

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

<b>General Manager responsible:</b>	Director of Strategic Investment
<b>Officer responsible:</b>	Internal Audit Manager
<b>Author:</b>	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.

## 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 increase 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.

### **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.

### **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.

## **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.

### **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.