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**CCL 23/07/2024 - SUPPLEMENTARY REPORT -  
SPECIAL BUSINESS RATE AUDIT OUTCOME**

- 8.1      **Attachment B:**      Internal Audit Report -  
Special Business Rates Expenditure

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Internal Audit Report

# Special Business Rates Expenditure City of Newcastle



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<b>Date of Report</b>	March 2024	
<b>Audit Plan Reference</b>	FY 23/24 Internal Audit Plan	

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### INHERENT LIMITATIONS

This report has been prepared as outlined in the scope section of the executive summary. The services provided in connection with the engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standards Board, and consequently no opinions or conclusions intended to convey assurance have been expressed.

Due to the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance with laws and regulations may occur and have not been detected. We believe that the statements made in this report are accurate, but no warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, City of Newcastle, management and personnel. We have not sought to independently verify those sources unless otherwise noted within the report.

The internal audit findings expressed in this report have been formed on the above basis.

### THIRD PARTY RELIANCE

This internal audit report has been prepared on behalf of City of Newcastle in connection with our engagement to perform internal audit services. Other than our responsibility to the Audit and Risk Committee and management of City of Newcastle, neither Prosperity nor any member or employee of Prosperity undertakes responsibility arising in any way from reliance placed by a third party, including, but not limiting external auditors, on this report. Any reliance placed is that party's sole responsibility.

### PROFESSIONAL STANDARDS SCHEME

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# 1. EXECUTIVE SUMMARY

## 1.1 BACKGROUND

Prosperity Audit Services was engaged to conduct an audit of Special Business Rates Expenditure for the City of Newcastle (CN) as part of the FY 23/24 Internal Audit Plan.

Special Business Rates (SBR) are collected from businesses in Newcastle City Centre / Darby Street, Hamilton, Mayfield, New Lambton, and Wallsend, and are reserved exclusively for the promotion, beautification, and development of these business precincts.

Section 495 of the Local Government Act 1993 states that “A council may make a special rate for or towards meeting the cost of any works, services, facilities, or activities provided or undertaken, or proposed to be provided or undertaken, by the council within the whole or any part of the council’s area, other than domestic waste management services. The special rate is to be levied on such rateable land in the council’s area as, in the council’s opinion:

- a) benefits or will benefit from the works, services, facilities, or activities, or
- b) contributes or will contribute to the need for the works, services, facilities, or activities, or
- c) has or will have access to the works, services, facilities, or activities.”

As per Council’s annual financial report, special rates levied to ratepayers for the year ended 30 June 2023 amounted to \$1.367 million (2022: \$1.346 million).

Special rates collected from ratepayers are allocated in the following ways:

- a) A service arrangement directly with a Business Improvement Association (BIA); or
- b) A service arrangement with a BIA support service; or
- c) A competitive EOI process administered by CN; or
- d) Activities, work or services delivered directly by CN which meet the requirements of the Special Business Rate Expenditure Policy.

Applicants seeking funding through the competitive EOI process must comply with the eligibility criteria set by the Council and will then be scored against the assessment criteria by a panel which includes:

- Lord Mayor (or nominee)
- Executive Director Creative & Community Services (or nominee)
- Executive Manager Media, Engagement, Economy and Corporate Affairs (or nominee)
- Chair of the relevant SBR Precinct Business Improvement Association (BIA) (or nominee)
- One Councillor from the Ward that includes the relevant SBR precinct/s.



## 1.2 SBR STATISTICS

### 1.2.1 BIA PROJECTS

There are four identified precincts within the Newcastle LGA that have had BIAs established (City Centre, Hamilton, Mayfield and Wallsend). Council annually allocates \$100,000 from the collected SBRs to each BIA precinct. Recent projects have included:

- Live spots music program
- Sponsorships (West Walk and WHIP)
- Art Installations
- Community Events.

### 1.2.2 BIA SUPPORT SERVICE

Council has entered into an agreement with one (1) BIA support service to perform business support and secretariat services for the four (4) BIAs that operate within the City Centre/Darby Street, Hamilton, Mayfield and Wallsend business precincts.

### 1.2.3 CN PROJECTS

We reviewed the transactions listing for the SBR project ledger from June 2022 to August 2023, there was no projects directly administered by CN.

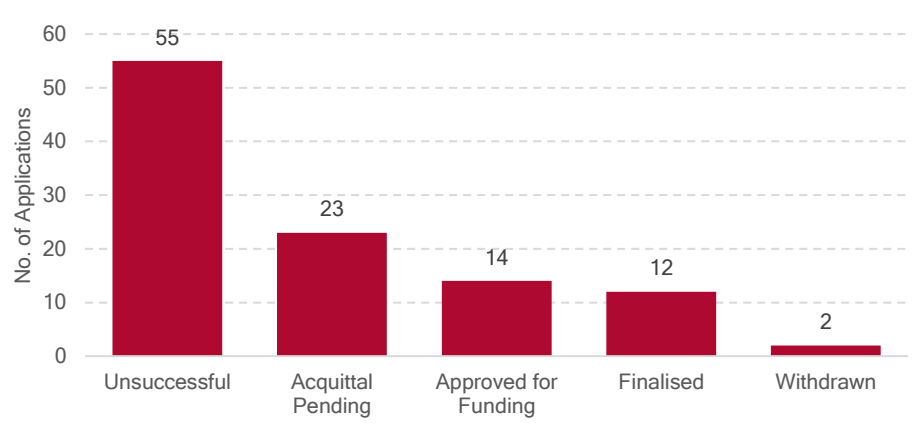
### 1.2.4 EOI PROJECTS

#### Applications Received

Council received a total of 106 applications for four EOI SBR rounds in FY 2022/23:

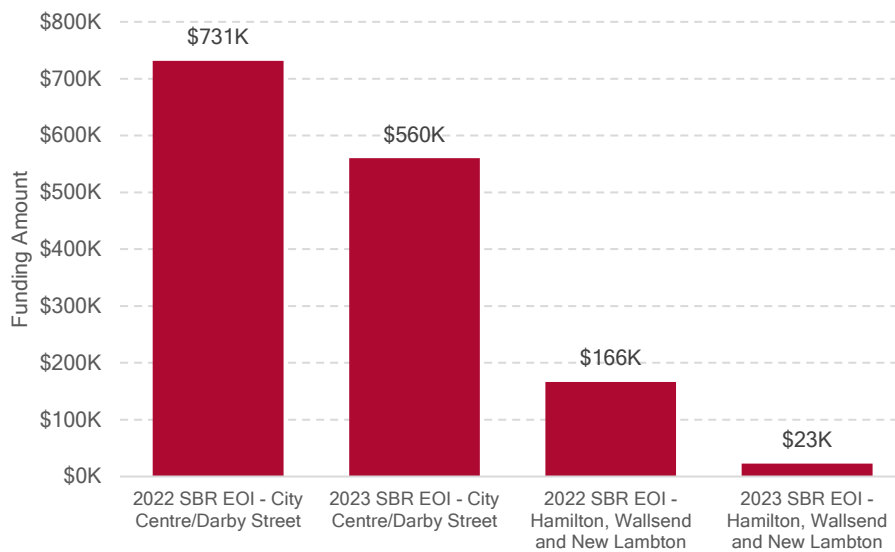
- 2022 SBR EOI - City Centre/Darby Street
- 2022 SBR EOI - Hamilton, Wallsend and New Lambton
- 2023 SBR EOI - City Centre/Darby Street
- 2023 SBR EOI - Hamilton, Wallsend and New Lambton.

There were 46% or 49 of the total applications which were approved. The status of applications is summarised below:



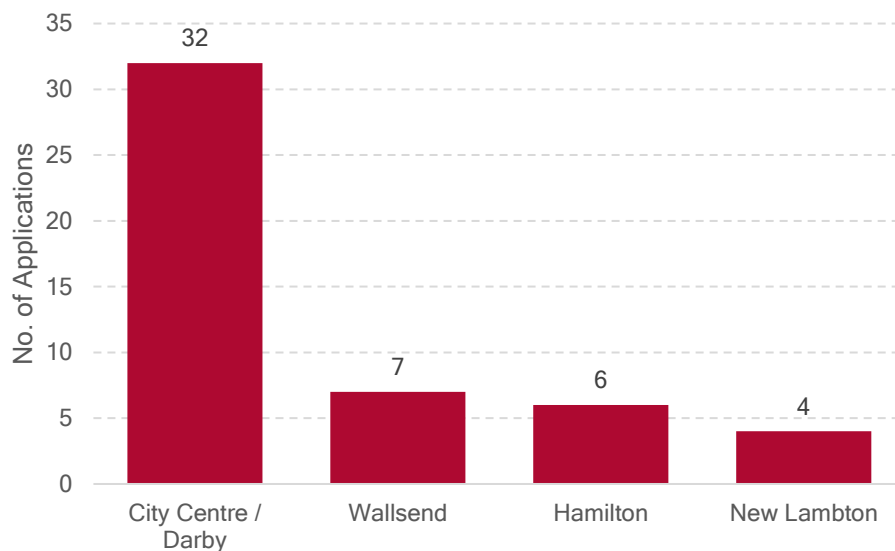
## Amount Allocated Per Round

Council allocated \$1.48 million for all four EOI SBR rounds.



## Number of Projects per Precinct

The graph below shows the total number of projects per precinct.



### 1.3 APPROACH

A sample of projects were selected across various service arrangements to assess compliance with Section 495 of the Local Government Act 1993, as well as CN's internal policies, procedures and guidelines. Projects included in the audit include:

- Newcastle Food Month
- Newcastle Fringe
- Thriving Gardens > Thriving Community > Thriving Business
- Community Mural
- The Big Picture Fest
- Sustainability Showcase
- EASLE'D
- Wallsend Frights
- Corner Brick Building
- Chalk the Walk Newcastle
- Tell the Story of Who You Are
- Newy Car Club.

The following approach was undertaken for the internal audit:

- Obtain and review relevant policies, procedures and agreements
- Conduct interviews and perform walkthroughs with relevant staff to gain an understanding of controls and processes
- Perform sample testing on key control activities to confirm the control environment is operating as intended
- Benchmark CN project management processes to other best practice and other Council's practices
- Discuss possible enhancements and improvement opportunities with management.

A summary of the Terms of Reference, including key risks, and audit scope is included at Appendix 2.

### 1.4 CONCLUSION

This internal audit assessed that the special business rates expenditure processes and controls are functioning as intended with few minor additional actions necessary at this time. Improvement opportunities were identified in the conflicts of interest management, program structure and acquittal processes.

This internal audit identified no extreme, no high, three medium, three low impact issues and one insight and improvement opportunity which are detailed in the sections 2 and 3 below.



## 1.5 OVERALL CONTROL EFFECTIVENESS

### 1.5.1 OVERALL ENGAGEMENT RATING

Our overall engagement rating is Substantially Effective, using CN's rating table attached at Appendix 1.

OVERALL RATING	Substantially Effective
----------------	-------------------------

We identified the following issues identified and assessed against the risk matrix at Appendix 1.

RATING	ISSUES
LOW	3
MEDIUM	3
HIGH	-
EXTREME	-

### 1.5.2 SUMMARY OF OVERALL CONTROL EFFECTIVENESS

The audit issues were grouped into the following control areas and assessed against the risk matrix at Appendix 1.

CONTROL AREA	ASSESSMENT
Compliance with laws, regulation, policies and procedures	Substantially Effective
Assessment and approval (excluding conflict of interest)	Fully Effective
Program Execution	Substantially Effective
Funds acquittal	Substantially Effective
Conflicts of Interest Management	Partially Effective
Benefits realisation	Fully Effective

## 1.6 POSITIVE FINDINGS

During our internal audit fieldwork, we identified the following positive findings within CN's Special Business Rates processes and controls:

### 1.6.1 GENERAL PROCESS

- Policies, procedures, and guidelines are clearly defined, regularly reviewed, communicated to staff and are easily accessible. Policies and procedures align with the regulatory requirements including the Local Government Act 1993
- The SBRs are documented in the Ordinary Council Meeting minutes.

### 1.6.2 BIA PROCESS

- The Economic Development Facilitator conducts reviews of Deliverable Plans and Acquittal Reports, which are subsequently reviewed and approved by the Acting Manager of Media Engagement, Economy, and Corporate Affairs
- The Acquittal Report thoroughly evaluates the benefits derived from the project, ensuring a comprehensive assessment of its outcomes and impacts
- Approved Service Agreement templates were used for all BIA arrangements
- The BIA Service Agreements requires the Service Provider to abide by CN's Statement of Business Ethics when expending the Service Fee, including that all committee members declare any conflict of interest at committee meetings
- The BIA support service is responsible to ensure compliance to BIA service agreement.

### 1.6.3 EOI PROCESS

- The SmartyGrants system provides a reliable platform for implementing the workflow and control requirements for the competitive EOI process. This includes setting up application forms, conflict of interest declarations, notifications to applicants, and reminders for acquittal reporting etc.
- Approved Service Agreement templates were used for all successful applicants
- There were a limited number of variation requests (2 out of 14) received from the selected samples. These requests were documented, thoroughly reviewed, and approved by the Acting Manager of Media Engagement, Economy, and Corporate Affairs
- A robust and efficient process is in place for evaluating applications from competitive EOIs. This process involves a thorough pre-panel assessment stage, during which concise presentation material is prepared to summarise key aspects of the applications for presentation to the Assessment Panel. Subsequently, the Assessment Panel convenes in a dedicated meeting to review and approve the applications
- The Acquittal Report evaluates the benefits derived from the project, ensuring a comprehensive assessment of its outcomes and impact.

## 1.7 ACKNOWLEDGEMENTS

We would like to take this opportunity to thank all staff involved in this engagement for their cooperation and assistance during our internal audit.

## 1.8 SUMMARY OF KEY FINDINGS

REF	FINDING TITLE	FINDING	PAGE
	<b>Extreme Impact Issues</b>		
-	There are no Extreme impact issues noted		-
	<b>High Impact Issues</b>		
-	There are no High impact issues noted		-
	<b>Medium Impact Issues</b>		
2.1	Non-compliance of conflict-of-interest declaration for pre-panel assessors	There were eight (8) instances where there was no evidence of conflict-of-interest declaration from pre-panel assessors in SmartyGrants.	12
2.2	Failure to comply to the special conditions stipulated in the funding approval	There were special conditions which were not met by the successful applicants or we were unable to verify whether the conditions were met.	13
2.3	No evidence of adequate review over financial information for SBR projects and BIA allocations	There is a lack of documented evidence to indicate that financial information is regularly reviewed for EOI SBR Projects and BIA allocations.	15
	<b>Low Impact Issues</b>		
2.4	Delays in the submission of acquittal reports to Council	Acquittals were submitted to Council after the due date.	16
2.5	Non-participation by successful applicants in the Collaboration Forum	Several successful applicants (3) did not attend the Collaboration Forum organised by Council as required by the EOI funding guidelines.	18
2.6	Eligibility criteria are not consistent within CN's guidelines	Eligibility criteria are not consistent in the EOI Application form and EOI Funding Guidelines	19

## 1.9 INSIGHTS AND IMPROVEMENT OPPORTUNITIES

The following are insights and improvement opportunities identified during the audit. These items are not control weaknesses but potential areas for management to improve existing business processes and systems. No management action is required, and no risk rating is attached on these observations.

Ref.	Insights and Improvement Opportunities	Page No.
3.1	Vacancy in a critical role in the management of SBR projects	20

## 2. FINDINGS AND AUDIT RECOMMENDATIONS

### 2.1 Non-compliance of conflict-of-interest declaration for pre-panel assessors

CONSEQUENCE	LIKELIHOOD	RISK RATING	CONTROL AREA
Moderate	Possible	Medium	Conflict of Interest

#### FINDING

We reviewed the conflict-of interest management for BIA and EOI processes. We have identified inconsistencies with the BIA and EOI conflict-of-interest management.

Recently, BIA constitutions and Service Agreements allowed BIA to pay members to conduct activities that are part of a deliverable plan. None of the samples we have selected were paid to members. Nonetheless, this situation could potentially lead to a conflict of interest that is being addressed through existing controls incorporated into meeting agendas and minutes.

As for the EOI process, pre-panel assessors review the applications based on the assessment criteria and provide their recommendations to the assessment panel. The EOI Funding Guidelines states that all assessment panel members and CN officers in attendance must ensure they meet their obligations under CN's Code of Conduct (in particular the provisions covering Conflicts of Interest), the SBR Expenditure Policy and any other relevant legislation.

We identified several instances where there was no evidence of conflict-of-interest declaration in SmartyGrants for the pre-panel assessors. We selected 16 samples from May 2022 to May 2023, the result of the sample testing indicated that 8 out of the 16 samples (50%, allocation amount: \$331,200) did not have evidence of conflict-of-interest declaration by the pre-panel assessors.

However, the preliminary panel assessment meeting minutes were documented and maintained in CN's records management system, ECM.

#### ROOT CAUSE

The function within SmartyGrants to record the assessors' conflict-of-interest declaration was not utilised.

#### IMPACTS

Lack of documentation could lead to a conflict of interest not being identified and managed appropriately. This may lead to fraud and reputation risk.

#### AGREED AUDIT ACTIONS

- 2.1.1 Council should remind all participants in the pre-panel assessment process to complete conflict-of interest declarations
- 2.1.2 Utilise SmartyGrants (EOI) to initiate, notify and document the pre-panel assessors' conflict-of-interest declarations
- 2.1.3 Maintain a copy of the preliminary panel assessment meeting minutes in SmartyGrants.
- 2.1.4 The BIA support service should be required to refer conflict of interest matters to City of Newcastle. This should be incorporated in the BIA service agreement upon contract renewal.

Responsible Officer: Executive Manager of Media Engagement, Economy, and Corporate Affairs

Due Date: 2.1.1, 2.1.2, 2.2.3 - July 2024. 2.1.4 - August 2024.



## 2.2 Failure to comply to the special conditions stipulated in the funding approval

CONSEQUENCE	LIKELIHOOD	RISK RATING	CONTROL AREA
Minor	Possible	Medium	Funds Acquittal

### FINDING

Panel assessors may impose special conditions necessary for the approval of SBR funding requested in the EOI process. Examples of such conditions include a revision of the budget, payment agreements, collaboration with other SBR-funded activities and event promotions. These special conditions also form part of the service agreement with the successful applicant.

The Acquittal reports at the end of the process require an update on the project's compliance with the special conditions. However, from the 14 successful projects selected for detailed review, we have identified two instances where the special conditions do not appear to have been met by the successful applicants:

1. All artists involved in the Activity shall be recommended to be signatory to a Deed Poll governing intellectual property of artwork produced (Project: Corner Brick Building of Harris and Boscawen Street in Wallsend, \$20,000)
2. Diner en Blanc event to include a "Stay Overnight" or similar component in promotion and ticketing, with accommodation offers at BIA precinct hotels. (Project: Newcastle Food Month 2022 for \$90,000 and 2023 for \$60,000).

Furthermore, there were special conditions that could not be verified during the audit:

1. Artwork must have anti-graffiti coating applied to the accessible surfaces (Projects: New Lambton Library Community Mural and Corner Brick Building of Harris and Boscawen Street in Wallsend)
2. The Organisation will obtain written consent from the building owner regarding installation of mural artwork on their asset, to include acknowledgement that ownership and responsibility of maintenance of the mural resides with the building owner (Projects: Corner Brick Building of Harris and Boscawen Street in Wallsend and Thriving Gardens, Thriving Community, Thriving Business)
3. The Organisation will be responsible for any required repairs, maintenance and removal of the installation for a period of twelve months after completion of works (Project: Thriving Gardens, Thriving Community, Thriving Business)
4. Businesses in the City / Darby Street BIA precinct are to be offered a 50% discount on all participation fees (Project: Newcastle Food Month)
5. The Organisation will liaise and collaborate with CN and local businesses on scheduling, local business promotion and activation planning (Projects: Tell the Story of Who You Are and Chalk the Walk Newcastle 2023).

### ROOT CAUSE

The monitoring mechanism in place to verify whether successful applicants are complying with the special conditions (i.e. the acquittal process), does not require an adequate level of evidence to be provided.

### IMPACTS

Successful applicants may not feel compelled to adhere to the special conditions if there are no repercussions for non-compliance, which could undermine the intended goals of the funding.



### AGREED AUDIT ACTIONS

2.2.1 Document evidence of compliance of the special conditions in the Service Agreement and Acquittal Report for successful EOI applicants. City of Newcastle should verify compliance with special conditions.

Responsible Officer: Executive Manager of Media Engagement, Economy, and Corporate Affairs

Due Date: December 2024

## 2.3 No evidence of adequate review over financial information for SBR projects and BIA allocations

CONSEQUENCE	LIKELIHOOD	RISK RATING	CONTROL AREA
Moderate	Possible	Medium	Compliance with laws, regulation, policies and procedures

### FINDING

#### EOI SBR Projects

Section 409 of the Local Government Act 1993 (Act) safeguards rates collected for a specific purpose by requiring that they be spent on the purpose for which they were raised. Money that has been received as a result of the levying of a "special rate or charge" may not be used otherwise than for the purpose for which the rate or charge was levied.

Council's finance system includes all transactional information relevant to EOI SBR Projects, which we found to have been "project costed." We also noted that there is a monthly finance meeting at a Service Unit level to review actual vs budget results with the Executive Manager and Finance Business Partner.

However we were unable to verify whether project-specific financial information is being generated and reviewed on a regular basis. Review of financial information related to projects is essential to ensure adequate project oversight and to reduce the risk of projects being delivered late or over budget.

#### BIA Allocations

Annually, Council allocates \$100,000 from the collected SBRs to each BIA precinct. Each BIA precinct prepares an annual BIA Deliverable Plan as to how allocated funding will be spent.

Whilst we noted that each BIA minuted the balance of funds held each meeting, we were unable to verify whether "profit or loss" information is prepared or reviewed to compare actual expenditure against the budgeted expenditure as developed in the BIA Deliverable Plan (and potentially comparative prior year information). Review of financial information is critical to managing an annual budget as well as identifying variations that may require corrective action.

### ROOT CAUSE

There is a lack of documentation to evidence regular review over financial information for SBR projects and BIA allocations.

### IMPACTS

There is a risk of inadequate project oversight that may result in projects being delivered late or over budget. BIA's may not have a minimum level of financial information to effectively manage their annual budget.

### AGREED AUDIT ACTIONS

- 2.3.1 Amend the BIA support service contract to include the provision and minuting of financial information (including an assessment of actual expenditure against budget) at each BIA meeting.

Responsible Officer: Executive Manager of Media Engagement, Economy, and Corporate Affairs

Due Date: August 2024

## 2.4 Delays in the submission of acquittal reports to Council

CONSEQUENCE	LIKELIHOOD	RISK RATING	CONTROL AREA
Minor	Unlikely	Low	Funds Acquittal

### FINDING

The EOI Funding Guidelines and service agreement state that successful applicants must provide a final acquittal report to CN within the timeframe specified in the Service Agreement (45 days of activity completion). The SmartyGrants system automatically sends out reminder to the applicants to inform them that the acquittal is due.

Based on the result of the sample testing as at 15 February 2024, there were four (4) out of 16 samples (25%, allocation amount: \$106,200) where there were delays in receiving acquittal reports from the applicants. The delays range from four (4) to 195 days. The following are details of the four samples:

Application No.	Applicant	Project Title	Amount Allocated	Delay (days)
2022007HWNL	Curious Legends Limited	Wallsend Frights	\$ 20,000	195
2022006HWNL	Playstate PTY LTD	Corner Brick Building of Harris and Boscawen Street in Wallsend.	\$ 20,000	63
2022011HWNL	Herb Urban	Thriving Gardens > Thriving Community > Thriving Business	\$ 36,200	61
22SBR035CCDS	Newy Car Club	Newy Car Club SBR Events	\$ 30,000	4

An acquittal extension was requested for 2022006HWNL, however, the acquittal was still submitted late. There was no extension request for the other three samples.

The SmartyGrants system was setup to send reminders to the applicants when the acquittals are due. However, this function was not setup to notify the Grants Officer at Council when the acquittals were due. We note that during our audit, this function is now being setup. This would enable the Grants Officers to follow up with the applicants.

We recognise the efforts made by the Council in actively following up with applicants to ensure the completion of their acquittal reports. This proactive approach demonstrates the Council's commitment to upholding accountability and transparency in the SBR management processes.

Internal audit acknowledges that for the most recent rounds of funding (2024) that an additional control has been implemented whereby a portion of funding is withheld until the funding acquittal has been provided and subjected to Council review.

### ROOT CAUSE

There is no automatic notification setup within SmartyGrants to inform the Grants Officers to follow up with the applicants on the acquittals.



## IMPACTS

There is a risk of untimely completion of projects and assessment of the outcomes, activities and the use of the SBR funding.

## AGREED AUDIT ACTIONS

- 2.4.1 Setup the function within SmartyGrants to notify Grants Officers of the acquittal due dates for follow up and monitoring for current and future project fundings
- 2.4.2 Untimely submission of acquittals should be recorded and used as consideration in future funding allocations.

Responsible Officer: Executive Manager of Media Engagement, Economy, and Corporate Affairs

Due Date: July 2024



## 2.5 Non-participation by successful applicants in the Collaboration Forum

CONSEQUENCE	LIKELIHOOD	RISK RATING	CONTROL AREA
Minor	Likely	Low	Program Execution

### FINDING

The EOI Funding Guidelines states that successful applicants must attend the in-person Collaboration Forum after the commencement of the project period with the aim of establishing networks and practical steps for cooperation between successful applicants and other related programs funded by CN.

We note that the evidence provided to support this requirement is list of responses to the meeting invite organised by Council for the collaboration forum which may not provide a reliable proof of attendance. However, review of the list shows that 19% or three (3) out of 16 samples wherein the successful applicant either declined or did not respond to the meeting invite.

### ROOT CAUSE

Applicants may be out of town during the face-to-face collaboration forum.

### IMPACTS

Insufficient cooperation and communication between successful applicants.

### AGREED AUDIT ACTIONS

- 2.5.1 Promote the importance and the mandatory requirement for successful applicants to attend the Collaboration Forum and record the attendance or non-attendance of the applicants in SmartyGrants for future year assessment decision-making.

Responsible Officer: Executive Manager of Media Engagement, Economy, and Corporate Affairs

Due Date: August 2024

## 2.6 Eligibility criteria are not consistent within CN's guidelines

CONSEQUENCE	LIKELIHOOD	RISK RATING	CONTROL AREA
Minor	Likely	Low	Program Execution

### FINDING

We reviewed the EOI Funding Guidelines (Guidelines), Special Business Rate Expenditure Policy (Policy) and EOI Application form (Form) to ensure that eligibility criteria are available across those documents. The result of our review indicated that not all criteria documented in the EOI Application forms are in the EOI Funding Guidelines, for example:

- The applicant must budget for all relevant CN fees, venue booking costs and event license costs, including related to CN assets (not in Guidelines)
- Applicants must meet at least one quarter of the total project cost for applications on private property (not in Guidelines).

### ROOT CAUSE

Additional criteria that were included in the Form may not be updated to Guidelines and the Policy.

### IMPACTS

Inconsistent criteria may raise questions and result in confusion for the applicants.

### AGREED AUDIT ACTIONS

2.6.1 Review the criteria and update the Form and Guidelines to ensure they are consistent.

Responsible Officer: Executive Manager of Media Engagement, Economy, and Corporate Affairs

Due Date: August 2024



### 3. INSIGHTS AND IMPROVEMENT OPPORTUNITIES

#### 3.1 Vacancy in a critical role in the management of SBR projects

##### Observations and findings:

The Economic Development Facilitator coordinates and manages the delivery of the SBR projects. This is a key role to ensure effective management of the SBR projects. However, this role is currently vacant. The position is vacant since mid-February 2024. The roles and responsibilities of this position is temporarily reassigned to another staff member.

We acknowledge that this interim arrangement aims to ensure the continued operation of the SBR projects until a suitable replacement can be identified and appointed. Recruitment for this position is currently underway.

A vacancy in a critical role will have a significant tangible impact on the ability of the organisation to deliver outputs, achieve milestones, or meet budget requirements.

We understand that recruitment activity is underway.

##### Recommendations:

Ensure adequate resources are available to manage the SBR projects should the recruitment process takes longer than expected.

##### Management comment:

Management comment is not required.

## 4. APPENDICES

### APPENDIX 1 – RISK DEFINITIONS

#### RISK MATRIX

Issue Ratings noted in this audit report adopt CN's Enterprise Risk Management Framework Risk Matrix.

LIKELIHOOD	CONSEQUENCE				
	Insignificant	Minor	Moderate	Major	Severe
Almost Certain	Medium	Medium	High	Extreme	Extreme
Likely	Low	Medium	High	Extreme	Extreme
Possible	Low	Medium	Medium	High	Extreme
Unlikely	Low	Low	Medium	High	High
Rare	Low	Low	Medium	High	High

## CONSEQUENCE DEFINITION

RISK CATEGORY	CONSEQUENCE DEFINITIONS				
	INSIGNIFICANT	MINOR	MODERATE	MAJOR	SEVERE
<b>Financial</b>	An insignificant financial impact. Less than \$10,000.	A minor financial impact. \$10,000 to less than \$100,000.	A moderate financial impact. \$100,000 to less than \$500,000.	A major financial impact. \$500,000 to less than \$2M.	A severe financial impact. Greater than \$2M.
<b>Environmental</b>	Negligible damage that is contained on-site.  The damage is recoverable with no permanent effect on the environment or the asset,  The resource or asset will take less than 6 months to recover.	Minor damage to the environment or heritage asset or area that is immediately contained on-site.  The resource or asset will take less than 2 years to recover or it will only require minor repair.	Moderate damage to the environment or a heritage listed asset or area, which is repairable.  The resource or asset will take up to 10 years to recover.	Significant damage to an environmentally significant area or asset from which it will take more than 10 years to recover.  OR  Extensive damage to a non-heritage listed area or asset that has heritage values.  OR  Significant damage to a Council Heritage Listed area or asset that involves either extensive remediation or will take more than 10 years to recover.	Irreversible and extensive damage is caused to a World Heritage Listed Area, a National Heritage Listed Site, a Register of the National Estate Site or a Council Heritage Listed area or asset.  OR  Irreversible and extensive damage is caused to a Matter of National Environmental Significance under the Act (e.g. endangered species, RAMSAR wetland, marine environment).



RISK CATEGORY	CONSEQUENCE DEFINITIONS				
	INSIGNIFICANT	MINOR	MODERATE	MAJOR	SEVERE
<b>Health and Safety</b>	No injury / minor first aid treatment only.	First Aid treatment or precautionary medical attention only. Person likely to immediately resume normal duties.	Person unable to resume normal duties in the short-medium term.	Hospitalisation with potential to result in permanent impairment.	Single or multiple fatalities
<b>Infrastructure/ICT Systems/Utilities</b>	Minor damage where repairs are required however, assets or infrastructure are still fully operational.  OR Loss of utilities/systems resulting in minor disruption to a service for up to 12 hours.	Short term loss or damage where repairs are required to allow the assets or infrastructure to remain operational using existing internal resources.  OR Loss of utilities/systems resulting in minor disruption to a service (> 12 - 24 hours).	Medium term loss of key assets and infrastructure, where repairs are required to allow them to remain operational. Cost moderate and outside of budget allocation.  OR Loss of utilities/systems resulting in disruption to a department for up to 12 hours.	Widespread, medium-term loss of key assets and infrastructure, where repairs are required to allow the infrastructure to remain operational. Cost significant and outside of budget allocation.  OR Loss of utilities/systems resulting in serious disruption to several services or more than 1 department for up to 12 hours.	Widespread, long-term loss of substantial key assets and infrastructure. Infrastructure requires total rebuild or replacement.  OR Failure of utilities/systems resulting in the loss of function for several departments (> 12 hours).
<b>Legislative Compliance</b>	Minor technical breach but no damages. No monetary penalty. Internal query.	Minor technical non-compliances and breaches of Corporate/CN Policy or State/Commonwealth regulations with potential for minor monetary penalty.	Compliance breach of regulation with investigation or report to authority with possible fine.  AND/OR	Major compliance breach with potential exposure to large damages or awards. Potential prosecution with penalty imposed. District court action.	Severe compliance breach with prosecution and/or maximum penalty imposed. Supreme Court or criminal action.

	CONSEQUENCE DEFINITIONS				
RISK CATEGORY	INSIGNIFICANT	MINOR	MODERATE	MAJOR	SEVERE
			Special audit by outside agency or enquiry by Ombudsman or Minister.	OR Multiple compliance breaches that together result in potential prosecution with penalty imposed.	OR Multiple compliance breaches that together result in prosecution with maximum penalty imposed.
<b>Reputation/Image</b>	Customer complaint. AND/OR Not at fault issue, settled quickly with no impact.	Non-headline community media exposure. Clear fault. Settled quickly by CN response. Negligible impact.	Negative local (headline) and some regional media coverage. CN notification. Slow resolution.	Negative regional (headline) and some national media coverage. Repeated exposure. CN involvement. At fault or unresolved complexities impacting public or key groups.	Sustained national media coverage. Maximum multiple high-level exposure. Direct CN intervention. Loss of credibility and public/key stakeholder support.
<b>Delivery</b>	Some non-essential tasks will not be able to be achieved. AND/OR Unable to provide service for < 1 business day. AND/OR Major Project in progress delay for < 1 month.	Less than 5% of essential tasks will not be achieved. AND/OR Unable to provide service for 1 - 2 business days. AND/OR Major Project in progress delay for 1 - 2 months.	5% - 10% of essential tasks will not be achieved AND/OR Unable to provide service for 2 - 5 business days. AND/OR Major Project in progress delay for 2 - 3 months.	10% - 20% of essential tasks will not be achieved. AND/OR Unable to provide service for 5 - 10 business days. AND/OR Major Project in progress delay for 3 - 6 months.	Greater than 20% of essential tasks will not be achieved. AND/OR Unable to provide service for >10 business days. AND/OR Major Project in progress delay for > 6 months.

## LIKELIHOOD DEFINITIONS

The following table is to be used as a guide for determining likelihood:

LIKELIHOOD	DESCRIPTION
Almost Certain	Expected to occur in most circumstances (> 80% probability). Likely to occur at least once in every year.
Likely	Will probably occur in most circumstances (50 to 80% probability). Likely to occur once every > 1-2 years.
Possible	Might occur at some time (25 to 49% probability). Likely to occur once every > 2-5 years.
Unlikely	Could occur but unlikely (2 to 24% probability). Likely to occur once every > 5-20 years.
Rare	May occur in exceptional circumstances (< 2% probability). Not likely to occur more than once in 30 years.

## CONTROL EFFECTIVENESS TABLE

The following table is to be used as a guide for determining control effectiveness:

EFFECTIVENESS RATING	DESCRIPTION
Fully Effective	Fully effective (95 - 100%) - Control is reliable and effectively implemented. Fully documented process and well communicated (will significantly reduce the likelihood and/or consequence of the risk at all times)
Substantially Effective	Effective in most circumstances (71 - 95%) - The control is mostly implemented, reliable and effective. Documentation exists but could be better communicated (will have a reasonably significant effect in terms of reducing the likelihood and/or consequence of the risk)
Partially Effective	Partially effective (51 - 70%) - Control is reliable however it is not effective as its documentation and/or implementation and/or communication could be improved. (will have some effect in terms of reducing the likelihood and/or consequence of the risk)
Largely Ineffective	Partially ineffective (11 - 49% effective) - The control is not effective as it is not well documented and/or implemented and/or communicated. circumstances (will have very little effect in terms of reducing the likelihood and/or consequence of the risk)
Totally Ineffective	Totally ineffective (0 - 10%) - The control does not address the risk. (will not have any effect in terms of reducing the likelihood and/or consequence of the risk)

## APPENDIX 2 – SUMMARY OF THE TERMS OF REFERENCE

### OBJECTIVES

The objective of this audit is to assess the adequacy and effectiveness of special business rate expenditure process to ensure compliance with Section 495 of the Local Government Act 1993 and to identify opportunities for improvement.

### KEY RISKS

The key risks in respect of Special Business Rate Expenditure include:

- Non-compliance with laws, regulations, policies, and procedures in the utilisation of SBR monies resulting in legal consequences and penalties
- Governance structures and accountabilities, roles and responsibilities related to assessment and approval of expenditure are not clearly established and understood
- Ineffective handling or misallocation of SBR monies
- Insufficient communication and transparency in the utilisation of SBR monies
- Misappropriation of SBR funds
- Reputational damage to Council due to public perception, misunderstandings, or controversies related to special business rates.

### SCOPE

The scopes include:

SCOPE	AUDIT FOCUS
Compliance with laws, regulations, policies, and procedures	<ul style="list-style-type: none"> <li>• Assess compliance with Section 495 of the Local Government Act 1993 - Making and levying of special rates</li> <li>• Assess BIA compliance with the BIA constitution, annual service agreements and utilisation of SBR funds</li> <li>• Assess compliance with policies, procedures, and guidelines including the Special Business Rate Expenditure Policy</li> <li>• Review the Special Business Rates Expenditure Policy and service agreements to identify process design gaps.</li> </ul>
Assessment and approval process	<ul style="list-style-type: none"> <li>• For competitive EOI process, review applications and processing, including selection, recommendations and decision making, approval and delegation, and feedback to applicants to ensure roles and responsibilities are established and understood</li> <li>• Perform sample testing of programs to verify that the application underwent the necessary assessment and approval procedures for both BIA expenditure and competitive EOI process.</li> </ul>



SCOPE	AUDIT FOCUS
Funds acquittal	<ul style="list-style-type: none"> <li>Review the reporting and fund acquittal requirements and specified expenditure in the Service Agreement</li> <li>Perform sample testing to assess compliance.</li> </ul>
Conflicts of Interest Management	<ul style="list-style-type: none"> <li>Evaluate the adequacy and effectiveness of conflict-of-interest management process for the application and approval of allocation of SBR monies.</li> </ul>
Benefits realisation	<ul style="list-style-type: none"> <li>Review the process to ensure that outcomes for the funding are assessed for benefit realisation.</li> </ul>

### APPENDIX 3 – SUMMARY OF AGREED AUDIT ACTIONS

REF	FINDING	AGREED AUDIT ACTIONS	RISK RATING	RESPONSIBLE OFFICER	DUE DATE
2.1.1	Non-compliance of conflict-of-interest declaration for pre-panel assessors	Council should remind all participants in the pre-panel assessment process to complete conflict-of interest declarations	Medium	Executive Manager of Media Engagement, Economy, and Corporate Affairs	July 2024
2.1.2		Utilise SmartyGrants (EOI) to initiate, notify and document the pre-panel assessors' conflict-of-interest declarations			
2.1.3		Maintain a copy of the preliminary panel assessment meeting minutes in SmartyGrants			
2.1.4		The BIA support service should be required to refer conflict of interest matters to Council. This should be incorporated in the BIA service agreement upon contract renewal.			August 2024
2.2.1	Failure to comply to the special conditions stipulated in the funding approval	Document evidence of compliance of the special conditions in the Service Agreement and Acquittal Report for successful EOI applicants. City of Newcastle should verify compliance with special conditions.	Medium	Executive Manager of Media Engagement, Economy, and Corporate Affairs	December 2024

REF	FINDING	AGREED AUDIT ACTIONS	RISK RATING	RESPONSIBLE OFFICER	DUE DATE
2.3.1	No evidence of adequate review over financial information for SBR projects and BIA allocations	Amend the BIA support service contract to include the provision and minuting of financial information (including an assessment of actual expenditure against budget) at each BIA meeting.	Medium	Executive Manager of Media Engagement, Economy, and Corporate Affairs	August 2024
2.4.1	Delays in the submission of acquittal reports to Council	Setup the function within SmartyGrants to notify Grants Officers of the acquittal due dates for follow up and monitoring for current and future project fundings	Low	Executive Manager of Media Engagement, Economy, and Corporate Affairs	July 2024
2.4.2		Untimely submission of acquittals should be recorded and used as consideration in future funding allocations.			
2.5.1	Non-participation by successful applicants in the Collaboration Forum	Promote the importance and the mandatory requirement for successful applicants to attend the Collaboration Forum and record the attendance or non-attendance of the applicants in SmartyGrants for future year assessment decision-making	Low	Executive Manager of Media Engagement, Economy, and Corporate Affairs	August 2024
2.6.1	Eligibility criteria are not consistent within CN's guidelines	Review the criteria and update the Form and Guidelines to ensure they are consistent.	Low	Executive Manager of Media Engagement, Economy, and Corporate Affairs	August 2024



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