

## 6. INTERNAL AUDIT ACTIVITY REPORT - DECEMBER 2007/MARCH 2008 QUARTERS

<b>General Manager responsible:</b>	General Manager Corporate Services, DDI 941-8671
<b>Officer responsible:</b>	Senior Auditor
<b>Author:</b>	G Nicholas, Senior Auditor

### 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 (PWC) 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 quarters ending December 2007 and March 2008
  - issues outstanding from previous quarters.

### EXECUTIVE SUMMARY

#### Programme Status

2. We are on track with the internal audit plan as proposed for the year with the exception of three reviews:
  - Annual Residents' Survey: The survey process is changing significantly and will be considered for inclusion in 2008/9.
  - Procurement effectiveness: The procurement project is not yet complete so this review will be rescheduled in the 2008/9 year.
  - Remuneration policies: Deferred until the new GM HR is in place.

An additional audit not programmed but requested by management related to library IT controls.

The co-sourcing model continues to produce a good blend of Council in-house input and experience through Graeme Nicholas and wider expertise and presence through the involvement of PWC.

3. Currently, there are a number of reviews relating to the 2007/8 year in an 'in progress' state and a number awaiting review with the sponsoring General Manager before being reported to this committee.

#### Value to the Council

4. With the assistance of management and an ability to bring a broader focus we are continuing to deliver reviews which have an increased focus on:
  - alignment with Council policies and strategic planning documentation
  - alignment with the cultural and ethical aspirations of the Council
  - review of some of the key operational and financial areas of the Council
  - raising the awareness of the importance of control
  - all individual reviews are in line with estimates
5. During the course of the reviews completed to date and specifically within the most recent Quarters activities, we have again 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. A number of issues have been resolved during the quarter, which is pleasing to see. We have met with Audit NZ to discuss respective internal and external audit approaches. Final reports and planning approaches are transparent between internal and external audit and seek to give the Council assurance over key risks.

**THE 2007/8 PROGRAMME**

**Internal Audit Review Status**

6. Summarised below is the status of each of the internal audit reviews for the 2007/8 year:

<b>Completed</b>	Review complete, management comments received and final report issued
<b>Draft Report</b>	The field work has been completed and the draft audit report is awaiting review
<b>In progress</b>	Review underway
<b>Planned</b>	Review planned, high level terms of reference drafted

<b>Review and ref #</b>	<b>Comments</b>	<b>Key Resource</b>	<b>Status</b>	<b>Reporting to Committee status</b>
Heritage grants (08-28)	Final report has been issued	PWC	Completed	Reported Feb 2008
Engagement of Consultants (08-15)	Final report has been issued	CCC	Completed	Reported Feb 2008
Mayors Welfare Fund (08-32)	Final report has been issued	CCC	Completed	Reported Feb 2008
Sensitive expenditure (08-12)	Final report has been issued	CCC	Completed	Reported Feb 2008
Recruitment & Exit processes (08-26)	Final report has been issued	CCC	Completed	Reported Feb 2008
Electronic Funds Transfer (08-17)	Final report has been issued	CCC	Completed	Reported Feb 2008
Insurance (08-35)	Final report has been issued	CCC	Completed	Reported Feb 2008
Library IT Controls (07-)	Expansion of previous review to include library IT Final report has been issued	PWC	Completed	Reported May 2008
Management of Council leased stadium (08-31)	Final report has been issued	CCC	Completed	Reported May 2008
Building inspections (8-04)	Final report has been issued	CCC	Completed	Reported May 2008
Public Records Act (08-06)	Final report has been issued	CCC	Completed	Reported May 2008
Revenue (various) (08-10)	Final report to be issued	CCC	Completed	Reported May 2008
Software development (08-19)	Final report has been issued	PWC	Completed	Reported May 2008
Project office Methodology (08-18)	Final report has been issued	PWC	Completed	Reported May 2008

Review and ref #	Comments	Key Resource	Status	Reporting to Committee status
Internet usage / policy (08-21)	Final report has been issued	CCC	Completed	Reported May 2008
Cash handling – various sites (08-25)	Final report has been issued	CCC	Completed	Reported May 2008
Sub Division Consents (08-03)	Final report has been issued	CCC	Completed	Reported May 2008
Maintenance & Operation contracts	Obtaining management responses	CCC	Draft Report	
IT Security (08-20)	Awaiting review with GM (PA)	PWC	Draft Report	
Budgeting / Forecasting (08-08)	Draft report with GM	CCC	Draft Report	
Statement of Intent (08-01)	Awaiting review with GM (TM)	PWC	Draft Report	
Capital Program procurement and administration (08-33)	This may be combined with 08- 11	CCC	In Progress	
Civil Defence (08-24)	Field work in progress	PWC	In Progress	
Key accounting Controls (08-09)	Field work in progress	CCC	In Progress	
Development Contribution levies (08-07)	Field work in progress	CCC	In Progress	
Fraud Prevention (08-13)	Field work in progress	CCC	In Progress	
Customer service / complaints (08-02)	Terms of Reference with GM	PWC/ CCC	Planned	
Animal Control (08-05)	Planned May 2008	CCC	Planned	
Information systems Strategic Plan (08-220)	Planned June 2008	PWC	Planned	
Capital Programme (08-34)	Scope to be agreed	PWC	Planned	
Treasury (08-29)	Scope to be agreed	PWC	Planned	
RFP Processes (8-16)	Scope to be agreed	PWC	Planned	
LTNZ / Claims (08-23)	Planned May 2008	CCC	Planned	
Annual Residents Survey (08-30)	Delayed at request of GM	CCC	Postponed	
Remuneration policies (08-27)	Delayed at request of GM	PWC	Postponed	
Procurement effectiveness (08-11)	Delayed at request of GM	CCC	Postponed	

## Risk Categories of Issues Reported This Quarter

7. In each review under the co-sourced arrangement, findings are classified according to the ratings outlined below.
8. 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.
9. 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. 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 Year	11	70	60	141
Building Inspections	0	1	0	1
Engagement of Consultants	2	4	0	6
Electronic money Transfers	2	1	0	3
Heritage grants	0	4	2	6
Insurance	0	0	1	1
Probity & Sensitive expenditure	0	2	0	2
Public Records Act	0	2	1	3
Recruitment and exit processes	0	4	2	6
Management of Leased sports stadium	0	2	2	4
Library IT Controls	0	6	2	8
Cash Handling	0	5	3	8
Sub Division Consents	0	3	1	4
Revenue	1	5	2	8
Software Development	0	4	5	9
Internet Usage	0	1	0	1
Project Office Methodology	0	6	3	9
<b>Total issues to date</b>	<b>16</b>	<b>120</b>	<b>84</b>	<b>220</b>
Issues resolved to date	8	53	36	97
<b>Issues Outstanding to date</b>	<b>8</b>	<b>67</b>	<b>48</b>	<b>123</b>

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

10. The findings relating to our reviews are broadly classified as being High, Moderate or Low priority.
11. 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.
13. 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**

14. A database of audit issues is maintained. These are reported to General Managers for regular follow up.