

# Audit and Risk Committee Annual Report 2022–23

## FOREWORD

The Audit Office of New South Wales (the Office) is a statutory authority, established under the *Government Sector Audit Act 1983* (GSA Act) to conduct audits for the Auditor-General. Both financial and performance audits are conducted of NSW Government agencies, universities and local councils. Audits are principally conducted under the GSA Act, the *Corporations Act 2001* and the *Local Government Act 1993*. The Office also examines allegations of serious and substantial waste of public money under the *Public Interest Disclosures Act 1994*.

The Audit and Risk Committee (ARC) is a key component of the Office's governance framework. The ARC's objective is to provide independent assistance and advice to the Auditor-General by overseeing and monitoring the Office's governance, risk and control frameworks and its external accountability requirements. Attestation to TPP 20-08 was completed for 2022–23 with no exceptions noted.

This annual report covers the ARCs activities for the period 1 July 2022 to 30 June 2023 in line with the requirements of the ARC Charter and Treasury Policy *Internal Audit and Risk Management Policy for the General Government Sector* (TPP 20-08).

### Excerpt from ARC Charter – Reporting

The ARC will regularly, but at least annually, report to the Auditor-General on its operation and activities during the year, with:

- An overall assessment of the Office's risk, control, and compliance framework.
- Details of any significant emerging risks or legislative changes impacting the Office.
- Details of meetings, including the number of meetings held during the relevant period, and the number of meetings each member attended.
- A summary of the Office's progress in addressing the findings and recommendations made in internal and external reports.
- A summary of the ARCs assessment of the performance of internal audit.
- A summary of the work the ARC performed to fully discharge its responsibilities during the preceding year.

## KEY AUDIT OFFICE ACHIEVEMENTS IN 2022–23

The ARC received regular updates on significant initiatives outlined in the Office's 2020–24 Corporate Plan, including the following notable achievements:

- Released its 2022–25 annual work program and delivered a range of impactful and high-quality reports to parliament on financial and performance audits.
- Oversaw the introduction of new standards and legislation, in particular the *Government Sector Audit and Other Legislation Amendment Bill 2022* which expanded the Office's mandate to include 'follow the dollar' powers.
- Embedded hybrid working through its Flexible Work Practices Model to further support staff wellbeing.
- Continued to uplift its cyber security and resilience. Complied with the mandatory requirements of the NSW Cyber Security Policy including uplifting maturity of the Australian Cyber Security Centre's 'Essential Eight' mitigation strategies and met its annual surveillance audit to ISO/IEC 27001 certification.
- Updated its Quality Management Framework in line with the updated suite of quality management standards issued by the Australian Auditing and Assurance Standards Board (AUASB).
- Created and rolled out a new Audit Communication Portal to simplify and improve communication and collaboration, and boost the secure exchange of information between the relevant parties of an audit.
- Progressed the development and roll-out a new in-place record management system.
- Advanced the delivery of its Innovation Roadmap and uplifted its data analytics capability.
- Awarded Gold Australasian Reporting Award for the Office's 2021–22 Annual Report.
- Planned for the Office's bicentenary in 2024.

## ARC'S OVERALL GOVERNANCE ASSESSMENT

The Office's arrangements regarding risk management and control frameworks, compliance, internal audit, external audit and its external accountability requirements continued to operate effectively throughout 2022–23 and the ARC considers them 'best in class'.

The Office continued to enhance (from a high level) its management of strategic and operational risks, financial and other internal controls and compliance obligations, while adapting to changes in its operations.

The Office continues to adequately support its internal and external audit functions while continuing to meet its external accountability requirements most effectively.

## EFFECTIVE STAKEHOLDER COMMUNICATIONS

Outside the formal meetings, the ARC maintains effective two-way communication with its key stakeholders, notably:

- Held quarterly 'in camera' meetings with the Auditor-General and Deputy Auditor-General.
- Heard directly from all members of the Executive Leadership Team (on rotation) to discuss all strategic, operational and emerging risks.
- Discussed Office's quality assurance processes with the Chair of its Quality Assurance Review Committee.
- Held 'in camera' meetings at least annually with the Chief Audit Executive (CAE), internal audit service provider (RSM), Chief Risk Officer (CRO), and external auditor (Matt Adam-Smith).

## ARC'S STRATEGIC ALIGNMENT

Through its work program and agendas, the ARC helps the Office deliver upon its vision to provide *insights that inform and challenge government to improve outcomes for citizens and meet its purpose to help parliament hold government accountable for its use of public resources.*

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*“This is a high-performing skills-based ARC that leverages the skills, authority, communication channels and stakeholder care of the individuals on the ARC.”*

Response to Annual Satisfaction Survey

## MEETINGS OF THE ARC

There was a quorum for each of the six ARC meetings held during 2022–23. Regular quarterly meetings were held on 30 August 2022, 9 December 2022, 3 March 2023, and 26 May 2023. Special meetings were held to review the financial statements on 22 July 2022 and 26 April 2023.

The membership and meeting attendance of the ARC for the 2022–23 financial year was:

Member	Role	Term started	Term ends	Meetings attended/eligible to attend
Bruce Turner AM	Independent Chair (since 2021)	17/02/2017	16/02/2025	6 / 6
John Gordon	Independent member	01/11/2017	31/10/2024	6 / 6
Elizabeth Gavey	Independent member	29/08/2021	28/08/2024	6 / 6

The Auditor-General has determined, in collaboration with the ARC Chair, clear ARC succession arrangements through to 2024/25.

## ARC CONDUCT

All ARC members have completed written conflict of interest declarations and confidentiality agreements. All meeting attendees are required to declare any conflicts ahead of every ARC meeting.

## ARC MEMBERSHIP PROFILES

### Bruce Turner AM

Bruce was first appointed as an independent ARC member on 17 February 2017 and appointed Chair on 28 August 2021. He brings extensive experience on ARCs within the federal, state, and local government and not for profit sectors. He has also held Chief Audit Executive roles in large and diverse federal and state government agencies. He currently serves on six ARCs across all government and not-for-profit sectors.

### John Gordon

John was first appointed as an independent ARC member on 1 November 2017. He has over 40 years' experience providing assurance, advisory and corporate governance assistance to a broad range of clients in the private and public sectors, including 22 years as audit and assurance partner with one of the 'Big 4' firms where he served as the Managing Partner for the firm's Hunter Practice and as the Risk Management Partner and Local Government Practice Leader. Since 2009, John has served as an ARC chair or member of more than 25 ACT, NSW state and local government agencies (currently six in all).

### Elizabeth Gavey

Elizabeth was appointed to the ARC on 29 August 2021 for a three-year term. She is a qualified solicitor with over 30 years' experience in commercial law, investment banking and the health sector. She currently serves on seven ARCs in the state and local government sector.

*“The level of engagement by the ARC members and all management from the Audit Office in the ARC meetings is to be commended... There is a high level of trust and respect between all attendees which makes for worthwhile and value-adding meetings.”*

Response to Annual Satisfaction Survey

*“(The ARC asks) relevant questions of management with a good balance of robustly challenging management but in a supportive and positive manner.”*

Response to Annual Satisfaction Survey

## ARC EFFECTIVENESS

An assessment was completed in August 2023 to evaluate the ARC's performance. It covered questions about the ARC's charter, roles and responsibilities, skills and experience, communications and reporting, and meeting and administrative arrangements. The assessment was completed by all ARC members with the Auditor-General, Deputy Auditor-General, CRO, CAE, internal and external audit service providers invited to participate.

Of the 25 questions, 24 were rated at the highest positive rating of 'strongly agree', with one rating as 'agree'. The consolidated feedback confirmed the ARC continues to perform well overall against the core responsibilities contained in its charter, and in the categories outlined. All ratings have remained constant or improved on the previous two-year comparison (2020–21 and 2021–22).

The ARC has been established from a skilled and experienced membership that is suitably qualified and works in a collegiate fashion. The ARC is well supported by senior management, specialists, the secretariat and the skilled internal and external audit service providers.

## ARC CONTINUOUS IMPROVEMENT PRACTICES

The philosophy of the ARC is that, as individuals and collectively, it can always seek to improve further as it develops its knowledge of the Office.

The ARC members are committed to remaining up-to-date with emerging risks and developments concerning the NSW Public Sector, especially those relating to the ARC's responsibilities and significant compliance, strategic and operational matters affecting the Office.

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## SUMMARY OF ARC ACTIVITIES

In performing its functions and responsibilities outlined in the ARC Charter, the ARC was guided by a comprehensive meeting planner that ensured that all obligations were addressed during the year. Most notably:

### Progress in Implementing Recommendations

Progress continues in implementing recommendations from both internal and external audits, and various other independent reviews. This includes the Parliamentary Accounts Committee quadrennial review and the Australasian Council of Auditors-General peer review.

Management continues to regularly monitor the progress in implementing recommendations, with particular focus on high priority issues and the timeliness of implementation. The ARC reviews regular progress reports aided by a contemporary fit-for-purpose recommendations dashboard. As at end 2022-23, there were 22 open recommendations (eight rated as medium risk, and 14 rated as low risk).

### External Audit

Matt Adam-Smith, Partner from Grant Thornton, is the Office's external auditor, effective for five financial reporting years (2020–21 to 2024–25). The appointment is a statutory appointment, determined by the Governor.

Key ARC activities included:

- Provided feedback on the financial audit coverage proposed by external audit.
- Reviewed all external plans and reports (including management letters) in respect of planned or completed audits and monitored management's implementation of audit recommendations.
- Confirmed Matt Adam-Smith delivers a professional external audit service that is fit for purpose and services the needs of the ARC and Auditor-General.

*"A professional external audit service is provided that is fit for purpose and services the needs of the ARC and Auditor-General well."*

*Response to Annual Satisfaction Survey*

### External Accountability

Financial reporting is reliable, materially accurate and there are no contentious issues. Key ARC activities included:

- Reviewed early close procedures and draft financial statements and recommended their signing.
- Reviewed processes in place supporting annual attestation statements for Internal Audit and Risk Management (TPP 20-08), Cyber Security, and the CFO Certification (consistent with NSW Treasury Policy TPP 17-06).
- Reviewed the appropriateness of accounting and cash management policies and procedures.
- Reviewed processes in place that ensure the financial information included in the Office's annual report is consistent with the signed financial statements.
- Reviewed finance reports at each quarterly meeting.
- Satisfied itself that the Office has a meaningful performance management framework linked to organisational objectives and outcomes.

### Enterprise Risk Management (ERM)

The ERM framework continued to be embedded throughout various strategic and operational business activities and its maturity has been maintained. Key ARC activities included:

- Reviewed the strategic risk assessments and in-depth reports of each risk on a rotating basis in line with the annual risk reporting schedule.
- Reviewed specific operational and project risk reports from management.

- Obtained assurance from management that risk treatment plans and control frameworks established have been effective in mitigating key risks.
- Reviewed risk updates on changes to the Office's operating environment and considered emerging risks including the management of COVID-19 risks, staff wellbeing, cyber security and climate risks as relevant.
- Reviewed whether a sound and effective approach was followed in maintaining the Office's business continuity planning arrangements, including whether disaster recovery plans were tested periodically.

### Compliance and Ethics

The Office has a fit-for purpose compliance and ethical framework to protect its reputation, ensuring its credibility and maintaining public trust. Based on the Office's Core Values, it has a culture that instills high standards of ethical conduct and expectations in meeting professional and compliance obligations. Key ARC activities included:

- Monitored arrangements for preparing for or implementing significant legislative changes, including modern slavery, public interest disclosures, AS 8001 Fraud and Corruption Control, NSW privacy legislation, and the quality management standard (ASQM 1).
- Reviewed whether management has in place relevant policies and procedures, and that these are periodically reviewed and updated.
- Reviewed steps taken to embed a values-based culture committed to ethical and lawful behaviour.
- Reviewed whether appropriate policies and procedures are maintained for the management and exercise of delegations.
- Received management assurance that there were no reports of suspected or actual frauds, nor corruption incidents and breaches of laws.

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## Internal Audit

The ARC monitored the status of the 2022–23 internal audit plan and the progress in implementing internal audit recommendations. It reviewed the results of final internal audit reports and noted the enhancements proposed:

Internal Audit	Control Environment Rating
Cyber Resilience	NSW CSP Self-Assessment: Satisfactory
	NIST-CSF: Adequate controls in most areas; enhancements underway
Third Party Security	Adequate controls in most areas; enhancements underway
Revenue and Accounts Receivable	Satisfactory
Hybrid Working (compliance framework)	In progress

The rolling three-year internal audit plan was designed based on both the Office’s strategic risks as well as emerging pressures and opportunities.

The ARC continued to monitor the performance of the internal audit function, including the externally sourced service provider, RSM. This was done through KPI reporting, ongoing review of internal audit reports, the quarterly internal audit status reports, annual assessment questionnaire, and quality assurance and improvement program.

Key ARC activities included:

- Reviewed the Internal Audit Charter and recommended approval to the Auditor-General.
- Reviewed and endorsed the annual internal audit plan, and monitored its progress.

- Monitored management’s progress in implementing internal audit recommendations.
- Monitored quality assurance and improvement arrangements, both internal and external.
- Received a certification from the CAE attesting conformance to the *International Standards for the Professional Practice of Internal Auditing*.
- Noted a report from the Institute of Internal Auditors Australia on an external quality assurance review on the Office’s internal audit function, noting that there is general conformance with the internal audit standards and TPP 20-08. Action plan is actively monitored.

*“The internal audit function is operating well and servicing the needs of the ARC; it provides value for money and recommendations are useful and actionable. ... Confirmed through a recent External Quality Assessment Review.”*

*Response to Annual Satisfaction Survey*

## OUTLOOK FOR 2023–24

There are five main ARC focus areas for 2023/24:

- Continued monitoring of emerging risks including cyber security and climate risks.
- Agility in tweaking the internal audit plan if necessary to ensure it accounts for the changing environment and key aspects of the Office’s operations and practices.
- Overall assurance planning, incorporating the relationships between core assurance, risk, compliance, and internal audit practices.
- Reshaping the annual report on internal audit activities to include an opinion on the Office’s overall risk management and control frameworks considering the results of the individual internal audit engagements.
- Monitoring enhancements arising from the external quality assessment review of internal audit function.

## ACKNOWLEDGMENT

The ARC recognises the ARC secretariat for their exemplary support, and acknowledges the considered contributions of management and staff who regularly present and attend meetings which contributed to:

- Annual review of the ARC and Internal Audit Charters.
- Meeting the ARC annual reporting plan that is aligned with the requirements of TPP 20-08 Internal Audit and Risk Management Policy for the General Government Sector.
- Effective ARC member only ‘in camera’ sessions to allow the ARC time to communicate directly with the specialist areas without management present.
- Attendance by representatives from internal and external audit and management including CAE, CRO, CFO and CIO.
- The quality of the agenda and briefing papers prepared and presented to the ARC, always on a timely basis.
- The effective ongoing planning and conduct of hybrid ARC meetings.

## FEEDBACK

If you would like to provide any feedback on the Office’s ARC Annual Report, please contact the Manager, Governance, Elvira Musolino (secretary) at:

T: 02 9275 7275

E: [elvira.musolino@audit.nsw.gov.au](mailto:elvira.musolino@audit.nsw.gov.au)

## REPORT SUBMISSION



Bruce Turner AM  
Audit Office Audit and Risk Committee Chair  
22 August 2023