



Christchurch City Council

AUDIT AND RISK MANAGEMENT SUBCOMMITTEE AGENDA

WEDNESDAY 6 DECEMBER 2006

AT 1.30PM
(PLEASE NOTE CHANGE IN TIME)

IN THE NO 1 COMMITTEE ROOM, 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.

Principal Adviser
Roy Baker
Telephone: 941-8540
Fax: 941-8572

Committee Secretary
Tony McKendry
Telephone: 941-8536
Fax: 941-8696

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CATERING

A light lunch will be available in the Councillors' Lounge at 1.15pm.

We're on the Web!

www.ccc.govt.nz/Council/Agendas/

6. 12. 2006

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1. APOLOGIES

2. MINUTES OF PREVIOUS MEETING - 30 AUGUST 2006

Attached.

3. MATTERS ARISING FROM PREVIOUS MEETINGS

(a) **SPONSORSHIP CO-ORDINATOR**

Memorandum from Richard Stokes (Marketing Manager) attached.

4. REPORT ON INTERNAL AUDIT ACTIVITY - THREE MONTHS ENDED 30 SEPTEMBER 2006

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

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 September 2006
 - issues outstanding from previous quarters

EXECUTIVE SUMMARY**Programme Status**

2. The attached Appendix to this report is the detailed workplan listing the internal audit scopes to be completed within the year as well as the current timeframe and status of each individual project.
3. We are satisfied with the progress that has been made to date in the implementation of the internal audit plan and the resourcing and timetabling of the respective reviews. While there has been some movement in the timing of some reviews, to date there has not been any slippage in the overall quantum of work to be completed by the end of Quarter 2. 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. To date, these have included Fraud Prevention, Business Continuity planning and Disaster Recovery , Probity and Discretionary expenditure and Long Term Council Community Planning.
4. Currently, there are around six 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.
5. Looking ahead, there are still 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

6. With the assistance of management and an ability to bring a broader focus we are delivering reviews which have an increased focus on:
 - alignment with CCC policies and strategic planning documentation
 - alignment with the cultural and ethical aspirations of CCC
 - review of some of the key operational areas of CCC

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THE 2006/7 PROGRAMME

Internal Audit Review Status

7. 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 is 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)	Final report has been issued	Completed
Mayor's Welfare (07-08)	Final report has been issued	Completed
Cash handling – various sites (07-23)	Final report has been issued	Completed
Internet Monitoring (07-22)	Final report has been issued	Completed
Inventory management (07-6)	Final report has been issued	Completed
Enforcement (Parking) (07-06)	Final report has been issued	Completed
City Solutions Capital Contracts (07-26)	Final report has been issued	Completed
Fixed assets (07-17)	Final report has been issued	Completed
Probity and discretionary expenditure review (07-13) *	Final report has been issued	Completed
LIMs Process (07-04)	Draft report being reviewed by PwC	Draft Report
Fraud Prevention Review (07-14) *	Draft report being reviewed by Management	Draft Report
Business Continuity Planning (07-1) *	Draft report being reviewed by Management	Draft report
Key accounting controls (07-10)	Draft report being reviewed by PwC	Draft report
Licensing - health , liquor (07-07)	Draft report being reviewed by PwC	Draft report
Rates (07-15)	In progress	In Progress
Regulatory consents (07-05)	Commencing December	Planned

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Risk Categories of Issues Reported this Quarter

8. In each review going forward under the co-sourced arrangement findings will be classified according to the ratings outlined below.
9. Given the size of Council and its relative complexity from an operational perspective, it is expected that a number of issues will be identified during the course of the year where further improvements can be made (both from an internal control and efficiency/effectiveness perspective). The ratings in the table below will be a combination of potential opportunities for improvement identified and control related issues.
10. In PwC's experience, it is normal practice to report summarised outcomes from the reviews in this fashion; with the focus of many Audit Committees turning to the status of key findings where agreed management actions may not have been taken within agreed timeframes. In this regard, we will report in future papers whether any "High" rated opportunities and issues have not been actioned within agreed timeframes and the reasons for any delays. The Subcommittee should note that delays may occur due to shifting management priorities and/or resourcing issues.

Review	Number of recommendations by risk category			Total Number
	High	Moderate	Low	
Totals carried forward	4	11	7	22
Issues completed during the quarter	0	3	1	4
Issues brought forward	4	8	6	18
Mayors Welfare (07-08)	0	0	1	1
Cash handling – various sites (07-23)	0	3	3	6
Internet Monitoring (07-22)	0	1	0	1
Inventory management (07-16)	0	1	7	8
Enforcement (Parking) (07-06)	0	1	2	3
Fixed Assets (07-17)	0	2	4	6
Probity and discretionary expenditure review (07-13)	1	0	5	6
Totals to date	5	16	28	49

* The Fraud Prevention and Business Continuity and Disaster Planning field work has been carried out by both PwC and G Nicholas

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11. 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

12. Attached as Appendix A are the executive summaries of the reports prepared 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.

Future Programmed Work

13. Attached as Appendix B 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

14. None.

STAFF RECOMMENDATION

It is recommended that the Subcommittee accept this report.

5. RECEIVING SINKING FUND COMMISSIONERS' ACCOUNTS FOR 2005-2006 YEAR

General Manager responsible:	Director Strategic Investment
Officer responsible:	Funds Accountant (Paul Baldwin)
Author:	Paul Baldwin, DDI 941-8853

PURPOSE OF REPORT

1. The purpose of this report is to advise that the financial statements of Christchurch City Council Sinking Fund Commissioners for the 2005-2006 year have been audited and the auditors have expressed an unqualified opinion on the statements (refer attachments).

EXECUTIVE SUMMARY

2. The Sinking Fund Commissioners have responsibility for management of investments and drawings to provide for repayment of Council loans borrowed under the Local Authority Loans Act 1956. Annual accounts are produced and are audited by the Council's auditors. The Commissioners are the Mayor, Chief Executive Officer and Director Strategic Investment. Operational management is by the Funds Accountant.
3. The Statements of Financial Performance, Financial Position and Movements in Equity were reviewed by Audit New Zealand who advise that the accounts comply with generally accepted accounting practice and fairly reflect the Sinking Funds financial position as at 30 June 2006 and the results of its operations for the year.

BACKGROUND

4. The Sinking Fund Commissioners managed the funds provided and processes for repayment of Council loans that were raised under the Local Authority Loans Act 1956. Subsequent changes in legislation have moved loan raising requirements to the Local Government Act 2002 (LGA) and the need for separate commissioners to manage loan repayments under the 1956 Act was removed. The Council still has a requirement to manage provisions for repayment of two loans raised under the earlier legislation through the Sinking Fund Commissioners. The major loan of the two matures in November 2006. At that stage most of the available balance will be applied towards retiring that loan. The second smaller loan for the Belfast pipeline has a longer maturity profile but annual contributions to loan repayment are paid by the users and the balance in the sinking fund will be transferred to the in house Council loan repayment reserve.
5. Provision for repayment of new loans raised under the LGA is managed within the Strategic Investment Directorate. Annual contributions towards loan retirement are made from rates or user contributions and from CCHL's dividend. A loan repayment reserve has been established and interest from investments made is credited back to the reserve. As loans mature the available reserve balance will be applied towards repayment.

STAFF RECOMMENDATION

It is recommended that the Audit and Risk Management Subcommittee receive the audited accounts for the year ended 30 June 2006.

**6. TREASURY MANAGEMENT REPORT FOR 2006-07 YEAR TO QUARTER ENDED
30 SEPTEMBER 2006**

General Manager responsible:	General Manager Corporate Services, DDI 941-8540
Officer responsible:	Diane Brandish, Corporate Finance Manager
Author:	Paul Baldwin, Funds Accountant

PURPOSE OF REPORT

1. The purpose of this report is to report on the management of Council loan liabilities and investments during the 2006-2007 financial year up to the quarter ending 30 September 2006.

EXECUTIVE SUMMARY

2. The Local Government Act 2002 requires publication of a Liability Management Policy and an Investment Policy (Policies). These are included as part of the Long Term Council Community Plan (LTCCP) adopted by Council.
3. The Council's policies require periodic reporting to Council. The Council has delegated reporting requirements to the Council through the Audit and Risk Management Subcommittee.
4. To provide a regular and ongoing review, a Treasury Review Team appointed by the Chief Executive Officer in terms of the Policies overviews this function. Bancorp Treasury Services Ltd provides independent treasury advice.
5. The attached schedules summarise the results of management of the Council's loan debt and investments for the quarter ended 30 September 2006.

STAFF RECOMMENDATION

It is recommended that the Audit and Risk Management Subcommittee receive the Treasury Management Report covering the September quarter 2006.

7. AUDIT MANAGEMENT REPORT

General Manager responsible:	General Manager Corporate Services, DDI 941-8540
Officer responsible:	Corporate Finance Manager
Author:	Diane Brandish

PURPOSE OF REPORT

1. The purpose of this report is to advise the Audit and Risk Management Subcommittee of the issues covered within Audit New Zealand's 2006 Audit Management Report.

EXECUTIVE SUMMARY

2. Each year once the audit is complete Audit New Zealand forward their Audit Management Report which summarises their significant findings and recommendations. This report is attached along with management's response.
3. Over the last financial year the overall standard of accounting and internal control slipped primarily as a result of staff changes coupled with the additional pressures that staff experienced in producing the LTCCP.
4. A number of the issues raised relate to fixed assets and with the Asset Management Project now underway this will address many of the problems. In addition, many of the other issues raised have already been addressed. Management is confident of receiving a vastly improved report for the 2007 year.

FINANCIAL AND LEGAL CONSIDERATIONS

5. There are no financial or legal implications.

STAFF RECOMMENDATION

It is recommended that the report be received.

8. INSURANCE COVER

General Manager responsible:	General Manager Corporate Services, DDI 941-8540
Officer responsible:	Corporate Finance Manager
Author:	Diane Brandish

PURPOSE OF REPORT

1. The purpose of this report is to advise the Audit and Risk Management Subcommittee of the Council's insurance programme.

EXECUTIVE SUMMARY

2. The Council currently has insurance in place as detailed on Schedule 1 (attached).
3. We are in the process of retendering the insurance brokering contract to include broking risk advise and claims processing services as detailed in the specification attached as Schedule 2. This process will be completed before month end with a new contract effective from 1 March 2007.
4. Other than cover of \$1.3b with LAPP for damage to otherwise uninsurable assets such as stopbanks, water and sewerage systems, the Council does not have civil defence emergency cover due to the restrictive nature of the cover offered. For the snow in June in Mid and South Canterbury a state of local emergency was not declared. Furthermore, the cover relates only to those actions taken to save lives or to prevent members of the public from injury. The LAPP fund will provide assistance with the restoration of infrastructure following an emergency but will not cover the cost of responding to it.

FINANCIAL AND LEGAL CONSIDERATIONS

5. There are no financial or legal implications.

STAFF RECOMMENDATION

It is recommended that the report be received.

9. INSURANCE OF NON COUNCIL OWNED PROPERTY

General Manager responsible:	General Manager Corporate Services, DDI 941-8540
Officer responsible:	Corporate Finance Manager
Author:	Diane Brandish

PURPOSE OF REPORT

1. The purpose of this report is to inform the Audit and Risk Management Subcommittee of a change to the current policy of placing insurance cover for property owned by various community organisations.

EXECUTIVE SUMMARY

2. Under the current policy the Council organises insurance cover for several (mainly community) organisations at the same time as the Council's own policies are renewed. With one exception, these organisations lease Council premises and the additional cover has been taken as part of the service. A list of the organisations concerned is attached as Schedule 1. The organisations are then invoiced by the Council in order to recover the premiums.
3. The concern is that there has been no follow up to ensure that the cover is adequate or even that the risk still exists. In one instance when there was damage to a property the cover provided was inadequate and the council was held to blame. The view of the Council officers is this is not Council's business and would be better handled by those closer to the facts.
4. It is intended that as from 30 June 2007 this service will no longer be provided and the letter attached as Schedule 2 will be sent this month advising the parties that in future they are responsible for organising their own cover.
5. The Council will continue to insure the premises that are leased by these organisations as part of its risk management processes.

FINANCIAL AND LEGAL CONSIDERATIONS

6. There are no financial or legal implications.

STAFF RECOMMENDATION

It is recommended that the report be received.

10. ISSUES FOR FUTURE MEETINGS

11. NEXT MEETING

12. RESOLUTION TO EXCLUDE THE PUBLIC

Attached.