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Christchurch City Council

AUDIT AND RISK MANAGEMENT SUBCOMMITTEE AGENDA

FRIDAY 10 FEBRUARY 2005

AT 1.30PM

IN THE NO 3 COMMITTEE ROOM, CIVIC OFFICES

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

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1. APOLOGIES

2. INFLATION ADJUSTORS

General Manager responsible:	General Manager Corporate Services
Author:	Diane Brandish, DDI 941-8454

PURPOSE OF REPORT

1. In December the Subcommittee authorised the General Manager Corporate Services to set inflation rates for both OPEX and CAPEX for the 2008-2010 years. The purpose of this paper is to brief the Subcommittee on the decisions made.

EXECUTIVE SUMMARY

2. In November 2005 a representative from Beca Carter gave a presentation to the Council in which he spoke about the inflationary pressures that are being experienced within the construction industry.

3. Beca Carter are forecasting increases of between 5-6% in 2006/07, reducing to 3% for 2007/08.

4. In determining the CAPEX inflation adjustors to be applied to the LTCCP, staff were concerned that the BERL adjustors were too low and have therefore relied upon the Beca Carter figures for the 2006 and 2007 years. Remaining years are calculated using the BERL figures.

5. Within OPEX, key infrastructure contracts for the 2006/07 year have been increased by 5.5% in line with known cost increases. Salary and wages have been increased by 2.4%, and other costs held at 2005/06 dollars.

6. The OPEX weighted average adjustors for the remaining years have been calculated using the BERL indicators for the energy, staff and “other” rates (Table 1) for operating revenue and operating expenditure.

7. The weighted average rates for the years 2008-2010 are:

	2007/08	**2008/09**	**2009/10**
Operating Expenditure	2.91	2.74	2.54
Revenue	3.18	2.98	2.74
CAPEX	3.64	3.41	3.15

STAFF RECOMMENDATIONS

It is recommended that the Subcommittee receive this report.

2 Cont'd

BACKGROUND ON INFLATION ADJUSTORS

8. Unlike the 2004/14 version of the LTCCP, the 2006/16 plan that we are working on is required to be audited. The Office of the Auditor General (OAG) has signalled that the financial statements contained within the document must include a robust assumption in relation to future price changes.

9. The rationale for requiring future price changes to be included in the prospective financial statements is contained within section 93 (6) of the Local Government Act 2002 which states the purposes of a LTCCP and includes:

   "(e) provide a basis for accountability of the local authority to the community; and (f) provide an opportunity for participation by the public in decision making processes on activities to be undertaken by the local authority."

10. Omitting the expected impact of future price changes will in most cases understate the true cost of activities and therefore call into question whether the financials are a 'reasonable basis'. The financial statements must comply with generally accepted accounting practice (s111).

11. Generally accepted accounting practice requires that "prospective financial information" is prepared on "best estimate assumptions" (FRS29). Best estimate assumptions are what the organisation realistically expects to occur. "To be supportable, best estimate assumptions need to be based on the past performance of the entity itself and the prevailing economic environment". FRS29 (5.22).

12. The Society of Local Government Managers (SOLGM) and the OAG commissioned Business and Economic Research Limited (BERL) to develop appropriate "price level change adjustors" and these are detailed in tables 1-3 below. BERL have forecast one adjustor for each of the following six categories for the period through to 2017:

    - roading and transport costs
    - property, reserves and parks costs
    - water-clean and dirty- including pipeline costs
    - staff costs
    - energy costs
    - other adjustor for local government costs.

13. Table 1 lists the annual percentage change for each of the adjustors.

Table 1

Year ending	Road	Property	Water	Energy	Staff	Other
Jun 06	3.2	3.4	5.3	6.0	3.3	2.8
Jun 07	2.4	2.8	4.1	3.9	2.4	3.0
Jun 08	2.6	2.9	4.2	4.1	2.5	3.1
Jun 09	2.4	2.7	4.0	3.8	2.4	2.9
Jun 10	2.2	2.5	3.7	3.6	2.2	2.7
Jun 11	2.0	2.3	3.4	3.3	2.0	2.5
Jun 12	1.9	2.1	3.1	3.0	1.8	2.3
Jun 13	1.7	1.9	2.8	2.8	1.7	2.1
Jun 14	1.5	1.7	2.6	2.5	1.5	1.9
Jun 15	1.3	1.5	2.3	2.2	1.3	1.6
Jun 16	1.3	1.5	2.3	2.2	1.3	1.6
Jun 17	1.3	1.5	2.3	2.2	1.3	1.9

14. These adjustors are intended to be applied to operating expenditure. The first three are intended to be applied to input categories, the last three to input costs.

15. In addition, BERL have forecast a further three adjustors to be used for capital expenditure.

2 Cont'd

16. These additional adjustors are:

- pipeline costs (a sub-component of water costs)
- earthmoving costs (a sub-component of property, reserves and parks)
- private sector salary and wage costs (a sub-component of adjustors 1-4 above).

17. Table 2 lists the annual percentage change for the capital adjustors.

Table 2

Year ending	Pipelines	Earthmoving	Pvte sector labour
Jun 07	4.4	3.2	2.4
Jun 08	4.6	3.4	2.5
Jun 09	4.3	3.2	2.4
Jun 10	4.0	2.9	2.2
Jun 11	3.7	2.7	2.0
Jun 12	3.4	2.5	1.8
Jun 13	3.1	2.2	1.7
Jun 14	2.8	2.0	1.5
Jun 15	2.5	1.8	1.3
Jun 16	2.5	1.8	1.3
Jun 17	2.5	1.8	1.3

18. In November 2005 a representative from Beca Carter gave a presentation to Council in which he spoke about the inflationary pressures that are being experienced within the construction industry.

19. Beca Carter are forecasting increases of between 5-6% in 2006/07, reducing to 3% for 2007/08.

20. In determining the CAPEX inflation adjustors to be applied to the LTCCP, staff were concerned that the BERL adjustors were too low and have therefore relied upon the Beca Carter figures for the 2006 and 2007 years. Remaining years are calculated using the BERL figures.

21. Within OPEX, key infrastructure contracts for the 2006/07 year have been increased by 5.5% in line with known cost increases. Salary and wages have been increased by 2.4%, and other costs held at 2005/06 dollars.

22. The OPEX weighted average adjustors for the remaining years have been calculated using the BERL indicators for the energy, staff and "other" rates (Table 1) for operating revenue and operating expenditure.

23. The weighted average rates for the years 2008-2010 are:

	2007/08	**2008/09**	**2009/10**
Operating Expenditure	2.91	2.74	2.54
Revenue	3.18	2.98	2.74
CAPEX	3.64	3.41	3.15

REFERENCE

24. This paper was prepared using data from the following sources:

- Assumptions For Price Level Changes In The Long Term Council Community Plan; NZ Society of Local Government Managers, 2005.
- BERL Forecasts of Price Level Change Adjustors; Nana G., Arcus M. Aug 2005.

3. RELATED PARTY DISCLOSURES FOR COMMUNITY BOARD MEMBERS

General Manager responsible:	General Manager Corporate Services
Officer responsible:	Corporate Finance Manager
Author:	Paula Friend, Financial Accountant DDI 941-8113

PURPOSE OF REPORT

1. The purpose of this report is to make a recommendation on the treatment of Community Board members with respect to the New Zealand Equivalent to International Reporting Standard ("NZ IFRS") 24: Related Party Disclosures.

EXECUTIVE SUMMARY

2. Staff have determined that Community Board members are not related parties to the CCC group of entities.

FINANCIAL AND LEGAL CONSIDERATIONS

3. None

STAFF RECOMMENDATIONS

It is recommended that the Audit and Risk Subcommittee adopt the following definition for the purposes of NZ IAS 24, Related Party Disclosures:

(a) For the Council, a Community Board member will not be a 'director'.

(b) Training be included on dealing with conflicts of interest as part of the overall training on related parties.

(c) Request that the General Manager Regulation and Democracy Services include in the training programme a session on "conflicts of interest" and related parties for all elected members.

BACKGROUND ON RELATED PARTY DISCLOSURES FOR COMMUNITY BOARD MEMBERS

4. At the meeting on 5 December, the Audit and Risk Management Subcommittee adopted the following definitions for the Council for the purposes of NZ IAS 24: Related Party Disclosures:

    (a) A councillor will be a 'director';

    (b) All members of the senior management team are included in the definition of 'key management personnel'.

5. Further information was requested on the staff recommendation that "a Community Board member not be considered a 'director'".

Analysis

6. The following is an extract of the larger paper presented at the last meeting:

    "ED 91, Related Party Disclosures was an exposure draft issued by NZ Financial reporting Standards Board and was based on IAS 24, Related Party Disclosures. It was intended to apply to all entities including public benefit entities.

    NZ IAS 24 does not define 'director' presumably because it was developed for commercial organisations only and the definition is covered by companies' legislation.

3 Cont'd

The FRSB has not inserted a definition into NZ IAS 24 so the best authority, in the absence of any other guidance, as to who is a 'director' for the purposes of related party disclosures in NZ is ED 91.

7. ED 91 defines 'director' as:

4.3 'Director' includes any person occupying the position of a member (by whatever name called) of ***the governing body of the entity reporting****.*

8 Under the Council's current structure, Community Board members are not part of the governing body.

OPTIONS

9. Include Community Board members in the definition of 'director' for the purposes of NZ IAS 24 by taking a broad interpretation of the definition.

10. Exclude Community Board members from the definition. Any conflict of interest should be handled in accordance with the normal policy.

ASSESSMENT OF OPTIONS

The Preferred Option

	Benefits (current and future)	**Costs (current and future)**
Social	None	None
Cultural	None	None
Environmental	None	None
Economic	Reporting only required for directors and key management personnel	Personal privacy, costs of collecting and reporting information

Extent to which community outcomes are achieved:

None

Impact on Council's capacity and responsibilities:

None

Effects on Maori:

None

Consistency with existing Council policies:

Complies

Views and preferences of persons affected or likely to have an interest:

Community Board members not required to disclose relationships with CCC group entities other than in the event of a conflict of interest. Any such conflict should be handled in accordance with normal policy.

Other relevant matters:

None

4. ACCOUNTING POLICIES

General Manager responsible:	General Manager Corporate Services
Officer responsible:	Corporate Finance Manager
Author:	Diane Brandish, DDI 941-8454

PURPOSE OF REPORT

1. The purpose of this report is to make a recommendation on the adoption of New Zealand International Financial Reporting Standards (NZ IFRS) compliant accounting policies.

EXECUTIVE SUMMARY

2. The Council has resolved to adopt NZ IFRS as at 1 July 2006 and, in preparation for this, staff have developed a new set of accounting policies.

FINANCIAL AND LEGAL CONSIDERATIONS

3. None.

STAFF RECOMMENDATIONS

It is recommended that the Audit and Risk Subcommittee adopt the policies attached as Appendix 1.

5. RECOGNITION AND MEASUREMENT OF COMMUNITY LOANS

General Manager responsible:	General Manager Corporate Services
Officer responsible:	Corporate Finance Manager
Author:	Diane Brandish, DDI 941 8454

PURPOSE OF REPORT

1. The purpose of this report is to make a recommendation to the Audit and Risk Subcommittee on the recognition and measurement of loans provided to the community at lower-than-market rates. This recommendation has arisen from the Council's obligation to comply with NZ IAS 39, Financial Instruments: Recognition and Measurement.

EXECUTIVE SUMMARY

2. NZ IAS 39, requires initial measurement of a financial asset at its fair value, classifies financial assets into four categories and prescribes the accounting treatment under each category.

3. Under the Council's existing policy, community loans are granted at less than market rates.

4. The fair value of a long-term loan or receivable that incurs no interest, or interest at below commercial rates, can be estimated as the present value of all future cash receipts discounted using the rate of interest that the borrower would be charged by a commercially motivated lender for a similar instrument.

5. The need to estimate the fair value of community loans, both initially and annually, would be removed were the loans provided at market rates of interest, with an offset between the interest income generated at commercial rates and that generated at the beneficial rate, credited to the borrower by way of a grant.

6. This would also provide more transparency as to the true value of grants provided.

7. Under paragraph 9 of the standard, and using the first time adoption options under NZ IFRS 1, the option exists to designate loans upon transition to IFRS as either:
   (a) Loans and receivables; or
   (b) Available-for-sale financial instruments.

8. Designation will impact upon the measurement method used on transition to IFRS and subsequently.

FINANCIAL AND LEGAL CONSIDERATIONS

9. Obligation to comply with NZ IFRS.

STAFF RECOMMENDATIONS

10. It is recommended:

    (a) That future community loans be granted at commercial rates, with the additional interest cost being returned to the borrower by way of a grant.
    (b) That existing loans be amended to reflect commercial rates, backdated to 1 July 2005, and that the appropriate grants be given.
    (c) That community loans be designated as Loans and Receivables at transition to IFRS, and annual amortisation and impairment testing occur thereafter.

5 Cont'd

BACKGROUND ON RECOGNITION AND MEASUREMENT OF COMMUNITY LOANS

11. The Council has resolved to adopt New Zealand International Financial Reporting Standards as from 1 July 2006 and, in preparation for this, staff have reviewed the existing accounting policies and procedures.

Analysis

12. This is provided in Appendix 1, Issue Paper 21, (attached), which was adopted by the IFRS Steering Committee on 3 February 2006.

OPTIONS

13. Continue to provide Community loans at below market rates with the subsequent annual adjustment and resulting impact on rates.

14. Provide Community Loans at market rates with a grant to offset the additional interest. The net financial position for both the Council and the borrower is unchanged, but there is greater transparency.

15. Combined with each of the above is the option to designate the loans as either Loans and Receivables or Available for Sale.

6. LEGISLATION COMPLIANCE RISKS

General Manager responsible:	General Manager Corporate Services
Officer responsible:	Internal Audit Manager
Author:	Graeme Nicholas, DDI 941-8550

PURPOSE OF REPORT

1. This report is in response to a request by the Audit and Risk Management Subcommittee for a listing of the legislation that the Council currently has the responsibility to administer.

BACKGROUND/DISCUSSION

2. Local government has been given the responsibility to administer and enforce various pieces of legislation on behalf of the government. These are listed in the appendix attached along with the Council unit that is responsible for the particular legislation. The Council is responsible to not only comply itself with the legislation but to ensure the compliance by others eg Fencing of Swimming Pools Act requires property owners to fence pools to certain standards.

3. The other legislation that the Council needs to comply with generally applies to everyone and is enforced by central government agencies through the court system eg health & safety in Employment act, Commerce act, Employment relations act. A list of these pieces of legislation that impact on Council would be extensive and would include both acts of parliament as well as regulations.

RISK OF NON-COMPLIANCE

4. The key risk is that either the Council or a staff member acting on behalf of the Council, either deliberately or unintentionally, fails to comply with a legislative provision. The consequences of this vary depending on the legislation itself and the extent of the breach. These can include:

   - Fines, penalties (can be personal liability for individuals in some cases)
   - Council decisions overturned
   - Civil liabilities e.g. damages or restitution
   - Adverse publicity to the Council
   - The cost of recovery of damage from outsiders' illegal actions
   - Legal costs and management time is dealing with above issues
   - Increased insurance premiums.

5. In terms of the enforcement of legislation, the Council is limited by the amount of resources that can be applied to police compliance and the Council needs to judge what is reasonable e.g. although all dogs in the city are required to be registered under the Dog Control Act, there will always be a number of dog owners who continue to flout the law regardless of this. The question for the Council is what is an appropriate level of resources that should be applied to enforcement duties. Here the Council balances the cost of enforcement against the consequences of less than complete compliance. In the dog registration example, this would be mainly that the Council misses out on revenue and the cost of animal control is spread over a smaller number of complying dog owners. A secondary effect may be that more lost dogs are unidentified and this causes increased cost in having to impound these dogs. In this area, the Council relies on established processes being set up that comply with the legislation that relates to them, and in staff diligence in following those processes. These are also subject to occasional internal audit scrutiny.

6. In terms of general legislation that applies to citizens as a whole, Council compliance relies heavily on the specialist staff providing advice to operational staff and elected members e.g. HR group in regard to Health & Safety and Employment act, Employment Relations Act, and Legal Services Unit.

STAFF RECOMMENDATION

It is recommended that this report be received.

7. ACCOUNTING TREATMENT OF DEFERRED TAX

General Manager responsible:	General Manager Corporate Services
Officer responsible:	Corporate Finance Manager
Author:	Diane Brandish, DDI 941 8454

PURPOSE OF REPORT

1. The purpose of this report is to recommend a change to the Council's current policy of not accounting for deferred tax. This recommendation has arisen from the Council's obligation to comply with NZ IAS 12, Income Tax.

EXECUTIVE SUMMARY

2. Paragraph 39 of NZ IAS 12 requires that an entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

    (a) The parent, investor or venturer is able to control the timing of the reversal of the temporary difference; and

    (b) It is probable that the temporary difference will not reverse in the foreseeable future.

3. Because a parent controls the dividend policy of its subsidiary, the parent is able to control the timing of the reversal of temporary differences associated with its investment in that subsidiary.

4. Therefore, if the parent has determined that those profits will not be distributed in the foreseeable future the parent does not recognise a deferred tax liability.

5. The Council is able to control the dividend flow from its subsidiaries, however, special dividends in excess of current year's profits are anticipated, which will cause the temporary differences on the undistributed retained earnings to reverse.

6. Hence Council does not qualify for the exemption provided under paragraph 39 and must recognise a deferred tax liability on the undistributed retained earnings of its subsidiaries.

7. This liability is estimated to be around $280 million.

8. Although most of the liability will be offset by imputation credits, we have not yet been able to confirm that a contra-entry for these credits may be recognised.

9. The Council leases the Town Hall to Christchurch City Facilities, a Council Controlled Organisation, for Income Tax purposes. Therefore, it is required to pay Income Tax on the rental income it receives.

10. The Council revalues its Buildings and this results in depreciation being charged on different bases for accounting and Income Tax purposes. This has resulted in a taxable temporary difference of $39 million at 30 June 2005 and NZ IAS 12 requires that a deferred tax liability of $13 million be recognised at that date.

FINANCIAL AND LEGAL CONSIDERATIONS

11. An obligation to comply with NZ IFRS.

7 Cont'd

STAFF RECOMMENDATIONS

It is recommended that:

(a) The current accounting policy be amended to recognise a deferred tax liability on undistributed retained earnings within investments in subsidiaries and associates.

(b) Staff continue to work with their tax advisors to seek clarification regarding the contra-entry for imputation credits.

(c) The current accounting policy be amended to recognise a deferred tax liability on the taxable temporary differences on buildings rented to Council Controlled Organisations defined in the Income Tax Act 2004.

BACKGROUND ON ACCOUNTING TREATMENT OF DEFERRED TAX

12. The Council has resolved to adopt New Zealand International Financial Reporting Standards as from 1 July 2006 and in preparation for this staff have reviewed the existing accounting policies and procedures.

Analysis

13. An analysis is provided in Appendix 1, Issue Paper 20, (attached), which was adopted by the IFRS Steering Committee on 3 February 2006.

OPTIONS

14. Continue with the current dividend policy and calculate the resulting deferred tax liability each year.

15. Cease receiving dividends from CCHL. This is not realistic as the funds are required for Council activities and to help to reduce rates.

16. There is no realistic options with respect to the recognition of the deferred tax liability on the taxable temporary differences on buildings rented to Council Controlled Organisations defined in the Income Tax Act 2004 as the Council is required by the Local Government Act 2002 to comply with the New Zealand equivalents of International Financial Reporting Standards and the sale of the Town Hall is not achievable in the short term and is an option that is unlikely to find sufficient support for it to be achieved.

8. REPORT ON INTERNAL AUDIT ACTIVITY: THREE MONTHS ENDED 31 DECEMBER 2005

General Manager responsible:	Director of Strategic Investment
Officer responsible:	Internal Audit Manager
Author:	G Nicholas, DDI 941-8550

PURPOSE OF REPORT

1. To update the committee on the progress made on the approved program of internal audits.

2. To summarise key issues and the resultant actions stemming from the audits carried out in the second quarter of the year.

3. To update members on current work for the March quarter.

EXECUTIVE SUMMARY

4. No particular concerns were raised this quarter with most areas audited appearing to be well controlled and operating as intended.

5. The water billing area has improved significantly since the previous audit four years ago, although there are still some issues in terms of missed billing (revenue) and maintaining the integrity of the database.

6. The main issue with other revenue processes appears to be ensuring that debt is tightly managed. In my view, there tends to be a lack of adequate monitoring and follow-up compared with what one would expect in a commercial context.

7. Private use of Council communications such as the Internet and telephones / cell phones were examined. Generally there does not seem to be any issues here, although with cell phones, the cost to Council is quite high and there is a high reliance on staff integrity as to the extent that private calls are paid for.

FINANCIAL AND LEGAL CONSIDERATIONS

9. None.

STAFF RECOMMENDATIONS

It is recommended that the Council receive this report.

8 Cont'd

BACKGROUND ON REPORT ON INTERNAL AUDIT ACTIVITY: THREE MONTHS ENDED 31 DECEMBER 2005

10. Internal Audit is an independent review function to provide Management with assurance that "Council objectives are being achieved with in an acceptable level of risk". In doing this we provide two perspectives on performance:

    (a) *Past performance* - (Audit). Are activities achieving the intended results, to the required standards, in line with Council policy, in compliance with legal requirements?

    (b) *Future performance* - (Risk Management). Are risks well managed and appropriate systems in place to assure the desired results are reasonably obtainable and able to be monitored?

11. The results of audits are reported back to General Managers, with a copy to Audit NZ. Where shortcomings or risk exposures are high lighted, agreement is reached with the teams leader / unit manager on an agreed course of action to improve future performance.

The 2004/5 Programme:

12. A draft Internal audit programme was submitted to the Audit & Risk Committee in June 2005 and was signed off without any amendments at that stage. There have been some amendments subsequently suggested such as substituting in a number of financial audits around issues raised by Audit NZ in the last financial audit such as:
    - Protected Disclosures Act compliance
    - Balance sheet reconciliations
    - City care payables transactions.
    - Fixed asset transactions.

13. These could be accommodated by delaying audits such as ITS network protection, and the Business excellence audit.

WORK COMPLETED DURING THE DECEMBER 2005 QUARTER;

Community Housing:

14. An audit of the Council's social housing activity with an emphasis on performance against key objectives and the effectiveness of controls associated with the key risks identified in the Risk profile.

    Issues raised:
    - Debt management has until recently slipped with increasing amounts of arrears over time.
    - An operating deficit has been budgeted for the first time in recent years that raised the risk that rentals may need to increases at more than the CPI in policy to be sustainable.
    - Some of the current performance measures are meaningless and need revision.
    - The Business Continuity plan for this area is well out of date and needs revising.

    Actions:
    - A more vigorous process as well as closer monitoring and reporting of Housing Officer performance in the debt area has been put in place.
    - BCP will be revised shortly.
    - There is now a better process for monitoring progress on annual visits to tenants.
    - The level of bonds held is being examined to see if it should be raised to the statutory maximum.
    - Reminders to staff to require credit checks of new tenants.
    - A policy is being developed on assessing tenants whose circumstances have changed and may no longer meet the criteria.

8 Cont'd

Water billing:

15. The process where by the Council reads the meters and bills non-domestic consumers for water usage above their annual allowance based on the water rate.

Issues raised:
- Updating of the meter records and integrity checks on the billing database has slipped behind with an increase in the penalties charged under the meter reading contract.
- Changes in the billing processes as a result of the Rating Act changes has resulted in occupiers of parks failing to be charged for water usage since 2004. This also shows that there has been an unfair and inconsistent approach to charging under these leases.
- A number of users have ceased being billed for no apparent reason.
- The remissions for billing have not followed the delegations as set out in the delegations register.

Actions:
- Additional staff are being trained to assist with aspects of the meter records.
- GreenSpace will be reviewing the policy and practice around charging lessees for water use in 2006.
- A check query is now being run each quarter to pick up users that have not been billed. The current users that have not been billed are being investigated.
- Remissions are now only given in terms of the delegations provided.

Off street parking:

16. A review of the revenue streams from permanent and casual parking in parking buildings and parking lots.

Issues raised:
- Debt management could be improved given that parkers are meant to pay 1 month in advance.
- A more market based pricing could be used for permanent parkers as this is currently set on a fairly arbitrary basis.

Actions:
- CSU will be reminded to keep the debt and payments matched up to date so that reports are reliable.
- An automatic payment will be made a condition for new customer.
- The property section will be requested to formally review the permanent parking rates.

Health Licenses:

17. The process of inspections and issue of licenses to food premises, undertakers and camping grounds under various legislation. Recoveries are made from licensees for the cost of administration.

Issues raised:
- A target is that 100% of what are deemed high risk premises are inspected at least annually. For 2005, achievement dropped to 75% with no apparent explanation.
- The license database appears unstable and is prone to processing errors.

Actions:
- The poor performance in 2005 is the subject of a report from the team leader.
- The license database will be replaced by a laser project solution in due course.

8 Cont'd

Revenue – Pioneer & Centennial stadiums:

18. Review of revenue from pool admissions, gym memberships, and classes to ensure that adequate controls are in place for the collection and banking of money due to Council.

    Issues raised:
    - An independent check is required that amounts banked correspond to the revenue received each day.

    Actions:
    - Processes amended as suggested.

Balance sheet reconciliation processes:

19. Quality assurance for the CSU project to set up on going reconciliation of all balance sheet accounts and ensure the integrity of the financial statements.

    Issues raised:
    - Few reconciliations exist and many are not suitable to provide substantive evidence for financial audit.

    Actions:
    - Still in progress. A template has been produced and accounts are being reviewed as the reconciliations are completed.

Internet Usage by staff:

20. Monitoring is carried out six monthly to ensure that Internet usage complies with Council policy and that private usage is not excessive.

    Issues raised:
    - No inappropriate usage discovered.
    - Some staff seem to make high usage of what are non-work related sites.

    Actions:
    - Staff with high usage referred to their Unit manager for follow-up.

Private Cell phone / telephone usage:

21. Review of several Units processes to recover the cost of private calls from staff.

    Issues raised:
    - Really an honesty system as ascertaining nature of calls is difficult.
    - Standard process to encourage staff to comply varies in its effectiveness across units.
    - No real processes exists for refunds for private toll / cell phone calls from landlines but debatable if the cost of this is justified.

    Actions:
    - Follow-up by Internal audit for some individuals.

Staff and elected member travel:

22. To ensure that Council policy is being complied with and that risks of unauthorised travel are minimised.

    Issues raised:
    - Some minor procedural issues could be carried out more consistently across the organisation.

    Actions:
    - Some minor administrative matters will be addressed when a new contractor manager commences.

8 Cont'd

GreenSpace – Farm operations (Carry over from Sept quarter)

23. Description: An audit of financial controls associated with the farm including purchasing, stock control and revenue.

    Issues:
    - Lack of separation of duties between record keeping and control of the animals.
    - No process to verify that revenue has been received.
    - Significant numbers of cattle unaccounted for.
    - Poor purchasing controls including a significant private purchase charged to the Council.
    - The farm manager operating a parallel private farm.

    Actions:
    - Farm manager is no longer employed.
    - RFP has been issued for interests in leasing farm land for grazing.
    - Matter referred to the Police to review.

Review of staff expense claims

24. A review of sample claims made by staff to ensure that policy is being followed and that claims appear legitimate.

    Issues:
    - No issues.

    Actions:
    - None

WORK PROGRAMMED FOR MARCH QUARTER:
- Revenue stream processes – Animal control. (In progress)
- Balance sheet reconciliations (in progress).
- CLASS booking system security features (in progress).
- SAP system security (in progress)
- Payroll Council wide (in progress)
- Purchasing / procurement Council wide.
- Protected disclosures Act compliance
- Water supply activity
- Cash collection points – various
- Review of fraud risks.

ISSUES OUTSTANDING FROM PREVIOUS AUDITS:
Libraries - Life long learning:
Progress to date:
- Discussions are underway to obtain renewed funding from the MOE.
- Quality assurance standards are being developed for the whole network based on the South learning centre.

Libraries - Lending activity:
Progress to date:
- The library has commenced a debt management project to review this issue.
- The library has a select team working on our '2025 Strategy'. This strategy looks at locations of library services - in particular buildings, which includes volunteer libraries.

City wide funding of community organisations:
Progress to date:
- Issues are being included in the Community grants review.

8 Cont'd

Recreation facilities – Business continuity:

Progress to date:

- The common database of tutors and lifeguards is working informally. It will be formalised as a result of a business improvement process beginning February 2006.
- Staff lists recently reviewed and up to date. This will be included in the business improvement process beginning February 2006.
- The communications response for sudden closures is managed through the call centre and was tested in the recent snowstorm.
- Essential supplier lists are being incorporated into our asset management plan in development.

Wastewater Activity:

Progress to date:

- Estuary Discharge consent - Action taken - ongoing discussions with ECan and DAG. Five actions required 1. Lodge variation to current consent (done in late October). 2. Undertake fish survey in estuary (programmed for December 05), 3. Develop and implement integrated water sampling programme (programme nearly completed - implementation in 06). 4. Tune discharge times to maximise tidal cleansing of estuary (completion programmed for early Nov 05) 5. Trial algae reduction techniques on ponds (methodology for trial to be confirmed by end of December and trial operational by March 06).
- Implementation of system to monitor contractor response times - this is partially being addressed through current work on refining the City care contracts. However it is unlikely this issue will be properly addressed until the new asset management system is implemented. Any interim solution will be temporary and probably labour intensive. Work is continuing slowly on this item but it will be an action for the new contracts manager in CWW to sort out after his arrival.
- Dry weather overflows are often caused by blockages - These are often caused by fats and oils in the sewer. Work is being done on the trade waste billing and bylaw and trade waste enforcement is being tightened to try to reduce the frequency of these events.
- Communications strategy for odour events - a final draft of the process map and associated protocol is being reviewed at present. Should be completed by early December 05. CWW are reporting to Portfolio group and Council (as required) on major projects every year. These presentations are for the purposes of no surprises and to provide a better understanding of the issues and progress associated with major civil engineering projects.
- A report on Lifelines progress is yet to be completed but is programmed as a paper to the Risk committee and Portfolio Group in the first quarter of next year.
- Business continuity plans - still needs updating. Is on unit Managers list of things to do.
- Trade waste Billing - consultants have been engaged and work is progressing on new billing model and amendments to bylaw. Work programmed to be completed by June 06 in time for next LTCCP.

Bonds & deposits:

Progress to date:

- The parks bonds that no longer appear valid will be transferred to GreenSpace revenue. [B Allen – September 2005]
- A process to annually clear old bonds to Corporate revenue will be set up although the appropriate age to which will apply needs to be discussed further [J Heywood – October 2005]
- To provide additional security to ensure that disbursements are to valid payees, the Management Accountant will counter sign request for disbursements from the account. [J Heywood – Sept 2005]
- A review of the subdivision bond process is underway because the current process falls well short of best practice and is not delivering desired outcomes. The aim of the review is firstly to significantly reduce the number of bonds entered into, and secondly to set up a monitoring system in Worksmart to ensure future bonds are on bring-up so that the work can be inspected and followed up in a timely manner. Due to resourcing problems, old bonds will not be followed up unless a request for a refund is received, as at present. Once the new process is established, it will apply to all bond applications received from that date onwards. [Feb 2006 - J Donaldson]

Development contributions:

Progress to date:

- The issues regarding delegations are being addressed currently. [I Thomson – LSU]
- A Project Control group headed by I Hay is reviewing the Development Contribution Policy

Community board expenditure controls:

Progress to date:

- Recommendations are being considered as part of the Community funding review.

9. OCCUPATIONAL SAFETY & HEALTH ISSUES

General Manager responsible:	General Manager Human Resources
Officer responsible:	Health and Safety Auditor
Author:	Melissa Haskell, 941 8595

PURPOSE OF REPORT

1. The purpose of this report is to report on audit checks and balances on OSH issues including risks associated around staff, a list of legislation under which the Council operates and to report on Councillors' vulnerabilities

EXECUTIVE SUMMARY

2. The Council has a comprehensive programme for managing health and safety risk that is subject to external audit verification. This has confirmed that our processes operate to a very high standard, which has resulted in significant ACC premium cost saving for the Council.

FINANCIAL AND LEGAL CONSIDERATIONS

3. None

BACKGROUND ON OCCUPATIONAL SAFETY & HEALTH ISSUES

Health and Safety Risks & Audit Balances

4. The four life threatening hazards for employees are working on the roads, confined spaces (sewers), falls from heights and assault. All staff receive training, certification (where applicable), information and protective equipment to minimise the hazard causing harm. The most commonly reported injuries across the Council are sprains from manual handling, neck and arm discomfort from computer and library work and bruises from slips and trips.

5. The Council qualified to join the ACC Partnership Programme in July 2000. This programme requires eligible employers to take responsibility (both financial and organisational) for their own workplace injury management including rehabilitation and claims management of employees' work injuries.

6. An independent auditor, accredited by ACC, audits the Council on an annual basis. The audit reviews safety management practices, injury management (which includes rehabilitation and claims administration) and case studies to confirm systems in action. Within the audit there are three measurable levels of performance. These levels are Primary (the Programme entry level requirement), Secondary, and Tertiary.

7. The Council progressed through these levels over a period of three years and has remained at Tertiary level for four years.

8. The Council employs two specialist staff members in the area of Health and Safety, based in Human Resources Group. The Health and Safety Auditor undertakes audits of health and safety management in Units and also Contractor health and safety performance. Units have health and safety teams, there is a strong commitment from management and there is very good employee participation in health and safety matters.

Legislation

9. Relevant legislation:

   Health and Safety in Employment Act 1992
   Injury Prevention, Rehabilitation and Compensation Act 2001
   Hazardous Substances and New Organisms Act 1996

9 Cont'd

Councillors' Vulnerabilities

10. Under the Health and Safety in Employment Act 1992, which is the key piece of legislation, the main responsibility is on the employer to ensure the safety of employees at work, so in terms of the Council structure this is the responsibility of the Chief Executive.

11. Section 56 of this Act (Offences by Bodies Corporate) extends guilt and conviction to directors or agents who directed or authorised the failure leading to a prosecution. It would be possible but extremely unlikely for this duty to be extended to Councillors. It would have to be very serious and clear that the Councillors' decision led to the failure (against staff advice). In the 12 years of the Act's existence, there have only ever been two prosecutions under this section and no convictions.

12. Insurances and indemnity clauses against fines under the Health and Safety in Employment Act are unlawful and of no effect.

10. LIABILITY MANAGEMENT POLICY

General Manager responsible:	General Manager Corporate Services
Officer responsible:	Corporate Finance Manager
Author:	Diane Brandish, DDI 941 8454

PURPOSE OF REPORT

1. The purpose of this report is to advise the Audit and Risk Subcommittee of the changes that are being proposed to the Liability Management policy (see Appendix 1).

2 These changes are reflected in the figures and ratios contained within the Financial Overview and form part of the basis of the calculations which determine the operating surplus.

3. This policy should be read in conjunction with the Investment policy (see Appendix 2).

EXECUTIVE SUMMARY

4. As part of the preparation of the 2006/16 LTCCP, all financial policies have been reviewed along with the assumptions underlying the calculation of the operating surplus and the repayment of debt.

5. Listed below are the significant changes which have been made to the Liability policy:

   (a) The maximum term for debt has been extended from 20 to 30 years, [clause 4.1.1(h)]; *"where a loan is raised to fund a specific asset its term must not be longer than the economic life of the asset it funds, except in the case of equity investments, and in any event the term of a loan must not be longer than 30 years".*

   (b) In line with the above, the debt repayment provisions have been reduced from 3% to 1.4%.

   (c) The quantum of the borrowing considered not to be so significant as to require specific authorisation by Council has been increased from $500,000 to $1,000,000. (This clause relates to Hire Purchase and goods purchased in the normal course of business on terms and conditions generally available to parties of similar credit worthiness and has the effect of excluding such debt from the definition of borrowing.)

   (d) A new clause, 4.1.1, has been added which builds on the existing risk control limits; "the Council shall maintain, as a minimum, sufficient approved financing facilities to cover at least 120% of the peak cumulative anticipated net debt requirements on a rolling 12 month basis.

10 Cont'd

6. The credit rating requirements for counterparties have been defined (clause 4.2.3)

7. The key financial management ratios have not been changed (clause 4.1.3).

8. Clause 4.1.3 (a) provides that the total external debt as a percentage of total assets of the Council/CCHL shall be no more than 12%.

9. At June 2005 the total Council debt was $92.5m or 3%.

10. Clause 4.1.3 (b) provides that total external debt of the Council/CCHL combined as a percentage of realisable assets, (all assets excluding infrastructure and restricted assets) shall be no more than 33%.

11. At June 2005, the ratio of term debt to realisable assets was 6%.

FINANCIAL AND LEGAL CONSIDERATIONS

12. The adoption of this policy will have an impact on the Council's debt. The effect will be detailed as part of the recommendation on the calculation of the operating surplus.

STAFF RECOMMENDATIONS

13. That the Audit and Risk Subcommittee accept this report.

BACKGROUND ON LIABILITY MANAGEMENT POLICY

12. A copy of the Liability Management Policy is attached as Appendix 1. The Investment Policy is currently still under review. Changes will be to the format only and the copy attached (Appendix 2) is from the 2004/14 LTCCP.

OPTIONS

13. The only significant option available under this policy is the maximum term of debt and this will be discussed as part of the presentation on the Operating Surplus.

14. At this stage of the budget process, staff are not recommending a change to the financial management ratios.

11. CALENDAR OF EVENTS

General Manager responsible:	General Manager Corporate Services
Officer responsible:	Corporate Finance Manager
Author:	Diane Brandish, DDI 941-8454

PURPOSE OF REPORT

1. The purpose of this report is to advise the Audit and Risk Management Subcommittee of the proposed calendar of events.

EXECUTIVE SUMMARY

2. Staff have scheduled a calendar of the events to be considered by the Audit and Risk Subcommittee for the balance of the year, and these are listed in the table in Appendix 1 (attached).

FINANCIAL AND LEGAL CONSIDERATIONS

3. None

STAFF RECOMMENDATIONS

It is recommended:

(a) That the report be accepted.

(b) That the Committee Secretary be requested to arrange meeting dates and venues.

12. RESOLUTION TO EXCLUDE THE PUBLIC

Attached.

13. OPERATING SURPLUS (PUBLIC EXCLUDED)

14. RESOLUTION TO RESUME OPEN MEETING

15. ISSUES FOR FUTURE MEETINGS