



## Christchurch City Council

# AUDIT AND RISK MANAGEMENT SUBCOMMITTEE AGENDA

TUESDAY 5 AUGUST 2008

AT 3 PM

IN THE NO 1 COMMITTEE ROOM, CIVIC OFFICES

**Subcommittee:** The Mayor, Mr Bob Parker  
Councillors David Cox, Bob Shearing, Gail Sheriff and Chrissie Williams, and  
Messrs John Hooper and Michael Rondel.

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### INDEX

1. APOLOGIES
2. MINUTES OF THE PREVIOUS MEETING OF 5 MAY 2008
3. MATTERS ARISING
4. CORRESPONDENCE
5. INTERNAL AUDIT ACTIVITY REPORT –APRIL 2008 / JULY 2008, QUARTER FOUR
6. CORPORATE FINANCE QUARTERLY REPORT
7. SPORTS FACILITY LEASES AND CASH CONTROL AT RAWHITI GOLF COURSE
8. ISSUES FOR FUTURE MEETINGS

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**1. APOLOGIES**

Councillor Gail Sheriff and Michael Rondel.

**2. MINUTES OF THE PREVIOUS MEETING OF 5 MAY 2008**

Attached.

**3. MATTERS ARISING**

**4. CORRESPONDENCE**

**5. INTERNAL AUDIT ACTIVITY REPORT –APRIL 2008 / JULY 2008, QUARTER FOUR**

<b>General Manager responsible:</b>	General Manager Corporate Services DDI 941-8540
<b>Officer responsible:</b>	Senior Auditor
<b>Author:</b>	G Nicholas, Senior Auditor / Murray Harrington , PWC Partner

**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 July 2008
  - issues outstanding from previous quarters.

**EXECUTIVE SUMMARY**

**Programme Status**

2. We completed the internal audit plan as proposed for the 2007/8 year with the exception of five reviews:
  - Annual Residents Survey: the survey process has changed significantly and has been deferred to the 2008/9 program.
  - Procurement effectiveness: The Procurement project is not yet complete so this review has been rescheduled in the 2008/9 year. (The RFP review will also be included in this review)
  - Remuneration policies: rescheduled into the 2008/9 year due to a change of GM.
  - IT Strategic Review has been deferred to the 2008/9 program.

An additional audit not programmed in 2007/8 but requested by management related to library IT controls.

3. The new year's programme has commenced and is included as Appendix C for your information.

**Value to the Council**

4. The reviews in the most recent quarter and the 08/09 Internal Audit Planning process have had a focus on:
  - IT capability, planning , security and delivery
  - governance , regulatory and communication processes
  - fraud prevention and detection, and HR
  - reviews in respect of both major capital and operational spend
  - improving business process within Council.

5 Cont'd

The diverse nature of the scopes covered continues to provide a wide range of assurance across CCC.

- In the current economic environment, we are observing increasing pressures on both organisations and individuals. We continue to be mindful that within each of our reviews a heightened level of awareness from ourselves and management may be required.

**THE 2007/08 PROGRAMME**

**Internal Audit Review Status**

- Summarised below is the status of each of the internal audit reviews for the 2007/8 year and for the 2008/9 year which are in progress:

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

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

## 5 Cont'd

Review and ref #	Comments	Key Resource	Status	Reporting to Committee status
Project office Methodology (08-18)	Final report has been issued	PWC	Completed	Reported May 08
Internet usage / policy (08-21)	Final report has been issued	CCC	Completed	Reported May 08
Cash handling – various sites (08-25)	Final report has been issued	CCC	Completed	Reported May 08
Sub Division Consents (08-03)	Final report has been issued	CCC	Completed	Reported May 08
Maintenance & Operation contracts	Final report issued	CCC	Completed	Reported Aug 08
Budgeting / Forecasting (08-08)	Final report issued	CCC	Completed	Reported Aug 08
Civil Defence (08-24)	Final report issued	PWC	Completed	Reported Aug 08
Capital Program procurement and administration (08-33)	Included within 08-34	CCC	Completed	
Key accounting Controls (08-09)	Final report to be issued	CCC	Completed	Reported Aug 08
Development Contribution levies (08-07)	Final report to be issued	CCC	Completed	Reported Aug 08
Fraud Prevention (08-13)	Final report to be issued	CCC	Completed	Reported Aug 08
IT Security (08-20)	Final report issued	PWC	Completed	Reported Aug 08
Statement of Intent (08-01)	Final report issued	PWC	Completed	Reported Aug 08
Capital Programme (08-34)	Management to report	PWC	Completed	
Animal Control (08-05)	Awaiting review with GM (PM)	CCC	Draft Report	
Customer service / complaints (08-02)	Awaiting review with GM (AM)	PWC/ CCC	Draft Report	
LTNZ / Claims (08-23)	Awaiting review with GM (JP)	CCC	Draft Report	
Treasury (08-29)	Awaiting review with GM (PA)	PWC	Draft Report	
Information systems Strategic Plan (08-22)	Carry forward to 2008/9	PWC	Postponed	
RFP Processes (8-16)	To be combined with procurement review in 2008/9	PWC	Postponed	
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	

## 5 Cont'd

Review and ref #	Comments	Key Resource	Status	Reporting to Committee status
<b>2008/9 Programme</b>				
Mayors Welfare (09-01)	Field work in progress	CCC	In Progress	
Cash Handling sites (09-02)	Field work in progress	CCC	In Progress	
Community Grants (09-08)	Field work in progress	CCC	In Progress	
Council bylaws review (09-03)	Field work in progress	CCC / Simpson Grierson	In Progress	
Revenue (09-15)	Terms of Reference to be agreed	CCC	Planned	

**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 report	16	109	94	219
Statements of Intent	0	2	1	3
Key Accounting Controls	1	2	1	4
Civil Defence	3	7	3	13
IT Security	1	6	0	7
Fraud Control	0	4	0	4
Development Contributions	0	1	0	1
Budgeting & Forecasting	0	3	0	3
Maintenance Contracts	2	0	4	6
<b>Total issues to date</b>	<b>23</b>	<b>137</b>	<b>103</b>	<b>263</b>
Issues resolved to date	8	57	55	119
<b>Issues Outstanding to date</b>	<b>15</b>	<b>80</b>	<b>48</b>	<b>144</b>

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

**5 Cont'd**

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.

## 6. CORPORATE FINANCE QUARTERLY REPORT

<b>General Manager responsible:</b>	General Manager Corporate Services, DDI 941-8540
<b>Officer responsible:</b>	Corporate Finance Manager
<b>Author:</b>	Diane Brandish

### PURPOSE OF REPORT

1. The purpose of this report is to provide the Audit and Risk Management Subcommittee with an update on financial matters arising from the previous meeting including the Council's key treasury and debtor financial ratios and KPIs as at year end.

### AUDIT AND RISK ISSUES

2. Over the past month the initial internal Audit Strategic Plan as developed by PricewaterhouseCoopers in May 2006 has been reviewed and updated based on the first two years of activity under the co-sourced arrangement between PwC and the Council. (This report is attached to the quarterly internal report.) The result is an extensive programme for the next two years which addresses all of the areas of significant risk as identified by the Subcommittee at the last meeting.
3. Completion of the year end accounts and annual report production is proceeding on time. A draft copy of the complete report is scheduled to be reviewed by the external members of this committee on 15 September, brought to the full committee on 22 September and to the Council for adoption on 16 October. This last date may need to be moved to fit in with the Council's timetable. There are no issues to date; the Council process being one week ahead of schedule.
4. The OAG Annual report to Parliament included a section on local government's reporting of their exposure to leaky home liabilities and the appropriateness of their accounting treatment. The OAG identified three categories of claims:
  - Category one, where the claim has been reviewed, quantified and the Council's share confirmed,
  - Category two, where the claim is still to be investigated
  - Category three, an assessment of future liability between now and the end of the statutory liability period.

There are six councils with significant exposure, including ourselves. Our accounting treatment of category one and two claims is in line with the OAG's recommendations although we do need to expand on the note of disclosure explaining our treatment of unresolved claims. Our treatment of category three claims was based on a projection of future costs using the average claims settled annually, updated to reflect changes in the insurance excess and multiplied by the number of years outstanding. The OAG is recommending an actuarial assessment but given the lack of materiality of the Council's liability we will not be acting on this. What we will do is expand on our note to better explain the basis of our calculation.

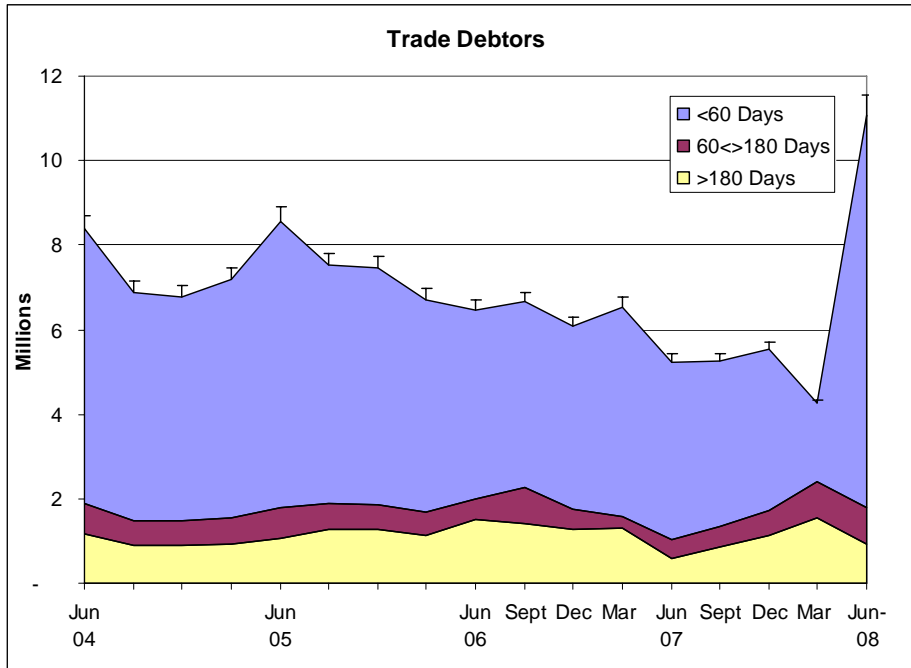
### TREASURY

5. Treasury: The table attached as Appendix 1 shows that the Council remained well within its financial ratio policy limits. Council funding requirements were substantially less than predicted in the 2007/08 Annual Plan due to lower capital expenditure and a higher-than-expected operating surplus for the year to June 2007. Liquidity, credit and interest rate risk, also remain within target limits. As indicated in the last report, Asia Pacific Risk Management have now reviewed our debt requirements and have advised on the most efficient borrowing process and one which utilises the strength of the Council's balance sheet. This has resulted in our being able to borrow at 12bp over the market rate as opposed to a minimum of 120bp which many other councils are paying. Our financial ratios are also under review and a report will be brought to this committee in due course.

6 Cont'd

**DEBTORS**

6. Debtors; as indicated in the chart below the balance of overdue accounts (60 days and over) has started to improve. Focus is continuing in this area to ensure that overdue debts are collected and that the process is improved. The bad debt provision has been increased by \$267k in preparation for year end so that all debt over 180 days is fully provided for. Current debtors invoicing to Land Transport New Zealand of \$3.9m, neighbouring councils for the recovery of UDS costs, \$709k and sundry year end invoicing of \$503k.



**FINANCIAL AND LEGAL CONSIDERATIONS**

7. There are no financial or legal implications.

**STAFF RECOMMENDATION**

It is recommended that the report be received.



**7. SPORTS FACILITY LEASES AND CASH CONTROL AT RAWHITI GOLF COURSE**

<b>General Manager responsible:</b>	General Manager Community Services, DDI 941-8534
<b>Officer responsible:</b>	Recreation and Sports Manager
<b>Author:</b>	John Filsell

**PURPOSE OF REPORT**

1. The purpose of this report is to advise the Audit and Risk Management Subcommittee of progress on the implementation of the recommendations on two internal audits regarding the leasing policy for and asset management plans for leased sports facilities, and the control of cash at Rawhiti Golf Course.

**EXECUTIVE SUMMARY**

2. In December 2007 an audit, reference 08-31, on leased sporting facilities reported two issues. Firstly an apparent lack of consistency on the process of setting leases. The audit recommended the current policy be reviewed. The date for completion is July 2009. This work is currently being programmed into the 2008/09 work calendar. As there may be implications from the Council's draft Metropolitan Sports Facilities Plan it is likely that this work will be scheduled for the final quarter of 2008.
3. Secondly the audit recommended the development of an asset management plan for the Council's leased facilities and that the Council take on more asset maintenance responsibilities rather than relying on the tenant. Any changes to asset maintenance responsibilities should be reflected in the lease agreement. The date for completion is July 2009. The development of asset management plans is in progress and will be complete by July 2009. Any changes to Council and tenant responsibilities in respect of asset maintenance should be reflected in the lease agreements either at renewal date or earlier by mutual consent.
4. In March 2008 an audit, reference 08-25, on cash control at the Rawhiti Golf Course recommended that the new Infinity Cash Control System being installed is integrated with the EFT-POS system. This is to ensure that all revenues collected that are the property of the Council are correctly receipted and accounted for. The date for completion is September 2008. A course of action agreeable to the Council involving the installation of and integrated Infinity Cash Control System and EFT-POS is underway and will be completed in September 2008.

**FINANCIAL IMPLICATIONS**

5. There are no financial implications from this report. Financial implications may arise when the Council considers any changes to leasing and asset management practices for leased sports facilities.

**Do the Recommendations of this Report Align with 2006-16 LTCCP budgets?**

6. Provision is made in current budgets for asset management and cash control systems.

**LEGAL CONSIDERATIONS**

7. There are no legal implications from this report. Legal implications may arise when the Council considers any changes to asset and leasing arrangements for leased sports facilities.

**ALIGNMENT WITH LTCCP AND ACTIVITY MANAGEMENT PLANS**

8. The operation of leased sports facilities and Rawhiti Golf Course is a level of service in the LTCCP on page 131.

**ALIGNMENT WITH STRATEGIES**

9. The operation of leased sports facilities and Rawhiti Golf Course is consistent with Council's Physical Recreation and Sport Strategy 2002.

**7 Cont'd**

**CONSULTATION FULFILMENT**

10. There is no consultation requirement.

**STAFF RECOMMENDATION**

It is recommended that the Audit and Risk Management Subcommittee receive this report.

**8. ISSUES FOR FUTURE MEETINGS**