

AUDIT AND RISK MANAGEMENT SUBCOMMITTEE AGENDA

WEDNESDAY 29 FEBRUARY 2012

AT 1PM

IN COMMITTEE ROOM 1, SECOND FLOOR, CIVIC OFFICES, 53 HEREFORD STREET

Subcommittee: Councillor Sally Buck (Chair)
Councillors Helen Broughton, Jimmy Chen, and Jamie Gough
Messrs John Hooper and Michael Rondel

Principal Adviser
Paul Anderson
Telephone: 941-8528

Committee Adviser
Amanda Wall
Telephone: 941-8536

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AUDIT AND RISK MANAGEMENT SUBCOMMITTEE 29. 2. 2012

1. APOLOGIES

Michael Rondel (lateness).

2. CONFIRMATION OF MINUTES OF MEETING

Attached.

It is recommended that the Subcommittee confirm the open minutes of the meeting of Tuesday 6 December 2011.

3. DEPUTATIONS BY APPOINTMENT

CHRISTCHURCH CITY COUNCIL

MINUTES OF A MEETING OF THE AUDIT AND RISK MANAGEMENT SUBCOMMITTEE
HELD AT 3PM ON TUESDAY 6 DECEMBER 2011

PRESENT: Councillor Sally Buck (Chair), John Hooper, and Michael Rondel.

IN ATTENDANCE: Paul Anderson, General Manager Corporate Services
Diane Brandish, Unit Manager Corporate Finance
Graeme Nicholas, Senior Auditor
Paul Rogers, Assets and Contracts Adviser
Warren Brixton, Committee Adviser
Amanda Wall, Committee Adviser

Murray Harrington, Risk and Controls Solutions, PricewaterhouseCoopers.

1. APOLOGIES

Apologies for absence were received from Councillors Helen Broughton, Jimmy Chen, and Jamie Gough.

Apologies for absence were received from Scott Tobin and Julian Tan of Audit New Zealand.

An apology for lateness was received from Diane Brandish.

It was **resolved** on the motion of Councillor Buck, seconded by Mr Hooper, that the apologies be accepted.

2. CONFIRMATION OF MINUTES OF MEETING – 14 OCTOBER 2011

It was **resolved** on the motion of Mr Hooper, seconded by Mr Rondel, that the open minutes of the meeting held on 14 October 2011 be confirmed.

It was **noted** that Mr Anderson will discuss with the General Manager Regulation and Democracy Services and report back to the subcommittee on the following:

- whether the subcommittee's minutes should go to Council only when it makes a recommendation to Council
- why the minutes have not gone before Council in recent times.

3. DEPUTATIONS BY APPOINTMENT

Nil.

4. CORPORATE FINANCE REPORT FOR PERIOD ENDED 31 OCTOBER 2011

Mr Anderson presented the corporate finance report to the subcommittee, and noted that there were no significant changes since the last report. A cashflow summary document showing cash recoveries from the Crown and insurers was tabled for members' information, and Mr Anderson noted that the summary document would be appended to the report for future subcommittee meetings.

The report was **received** on the motion of Mr Rondel and seconded by Mr Hooper.

5. RESOLUTION TO EXCLUDE THE PUBLIC

It was **resolved** on the motion of Councillor Buck, seconded by Mr Hooper, that the resolution to exclude the public set out on page 12 of the agenda be adopted.

06. 12. 2011

It was **agreed** that Paul Rogers be permitted to remain in the meeting room for the public excluded part of the meeting to speak on an agenda item in place of the Manager Legal Services.

CONFIRMED THIS 29TH DAY OF FEBRUARY 2012

COUNCILLOR BUCK (CHAIR)

AUDIT AND RISK MANAGEMENT SUBCOMMITTEE 29. 2. 2012

4. CORPORATE FINANCE REPORT FOR PERIOD ENDED 31 JANUARY 2012

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

PURPOSE OF REPORT

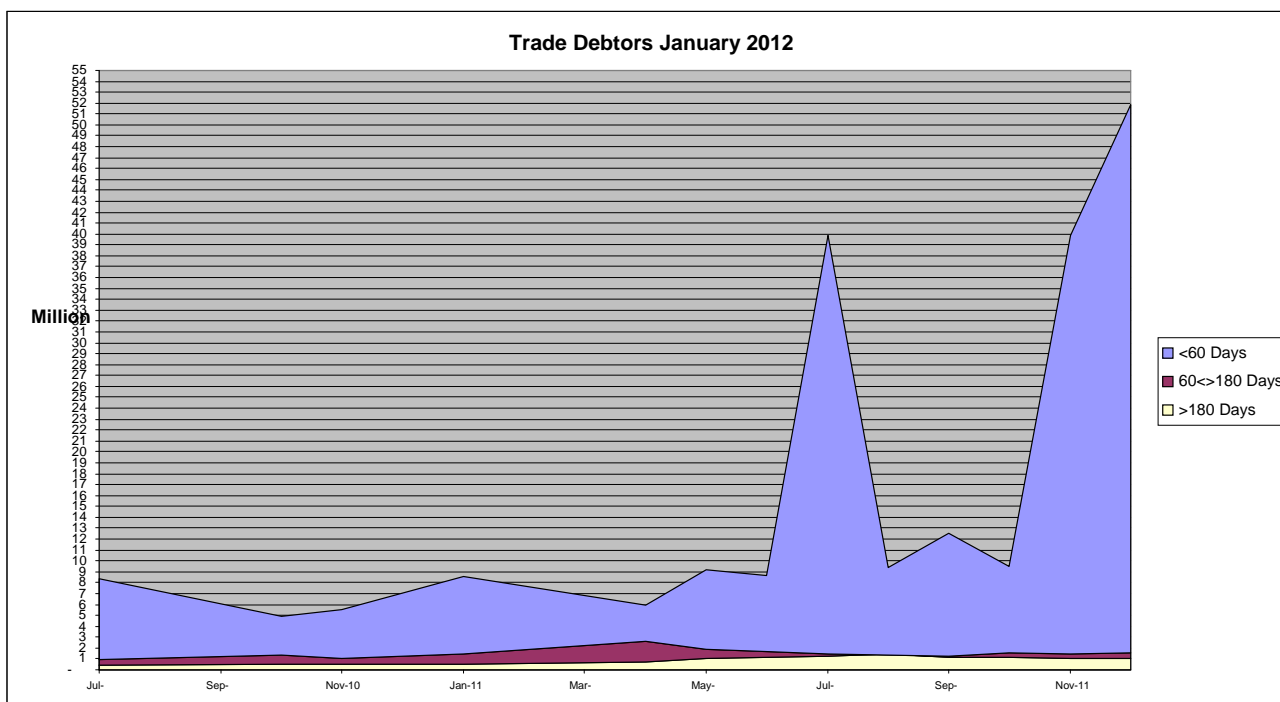
1. The purpose of this report is to provide the Audit and Risk Management Subcommittee with an update on key financial and treasury matters for the period ending 31 January 2012.

TREASURY

2. Since the last meeting of 6 December 2011 we have signed a two year \$100 million committed facility with CBA (Commonwealth Bank of Australia). \$50 million was drawn down in early January and the balance will be drawn down late February, early March. Negotiations with NZTA and CERA for reimbursement of their share of the Alliance costs are proceeding very slowly, although we have been advised that a paper has gone to Cabinet and a decision will be made before the end of the month. Council's position is that the Alliance is a partnership, and therefore all partners should meet their costs in a timely manner. Council has incurred \$135 million to date for both Alliance and IRMO work with no contribution from the Crown. Invoices have been raised on each department for \$28 million being their share of capital work done to date and the set up costs.
3. The table in **Appendix 1** sets out the key treasury performance measures. We remain outside of the upper and lower limits of the liquidity and funding risk management policy and have moved outside of the liquidity ratio. This is because of the short duration negotiated for the last \$250 million of borrowings in the expectation that Central Government would meet their funding commitments. At the February Treasury Review Team meeting the decision was made is to approach the Local Government Funding Agency for \$140 million of borrowing with a five to seven year term and to repay the CBA facility. This will bring us back within all of the policy guidelines.

DEBTORS

4. At 31 January 2012 the debtors balance stood at \$71.1 million, \$61.7 million above that reported in October 2011. \$56 million relates to the invoices raised on CERA and NZTA. Total building consents are down \$486,000 on the October figures, all other categories are largely unchanged.
5. Overdue debtors total \$1.8 million, or 2.5 per cent of total debt. The September figures were \$1.5 million and 16.1 per cent.
6. Debt written off for the year to date totals \$141,300 compared to \$136,400 for the same time last year. The largest increase for the month is in residential rents, and year to date residential rents and library debt. Further detail is provided in **Appendix 2**. The main reason for the write-off in each area is that debtors cannot be located.



INSURANCE

7. Deducting the earthquake damage estimates from the Council's \$4.1 billion of insurable assets, leaves approximately \$2.7 billion to insure. The Council has secured limited cover for \$445 million of above ground assets (housing and CBS Canterbury Arena) and is covered for the Crown's 60 per cent share of the below ground (~\$800 million). This leaves a total of \$1.5 billion of insurance still to place (\$1 billion above ground and \$500 million below ground). Details of a further 100 buildings totalling \$724 million was forwarded to London via our broker Aon just before Christmas. Progress to date has been slow as more information is required on the status of the top five buildings following the December earthquakes.
8. We continue to work with Aon in preparing the data required to obtain quotes for the parametric cover.

INSURANCE RECOVERIES

9. The table below summarises the recovery position for each category of claim as at 31 December 2011. A further \$7.5 million of the indemnity claim was received in January.

AUDIT AND RISK MANAGEMENT SUBCOMMITTEE 29. 2. 2012

Monthly recoveries summary report as at 31/12/2011							
\$(m) All Figures are GST Exclusive							
	Total	Crow	NZTA	LAPP	Civic	Other	Note
Emergency and Response							
Cost incurred to date	416.9						
Recoveries accrued	285.3	160.2	77.7	33.1	14.3	0.0	
Recoveries	199.4	115.0	69.8	14.1	0.0	0.5	
Recoveries claimed but unpaid	23.5	20.3	0.0	3.1	0.0	0.0	
Balance unclaimed to date	62.5	24.9	7.9	15.9	14.3	-	
Increased Costs of Working							
Costs to date	-						Credit due to Civic Building rebate.
Claims to be lodged (estimate)	2.8				2.8		
Rebuild							
Cost incurred to date	197.9						
Recoveries accrued	167.7	94.4	1.1	61.8	10.4	0.0	
Recoveries	5.0	0.0	0.0	0.0	5.0	0.0	
Recoveries claim but unpaid	25.9	12.9	12.9	0.0	0.0	0.0	0.0 Share of SCRIT set-up costs and physical work invoiced Nov.
Balance unclaimed to date	136.8	81.4	-	61.8	5.4	0.0	
Significantly Damaged Buildings (No rebuild cost incurred but recoveries claimed)							
Recoveries accrued	53.6	0.0	0.0	0.0	47.4	6.3	Overcap properties claim from EQC (\$6.3m)
Recoveries	33.9	0.0	0.0	0.0	33.9	0.0	
Recoveries claim but unpaid	19.7	0.0	0.0	0.0	13.5	6.3	Overcap properties claim from EQC (\$6.3m)
Balance unclaimed to date	0.0	0.0	0.0	0.0	0.0	0.0	

AUDIT NEW ZEALAND MANAGEMENT LETTER

10. The Audit New Zealand Management Letter has been received following this year's Annual Report. It is attached as **Appendix 3**.

The key points to note are:

- Audit NZ commends Council staff for the extensive disclosures of the impact of the earthquakes on the financial statements and the way in which they worked with the auditors during this difficult process.
- Despite the earthquake, Council continued to receive performance reporting and units in Council continued to be held to account for performance – both financial and non-financial. The Council's control environment is 'effective'.
- The Audit and Risk Committee operated effectively and oversaw the development of the Annual Report.
- There are huge challenges ahead due to the scale and complexity of issues we face.
- There are a number of suggestions to improve the control environment – all of which are under action by staff.

FINANCIAL AND LEGAL CONSIDERATIONS

11. There are no financial or legal implications other than those covered above.

STAFF RECOMMENDATIONS

It is recommended that the report be received.

Christchurch City Council Treasury Management Report for period to 31 January 2012

Key Performance Measures			
	Policy Limits	Actual 2011/12 period ended 31 January 2012	
INVESTMENT POLICY			
Counterpart Credit Risk Limits (see attachment for split per bank)			
Max Investment per counterparty			
NZ Govt	unlimited		
NZD Registered Supernationals	\$50 m		
SOEs	\$15 m		
NZ Registered Bank (A- / A2)	\$50 m		
NZ Registered Bank (Govt guaranteed)	Up to guarantee maximum		Within Limits [see (a) & (c)]
Corp Bonds/CP	\$10 m		
Local Govt Stock/Bonds/FRN/CP	\$40 - \$25 m		
Interest rate risk mgmt instrument max per counterparty			
Counterparty Credit Risk Limits			
NZ Registered Bank (per bank) - Min long-term/short-term credit rating	A-/A2		Within Limits [see (b) & (c)]
- Interest rate risk mgmt instrument max	\$70 m		
LIABILITY MANAGEMENT POLICY			
Liquidity & funding risk management			
0-3 years ¹ & 2	10 - 60%	69%	Outside limits
3-5 years	20 - 60%	20%	Within limits
5 years plus ²	15 - 60%	11%	Outside limits
<small>¹ CBA \$100m facility (\$50m drawn to date) is a two year facility but draw downs roll every 60 to 90 days.</small>			
<small>² Short term debt facilities have been established to accommodate timing differences between payment of response and recovery costs and receipt of funding from the Crown.</small>			

ATTACHMENT 1 TO CLAUSE 4 AUDIT AND RISK MANAGEMENT SUBCOMMITTEE 29.2.2012

Borrowing mechanisms & limits

Net debt as a percentage of equity	<20%	5.7%	Within limits
Net debt as a percentage of total revenue ³	<100%	42.7%	Within limits
Net interest as a percentage of total revenue ³	<10%	1.0%	Within limits
Net interest as a percentage of annual rates income (debt secured debenture)	<15%	3.0%	Within limits
Liquidity (term debt+committed loan facilities+liquid investments to current external debt) ⁴	>120%	119.5%	Outside limits

³ excludes non-govt capital contributions

⁴ The fall in Liquidity below policy targets reflects the timing difference between payment of response and recovery costs and receipt of funding from the Crown.

When 24-month forecast net debt exceeds \$25 million:

Interest rate exposure

Master fixed/floating risk control limit	50 - 95%	64.0%	Within limits
Fixed maturity profile limit			
1-3 years	15 - 60%	19.0%	Within limits
3-5 years	15 - 60%	37.2%	Within limits
5 years plus	10 - 60%	43.8%	Within limits

* Council became a net borrower as at 30 September 2011

(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	AAA	50m	none	50m
SOEs	A- / A2	15m	none	15m
NZ Registered Bank	A- / A2	50m	70m	70m
		Up to guarantee		Up to guarantee
NZ Registered Bank	Govt guaranteed	maximum	none	maximum
Corp Bonds/CP	A- / A2	10m	none	10m
	A- / A2 (if rated)			40m
Local Govt Stock/Bonds/FRN/CP	unrated	40	25	25m

** To determine the counterparty amount for Interest Rate Risk Management, the formula notional principal x maturity (years) x 3% is used. (Per LTCCP 2009-19)

ATTACHMENT 1 TO CLAUSE 4 AUDIT AND RISK MANAGEMENT SUBCOMMITTEE 29.2.2012

Max investment per Counterparty	Actual	Max allowed	Credit rating	
	\$m	\$m		
ANZ	15.2	50.0	AA-	Within limits
ASB Bank	20.1	50.0	AA-	Within limits
Auckland International Airport	4.5	10.0	A-	Within limits
Bank of New Zealand	48.1	50.0	AA-	Within limits
Canty Museum Trust Board	2.6	25.0	Unrated	Within limits
Far North District Council	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
HSBC	30.8	50.0	AA-	Within limits
Interstar NZ Millennium	0.1	10.0	AA-	Within limits
Kiwibank	46.3	50.0	AA-	Within limits
Manukau City Council	5.0	25.0	Unrated	Within limits
Masterton District Council	3.0	25.0	Unrated	Within limits
New Plymouth District Council	2.0	40.0	AA+	Within limits
Rabobank	0.0	50.0	AA	Within limits
Rotorua District Council	5.0	25.0	Unrated	Within limits
SBS Oreti	0.2	50.0	AA-	Within limits
Selwyn DC	5.0	25.0	Unrated	Within limits
Tauranga City Council	5.0	50.0	A+	Within limits
TCNZ Finance Ltd	2.0	10.0	A-	Within limits
Westpac Inst. Bank	0.0	50.0	AA-	Within limits
Whangarei District Council	10.0	25.0	Unrated	Within limits

Interest rate risk mgmt instrument max per counterparty	Actual	Max allowed	Credit rating	
	\$m	\$m		
ANZ	0.0	70.0	AA-	Within limits
BNZ	0.0	70.0	AA-	Within limits
Westpac	0.0	70.0	AA-	Within limits

ATTACHMENT 1 TO CLAUSE 4 AUDIT AND RISK MANAGEMENT SUBCOMMITTEE 29.2.2012

(b) Counterparty Credit Risk Limits

	Actual	Max allowed	Credit rating	
	\$m	\$m		
ANZ	27.2	70.0	AA-	Within limits
Bank of New Zealand	16.0	70.0	AA-	Within limits
Westpac Inst. Bank	12.9	70.0	AA-	Within limits
	56.1			

(c) Total max per counterparty

	Actual	Max allowed	Credit rating	
ANZ	42.4	70.0	AA-	Within limits
ASB Bank	20.1	50.0	AA-	Within limits
Auckland International Airport	4.5	10.0	A-	Within limits
Bank of New Zealand	64.1	70.0	AA-	Within limits
Canty Museum Trust Board	2.6	25.0	Unrated	Within limits
Far North District Council	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
HSBC	30.8	50.0	AA-	Within limits
Interstar NZ Millennium	0.1	10.0	AA-	Within limits
Kiwibank	46.3	50.0	AA-	Within limits
Manukau City Council	5.0	25.0	Unrated	Within limits
Masterton District Council	3.0	25.0	Unrated	Within limits
New Plymouth District Council	2.0	40.0	AA+	Within limits
Rabobank	0.0	50.0	AA	Within limits
Rotorua District Council	5.0	25.0	Unrated	Within limits
SBS Oreti	0.2	50.0	AA-	Within limits
Selwyn DC	5.0	25.0	Unrated	Within limits
Tauranga City Council	5.0	50.0	A+	Within limits
TCNZ Finance Ltd	2.0	10.0	A-	Within limits
Westpac Inst. Bank	12.9	70.0	AA-	Within limits
Whangarei District Council	10.0	25.0	Unrated	Within limits

Debt written off - summary report for the year ended 30 June 2012

	July	August	September	October	November	December	January	February	March	April	May	June	YTD Total	%
Write Offs < \$2000.00	25,700.95	34,220.36	3,807.56	9,060.34	3,026.55	4,020.10	15,581.96						95,417.82	67.5%
Write Offs => \$2000.00	17,409.99	3,811.57	8,159.36	9,767.70			6,706.01						45,854.63	32.5%
Total to approve	43,110.94	38,031.93	11,966.92	18,828.04	3,026.55	4,020.10	22,287.97	-	-	-	-	-	141,272.45	
<i>Breakdown:</i>														
Parking	448.45	528.35	243.00	102.40	70.00		355.97						1,748.17	1.2%
Residential Rents	18,718.26	11,527.91	1,070.89	11,435.95			6,083.50						48,836.51	34.6%
Regulatory	436.72	830.97	3,805.12	1,113.49	122.15		5,638.56						11,947.01	8.5%
Library (ex SAP)													-	0.0%
Library - Unicorn Only	8,761.38	21,407.32	620.65		2,834.40	4,020.10	9,859.19						47,503.04	33.6%
Sundry	14,746.13	3,737.38	6,227.26	6,176.20			350.75						31,237.72	22.1%
Abandoned Vehicle													-	0.0%
Street Pole													-	0.0%
Commercial													-	0.0%
Total 2011-2012	43,110.94	38,031.93	11,966.92	18,828.04	3,026.55	4,020.10	22,287.97	-	-	-	-	-	141,272.45	
Total 2010-2011	32,333.68	5,321.06	47,952.25	13,637.54	14,756.63	10,772.44	11,645.35	33,116.02		10,758.96	10,228.69	24,172.62	214,695.24	
Variance to Last Year	10,777.26	32,710.87	- 35,985.33	5,190.50	- 11,730.08	- 6,752.34	10,642.62	- 33,116.02	-	10,758.96	- 10,228.69	- 24,172.62	73,422.79	

Report to the Council on the audit of

Christchurch City Council

for the year ended 30 June 2011

Audit New Zealand has carried out this audit on behalf of the Controller and Auditor-General.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.

Our audit has been carried out in accordance with the Auditor-General's auditing standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity, or inefficiency that is not material to your financial statements.

Implementing and maintaining systems of internal control for detecting these matters remains the responsibility of the Council and management.

Statement of auditor independence

We confirm that, for the audit of Council's financial statements for the year ended 30 June 2011, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

In addition to the audit, we carried out other assignments in certain of the City Council's subsidiaries. These assignments were issuing audit certificates pursuant to the Commerce Act (Electricity Disclosure Requirements) Notice 2004, the Commerce Act (Electricity Distribution Thresholds) Notice 2004 and the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999. These assignments are compatible with those independence requirements.

Other than the audit, the audit of an amendment to the Long Term Council Community Plan and the assignments detailed above, we have no relationship with or interests in the City Council or any of its subsidiaries.

Unresolved disagreements

We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the financial statements. Management has not sought to influence our views on matters relevant to our audit opinion.

Other relationships

We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the Council that is significant to the audit.

We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the Council during or since the end of the financial year.



Scott Tobin
Director
9 February 2012

Report to the Council

for the audit for the year ended 30 June 2011.

We have completed the audit for the year ended 30 June 2011. This report sets out our findings from the audit and draws attention to areas where Christchurch City Council (the Council) is doing well or where we have made recommendations for improvement.

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Key messages

The earthquakes dominated this year's audit, having an unprecedented impact on Christchurch and Council. All aspects of Council's services were affected and the city's key buildings and infrastructure were severely damaged. The work to rebuild the city will take years.

The impact of the earthquakes significantly affected Council's ability to prepare its annual report. Council staff estimated the amount of damage to its assets at approximately \$2.4 billion. However, the scale of the damage and the multitude of uncertainties and assumptions around the estimate meant that it was not considered sufficiently reliable for inclusion in the financial statements. The earthquakes also meant Council could not determine appropriate values for the property, plant and equipment assets held at year end. The uncertainty around the extent of damage or appropriate values was both significant and pervasive to the financial statements and resulted in us issuing a disclaimer of opinion on all of the financial statements except for the cash flow statement.

We commend Council on the extensive note disclosure of the impact of the earthquake on the financial statements. We are also appreciative of the many discussions with Council staff throughout this year's audit on this difficult issue. We acknowledge that there will be substantial work to be done on this matter by Council staff for next year's financial statements.

Given the extent of the damage, it is possible that despite Council's best efforts, a modified audit opinion of some sort will be issued again next year. We will continue to work with Council over the next year on this issue.

Thank you

We would like to thank Council and management for the assistance provided during this year's audit.

1 Our audit opinion

1.1 We issued a modified audit opinion

We issued a modified audit opinion on 27 October 2011.

A disclaimer of opinion was issued on the financial statements, except for the cash flow statement. The principal reason for the disclaimer was the impact of the Canterbury earthquakes on Council's property, plant and equipment which were significantly damaged by the earthquakes. This damage was not accounted for in the financial statements because Council could not estimate the cost to repair these assets with sufficient accuracy to satisfy the relevant accounting standards.

We comment further on this in section 2.1 below.

1.2 Unadjusted misstatements

The financial statements are free from material misstatements, including omissions. However, in the course of the audit, we have found:

- certain misstatements that are individually and collectively not material to the financial statements; and
- certain immaterial disclosures, required by generally accepted accounting practice, that have been omitted from the financial statements.

We have discussed any misstatements that we found with management. The significant misstatements that have not been adjusted are listed in Appendix 1 along with management's reasons for not adjusting these misstatements. We are satisfied that these misstatements are individually and collectively immaterial.

2 Business risks/issues

2.1 Impact of Canterbury earthquakes on audit opinion

2.1.1 The reason for the disclaimer of opinion

The Canterbury earthquakes have had a significant and wide-ranging impact on Council and some of its subsidiaries. All aspects of Council's operations were impacted significantly with large scale damage to Council's property, plant and equipment assets. From an accounting perspective, the impact of the earthquakes has resulted in a disclaimer of opinion on Council's 30 June 2011 parent and group financial statements, other than the cash flow statement.

A number of accounting issues and implications associated with Council's property, plant and equipment assets, contributed to the disclaimer of opinion. The principal matters were:

- Council were unable to accurately estimate the quantum of impairment damage to its land, buildings and infrastructural assets and reflect this in the financial statements.
- Council's valuers were unable to provide valuations for land and buildings.
- There was evidence to suggest that the carrying value of infrastructure assets remaining after the earthquake should be materially different, but due to the damage and uncertainty over the appropriate rates, valuations could not be performed.
- The inability to determine the consequential impact of these matters on related balances in the financial statements such as depreciation, asset write-offs and disposals, revaluation reserves and surplus.

We have not gone into these matters in depth in this report because they have been extensively discussed with Council management and the Audit & Risk Management Subcommittee, and are fully disclosed in the financial statements. We have issued a disclaimer of opinion on the financial statements as a whole because we assessed the impact of these matters as pervasive and material, due to their size and fundamental impact. Because of these matters, we were unable to obtain sufficient audit evidence to form an opinion over the financial statements as a whole, except for the cash flow statement.

2.1.2 Implications for future years

Going forward, it is possible that Council's financial statements will also receive a non-standard opinion again in 2012 and even in later years in relation to issues arising from the earthquakes. This will depend on the progress that Council is able to make. We discuss particular matters that Council and we will need to consider for 2012 below:

- **Accounting for property, plant and equipment assets damaged by the earthquake**

Most damaged assets will either be repaired or replaced. There may be some damaged assets, for example, in the red zone that will be simply abandoned.

The quantum of damage, for those assets that will not be derecognised, will need to be reflected in the financial statements. While good progress has been made so far in estimating the cost of repairs, which can be used as a proxy for the impairment, the key thing is that the estimates are robust, can be substantiated, and cover all assets.

We would expect that Council's engineers will be in a position to produce more reliable and complete estimates by next year. The estimation of replacement costs is also likely to improve as the Alliance gets underway with work. However there still remain likely limitations due to the scale of work that is required and Council will not have sufficiently reliable information for 2012 despite best efforts. We will work with Council through the process on this.

Also contributing to the estimates' uncertainty are the decisions that are still to be made on whether damaged assets will be replaced or repaired. Until such decisions are made and confirmed, the correct accounting treatment cannot be determined. QE2 Park is a good example. The accounting treatment for QE2 Park will depend on whether it is going to be repaired or demolished. In the absence of any decision, the asset should at least be impaired.

- **Assessment of whether carrying value fairly reflects fair value**

Council last revalued its infrastructural asset classes and land and buildings at various dates going back to 30 June 2008. It needs to be able to demonstrate that the amount shown in the financial statements remains fair value. The damage to assets and likely significant increases in the replacement costs for assets meant that for 2011, the fair value could not be confirmed.

As better information on assets is obtained and through the operations of the Alliance and letting of contracts appropriate unit rates will be able to be established. This should make it more possible for revaluations to be performed.

For land and buildings in the CBD the lack of a functioning property market precluded a valuation in 2011. Council will need to discuss with its valuers whether the property market is functioning effectively and whether they will be able to value land and buildings in 2012.

- **Differentiating between repairs and capital work**

The accounting treatment for repairs is different from capital work. It is important that any work that is performed on damaged assets is correctly accounted for.

This will require an assessment of the nature of the work. As coding of invoices is done by works staff, it is important that they are familiar with the accounting treatment for different types of work. We suggest that Finance provide guidance on this to those performing the coding of invoices on this.

- **Depreciation expense**

Depreciation expense may be overstated for 2012 if the existing unimpaired asset values are used to calculate depreciation. In addition, the remaining useful lives of assets may be incorrect if the asset's remaining useful lives were shortened by the earthquakes. As further information on asset damage is obtained, then the consequences for depreciation estimates and remaining useful lives needs to be considered.

- **Group accounting**

There are several Council subsidiaries that have significant property, plant and equipment assets damaged by the earthquakes. While Orion, Lyttelton Port and the Christchurch Airport received clear opinions, both Vbase Limited and Tuam Limited received modified audit opinions for principally the same reasons as that for Council.

While some of these entities are unlikely to be material to the Council group, the issue of impairment, de-recognition, and whether the carrying value reflects fair value will need to be addressed in the group and the issues raised above relevant to Council will be relevant to these entities and possibly could impact Council's audit opinion.

We also note that the investment valuations in Council's subsidiaries may require revision in 2012 as further consequences of the earthquakes are known.

- **Non-financial reporting**

Council received an exemption from reporting their performance against the performance measures adopted in the 2011 Annual Plan. As a result we did not review the systems Council uses to capture this information.

There is no exemption in place for 2012 so Council needs to ensure that the systems used to capture non-financial performance information are as robust as they were before the earthquake to enable accurate reporting.

- **Insurance proceeds**

Council has recognised insurance proceeds this year based on the premise that claimable costs have been captured, and are claimable from various parties. We were satisfied that these costs are valid and agreed that there were insurance policies and contracts in place with external parties to cover them.

For the 30 June 2011 year, not all costs had been claimed, and most claims made had not been paid. The recognition of the proceeds was based on the best information available at the time. Hopefully, this position will be further

advanced during the next year. Recently, it has been publicly reported that the Lyttelton Port Company's insurers have refused to pay out on some claims despite a policy being in place. We do not have all the information on this but it highlights the possibility of disputes and the care that should be taken in accounting for insurance proceeds. While Council does not have the same insurers as the Port Company, we are mindful that a receivable should only be booked when there is virtual certainty of receipt. We will assess this in next year's audit.

- **Comparative information**

If Council manages to successfully work through all of the accounting issues detailed above, the comparative information for 2011 included in the 2012 Annual Report will have the same limitations and a modified opinion is likely as a result. The option of restating the 2011 information does not seem possible as a change is only allowed where there is a prior period error which is defined in the relevant standard (NZ IAS-8: *Accounting Policies, Changes in Accounting Estimates and Errors*) as follows:

*Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, **reliable** information that:*

(a) was available when financial statements for those periods were authorised for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

The problem was that the best information available at the time was not sufficiently reliable. That information was used in preparing the Annual Report.

- **Funding the redevelopment of the City**

As a result of the earthquakes there is a significant change in Council's revenue and expenditure and a substantial expected shortfall between the costs of restoring services and the amounts expected from the government and insurance. We will be reviewing how Council intends to fund this shortfall and whether this has any implications for the viability of Council's operations.

2.1.3 Conclusion

We agree with Council's decision not to account for the damaged assets in this year's financial statements due to the impairment estimate not being sufficiently robust. The nature of the audit opinion would have been the same whether it had tried to include the earthquake damage within its accounts or not.

We also commend Council finance staff on the extensive note disclosure of the impact of the earthquake on the financial statements. We are appreciative of the continuing dialogue with Council staff throughout this year's audit to work through challenging issues that resulted from the earthquake and commit to continue to work with Council as it considers the accounting and operational issues that will result in 2012.

Management comment

Noted

Management control environment

The earthquakes significantly disrupted Council's operations. We were mindful that this disruption could have an adverse impact on staff performing their duties, with the usual controls and checks not being performed or performed as effectively as prior to the earthquake.

Despite the relocation of Council staff into various temporary premises, we can report that, substantively the systems level internal controls, such as rates and expenditure, continued to operate following the earthquakes in the same manner that they did beforehand. We do note several areas where internal controls can be enhanced in section 4 of this report, but other than a need to reintroduce payroll masterfile controls, these matters were not attributed to the earthquake.

Other key matters identified in the control environment:

- Council continued to receive periodic reports and monitor financial and non-financial performance. Frequent reporting of the earthquake and its financial impacts was also provided.
- Individual units of Council continued to be held accountable for performance – albeit that this was more difficult due to the financial and operational impacts of the earthquakes and determining what good performance should be.
- Council progressed in the area of risk management. PricewaterhouseCoopers have been contracted to provide this function for Council. Workshops were held by Council organisational groups and the Executive Team to identify key risks and a risk register has been implemented.
- Many of our prior year issues were resolved, and progress on others was made, but impacted by the earthquake.
- The Audit and Risk Committee operated effectively and oversaw the development of the annual report.

Overall, we continue to assess Council's management control environment as "effective".

Council does face continued challenges operating in the current environment with the scale and complexity of the issues it needs to work through. There is a risk that some of the clear gains made in recent years around holding budget holders to account for financial and operational performance may be lost where the impact of the earthquake could be used as an excuse.

The Government has recently appointed an observer to oversee the functioning of the Council. We will be assessing what impact this has on how the elected Council and senior management team works and communicates, and what, if any, impact this has on the broader control environment.

3 Internal Control matters

3.1 Funding arrangements and procurement

Recommendation

Consideration be given to develop a more formalised procurement strategy and contract management system to ensure that value-for-money and cost efficiencies within procurement are maximised.

Findings

Currently, there is no over-arching strategy for the procurement function. At present, each new contract must have a business case which ties into the Annual Plan/LTP. However, there is no framework in place to consider all contracts that sit under distinct areas/categories (for example, transport) and no framework to focus strategy to achieve the specific objectives within each category. Without a more holistic approach, there is a risk that opportunities for better value-for-money/economies of scale could be or are currently being missed.

In addition, the accounts payable system can link purchase orders and expenditure against vendors but not specific contracts. This means that contract expenditure is typically managed against budgets (i.e. up to budget limits) and not individual contracts. There is a risk that under-spend against certain contracts (and, therefore, potential savings for future contract renewals) will not be identified.

We also note that Council does not have a formal procurement policy in place. While a draft policy was developed during this year, we understand that it has not been adopted due to some procurement matters being raised by elected members following the earthquakes which necessitated a re-look at the draft policy.

We will review the completed policy next year against the guidance published by the Auditor-General.

Management comment

1. *Contract Management System. A system (BIW System) Proof of Concept has been recently completed (and ticked off by end users) with a Business Case due in the New Year to the sponsors (LSU / Corp Services / CEG).*
2. *A Terms of Reference proposal has been compiled for a full Contract Baseline audit and is due for consideration in the New Year.*
3. *Procurement Strategy –A draft has been provided to the General Manager Corporate Services which will now be amended to incorporate the feedback provided. This will be consulted on in March and ready for tabling with full Council by the end of May 2012.*

3.2 Sensitive expenditure policies

Recommendation

Council give consideration to developing additional sensitive expenditure policies outlined in the Auditor-General's good practice guidance.

Findings

We note that Council's sensitive expenditure policies do not cover all of the areas outlined in the good practice guide issued by the Auditor-General, titled "Controlling Sensitive Expenditure: Guidelines for Public Entities".

Specifically, Council's policies do not include a policy on:

- tipping;
- sale of surplus assets to staff;
- farewell and retirement gifts; and
- sponsorship of staff and others.

These areas are relevant to Council. Council may therefore wish to develop policies covering these areas.

Management comment

Tipping: Since this is such a minor part of doing business in New Zealand and staff travel to other countries where this is common is so minor it is not thought material enough to form a specific policy on. This is left to the discretion of the senior staff who sometimes travel overseas.

Sale of surplus assets. Agree that this is a policy gap area. Staff have no special rights but can only purchase surplus assets through the same process as external parties. Assets are normally disposed of through an auctioneer however there is no policy to cover this specifically. This practice will be formalised in an internal policy.

Staff retirement and functions: Agree that this is a gap where guidance could be helpful. This will be addressed with HR.

Sponsorship of staff: Staff are not sponsored as staff members although they can apply for sponsorship through the normal funding avenues as residents e.g. Youth development grants. Only other sponsorship may be very minor such as t-shirts for a community event like City to Surf. I have not been able to isolate any such sponsorship occurring so would be immaterial.

3.3 Sensitive expenditure practices

We selected a sample of transactions from areas of sensitive expenditure incurred during the period and reviewed them for compliance with Council's practices and accepted good practice in the public sector. We noted that:

- The P-Card policies around the timely coding, verification and approval of P-Card expenditure prior to payment were not always being met.
- There were a number of P-Card expenditure items where it was not clear from the supporting documentation or narration provided what the business purpose of the expenditure was. In some instances spouse's costs were also paid for.
- The Chief Executive's P-card expenditure is being approved by the GM Corporate Services. It should be approved on a one-up basis by the Mayor (or Chair of the Audit & Risk Committee).
- The Mayor's P-Card is approved by the CE. This is inappropriate. The expenditure should be approved by the Deputy Mayor (or Chair of the Audit & Risk Committee).

Management comment

The first two points are due to non-compliance with agreed practice and are the responsibility of individuals and their management.

There are instances where card-holders occasionally do not comply with the agreed timeline. This is not acceptable and we will remind people of the policy.

Persistent/repeat offenders have their credit limits reduced to zero thereby making the cards inoperable.

The responsibility for approving expenditure lies with the card holder's one-up approver/manager.

Spendvision (the card recording/management system that the Council uses) is currently very manual insofar as approvals are concerned but enhancements have been developed where receipts can be scanned and accounted for expenditure/approvals will be monitored on-line. We are looking at implementing both of these enhancements to provide better visibility and accountability before 30 June 2012.

The CEO's P-card expenditure is approved for payment electronically by the GM Corporate Services, however it is also approved manually by the Chair of the Audit & Risk Management Subcommittee.

We will change the process for approval of the Mayor's P-card expenditure to include a sign-off step by the Chair of the Audit & Risk Subcommittee.

3.4 Payroll – independent review of masterfile changes

Recommendation

Masterfile changes be independently reviewed and evidence of that review retained.

Findings

In previous years we have raised the need for a system generated report highlighting critical changes to payroll information, such as new employees, changes in pay rates and changes in bank accounts to be produced and independently reviewed back to the source documentation for the change. This check, which would cover all changes, has not been implemented.

The control Council had in place was that when a change was made to payroll information, another person would review that change and sign a form confirming that it was performed correctly. There was a risk with this process that not all changes were captured.

After the February earthquake this independent check was stopped. It is a critical control to confirm accuracy and reduce the risk of fraud or error. As a minimum it must be introduced and ideally the comprehensive report we have raised previously should be implemented.

Management comment

HR currently independently review all the master data changes. They enter in new employees, hour changes pay rate changes and all entries are independently reviewed to the satisfaction of the audit.

Payroll is responsible for changing employee bank account details, KiwiSaver, Super in lieu, deductions etc. They currently independently review the termination process and KiwiSaver processing and will now commence verifying bank account changes.

A request to build the comprehensive report will be submitted to IM&CT for prioritisation by the end of January 2012.

3.5 Expenditure – masterfile changes

Recommendation

A masterfile changes report be produced and independently reviewed periodically.

Findings

Masterfile changes are not reviewed by a person independent from the one making the changes. While there is currently a check performed on individual masterfile changes, there is often no evidence of this review (unless it is a bank account change).

A masterfile changes report showing all creditor masterfile changes should be independently reviewed on a regular basis to source documentation to ensure the changes are authorised and have been made correctly.

Management comment

There are approximately 6,500 vendors which are created from an online form and an outlook request. These are set up in SAP and any bank account changes are checked monthly. A masterfile report exists in SAP but is not structured to support a regular audit back to the source data.

A process to conduct a regular review of the critical factors will be developed which is likely to include a request to enhance the current SAP report. The process will be designed for review by end March 2012 and a manual review will commence. The SAP report enhancement will be requested by end January and once delivered will be used to enhance the process further.

3.6 Bonds payable account**Recommendation**

Monitor and clear out the bonds payable account on a regular basis.

Findings

The bonds payable account is not being cleared out on a timely basis. There are items in this account relating to works that were completed 20 years ago.

The account should be reviewed periodically and old bonds should be either refunded on completion of the work or taken to revenue (if a reasonable amount of time has passed and the bond has not been requested to be refunded).

Management comment

The dates recorded against each bond are when the bond was received, not the date of works completion which could be some time later. Each year end bonds that are older than ten years and have had no movement in that period are transferred to revenue. There are three items totalling \$165,000 that are over 10 years that are still to be investigated and will be cleared to revenue as necessary for 30 June 2012.

3.7 GRNI (Goods received but not invoiced) account**Recommendation**

Monitor and clear out the GRNI (GL 20500) account on a regular basis.

Findings

We noted that the GRNI account is not cleared on a timely basis. There are items in this account greater than four months old that will not be paid due to duplicate purchase orders and mismatching of invoices.

The account should be reviewed periodically and cleared on a timely basis to ensure invoices are processed and matched to purchase orders. We were advised that any items in the account over three months old should have been cleared out.

Management comment

The GRNI account is reviewed on a quarterly basis and items cleared back to the original expenditure code as required. The \$436,000 of items that were over three months old at balance date were 2.5% of the balance and were waiting for assistance from IM&CT for a technical issue with the purchase order. It is anticipated that these will be cleared by March 2012.

3.8 Journals**Recommendation**

Consideration to be given to implementing an independent post-entry review of journal entries.

Findings

There is currently no independent post-input check performed on journal entries entered into the ledgers to ensure that journal entries are appropriately authorised and correctly entered.

The lack of a post-input check could allow errors or manipulation of financial information to occur in the ledgers and remain undetected. A post-input check provides management with assurance that the journal, as approved, has been correctly input into the ledger. The check should be evidenced by a date and the signature of the independent reviewer on the journal.

Management comment

Once a journal is entered a notification of the document number and the TRIM reference is sent to the Accounting Operations Team. Journals are checked after entry by a member of this team and the journal recorded in a "Journal Entry Record" listing. This records the document number, TRIM reference, who entered the journal and any follow up required such as missing authorisation or further backup required. The TRIM record contains supporting documentation and details of who authorised the journal. A listing of documents entered is run from SAP and compared to the "Journal Entry Record" to capture details of any journals that may have been entered without notification and these are followed up with the necessary staff member.

3.9 Review of credit notes**Recommendation**

An independent review of credit notes raised in the system be performed on a regular basis.

Findings

We note that there is no independent review of credit notes raised by the accounts receivable officer.

Previously, an ad hoc review of credit notes was performed by the revenue team leader. However, due to her resignation this review is now not performed.

To prevent the unauthorised use of credit notes, we recommend that an independent review of credit notes issued be performed on a regular basis.

Management comment

A new team leader has now commenced. She will develop and implement a new process to ensure that an independent review is done.

This process will be developed and tested by the end of March and will be fully implemented by end May 2012.

3.10 IS Systems**3.10.1 Password security****Recommendation**

The network password parameters be reviewed and updated to reflect the Council's password policy.

Findings

We noted that the password settings at the network level have been changed to meet the recommendations of previous years. However the current invalid attempt and reset lockouts are currently set at 20 and 720 respectively. We would expect these to be around three and 15 respectively.

We are aware that the increase for these settings was approved due to the earthquakes. However, this need is no longer valid and should be reviewed. Application settings still remain weak. We noted that Council has accepted the risks associated with having weaker settings in the IM&CT risk register ref: IMCT 006.

Management comment

CCC standard settings for AD access are:

- complex passwords for users;*
- six password retries before lockout;*
- reset of locked accounts after 12 hours; and*
- password change every 90 days.*

This is considered a good balance between risk and workload.

After the EQ, the CCC organisation priorities directed IM&CT Service Operations to support keeping staff (and a large number of new staff) working in all the temporary facilities and then repatriation of staff to the Civic building or suitable long term facilities.

A good balance between risk and workload for this current stage is the 20 password retries. This will be returned to six password retries once most of the staff are repatriated in late February 2012.

3.10.2 SAP elevated user accounts

Recommendation

Undertake a review of access to the SAPALL account.

Findings

We noted that a review of users within the SAP application has been completed. SAP elevated users are now assigned a profile according to the access required for them to perform their roles.

We also noted that there is still a SAPALL account assigned to an individual. This is the ultimate level of access allowed within the application. As this account is the most powerful ID, with users having full unrestricted access to the systems, use of such access rights should be restricted as much as possible. Staff should have access to profiles which have only the necessary rights to perform their job function.

Management comment

Review to be undertaken by Application Support Team Leader by end March 2012.

3.10.3 Security incident process

Recommendation

Council develop a security incident process that is available and known to all staff.

Findings

Currently, there is a verbal process in place to deal with security incidents where they are logged in Infra as a priority 1. We note that not all staff are aware of this process. As a result, issues may not be recorded.

All security incidents should be reported in a consistent manner and registered. The list of open security incidents should be regularly reviewed and employees participating in the resolution of the matter should be reminded to update the status once it is resolved. Additionally, Council should ensure all security incidents are registered to enable statistics and trend analysis.

Management comment

A security group was in initial formation in early 2010 with a number of improvements implemented or started. A target of further improvements required the support of better computer fleet management tools and was scheduled to coincide with the SCCM (Microsoft System Centre Configuration Manager) project due to go live in October 2010.

Security incidents need to be reportable for later analysis but more importantly need to be remediated as soon as possible. The efforts around security incidents has been directed at discovery, repair and recovery/remediation and SCCM was targeted to assist this.

This is still the focus, SCCM tool has been implemented and needs further configuration/development to be able to quickly assist to correct a security incident/problem and then wrap the procedures around the tools to provide the process.

The EQ, recovery and repatriation to the Civic building has delayed this target but good progress has been made. Further improvements and a more robust security incident process will be implemented in early 2012 and completed before 30 June 2012.

3.10.4 Improved reporting on third party services

Recommendation

Council review the current reporting being delivered by its outsource partner and identify any gaps.

Findings

Council has an outsource agreement with Computer Concepts Limited (CCL) who support and provide key services. We note that there are some opportunities to improve the current reporting. Currently, CCL are reporting their progress against service level agreements which are high level measures and may not give a complete indication of the quality of service being provided.

An agreement should be reached with CCL to ensure that the reporting is relevant and provides enough detail to ensure Council has the most accurate picture of IT services being offered. Council should also consider a plan for independently confirming the data from which the reports are being drawn to ensure accuracy.

Management comment

New reporting requirements have been issued to our outsource partner and provision of information is being planned at Monthly Report meetings. Full review of reporting to be undertaken by Service Desk Team Leader by end March 2012. Also, IM&CT Service Catalogue is being developed with clearer links to Operational Level Agreements and Services from CCL. The top 10 Services will be defined by end Feb 2012.

3.10.5 Server room access and improvements to environmental control reporting

Recommendations

- A formal process is agreed and documented for physical access with Computer Concepts Limited (CCL). A record of approved staff should be held by both organisations.
- As part of the service level reporting, who has accessed the site and a 'schedule of maintenance', is included in the report.

Findings

Council has contracted the services of CCL to manage their server room. CCL has all the required environmental controls in place. The current process of approving access is via verbal confirmation. CCL as part of their contract, are required to report to the Council on 'Access' and 'Environmental' controls.

We were unable to confirm that reporting on these areas was in place.

Management comment

Formal access process is in place but access register needs to be reviewed by CCC. The process for reviewing this will be aligned to the monthly reporting cycle from CCL and will be clarified as part 1.1.4 by end March 2012.

3.10.6 Lack of data classification

Recommendation

Council establish a data classification scheme that would be applicable to both data stored in IT systems, data distributed as electronic reports and paper documents. The scheme should also describe the guidelines for handling and distribution of data depending on its classification.

Findings

We are aware that IM&CT's current policy on the distribution and retention of data is in line with Council's Retention and Disposal Policy that was agreed in 2009. Currently, IM&CT has not implemented any data classification scheme that would consider data confidentiality. Additionally, no guidelines are established that would regulate distribution of data based on its confidentiality.

Management comment

Council recognises that the global shift towards sharing data (e.g. <http://ict.govt.nz/programme/opening-government-data-and-information/declaration-open-and-transparent-government>) makes this finding a valid concern. Until now we have operated under the Local Government Official Information and Meetings Act 1987 (LGOIMA) "Principle of availability" that "... the information shall be made available unless there is good reason for withholding it". To that end we have tended to operate on the basis that all information (that is data as well as electronic and hard copy documents) is open unless there is a good reason for restricting it. Current reasons for restriction include (amongst other things) commercial sensitivity, personal privacy (as per the Privacy Act 1993) and the intent of other specific legislation and regulations (such as Local Government (Rating) Act 2002 and the Rating Valuations Rules 2008 for suppression of owners names and addresses). These restrictions are usually applied at the individual dataset and systems level by IM&CT and the Corporate Data Team.

The Council agrees that it makes sense to follow up on the recommendation and will undertake to review it in the New Year. The Council also recognises that this is no simple task as a "Classification" and "Guidelines" that are able to handle data as well as electronic and hard copy documents is going to be very complex and require significant consultation and investigation. The Council will look at implementing a body of work around this in 2012 and undertakes to consult with other local authorities on how they have dealt (or intend to deal) with the concept before 30 June 2012.

4 Accounting and taxation issues

4.1 Accounting for weathertight homes

We considered the adequacy and appropriateness of Council's accounting treatment for weathertight home provisions and the related disclosures in the financial statements.

Council included within its provision for weathertight homes, amounts for known claims based on the likelihood that a liability would result and the average cost to settle previous claims. Council did not assess the liability for claims that have not been made yet. Other large Councils have engaged actuaries to determine what the probable liability for future claims will be and included this as a liability in the financial statements. Although no claim has been made there is now typically sufficient information to make a reliable estimate of future claims and in these circumstances a provision is required to be calculated and included in the financial statements.

We accepted Council's treatment because of the significant additional uncertainty caused by the earthquakes, and the damage to homes, including those that are leaking or may have been susceptible to leaking, being a significant unknown variable. However, as further reliable information becomes available, Council will need to complete an actuarial valuation of the liability that will arise from weathertight homes claims to be made.

Management comment

The view of Council officers is that there is not a huge previously unreported liability which will crystallise as a result of the latest government package and the number of claims received since the package was announced support this view. As further reliable information becomes available we will reassess our decision regarding Actuaries.

4.2 Accounting for retirement gratuities

Recommendation

An independent actuarial valuation of the unvested retiring gratuities and long-service leave liability be performed next year.

Findings

Council has performed an in-house calculation of the unvested retiring gratuities liability for many years. While an actuarial calculation was performed by Aon in the year 2000/2001, it was not used as it was deemed to be incomplete.

Given the number of years that have elapsed since the last independent actuarial valuation was performed, we suggest that Council obtain an independent actuarial valuation next year. This should include a valuation of the long-service leave liability as well.

Management comment

The actuarial assessment made by Aon in 2000/2001 was not used because it was lower than the value assessed by Council staff. There are very few members remaining in this scheme and any error is not material.

4.3 Hurt and humiliation payments**Recommendation**

Council review its policy regarding out of court settlements for hurt and humiliation, and consider making a voluntary disclosure to the IRD in respect of a potential PAYE exposure.

Findings

Council has made a number of payments to former employees for hurt and humiliation. We understand that these payments have been treated as non-taxable.

Payments that are genuinely and entirely for compensation for humiliation, loss of dignity, or injury to feelings are non-taxable. However, payments that in reality relate to lost income, redundancy entitlements or exit inducements are taxable, and subject to PAYE. Classifying the payment as being for hurt and humiliation and having the settlement agreement signed by an independent mediator does not make the payment non-taxable.

If Inland Revenue investigated an out-of-court settlement, the parties involved would have to prove that the employee had a genuine personal grievance (as defined), and that the amount paid to the employee was reasonable based on the level of compensation awarded by the Courts. Most of the amounts awarded by the Courts for hurt and humiliation are under \$10,000, and only a small percentage are over \$15,000.

In an investigation, any payments over \$10,000 are likely to attract attention from Inland Revenue. In general, it would be very difficult to convince Inland Revenue that any payments over \$20,000 were not at least partially taxable.

Over the last few years, payments for hurt and humiliation have become an area of focus for Inland Revenue, with many public sector entities receiving amended PAYE assessments.

Management comment

Management are aware of the rules and necessary constraints in this area and comply with them with due counsel from our advising employment law experts, Chen Palmer.

5 Sector matters

We completed reviews on our areas of interest across all Local Government. Most of our findings have been incorporated in the relevant sections of this report. Our comments on the issues not already addressed elsewhere are as follows:

5.1 NZTA funding

We discussed the potential impact on Council of a reduction in funding and its proposed response arising from the national land transport programme.

We were advised that the National Land Transport Programme which commenced 1 July 2009 has not had any significant effect on Council in the 2010/11 year. However, we note that the earthquakes have had an impact on the programmed work with not all programmed renewals work being undertaken this year.

5.2 Development contributions

We reviewed Council's controls to ensure that development contributions have been charged in accordance with the development contributions policy. We also assessed the use and application of funds received as appropriate and that they have been correctly accounted for.

We did not identify any issues.

5.3 The Council's fraud policy and assessment of areas susceptible to fraud

We checked to see that Council has recently (within the last year) undertaken a robust review of transactions, activities or locations that may be susceptible to fraud.

Council has an active and effective internal audit function that considers significant fraud risk as part of the development of the audit plan.

5.4 Possible LTCCP amendments

We remained alert for possible amendments throughout the year, particularly during the preparation of the annual plan. Council amended the LTCCP to enable participation in the Local Government Funding Agency.

We audited the amendment issued for consultation and provided an unmodified opinion on this.

5.5 Council governance role in completion of Council Controlled Organisation (CCO) SOIs

We considered whether Council has appropriate arrangements in place for effectively fulfilling their oversight responsibilities relating to CCOs.

Governance and oversight of Council's subsidiaries is performed by the Council subsidiary Christchurch City Holdings Limited (CCHL) whose role it is to monitor the CCOs on Council's behalf. CCHL reports to Council twice a year against their KPIs which directly relates to the CCOs.

CCHL's monitoring and governance arrangements over subsidiaries are extremely robust.

5.6 Elected members – remuneration and allowances

We reviewed the 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 (2010) pre-election and Local Government Elected Members Determination (2010) post-election and any amendment to those Determinations.

We did not identify any issues.

5.7 Treaty settlements and co-management

We have not been made aware of any new treaty settlements or co-management arrangements that impact on Council.

5.8 Public Private Partnerships (PPPs)

We discussed with Council staff if any PPPs have been entered into or if the Council intends to enter into any PPPs.

Council has not entered into any PPPs in the past year.

5.9 Contract management

We discussed the contract management process with Council staff.

No issues were noted that need to be raised within our management report.

6 Reviews on behalf of the Auditor-General

We completed the reviews required by the Auditor-General, as set out in our audit arrangements letter and cleared them with appropriate members of your management team.

There are no issues that need to be brought to your attention.

The summary of the reviews is as follows:

Issue	Status/findings
Annual Report adoption and public release dates	<p>We have been asked to note the dates that 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 (OAG).</p>
Local Authority exemptions for Council Controlled Organisations (CCOs)	<p>We were asked to advise the OAG on Council's use of Section 7 of the Local Government Act 2002. Under section 7 of the LGA 2002, a local authority may exempt a "small" CCO from the accountability regime that applies to CCOs under that Act.</p> <p>We found that during 2010/11, Council renewed the exemption for 15 small dormant CCOs.</p>
Local Authorities emissions and measurement and reduction	<p>We were asked to gather information about the activities of local authorities in the area of emissions measurement and reduction.</p> <p>We found that Council measures greenhouse gas emissions. Council has various plans in place to reduce greenhouse gas emissions. These include the Climate Smart Strategy, and energy projects.</p> <p>We also noted that Council sells credits to external parties from credits earned from the Burwood landfill. As at balance date the Council had carbon credits to the value of \$282,000.</p>

Appendix 1: Unadjusted misstatements

Parent misstatements

Current year misstatements (Including explanation why not corrected)	Assets	Liabilities	Equity	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Accrued insurance recoveries unlikely to be received (rounded amount as estimated by management)	(2,000)	-	2,000	2,000
Total known parent misstatements	(2,000)	-	2,000	2,000

Group misstatements

Current year misstatements (Including explanation why not corrected)	Assets	Liabilities	Equity	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Parent misstatements brought forward	(2,000)	-	2,000	2,000
Estimated impact on CCC group of non-consolidation of Gardens Event Trust.	46	(46)	-	(2)
Estimated impact on CCC group of non-consolidation of Rod Donald Banks Peninsula Trust.	3,565	0	(3,565)	(3,565)
Estimated impact on CCC group of non-consolidation of Christchurch Agency for Energy Trust.	902	5	(907)	(907)
Estimated impact on CCC group of non-consolidation of World Buskers Festival Trust.	309	(308)	(1)	(1)
Estimated impact on CCC group of non-consolidation of Canterbury Development Corporation.	2,100	(850)	(1,250)	566
Total Known Group Misstatements	4,922	(1,199)	(3,723)	(1,909)

Appendix 1: Status of recommendations made last year

Outstanding matters

Matter	Recommendation	Outcome and status
IS - No security incident process		
To date the Council continues to have no security incident process in place. This has been raised in previous years.	We recommend Council consider the implementation of a Security incident process, so that issues identified are recorded, investigated and reported on.	While there is a verbal process in place and all security incidents are recorded in 'Infra' as priority 1 during testing we were unable to confirm that the process was working. We comment further on this in point 4.10.3 above. Improvements reliant on the SCCM implementation and configuration. Target for a more robust process is 30 June 2012.
IS – Inconsistent application of security patches		
We were advised that there is no formal process in place for applying security patches. Patches are installed on an irregular basis.	Council should implement a formal patch management process.	This now forms part of the responsibility of Computer Concepts Limited. CCL provides a monthly report however the report is high level and details of patching were not evident in the report. Security patching process has implemented by CCL for all Library servers (and all library servers are up to date). CCL are working with IM&CT on the security patching process for all CCC servers. Desktop security patching process improvements are reliant on the SCCM implementation and configuration. Target for a more robust process for all security patching is 30 June 2012
IS – Completion of asset register		
We are aware that a policy exists for staff that addresses the purchasing and authorising of software, however we noted that the policy has not been reviewed since 2004. We are also aware that a central	We recommend the existing policy 'Users of Information and Technology System' be reviewed and that work is completed on the asset register.	Due to staff changes and the earthquake, work that was planned has not been able to be fully completed. Some progress has been made but the issue remains outstanding.

Matter	Recommendation	Outcome and status
software/hardware register is being established and we were advised that there is still work to be completed on this.		Policy to be reviewed. Software and hardware asset management improvements reliant on the SCCM implementation and configuration for better reporting. Target for more robust et management is 30 June 2012
Manual timesheets		
All Council staff complete timesheets. These can be done online or manually and are authorised on a one up basis. After approval manual timesheets are sent to CATS administrators who input them into the system. We contacted a CATS administrator and noted that there is no independent post input check for these timesheets.	We recommend that an independent check is performed of the input by CATS administrators.	We confirmed that there is no independent check on input taking place, though the CATS administrators attempt to minimise errors and larger amounts paid are reviewed for reasonableness.
Leave liability report		
When reviewing Council's annual leave liability, we found that Council is unable to run an accurate leave report summarising the number of days and total liability by employee as at 30 June.	We recommend Council investigate writing a report that is able to show the leave liability as at 30 June that reconciles to the leave per the payroll system.	A report is now produced by HR on a monthly basis and passed to line management for review and any necessary action.

Cleared matters

Matter	Recommendation	Outcome and status
IS – Security policy (network and applications)		
There is no overarching IS security management framework and the current Information Services policies do not include detailed operational security policies. Also, the responsibility for IS security has not been formally assigned to any person.	Council should develop an overarching security management framework and additional security policies to address all risks faced by the Council. Once developed, the policies should have an assigned owner who is responsible for maintaining the document such as periodic review and update resulting from any relevant changes to the infrastructure or systems.	The strategic framework is currently in draft awaiting approval by the Executive Management Team. The security policy, 'Users of Information and Technology Services updated September 2010' is in place and available to staff on the intranet.

Matter	Recommendation	Outcome and status
IS - Lack of information technology policies		
There is a lack of documented policies in place to support the IM&CT operations.	Council should develop and implement detailed formal IT operational policies. All staff members should formally acknowledge their responsibilities with respect to each document.	A new policy spreadsheet has been developed. Each policy has an owner, and a review date assigned. The policies are available to staff on the intranet and are tracked in Trim to ensure they are reviewed.
IS - Change requests not approved at an appropriate level		
While there is a change management process in place at the Council, we identified that not all changes are visible to the Change Advisory Board (CAB) for final approval. The Change Manager has the responsibility of initially approving all change requests and only those of a medium or high rating are advised to the CAB.	We recommend the CAB periodically reviews all changes recorded for appropriateness.	While the process is unchanged and minor changes are approved outside of the CAB, all changes are included in the weekly CAB meetings for review.
IS - Lack of periodic review of user and access rights		
There is no formal process for the periodic review of regular user IDs and access rights at the network level including authorisations for special privileged access rights.	We recommend that all domain administrative rights continue to be reviewed. In addition, we recommend that management implement a formal periodic review (at least annually) of user IDs and access rights.	At the network and application levels an extensive review has been completed on users. An addition to the existing process of informing IM&CT of staff changes has been implemented and ID reviews are completed on a weekly basis with a full review annually.
IS - Generic accounts		
When we reviewed the list of generic users at the network and application levels, we identified multiple accounts (there were over 60 generic accounts for the network).	All individuals should have unique accounts in IT systems.	Generic accounts have been reviewed and reduced both at the network level and at an application level. For the generic accounts that do exist, each account and its purpose was able to be explained.

Matter	Recommendation	Outcome and status
IS - Unneeded superuser access		
There were excessive numbers with superuser access at the network level as well as within SAP.	We recommend the Council continues to undertake a review of access to high privilege accounts.	The list of super users at the network level have been reviewed and each account was able to be explained and were all warranted. At the application (SAP) level some users still had access rights without explanation. We comment on the SAPALL account in point 4.10.2 in this report.
IS – Full system restore test		
Although some files have been restored following minor incidents, a full system restore has not been performed to ensure that full operational status can be achieved in the event of a disaster since 2007.	A full system restore test should be performed at least annually.	This was completed as part of the transfer to the new Data Centre in June 2010; it now forms part of the contract with Computer Concepts Limited.
IS – Security over unattended computers (screensavers)		
A review of the network password policy settings was completed and it was noted that while the policy adheres to good practice principles they have not been turned on.	It is recommended that the network password policies currently approved be implemented immediately.	Policy has been implemented, confirmed settings have been activated.

5. RESOLUTION TO EXCLUDE THE PUBLIC

Attached.

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 items 6, 7, 8 and 9, and that Kerry Marshall, Crown Observer, be permitted to remain in the room for the consideration of these items.

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
6. CONFIRMATION OF PUBLIC EXCLUDED MEETING MINUTES))	
7. LEGAL BRIEFING)) GOOD REASON TO	
8. INTERNAL AUDIT ACTIVITY)) WITHHOLD EXISTS	SECTION 48(1)(a)
REPORT – 2012 QUARTER THREE)) UNDER SECTION 7	
9. OVERDUE DEBTORS OVER))	
\$20,000 AS AT 31 JANUARY 2012))	
10. HR ADVICE))	

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 6	Maintain legal professional privilege	(Section 7(2)(9))
Item 7	Maintain legal professional privilege	(Section 7(2)(9))
Item 8	Prevention of improper advantage	(Section 7(2)(j))
Item 9	Protection of the privacy of natural persons	(Section 7(2)(a))
	Prejudice commercial position	(Section 7(2)(b)(ii))
Item 10	Maintain legal professional privilege	(Section 7(2)(g))

Chairperson'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.”