



Christchurch City Council

AUDIT AND RISK MANAGEMENT SUBCOMMITTEE AGENDA

WEDNESDAY 30 AUGUST 2006

AT 11AM

IN THE MAYOR'S LOUNGE, CIVIC OFFICES

Subcommittee: Councillor Bob Shearing (Chairman), The Mayor, Mr Garry Moore, Councillors Graham Condon, David Cox and Gail Sheriff, Messrs John Hooper and Michael Rondel.

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1. APOLOGIES

Mayor Garry Moore.

2. MINUTES OF PREVIOUS MEETING - 28 JUNE 2006

Attached.

3. AUDIT ISSUES FROM PREVIOUS MEETINGS

4. **REPORT ON INTERNAL AUDIT ACTIVITY: THREE MONTHS ENDED 30 JUNE 2006**

General Manager responsible:	Director of Strategic Investment, DDI 941-8411
Officer responsible:	G Nicholas , Senior Internal Auditor
Author:	Graeme Nicholas, Senior Auditor

PURPOSE OF REPORT

1. The purpose of this report is to provide a brief periodic update on the status of Internal Audit activities completed by PricewaterhouseCoopers and Graeme Nicholas within the Council and includes:
 - the status of audit projects with in the current years program
 - executive summaries for reports completed during the quarter ending 30 June 2006
 - issues outstanding from previous quarters

EXECUTIVE SUMMARY

2. The detailed summaries from individual reviews within these papers relate to reviews completed prior to the formal beginning of the co-sourced relationship between Christchurch City Council (CCC) and PricewaterhouseCoopers (PwC).

Programme Status

3. The attached Appendix to this report is the detailed workplan listing the internal audit scopes to be completed within the year as well as timeframe and status of each individual project.
4. We are satisfied with the progress that has been made to date in the development of the internal audit plan and the resourcing and timetabling of the respective reviews. Our approach to resourcing has been to leverage the existing knowledge Graeme Nicholas has with the specialist experience and knowledge which resides within PwC. PwC is working with Graeme in the planning, communication and reporting phases of every review for purposes of consistency and quality assurance. On a number of reviews where there is a specialist skill requirement PwC will lead and perform the fieldwork.
5. Currently, there are around eight reviews in an 'in progress' state. These vary in status from the fieldwork having just been started through to the draft report having been drafted and the management comments being input.
6. Looking ahead, there are a number of specialist reviews to take place within the remainder of the 2006 calendar year. These involve a combination of CCC and PwC lead reviews and therefore a fair amount of internal audit activity and reporting.

Value to the Council

7. Already we have seen the benefit of this co-sourcing model within the Procurement process where we believe the combination of Council knowledge and PwC expertise are combining to improve a key area for the Council. We will touch on Procurement specifically today as we present the results of our reviews to date.

4 Cont'd

THE 2006/07 PROGRAMME

Internal Audit Review Status

8. Summarised below is the status of each of the internal audit reviews for the 2006/7 year:

Completed	Review complete, management comments received and final report issued
Draft Report	The field work has been completed and the draft audit report awaiting review
In progress	Review underway
Planned	Review planned, high level terms of reference drafted and indicative timing agreed

Review and ref #	Comments	Status
Procurement review (06-1)	Draft report has been reviewed with the GM responsible. Final report about to be issued.	Completed
Mayors Welfare (07-08)	The draft report awaiting review by the GM responsible	Draft report
Cash handling - various sites (07-23)	The draft report awaiting review by the GM responsible	Draft report
Internet Monitoring (07-22)	The draft report awaiting review by the GM responsible	Draft report
Inventory management (07-6)	Draft report is currently being reviewed by PwC	In progress
Enforcement (Parking) (07-06)	Draft report is currently being reviewed by PwC	In progress
City Solutions Capital Contracts (07-26)	Field work in progress	In progress
Fixed assets (07-17)	The terms of reference have been approved. Audit will commence late August 2006	Planned

Risk Categories of Issues Reported This Quarter

Review	Number of recommendations by risk category			Total Number
	High	Moderate	Low	
Totals carried forward	0	3	2	5
Procurement and Purchasing (06-01)	4	2	0	6
Balance Sheet reconciliations	0	2	1	3
Gifts, bequests and sponsorships	0	4	4	8
Totals year to date	4	11	7	22

4 Cont'd

9. The findings relating to our reviews are broadly classified as being High, Moderate or Low priority. These ratings are defined as follows:

- **High:** Significant potential exposure or area of critical importance. Management action required.
- **Moderate:** Exposure exists but with some mitigating factors. Management action required within the next six months.
- **Low:** Low level of potential exposure to the organisation. Action required is only of a low priority or housekeeping nature.

New Issues Reported

10. Attached as Appendix A are the executive summaries of the reports issued this quarter. A detailed report for each review completed has been provided to management which sets out agreed management action plans as approved by the review sponsor.

Outstanding Issues Reported

11. Attached as appendix B are outstanding issues and the current status of actions carried forward from audits in previous quarters.

Future Programmed Work

12. Attached as appendix C is a project chart showing the status and timing of internal audits planned during the 2006/7 year. This will be updated and presented at each quarterly review.

FINANCIAL AND LEGAL CONSIDERATIONS

13. None.

STAFF RECOMMENDATIONS

It is recommended that the Subcommittee accept this report.

5. AUDIT - EXPENDITURE CONTROL

General Manager responsible:	General Manager Corporate Services, DDI 941-8540
Officer responsible:	G Nicholas
Author:	Graeme Nicholas, Senior Auditor

PURPOSE OF REPORT

1. To respond to expenditure control concerns raised in a staff email and presented by Councillor Cox at a previous Audit and Risk Management Subcommittee meeting:
 - The avoidance of purchase orders for some payments,
 - Use of One time vendors.

EXECUTIVE SUMMARY

2. The email presented expressed some valid concerns over the controls associated with certain "non-purchasing" payments made by the Council. The particular payments raised were supported by valid documentation, but there is an opportunity to ensure that there is improved consistency in the supporting documentation.

FINANCIAL AND LEGAL CONSIDERATIONS

3. There is likely to be little financial impact.

STAFF RECOMMENDATIONS

It is recommended that the Committee receive the report.

5 Cont'd

AUDIT - EXPENDITURE CONTROL

4. The email, the author of which is unknown, states that \$1,796,095 was paid to "one time vendors" in the month of November 2005. It asserts that "payments in this way negate the Council's system of control around the set up of vendors and avoid the system of delegated authorities offered by SAP".
5. "One time Vendors" are generic vendor accounts set up with in SAP to allow a payment to be made where no vendor exists on the system and where it is not considered efficient to carry out the process to set up a vendor account which may never be used again. Normal vendor accounts are only set up after a series of checks to ensure that the vendor is legitimate (white pages, Register of companies, procurement team). Several staff are involved in the set up process and duties are segregated so that staff setting up vendor accounts cannot also raise or initiate payments.
6. Most payments for goods and services require a purchase order to be raised. Although a recent audit identified a number of weaknesses in this area, orders are generally subject to a degree of control in requiring "release" by a senior staff member for larger amounts- i.e. there are usually two people involved with larger transactions. By their contractual nature, issuing purchase orders only makes sense when the Council is requiring another party to perform a future function or for the delivery of future goods.
7. The payments referred to in the email were not for the supply of goods or services directly and were to people or organisations that the Council does not deal with regularly or have a trade relationship with. Examples for November 2005 were:
 - Jacobs Floretine lawyers - \$1,481,659 - purchase of land for the Western Belfast bypass.
 - Skipo & Englefield Ltd - \$150,000 - refund of resource consent fees.
 - Parkside Family Trust - \$20,097 - refund of a building consent.
 - Dunlops Developments Ltd - \$19,688 - compensation for a sewer easement
 - Anderson Knightly - \$19,688 - compensation for a sewer easement
 - Corson group - \$24,935 - share of cost for piping Fendalton stream.
 - Other lesser payments tend to be for share of fencing costs, refund of consent fees or payment to householders who have paid for blocked sewer laterals to be remedied.
8. The author of the email appears concerned that these "non-trade" payments are not subject to a similar control vigour as routine payments for goods or services.
9. The payments sampled above were supported by either a statement from the party requesting payment or a memo from a staff member requesting that the party be paid a certain amount. Some such as the land purchase and cost share had limited documentation attached, but were supported by comprehensive documentation and process (including a Council resolution in the land case) contained on file.

RISKS ASSOCIATED WITH THIS ISSUE

10. The potential risk factors to the Council concerning these payments are:
 - The payables clerk processing these and the supervisor releasing payment are reliant on the limited documentation before them to justify the payment.
 - The person or organisation being paid could be bogus as no background verification checks are done.
 - The staff member creating the payment voucher may also be the authoriser resulting in a payment to a personally held organisation or an accomplice.
 - These risks are higher than with normal payments made to approved vendors and made on a purchase order requiring release by a second person.

RECOMMENDATIONS

11. The recommendation is that the existing delegations for payments (as applying to purchase orders) be enforced for non-order payments. Depending on the amount, this may require a second higher level approval for some payments.

PREFERRED OPTIONS

12. Adopt the recommended measures above.

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6. RESOLUTION TO EXCLUDE THE PUBLIC

Attached.

8. RESOLUTION TO RESUME OPEN MEETING

9. ISSUES FOR FUTURE MEETINGS

10. NEXT MEETING