

6. REPORT ON INTERNAL AUDIT ACTIVITY: FOUR MONTHS TO APRIL 2006

General Manager responsible:	General Manager Corporate Services, DDI 941-8540
Officer responsible:	Senior Internal Auditor
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PURPOSE OF REPORT

1. Internal audit is an independent review function to provide management with assurance that "Council objectives are being achieved within 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 reasonable obtainable and able to be monitored?

EXECUTIVE SUMMARY

2. The results of audits are reported back to General Managers with a copy to Audit NZ. Where shortcomings or risk exposures are highlighted agreement is reached with the team's leader/unit manager on an agreed course of action to improve future performance. This report contains the report back on audit activity up to the end of April 2006 (four months). From May 2006, the function has been managed by PricewaterhouseCoopers (PWC) under a co-sourcing agreement. Activity from this point onwards will be reported to the next Audit Committee meeting by PWC.

THE 2004/5 PROGRAMME

3. A draft internal audit programme was submitted to the Audit and Risk Management Subcommittee 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
 - Fixed asset transactions
 - Gifts, bequests and sponsorships
 - Electronic payments processing

These have been accommodated by delaying audits such as ITS network protection and the proposed Baldrige criteria audit that is now irrelevant given that the Council is taking this up formally.

OVERALL VIEW OF CONTROL AND RISK MANAGEMENT

4. Issues raised during the four months tended to relate to existing processes slipping rather than a lack of or poor process. The key issue with payroll is around timesheet process at team leader level rather than the centralised processing.
5. The inadequate nature of the existing service agreement with City Care Ltd has been highlighted in several areas. A new contract is being formulated which will address the issues raised.

WORK COMPLETED DURING THE FOUR MONTHS TO APRIL 2006

6. *Balance Sheet Reconciliations (in progress):*
Description: To ensure that reconciliations are being completed and to perform substantive tests to verify the validity of balances.

Issues raised:

- CSU staff are significantly behind in completing reconciliations
- A number of unexplained balances that date back to the previous financial system (pre-SAP)
- A need to rationalise the balance sheet and clarify the purpose for various accounts.

7. *Water Supply Activity:*

Description: key processes and risk mitigations associated with the supply of water to customers.

Issues raised:

- Water connections are under performing with only 59% of connections meeting the required time frame.
- The bonus/penalty provisions with in the City Care maintenance contract are not being applied fully.
- There are no specifications or standards for the maintenance of the grounds of pumping stations and other head works assets around the city.
- There is no longer anyone with the responsibility for emergency management/business continuity preparations with in the Unit.

Actions:

- The resourcing of the water connections area is being reviewed.
- A new contract is being set up with City Care which will have a tracking mechanism for changes.
- Grounds maintenance standards will be specified in the new contract.
- The Operations Manager is being given responsibility for emergency management.

8. *Waterways and Wetlands Activity:*

Description: key processes associated with the management and maintenance of waterways and wetlands.

Issues raised:

- The process around protection of waterway developments using covenants appears ineffective. This is especially so when the ownership changes during the process.
- Some of the hydrometric modelling for storm water is up to seven years old creating a risk that new developments are based on invalid data.
- The existing maintenance contract has experienced changes in the payments made that have not been formally documented.
- Several of the key performance indicators cannot be independently verified and suffer from a lack of definition.
- One of the remedial actions forming part of the resolution from the October 2000 storm report has not been completed, although this may be of only minor significance.

Actions:

- The protection of waterways process is the subject of a portfolio group in September 2006. Future pre-survey agreements will be subject to a caveat to ensure that it is enforceable against the property itself.
- Additional resources have been applied to the modelling area included an additional staff member and upgraded software. This will be brought up to date.
- A new maintenance contract has been formed which incorporates these changed aspects.
- The KPIs are to be revised as part of the management of the LTCCP process.
- The remaining action point from the storm report will be followed up as to whether it should be completed or not.

9. *Gifts, bequests, sponsorships (in progress):*

Description: the processes used across the Council to handle gifts and bequests and to seek funds from external agencies.

Issues Raised:

- A need to highlight the difference between the Art Gallery (CCC) and the Art Gallery trust (private charitable trust) in publicity material so that the public are clear to whom they are giving funds.
- Consider whether recording sponsorship in kind would enhance financial reporting. International Accounting Standards allow this to be done.
- The Council holds bequests of over \$1m presently (ranging from large amounts to those less than \$1k). Given that the original documentation for most of these can no longer be located, the future application of these funds needs review.
- There is no accounting policy for gifted assets and no consistent process for their capture into the Council asset or financial records.
- There is no Council wide policy or guidelines on sponsorship so there is a risk that sponsorship is uncoordinated or inconsistent eg there is no policy on whether the Council will accept alcohol company sponsorship for events. Could this be inconsistent with the Council imposing alcohol bans on parts of the city?
- The Gallery sponsorship agreement is silent as to how cancellation of sponsored events will be resolved. This agreement should be reviewed by the legal team.

Actions:

- An accounting policy on gifts and sponsorship in kind will be formulated.
- The treatment of bequests held is being investigated.
- Other actions are still be worked through.

10. *Peace Bell Fund*

Description: financial audit of the incorporated society associated with the erection of a peace bell in the Botanical Gardens. Audit required to obtain Community Trust funding.

11. *Protected Disclosure Act compliance:*

Description: a review of compliance with the legislation and how this may work more effectively from an operational point of view.

Issues raised:

- Council policy was out of date
- Policy not regularly published to maintain staff awareness

Actions:

- Legal services currently amending policy

12. *P-cards/Purchasing*

Description: to evaluate the controls associated with P-card purchasing and purchasing. Note that due to implementation delays only a limited number of P-cards are in use and the purchasing policy has not yet been issued.

Issues raised:

- Setting up a process to ensure that cards are returned when staff leave the Council's employment.
- Improving the security of the process to distribute new cards so that a card is less likely to be intercepted by unauthorised people.

Actions:

- Both processes to be set up by CSU

13. *Electronic Funds Transfer*

Description: the processes whereby the Council pays payroll creditors and investments using back software based on Council PCs.

Issues raised:

- The records of security had not been maintained with many staff with access having left the Council.
- There was some instances of the security giving staff the capability to both initiate and approve payments transactions (no evidence found of this actually having occurred).
- Reasonable processes now in place for changes made to bank accounts, but a need to have changes independently checked back to the source authorisations.

Actions:

- Bank has been informed of new authorities.
- Some restrictions have been put in place and security altered to enforce segregation of duties.
- Request for a better SAP reporting to allow bank account changes to be reviewed.

14. *Payroll Processes*

Description: a review of the processes from appointment of staff through to payment to bank accounts.

Issues raised:

- The reporting to detect potential over payments to staff that have not submitted time sheets is run only intermittently.
- There was still a small group of staff who self approve their own time sheets.
- A continuing issue of time sheets not being approved in a timely manner.

Actions:

- Report to detect overpayments to be run fortnightly in future.
- Correct approval procedures have been put in place where needed.
- The training material for CATS approvers will be modified to ensure approvers know how to capture all unapproved time.

15. *Review of Staff Expense Claims*

Description: 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 JUNE QUARTER AND BEYOND

16. Refer to the paper "Internal Audit strategy and plan" 3 years to 2009 – PWC.

ISSUES OUTSTANDING FROM PREVIOUS AUDITS

17. *Community Housing*

Description: an audit of the Council's social housing activity with an emphasis on performance against key objectives and the effectiveness of control associated with the key risks identified in the risk profile.

Progress to date:

- 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.

18. *Water Billing*
Description: the process whereby the Council reads the meters and bills non-domestic consumers for water usage above their annual allowance based on the water rate.
- Progress to date:
- 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.
19. *Balance Sheet Reconciliation Processes:*
Description: quality assurance for the CSU project to set up ongoing reconciliation of all balance sheet accounts and ensure the integrity of the financial statements.
- Issues raised:
- Few reconciliations exist and many more are not suitable to provide substantive evidence for financial audit.
- Actions:
- Still in progress. A template has been produced and staff accounts are being reviewed as the reconciliations are complete.
20. *Greenspace – Farm Operations (carry over from Sept quarter)*
Description: an audit of financial controls associated with the farm including purchasing, stock control and revenue.
- Progress to date:
- Farm manager is no longer employed and under Police investigation.
 - Claim has been made on insurers for losses
 - RFP has been issued for interests in leasing farm land for grazing
21. *Libraries – Lifelong Learning*
- Progress to date:
- Discussions are underway to obtain renewed funding from the MOE at present.
 - Quality assurance standards are being developed for the whole network based on the South Learning Centre. Good practice for learning centre programmes is developed for the three centres and they are coordinated from the South Learning Centre. QA standards for all library learning programmes will not be formally established until a permanent lifelong learning manager is appointed. This has been delayed for several months while the libraries unit undertakes an accountability review.
22. *Libraries – Lending Activity*
- Progress to date:
- The library has commenced a debt management project to review this issue. A paper will go to the Exec Team after Easter.
 - 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. A plan is being developed in 2006.
23. *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.

24. *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.

26. *Bonds and Deposits*

Progress to date:

- A process to handle old bonds that have never been claimed has been set up.
- 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]*

FINANCIAL AND LEGAL CONSIDERATIONS

27. None