

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

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 |

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

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.