



Christchurch City Council

AUDIT AND RISK MANAGEMENT SUBCOMMITTEE AGENDA

WEDNESDAY 16 MAY 2007

AT 10AM

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, Messrs John Hooper and Michael Rondel.

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1. **APOLOGIES**

2. **MINUTES OF PREVIOUS MEETING – 7 MARCH 2007**
Attached.

3. **MATTERS ARISING FROM PREVIOUS MEETINGS**

4. **CORRESPONDENCE**
AUDIT NEW ZEALAND
Attached.

5. REPORT ON INTERNAL AUDIT ACTIVITY: THREE MONTHS ENDED 31 MARCH 2007

General Manager responsible:	GM Regulation & Democracy, DDI 941-8411
Officer responsible:	G Nicholas , Senior Internal Auditor
Author:	G Nicholas / M Harrington

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 in the current year's programme
 - executive summaries for reports completed during the quarter ending 31 March 2007
 - 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 remain satisfied with the progress that has been made throughout the year to date. The co-sourcing model continues to produce a good blend of CCC in-house input and experience through Graeme Nicholas and wider expertise and presence through the involvement of PWC.
4. Currently, there are around three reviews in an 'in progress' state.

Value to the Council

5. 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
6. During the course of the reviews completed to date and specifically with in the most recent quarters activities, we have observed and raised a number of recommendations related to formalising and monitoring compliance with processes which will improve elements of the Council's financial performance.

THE 2006/07 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

5 Cont'd

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)	Final report has been issued	Completed
Fraud Prevention Review (07-14) *	Action plan being developed	Completed
Business Continuity Planning (07-1) *	Action plan in conjunction with the Council's Risk Management strategy	Completed
Key accounting controls (07-10)	Final report has been issued	Completed
Licensing - health , liquor (07-07)	Final report has been issued	Completed
Rates (07-15)	Final report has been issued	Completed
Regulatory consents (07-05)	Final report has been issued	Completed
Cash handling (07-23) part 2	Final report has been issued	Completed
Internet Monitoring (07-22)	Final report has been issued	Completed
Revenue & Receivables (07-11)	Final report has been issued	Completed
Probity and discretionary expenditure review (07-13) * Phase 2	Final report has been issued	Completed
Enforcement -Environmental enforcement (07-06)	Final report has been issued	Completed
Payroll processes (07-25)	Commenced 1 st May	In Progress
General IT / Governance (07-19)	Commenced 7th May	In Progress
City Environment Contracts (07-18)	Commencing May	Planned

Risk Categories of Issues Reported This Quarter

8. In each review under the co-sourced arrangement, findings are classified according to the ratings outlined below.
9. Given the size of the 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.

5 Cont'd

- 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 from last Qtr	10	48	36	94
Revenue & Receivables (07-11)	0	5	8	13
Probity and discretionary expenditure review (07-13) * Phase 2	0	2	1	3
Enforcement -Environmental enforcement (07-06)	0	2	2	4
Total issues to date	<i>10</i>	<i>57</i>	<i>47</i>	<i>114</i>
Issues resolved to date	-2	-27	-14	-43
Issues Outstanding to date	18	30	80	71

* See Appendix C for a description of items rated with a "high" priority

11. The findings relating to our reviews are broadly classified as being High, Moderate or Low priority.
12. 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

13. Attached as Appendix A are the executive summaries of the reports prepared this quarter.
14. 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.

Outstanding Issues Reported

15. A database of audit issues is maintained. These are reported to General Managers for regular follow up. A status report is included as an Appendix C to this report.

Future Programmed Work

16. 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

17. None.

STAFF RECOMMENDATION

It is recommended that the Subcommittee accept this report.

6. MARCH TREASURY REPORT

To be tabled.

7. 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 intended approach to this year's reinsurance programme.

EXECUTIVE SUMMARY

2. The Council's insurance portfolio is due for renewal at 30 June. It is proposed to seek quotes for the Council's property assets on a first loss basis. This is a method of insuring for fire for assets and business interruption, which has particular application when there is a wide spread of risk and assets are spread over a large geographic area. Although the Council's assets total around \$1.7 billion, the top value for an individual building and contents is less than \$100 million. Engineering reports demonstrate that the maximum probable loss is around 30% of the combined value. In order to provide the Council with the confidence that the sums insured are adequate to protect ratepayers' assets and Councillors' and staffs' fiduciary duty it is intended that the fire cover be for \$150 million.
3. The Council last considered, and rejected, first loss cover in 2003 but under that proposal the first loss cover extended to fire, earthquake and tsunami. Damage caused by earthquake and tsunami is less localised and for that reason we are intending to restrict the cover to fire only. Should there be wide-spread fire damage as the result of an earthquake the Council is covered under its earthquake cover.
4. Under this approach the Council will buy three policies:
 - Fire Policy \$150 million, any one fire and in the annual aggregate,
 - Material Damage Policy, \$1.7 billion replacement value covering all other perils but excluding fire,
 - Business Interruption policy covering all perils.
5. The advantage of this approach is an increased market contestability leading to lower premiums. We have been advised that in the past only one insurer, Civic Insurance, was large enough to provide the required cover. Reducing the policy sum introduces competition.
6. On the basis of initial estimates received we anticipate savings of around \$1.1 million; \$520,357 from a reduced premium and \$651,724 from savings in fire service levies. This is on the basis of the Council's and CCFL's combined asset holding. The savings will be greater if we include Jade Stadium, and discussions to this effect are underway with VBase management.
7. All other policies will remain unchanged, (other than for value). At this stage it is not intended to alter any excess levels.

FINANCIAL AND LEGAL CONSIDERATIONS

8. There are no legal implications. Estimated savings to the group are in excess of \$1.1m.

STAFF RECOMMENDATION

It is recommended that the report be received.

8. ANNUAL REPORT TIMETABLE

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 provide the Audit and Risk Management Subcommittee with an overview of the Council's annual report timetable.

EXECUTIVE SUMMARY

2. The timetable this year is in line with that adopted in recent years. The Council will receive provisional audit clearance of the Annual Report on 23 August and the Audit and Risk Management Subcommittee will review the report at its meeting on 30 August. Audit New Zealand will be in attendance at that meeting. The final report is then adopted by Council on 20 September.
3. The timetable is attached as Appendix 1.

FINANCIAL AND LEGAL CONSIDERATIONS

4. The Council is required to prepare and adopt an annual report under s98(1) of the Local Government Act 2002. S98(3) requires it to be completed and adopted, by resolution, within four months of the end of the financial year, and s98(4) requires that the annual report and summary report be made publicly available within one month of adoption.
5. There are no financial implications specifically relating to the annual report.

STAFF RECOMMENDATION

It is recommended that the report be received.

9. ISSUES FOR FUTURE MEETINGS

10. NEXT MEETING