

AUDIT AND RISK MANAGEMENT SUBCOMMITTEE AGENDA

WEDNESDAY 1 JUNE 2011

AT 3.00PM

**IN BOARDROOM, BECKENHAM SERVICE CENTRE,
66 COLOMBO STREET, CHRISTCHURCH**

Subcommittee: Councillor Sally Buck (Chair)
Councillors Helen Broughton, Jimmy Chen, Jamie Gough and Chrissie Williams.

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1. APOLOGIES

2. DEPUTATIONS BY APPOINTMENT

3. AUDIT AND RISK MANAGEMENT SUBCOMMITTEE STRUCTURE AND TERMS OF REFERENCE

PURPOSE OF REPORT

1. To recommend that the Audit & Risk Management Subcommittee adopts the terms of reference approved by Council and agree to the Subcommittee's normal practices.

BACKGROUND

2. Good corporate governance practice normally includes an Audit Committee which is charged with overseeing and monitoring the relationship with external and internal auditors, and satisfying itself on behalf of the board (Council) that good risk management practices are in place in the organisation.
3. Terms of reference for Council's committees were approved by Council recently. The terms of reference for the Audit & Risk Management Subcommittee had previously been resolved on by Council on 13 December 2007. These terms of reference are:
 - Approve the Annual Report and Audited Financial Statements of the Council.
 - Review and approve significant accounting policy changes.
 - Review the format of financial reports prior to audit.
 - Evaluate the adequacy and effectiveness of the administrative, operating and accounting policies through active communication with the external and internal auditors, and consideration of their management report.
 - The authority to recommend to the Council amended terms of reference for this subcommittee.

DISCUSSION

4. The *Audit Committee's Best Practice Guide* (published by the Auditing and Assurance Standards Board of the Australian Accounting Research Foundation, Australian Institute of Company Directors and the Australian Institute of Internal Auditors) outlines the functions which are common for Audit Committees to have in order to achieve good corporate governance practice:
 - Assisting the board of directors to discharge their responsibility to exercise due care, diligence and skill in relation to:
 - Reporting of financial information to users of financial reports
 - Application of accounting policies
 - Financial management
 - Internal control systems
 - Risk management systems
 - Business policies and practices
 - Protection of the entities' assets
 - Compliance with applicable laws.
 - Improving the credibility and objectivity of the accountability process.

3 Cont'd

- Providing a formal forum for communication between the board of directors and senior financial management.
 - Improving board efficiency by allowing such matters to be discussed in sufficient depth without the whole Board being involved.
 - Improving effectiveness of internal and external audit functions by being a forum for communication with these functions.
 - Facilitating the independence of the external auditor.
 - Providing a structure for internal audit reporting and enable the independence of the internal audit.
 - Improving the quality of internal and external reporting of financial and non-financial information and reports.
 - Fostering an ethical culture throughout the entity.
5. In the case of a local authority, the Council exercises the functions of a governance board and while not all the above functions are fully applicable, most will be relevant.
6. It is accepted best practice that an audit committee would have the following membership composition:
- A subcommittee of the Council.
 - In some circumstances (particularly the public sector) independent individuals with expertise may be appointed to such committees where the Board or Council do not have that expertise.
 - A majority of the members of the subcommittee need to have financial literacy and experience with financial and business matters.
 - The subcommittee chairperson should be appointed based on the person's leadership and other skills.
 - The chairperson of the subcommittee should not be the chair of the main board (ie the Mayor).
 - Staff attending meetings have no voting powers.
7. The appointment of an Audit and Risk Management Subcommittee is an important part of the accountability chain and enables complex issues of a financial nature to be discussed by those who have sufficient knowledge and interest to be effective in a forum away from the main Council meeting. This recognises that the complexities of financial issues are too complex for general Council review and need to be focused on by a small group with some knowledge and expertise.
8. As would be expected with any large organisation, there needs to be good systems of internal control, risk management, and internal and external audit. Each of the components has a role to play and it would not be expected that the subcommittee would get into the detail of the operations through this subcommittee. However, by having summary reports and the internal and external auditors having access to the subcommittee and its Chairperson, the subcommittee will be able to satisfy itself that there are adequate safeguards in place.
9. For example, the Internal Auditor produces very detailed reports on a wide range of topics which deal with a lot of detail, sometimes at a low operational level, and makes recommendations to management. He follows up on implementation and reports through the management structure in a summarised way. It would be inappropriate for the Audit Subcommittee to get involved in the detail of these reports, but it should be informed in a summary of the work that has been done and any serious unresolved issues.
10. Internal audit is an important management tool for good internal accountability and this should remain its main focus, but the Internal Auditor should attend all meetings of the subcommittee whether he has issues on the agenda or not so that he is familiar with the subcommittee and will feel free to report and utilise his right to direct access to the subcommittee and its chair should that be necessary.

3 Cont'd

11. It would be normal practice for the Internal Auditor to submit his annual work plan to the subcommittee and report back against that on a periodic basis at summary level.
12. Because of the representational nature of the Council, it is not always going to be possible to get members of the Council with expertise in financial matters to be on the Audit Subcommittee. It is nevertheless important that the subcommittee membership has a significant number of elected members because the Council needs to have confidence in the subcommittee. Because of this, it will be sensible to add to the subcommittee some independent external expertise. This has been Council's practice since 2005 and a separate paper on this agenda makes recommendations that two external members are appointed to the Subcommittee.
13. Risk management is also a topic typically reviewed by an audit committee. Such a review would ensure that management and the Council are complying with its policies, and respond appropriately to risk issues in the widest sense which include market, credit, liquidity, operational and commercial risk.
14. A separate paper on this agenda outlines the Council's Risk Management Framework.

STAFF RECOMMENDATION

It is recommended that the Subcommittee:

- (a) Notes that Council approved its terms of reference on 13 December 2007 as follows:
 - Approve the Annual Report and Audited Financial Statements of the Council.
 - Review and approve significant accounting policy changes.
 - Review the format of financial reports prior to audit.
 - Evaluate the adequacy and effectiveness of the administrative, operating and accounting policies through active communication with the external and internal auditors and consideration of their management report.
 - The authority to recommend to the Council amended terms of reference for this subcommittee.
- (b) Agrees that the following practices should be standard for the subcommittee:
 - The subcommittee will meet at least four times a year.
 - At least once a year the subcommittee may meet with the internal and external auditors without management present.
 - The subcommittee will principally rely on discussions and reports from staff, and remain at arm's length from operational activity.
 - The subcommittee will be serviced by the Secretariat.
 - The Chairperson of the subcommittee may initiate meetings as they see fit.

4. COUNCIL RISK MANAGEMENT FRAMEWORK

General Manager responsible:	P Anderson DDI 941- 8671
Officer responsible:	G Nicholas, Senior Auditor
Author:	G Nicholas, Senior Auditor / M Harrington , PWC Partner

PURPOSE OF REPORT

1. The purpose of this report is to provide the Subcommittee with an explanation of the Risk Management Framework recently completed and to outline how this will operate to manage and report on key Council risks in future.

EXECUTIVE SUMMARY

Overview

2. The Council engaged PricewaterhouseCoopers to assist in the development of a Council Wide Risk Management Framework as part of an overall Internal Audit and Risk Management engagement. The objective of the review was to establish a practical Risk Management Framework that is embraced by management and the Audit & Risk Subcommittee and embedded into the Council over time. This was achieved through communication of the activity that has been undertaken and formalising a process that involves regular identification, analysis, ranking, treatment and monitoring of risk. Key risks will now also be reported to the Audit & Risk Subcommittee on a periodic basis.
3. In some cases Council has risk management activity in place, particularly at the operational level, but these activities have not been formalised in a consistent manner across the organisation. In the Local Government Sector Councils face particular risks in the areas such as reputation, health and safety, asset management and maintenance, financial, regulatory and political risks. As such Council is looking to increase the visibility of and formalisation over processes to manage the broad spectrum of risks and opportunities facing the organisation.

Background

4. The approach included:
 - *Preliminary Information gathering:* Information was gathered on Council's business objectives, existing risk assessments, categorisation and reporting, and leveraging PwC Industry and Risk management expertise. (See Appendix A for an outline of the methodology followed.)
 - *Discussions and interviews with each of the Executive Team and their key support managers to understand:* existing views around risk management, existing risks management practices at a high level, existing risk information.
 - *Scoring:* Following the interviews, the risks that were raised were consolidated into an initial matrix. Risk Information was distributed to participants to provide initial scoring assessments. Scoring was moderated in line with impact and likelihood criteria.
 - *Executive Team validation:* a workshop was run with the Executive Team to review the process including discussion on Council wide Risks.
 - *Audit & Risk Subcommittee Input:* At this point we are seeking the Audit & Risk Subcommittee's input to comment on the risks identified and the associated assessments of the risks and receive feedback.

4 Cont'd

Future Operation of the Risk Management Framework.

5. Key organisation risks will be refreshed and reported to Audit & Risk Management Subcommittee twice annually (Appendix B). Note that these risks were set in our Executive Team Workshop prior to the 22 February earthquake. They will be refreshed and revised for the 28 September Audit & Risk Subcommittee meeting.
6. Quarterly reviews and refreshes of the Risk Registers at the Group / Business Unit Level will be encouraged and / or facilitated. These will include:
 - Reviewing major risk events that have occurred. (and the associated changes this could introduce to the operating environment – for example Earthquake and the establishment of CERA).
 - Refreshing risks: identifying change in risks, new or emerging risks.
 - Reviewing mitigations in place to ensure that management is satisfied with the continuing effectiveness of these.
7. The Risk Registers will be linked to the Council Assurance Programme – including Internal Audit activities.
8. Internal Audit will report back to this Subcommittee quarterly on the quality of performance and effectiveness of the management of risk as per the agreed programme.

STAFF RECOMMENDATION

That this paper be received.

Appendix A

Methodology Followed

1. Key participants / Definitions

Executive Team involved in the Project

The Executive team have been involved in this review, namely:

- Jane Parfitt, General Manager City Environment
- Peter Mitchell, General Manager Regulation and Democracy Services
- Paul Anderson, General Manager Corporate Services
- Kevin Locke, General Manager Capital Programme
- Mike Theelen, General Manager Strategy and Planning
- Michael Aitken, General Manager Community Services
- Lydia Aydon, General Manager Public Affairs
- Chris Till, General Manager Human Resources
- Tony Marryatt, Chief Executive Officer

Definition of key terms

The following definitions are used:

- **Council Objective** – an organisational goal (for example those included in LTP or Plan on a Page or regulatory set objectives)
- **Risk** – threat or enabler to the achievement of a Council objective
- **Control** – any process or tool that assists in the achievement of an objective
- **Gap** – any gap between the desired and existing activity
- **Net Risk** – the impact and likelihood of a risk, taking into account existing controls

2. Tools used to facilitate Risk Identification

A) The Governance, Risk and Compliance Model

This model will be presented at the workshop as a tool for framing further discussions around Risks and the purpose of Risk Management. In moving towards an effective Risk Management process, the model illustrates three key activities and the surrounding cultural, technology and emerging requirements expected of stakeholders – applicable to an organisation such as the Council. We have tailored a model for CCC during the course of this review (see section 4).



B) The PwC Business Risk Model

The PwC Business Risk Model was used as a guide during the interview processes and will also be revisited at the workshop as a useful checklist to assist in the discussion of the identified risks. The tool provides a generic list of risk types by categories of risk. Reviewing the categories of risk outlined in this model enables participants to assess whether they have considered all categories of business risk. Again, this model can be applied in a Council setting.

Business Risk Model

Short Definitions of Business Risks



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3. The Council's Objectives / Priorities

Identification of Mission and Vision and Strategic Objectives

By definition, the key risks to Council should be those that have the potential to impact on the achievement of the LTP, the Executive Team's "Plan on a Page" and other regulatory/ statutory responsibilities to the community. Therefore these objectives must be recognised in order to ensure that:

- a) All key risks associated with those objectives are identified; and
- b) Risks that do not affect the achievement of those objectives are excluded (as not being key).

The Council's organisational goals are stated below:

Christchurch City Council – Organisational Goals

1. being customer-driven and community-orientated
2. thinking strategically and acting as one organisation
3. building leadership capability throughout the organisation
4. being performance-driven and accountable for results
5. behaving according to shared values

Christchurch City Council – Vision

"Making Christchurch a world-class boutique city".

The organisational goals and vision of the Council are summarised in the following Council diagram



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The Council's organisational goals and visions have been translated into the Executive Team's "Plan on a Page". The objectives are aligned to the Council's balance scorecard approach and are as follows:

Customer	Finance	Process	People
Satisfy Customers	Manage service delivery in budget	Prepare annual plan	Build Customer focus
Deliver LTP services and projects	Maintain sustainable financial health	Implement opportunities for improvement	Improve staff engagement
Manage elected member relationships	Manage capital project delivery in budget	Manage for performance	Ensure ET workload is manageable (ET)

Note: The above objectives were current to 6 July 2010. These objectives will be reset given current priorities before the start of the new financial year. The "bold" objectives are organisation objectives and appear in all staff performance agreements. These will remain in place.

4. The Council's Risk Methodology

The risk assessment process starts by identifying the appropriate risks. These risks are then rated as "Net Risks" – i.e., the impact and likelihood of these risks are assessed **taking into account the controls that currently exist to mitigate the risk.**

Step 1: Linking identified risks to objectives

The first step is to ensure that the identified risk is a risk to the achievement of Council's vision and objectives. In order to make this relevant to the Council, each risk was, in the first instance categorised under the balanced scorecard headings (Finance, Customer, Process and People) and then categorised by "risk type". The "risk type" category is designed to align the risk to an area of service delivery.

Risk Type Categories (in no particular order)

Projects	Other Agencies	Staff Safety	Events
Organisational	External Standards	Integrity	Central Government
Contracts	Service Delivery	Security	Decision Making
Policies	Assets	Legal Compliance	Political
Information	Public Safety	Skills	Resourcing
Change Management	Finance	Industrial Relations	Planning

NB: The approach to risk categorisation will be based on an appropriate derivation of the Risk Model.

Step 2: Determine the impact of the risk

The second step was to determine the impact the risk would have on each business unit and the wider Council. To achieve this, each Business Unit used the risk ratings and criteria as set out in Table 1 below.

We identified four key types of possible impact Operational, Health and Safety, Reputational and Financial), and five levels of impact for each type – ranging from "Minor" to "Extreme".

It should be noted that each type of impact must be considered separately, and comparison is not made between them. For example, whilst we suggest that a risk with an economic impact greater than \$10m is extreme, this does not mean that the financial value of the other extreme impacts (such as "Serious or sustained public and media attention") is also valued at greater than \$10m.

Table 1: Risk Impact Criteria

		Impact Criteria			
		F	H	R	C
Measure		Financial Impact	Impacts on Public health and safety	Image, Reputation and Public Support	Service Delivery Impact on Customers and Community
1	Insignificant	Impact +ve or -ve: <\$100,000	No health or safety impact. Injury managed with 1 st Aid	No media attention or reputational impact.	Very localised-little effect.< 20 Customer hours
2	Moderate	Impact +ve or -ve: \$100,000 - \$1,000,000	Minor health or safety impact on small number of people. Injury dealt with. No Hospitalisation	Minimal media attention. May be some local coverage-not front page	Impact on small group of residents. 20 to 500 Customer Hours
3	Significant	Impact +ve or -ve: \$1m to \$5m	Serious health or safety impact on small number (injuries require hospitalisation) or minor impact on large number of people.	Local media coverage, community interest in Council performance	Some impact on a wider group. 500 to 20,000 Customer Hours
4	Major	Impact +ve or -ve: \$5m to \$10m	Extensive injuries or significant health or safety impacts, permanent disablement or single fatality.	National media coverage, major impact on community support.	Significant impact on large group. Political involvement. 20,000 to 500,000 customer hours
5	Extreme	Impact +ve or -ve: > \$10m	Widespread health or safety impacts, multiple fatalities.	International media coverage and impact on community support. External Enquiry. Appointment of a Commissioner.	Significant impact on community at large. Over 500,000 customer hours.

Step 3: Determine the likelihood of the risk occurring

The second axis on which the risk is assessed is the likelihood of the risk occurring. The following definitions of likelihood were agreed:

Likelihood Criteria		
1	Rare	Unlikely to occur within the next 10 years
2	Unlikely	May occur within the next 10 years
3	Possible	May occur within the next 5 years
4	Likely	May occur within a one year period
5	Almost certain	At least one event likely per month

Step 4: Multiply the Impact and Likelihood Ratings to produce the Risk Rating

The final step is to multiply Impact by Likelihood to produce the overall risk rating.

$$\text{Impact} \times \text{Likelihood} = \text{Overall Risk Rating}$$

Given that we have used a five-scale rating for Impact and Likelihood, this will result in a number between 1 and 25.

The following definitions were agreed to categorise the overall risk ratings:

Impact	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		1	2	3	4	5
		Likelihood				

Overall Risk Ratings	
1, 2, 3	Insignificant
4, 5, 6	Moderate
8, 9, 10, 12	Significant
15, 16	Major
20, 25	Extreme

Key points to note when applying risk ratings

- Only risks that are rated "Significant" or above (Net Risk) will be taken forward into the action planning stage.
- For the Risk Ratings, when assessing a general risk (such as, "Critical ICT system failure resulting in loss of critical data"), the impact and likelihood of the event will vary widely, depending on the exact nature of the event.

It is not practical to attempt to define all ICT system failure events that may lead to loss of data since many will not be of sufficient significance to warrant this effort.

Therefore, the approach is to apply the lowest Impact and Likelihood Ratings that will still result in the risk being rated as Significant.

Either:

"Impact = 3, Likelihood = 3, Risk Rating = 9" OR

"Impact = 2, Likelihood = 4, Risk Rating = 8" OR

"Impact = 4, Likelihood = 2, Risk Rating = 8"

Appendix B**Top Risks that impact the Council**

The following risks are the key organisation risks agreed by the Executive Team – they form a “top-down” approach and are interdependent with the business units’ risks:

Balanced Score Card	Category	Key objectives at Risk
Process	LTP	The LTP preparation process is robust (Levels of Service, Capital Programmes, Operational budgets)
Customer	LOS	Levels of Service targets are able to be delivered
People	Staffing	The Council is able to attract and retain suitable competent staff to deliver on its objectives
Customer	IT Projects	Council Information Technology projects meet the defined objectives and are delivered on time and within budget
Customer	Capital Programme	The Council's capital programme is delivered so as to meet its completion milestones within the specified budget
Process	Legal Compliance	The Council meets its legal compliance requirements (as regulator, enforcer and corporate body)
Customer	Earthquake Recovery	Delivery of the Council's Earthquake Recovery Programme
Finance	Recovery Funding	Adequate funding of the Earthquake Recovery Programme is achieved
People	Engagement	Maintenance or improvement of the staff engagement levels
Finance	Budgets	The Council operates within its approved capital and operational budgets

5. CORPORATE FINANCE REPORT FOR PERIOD ENDED APRIL 2011

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 update on key financial and treasury matters for the period ending April 2011.

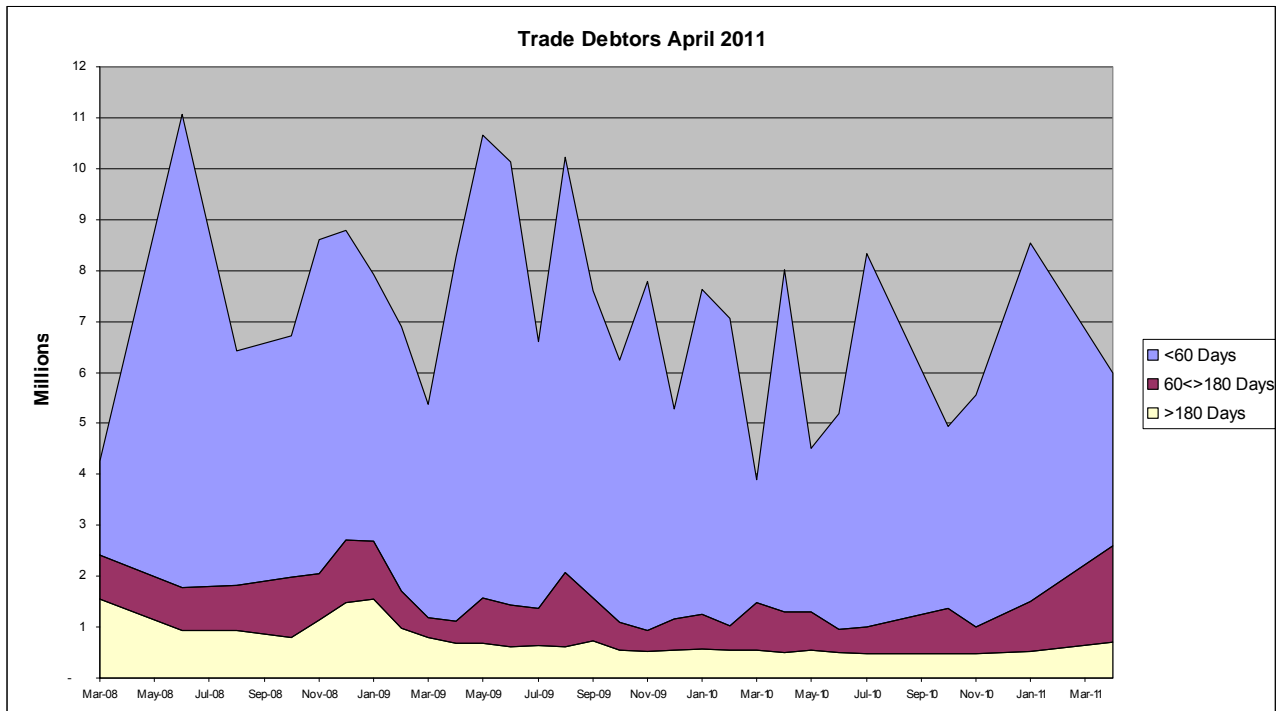
TREASURY

2. The table attached as Appendix 1 sets out the key treasury performance measures. The first measure which measures interest rate re-pricing as a percentage of the net financial investment portfolio is no longer appropriate as the Council has moved from being a net investor to a net borrower. We are working with our treasury advisor to set a replacement ratio. We have remained within all but one of the remaining financial ratio limits. This is a timing issue and will be back within limits by year end. As at the date of this report there are no changes to the forecast that would cause Council to breach these limits for the balance of the LTP period.
3. Since the last meeting of this subcommittee we borrowed \$25 million in February, a few days prior to the earthquake, at 100 basis points, (bps), for five years, and a further \$40 million the week following the event at 125 bps, for seven years. The additional spread reflects the uncertainty in the market even though our S&P rating was unaffected. Both borrowings were to meet the capital programme.

DEBTORS

4. At 30 April 2011 the debtors balance stood at \$6.0 million, \$0.8 million above that reported in June 2010. \$0.75 million of the variance is due to an increase in SAP debtors as a result of the decision not to pursue debtors for the first two months after the event. This position has now changed and customers are now being contacted.
5. As at 30 April the overdue debtors total \$1.9 million, or 31.0% of total debt. The June figures were \$709,800 and 13.7%. A detailed report of overdue debtors over \$20,000, is attached in a separate PX report.
6. Debt written off for the year to date totals \$180,293 as compared to \$187,183 for the same time last year. Further detail is provided in Appendix 2 (attached).

5 Cont'd

**INSURANCE**

7. The Council's key insurance cover for the year to 30 June 2011 is as set out in Appendix 3; that is, Material damage cover of \$1.9 billion, increased cost of working cover of \$6 million for the Civic building, \$3 million for the central library, and \$5 million for the remainder of the city. In addition there is cover of \$2.2 billion to meet 40% of the Council's underground infrastructure claim (not attached) and \$1 million for claims preparation. The Council has always adopted a self-insured approach to loss of revenue resulting from damage to the city's facilities.
8. In addition to the above we have cover for motor vehicles, fine art, fidelity guarantee, personal accident, corporate travel, forest and rural fires, standing timber, and directors and officers cover for councillors and directors and trustees of Council entities.
9. A schedule of cover which is available, but which Council has chosen not to take in the past, is set out in Appendix 4.
10. These policies terminate at 30 June and staff are working with our brokers and insurers to secure cover from 1 July onwards. At the time of writing, there is no firm assurance that insurance cover will be available due to difficulties for our insurers securing reinsurance. However, we expect that cover will be available for events other than earthquakes at a minimum. This position is one that most other Councils will be experiencing. If insurance is not available Council will be self-insured and dependent upon the strength of our balance sheet and support of central government. If insurance is offered it will come with a significantly higher premium, possibly as much as 400%. The excess will also be significantly more than the \$5,000 (for material damage) and \$500,000 (for LAPP) of our current policies but as yet we have no clear indication of what these will be.

FINANCIAL AND LEGAL CONSIDERATIONS

11. Other than the financial implications of the preceding paragraph, there are no financial or legal implications.

STAFF RECOMMENDATIONS

It is recommended that the report be received.

CLAUSE 5 - ATTACHMENT 1

Christchurch City Council Treasury Management Report for period to 30 April 2011

APPENDIX 1

Key Performance Measures			
	Policy Limits	Actual 2010/11 period ended 30 April 2011	
INVESTMENT POLICY			
Interest rate risk - Interest rate re-pricing period *			
0-1 year	40 - 100% of NFIP	N/A - as Council will be a net borrower in the next 24 months, this policy is no longer appropriate	
1-3 years	0 - 60% of NFIP		
3-5 years	0 - 40% of NFIP		
5-10 years	0 - 20% of NFIP		
<i>NFIP = Net Financial Investment Portfolio</i>			
Counterparty Credit Risk Limits (see attachment for split per bank)			
Max Investment per counterparty			
NZ Govt	unlimited	See (a) & (c)	
NZD Registered Supernationals	\$50 m		
SOEs	\$15 m		
NZ Registered Bank	\$50 m		
	Up to guarantee maximum		
NZ Registered Bank			
Corp Bonds/CP	\$10 m		
Local Govt Stock/Bonds/FRN/CP	\$40 - \$25 m		
Interest rate risk mgmt instrument max per counterparty			
NZ Govt	none	See (a) & (c)	
NZD Registered Supernationals	none		
SOEs	none		
NZ Registered Bank	70m		
NZ Registered Bank	none		
Corp Bonds/CP	none		
Local Govt Stock/Bonds/FRN/CP	none		
LIABILITY MANAGEMENT POLICY			
Liquidity & funding risk management			
0-3 years	10 - 60%	59%	Within limits
3-5 years	20 - 60%	18%	Outside limits (\$14.5m to bring within policy)
5 years plus **	0 - 60%	23%	Within limits
<i>** this minimum will rise to 15% when net debt exceeds \$50 million.</i>			
Borrowing mechanisms & limits			
Net debt as a percentage of equity	<20%	2.1%	Within limits
Net debt as a percentage of total revenue***	<100%	35.6%	Within limits
Net interest as a percentage of total revenue***	<10%	-1.2%	Within limits
Net interest as a percentage of annual rates income (debt secured debenture)	<15%	-1.9%	Within limits
Liquidity (term debt+committed loan facilities+liquid investments to current external debt)	>120%	158.7%	Within limits
<i>*** excludes non-govt capital contributions</i>			
<i>When 24-month forecast net debt exceeds \$25 million:</i>			
Interest rate exposure			
Master fixed/floating risk control limit	50 - 95%	79.9%	Within limits
Fixed maturity profile limit			
1-3 years	15 - 60%	20.1%	Within limits
3-5 years	15 - 60%	21.8%	Within limits
5 years plus	10 - 60%	58.1%	Within limits
Counterparty Credit Risk Limits			
NZ Registered Bank (per bank) - Min LT/ST credit rating	A-/A2	See (b) & (c)	
- Interest rate risk mgmt instrument max	70m		

* Council is a net borrower as at 30 April 2011

CLAUSE 5 – ATTACHMENT 1 CONT'D

(a) Counterparty Credit Risk Limits

Counterparty	Min Long Term/Short Term credit rating	Max Investment per counterparty	Interest rate risk mgmt instrument max per counterparty	Total max per counterparty (c)
NZ Govt	A- / A2	unlimited	none	unlimited
NZD Registered Supernationals SOEs	AAA	50m	none	50m
NZ Registered Bank	A- / A2	15m	none	15m
NZ Registered Bank	A- / A2	50m	70m	70m
NZ Registered Bank Corp Bonds/CP	Govt guaranteed	Up to guarantee maximum	none	Up to guarantee maximum
Local Govt Stock/Bonds/FRN/CP	A- / A2 (if rated) unrated	10m	none	10m
		40	25	40m
				25m

Max investment per Counterparty	Actual \$m	Max allowed \$m	Credit rating	
ANZ	43.5	50.0	AA	Within limits
ASB	19.0	50.0	AA	Within limits
Auckland International Airport	4.5	10.0	A-	Within limits
BNZ	30.0	50.0	AA	Within limits
Canterbury Museum Trust Board	2.6	25.0	Unrated	Within limits
Far North DC	2.0	25.0	Unrated	Within limits
Fonterra Co-Op Group	3.0	10.0	A+	Within limits
Horowhenua DC	3.0	25.0	Unrated	Within limits
Interstar NZ Millennium	0.1	10.0	AA-	Within limits
Kiwibank Ltd	38.0	50.0	AA-	Within limits
Manukau CC	5.0	25.0	Unrated	Within limits
Masterton District Council	3.0	25.0	Unrated	Within limits
New Plymouth CC	2.0	40.0	AA+	Within limits
NZ Post	1.5	15.0	AA-	Within limits
Porirua CC	5.0	25.0	Unrated	Within limits
Rotorua DC	0.0	25.0	Unrated	Within limits
SBS Oreti	0.3	50.0	AA-	Within limits
Tauranga City Council	5.0	50.0	A	Within limits
TCNZ Finance Ltd	2.0	10.0	A	Within limits
Westpac NZ	3.0	50.0	AA	Within limits
Whangarei District Council	10.0	25.0	Unrated	Within limits
Interest rate risk mgmt instrument max per counterparty	Actual \$m	Max allowed \$m	Credit rating	
ANZ	0.0	70.0	AA	Within limits
BNZ	0.0	70.0	AA	Within limits
Westpac	0.0	70.0	AA	Within limits

(b) Counterparty Credit Risk Limits

	Actual \$m	Max allowed \$m	Credit rating	
ANZ	19.5	70.0	AA	Within limits
BNZ	18.3	70.0	AA	Within limits
Westpac	14.8	70.0	AA	Within limits
	52.5			

(c) Total max per counterparty

	Actual	Max allowed	Credit rating	
ANZ	63.0	70.0	AA	Within limits
ASB	19.0	70.0	AA	Within limits
Auckland International Airport	4.5	10.0	A-	Within limits
BNZ	48.2	70.0	AA	Within limits
Canterbury Museum Trust Board	2.6	25.0	Unrated	Within limits
Far North DC	2.0	25.0	Unrated	Within limits
Fonterra Co-Op Group	3.0	10.0	A+	Within limits
Horowhenua DC	3.0	25.0	Unrated	Within limits
Interstar NZ Millennium	0.1	10.0	AA-	Within limits
Kiwibank Ltd	38.0	70.0	AA-	Within limits
Manukau CC	5.0	25.0	Unrated	Within limits
Masterton District Council	3.0	25.0	Unrated	Within limits
New Plymouth CC	2.0	40.0	AA+	Within limits
NZ Post	1.5	15.0	AA-	Within limits
Porirua CC	5.0	25.0	Unrated	Within limits
Rotorua DC	0.0	25.0	Unrated	Within limits
SBS Oreti	0.3	50.0	AA-	Within limits
Tauranga City Council	5.0	50.0	A	Within limits
TCNZ Finance Ltd	2.0	10.0	A	Within limits
Westpac NZ	17.8	70.0	AA	Within limits
Whangarei District Council	10.0	25.0	Unrated	Within limits

CLAUSE 5 – ATTACHMENT 2

Appendix 2

Debt written off - summary report for the year ended 30 June 2011

	July	August	September	October	November	December	January	February	March	April	May	June	YTD Total	%
Write Offs < \$2000.00	30,153.82	2,683.06	16,100.27	11,335.16	5,615.87	4,987.95	11,645.35	33,116.02	-	10,758.96	-	-	126,396.46	70.1%
Write Offs >= \$2000.00	2,179.86	2,638.00	31,651.98	2,302.38	9,140.76	5,784.49	-	-	-	-	-	-	53,897.47	29.9%
Total to approve	32,333.68	5,321.06	47,852.25	13,637.54	14,756.63	10,772.44	11,645.35	33,116.02	-	10,758.96	-	-	180,293.93	
Breakdown:														
Parking	515.61	411.90	147.60	21.20	639.42	21.20	1,164.60	286.00	-	740.00	-	-	3,545.43	2.2%
Residential Rents	7,698.86	3,932.36	1,143.70	2,285.99	2,157.30	1,415.04	2,526.80	5,310.76	-	902.34	-	-	27,373.15	15.2%
Regulatory	5,503.35	430.00	-	890.00	10,814.91	-	189.40	506.00	-	331.00	-	-	18,664.66	10.4%
Library (ex SAF)	-	-	-	-	-	1,841.66	-	-	-	-	-	-	1,841.66	1.0%
Library - Unicorn Only	14,644.20	-	13,002.63	4,673.18	990.00	6,700.49	7,127.81	24,935.09	-	7,965.94	-	-	72,349.85	40.1%
Sundry	3,971.66	546.90	31,651.98	2,064.00	990.00	6,700.49	636.74	1,551.17	-	818.68	-	-	48,131.52	27.3%
Abandoned Vehicle	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
Street Pole	-	-	1,606.34	3,703.17	155.00	794.06	-	-	-	-	-	-	4,497.22	2.5%
Commercial	-	-	-	-	-	-	-	525.00	-	-	-	-	2,486.34	1.4%
Total 2010-2011	32,333.68	5,321.06	47,852.25	13,637.54	14,756.63	10,772.44	11,645.35	33,116.02	-	10,758.96	-	-	180,293.93	
Total 2009-2010	11,919.14	29,782.08	19,617.35	53,262.17	16,518.10	7,461.23	1,624.00	10,586.03	13,991.46	22,421.53	-	-	187,182.89	
Variance to Last Year	20,414.54	-	28,235.10	-	30,024.63	-	1,767.47	23,529.99	-	11,602.57	-	-	8,888.96	

APPENDIX 3

PLACING SLIP

Material Damage – Excluding Fire including Fire occasioned by or through or in consequence of any natural disaster

Coverage	All Risks including Earthquake, but excluding Fire including Fire occasioned by or through or in consequence of any natural disaster
Insured	<p>Christchurch City Council and/or associated and/or subsidiary companies for their respective rights and interests and/or as may be agreed and/or subsidiary companies including:</p> <ul style="list-style-type: none"> › Christchurch City Holdings Ltd (excluding subsidiary companies) › VBase Ltd › Jet Engine Facility Ltd › Tuam Ltd › Riccarton Bush Trust Board › Beckenham Community Housing Ltd <p>Excluded:</p> <ul style="list-style-type: none"> › Orion Group Ltd & Subsidiaries › Christchurch International Airport Ltd › Lyttelton Port Company Ltd › Red Bus Ltd › City Care Ltd (with effect from 1 July 2007) › Christchurch City Networks Ltd › Selwyn Plantation Board Ltd
Interested Parties	Westpac Limited in respect of AMI Stadium
Period of Insurance	<p>From: 4:00pm 30 June 2010</p> <p>To: 4:00pm 30 June 2011</p>
Business	<p>Any activity now or hereafter carried on by the Insured, including but not limited to:</p> <ul style="list-style-type: none"> • Territorial Local Authority • Council Controlled organisations and associated organisations
Covering	<p>Including, but not limited to all tangible and personal property of every type and description either:</p> <ul style="list-style-type: none"> • owned in whole or in part by the Insured. • and/or the interest of the Insured in property of others held on commission. • and/or on consignment and/or for which they have assumed or may assume liability. • and/or property of others which the Insured has agreed to insure whether held by the Insured or by others. • and/or property for which the Insured is legally liable all while located anywhere in New Zealand. • at the sole option of the Insured, any personal property of officers and employees (except that which is hereinafter excluded): subject, to a specified limit.

Limit of Liability	As per schedule	\$1,861,837,766
Limit of Liability Sub-Limits	Money: Section A during business hours	\$200,000
Applicable excess of the Deductibles	Section B outside business hours not in safe	\$10,000
	Capital Additions	\$2,000,000
	Electric Motors if the limit is greater than 3.75kw	Included
	Hazardous Substances – limit any one loss	\$100,000
	Landslip, combined any one loss for MD & BI policies	\$2,000,000
	Property in or on Water, Limit per item \$25,000. Limit any one loss	\$500,000
	Protection Costs, limit any one loss	\$100,000
	Refrigerated Goods, limit any one loss	\$10,000
	Stolen Keys, limit any one loss	\$50,000
	Subsidence, limit any one loss	\$1,000,000
	Transit, combined limit any one loss for MD & BI policies	\$500,000
	Buildings under \$750,000 – limit any one loss	\$750,000
	Watercraft	\$1,500
	Portable business equipment (anywhere in the World)	\$20,000
	Contract Works	\$2,000,000
	Curio's or Works of Art	\$100,000
	Directors & Employees Effects	\$20,000
	Expediting costs	\$50,000
Premises	Anywhere in New Zealand with Portable Business Equipment AITW as above	
Deductibles	<ul style="list-style-type: none"> ▶ \$ 5,000 each and every loss except for the following: ▶ \$ 2,500 Community Assets (as identified on schedule) ▶ \$50,000 Landslip/Subsidence ▶ \$10,000 pontoons located at Akaroa Main Wharf ▶ \$ 5,000 excess now applicable to each and every Parking Meter <p>Earthquake / Perils:</p> <ul style="list-style-type: none"> ▶ 2.5% of the loss with a minimum of \$2,500 arising out of any one loss or series of losses arising from one event. 	
GST	The Limit of Liability and Sub Limits are exclusive of GST The Deductibles are inclusive of GST	
Coverage Provided by	New Zealand Local Authority Programme Disaster Fund (LAPP)	
Protection Wording	As agreed between Aon/LAPP but based on the AON MD696 wording	
Clauses	<p>Preservation of Cover Clause:</p> <p>This Policy covers each Insured for its own Insured Property:</p> <p>The Insurer cannot avoid, rescind or cancel this Policy, in whole or in part, for non-disclosure, misrepresentation, misstatement or breach of the terms of this Policy, other than with the written consent of all of the Insured;</p>	

No statements or representations made by or on behalf of an Insured or breach of any term of this Policy, or any information or knowledge possessed by any Insured will be imputed to any other Insured for the purpose of determining whether any individual Insured is covered under this Policy;

If the Insured has a right to reduce its liability to any Insured for any non-disclosure, misrepresentation, misstatement or breach of the terms of this Policy, the Insurer will only exercise such right against that Insured, and without prejudicing the rights of the other Insured's under this Policy.

Note

LAPP agree to a waiver of subrogation rights to the benefit of the Fletcher Construction Company Limited and all sub-contractors with respect to the existing structures, their contents and any consequential loss in respect of AMI Stadium.

Aon Contact Details

Jill Comley-Forbes
Executive Director / Branch Manager
Aon New Zealand
PO Box 2058
CHRISTCHURCH

DDI (03) 367 2802
Fax (03) 367 2899
Email jill.comley-forbes@aon.co.nz

Fire Indemnity

Coverage	Fire including Fire occasioned by or through or in consequence of any natural disaster
Insured	<p>Christchurch City Council and/or associated and/or subsidiary companies for their respective rights and interests and/or as may be agreed and/or subsidiary companies including:</p> <ul style="list-style-type: none"> ‣ Christchurch City Holdings Ltd (excluding subsidiary companies) ‣ VBase Ltd ‣ Jet Engine Facility Ltd ‣ Tuam Ltd ‣ Riccarton Bush Trust Board ‣ Beckenham Community Housing Ltd <p>Excluded:</p> <ul style="list-style-type: none"> ‣ Orion Group Ltd & Subsidiaries ‣ Christchurch International Airport Ltd ‣ Lyttelton Port Company Ltd ‣ Red Bus Ltd ‣ City Care Ltd (with effect from 1 July 2007) ‣ Christchurch City Networks Ltd ‣ Selwyn Plantation Board Ltd
Interested Parties	Westpac Limited in respect of AMI Stadium Ltd
Period of Insurance	<p>From: 4:00pm 30 June 2010</p> <p>To: 4:00pm 30 June 2011</p>
Business	<p>Any activity now or hereafter carried on by the Insured, including but not limited to:</p> <ul style="list-style-type: none"> • Territorial Local Authority • Council Controlled organisations and associated organisations
Covering	<p>Including, but not limited to all tangible and personal property of every type and description either:</p> <ul style="list-style-type: none"> • owned in whole or in part by the Insured. • and/or the interest of the Insured in property of others held on commission. • and/or on consignment and/or for which they have assumed or may assume liability. • and/or property of others which the Insured has agreed to insure whether held by the Insured or by others. • and/or property for which the Insured is legally liable all while located anywhere in New Zealand. • at the sole option of the Insured, any personal property of officers and employees (except that which is hereinafter excluded): subject, to a specified limit.
Sum Insured	\$131,000,000 any one loss and in the aggregate for the Period of Insurance

Sub-Limits Applicable Excess of the Deductibles	Money: Section A during business hours	\$200,000
	Section B outside business hours not in safe	\$10,000
	Capital Additions	\$2,000,000
	Electric Motors if the limit is greater than 3.75kw	Included
	Hazardous Substances – limit any one loss	\$100,000
	Landslip, combined any one loss for MD & BI policies	\$2,000,000
	Property in or on Water, Limit per item \$25,000. Limit any one loss	\$500,000
	Protection Costs, limit any one loss	\$100,000
	Refrigerated Goods, limit any one loss	\$10,000
	Stolen Keys, limit any one loss	\$50,000
	Subsidence, limit any one loss	\$1,000,000
	Transit, combined limit any one loss for MD & BI policies	\$500,000
	Buildings under \$750,000 – limit any one loss	\$750,000
	Watercraft	\$1,500
	Portable business equipment (anywhere in the World)	\$20,000
	Contract Works	\$2,000,000
	Curio's or Works of Art	\$100,000
	Directors & Employees Effects	\$20,000
	Expediting costs	\$50,000

Premises Anywhere in New Zealand with Portable Business Equipment AITW as above

Deductibles

- › \$ 5,000 each and every loss except for the following:
- › \$ 2,500 Community Assets (as identified on schedule)
- › \$10,000 pontoons located at Akaroa Main Wharf
- › \$ 5,000 excess now applicable to each and every Parking Meter

GST The Limit of Liability and Sub Limits are exclusive of GST
The Deductibles are inclusive of GST

Coverage Provided by New Zealand Local Authority Protection Programme Disaster Fund (LAPP)

Protection Wording Wording as agreed between Aon/LAPP, but based on Aon Fire Indemnity wording

Clauses Preservation of Cover Clause:

This Policy covers each Insured for its own Insured Property:

The Insurer cannot avoid, rescind or cancel this Policy, in whole or in part, for non-disclosure, misrepresentation, misstatement or breach of the terms of this Policy, other than with the written consent of all of the Insured;

No statements or representations made by or on behalf of an Insured or breach of any term of this Policy, or any information or knowledge possessed by any Insured will be imputed to any other Insured for the purpose of determining whether any individual Insured is covered under this Policy;

If the Insured has a right to reduce its liability to any Insured for any non-disclosure, misrepresentation, misstatement or breach of the terms of this Policy, the Insurer will only exercise such right against that Insured, and without prejudicing the rights of the other Insured's under this Policy.

PLACING SLIP

Note

LAPP agree to a waiver of subrogation rights to the benefit of the Fletcher Construction Company Limited and all sub-contractors with respect to the existing structures, their contents and any consequential loss in respect of AMI Stadium.

Aon Contact Details

Jill Comley-Forbes
Executive Director / Branch Manager
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PO Box 2058
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Email jill.comley-forbes@aon.co.nz

Fire – Excess of Indemnity

Coverage	Fire including Fire occasioned by or through or in consequence of any natural disaster
Insured	<p>Christchurch City Council and/or associated and/or subsidiary companies for their respective rights and interests and/or as may be agreed and/or subsidiary companies including:</p> <ul style="list-style-type: none"> › Christchurch City Holdings Ltd (excluding subsidiary companies) › VBase Ltd › Jet Engine Facility Ltd › Tuam Ltd › Riccarton Bush Trust Board › Beckenham Community Housing Ltd <p>Excluded:</p> <ul style="list-style-type: none"> › Orion Group Ltd & Subsidiaries › Christchurch International Airport Ltd › Lyttelton Port Company Ltd › Red Bus Ltd › City Care Ltd (with effect from 1 July 2007) › Christchurch City Networks Ltd › Selwyn Plantation Board Ltd
Interested Parties	Westpac Limited in respect of AMI Stadium Ltd
Period of Insurance	<p>From: 4:00pm 30 June 2010</p> <p>To: 4:00pm 30 June 2011</p>
Business	<p>Any activity now or hereafter carried on by the Insured, including but not limited to:</p> <ul style="list-style-type: none"> • Territorial Local Authority • Council Controlled organisations and associated organisations
Underlying Protection Wording	As the Fire Indemnity Placing Slip
Covering	<p>This Policy will be subject to the same terms, clauses, memoranda, conditions and exclusions as the Underlying policy.</p> <p>Damage from Fire and not excluded by the Underlying Material Damage – Fire Indemnity Policy, for the amount the costs of Reinstatement of the Insured Property exceeds:</p> <ol style="list-style-type: none"> a) The cost of restoring the Indemnity Value of the Property Insured if it is repaired or replaced; or b) The resulting loss or reduction of the Indemnity Value of the Insured Property if it is not repaired or replaced.

This policy will not provide any element of Indemnity cover and in particular will not provide cover for any shortfall to the Indemnity cover provided by the Underlying Policy by virtue of its limit on the sum insured of \$120,000,000 any one loss and in the aggregate in the period of insurance.

Sum Insured	The cost of reinstatement of Property Insured less its Indemnity Value.
Premises	Anywhere in New Zealand with portable business equipment AITW as above
GST	The Limit of Liability and Sub-Limits are exclusive of GST
Coverage Provided by	New Zealand Local Authority Protection Programme Disaster Fund (LAPP)
Protection Wording	As agreed between Aon/LAPP, but based on the Aon Fire Excess of Indemnity Wording
Clauses	<p>Preservation of Cover Clause:</p> <p>This Policy covers each Insured for its own Insured Property:</p> <p>The Insurer cannot avoid, rescind or cancel this Policy, in whole or in part, for non-disclosure, misrepresentation, misstatement or breach of the terms of this Policy, other than with the written consent of all of the Insured;</p> <p>No statements or representations made by or on behalf of an Insured or breach of any term of this Policy, or any information or knowledge possessed by any Insured will be imputed to any other Insured for the purpose of determining whether any individual Insured is covered under this Policy;</p> <p>If the Insured has a right to reduce its liability to any Insured for any non-disclosure, misrepresentation, misstatement or breach of the terms of this Policy, the Insurer will only exercise such right against that Insured, and without prejudicing the rights of the other Insured's under this Policy.</p>
Note	LAPP agree to a waiver of subrogation rights to the benefit of the Fletcher Construction Company Limited and all sub-contractors with respect to the existing structures, their contents and any consequential loss in respect of AMI Stadium.
Aon Contact Details	<p>Jill Comley-Forbes Executive Director / Branch Manager Aon New Zealand PO Box 2058 CHRISTCHURCH</p> <p>DDI (03) 367 2802 Fax (03) 367 2899 Email jill.comley-forbes@aon.co.nz</p>

Business Interruption

Coverage	Consequential Loss resulting from Physical loss or damage to any property used by the Insured, as below
Insured	<p>Christchurch City Council and/or associated and/or subsidiary companies for their respective rights and interests and/or as may be agreed and/or subsidiary companies including:</p> <ul style="list-style-type: none"> ▶ Christchurch City Holdings Ltd (excluding subsidiary companies) ▶ VBase Ltd ▶ Jet Engine Facility Ltd ▶ Tuam Ltd ▶ Riccarton Bush Trust Board ▶ Beckenham Community Housing Ltd <p>Excluded:</p> <ul style="list-style-type: none"> ▶ Orion Group Ltd & Subsidiaries ▶ Christchurch International Airport Ltd ▶ Lyttelton Port Company Ltd ▶ Red Bus Ltd ▶ City Care Ltd (with effect from 1 July 2007) ▶ Christchurch City Networks Ltd ▶ Selwyn Plantation Board Ltd
Period of Protection	<p>From: 4:00pm 30 June 2010</p> <p>To: 4:00pm 30 June 2011</p>
Business	<p>Any activity now or hereafter carried on by the Insured, including but not limited to:</p> <ul style="list-style-type: none"> • Territorial Local Authority • Council Controlled organisations and associated organisations
Covering	<p>Physical loss or damage of any property or any part used or to be used by the Insured leading to interruption to the business as detailed under limit of liability below, including but not limited to the destruction and/or damage caused by:</p> <ul style="list-style-type: none"> • Such risks as are covered under the Insured's Material Damage Insurance Policy(s) being: <ul style="list-style-type: none"> ▪ Fire Indemnity ▪ Fire Excess of Indemnity ▪ Material Damage Excluding Fire including earthquake • Explosion/Implosion of any pressure vessel on the premises or elsewhere

Limit of Liability	<p>Gross Profit</p> <table border="0"> <tr> <td>Vbase Ltd</td> <td style="text-align: right;">\$10,500,000</td> </tr> <tr> <td>AMI Stadium</td> <td style="text-align: right;">\$30,500,000</td> </tr> </table> <p>Additional Costs</p> <table border="0"> <tr> <td>VBase Ltd including AMI Stadium</td> <td style="text-align: right;">\$5,500,000</td> </tr> <tr> <td>Civic Offices</td> <td style="text-align: right;">\$6,000,000</td> </tr> <tr> <td>Public Library</td> <td style="text-align: right;">\$3,000,000</td> </tr> <tr> <td>Any other location</td> <td style="text-align: right;">\$5,000,000</td> </tr> </table> <p>Costs for Preparation of Claims \$1,000,000</p>	Vbase Ltd	\$10,500,000	AMI Stadium	\$30,500,000	VBase Ltd including AMI Stadium	\$5,500,000	Civic Offices	\$6,000,000	Public Library	\$3,000,000	Any other location	\$5,000,000						
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Civic Offices	\$6,000,000																		
Public Library	\$3,000,000																		
Any other location	\$5,000,000																		
GST	The Limit of Liability and Sub-Limits are exclusive of GST The Deductibles are inclusive of GST																		
Sub Limits of Liability (excess of protection wording deductible)	<table border="0"> <tr> <td>Acts of Civil Authorities</td> <td>)</td> <td>10% of Gross Profit</td> </tr> <tr> <td>Fumes gases and toxic substances</td> <td>)</td> <td>Sum Insured with a</td> </tr> <tr> <td>Compulsory Closure</td> <td>)</td> <td>maximum limit of \$1m</td> </tr> <tr> <td>Dependency</td> <td></td> <td></td> </tr> <tr> <td>Landslip (combined limit MD & BI policies)</td> <td></td> <td style="text-align: right;">\$2,000,000</td> </tr> <tr> <td>Transit (combined limit MD & BI policies)</td> <td></td> <td style="text-align: right;">\$500,000</td> </tr> </table>	Acts of Civil Authorities)	10% of Gross Profit	Fumes gases and toxic substances)	Sum Insured with a	Compulsory Closure)	maximum limit of \$1m	Dependency			Landslip (combined limit MD & BI policies)		\$2,000,000	Transit (combined limit MD & BI policies)		\$500,000
Acts of Civil Authorities)	10% of Gross Profit																	
Fumes gases and toxic substances)	Sum Insured with a																	
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Dependency																			
Landslip (combined limit MD & BI policies)		\$2,000,000																	
Transit (combined limit MD & BI policies)		\$500,000																	
Indemnity Period	<p>12 months Gross Profit – City Care Ltd</p> <p>24 months Gross Profit – Vbase Ltd & AMI Ltd</p> <p>36 months all other items</p>																		
Premises	At any location and/or property, either owned, leased and/or rented by the Insured, including places where the Insured has property for the purpose of the business and situated anywhere within New Zealand.																		
Deductibles	<p>Nil each and every loss other than:</p> <table border="0"> <tr> <td>Acts of Civil Authorities</td> <td style="text-align: right;">7 days</td> </tr> <tr> <td>Compulsory Closure</td> <td style="text-align: right;">7 days</td> </tr> <tr> <td>Dependency</td> <td style="text-align: right;">24 hours except:</td> </tr> <tr> <td>- Damage within 1 kilometre</td> <td style="text-align: right;">48 hours</td> </tr> <tr> <td>- Damage to Port & Airport buildings</td> <td style="text-align: right;">14 days</td> </tr> <tr> <td>Entanglement</td> <td style="text-align: right;">7 days</td> </tr> <tr> <td>Fumes, gasses & toxic substances</td> <td style="text-align: right;">7 days</td> </tr> </table>	Acts of Civil Authorities	7 days	Compulsory Closure	7 days	Dependency	24 hours except:	- Damage within 1 kilometre	48 hours	- Damage to Port & Airport buildings	14 days	Entanglement	7 days	Fumes, gasses & toxic substances	7 days				
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Entanglement	7 days																		
Fumes, gasses & toxic substances	7 days																		
Coverage Provided by	New Zealand Local Authority Protection Programme Disaster Fund (LAPP)																		
Protection Wording	As agreed Aon/LAPP but based on Aon BI Policy 397																		
Clauses	<p>Preservation of Cover Clause:</p> <p>This Policy covers each Insured for its own Insured Property:</p> <p>The Insurer cannot avoid, rescind or cancel this Policy, in whole or in part, for non-disclosure, misrepresentation, misstatement or breach of the terms of this Policy, other than with the written consent of all of the Insured;</p> <p>No statements or representations made by or on behalf of an Insured or breach of any term of this Policy, or any information or knowledge possessed by any Insured will be imputed to any other Insured for the purpose of determining whether any individual Insured is covered under this Policy;</p>																		

If the Insured has a right to reduce its liability to any Insured for any non-disclosure, misrepresentation, misstatement or breach of the terms of this Policy, the Insurer will only exercise such right against that Insured, and without prejudicing the rights of the other Insured's under this Policy.

Note

LAPP agree to a waiver of subrogation rights to the benefit of the Fletcher Construction Company Limited and all sub-contractors with respect to the existing structures, their contents and any consequential loss in respect of AMI Stadium.

Aon Contact Details

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Christchurch City Council
Business Interruption Schedule 30/06/2010 to 30/06/2011

Interest Insured	Sum Insured
Gross Profit	
Vbase Ltd	\$10,500,000
AMI Stadium	\$30,500,000
Additional Costs	
Vbase Ltd including AMI Stadium	\$5,500,000
Civic Offices	\$6,000,000
Public Library	\$3,000,000
Any other location	\$5,000,000
Costs for Preparation of Claims	\$1,000,000
Total	\$61,500,000

Riskpool Coverage – Combined Professional Indemnity and Public Liability

Coverage	<p><u>Section A - Public Liability</u> Protection for legal liability in the connection with the Business and arising from occurrences resulting in Personal Injury or Property Damage occurring within the Territorial Limits</p> <p><u>Section B – Professional Indemnity</u> Protection for legal liability in respect of any negligent act, error or omission, including Defence Costs and Expenses.</p>																
Insured	<p>Christchurch City Council and/or subsidiary companies for their respective rights and interests and/or as may be agreed and/or subsidiary companies including:</p> <ul style="list-style-type: none"> ▶ Christchurch City Holdings Ltd (excluding subsidiary companies) ▶ VBase Ltd ▶ Jet Engine Facility Ltd ▶ Christchurch City Facilities Ltd ▶ Jade Stadium Ltd ▶ Tuam Ltd ▶ Riccarton Bush Trust Board ▶ Beckenham Community Housing Ltd <p>Excluded:</p> <ul style="list-style-type: none"> ▶ Orion Group Ltd & Subsidiaries ▶ Christchurch International Airport Ltd ▶ Lyttelton Port Company Ltd ▶ Red Bus Ltd ▶ City Care Ltd (with effect from 1 July 2007) ▶ Christchurch City Networks Ltd ▶ Selwyn Plantation Board 																
Period of Insurance	<p>From: 4:00pm 30 June 2010 To: 4:00pm 30 June 2011</p>																
Business Insured	<p>Any activity now or hereafter carried on by the Insured, including but not limited to:</p> <ul style="list-style-type: none"> • Territorial Local Authority • Council Controlled organisation and associated organisations • Council subsidiary company activities for companies listed above. 																
Limit of Liability	<p><u>Section A Public Liability</u></p> <table border="0" style="width: 100%;"> <tr> <td>Each and Every Claim, but</td> <td style="text-align: right;">\$100,000,000</td> </tr> <tr> <td>• Employees Property</td> <td style="text-align: right;">\$1,000,000</td> </tr> <tr> <td>• Care, Custody or Control</td> <td style="text-align: right;">\$1,000,000</td> </tr> <tr> <td>• Forest & Rural Fires Act</td> <td style="text-align: right;">\$1,000,000</td> </tr> <tr> <td>• Products Hazard – each and every claim and in the aggregate during the Membership Period</td> <td style="text-align: right;">\$100,000,000</td> </tr> <tr> <td>• Wreck Removal</td> <td style="text-align: right;">\$1,000,000</td> </tr> <tr> <td>• Service & Repair</td> <td style="text-align: right;">\$1,000,000</td> </tr> <tr> <td>• Exemplary/Punitive Damages</td> <td style="text-align: right;">\$1,000,000</td> </tr> </table>	Each and Every Claim, but	\$100,000,000	• Employees Property	\$1,000,000	• Care, Custody or Control	\$1,000,000	• Forest & Rural Fires Act	\$1,000,000	• Products Hazard – each and every claim and in the aggregate during the Membership Period	\$100,000,000	• Wreck Removal	\$1,000,000	• Service & Repair	\$1,000,000	• Exemplary/Punitive Damages	\$1,000,000
Each and Every Claim, but	\$100,000,000																
• Employees Property	\$1,000,000																
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• Wreck Removal	\$1,000,000																
• Service & Repair	\$1,000,000																
• Exemplary/Punitive Damages	\$1,000,000																

	<u>Section B – Professional Indemnity</u>	
	• Each and every Claim,	\$100,000,000
	• but in all during the Fund Year	\$100,000,000
Territorial Limits	New Zealand or Australia	
Jurisdiction	New Zealand or Australia	
Excesses	<u>Section A – Public Liability</u>	
	Each and every claim	\$10,000
	<u>Section B – Professional Indemnity</u>	
	Each and every claim, but	\$10,000
	Extension 4 – Loss of Documents	\$500
Insurer	Riskpool Membership	
Policy Wording	Riskpool Protection Wording RP10PLPI-IN but excluding weathertightness claims – exclusion wording to follow	
Conditions / Endorsements	Noted and agreed subsidiary companies above included	
Notes	<u>Public Liability Insurance</u>	
	"With regard to supplier contracts between the Insured and both Gen-I Ltd and ADT Ltd, RiskPool accept the limit of liability (ADT Ltd contract – section headed 'Liability and Indemnity', Paragraph B and Gen-I Ltd contract – Section headed 'Liability, paragraph 20A.2) under these contracts on a without prejudice basis".	
	Policy extended to include the catering contract between Vbase Limited and RNZ 2011 Limited and Rugby World Cup Limited.	
Aon Contact Details	Jill Comley-Forbes Executive Director / Branch Manager Aon New Zealand PO Box 2058 CHRISTCHURCH	
	DDI (03) 367 2802 Fax (03) 367 2899 Email jill.comley-forbes@aon.co.nz	

APPENDIX 4

Uninsured Risks

The following classes of insurance have been discussed with you. We suggest that you review the list from time to time in the light of changing needs and circumstances. The list is not exhaustive, but it includes the most common classes of insurance. If you know of other uninsured risks, please contact us and we will advise you whether insurance is available.

Policy & Description of Cover	(✓ applicable)			
	Insured	Quoted	Declined	Not Required
PROPERTY & BUSINESS INTERRUPTION				
Advance Profits				
Covers loss of future income where completion of a construction project is delayed by damage.				
Boiler Explosion				
Covers boilers and other pressure vessels against risk of explosion; commonly excluded from cover under Material Damage insurance.				
Book Debts				
Covers loss resulting from inability to recover debts because of damage to records.				
Business Interruption				✓
Covers loss of income and increased costs resulting from damage to assets; sometimes referred to as "Loss of Profits" or "Consequential Loss" Insurance.				
Computer Crime				
Covers losses resulting from dishonesty in relation to computers.				
Computer				
Covers computers and computer media against a wider variety of risks than those covered under a Material Damage policy.				
Computer Consequential Loss				
Covers financial losses and extra costs, including data reconstruction, following damage covered under a computer policy.				
Contract Works (sub limit under Material Damage Policy)				✓
Covers physical loss or damage and, as an option, to cover public liability arising in connection with the contract works.				
Fidelity				✓
Covers theft by employees; this risk is commonly excluded from cover under Material Damage insurance.				
Gross Rentals (Rents Receivable)				
Available under a Business Interruption policy. Covers loss of rent money paid or payable to you in respect of the rental of your premises from damage caused by such risks as are covered under the Material Damage policies.				
Machinery Breakdown				✓
Covers breakdown risks – these risks are commonly excluded from cover under Material Damage insurance.				
Machinery Business Interruption				✓
Covers loss of income and increased costs resulting from damage by a peril insured under a Machinery policy. Works as a partner to the Machinery Breakdown policy.				

Material Damage

A general form of policy on buildings, plant and stock

Policy & Description of Cover	I	Q	D	N
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Money (As sub-limit under MD policy only)

Covers cash and other forms of money against loss or damage whilst it is at your premises or in transit

Stock Deterioration

Provides cover following accidental stoppage of refrigeration equipment for chilled or frozen goods; usually only available in conjunction with Machinery Breakdown insurance

Terrorism

This risk is commonly excluded from cover under Material Damage insurance

LIABILITY RISKS

Bailees Liability

Covers liability for damage to property held under bailment, or in your custody and/or control

Directors & Officers Liability

Covers Directors & Officers against liability they might incur in carrying out the duties of a company director or officer. The insurance will also reimburse the company where it has already indemnified its directors for any such liability; cover includes associated defence costs

Employers Liability

Covers the employer company's liability for injury to employees that falls outside the scope of ACC; cover includes associated defence costs

Employment Disputes Liability

Covers damages and costs arising out of certain employment related disputes such as wrongful termination, harassment and discrimination; cover includes associated defence costs

Environmental Impairment

A special form of pollution liability insurance

Exemplary Damages (also called Punitive Damages) (As sub-limit under PL policy only)

Covers damages arising out of bodily injury in New Zealand where the law otherwise prevents legal action for compensatory damages

Extra Territorial Workers Compensation

Covers liabilities where employees are injured outside their normal country or state of employment and are not covered by the relevant statutory policy

Forest & Rural Fires Act

For costs imposed by statutory authorities under legislation

Legal Expenses

Covers legal expenses incurred in civil action

Liability – Consequential Loss

To partially cover loss of gross profit and increased costs arising from an event that also gives rise to a valid claim on a liability policy; this limited form of cover is only available where the liability insurance is provided by the same insurer

Libel & Slander/Defamation (included in Professional Indemnity policy)

Covers legal liability arising out of defamatory remarks made in either written or oral form; cover includes associated defence costs

Private Legal Aid

Covers private persons and their families for private legal aid costs for defending a variety of criminal, traffic and civil actions

Policy & Description of Cover	I	Q	D	Y
Product Guarantee Covers liability for correcting defects in products or for replacing defective products				
Product Liability Covers liability arising for damage arising out of products supplied; cover includes associated defence costs				
Product Recall Covers liability for the cost of recalling products which are defective or suspected of being defective				
Professional Indemnity &/or Errors & Omissions Covers legal liability incurred by giving negligent advice or through a breach of professional duty; cover includes associated defence costs	✓			
Prospectus Liability Covers the Company, its directors and senior executives for liabilities arising from the issue of a prospectus, information memorandum or other sale/purchase documents. This liability is generally excluded from Directors & Officers Liability policies unless they are specifically extended to cover it. Cover includes associated defence costs				
Public Liability Covers general liability for damage or injury happening in connection with the business; cover includes associated defence costs	✓			
Statutory Liability (Christchurch City Holdings Ltd only) Covers fines or penalties imposed for unintentional breaches of certain statutes; cover includes associated costs	✓			
Trustees Indemnity Covers Trustees for personal liability arising from a breach of their fiduciary duties and to reimburse the trust when it has provided an indemnity to the trustees; cover includes associated defence costs				
Warranties & Representations Liability Covers liability arising from specific representations or warranties made in an agreement between parties; particularly relevant in the sale and purchase of businesses				
HUMAN RESOURCE RISKS				
Accident Compensation Supplementary Benefits To supplement the limited cover available under Accident Compensation legislation				
Employee Benefits Includes a variety of special forms of insurance including life insurance, long term disability, salary continuance, medical expenses and superannuation				
Key Person To provide cash benefits to the company in the event of death or disablement of key personnel				
Personal Accident To provide cash benefits in the event of death or disablement following accident to insured person	✓			
TECHNOLOGY RISKS				
Intellectual Property Pursuit Coverage Covers legal expenses to enforce intellectual property rights that are infringed by a Third Party				
Media Liability Covers advertising injury, defamation, breach of third party intellectual property through operating on the internet or via email; includes liability to third parties from inadvertent transmission of viruses				
Network Security Covers costs of repairing/restoring your computer systems and records damaged as a result of a virus, denial of service or hacker attack; can include resultant loss of earnings/ increased cost of working				

Policy & Description of Cover	I	Q	D	N
TRANSPORT RISKS				
Aviation Hull Covers aircraft against physical loss or damage				
Aviation Liabilities Covers Public Liability arising out of the use of aircraft (Public Liability insurance does not normally cover liability arising out of the use of aircraft)				
Carriers Liability Covers liability under the Carriage of Goods Act				
Charterers Liability (Aviation/Marine Hull) Protection tailored to meet the conditions of a Marine or Aviation charter agreement for hull and/or liabilities				
Marine Cargo Covers shipments of goods by land, sea or air				
Marine Hulls Covers watercraft against physical loss or damage				✓
Marine Liabilities Covers Public Liability arising out of the use of watercraft				
Motor Vehicle Covers direct loss or damage to vehicles & Public Liability (third party liability) in connection to the vehicles	✓			
MISCELLANEOUS RISKS				
Accidental & Malicious Product Damage/Tamper Crisis Management providing cover for Product Recall, Restoration Costs, Loss of Income and Incident Response Costs (following product tamper)				
Bonds Financial devices (rather than insurance policies) designed to avoid the need to provide a bond in cash)				
Credit Insurance & Trade Debtors Covers risk of trade debtors failing to pay debts due to their insolvency or protracted default				
Extortion Includes kidnap, ransom and product tampering insurance				
Forest This risk is commonly excluded from cover under Material Damage Insurance	✓			
Growing Crops This risk is commonly excluded from cover under Material Damage Insurance				
Livestock This risk is commonly excluded from cover under Material Damage Insurance				
Political Risk Covers confiscation, expropriation or nationalisation of overseas assets and contracts; can also include cover against frustration or repudiation of a contract				
Travel Covers baggage, medical costs and other travel related risks	✓			

6. AUDIT ARRANGEMENTS LETTER FOR YEAR TO 30 JUNE 2011

21 April 2011

Level 2, Charles Luney House
 250 Oxford Terrace
 PO Box 2, Christchurch 8140

www.auditnz.govt.nz

Ms S Buck
 Chair of the Audit and Risk Management Subcommittee
 Christchurch City Council
 PO Box 23016
 CHRISTCHURCH

Freephone: 0508 AUDITNZ
 (0508 283 4869)
 Fax: 03 377 0167

Dear Sally

Audit for the year ending 30 June 2011

I am writing to outline our arrangements for the audit of Christchurch City Council for the year ending 30 June 2011. This letter has two main sections – an agreement to be signed, and details of the audit. The letter also covers the audits of the Debenture Trust Deed and the Mayor's Welfare Fund.

We appreciate the 4 September 2010 and 22 February 2011 earthquakes in particular have had a major impact on the City and the Council. We have endeavoured to tailor our audit work to reflect these circumstances as much as possible. Unfortunately the accounting standards still apply irrespective of the earthquake which means that the preparation of the Annual Report, like many other things at the moment, will be substantially more complex than usual.

Agreement to be signed

On the next page is an agreement that you need to sign. Your signature confirms that the details of the audit match your understanding of the arrangements for this year's audit.

Please sign and return one copy of the agreement, along with a copy of the details of the audit, by 28 May 2011.

Details of the audit

Here we set out the proposed arrangements for this year's audit. This includes:

- business risks/issues and our audit response;
- areas of interest for all Local Authorities; and

- logistics (such as our audit team, timing, and fees).

Please take the time to read this document thoroughly before returning the signed agreement. If there are additional matters that should be included, or any matters requiring clarification, please contact me.

Yours sincerely

Scott Tobin
Director

Agreement to be signed

I acknowledge that the details of the audit set out here are in keeping with my understanding of the arrangements for the audit.

Signed _____ Date _____
Sally Buck
Chair of Audit and Risk Management Subcommittee

Details of the audit

1 Introduction

This document sets out the arrangements for the audit of Christchurch City Council (the City Council) for the year ending 30 June 2011.

2 Your business risks/issues and our audit response

Based on the planning work and discussions that we have completed to date, we have identified what we consider to be the main business risks and issues facing the City Council. Many of these risks and issues are relevant to the audit because they affect our ability to form an opinion on your financial statements. As part of the wider public sector audit, we are also required to be alert to issues of performance, authority, waste, and probity (as set out in the Audit Engagement Letter dated 17 January 2011).

The table below sets out the business risks and issues that we have identified in line with these requirements. The left-hand column describes these risks and issues. In the right-hand column, we describe how we plan to respond to these during the audit.

Your business risk/issue

Our audit response

September and February Earthquakes

On 4 September 2010 the Canterbury region was hit by a magnitude 7.1, and on 22 February Christchurch was hit by a 6.3 earthquake which devastated the central city and eastern suburbs.

Christchurch was severely affected with substantial damage to Council's assets such as roads, water and wastewater. Buildings were affected, including damage to the new Civic Offices. Routine services were significantly disrupted as Council looked to respond to the emergency situation caused by the earthquakes.

For 2011 and beyond, the impact of the earthquake will have substantial operational and financial implications. Council are aware of these and are dealing with them as part of the earthquake recovery process.

We will continually liaise with management over the response to and implications of the earthquakes as it impacts the Annual Report. We recognise the need to be flexible to the continually changing environment and pressures on Council and staff in conducting the audit.

Further earthquake related points are detailed below.

Your business risk/issue	Our audit response
Accountability arrangements - LTP, Annual Plan and Annual Report	
<p>As a result of the earthquakes Council is seeking Orders in Council which will vary its standard accountability arrangements. In particular Council is looking to:</p> <ul style="list-style-type: none"> • Adopt an annual plan without going through the typical consultative procedure. • Prepare an annual report that does not include reporting against the levels of service, measures and targets included in the Annual Plan. • defer the preparation and adoption of the LTP from 2012 to 2013. 	<p>We have planned our audit approach on the assumption that Council will be successful in obtaining the Orders in Council required to effect these changes.</p> <p>If this is not the case, then our audit approach will be revised.</p>
<p>Management are confident of obtaining these dispensations and are working with the Department of Internal Affairs on these matters.</p>	
Accounting for damage to assets and other matters	
<p>The damage caused by the earthquakes gives rise to substantial accounting implications. For example, those assets with no service potential will need to be identified and expensed. Those assets that still function, but in a limited way, that will be repaired need to have an impairment recognised.</p> <p>The accounting for assets impacted by the earthquake will be a significant area of judgement as distinctions are made between what is a temporary repair, an asset that needs to be disposed of and an asset that is impaired.</p> <p>Council will need to have sufficiently reliable information on damaged and impaired assets at balance date, included relatively accurate estimates of costs to reinstate.</p> <p>There are other related accounting issues that will need to be examined including accounting for insurance claims and other funding received/receivable (including any conditions imposed); the possibility of contingent assets or liabilities.</p>	<p>We had a preliminary meeting with Council just before the February earthquake to discuss accounting treatments of these items. We subsequently provided Council with a technical issues paper detailing the requirements of the accounting standards for damage to property, plant and equipment; valuations and the recognition of insurance proceeds amongst other matters.</p> <p>We will be working with Council staff, and will test in detail, their approach to assessing the appropriate accounting treatment of the damage to assets, insurance proceeds, other funding received and contingent assets and liabilities.</p> <p>In relation to the assets damaged, we do have a concern in that the damage and financial impact is so substantial that despite its best efforts, Council may not have sufficiently reliable information to differentiate and assign a materially accurate value to the assets impacted by the time the audit is completed. We discuss this further below.</p>

Your business risk/issue**Our audit response****Revaluation of Property, Plant and Equipment**

The City Council periodically revalues its property, plant and equipment assets on a 3 year cycle. This year land and buildings, stormwater, waterways and wetlands, and works of art assets are due for revaluation.

Under the accounting standards the City Council also needs to formally review whether a revaluation of other classes of assets is needed this year – for example sewerage assets were last revalued at 30 June 2009 and at balance date it will be two years since the valuations were performed. It is possible that these asset categories may have moved significantly requiring another valuation to be performed.

In the current environment it is even possible that valuations performed last year, such as Roding, will be significantly different now.

Any valuations will need to take into account the condition of the assets, as they are impacted by the earthquake.

There is a significant risk that Council may not be able to obtain valuations or sufficient evidence to confirm that values are not materially different. For example the land and buildings valuers have already indicated that they cannot complete the valuation as there is no reliable market evidence for land and buildings in Christchurch as a result of the earthquake.

A similar issue may apply to those assets valued on replacement cost, as standard industry indices are unlikely to be an appropriate basis on which to forecast movements since the last time a valuation was performed for each class of asset.

We will discuss progress and approaches to the valuations and fair value assessments with Council management and audit any resulting valuations or assessments.

Depending on the outcome of progress here this may impact on our audit opinion as discussed below.

Your business risk/issue	Our audit response
Management control environment and internal controls	
<p>The earthquake has disrupted Council's daily operations, and possibly the control environment and internal controls in place. Examples of this could include:</p> <ul style="list-style-type: none"> • people being affected by the earthquake meaning that they do not perform their jobs as effectively as usual, • time constraints, other focuses and/or an increased volume of work meaning usual controls and checks are not performed or performed as well; • budget monitoring and management monitoring of staff not occurring or being less frequent or robust – especially as operations have changed so substantially <p>In these circumstances it is more possible for fraud or error to occur and go undetected.</p> <p>Council is aware of these risks and we understand is managing them as best as possible.</p>	<p>In our review of the internal controls in place we will be focussing on the control environment to assess the extent of the disruption caused by the earthquake on Council's routine systems and processes.</p>
Impact on other activities	
<p>The earthquake has resulted in decreased revenues from disruption to services, rates on damaged or destroyed properties and growth/development contributions. It has also resulted in different operating costs being incurred. For example lower costs for some services being disrupted such as pools and venues, but significant increases in costs from repairs and other post earthquake costs, such as community shelters.</p>	<p>We will ensure that the systems and processes to capture earthquake related costs and revenues and consider whether they are robust, including how those costs are being claimed from insurers as appropriate.</p> <p>In reviewing the performance of activities, we will be reviewing the underlying systems for capturing revenue and incurring expenditure as noted above, and examining explanations provided for variances against budget, reforecast and 2010. Council has already performed good work in this area.</p> <p>We will also review processes and payments around any redundancies that may result.</p>

Your business risk/issue	Our audit response
Group accounting issues and implications for timeframes	
<p>The earthquake has caused damage to the assets and impacted operations of many of Council's subsidiaries such as Vbase, Orion and Lyttelton Port Company.</p> <p>At the moment Council is proposing to continue with the same annual reporting timetable for itself and the group.</p> <p>We understand each entity is progressing well in terms of the accounting implications from the earthquake, however, as noted above this is an area of substantial complexity and judgement. It is possible that the proposed timelines will not be achieved.</p>	<p>We will continue to liaise with Council, CCHL and the auditors of the other entities within the CCC group to assess progress and issues and advise whether the proposed timetable is on track throughout the process.</p>
Potential audit opinion implications	
<p>Above we note various issues about the complexity of the accounting treatments required and risks around whether there will be sufficient materially accurate information for Council to prepare its financial statements. In particular there are risks around how assets are accounted for in terms of disposals and impairment, and revaluations/assessing fair value. Aspects of this, such as valuations, are also outside of Council's direct control.</p> <p>These issues also apply to the Council's subsidiaries.</p>	<p>Given the circumstances there is a significantly increased risk that a 'qualified' opinion of some sort could be issued – especially based on initial estimates of repairs of \$2b or more for Council alone.</p> <p>We will be working closely with Council throughout the process, and will continue communication on the possible opinion impact throughout the audit.</p>

We will also follow up on progress made by the City Council in its response to our previous recommendations.

Please tell us about any additional matters that we should be aware of as your auditor, and any specific significant business risks that we have not covered.

Other entities

In relation to the Debenture Trust Deed and Mayor's Welfare Fund audits, there are no particular areas of audit emphasis identified.

We need to agree audit arrangements for the following controlled entities:

- Rod Donald Banks Peninsula Trust Te Pataka Rakaihautu.
- The World Buskers Festival Trust.
- Christchurch Agency for Energy.

3 Our areas of interest for all Local Authorities

As well as the risks and issues noted above, there are also a number of concerns common to the Local Authorities sector. The table below outlines our areas of interest for this year's audit. The left-hand column describes each matter and why we are interested in it. In the right-hand column, we describe how we plan to address each matter during the audit.

Given the significant impact the earthquakes have had on Council, we understand that Council's focus has rightly been on other issues. We will limit our review work here in the areas noted below.

Areas of interest	Audit response
Asset Management Plans	
<p>Asset Management Plans (AMPs) play an integral part in the maintenance of the City Council's significant infrastructure assets and will underpin Council's development of its next LTP. However, the earthquake has significantly altered the intended plans for the City and they will need revision.</p>	<p>We will update the revised timelines for the revision of these plans as a result of the earthquake.</p>
Risk management	
<p>Sound risk management processes help to minimise the impact of risks on the organisation.</p> <p>Where the City Council has not identified risks, or has not put in place specific processes for managing these risks, the organisation remains exposed to the full impact of the particular risk.</p>	<p>Council was looking to develop a formal organisation wide risk management system in the 2010/11 year. Management have advised that progress here has been impacted by the earthquake. This is understandable.</p> <p>Our work in this area will be limited to a discussion on what progress has been made and what future work is intended. We will reassess the scope of our review in this area in 2012.</p>
Weathertightness	
<p>Exposure to liabilities from leaky home claims remains a significant issue for the local government sector. While solutions are being sought at a political level to limit or cap the extent of individual party's liability, at this stage there is nothing concrete in place.</p> <p>The government has proposed to establish new financial assistance package (FAP) to help homeowners repair their leaky homes faster. The FAP will see the Government meet 25 per cent of homeowners' agreed repair costs and Local Authorities contributing 25% per cent. The option exists for Local Authorities to opt into the scheme.</p>	<p>Council has accounted for provision for leaky home claims appropriately in previous years. We will review the update and disclosure of the provision in the 2011 financial statements.</p> <p>We will monitor the situation with the FAP. If the City Council has formally decided to opt into the FAP, we will consider financial impact of the decision, and ensure appropriate accounting treatment and disclosure in the provision.</p>

Areas of interest	Audit response
Emissions Trading Scheme	
<p>Councils who operate landfills will have obligations to report their emissions and surrender New Zealand Units (NZUs) under the Emissions Trading Scheme (ETS). From 1 January 2012 land fill operators will be required to report their greenhouse gas emissions.</p>	<p>The City Council is aware of this requirement. We will document the process used and advise the Office of the Auditor-General, including whether unique or default emissions factors will be used.</p>
Development contributions	
<p>Development contributions (and financial contributions, which are levied under the Resource Management Act) are an important funding tool for many local authorities.</p> <p>Development contributions can be contentious. There is a risk that developers may challenge Council's compliance with legal requirements.</p> <p>Council may also face the risk of needing to repay contributions if developments do not proceed. To manage this, the City Council needs adequate records.</p>	<p>The development contributions policy has been audited under the LTCCP.</p> <p>As part of the audit we will review the City Council's controls to ensure the development contribution is charged in accordance with the policy and whether the use and application of funds received is appropriate and that it has been correctly accounted for.</p> <p>Due to the earthquake we expect the level of development contributions to be significantly lower. The impact on growth related projects also increases the risk that Council may need to refund development contributions.</p>
Audit of Service Performance Reports	
<p>In 2010 the audit of service performance reports was a significant focus area. If Council is successful in obtaining an Order in Council it will not need to report this information in 2011.</p>	<p>We will discuss the establishment of new 'post-earthquake' levels of service, measures and targets as they will apply for 2012. We will also complete a preliminary assessment of whether the systems to capture that information are in place.</p>
Possible LTCCP amendments	
<p>Every proposed amendment must be audited. An amendment arises where Council makes a significant decision not provided for in the LTCCP, as outlined in section 97 of the Local Government Act, or makes changes to the policies outlined in section 102 of the Local Government Act.</p> <p>We note that for earthquake related decisions, Council does not need to follow the decision-making or amendment provisions of the Act. This is provided for in the Canterbury Earthquake (Local Government Act 2002) Order 2010.</p>	<p>We will remain alert for possible amendments throughout the year, particularly during the preparation of the annual plan. We will maintain contact with Council management and discuss potential amendments as they arise.</p>

Areas of interest	Audit response
Fraud policy	
<p>The Auditor-General expects every public entity to formally address the matter of fraud, and formulate an appropriate policy on how to minimise it and (if it occurs) how it will be dealt with. Council has an appropriate policy in place. However, for a policy to be effective the City Council's employees should receive training to help them understand their responsibilities under the fraud policy and periodic reminders of the fraud policy's existence and where to locate a copy.</p>	<p>We will review the training and guidance provided on the fraud policy.</p>
Council Governance Role in completion of Council Controlled Organisation (CCO) Statement of Intent (SOIs)	
<p>CCOs are responsible for meeting the accountability requirements of the Local Government Act 2002 (LGA), including preparing SOIs with appropriate involvement from their parent Local Authorities.</p> <p>Local Authorities are responsible for the effective oversight of their CCOs. This includes reviewing and commenting on draft SOIs of their CCOs within the timeframe in the LGA and ongoing monitoring of performance.</p>	<p>We will consider whether the City Council has appropriate arrangements in place for effectively fulfilling its oversight responsibilities relating to CCOs.</p>
Sensitive expenditure	
<p>In February 2007 the OAG published: <i>Controlling sensitive expenditure; Guidelines for public entities</i> (the Sensitive Expenditure Guidelines). We expect the City Council to have reviewed its policies against this guideline.</p> <p>We will review the City Council's policies and the processes it has in place to support this.</p>	<p>We will follow up the recommendations made in our 2010 audit.</p>

Areas of interest	Audit response
Audit Committees	
<p>In March 2008, the Auditor-General published a good practice guide: <i>Audit Committees in the public sector</i>. This guide identifies four main principles of an effective audit committee:</p>	<p>We will check to see that the City Council's audit committee is operating in accordance with the four main good practice principles.</p>
<ul style="list-style-type: none"> • Independence – most of the members of an audit committee need to be independent of the management team to provide objective and impartial advice. • Competence – audit committee members need to have relevant experience and expertise to bring valuable insights and perspectives to the areas of interest. • Clarity of purpose – an audit committee needs to be clear about its mandate, purpose, and role in the organisation and within the governance structure as a whole. • Open and effective relationships – the audit committee needs to encourage open and transparent communication and effective ways of working with stakeholders. 	
Severance payments	
<p>The Auditor-General's 2002 report <i>Severance Payments in the Public Sector</i> is the point of reference for severance payments. This report discusses the risks facing public sector employers when they make voluntary payments to employees (especially at the end of the employment relationship) and suggests a principled approach to employment settlements, aimed at reducing those risks.</p>	<p>We will examine any severance payments made to employees as part of exit settlements – especially when senior ex-staff are the recipients – to ensure a principled approach as been followed in reaching settlement.</p> <p>Our focus will be on settlements which could be seen to be, excessive or unusual. For example this would include settlements which include a large tax-free payment, provide a guaranteed contract role of the departing employee. We will also examine any payments significantly in excess of contractual entitlements.</p>

Areas of interest	Audit response
Conflicts of interest	
<p>Conflicts of interest are an area of concern because of probity and the potential for a conflict of interest that is not well managed to create significant legal and reputation risks. During 2007 the OAG published two sets of guidance for entities in this area.</p> <p><i>Managing conflicts of interest: guidance for public entities</i>, explains how to understand conflicts of interest in the public sector, and how to identify, disclose, and manage them. It also considers both the legal and ethical dimensions of conflicts of interest.</p> <p><i>Guidance for members of local authorities about the law on conflicts of interest</i>, provides more specific guidance for councillors. This is an updated version of previously published guidance about the legal requirements that apply to council members in formal decision-making at meetings of their authority.</p> <p>The Local Government (Members' Interests) Act 1968 controls the making of contracts between Councillors and the City Council and prevents Councillors from participating in Council matters in which they have a pecuniary interest.</p>	<p>While it is primarily the responsibility of the Council to identify and manage conflicts of interest, in the course of our usual audit work we will remain alert for conflicts of interest.</p> <p>It is important that both the City Council and Councillors identify and manage compliance with the Local Government (Members' Interests) Act 1968.</p>
Treaty settlements and co-management	
<p>The Government aims to settle all historical Treaty of Waitangi claims by 2014. One part of cultural redress provided by the Crown to claimant groups is the establishment of future relationships and arrangements ("co-management") with government agencies, such as local authorities, that play significant roles in the areas with which the claimant group has traditional and cultural associations.</p>	<p>We are monitoring these types of arrangements and the implications across all Local Authorities. We ask you to advise us if you become aware of new settlements or co-management arrangements that may impact on your local authority.</p>

Areas of interest	Audit response
Funding arrangements and procurement	
<p>The Auditor-General continues to have general concerns about funding arrangements and procurement throughout the public sector and in 2008 issued two reports.</p>	<p>We will follow up on whether the City Council has completed its updating of its procurement policies, including adoption by the Council.</p>
<p>The reports, published in June 2008 and available on the OAG website are:</p>	<p>We will report the results of the follow-up work in our management letter but recognise progress here will have been impacted by the earthquakes.</p>
<ul style="list-style-type: none"> • <i>Public sector purchases, grants, and gifts: Managing funding arrangements with external parties; and</i> • <i>Procurement guidance for public entities.</i> 	
<p>In 2010 the City Council was in the process of updating its procurement policies with reference to these reports.</p>	
Elected members – remuneration and allowance	
<p>The Local Government Act gives the Remuneration Authority responsibility for setting the remuneration of local government elected members. The Authority also has the role of approving a Local Authority's policy on allowances and expenses.</p>	<p>We will assess the City Council's compliance with the requirement to disclose the remuneration of each member of the local authority in the annual report against the Local Government Elected Members Determination and Local Government Elected Members (2010/11) (Except Auckland) Determination 2010.</p>
<p>Council's annual report must disclose the total remuneration received by or payable to each member of the local authority in the reporting period.¹ A local authority must disclose remuneration paid or payable to each member from both the local authority and any council organisation of the local authority.</p>	
Public Private Partnerships	
<p>Public Private Partnerships (PPPs) are used to procure public infrastructure when they represent good value for money and are in the public interest. Projects should only proceed as a PPP if this provides better value compared with what the same project could achieve under a more traditional procurement method.</p>	<p>We will discuss with the City Council if any PPPs have been entered into or if the City Council intends to enter into any PPPs.</p>

¹ Schedule 10, clause 18, Local Government Act 2002

Areas of interest	Audit response
Contract management	
<p>Contract management is an important component of procurement. Contract management includes the effective management and monitoring the delivery of goods or services to the agreed levels.</p> <p>Contract renewals provide opportunities for the City Council to refresh contract expectations and deliverables to align to the LTCCP. This can also provide opportunities for efficiencies or other savings.</p>	<p>We will discuss the contract management process the City Council has to ensure there is appropriate management – especially in relation to the earthquake works being undertaken.</p>
Annual Report Adoption and Public Release Dates Return	
<p>There is a risk that the Annual Report and Summary Annual Report are not adopted in accordance with the timeline set out in the LGA. The OAG will also monitor the Annual Report adoption and public release dates.</p>	<p>We will note the dates that the City Council adopts its annual report, and makes the full and summary annual reports available to the public.</p> <p>This information will be forwarded to the Office of the Auditor-General.</p>
Local Authority exemptions for Council Controlled Organisations (CCOs)	
<p>Under section 7 of the LGA, a Local Authority may exempt a “small” CCO from the accountability regime that applies to CCOs under that Act.</p>	<p>We will advise the OAG on the City Council’s use of section 7 of the Local Government Act 2002 to exempt any CCOs since 1 July 2010.</p>
Local Authorities emissions and measurement and reduction	
<p>We will gather information about the activities of local authorities in the area of emissions measurement and reduction.</p>	<p>We will gather this information from the City Council and report it to the OAG.</p>

4 IS systems

The design and operation of an effective IS control environment is critical to ensuring the accuracy, integrity and availability of the City Council’s information.

Information is one of the City Council’s key assets, as such, IT risk management procedures enables prevention and mitigation of risks to this asset. The City Council should establish good practices such as reviewing, limiting and removing users access, managing the activities of “superusers” and external parties ability to change data and applications, and ensuring procedures for backup and recovery of data are tested and working.

The best controls for ensuring the accuracy, integrity and availability of the City Council’s information are those that prevent unauthorised transactions or errors from occurring in the first place.

We have reviewed the types of IS issues raised in past years across the local government sector. There were a number of issues raised relating to the effectiveness of IT security, change, risk and data management.

As part of the 2011 audit we will complete a review of the City Council's IT General Controls (ITGC). We will also be following up on issues raised in prior years and reporting the extent to which the City Council has progressed resolution of these issues. We noted numerous significant areas where the controls in place over the City Council's information required improvement.

The ITGC review is performed in two parts.

The first being a risk assessment of the entity level controls in place. These controls are management's activities in the following areas:

- IT governance and strategic planning;
- IT processes, organisation, and relationships;
- assess and manage IT risks;
- monitor and evaluate performance; and
- monitor and evaluate internal control.

The second part being an assessment as to the design and operational effectiveness of activity level controls. These control areas cover the City Council's ability to manage risk associated with the following areas:

- Systems acquisition/project management.
- Security (network and applications).
- Change management.
- Management of physical hardware.
- Management of third-party services.
- Data management.
- Operations management.
- Configuration management.
- Problems and incident management.
- End-user computing (applications and development).

The results of the ITGC review will be reported back to the City Council.

5 Logistics

5.1 Our audit team

The Audit New Zealand staff involved in the audit are:

Scott Tobin	Director
Julian Tan	Second Director
Francis Caetano	Professional Standards Review Director
Andrew Timlin	Audit Manager
Richard Ng	Audit Supervisor
Alan Clifford	Information Systems Auditor
Jason Biggins	Tax Director

5.2 Important dates in the audit process

Our proposed timetable is:

	Date
Interim audit begins	30 May 2011
Draft interim management report issued	21 July 2011
Draft financial statements available for audit ²	25 July 2011 - parent
Final audit begins	25 July 2011
Final financial statements available ³ for audit	[DAY MONTH] 2011
Verbal audit clearance given	[DAY MONTH] 2011
Annual report ⁴ available for audit	[DAY MONTH] 2011
Audit opinion issued	[DAY MONTH] 2011
Draft final detailed management report issued	[DAY MONTH] 2011

5.3 Our interim audit visit

During our interim audit visit, we will focus on updating our understanding of the City Council's internal controls. This includes reviewing the control environment, risk assessment processes and relevant aspects of information systems controls. We will use the results of this assessment to determine how much we can rely on the information produced from your systems during our final audit. We will be particularly focussing on the impact the earthquake disruptions have had on the control environment (if any) and what implications this has for our audit and on discussing and agreeing approaches to accounting for earthquake related items, such as asset impairment and disposals and insurance proceeds.

5.4 Our final audit visit

Our final audit is scheduled to start on 25 July 2011 and is expected to last eight weeks. During this visit we will be auditing the balances, disclosures, and other information included in your financial statements. As noted above there are risks to the timetable as proposed given the implications of the earthquake. We will continue to liaise with Council over progress against the timetable.

² Financial statements (including notes to the financial statements) with actual year-end figures.

³ Financial statements incorporating all the amendments agreed to between the City Council and Audit New Zealand.

⁴ Annual report, including any Mayor's and Chief Executive's overview or reports.

5.5 Professional fees

Our audit fee estimate for the year ending 30 June 2011 is \$268,000 plus disbursements (GST exclusive). This is as agreed in the Letter of Undertaking dated 21 April 2009.

The fee is an estimate and assumes that the expectations discussed in Appendix 1 will be met. If this does not occur, or the scope of the audit changes, we will discuss this further with you.

The fee was proposed three years ago based on business as usual for Council. The earthquakes have significantly changed that and will result in potentially significantly different audit work being required.

For example, if Council is successful in obtaining the Order in Council that exempts it from reporting non-financial information, then less audit work will be required in that area. However, there will be significant additional work required to assess the control environment and internal controls operating, test earthquake related costs, and work with Council to appropriately deal with the numerous accounting issues that result from the earthquake. This could significantly increase audit costs.

At this point it is difficult to determine how much audit time and therefore cost will be involved in the 2011 audit. As a starting point we propose the fee be retained at \$268,000 and as the extent of the work required becomes clearer, discuss and agree what this means for the audit fee with the General Manager Corporate Services.

We propose to bill as follows:	Amount
February	50,000
May	70,000
July	70,000
August	60,000
September	18,000
	<u>268,000</u>

Disbursements will be billed as incurred.

To ensure we can complete the audit within the proposed time frame (see section 5.2) and agreed fee, it is critical that you make appropriate supporting documentation available to us on a timely basis. If this is not the case, it is likely to result in cost overruns, which we will seek to recover from you. To help you prepare for the audit, we will liaise with management and provide them with a detailed list of the information we will need for the audit.

The fees for the audit of the Mayor's Welfare Fund is \$1,600 (GST exclusive) and the Debenture Trust Deed \$2,200 (GST exclusive). Both fees will be invoiced in September 2011.

Appendix 1: Additional information about the audit

Our reporting protocols

Management reports

We will provide a draft of all management reports to management for discussion/clearance purposes. In the interests of timely reporting, we ask management to provide their comments on the draft within 10 working days. Once management comments are received the report will be finalised and provided to the Audit and Risk Management Subcommittee.

Reporting of misstatements

We will include details of all uncorrected misstatements in our management report. Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of the City Council's financial statements.

During the audit, we will provide details of any such misstatements we identify to an appropriate level of management. We will ask for each misstatement to be corrected in the City Council's financial statements. Where management does not wish to correct a misstatement we will seek written representations from representatives of the City Council's governing body that specify the reasons why the corrections will not be made.

Annotated audit opinion needed if the annual report is published on your website

We understand that the City Council intends to publish its annual report on its website. We need to review the information before it is published on the website. An annotated audit report will need to be used for this purpose. This contains some additional paragraphs setting out the risks associated with documents published in an electronic environment. This version of the audit report needs to be published with the electronic version of the annual report.

Examining the controls over the electronic presentation of audited financial information on the City Council's website is beyond the scope of the audit of the financial statements. When information is presented electronically on a website, the City Council should address the security and controls over information on the website to maintain the integrity of the data presented.

Our expectations of you to enable an efficient audit

To enable us to carry out our audit efficiently within the proposed audit fee, we expect that:

- the City Council will provide us with access to all relevant records and provide information in a timely manner;
- your staff will provide an appropriate level of assistance;
- the financial statements will be available at the start of the final audit, include all relevant disclosures, and be fully supported by a detailed workpaper file; and
- the annual report and financial statements (including the statement of service performance) will be subjected to appropriate levels of quality review before submission for audit.

Our audit fee is based on the assumption that we will review no more than two sets of the draft annual report, one printer's proof copy of the annual report, and one copy of the electronic version of the annual report for publication on the City Council's website.

Using your internal auditors

Our approach will be to continue to liaise with your internal auditors to ensure appropriate co-ordination of effort. In keeping with the applicable auditing standard, ISA (NZ) 610, *Using the Work of Internal Auditors*, we will make a preliminary assessment of the internal audit function in terms of organisational status, scope, technical competence, and professional care.

If we determine from our preliminary assessment that the internal audit function could be used for external audit purposes then we will consider the internal audit work proposed or completed. We will then determine the extent to which we can use the internal audit work to supplement our audit work.

How we consider your compliance with statutory authority

As part of the Auditor-General's mandate, we carry out an audit of compliance with statutory authority. Our audit is limited to obtaining assurance that you have complied with certain laws and regulations that may directly affect the City Council's financial statements or general accountability. Our audit does not cover all of the City Council's requirements to comply with statutory authority.

Our approach to this aspect of the audit will mainly involve assessing the systems and procedures that are in place to ensure compliance with certain laws and regulations that we consider to be significant. We will also complete our own checklists covering the key requirements of significant legislation. In addition, we will remain alert for any instances of non-compliance that come to our attention. We will evaluate the relevance of any such non-compliance to our audit.

7. RESOLUTION TO EXCLUDE THE PUBLIC

Attached.

1. 6. 2011

AUDIT AND RISK MANAGEMENT SUBCOMMITTEE**RESOLUTION TO EXCLUDE THE PUBLIC**

Section 48, Local Government Official Information and Meetings Act 1987.

I move that the public be excluded from the following parts of the proceedings of this meeting, namely item +.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987, for the passing of this resolution are as follows:

GENERAL SUBJECT OF EACH MATTER TO BE CONSIDERED	REASON FOR PASSING THIS RESOLUTION IN RELATION TO EACH MATTER	GROUND(S) UNDER SECTION 48(1) FOR THE PASSING OF THIS RESOLUTION
2. APPOINTMENT OF EXTERNAL MEMBERS) GOOD REASON TO	
3. INTERNAL AUDIT ACTIVITY REPORT		
4. LEGAL UPDATE) WITHHOLD EXISTS	SECTION 48(1)(a)
5. FINANCE) UNDER SECTION 7	

This resolution is made in reliance on Section 48(1)(a) of the Local Government Official Information and Meetings Act 1987, and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public are as follows:

Item 2	Protection of Privacy of Natural Persons	Section 7(2)(a))
Item 3	Prevent the disclosure or use of official information for improper gain or improper advantage	(Section 7(2)(j))
Item 4	Maintain Legal Professional Privilege	Section 7(2)(g))
Item 5	Protection of Privacy of Natural Persons	Section 7(2)(a))

Chairman's

Recommendation: That the foregoing motion be adopted.

Note

Section 48(4) of the Local Government Official Information and Meetings Act 1987 provides as follows:

“(4) Every resolution to exclude the public shall be put at a time when the meeting is open to the public, and the text of that resolution (or copies thereof):

- (a) Shall be available to any member of the public who is present; and
- (b) Shall form part of the minutes of the local authority.”