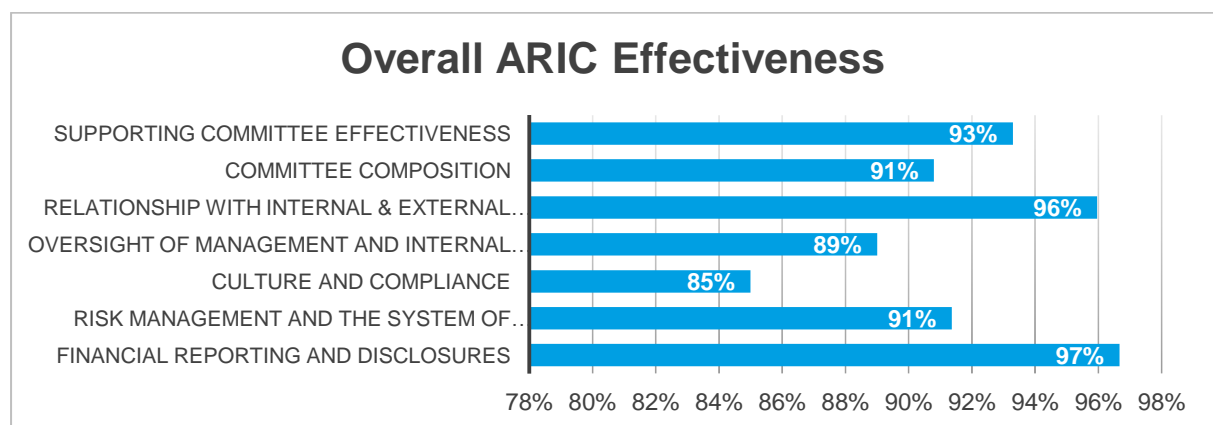


9. ARIC Performance and Effectiveness

Effective audit, risk and improvement committees (ARICs) are integral to good governance they provide added confidence in Council's financial reporting, internal controls, risk management and legislative compliance functions. These areas and others are outlined in the Liverpool Council ARIC Charter.

In order to ensure that the Committee is operating effectively and is appropriately discharging its obligations as per it's the Charter an annual self-assessment is performed on the performance of the ARIC. The effectiveness of the Committee was assessed by independent voting members, voting members and other key stakeholders including Council's external auditors.

This self-assessment reflects an overall 93% (4.6 / 5) effectiveness of Council's Audit, Risk and Improvement Committee for the 2019/20 financial year.



10. Future requirements under the New Audit & Risk Management Framework for NSW Council's

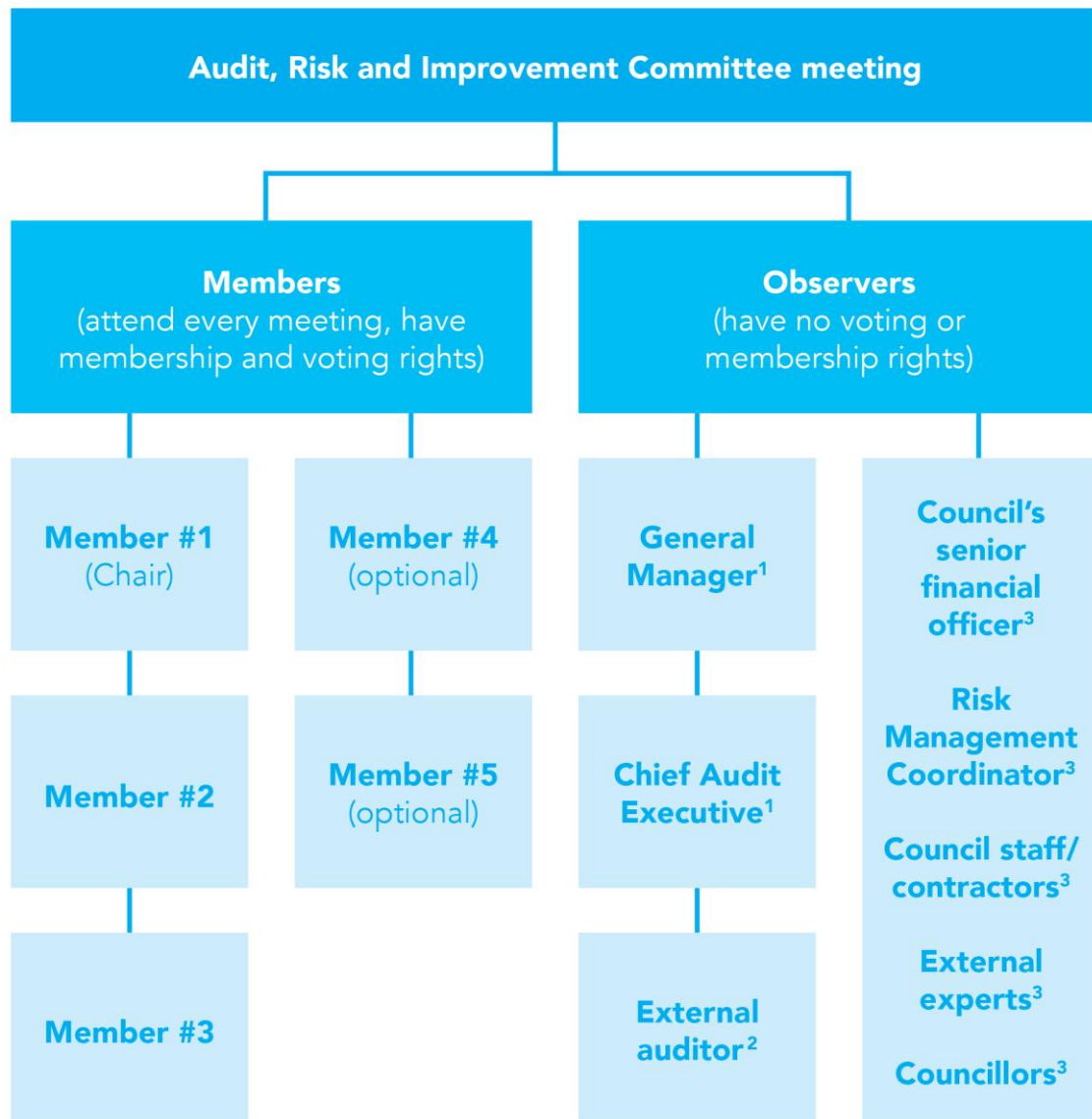
In 2016, the NSW Government made it a requirement under the Local Government Act that each Council have an Audit, Risk and Improvement Committee. This requirement will take effect from March 2022 i.e. 6 months after the next ordinary election.

In order to provide detailed guidance on how to implement the new requirements to be stipulated in the Act, over the last 36 months Government has been working with key stakeholders and industry experts to develop the regulatory framework that will support the operation of ARICs, and the establishment of a risk management and internal audit function in each council. There will be nine core requirements that councils will be required to comply with when establishing their Audit, Risk and Improvement Committees, risk management framework and internal audit functions. These requirements are based on international standards and the experience of Australian and NSW Government public sector agencies who have already implemented risk management and internal audit.

In anticipation of these future requirements, Liverpool City Council in October 2017 made some changes to the Audit & Risk Committee, incorporating the new "improvement" element to rebrand to an Audit, Risk and Improvement Committee

(ARIC). Given Liverpool Council’s mature Audit and Risk function and an ARIC which is already aligned to the legislation, Council is well positioned to transition to the core requirements set out in the proposed framework. Given Council’s maturity in this space, it is expected that a full transition will be made well before the deadline set out by the Government.

The below graph shows the proposed composition structure of Audit, Risk and Improvement Committees (as per the OLG draft discussion paper).



¹Attends each meeting except where excluded by the Committee
²Open invitation to attend every meeting as an independent advisor
³When invited by the Committee to attend/give information

The Government is consulting on the proposed regulatory framework that will support the operation of these committees, and the establishment of a risk management framework and internal audit function in each council.

11. Conclusion

The Audit, Risk and Improvement Committee has fulfilled its responsibilities under the Audit, Risk and Improvement Committee Charter for this period. The Committee has operated cooperatively to provide feedback and assurance to management and Council.

The Internal Audit function has implemented a number of changes during the period in preparation for the future requirements of the Office of Local Government and NSW Audit Office. The function has also assisted the Committee is providing a more disciplined and robust approach to coverage of responsibilities.

I would like to take this opportunity to thank my fellow Committee members, management and staff for their forthrightness and cooperation in the operation and outcomes of the Committee during this period.



Andrew McLeod (Chair)
Audit, Risk and Improvement Committee
Liverpool City Council

For further information



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Email

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