

Audit and Risk Committee Agenda

Date: Wednesday, 5 December, 2018

Time: 9:00 am

Location: Council Chamber
Forum North, Rust Avenue
Whangarei

Elected Members: Cr Sharon Morgan (Chairperson)
Her Worship the Mayor Sheryl Mai
Cr Crichton Christie
Cr Shelley Deeming
Cr Sue Glen
Cr Cherry Hermon
Cr Greg Innes

For any queries regarding this meeting please contact
the Whangarei District Council on (09) 430-4200.

| | |
|--|----|
| 1. Declarations of Interest | |
| 2. Apologies | |
| 3. Confirmation of Minutes of Previous Audit & Risk Committee Meeting | |
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| 6. Closure of Meeting | |

Audit and Risk Committee – Terms of Reference

Membership

| | |
|-----------------------------|---|
| Chairperson: | Councillor Sharon Morgan |
| Members: | Her Worship the Mayor Sheryl Mai Councillors Crichton Christie, Shelley Deeming, Sue Glen, Cherry Hermon, Greg Innes |
| Independent Advisor: | Philip Jones |
| Meetings: | Quarterly. |
| Quorum: | 4 |

Purpose

To oversee risk management and internal control, audit functions (internal and external), financial and other external corporate reporting, governance framework and compliance with legislation.

Key responsibilities include:

- Audit
 - Agree audit scope with Management
 - Provide direct input on audit scope to the external auditor
 - Consider audit management report, taking appropriate action
 - Consider any internal audit needs, including probity, waste and performance
 - Hold a confidential meeting with the external auditors at least once every year.
- Risk
 - Ensure a comprehensive risk management framework is in place and being operated effectively
 - Identify and monitor risks for the organisation including major projects
 - Ensure Council's assets are insured appropriately.
- Ensure Council has suitable business continuity arrangements in place.
- Policy review program.
- Service delivery review program.

Delegations

- (i) All powers necessary to perform the committee's responsibilities, including:
 - (a) establishment of working parties or steering groups.

Item 3.1
Audit and Risk Committee Meeting Minutes

Date: Wednesday, 26 September, 2018
Time: 9:00 a.m.
Location: Council Chamber
 Forum North, Rust Avenue
 Whangarei

| | |
|----------------------|---|
| In Attendance | Cr Sharon Morgan (Chairperson) Her Worship the Mayor Sheryl Mai Cr Crichton Christie Cr Shelley Deeming Cr Sue Glen Cr Cherry Hermon Cr Greg Innes |
| Also present | Cr Stu Bell Cr Gavin Benney Cr Vince Cocurullo Cr Phil Halse Cr Anna Murphy Philip Jones (Independent Adviser) Athol Graham, Warren Auth and Nikita Hanright (Audit New Zealand) |
| Scribe | C Brindle (Senior Democracy Adviser) |

1. Declarations of Interest

There were no interests declared.

2. Apologies

There were no apologies.

3. Confirmation of Minutes of Previous Audit and Risk Committee Meeting
3.1 Minutes Audit and Risk Committee meeting held 27 June 2018

Moved By Cr Greg Innes

Seconded By Cr Cherry Hermon

That the minutes of the Audit and Risk Committee meeting held on Wednesday 27 June 2018, having been circulated, be taken as read and now confirmed and adopted as a true and correct record of proceedings of that meeting.

Carried

4. Decision Reports

4.1 2018 Procurement Policy

Moved By Cr Sue Glen

Seconded By Cr Shelley Deeming

That the Audit and Risk Committee recommends the final draft of the Procurement Policy for adoption by Council.

Carried

5. Information Reports

5.1 Audit NZ - Verbal Report

Athol Graham gave an update on key outcomes from the final audit report and answered questions from Councillors.

Moved By Cr Greg Innes

Seconded By Her Worship the Mayor

That the Audit and Risk Committee notes the report from the external auditors.

Carried

5.2 Finance Management Activity Update Report

Moved By Cr Shelley Deeming

Seconded By Cr Sue Glen

That the Audit and Risk Committee notes the financial management activity over the previous three months.

Carried

5.3 ICT Risk Report September 2018

Moved By Cr Sue Glen

Seconded By Her Worship the Mayor

That the Audit and Risk Committee notes the information presented in the report.

Carried

5.4 Health and Safety Report

Moved By Cr Greg Innes

Seconded By Cr Sue Glen

That the Audit and Risk Committee notes the information presented in the report and its attachment.

Carried

5.5 Business Continuity Update

Moved By Her Worship the Mayor
Seconded By Cr Cherry Hermon

That the Audit and Risk Committee note this report on the progress of business continuity planning within Council.

Carried

5.6 External Audit - Action Update Report

Moved By Cr Sue Glen
Seconded By Cr Shelley Deeming

That the Audit and Risk Committee notes the status of the outstanding external audit actions.

Carried

5.7 Delegations Register Review - Progress Update

Moved By Cr Sue Glen
Seconded By Cr Greg Innes

That the Audit and Risk Committee note the report.

Carried

5.8 Risk register Update - September 2018

Moved By Cr Greg Innes
Seconded By Cr Sue Glen

That the Audit and Risk Committee notes the report outlining the current risks to the Council.

Carried

Cr Deeming left the meeting at 10.27am.

6. Public Excluded Business

There was no business conducted in public excluded.

7. Closure of Meeting

The meeting concluded at 10.32am.

Confirmed this 5th day of December 2018

Councillor Sharon Morgan (Chairperson)

4.1 Final Audit NZ Report at 30 June 2018

| | |
|---------------------------|--|
| Meeting: | Audit and Risk Committee |
| Date of meeting: | 5 December 2018 |
| Reporting officer: | Emily Thompson (Audit and Risk Analyst) Warren Auths (Audit NZ) |

1 Purpose

To present Audit NZ's Final Audit Report of Whangarei District Council for the year ended 30 June 2018.

2 Recommendations

That the Audit and Risk Committee:

- a) Notes the Final Audit Management Report issued by Audit NZ for the 2017/18 Financial Year.
- b) Notes the recommendations raised by Audit NZ, and the updated staff response to them.

3 Background

Each financial year, Audit NZ performs an audit on the Council's financial statements and supporting processes. This is agreed with management prior to the audit commencement.

Audit NZ issues two Audit Management Reports each financial year, highlighting areas where they have identified Council's processes can be improved. The first report is called an Interim Audit Management Report following their interim audit visit prior to 30 June.

The second (and final) report is issued after conclusion of their final audit after 30 September every year. The final report incorporates the items in the Interim report as well as those items identified in their final audit visit.

Council management receives the draft Audit Management Reports and provides commentary to Audit NZ to clarify matters, provide explanations and address any technical concerns.

Audit NZ considers the comments and adjusts their findings, if needed, before finalising and issuing the Audit Management Reports to Council. The Audit Management Reports are reported to the Audit and Risk Committee, which has oversight of this function, every six months.

Council is committed to ensuring that any areas for improvement agreed with Audit NZ are monitored, addressed and implemented.

4 Discussion

The final audit report for the 2017/18 Financial Year is attached. Management comments are in the report. Audit NZ provided an opportunity for Council to respond with updates on recommendations that were included in the interim report that went to the September meeting of this Committee. These updates have been included in the report as shown in the attachment.

Audit NZ have stated that they have seen continued improvement in capitalisation of work in progress (WIP) during the financial year. The regular monitoring of WIP has become part of the Council's normal processes and therefore it is no longer seen as being a significant risk.

Audit NZ reviewed the revaluation of roading, pensioner housing, forestry assets and investment properties this year and concluded the valuation adjustments were correctly accounted for. They are also comfortable that the carrying values of the remaining assets are not materially different from their fair values.

During this year's Audit, there was a review of the accounting treatment and related disclosures of the Hundertwasser Wairau Maori Arts Centre (HWMAC) in the group accounts, Audit NZ are satisfied they appropriately and fairly reflect the funding received and pledged to date.

Council's progress against the outstanding Audit NZ recommendations was reported to the September Audit and Risk Committee. Overall across the last two years we have seen significant improvement in the number of outstanding actions. The table below shows the progress:

| Year End | Urgent | Necessary | Beneficial | Total |
|----------|--------|-----------|------------|-----------|
| 2016 | 8 | 26 | 6 | 40 |
| 2017 | 6 | 11 | 1 | 19 |
| 2018 | 0 | 4 | 3 | 7 |

Progress on the outstanding actions are reported every six months, and will be updated and reported to the March 2019 Audit and Risk Committee.

5 Significance and engagement

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via Agenda publication on the website

6 Attachment

WDC Final Management Report for year ended 30 June 2018

**Report to the Council on the
audit of**

Whangarei District Council

For the year ended 30 June 2018

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Key messages

We have completed the audit for the year ended 30 June 2018. This report sets out our findings from the audit and draws attention to areas where Whangarei District Council (the District Council) is doing well and where we have made recommendations for improvement.

Audit opinion

We have issued an unmodified audit opinion dated 27 September 2018. This means that we were satisfied that the financial statements and statement of service performance fairly reflected the District Council's activity for the year and its financial position at the end of the year.

Key areas of audit focus

We have seen continued improvement in capitalisation of work in progress (WIP) during the financial year. The regular monitoring of WIP has become part of the District Council's normal processes and therefore we no longer see this as being a significant risk for the District Council.

We reviewed the revaluation of roading, pensioner housing, forestry assets and investment properties this year and concluded the valuation adjustments were correctly accounted for. We are also comfortable that the carrying values of the remaining assets are not materially different from their fair values.

We reviewed the accounting treatment and related disclosures of the Hundertwasser Wairau Maori Arts Centre (HWMAC) in the group accounts and are satisfied they are appropriate and fairly reflect the funding received and pledged to date.

We continue to monitor the progress of the Whau Valley Treatment Plant and Council One building.

Thank you

We would like to thank the District Council, management and staff for their assistance during the audit.



Athol Graham
Appointed Auditor
8 November 2018

1 Recommendations



Our recommendations for improvement and their priority are based on our assessment of how far short current practice is from a standard that is appropriate for the size, nature, and complexity of your business. We have developed the following priority ratings for our recommended improvements.

| Priority | Explanation |
|------------|---|
| Urgent | <p>Needs to be addressed <i>urgently</i></p> <p>These recommendations relate to a significant deficiency that exposes the District Council to significant risk or for any other reason need to be addressed without delay.</p> |
| Necessary | <p>Address at the earliest reasonable opportunity, <i>generally within six months</i></p> <p>These recommendations relate to deficiencies that need to be addressed to meet expected standards of best practice. These include any control weakness that could undermine the system of internal control.</p> |
| Beneficial | <p>Address, <i>generally within six to 12 months</i></p> <p>These recommendations relate to areas where the District Council is falling short of best practice. In our view it is beneficial for management to address these, provided the benefits outweigh the costs.</p> |

1.1 New recommendations

The following table summarises our recommendations and their priority.

| Recommendation | Section | Priority |
|---|---------|-----------|
| <p>Improvement to roading processes</p> <p>Processes around reconciling the accounting system and RAMM be improved.</p> | 4.1 | Necessary |
| <p>Expenditure cut-off</p> <p>A review of invoices received after balance date to ensure that all expenditure is recorded in the correct period.</p> | 4.2 | Necessary |
| <p>Redundant network user accounts</p> <p>A review of user accounts and access rights at the network level is performed to ensure that unused accounts are disabled.</p> | 4.3 | Necessary |

1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous years' recommendations. Appendix 1 sets out the status of previous years' recommendations in detail.

| Priority | Priority | | | |
|---------------------------|----------|-----------|------------|-----------|
| | Urgent | Necessary | Beneficial | Total |
| Matters still in progress | | 4 | 4 | 8 |
| Matters cleared | 2 | 6 | 3 | 11 |
| Total | 2 | 10 | 7 | 19 |

2 Our audit report

2.1 We issued an unmodified audit report



We issued an unmodified audit report on 27 September 2018. This means we were satisfied that the financial statements and statement of service performance present fairly the District Council's activity for the year and its financial position at the end of the year.

In forming our audit opinion, we considered the following matters.

2.2 Uncorrected misstatements

The financial statements for both Council and Group are free from material misstatements, including omissions. During the group audit, we discussed with management any misstatements that we found both at the District Council and at the individual Council Controlled Organisation (CCO), other than those which were clearly trivial. The misstatements that have not been corrected are listed below along with management's reasons for not adjusting these misstatements.

We are satisfied that these misstatements are individually and collectively immaterial.

| Current year misstatements | Assets | Liabilities | Equity | Financial Performance |
|---|---------|-------------|---------|-----------------------|
| | Dr (Cr) | Dr (Cr) | Dr (Cr) | Dr (Cr) |
| <i>Parent:</i> Expenditure is currently overstated and the provision is overstated | | 600 | | (600) |
| Total group and CCO | | 600 | | (600) |

Explanation of uncorrected misstatements

A provision was created for a legal claim in line with the legal letter. After balance date this claim was settled at an amount lower than the provision recognised.

Management have not adjusted as the amount is not considered material to the financial statements.

2.3 Uncorrected disclosure deficiencies

| Detail of disclosure deficiency | Management's explanation for not correcting |
|--|---|
| <p>We identified a classification error of \$1.1 million between WIP and various asset classes in the plant, property and equipment note.</p> <p>We believe this is an error because the assets have been completed at balance date but not yet capitalised in the assets management system as the District Council is still waiting to receive as-built plans for the assets.</p> | <p><i>Management have not adjusted as they are unable to capitalise the assets in the asset management system until all the necessary information for the assets is received.</i></p> |

2.4 Corrected misstatements

We also identified misstatements that were subsequently corrected by management.

2.5 Quality and timeliness of information provided for audit



Management is required to provide information for audit relating to the annual report of the District Council. This includes the draft annual report with supporting working papers. We provided a listing of information we required to management. This included the dates we required the information to be provided to us.

All information requested from management was provided to us in a timely manner.

3 Matters raised in the Audit Plan



In our Audit Plan dated 3 May 2018, we identified the following matters as the main audit risks and issues:

| Audit risk/issue | Outcome |
|---|---|
| Capitalisation of WIP | |
| <p>In the 2016/17 financial year, we noted that there was \$5.4 million of assets that were completed at balance date but had not been capitalised yet as the District Council was waiting on the final as-built plans.</p> <p>We understand the District Council will have a WIP balance at the end of the 2017/18 financial year. To the extent that these assets are completed we encourage the District Council to capitalise these assets and depreciate them to ensure they are correctly classified in the financial statements and are depreciated from the date they are ready to use.</p> | <p>Our audit work over the WIP balance this year included:</p> <ul style="list-style-type: none"> • reviewing assets capitalised from WIP to ensure they meet the definition of an asset and have been correctly depreciated; and • reviewing any balances remaining in WIP to ensure they meet the definition of capital expenditure and are likely to be completed and capitalised. <p>In the 2017/18 financial year, WIP has increased from \$12.9 million to \$22.9 million. This is mainly driven by a few large project such as the Kamo Cycleway (\$7.2 million), Tarewa Park Storage Tank (\$4.3 million), and Whau Valley Water Treatment Plant (\$1.4 million) that are still in progress at balance.</p> <p>During our review of the WIP balance this year, we noted there was \$1.1 million of the WIP balance that had been completed but had not been capitalised at balance date as the District Council was waiting on the final as-built information in order for them to be capitalised in their asset management systems. We expect these projects will be capitalised early in the 2018/19 financial year. We performed a calculation of the expected depreciation understatement for the 2017/18 financial year and are satisfied the depreciation would not be material to the Annual Report.</p> |

| Audit risk/issue | Outcome |
|--|---|
| Valuation of property, plant and equipment and investment properties | |
| <p>The District Council periodically values its infrastructure assets and investment properties. The accounting standards, specifically <i>PBE IPSAS 17: Property, Plant and Equipment</i>, requires that valuations are carried out with enough regularity to ensure that the carrying amount does not differ materially from its fair value while <i>PBE IPSAS 16 Investment Property</i>, requires the District Council to revalue their assets annually.</p> <p>The District Council's roading assets and investment properties will be revalued this year to ensure the carrying value of these assets reflects their fair value. For assets not being revalued the District Council will need to formally assess whether a revaluation is required to ensure the carrying value of these assets fairly reflects their fair value.</p> <p>It is important that the District Council makes this assessment at an early stage as a full valuation may require a significant amount of time to complete if required.</p> | <p>The District Council revalued its roading, pensioner housing and investment properties at 30 June 2018.</p> <p>We reviewed the scope of the valuation and are satisfied that the valuers engaged were independent and appropriately qualified.</p> <p>The fair value of the District Council's roading assets increased by \$9.7 million. The increase in roading was mainly driven by the street light upgrade, a review of the bridge unit cost and other roading assets increased by an average by 3.5% to 4.5%. Pensioner Housing fair value increased by \$7.9 million. The increase is due to the general increase in properties values over the last 4 years. Investment properties also increased by \$3.3 million. The increase in investment properties was also due to the general increase in property values and market rents in the region over the last year.</p> <p>We reviewed the valuation methodology used to ensure it complies with generally accepted accounting practice and assessed the District Council has correctly accounted for the valuation in its financial statements.</p> <p>We reviewed the District Council's assessment of whether there are any significant differences between the carrying amount and fair value of assets not revalued. We noted no impairment or revaluation increase was required to be recognised.</p> |
| Hundertwasser Wairau Maori Arts Centre | |
| <p>In the prior year, the Whangarei Art Museum Trust (the Trust) successfully raised \$21.7 million for the HWMAC project, surpassing the required \$16.3 million to be raised for the project to proceed.</p> <p>The project is proceeding with the foundation work design expected to be finalised in the upcoming months. A request for tender for the construction of the art centre is expected to be sent</p> | <p>We reviewed the Trust and the District Council's assessment of the accounting treatment and disclosure for these significant issues.</p> <p>We are satisfied that the accounting treatment and related disclosures are appropriate and fairly reflect the funding received and pledged to date.</p> |

| Audit risk/issue | Outcome |
|---|---------|
| <p>out upon finalisation of the foundation work. The following are the significant accounting issues that the Trust and the District Council will need to consider when preparing their 2017/18 annual report:</p> <ul style="list-style-type: none"> • The Trust will own the HWMAC building improvements but not the original building which will continue to be owned by the District Council. The Trust and the District Council should assess the substance of the ownership arrangements to determine how the HWMAC buildings and improvements should be accounted for, and by which entity. • Prosper Northland Trust is assisting the Trust in obtaining a guarantee to cover any future operating losses relating to the HWMAC. The Trust and the District Council will need to assess the accounting treatment and disclosure for any guarantee arrangement entered into. • The Trust has entered into an “intention to lease” agreement with the District Council for the HWMAC land and buildings, this is conditional on reaching the required level of funding and establishing the necessary guarantees. The intention to lease is set at a nominal annual rental of \$1 for 34 years and 11 months. The Trust and the District Council will need to consider the appropriate accounting treatment and disclosure for this lease. • The District Council will also need to ensure HWMAC-related revenue is correctly accounted for in the Trust as it will | |

| Audit risk/issue | Outcome |
|---|---|
| significantly impact on the group's financial statements. | |
| Significant projects – Whau Valley Water Treatment Plant and Council's One Building project | |
| <p>The District Council plans to progress the development of the Whau Valley Water Treatment Plant and the District Council's One Building Project.</p> <p>Because of the scale of these projects it is important that the District Council establishes the necessary procurement, project governance and management processes to ensure these projects are successful.</p> | <p>Whau Valley Water Treatment Plant</p> <p>The design phase of the building for the Whau Valley Treatment plant has now been completed by Beca.</p> <p>The budget for the construction is \$26 million from 1 July 2018. \$1.4 million has been spent to date and is currently included in WIP. A procurement plan has been prepared and approved. The construction of the treatment plant is due to start being carried out during the 2019 through to 2021 financial years.</p> <p>The expression of interests for the construction contract has gone out to the community. However, the construction contract has not yet been awarded.</p> <p>Council's One Building Project</p> <p>The District Council's One Building was raised as an area of focus as the District Council had planned to spend \$10.2 million on this project during the financial year. However, this has been delayed as the District Council continues to determine the preferred location for the new building.</p> <p>The project has now been called Civic Centre as part of the 2018-28 Long-Term Plan (LTP). The budget allocated in the LTP is \$30.7 million including \$7.2 million which has been carried over from this financial year. The planned construction is expected to start in the 2020 financial year.</p> <p>The District Council is now in the initiation phase of the project, where they are still looking at location options and build processes. A draft procurement strategy has been prepared but has not yet been approved by the District Council. We expect there will be future consultation with the public in the next financial year.</p> |

| Audit risk/issue | Outcome |
|--|--|
| The risk of management override of internal controls | |
| <p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls. Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to treat this as a risk on every audit.</p> | <p>Our audit work involved:</p> <ul style="list-style-type: none"> • testing the appropriateness of selected journal entries; • reviewing accounting estimates for indications of bias; and • evaluating any unusual or one-off transactions, including those with related parties. <p>We did not find any issues during our testing.</p> |

4 Other matters raised during the audit



4.1 Improvement to Roothing processes

From our review of roading additions in the accounting system (Techone), we found these were not easily reconcilable to the additions in the RAMM database. We understand RAMM is used as the primary source for roading revaluations and therefore it is essential that additions between Techone and RAMM are identifiable and reconcilable.

Our detailed observations include:

- It was difficult to trace roading projects back to the roading assets capitalised within the RAMM database. This is because the project ID is not currently included in the RAMM database to trace back to the project for some additions.
- The unit prices and overheads rates were not always consistent with the recent contract rates.
- A new asset record was not always created within RAMM for all additions.
- There were some contracts that had been identified as only operational contracts. However, from our additions testing there was costs from those contracts that were capitalised which suggests these contracts include a capital element to them. However did not found these in the capital commitments at balance date.
- There was assets capitalised in the financial statements but were still included as work in progress in RAMM.

We recommend that:

- Processes are improved so that projects can be easily traced to assets capitalised within RAMM.
- A formal review over the unit prices and overhead rates be performed to ensure that unit prices reflect the contracted amount. This will ensure that there is no significant difference between the contract amount and valuation unit prices.
- For all new additions a record for that asset is added in RAMM or can easily be traced to an existing record.

- A review over operational contracts to ensure if a proportion of the contracts are capitalised that a proportion of the contracts are also included as part of capital commitments.
- All assets that are showing as capitalised in the financial statements should also be capitalised in the RAMM database.

Management comment

Management will consider the above observations and recommendations.

4.2 Redundant network user accounts

We noted that a regular review of network user accounts and their associated access rights is performed.

However, there are some log on accounts at the network level that have not been used since 2016. There are also a number of accounts that have not been used at all and were created as far back as 2013. System accounts that have not been used for an extended period of time is an indication that they are no longer required. If these accounts are left open, it increases the risk of unauthorised access to the District Council's systems.

We recommend that the review of user accounts and access rights at the network level is performed to ensure that unused accounts are disabled.

Management comment

Management will consider the above recommendation and undertake a review of user accounts and access rights.

4.3 Expenditure Cut-off

From our expenditure sampling testing, we identified out of our sample of 22 there were two invoices that related to the 2017 financial year that had not been correctly accrued for. These transactions were incorrectly recorded in the 2018 financial year. The amounts were immaterial but could highlight an issue that expenditure is not always being captured in the correct period.

We recommend that a review of invoices received after balance date to ensure all expenditure is recorded in the correct period.

Management comment

Management considers that appropriate controls and procedures are in place to ensure expenditure cut-off and end of year accruals are as accurate and complete as possible. We are restricted by deadlines to close the General Ledger to prepare the Annual Report in a timely manner. Thus, invoices processed/received after 20 July may not be accrued into the correct year.

4.4 Found assets

As part of continuing to improve its asset information, the District Council continues to find assets. During the year \$3.28 million of assets were found.

We have reviewed the District Council's treatment of the found assets this year and following our own assessment, consider it appropriate for the District Council to recognise the credit entry in the financial statements to the revaluation surplus rather than revenue, where the assets were not vested in the District Council and likely to have been lost as part of previous valuations.

The District Council are also upgrading their asset management system in the next financial year. As part of completing a more detailed review over asset information this could result in more assets being found in the next financial year. We will review any additional assets found as part of our next interim audit.

5 Public sector audit



The District Council is accountable to the local community and to the public for its use of public resources. Everyone who pays taxes or rates has a right to know that the money is being spent wisely and in the way the District Council said it would be spent.

As such, public sector audits have a broader scope than private sector audits. As part of our audit, we have considered if the District Council has fairly reflected the results of its activities in its financial statements and non-financial information.

We also consider if there is any indication of issues relevant to the audit with:

- compliance with its statutory obligations that are relevant to the annual report;
- the District Council carrying out its activities effectively and efficiently;
- the District Council incurring waste as a result of any act or failure to act by a public entity;
- any sign or appearance of a lack of probity as a result of any act or omission, either by the District Council or by one or more of its members, office holders, or employees; or
- any sign or appearance of a lack of financial prudence as a result of any act or omission by a public entity or by one or more of its members, office holders, or employees.

During our audit, we have not found any issues in relation to areas identified above.

6 Group audit



The group comprises of:

- Whangarei District Council.
- Whangarei Art Museum Trust.
- Whangarei District Airport.
- Springs Flat Contractors Limited.
- Whangarei Waste Ltd.
- Northland Events Centre Trust.
- Northland Regional Landfill Limited Partnership.
- Whangarei Quarry Garden Trust.

We have not identified any of the following during our audit for the year ended 30 June 2018:

- Fraud or suspected fraud involving group management, component management, employees with significant roles in group-wide controls, or others where the fraud resulted in a material misstatement of the group financial statements.

For the purpose of consolidation into the District Council's group accounts all the audits of the subsidiaries and joint ventures were completed by Audit New Zealand and were completed prior to the District Council's audit. The only significant issue in the subsidiaries related to the HWMAC as reported in section 3 of this report.

7 Useful publications



Based on our knowledge of the District Council, we have included some publications that Council and management may find useful.

| Description | Where to find it |
|---|---|
| Client updates | |
| <p>In March 2018, we hosted a series of client updates. The theme was “Our high performing and accountable public sector”.</p> <p>These included speakers from both Audit New Zealand and external organisations.</p> | <p>On our website under publications and resources.</p> <p>Link: Client updates</p> |
| Model financial statements | |
| <p>Our model financial statements reflect best practice we have seen to improve financial reporting. This includes:</p> <ul style="list-style-type: none"> • significant accounting policies are alongside the notes to which they relate; • simplifying accounting policy language; • enhancing estimates and judgement disclosures; and • including colour, contents pages and subheadings to assist the reader in navigating the financial statements. | <p>On our website under publications and resources.</p> <p>Link: Model Financial Statements</p> |
| Tax matters | |
| <p>As the leading provider of audit services to the public sector, we have an extensive knowledge of sector tax issues. These documents provide guidance and information on selected tax matters.</p> | <p>On our website under publications and resources.</p> <p>Link: Tax Matters</p> |

| Description | Where to find it |
|--|---|
| Data in the public sector | |
| <p>The Office of the Auditor-General (the OAG) has published a series of articles about how data is being used in the public sector. These cover:</p> <ul style="list-style-type: none"> • functional leadership; • building capability and capacity; • collaboration; and • security. | <p>On the OAG’s website under publications. Link: Data in the public sector</p> |
| Matters arising from the 2016/17 audits | |
| <p>The OAG has published a report on the results of the 2016/17 audits for the sector.</p> | <p>On the OAG’s website under publications. Link: Recent publications</p> |
| Audit Committees | |
| <p>The OAG has released various best practice information on Audit Committees.</p> | <p>On the OAG’s website under “Our Work – Audit Committee Resources.” Link: Audit Committee Resources</p> |
| Infrastructure as a Service | |
| <p>The OAG has completed a performance audit on Infrastructure as a Service and considered whether the benefits are achieved.</p> | <p>On the OAG’s website under publications. Link: Infrastructure as a Service</p> |
| Earthquake accounting matters | |
| <p>As the District Council currently has earthquake prone buildings, the publications could be useful.</p> | <p>On our website under publications and resources. Link: Earthquake accounting</p> |

Appendix 1: Status of previous recommendations

Open recommendations

| Recommendation | First raised | Status |
|--|--------------|---|
| Necessary | | |
| <p>Valuer's recommendations</p> <p>We recommended that the District Council implements the recommendations identified by the Roding valuers in 2014, 2016, 2017 and 2018.</p> | 2014 | <p>In progress</p> <p>The Opus roading valuation continues to raise three key recommendations to the District Council. We understand that management are continuing to progress the recommendations.</p> |
| <p>Valuation of plant, property and equipment</p> <p>We recommended that asset condition data should be incorporated into the asset management system. This will ensure that the assets are consistently and objectively valued.</p> | 2017 | <p>In progress</p> <p>Management are considering incorporating condition information in the asset management database this will not be completed until the upgrade of the asset management system.</p> |
| <p>Retaining signed employee contracts</p> <p>We recommended that management ensure they maintain a copy of the employee's signed contract and ensure they receive a copy of the employees signed contract prior to the person starting employment.</p> | 2018 | <p>In progress</p> <p>During our additional testing at final, we also identified that signed salary review letters are also not being maintained by the District Council.</p> <p>We will follow up on this matter at our interim visit next year to ensure that all signed contracts and salary review letters are being maintained.</p> |
| <p>Whangarei Waste Limited (WWL)</p> <p>We recommend that the District Council (as a shareholder of WWL) should ensure they prepare financial statements as required by the WWL Shareholders' Agreement, or remove this requirement from the WWL Shareholders' Agreement.</p> | 2018 | <p>Outstanding</p> <p>We have been informed that the Partners of WWL have passed a resolution stating that WWL do not have to prepare financial statements nor have an audit.</p> <p>While there is no direct impact on the Council, we are currently making enquiries as to whether a resolution is sufficient.</p> |

| Recommendation | First raised | Status |
|--|--------------|---|
| Beneficial | | |
| <p>Procurement and contract management</p> <p>The Procurement policy is due to be updated and we recommended:</p> <ul style="list-style-type: none"> • assigning responsibility for updating the policy; • clarifying how late tenders will be handled; and • clarifying the policy about the handling of gifts or hospitality from suppliers. | 2014 | <p>In progress</p> <p>An updated Procurement policy has been drafted. This also incorporates any feedback provided by internal audit. This policy was adopted at the September 2018 Audit and Risk Committee meeting. We will review a copy of the final adopted policy during our next interim visit.</p> |
| <p>Review of employee Code of Conduct</p> <p>We recommended that the Employee Code of Conduct is reviewed and updated</p> | 2016 | <p>In progress</p> <p>A review of the Code of Conduct is underway.</p> |
| <p>Project management</p> <p>We identified the following areas for improvement:</p> <ul style="list-style-type: none"> • The project management framework was last updated in 2009. This project management framework and guidance should be reviewed. • There needs to be more clear guidance on what projects are required to be managed by the project management team. • The scope of projects need to be more clearly defined so management can ensure the projects have achieved what they set out to achieve. • Post implement reviews over projects should be performed, documented and reported. • The project management system is currently being maintained on a spreadsheet. To gain efficiency and reduce the likelihood of human error it would be beneficial to improve this project management reporting system to enable better reporting. | 2018 | <p>In progress</p> <p>A review of the project management activity is now underway. Post implementation reviews of significant projects has now being included as part of the Audit Committees roles and responsibilities.</p> |

| Recommendation | First raised | Status |
|---|--------------|--|
| This system should be integrated with financial management and asset management and could be considered as part of the planned updates to the asset management systems. | | |
| <p>Review of delegation manual and policy</p> <p>We recommended a review of the delegation manual is performed to ensure that the delegation manual is up to date.</p> | 2018 | <p>In progress</p> <p>A review over the delegation manual and policy has been performed. A new delegation register is in the process of being finalised and is expected to presented to the October 2018 Council meeting.</p> |

Implemented or closed recommendations

| Recommendation | First raised | Status |
|---|--------------|--|
| <p>Accounting for the Bream Bay Land Owners Association (BBLOA) arrangement</p> <p>We recommended that the District Council reviews the accounting treatment for balances and transactions resulting from this agreement to ensure that it is correctly reflected in the District Council's financial statements, and that an appropriate accounting policy is adopted for the future.</p> <p>In addition, we ask that the District Council keeps us informed of any significant developments under this agreement, and any similar arrangements entered into in the future.</p> | 2013 | <p>Matter Cleared</p> <p>The BBLOA agreement has come to an end. The District Council have recognised additional revenue in relation to this agreement this year and will recognise the remaining proportion next year.</p> <p>We have reviewed the District Council's accounting treatment and satisfied it is in line with the District Council's accounting policy and accounting standards.</p> |
| <p>Capitalisation of WIP</p> <p>We recommended that the District Council capitalises all projects as soon as the project is completed. The as-built plans should be obtained from the contractor as soon as the project has been completed.</p> <p>We would expect provision of as-built plans by the contractors to be a contractual requirement.</p> | 2014 | <p>Matter Cleared</p> <p>Effective monitoring of WIP is now being completed and this has become business as usual for the District Council.</p> <p>The District Council continues to improve trying to get as built in for projects as soon as they are completed so they capitalised as soon as possible.</p> |

| Recommendation | First raised | Status |
|---|--------------|---|
| | | During 2017/18 there was \$1.1 million of WIP that had not been capitalised as Council was waiting on as built. We will continue to monitor this in future years. |
| <p>Monitoring and reporting of legal matters</p> <p>We recommended that a formal system is implemented to centrally monitor and report all outstanding legal matters. This will help monitor and mitigate the District Council's exposure to legal risks. We also recommended that reporting of significant legal matters are included in Council meeting agendas.</p> | 2014 | <p>Matter Cleared</p> <p>The District Council has a central database of all legal matters and litigation matters. This database is accessible to all of the Strategic leadership team. The Legal team regularly meets with the Chief Executive to discuss legal issues.</p> |
| <p>Controls over employee Masterfile changes</p> <p>We recommended that the District Council implements an effective review process for employee Masterfile changes. This could be achieved by implementing a one-up approval step in the system. Alternatively, a Masterfile change report can be obtained from IT and independently reviewed on a regular basis, for example, after each pay run.</p> | 2015 | <p>Matter Cleared</p> <p>A payroll masterfile report is now being generated from the system. This payroll masterfile report is being reviewed by the Manager of People and Capability.</p> |
| <p>Hundertwasser Wairau Maori Arts Centre</p> <p>As the HWMAC project progresses there are a number of issues that the District Council and Whangarei Arts Museum Trust (the Trust) will need to consider, including:</p> <ul style="list-style-type: none"> • completing appropriate due diligence over the guarantee required under the lease agreement with the District Council; • determining the accounting treatment of the land and buildings under the lease agreement with the District Council; • supporting the establishment of good practice over procurement and project management; and | 2016 | <p>Matter Cleared</p> <p>The accounting treatment for the HWMAC has now been finalised. This was reviewed as part of the audit of the Trust.</p> <p>Appropriate due diligence has taken place over the guarantee. The procurement processes around the HWMAC has also been reviewed by the District Council.</p> |

| Recommendation | First raised | Status |
|--|--------------|--|
| <ul style="list-style-type: none"> considering the accounting recognition and disclosure of donated goods and services (if significant in the financial statements). | | |
| <p>Digitisation of paper property records</p> <p>The accounting standards generally do not allow for the recognition of digitalised records as intangible assets, because digitisation of hard copy information does not result in new information or necessarily prolong the life of the information. We are currently working with management to assess if digitalised records can be capitalised as an intangible asset.</p> | 2016 | <p>Matter Cleared</p> <p>The total cost of the digitalisation of paper records has been expensed during the year.</p> |
| <p>Development contributions</p> <p>We have recommended that the District Council reviews its recognition of revenue to ensure that Council revenue is recorded in the correct period.</p> | 2017 | <p>Matter Cleared</p> <p>As review has been completed by the District Council to ensure that development contribution revenue has been recognised for all subdivision where the 224 certificate has been issued.</p> <p>The District Council is satisfied that revenue should be recognised when the invoices is raised as this is the point in time that the Council are able to provide the service.</p> |
| <p>Statement of Service Performance: Flooding events performance measures</p> <p>We recommend that the District Council, as part of the LTP, reconsiders how it measures and is able to capture the required information to report against this measure.</p> | 2017 | <p>Matter Cleared – Management have accepted the associated risks.</p> <p>As a part of the LTP 2018-2028 process, a review of the stormwater and flood protection measures was undertaken. It was determined that no additional measures were necessary in relation to flooding events and that data from other agencies would not be included.</p> <p>The primary reasons for this were:</p> <ul style="list-style-type: none"> Ability to validate the data supplied by other agencies (including the ability to segregate those flooding events that meet Councils definition of a flooding event) Ability to access this information in a timely manner |

| Recommendation | First raised | Status |
|---|--------------|--|
| | | <ul style="list-style-type: none"> Ability to maintain comparability of results with historical data. <p>The District Council has included disclosure in the annual report to explain this.</p> |
| <p>Weathertightness contingent liability</p> <p>We recommend as part of the year end disclosure review for the weathertightness contingent liability, that disclosure is reviewed against the legal confirmation received to ensure completeness and accuracy of the disclosure.</p> | 2017 | <p>Matter Cleared</p> <p>The contingent liability disclosure was reviewed against the legal confirmation received for completeness.</p> |
| <p>Reconciliations between the RID and valuer's system</p> <p>We recommended that a monthly reconciliation is prepared between the District Council's RID and Opteon database and independently reviewed.</p> | 2018 | <p>Matter Cleared</p> <p>Monthly reconciliation from June 2018 are now being prepared and reviewed between the Council's RID and Opteon database.</p> |
| <p>Automated validation process over water readings</p> <p>We recommended that management ensures the independent review over the automated validation process is completed in a timely manner.</p> | 2018 | <p>Matter Cleared</p> <p>From June 2018, we are satisfied the monthly reconciliation are now being reviewed in a timely manner.</p> |

Appendix 2: Disclosures

| Area | Key messages |
|--|--|
| Our responsibilities in conducting the audit | <p>We 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 performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the District Council.</p> |
| Auditing standards | <p>We carried out our audit 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 immaterial to your financial statements. The District Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p> |
| Auditor independence | <p>We are independent of the District Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to the audit we have carried out engagements in the areas of the 2018-28 LTP and the Debenture Trust Deed audit, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the District Council or its subsidiaries.</p> |
| Fees | <p>The audit fee for the year is \$196,713, as detailed in our Audit Proposal Letter. Other fees charged in the period are \$121,000 for the long term plan audit and \$4,154 for the Debenture Trust Deed audit.</p> |

| Area | Key messages |
|---------------------|---|
| Other relationships | <p>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 District Council or its subsidiaries that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the District Council or its subsidiaries during or since the end of the financial year.</p> |

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4.2 Internal Audit Final Report – Revenue

| | |
|---------------------------|---|
| Meeting: | Audit and Risk Committee |
| Date of meeting: | Wednesday 5 December 2018 |
| Reporting officer: | Emily Thompson (Audit and Risk Analyst) Hayden Keast (BDO Auditor) |

1 Purpose

To present the BDO Internal Audit Report on Whangarei District Council's Revenue Processes.

2 Recommendations

That the Audit and Risk Committee:

- (a) Notes the Revenue Internal Audit Final Report issued by BDO.
- (b) Notes the recommendations raised by BDO, and Councils response to them.

3 Background

As part of our ongoing internal audit programme we engaged BDO to undertake an internal audit of our revenue processing activity to identify potential areas of weakness or concern that could lead to financial loss or fraud against Council. The review was conducted over the period September 2018 – November 2018.

4 Discussion

The scope of the internal audit encompassed a review over revenue collection activities, focusing on key risks associated with cash handling.

The revenue collection points that were included in the review were (i) Customer service centres; (ii) The Hub; (iii) i-Site; (iv) Libraries; and (v) Venues.

The internal audit reviewed the revenue collection within the areas identified above. The review for each site covered the following activities:

- Processes for cash handling, staff access to cash, cashing-up and reconciliation activities.
- Preventative controls to mitigate the risk of misappropriation of cash.
- Detection controls to monitor irregularities with cash collection.
- Clarity of roles and responsibilities across processes and adequacy of segregation of duties for cash collection, handling and management.

- Clarity of roles/ responsibilities and the provision of management information for writing-off debtors and for revenue received in advance for code of compliance fees.
- Management of customer credit card information (Building group)

Attached is the final report from this audit.

5 Next Steps

Actions from completed internal audits (and any future audits) are monitored and reported to this Committee every six months.

6 Significance and engagement

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via Agenda publication on the website.

7 Attachment

Internal Audit Final Report from BDO – Revenue Processes



WHANGAREI DISTRICT COUNCIL

Internal Audit

Internal Audit of Revenue Collection - Cash Handling

Final Report

November 2018



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Private & Confidential

23 November 2018

Dom Kula
 GM Strategy and Democracy
 Whangarei District Council
 Private Bag 9023
 WHANGAREI 0148

Dear Dom

We are pleased to present our report pertaining to the Internal Audit of Revenue Collection - Cash Handling.

In accordance with the relevant AoG Consultancy Services Order the Whangarei District Council (the 'Council') engaged BDO Wellington and Northland to undertake an internal audit over Revenue Collection process and controls. This report sets out a summary of the work we have performed, our findings, the conclusion that we reached, and recommendations we have made.

We would like to take this opportunity to acknowledge our appreciation for the assistance and co-operation provided to us in addressing our information requests and dealing with our queries as they arose during the course of the audit.

Yours sincerely

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1. SCOPE AND APPROACH

Our internal audit has been performed in accordance with the Consultancy Services Order dated 4 September 2018. The objective of the audit is to assess, based on procedures performed, if revenue collection policies and controls are designed adequately and are implemented effectively.

Our work encompassed a review over revenue collection activities pertaining specifically to key risks associated with cash handling.

It was agreed to include the revenue collection points of (i) Customer service centres; (ii) The Hub; (iii) i-Site; (iv) Libraries; and (v) Venues. Specifically the internal audit included the following scope:

- Processes for cash handling, staff access to cash, cashing-up and reconciliation activities.
- Preventative controls to mitigate the risk of misappropriation of cash.
- Detection controls to monitor irregularities with cash collection.
- Clarity of roles and responsibilities across processes and adequacy of segregation of duties for cash collection, handling and management.
- Clarity of roles/ responsibilities and the provision of management information for writing-off debtors and for revenue received in advance for code of compliance fees.
- Management of customer credit card information (Building group)

Based on our review of the above areas, we have highlighted in this report the issues identified, their implications and our recommendations for improvement as applicable.

Key Activities

To complete the objectives of this engagement, we have performed the following activities:

| | |
|-------------|---|
| Interviewed | • Relevant personnel from Council to understand the nature of revenue and cash collection from the various revenue collection points, and to document processes and controls. |
| Documented | • Key risks associated with revenue collection, relevant to the scope of the audit. |
| Evaluated | • The adequacy and effectiveness of processes and controls (preventative and detective) in place to manage key risks associated with revenue collection. |
| Evaluated | • The implementation of Council process and controls in practice. This was achieved through the evaluation of the of selected controls between July-17 and Jun-18.* |
| Reported | • Work completed and significant issues identified together with our recommendations. |



* The nature of a limited assurance audit determines that selection sizes for testing are judgemental. As such the selection size of transactions/ activities tested are deemed appropriate in the context of the scope of this limited assurance audit. It is important to note, due to the nature of the limited assurance audit, we cannot conclude over the entire population of procurements during the period. The work completed by BDO Northland is subject to the limitations set out in [APPENDIX 2](#).

BDO's reference points

We have used interviews with relevant Council management and staff as a fixed point of reference for conducting our review. The management and staff interviewed included:

| Interviewee | Position |
|---|---|
| Emily Thompson | Audit and Risk Analyst |
| Delyse Henwood | Manager - Finance |
| <u>Revenue</u> | |
| Alison Puchaux | Manager - Revenue |
| Chrissy Smith | Senior Revenue Administrator - Payment Processing |
| Jo Litten | Senior Collections Officer |
| Wendy Fisher | Accounts Receivable Administrator |
| <u>Venues and Events</u> | |
| Pam Amson | Venues Administration |
| Liz Madden | Venues and Events Coordinator |
| Sarah Gardner | Venues and Events Coordinator |
| <u>Libraries</u> | |
| Paula Urlich | Manager - Libraries |
| Tissy Batelaan | Team Leader Central Services |
| Leanne Ferris | Central and Outreach Services Librarian |
| <u>i-Site/ The Hub/ Claphams Clock Museum</u> | |
| Sarah Holland-Kearins | Information Consultant (i-Site/ Hub) |
| Louis Wells | Information Consultant (i-Site/ Hub) |
| Denise Scott | Senior Museum Assistant (Claphams) |

BDO's work completed

For a detailed summary of work completed refer to [SECTION 5 - INTERNAL AUDIT WORK CONDUCTED](#).

2. EXECUTIVE SUMMARY OF FINDINGS

| REF | TITLE | SUMMARY OF KEY FINDINGS AND RECOMMENDATIONS | Type | Rating |
|-----|---|--|------|--------|
| 4.1 | Review of refunds (i-Site/ The Hub) | There is no second person review of documentation where refunds are issued. This creates an opportunity for staff to issue fictitious refunds without detection. We recommend processes are put in place to ensure independent review of documentation for all goods refunds. | Risk | Low |
| 4.2 | Cash register security (i-Site/ The Hub) | Currently the key for the cash registers is left in the cash register lock, which creates an opportunity for external theft. This also creates a risk to the safety of staff and financial loss. We recommend this practice is stopped immediately and access to the cash registers is via IBIS only. | Risk | Medium |
| 4.3 | Cash admissions (Clapham's Clock Museum) | No ticket is issued to visitors at the Clapham's Clock Museum. This creates an opportunity for staff to grant access but not process the transaction through the cash register. We recommend an independent review of admission receipts is performed on a monthly basis to identify irregularities. | Risk | Low |
| 4.4 | Customer accounts access (Libraries) | When customers pay charges on their library account a staff member updates the customer account balance in Symphony. There is no reconciliation between the cash register and receipts in Symphony which presents an opportunity for staff to update the customer account but not process a cash payment through the cash register. We recommend management introduce an analysis between Symphony 'receipting' and the cash register. Also to review levels of 'waiving' of account balances within Symphony. | Risk | Medium |
| 4.5 | Documentation of daily reconciliation (Libraries) | Record keeping of daily receipts reconciliations is retained by the Revenue team and filed in Kete, however the corresponding cash register till tapes are kept in library records. This creates a lack of cohesion in record keeping. We recommend that a copy of the reconciliation is retained by the library and attached to the corresponding cash register till tape. | Risk | Low |
| 4.6 | Debtor account access - segregation of duties (Revenue) | There are 27 staff with debtor management roles within Tech1, and 3 of these staff have responsibilities that include cash handling. This creates a risk of inappropriate writing-off of customer balances. We recommend that a monthly review process is put in place, and | Risk | Low |



| | | | | |
|-----|---|---|-------------|-----|
| | | where possible reduce the number of staff that have debtor management roles within Tech1. | | |
| 4.7 | Payments received in advance (Code of compliance - Buildings) | There has been an increased focus internally to monitor the balance of revenue received in advance for code of compliance fees. However a degree of long standing balances remain, some dating back to the 1990's. It is a financial reporting requirement that liabilities are recognised only to the extent there is a likely outflow of economic resources. Therefore it is important the balance is reviewed periodically to identify amounts where there is no longer a reasonable expectation the customer will request inspection. We recommend an exercise is completed periodically to remove old balances, whilst ensuring a record of the write-back is retained should the customer inquire and that legal obligations are met. Consideration of best practice from other Councils is also recommended. | Opportunity | Low |

Positive Findings

| TITLE | SUMMARY OF KEY FINDINGS |
|----------------------------|---|
| Detailed testing | During our testing we evaluated the implementation of selected processes and controls. We did not find any exceptions during our testing. This indicates strong compliance with processes and controls that are presently in place. |
| Customer services centre | Of the findings detailed in this report, none relate to processes and controls for the customer service centre. The customer service centre is the largest revenue collection point, therefore it is a positive that we didn't find process or control gaps in this area. |
| Documentation of processes | Each revenue collection point has documented processes and procedures by way of operating manual, or equivalent. [In particular where the program 'ProMapp' has been used this allows for very clear documentation of process management]. |



3. CONCLUSION

Based on our work performed, as specified in the scope of work in our terms of reference we have formed the following conclusions:

| SCOPE OF WORK | CONCLUSION | EFFECTIVENESS |
|---|---|---------------------|
| Adequacy of internal processes and controls in place to manage key risks associated with revenue collection | Other than the findings in section 4.1 to 4.6 nothing has come to our attention to indicate that the policies and controls in place to manage risks associated with procurement activities is not effective. | Partially effective |
| Compliance of revenue collection practices against Council processes and controls | We did not find any exceptions during our testing | Effective |
| Appropriateness of roles and accountabilities for revenue collection. | Other than the findings in section 4.1 to 4.6 (where relevant) nothing has come to our attention to indicate that the policies and controls in place to manage risks associated with procurement activities is not effective. | Partially effective |

Because of the inherent limitations of limited assurance audits, it is possible that fraud, error or non-compliance may occur and not be detected. A limited assurance audit is not designed to detect all instances of non-compliance within the areas reviewed by BDO, as it generally comprises making enquiries, primarily of the responsible party, and applying analytical and other review procedures. The opinion expressed in this report has been formed on the above basis. Our firm provides no other services to the Council and we have no other relationship or interests in the Council.



4. DETAILED FINDINGS

Our findings have been derived from our review of the Council's processes and controls pertaining to revenue collection, in accordance with Section 1 of this report.

4.1 Review of refunds (i-Site/ The Hub)

| | |
|--------|------|
| Type | Risk |
| Rating | Low |

Audit Findings:

The current operating procedures for the i-Site and The Hub do not have a requirement for secondary review of refunds issued by staff. The end of day cash-up process is often performed by a staff member who was on the cash register during the day and may have also issued refunds. We also note that during the weekly 'cash sales reconciliation', there is no process to review documentation with respect to refunds issued.

Implication:

The lack of secondary review of refunds creates an opportunity for staff to issue fictitious refunds for product sold, and where the refund is given in cash, the opportunity to pilfer cash. We do note there are stock take procedures, however these are too infrequent to reasonably expect the stock take to identify fictitious refunds as being the cause for stock losses.

The current process presents a risk of undetected financial loss to Council.

Recommendations:

We recommend that consideration is given to establishing the following processes and detective controls, and these are documented in standard operating procedures for i-Site and The Hub:

1. At the point of transaction the staff member is required in all instances to obtain the original receipt from the customer. The staff member then rights down the reason for the refund and has the customer signs the receipt acknowledging the refund has been received.
2. During the end of the day cash-up ensure that any refunds that appear of the Z-off report are supported by documentation (above).
3. During the weekly 'cash sales reconciliation' all refunds for the week (or the period being reconciled) are reviewed to ensure they are supported by documentation and this is evidenced as reviewed by the person performing the reconciliation.

Management Comments:

WDC Accept the recommendation

Staff keep the receipt returned by the customer, although this is not a formal process. Staff can formalize this and confirm the reason for return, including getting a customer signature. Staff usually get the customer to sign the till receipt that is produced once the refund has been processed in IBIS either through cash or EFTPOS as a way for the customer to confirm that they have received the refund (particularly with cash). The process will be reviewed, updated and communicated to staff.

4.2 Cash Register Security
(i-Site/ The Hub)

| | |
|--------|--------|
| Type | Risk |
| Rating | Medium |

Audit Findings:

During the audit visit to i-Site and The Hub we noticed that the cash register key for each register is kept in the lock, visible and required just a turn of the key to open the register. These cash registers are behind the service counter, however very easy to access from the side and visible to the public.

Implication:

The current practice presents an opportunity for a member of the public to steal cash and create an unpredictable situation putting staff in danger.

This creates a potential health risk to staff (physical and emotional) and the risk of financial loss to Council.

We do note that security cameras provide a mitigating control (as a deterrent) and i-Site is reasonably covered in this respect. However The Hub does not have the same coverage from security cameras.

Recommendations:

We recommend as a preventative measure that keys are not kept sitting in the locks of cash registers and access to the cash registers is through the IBIS point of sale system only. We also recommend consideration is given to improving the cover of security cameras at The Hub.

Management Comments:

WDC Accept the recommendation

Staff note the comment regarding keys and will remove them from the tills for future. The IBIS system allows access. This will be communicated to staff by the end of the calendar year.

4.3 Cash Admissions

(Clapham's Clock Museum)

| | |
|--------|------|
| Type | Risk |
| Rating | Low |

Audit Findings:

Visitors to the Clapham's Clock Museum are given access through to the museum after paying at the front counter, and there is no ticket issued to the customer nor checked prior to entry in to the museum. Payment can be made either by card or cash.

Implication:

There is an opportunity for a staff member to, grant entry to the museum to a visitor paying by cash, then not process that transaction through the cash register, instead pilfer the cash received. This presents a risk of undetected financial loss to Council.

Recommendations:

It is common for organisations with admission charges to have a control in place that only allows entry once the transaction has been processed through internal systems. For example, a printed ticket is generated by the system once payment is processed and that ticket is required to be presented by the customer for entry to the museum. In practice, this could be a barcoded ticket that is scanned at an automated turnstile prior to entry. This would provide a preventative control to mitigate the risk of the staff pilfering admission fees and also improve the accuracy of visitor numbers reporting.

A system like this would require upfront investment, and consideration of the cost vs benefit of such an investment needs to be considered. If it was determined that that cost exceeds benefit, alternative forms of controls could be put in place. For example, a monitoring control whereby management (not involved with cash handling) performs a weekly or monthly analysis of admission receipts from the museum to identify irregularities, trends or patterns. This would provide a control to detect irregularities with admission receipts.

Management Comments:

WDC Accept the finding and note the recommendation.

There are only ever two staff on roster and it is likely that one person will be away from reception, giving a tour for example, and unavailable to verify the ticket.

We agree with the auditor's observation that given the relatively low visitor numbers, especially those paying in cash, that the installation of a ticketed turnstile is unlikely to provide a benefit that exceeds the cost. We feel that this would also present a rather unwelcoming barrier to our visitors.

We assume that the analysis would be based on percentage differences in admission revenue, if this is the case then the museum's Monthly Stats spreadsheet (in Kete) which details Admission Numbers, Admission Revenue and Total Net Revenue on a Month End and Year End basis should be sufficient. This data is also summarised in the monthly Operational Report.



4.4 Customer accounts access
(Libraries)

| | |
|--------|--------|
| Type | Risk |
| Rating | Medium |

Audit Findings:

In the event a library customer incurs a fee or fine, the charge is captured and recorded in the library operating software called 'Symphony'. When the customer comes to pay the charge, library staff access the customer profile in Symphony to update the balance as being receipted. The customer can pay through online payment, or by physical payment at the library by card or cash payment.

Symphony does not link to financial systems and there is no reconciliation between Symphony and the cash register.

Implication:

The process creates an opportunity for staff to accept a cash payment from a customer but not process through the cash register. The staff member can then access the customer account in Symphony and clear the customer balance so the account reflects the customers expectations of their balance.

The current process creates a risk of undetected financial loss to Council.

Recommendations:

We recommend consideration be given to establishing the following analysis which will provide detective controls to identify irregularities between cash receipts and customer accounts.

1. Compare daily receipts from the cash register till tape with total receipts against customer accounts in Symphony for the respective day.
2. Review Symphony reporting to identify trends or irregularities in waiving of account balances.

Once agreed on what recommendation(s) to be taken- ensure this is communicated to staff.

Management Comments:

WDC Accept the recommendation

(i) We are still researching ways to make useful comparisons but at present have not found a suitable report in Symphony that will be meaningful.

(ii) As above, we are working through the range of offered reports to find an appropriate one.

In the interim, staff have been asked to be careful as to which categories they use in Symphony so that there is consistency with how bills are paid and that the reports will reflect actual practise - a necessary step.



4.5 Documentation of daily reconciliation
(Libraries)

| | |
|--------|------|
| Type | Risk |
| Rating | Low |

Audit Findings:

Following the daily cash-up and reconciliation, the reconciliation sheet is sent to the Council Revenue team for review and filing in Kete. The cash register till-tape is retained in a box at the library without a copy of the reconciliation attached to it.

Implication:

The current practice does not allow a clear simple trail from till records (to) reconciliation (to) banking as the till tape and reconciliation are not attached to each other.

This creates a risk of lack of accountability and transparency of documentation.

Recommendations:

We recommend that a copy of the signed daily reconciliation is taken before it is sent to the Council Revenue team, and attached to the daily till tape and filed in library records.

Management Comments:

WDC Accept the recommendation

This has been implemented

4.6 Debtor account access - segregation of duties
(Revenue)

| | |
|--------|------|
| Type | Risk |
| Rating | Low |

Audit Findings:

As part of the audit we requested from the IT team a listing of all staff who have a debtor management role within Tech1. The listing provided had 27 users with debtor management roles, which we have been informed allows the user to maintain and update debtor accounts including adjustments to outstanding balances. Within the listing of 27 users, there were 3 staff who have customer facing/ cash collection roles.

Implication:

Staff with cash handling responsibilities whom also have the ability to write-off debtor accounts, have the opportunity to collect cash but not receipt it. This can occur as the staff member could access the debtor account in Tech1 and write of the balance so the account is updated to reflect customer expectations of their balance.

This creates a risk of undetected financial loss to Council.

Recommendations:

We recommend consideration is given to the following controls:

(i) Debtor write-off review - a monthly review of all write-offs against customer accounts. The analysis should compare write-offs against the Revenue Manager's expectation of write-offs based on what has been approved for write-off.

(ii) Reduce access within Tech1 to limit the number of staff who can write-off debtor balances, starting with staff that have cash handling roles.

Management Comments:

WDC Accept the recommendation

The development of a report to review all write off is being investigated.

4.7 Payments Received in Advance
(Code of Compliance - Buildings)

| | |
|--------|-------------|
| Type | Opportunity |
| Rating | Low |

Audit Findings:

There has been increased focus from the building team to monitor the balance of revenue received in advance for code of compliance fees; however, a degree of long standing balances remain, some dating back to the 1990's. Through discussion with the Finance team, there is a desire to reduce the length of this report and the size of the liability by writing-back long standing balances to revenue.

Implications:

It is a financial reporting requirement that liabilities are recognised only to the extent there is a likely outflow of economic resources. Therefore it is important the balance is reviewed periodically to identify balances where there is no longer a reasonable expectation the customer will request an inspection.

Recommendations:

Maintenance and monitoring of long standing liabilities is important and an exercise to tidy-up/ reduce the balance is positive. We recommend:

- (i) Balances identified for write-back are kept for historical records so there is support if the customer does eventually come back to use the balance or request a refund.
- (ii) Consider the above with the legal obligations of the Council in this respect, and discuss with other District Councils to establish processes followed by other Councils.

Management Comments:

WDC Accept the recommendation

There is management support for option (i) as this would meet the requirements of the Building Act. If we record that the consent is essentially open and not completed, then it would be appropriate to write back the money.



5. INTERNAL AUDIT WORK CONDUCTED

The following summarises the work that we conducted during our internal audit. The purpose of this summary is to provide an understanding of the areas we covered.

| Scope Required | Work Completed | Conclusion | | | | | | | | | | | | | | | | | | | | | | | | |
|---|--|---|-----|-------|---|----|---------|---|---|--------|---|---|---------|---|---|-------------------------|---|---|-----------|---|----|-------------------|--|----|-------|----------------------|
| Adequacy of internal processes and controls in place to manage key risks associated with Revenue Collection | <ul style="list-style-type: none"> Interviewed relevant personnel from Council to understand the nature of revenue and cash collection from the various revenue collection points. Where available, obtained and reviewed operating procedures/ manuals for cash handling at the various revenue collection points. Assessed the adequacy and effectiveness of existing processes and controls in place to manage the key risks associated with revenue collection. Documented and communicated where there are process limitations and control gaps. | Based on work completed we noted limitations with the design of processes and controls. Refer to section 4.1 - 4.6. | | | | | | | | | | | | | | | | | | | | | | | | |
| Compliance of revenue collection practices against Council processes and controls | <ul style="list-style-type: none"> Evaluated the implementation of selected processes and controls in practice. Testing plan summary: <table border="1"> <thead> <tr> <th>Process/ Control</th> <th>No.</th> <th>Group</th> </tr> </thead> <tbody> <tr> <td>Total daily revenue reconciliation to bank receipts</td> <td>15</td> <td>Revenue</td> </tr> <tr> <td>Daily revenue reconciliation to cash register</td> <td>3</td> <td>i-Site</td> </tr> <tr> <td>Daily revenue reconciliation to cash register</td> <td>2</td> <td>The Hub</td> </tr> <tr> <td>Daily revenue reconciliation to cash register</td> <td>5</td> <td>Customer service centre</td> </tr> <tr> <td>Daily revenue reconciliation to cash register</td> <td>2</td> <td>Libraries</td> </tr> <tr> <td>Daily revenue reconciliation to cash register</td> <td>10</td> <td>Venues and events</td> </tr> <tr> <td></td> <td>37</td> <td>Total</td> </tr> </tbody> </table> | Process/ Control | No. | Group | Total daily revenue reconciliation to bank receipts | 15 | Revenue | Daily revenue reconciliation to cash register | 3 | i-Site | Daily revenue reconciliation to cash register | 2 | The Hub | Daily revenue reconciliation to cash register | 5 | Customer service centre | Daily revenue reconciliation to cash register | 2 | Libraries | Daily revenue reconciliation to cash register | 10 | Venues and events | | 37 | Total | No issues identified |
| Process/ Control | No. | Group | | | | | | | | | | | | | | | | | | | | | | | | |
| Total daily revenue reconciliation to bank receipts | 15 | Revenue | | | | | | | | | | | | | | | | | | | | | | | | |
| Daily revenue reconciliation to cash register | 3 | i-Site | | | | | | | | | | | | | | | | | | | | | | | | |
| Daily revenue reconciliation to cash register | 2 | The Hub | | | | | | | | | | | | | | | | | | | | | | | | |
| Daily revenue reconciliation to cash register | 5 | Customer service centre | | | | | | | | | | | | | | | | | | | | | | | | |
| Daily revenue reconciliation to cash register | 2 | Libraries | | | | | | | | | | | | | | | | | | | | | | | | |
| Daily revenue reconciliation to cash register | 10 | Venues and events | | | | | | | | | | | | | | | | | | | | | | | | |
| | 37 | Total | | | | | | | | | | | | | | | | | | | | | | | | |
| Appropriateness of roles and accountabilities for revenue collection | <ul style="list-style-type: none"> Reflected on the results of our detailed testing and linked issues with limitations to existing processes and controls. Recommendations have been given to address current limitations and suggest alternatives going forward. | Based on work completed we noted limitations with segregation of duties and roles. Refer to section 4.1 - 4.6. | | | | | | | | | | | | | | | | | | | | | | | | |



APPENDIX 1 - FINDINGS RATING

We classify our findings according to whether the matter raised represents, in our view, either a risk or an opportunity to the company. A risk is generally linked to an internal control weakness whereas an opportunity represents the identification for a potential efficiency.

To enable Management to set priorities on their action plans we will report our findings in four categories, namely, critical, high, medium and low based on our assessment of the importance of each finding.

Definitions for each category are provided below.

| Explanation | |
|-------------|--|
| | Risk A risk may represent a source of potential harm or negative impact. |
| | Opportunity Opportunities may represent sub-optimal performance or potential for an efficiency to be gained. |

| Explanation | |
|-------------|---|
| | Critical Severe breakdown in controls exposing Council to substantial risk, requiring immediate management attention and resolution as soon as practicable. |
| | High Significant breakdown in controls exposing the organisation to risk, requiring urgent management attention and resolution. |
| | Medium Breakdown in controls requiring timely management attention and resolution. |
| | Low Process inefficiencies or non-compliance with policies and procedures of a housekeeping nature. |



APPENDIX 2 - LIMITATIONS OF INTERNAL AUDIT PROJECT

This limited assurance quality assurance audit has been conducted in accordance with New Zealand Audit Standard ISAE 3000. This quality assurance audit is limited primarily to inquiries of entity personnel, inspection of evidence and observation of, and enquiry about, the operation of the control procedures for a small number of transactions or events. This audit is designed to provide a limited level of assurance in relation to the areas included within the terms of reference. An audit providing a high level of assurance has not been performed.

The engagement was performed on the basis of the following limitations:

- As a result of the inherent limitations of any internal control structure it is possible that errors or irregularities may occur and not be detected. Further, the internal control structure, within which the control procedures that we have reviewed operate, has not been reviewed and no view is expressed as to its effectiveness.
- The engagement is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed are on a sample basis. Also, this engagement does not provide all the evidence that would be required in high level positive assurance audit.
- Any projection of the evaluation of the procedures reviewed for selected processes to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

The matters raised in this report are only those which came to our attention during the course of our limited quality assurance audit and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, management should not rely on our report to identify all weaknesses that may exist in the systems and procedures reviewed, or potential instances of fraud that may exist. Findings within this report may have been prepared on the basis of management representations and should be read in the context of the scope of our work.

The Council should assess management actions for their full commercial impact before they are implemented. This report has been prepared by BDO Northland and Wellington for the purpose of, and with a view to access by the Council. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.

4.3 Financial Management Activity Update Report – December 2018

Meeting: Audit and Risk Committee
Date of meeting: 5 December 2018
Reporting officer: Delyse Henwood (Finance Manager)

1 Purpose

To update the Committee on financial management activity over the previous three months period and upcoming financial matters.

2 Recommendation

That the Audit and Risk Committee notes the financial management activity over the previous three months.

3 Discussion

2018-19 Annual Report

Planning is already underway for the 2018-19 Annual Report and associated audit. Initial planning meetings with Audit New Zealand have been scheduled for mid December to discuss key items and dates for the audit of Whangarei District Council, Northland Events Centre Trust, Whangarei Art Museum Trust, and Whangarei District Airport.

Tax Compliance

A voluntary disclosure was lodged with IRD in July 2018. The disclosure covered two adjustments:

- GST not returned on the sale of rubbish bags (\$140,380.90); and
- FBT on group life insurance covering a two year period (\$81,164.90).

IRD have processed the voluntary disclosure and reassessed the relevant GST and FBT. IRD have also remitted all penalties in relation to the voluntary disclosure.

Council has utilised PWC's Tax Pooling Solutions to cover the shortfall of tax owed to IRD. This has resulted in reduced of use money interest charges of \$12,665.52.

The property tax review is ongoing. Additional information has been received from Thomson Wilson with regards to a number of property transactions. Further analysis and investigation is required to determine the overall result of the review.

Accounts Payable Automation

A project was established several months ago to investigate areas identified for improvement within our Accounts Payable Automation system. Over this period various improvements have been implemented and well received by various stakeholders.

Further work has been carried out to improve the completeness of our Supplier records to enable additional automated functionality to be introduced. This functionality has been implemented in November and will be reviewed over the coming weeks.

Monitoring of our Accounts Payable Automation system will be ongoing as we continue to maximise efficiency.

Treasury Risk Management

The graphs below show Council's compliance to the risk parameters set out in the Treasury Risk Management Policy.

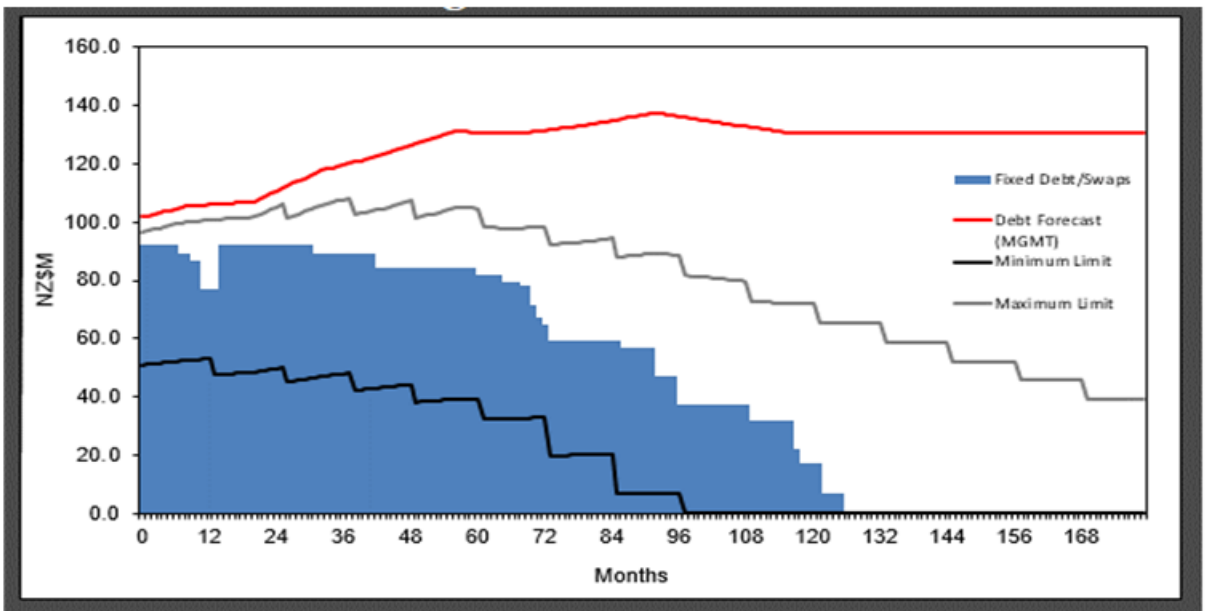
TREASURY RISK REPORT

31 October 2018



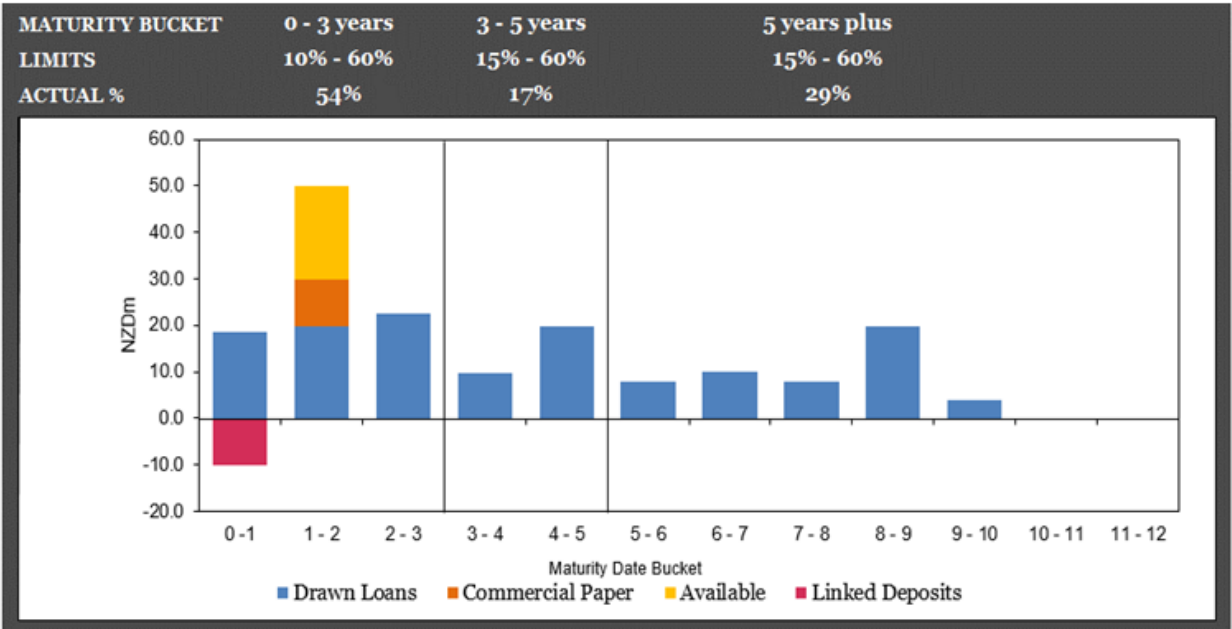
Fixed Interest Rate Hedge Position

This graph illustrates Council's fixed interest rate position i.e. the nominal value of the fixed interest rate swaps that Council has in place for different durations indicated in months (solid blue). It indicates whether swaps in place are within the approved interest rate control limits set in the Treasury Risk Management Policy. Limits are set based on forecast "core debt" (red line).



Funding Maturity

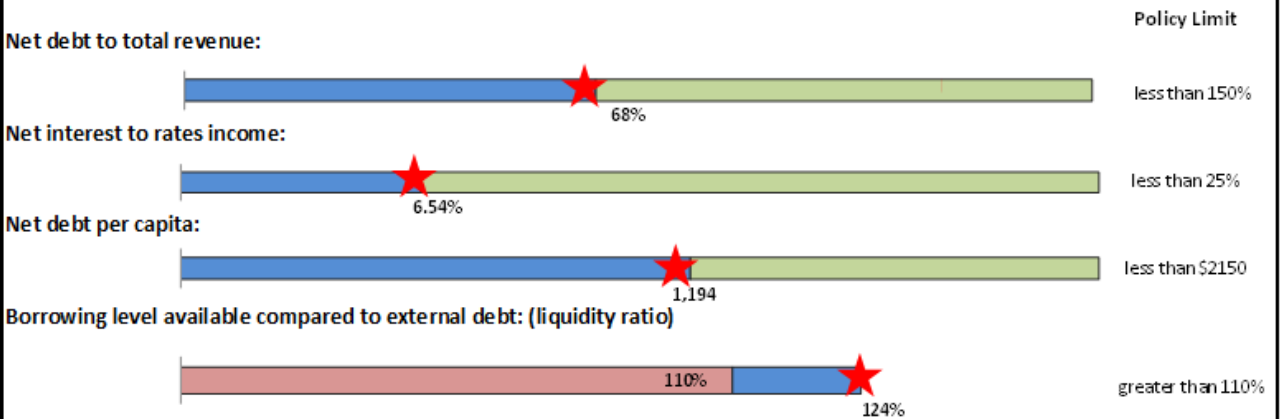
This graph illustrates the maturity of Council's total external debt against the approved limits within each maturity bucket. Current limits for each bucket are set in the Treasury Risk Management Policy and shown in the graph below, with percentages calculated on total external debt.



| | Years |
|------------------------------------|-------|
| Weighted average duration of Loans | 3.93 |
| Weighted average duration of Swaps | 7.66 |

POLICY LIMITS:

The following information displays Council's position in comparison to policy limits.



4 Significance and engagement

The decisions or matters of this agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via agenda publication on the website.

4.4 Health and Safety Report

Meeting: Audit and Risk Committee
Date of meeting: 5 December 2018
Reporting officer: Desarae Williams

1 Purpose

To provide the Audit and Risk Committee with information on key health and safety risks and the measures in place to mitigate those risks at the Whangarei District Council (WDC) workplace.

2 Recommendation

That the Audit and Risk Committee notes the information presented in the report and its attachment.

3 Background

Elected members have significant influence over our workplace and are obliged to:

- Apply due diligence to ensure the council is meeting legal health and safety obligations.
- Ensure that health and safety risks have been identified and are being suitably mitigated.
- Be confident that WDC is providing a safe workplace for workers.

This report provides key information that addresses these matters at a governance level.

4 Discussion

Risks

The top risks remain the same as the September report as detailed in the Attachment

Recently there have been two matters of health and safety risk that have been under consideration that may be of interest to the committee;

1. We have regularly held a Citizenship Ceremony in Council Chambers. Numbers have increased to a point where we are breaching our approved Forum North Emergency Evacuation Scheme. Future ceremonies will be held downstairs in the Venue and Events area.
2. A gun show has been regularly held at Forum North for some years. This year the show came to the attention of senior management, forcing a risk review of the situation. At the time of writing the report, this was still under evaluation.

Further to this, there have been two incidents relating to the top security related risk of threats and aggression from members of the public. Both incidents involved people in reception areas making jokes about threatening to shoot staff. These events were taken seriously (even if 'jokes') and dealt with swiftly. An amendment to our Workplace Security Policy is underway, to include wording about jokes about weapons not being tolerated.

Injuries

| Injury Type | Employee July – September 2018 | Contractor July – September 2018 | Public July – September 2018 | Totals July – September 2018 | Last quarter | Trend Since last quarter |
|---|---|---|---------------------------------------|---------------------------------------|-----------------|-----------------------------------|
| Injury event to WorkSafe NZ | 0 | 0 | 0 | – | 0 | Same |
| Lost time injury (injury needing days off) | 1 | 1 | 0 | 2 | 3 | ↓ |
| Medical treatment Injury (visited doctor or physio) | 3 | 5 | 1 | 9 | 35 | ↓ |
| Occupational health exposure | 0 | 0 | 0 | 0 | 0 | Same |
| Minor injuries (First Aid) | 2 | 14 | 4 | 20 | 56 | ↓ |
| Pain and Discomfort | 8 | 9 | 0 | 15 | 58 | ↓ |
| Incidents | 21 | 37 | 2 | 60 | 116 | ↓ |

Table 1: Council workplace injuries 1 July– 30 September, 2018

The Audit and Risk Committee expressed some interest at the last meeting about cases of work related stress. In this same reported quarter of 1 July to end of September, two stress incidents were logged by staff. More staff, as explained at the last meeting, may have chosen other methods to report and deal with this. A further case has been logged in this new quarter.

| Incident Type | 2013-2014 | 2014-2015 | 2015-16 | 2016-2017 | 2017 - 2018 | Trend since previous year |
|----------------------------------|-----------|-----------|---------|-----------|-------------|---------------------------|
| Injury notifiable to WorkSafe NZ | 3 | 6 | 2 | 3 | 0 | ↓ |
| Lost Time Injuries | 13 | 14 | 7 | 11 | 11 | Same |
| Medical Treatment Injuries | 37 | 19 | 46 | 51 | 77 | ↑ |
| Occupational Health Exposure | 0 | 0 | 0 | 11 | 4 | ↓ |
| Minor Injuries | 40 | 46 | 74 | 127 | 160 | ↑ |
| Pain and Discomfort | 9 | 18 | 84 | 109 | 138 | ↑ |
| Incidents | 137 | 116 | 382 | 283 | 389 | ↑ |

Table 2: Council workplace injuries over last five financial years

Training

| Internal training | External training |
|--|---|
| <ul style="list-style-type: none"> • Contractor H&S management training • Asbestos awareness workshops | <ul style="list-style-type: none"> • Site Safe passports • H&S Legislation • Customer Conflict /Personal Safety • Aggressive phone call training • Bomb threat training • First Aid (new and refreshers) • Risk identification and Control (for H&S Representatives) |

Occupational health and wellbeing

Annual occupational health monitoring has been completed in a number of departments this quarter. Of concern are the team of Building Inspectors with all bar one showing occupational hearing loss. Hearing conservation training is being arranged with strategies put in place in the meantime to prevent further damage. Some have had hearing loss from previous employment and/or out of work activities, some have shown a loss since last monitored.

As we have progressed on our safety journey we have discovered a number of staff who come into contact, both regular and occasional, with sewage and grey water. These staff are now being blood tested and provided hepatitis A& B Vaccinations, along with Typhoid vaccinations.

5 Significance and engagement

The decisions or matters of this report do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via report publication on the website.

6 Attachment

Top Health and Safety Risks, November 2018

Attachment 1: Highest Health and Safety Risks in Whangarei District Council ‘workplaces’

These risks have been identified from the Council hazard register, based on residual (After controls put in place) risk scores.

| Risk Description | Cause of the Risk | Consequence/ impact of an event happening | Inherent Risk Rating | Controls in Place | Residual Risk Rating | Future Controls | Future Risk Rating |
|--|--|---|----------------------|---|----------------------|-----------------|------------------------|
| Threats and aggression from members of public. | <p>Workers out in field coming across aggressive people, causing physical and/or emotional harm to workers.</p> <p>Aggressive people coming in or around our workplaces, causing physical and/or emotional harm to workers.</p> <p><i>Note: Why this risk remains so high, is the lack of control we have as council in controlling the behaviour of the public.</i></p> | Worksafe notifiable injury affecting workers | Critical | <ul style="list-style-type: none"> • Security systems, policies, procedures and information in place to cover many eventualities • Regular training sessions on what to do in threat and lockdown events. • Training provided to cover off differing threat situations • H&S & Security meetings held with other tenants and PCBUs • Planned emergency drills, which check the effectiveness of the systems • Audits of high risk areas • CCTV and panic buttons installed • Work alone devices and cell phones, to summon assistance • Use of security companies to provide assistance • Audits and monitoring | High | | Little change foreseen |
| Traffic, pedestrian and driving hazards | Poor driving behaviour of other people, causing accidents involving our workers, both in vehicles and as pedestrians. | One Worksafe notifiable injury or potentially many fatalities | Critical | <ul style="list-style-type: none"> • Driver assessments • Driver licence checks • Driver – car control training provided for high use fleet drivers • Driver checklists • Driver inductions • Safe access through traffic guidelines | High | | Little change foreseen |

| Risk Description | Cause of the Risk | Consequence/ impact of an event happening | Inherent Risk Rating | Controls in Place | Residual Risk Rating | Future Controls | Future Risk Rating |
|---|---|---|----------------------|--|----------------------|-----------------|--------------------|
| | Poor driving behaviour of our workers, causing accidents and injuries. <i>Note: Why this risk remains so high, is the lack of control we have as council in controlling the behaviour of the public.</i> | | | <ul style="list-style-type: none"> Staff informed of requirements | | | |
| Workplace stress and fatigue | Work overload, working long hours and overtime (for a long period of time), bullying and other unreasonable behaviours, including unresolved conflict. This can be compounded by out of work issues. | WorkSafe NZ notifiable injury | Critical | <ul style="list-style-type: none"> EAP (Employee Assistance Programme) system available Encouragement to early report and resolve issues Policies in place giving guidance Fatigue management processes in place and monitoring Leader awareness of issues, with individual plans to resolve Support of individuals from People and Capability team Monitoring of this area and reporting | High | | |
| Contractors creating risks in the workplace | Contractors injuring themselves and others when undertaking council work or while at council workplace. | Multiple fatalities WorkSafe NZ and likely prosecution, affecting workers | Critical | <ul style="list-style-type: none"> Initial health and safety appraisal system, using a prequalification requirement of being SiteWise approved to 50% or more Annual review of existing contractors Stringent asbestos removal controls Monitoring processes Contractors informed of requirements and standards, with regular communication to contractors Council staff trained in requirements | Medium | | |

| Risk Description | Cause of the Risk | Consequence/ impact of an event happening | Inherent Risk Rating | Controls in Place | Residual Risk Rating | Future Controls | Future Risk Rating |
|------------------------------|---|---|----------------------|---|----------------------|-----------------|--------------------|
| | | | High | <ul style="list-style-type: none"> Contractor Management policy in place Permit to Work system in place Lockout system in place Induction of contractors | Medium | | |
| Slips and trips | Slippery surfaces, unrecognised trip hazards, people not paying attention | WorkSafe NZ notifiable injury affecting workers | High | <ul style="list-style-type: none"> Encouragement of reporting and remedying of the risk as soon as possible Workplace inspections Worker awareness | Medium | | |
| Work at heights (WAH) | Falling from height | WorkSafe NZ notifiable injury affecting workers | High | <ul style="list-style-type: none"> WAH training, with two-yearly refresher requirements WAH permit to work in place for high risk work at height WAH reviews and audits WAH Policy and procedures Fall prevention hardware, such as handrails and use of scaffolding Use of Elevated work platforms Assessments of risk and plans to work safely Supervision and monitoring WAH gear and equipment checked and certified | Medium | | |
| Confined space entries (CSE) | Entry into confined spaces where there is; insufficient oxygen, the risk of toxic or solvent chemicals, engulfment and energy sources or processes that could start up. | Multiple fatalities WorkSafe NZ Prosecution | High | <ul style="list-style-type: none"> Requirement to use CSE permit to work and suitable procedures CSE policy and procedures Only trained workers to enter with a two-yearly refresher requirement | Medium | | |

| Risk Description | Cause of the Risk | Consequence/ impact of an event happening | Inherent Risk Rating | Controls in Place | Residual Risk Rating | Future Controls | Future Risk Rating |
|--|--|---|----------------------|--|----------------------|---|--------------------|
| | | affecting workers | | <ul style="list-style-type: none"> CSE registers in place, making it clear what is a confined space Air & gas monitoring requirements before and during entry Rescue plans planned in advance Monitoring and supervision Notification to our contractors about our standards and requirements | | | |
| Fire and emergency in workplaces | <p>Unplanned fire, bomb threat, gas leak and similar causing the need to evacuate a building.</p> <p>Crowd control can become a risk in some workplaces, with the potential for crushing, if people panic.</p> | Multiple fatalities (But low probability) | High | <ul style="list-style-type: none"> Drills held six monthly in most workplaces, or annual table top review in small workplaces Procedures in place, that are regularly reviewed and updated Trained fire wardens Sprinkled buildings Approved fire evacuation schemes in place Emergency lighting and systems in place <p>Workers informed of risks and procedures to adhere to</p> | Medium | Hard wired smoke detectors | |
| Seismic risk at Kioreroa road Admin Building, Whau Valley Water Treatment building and Forum North | <p>Earthquake risk.</p> <p>The key aspect being, lack of compliance to new earthquake building standards, although not enforceable till 2025.</p> | Multiple fatalities (But note – very low probability) | High | <p>Nil, just awareness.</p> <p>Earthquake procedures available and two yearly drills arranged.</p> | Medium | Building new Water plant. One building concept – so staff not in at risk area. Remedial action at Waste plant | Eliminated |

4.5 Project Risk Discussion

Meeting: Audit and Risk Committee
Date of meeting: 5 December 2018
Reporting officer: Shelley Wharton (Manager – Infrastructure Planning and Capital Works)

1 Purpose

To update the Committee on the management of project risks.

2 Recommendation

That the Committee notes the report.

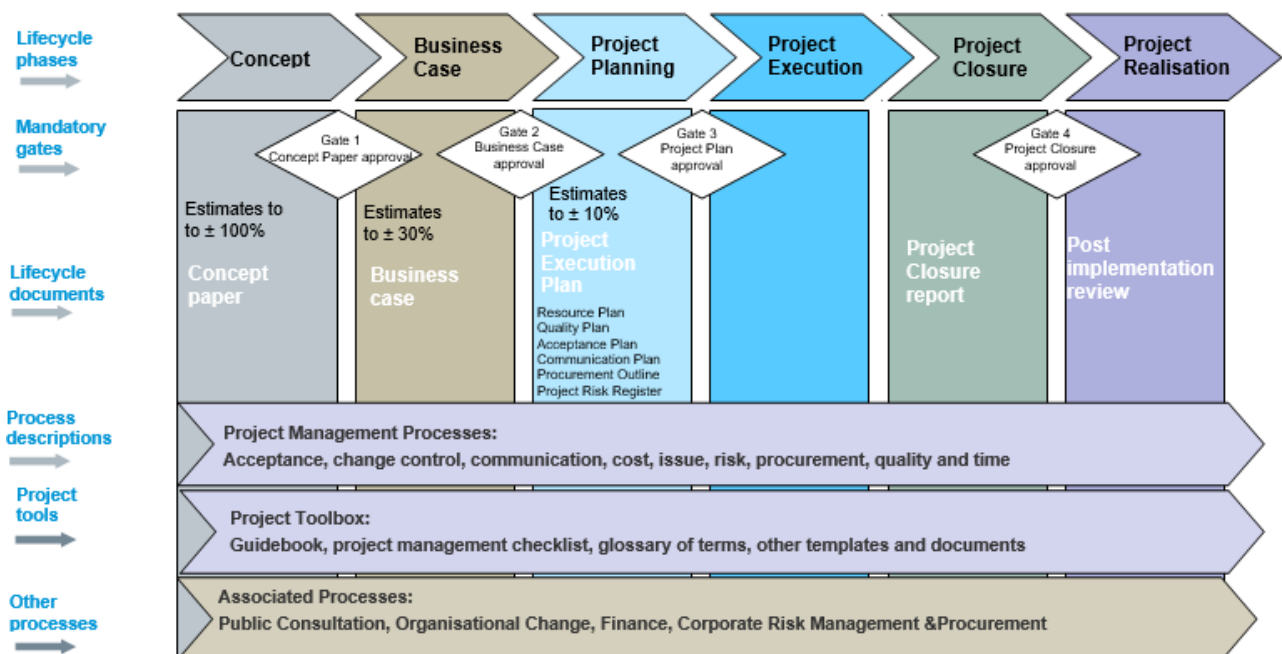
3 Background

While the status of the organisation wide risk register is regularly reported to the Committee highlighting areas of high risk and strategic risk for Council operational, project risks are not. This item therefore provides an overview of the management of project risks.

All major projects are delivered using a Project Management Framework (PMF) which has been in use since July 2009. The PMF is based on international best practice project management.

Use of the PMF enables the successful management of projects throughout the project lifecycle, from initiation to benefit realisation, by providing a set of processes, structures, templates and tools as shown in Figure 1. Projects go through 6 phases where there are checks and balances to ensure that project risk is adequately managed.

Figure 1 – WDC Project Management Framework: Project Lifecycle Overview



Minor projects or asset renewal works do not follow the PMF because they are considered low risk, and the lower value of work does not justify additional costs that come with a higher level of project management resource and documentation.

4 Discussion

The Project Management Framework and PMF templates include risk identification, assessment and risk management as appropriate to the stage of the project. The PMF includes a Risk Management Process and a Risk Register Template.

Risk Management During the Project Lifecycle

Concept Phase

- Concept Paper (for large projects) – includes a summary of the most apparent risks with likelihood, impact and mitigating actions. May identify the need for a feasibility study or other investigative work to reduce project risk.

Business Case Phase

- Business Case – includes a summary of the most apparent risks with likelihood, impact and mitigating actions. Where risks could impact the overall cost of a project, a risk-based contingency amount is added to the project budget.

Project Planning Phase

- Project Execution Plan – includes a summary of the most apparent risks with likelihood, impact and treatment. For larger projects with many risks a separate project risk register is created.

Project Execution Phase

- Project Risk Register – initial risk workshop held with the project team to identify all risks and mitigating actions. From then on the register is reviewed and updated monthly by the project team throughout the design, consenting and construction phases.
 - When a risk eventuates, it becomes an issue that needs to be resolved, and is added to the Issues Register.
 - If a risk becomes an issue that would cost more than the remaining project and contingency budget, a change request is submitted to the project sponsor.
 - When the project has moved past the point where a particular risk could occur, that risk is closed and no longer needs to be managed.
- Project Status Report – outlines the status of risks and issues to the project sponsor.

Project Closure Phase

- Project Closure Report – identifies risks that are still open and hands them over to operational teams to continue managing the risk.

Audit of Project Management Practices

Audit NZ undertake regular auditing of council's activities including project management. The Interim Audit for the year ending 30 June 2018 did not find any major issues with current project management practices. The Interim Audit does however include a recommendation that would be beneficial for council to action to gain improvements, which is that the '*Policy framework is updated, projects and scope are more clearly defined, and post implementation reviews are performed, which improves the project management reporting system*'.

In line with Audit NZ recommendations, the Infrastructure Planning & Capital Works Department has been working closely with the Business Improvement Department to analyse current project management practices across council, and create a Project Management Transformation Strategy which has recently been approved for implementation.

This transformation will involve establishment of an internal Project Management Centre of Excellence made up of expert staff who will be responsible for update of the Project Management Framework and templates, training and mentoring, auditing for compliance and risks, and within 3 years the implementation of a project management system with project reporting and portfolio dashboards.

5 Significance and engagement

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via Agenda publication on the website

4.6 Internal Audit Action Update

Meeting: Audit and Risk Committee
Date of meeting: 5 December 2018
Reporting officer: Emily Thompson (Audit and Risk Analyst)

1 Purpose

To report the status of outstanding actions from the Internal Audits conducted within Council.

2 Recommendation/s

That the Audit and Risk Committee notes the status of the outstanding internal audit actions.

3 Background

The internal action log provides an update on progress against recommendations made during any previous internal audits. These are monitored internally as they progress to completion.

4 Significance and engagement

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via Agenda publication on the website.

5 Attachment

Internal Audit Update December 18

| Audit | Date of Audit | Audit report Reference | Title | Internal Audit Key Finding (summary as detailed in report) | Status | IA Recommendation (Summary as detailed in report) | Management Commitment | Action (extracted from management comment) | Owner | Due date | Update | Status |
|-------------------|---------------|------------------------|--|---|--------|---|--|---|--------------------------------------|-------------------------------|--|--------|
| Payroll Audit | 16/11/2017 | 4.4 | Documentation of pay run process and continuity risk | There is no documentation of payroll processes and staff cover to process to cover a payrun is limited. We recommend documenting the payroll process in a set of work instructions. Another staff member to be trained in payroll processes in the event staff cover is needed. | Medium | <p>Implications:</p> <p>Payroll processes including the fortnightly payrun are critically important to Council operations and there would be widespread implications if the process was interrupted due to a lack of staff cover.</p> <p>Recommendations:</p> <ol style="list-style-type: none"> 1. We recommend work instructions for payroll processes are completed immediately. These should include all practical steps that needs to be taken to perform key payroll processes including the processing of the fortnightly payrun. 2. While the P&C Manager is cover when one of the administrator is on leave, our recommendation is that another staff member from the HR Group should be trained to process pay in the event both administrators are away from work. We do not recommend this staff member is given ongoing access to the payroll system, but rather is granted access in the event it is needed. | Work has already started on creating formal payroll processes that can be followed by any member of the P&C or Finance team, should the need arise. It is expected that this will be completed by the end of 2017. | P&C team to develop payroll operating procedures so that in the absence of the payroll staff another member of the team can complete the payroll process. This will build on the checklist that already exists. | P&C - Jenny Antunovich/ Marie Notton | Dec-17 Sept-18 May 19 | Business Improvement Department is now working with the payroll team to confirm and document the process. Expected to complete in the first half of 2019. | Open |
| Payroll Audit | 16/11/2017 | 4.5 | Documentation of payroll policies | There is no documented policy or principles for the payroll function. We recommend a payroll policy document is developed to address the overall objective and responsibilities of the payroll function. | Low | <p>Implications:</p> <p>The implication of the payroll policy not being documented is a lack of clarity of the Councils responsibility and intent with regard to the payroll function.</p> <p>Recommendations:</p> <p>We recommend that a payroll policy is developed to reference the overall objective of the payroll function and address the following responsibilities:</p> <ul style="list-style-type: none"> * Duty as an responsible employer to pay all employees accurately, on time and in accordance with employment agreements. * Compliance with applicable legislation * Compliance with income tax and IRD requirements * Security of payroll data * Description of the payroll function * Description of current calculation used to determine fortnightly payment * Segregation of duties * Reference to the location of instructional documentation and delegated authorities | Council agree that there is a need to have an overarching document relating to all payroll processes. This will be reviewed in line with an internal policy review that has just begun and is expected to continue through the first half of 2018. It may result in an alternate name to 'policy' but the principles of payroll will be included as detailed above. | P&C team to develop payroll process/ policy document for adoption. It has been agreed that it will include the details mentioned by the internal auditors and will be approved by the SLT(OLT via delegation) | P&C - Jenny Antunovich | April-18 Sept-18 Nov 19 | This will be reviewed by the people and capability department following the review and documentation of processes (action item 4.4) | Open |
| Procurement Audit | 17/05/2018 | 4.1 | Procurement environment | The procurement control environment at the Council can be described as a semidecentralised model, with limited use of centralised controls. There is an inconsistent knowledge base among staff responsible for procurement. We have recommended an immediate requirement for active oversight from Business Support to ensure compliance. There is an opportunity upon updating the procurement policies to redefine roles and responsibilities. We also recommend software is introduced to manage all procurements and contracts as a means of having visibility over procurements in progress, procurements completed and key details of the procurement. | Medium | <p>We understand the Council is currently looking at redefining the roles and responsibilities within the procurement function. As such we have presented our recommendations in two phases – (i) Immediate action under the current environment; and (ii) Opportunities for the future.</p> <p>Immediate action – the status quo</p> <ul style="list-style-type: none"> - Require oversight by the Business Support department for all procurements greater than \$100,000. We recommend oversight at a minimum includes initial meetings with the procurement leader to determine key features of the procurement plan and if support is required. Also oversight towards the end of the procurement to ensure the filing of procurement process documentation has been completed. - All variations to process should be reviewed by Business Support prior to Group GM and CEO approval. - To support the oversight function in the interim and future, BDO Northland are available to discuss ongoing assurance services to review procurement procedure compliance. We consider there to be value in this process for the Council and would follow a risk based approach. <p>Opportunities for the future</p> <ul style="list-style-type: none"> - We recommend the Council investigate software options for the managing of all procurements and contracts. In an ideal environment Business Support will have visibility over all procurements in progress, procurements complete and key details of procurement process followed (i.e. risk, tender method, evaluation method, variation used, etc). Use of the tool could be extended to contract management and timelines for contract expiry to mitigate procurement risk throughout the life of the contract. - Responsibilities for compliance with procurement processes need to be clearly defined within the new procurement policies. We recommend consideration is given to thresholds (dollar value and risk) as to when active involvement of the Business Support team is necessary, and a threshold where external procurement process experts are used. It is our view that use of external experts should be limited to high value/ high risk procurements. This will ensure that <p>Consideration of a risk based framework should be developed as part of the procurement policies, including a risk assessment matrix. Reference to the risk assessment matrix together with the financial value of the procurement will guide the way procurement is to be undertaken.</p> <ul style="list-style-type: none"> - The layout of the procurement manual should be revised to allow a clear structure that is user friendly with superfluous information and requirements removed. Of benefit to users would be a clear flow chart that provides a practical tool to guide what type of procurement process is needed for any type of procurement. An unambiguous procurement manual reduces the risk of challenges to the decision-making process and may reduce the cost of procuring. Clear requirements assist in ensuring procurement policy is consistently followed. - The revised procurement policy and manual should be prepared in-house to ensure it is written within the context of how the Council operates and is congruent with the intended users. Internal consultation should occur with relevant stakeholders, including input from various levels of staff. External consultation is also of benefit to ensure the overall objective of effective procurement is met. We are available to assist at this stage to complement the process if required. - Going forward it is important that all policy and procedure is updated in accordance with the required timeframe. | Affirmation of the Strategic Intent for Procurement is required by SLT. This will determine the model going forward, ie Centralised or decentralised or a hybrid model. Current resources in Business Support will not be able to achieve oversight of all procurement over \$100,000.00. Business Support will work with People and Capability to socialise the reviewed policy and provide learning and development opportunities for departments as required. | Business Support to confirm strategic intent for Procurement with SLT. Review of Policy to be shared with wider organisation, including if oversight stays with Business Support department. | Business Support - Manager | Dec-19 | Procurement Policy has been updated was adopted by Council in October 2018. Associated documentation will be reviewed as operational priorities allow through out 2019. | Open |
| Procurement Audit | 17/05/2018 | 4.2 | Policiets - Structure and Content | The current suite of procurement policies are overdue for revision. We identified structural limitations with the current procurement manual and provide recommendations to improve usability, remove unnecessary requirements/rules and introduce a risk based procurement framework. | Low | <p>Consideration of a risk based framework should be developed as part of the procurement policies, including a risk assessment matrix. Reference to the risk assessment matrix together with the financial value of the procurement will guide the way procurement is to be undertaken.</p> <ul style="list-style-type: none"> - The layout of the procurement manual should be revised to allow a clear structure that is user friendly with superfluous information and requirements removed. Of benefit to users would be a clear flow chart that provides a practical tool to guide what type of procurement process is needed for any type of procurement. An unambiguous procurement manual reduces the risk of challenges to the decision-making process and may reduce the cost of procuring. Clear requirements assist in ensuring procurement policy is consistently followed. - The revised procurement policy and manual should be prepared in-house to ensure it is written within the context of how the Council operates and is congruent with the intended users. Internal consultation should occur with relevant stakeholders, including input from various levels of staff. External consultation is also of benefit to ensure the overall objective of effective procurement is met. We are available to assist at this stage to complement the process if required. - Going forward it is important that all policy and procedure is updated in accordance with the required timeframe. | A risk management framework will be included in the current policy review. The subsequent documentation required for implementation of the new Policy will be completed when the Policy has been approved. This will include a review of the Procurement Manual and the Quote Pack. | Policy to be reviewed and will include a risk management framework. Once policy completed then associated documentation will be reviewed to align. This includes a review of the procurement manual and the quote pack. | Business Support - Manager | Dec-19 | Procurement Policy has been updated was adopted by Council in October 2018. Associated documentation will be reviewed as operational priorities allow through out 2019. | Open |
| Procurement Audit | 17/05/2018 | 4.4 | Conflict of Interest - Implementation | During the testing phase of our review we identified 5 (out of 12) instances where conflict declarations had not been fully completed. We recommend immediate communication to set the expectation that the procurement leader is responsible to ensure conflict declarations are completed as required. | Medium | <p>We recommend the procurement leader is responsible for ensuring conflict of interest declarations are completed by required staff. Communication of this responsibility should be completed by the Business Support department. Consider holding training sessions for staff to reinforce the need for complete and effective conflict of interest checks.</p> <p>As a broader consideration, a procurement checklist could be created to provide a visual, summarised document to work through to assess whether all required aspects of a procurement have been followed.</p> <p>Note – recommendations for conflict of interest compliance should also be read in conjunction with finding 4.3.</p> | The conflict of interest processes will be reiterated in the reviewed procurement manual and training. | Procurement manual and associated documentation to be reviewed including conflict of interest requirements. This will follow the procurement policy review. | Business Support - Manager | Dec-19 | Procurement Policy has been updated was adopted by Council in October 2018. Associated documentation will be reviewed as operational priorities allow through out 2019. | Open |
| Procurement Audit | 17/05/2018 | 4.5 | Variation of Procedure - Rationale | The variation to procurement procedure form does not provide guidance about how to consider risks that are created by using the variation. We recommend the form is enhanced to require risk based justification for the variation. | Low | We recommend the 'Variation to Procedure' form is enhanced to specify the requirement to provide supporting documentation (where necessary) and guidance to address risk. Example included in full report (justification for the variation and risks addressed). | The variation to procedure and/or policy form and process will be reviewed as part of the policy review and included in the training. | Procurement policy to be reviewed including variation to procedure requirements and process. | Business Support - Manager | Dec-19 | Procurement Policy has been updated was adopted by Council in October 2018. The variation requirement is mentioned in the Policy, however the form has not yet been reviewed or amended. | Open |

| Audit | Date of Audit | Audit report Reference | Title | Internal Audit Key Finding (summary as detailed in report) | Status | IA Recommendation (Summary as detailed in report) | Management Commitment | Action (extracted from management comment) | Owner | Due date | Update | Status |
|----------------------|---------------|------------------------|---|--|--------|---|---|---|----------------------------|---------------------|---|--------|
| Procurement Audit | 17/05/2018 | 4.7 | Documentation of Procurement | During the testing phase of our review we identified 9 (out of 12) procurements that lacked complete documentation of procedures in Kete. We recommend requirements for documentation are communicated with staff and a checklist is developed to help staff ensure minimum documentation is filed. We also recommend the contract folder for high profile/ high value procurements are given restricted access permissions. | Low | We recommend communication to all staff regarding the requirement and responsibility to file documentation that supports a procurement. A checklist of key documentation needed to be stored on Kete could be developed to allow a simple check of completeness for the procurement leader. We recommend that contract folders of high profile/ high value are given restricted permissions for access. Also refer to our finding at 4.1 with regard to responsibilities within the current 'semi-decentralised' procurement environment at the Council. | Documentation will be reviewed as part of the review of the manual. Flow charts will be included. Business Support will work with People and Capability to socialise the reviewed policy and provide learning and development opportunities for departments as required. | Procurement manual and associated documentation to be reviewed including development of written process (ProMapp). This will follow the procurement policy review. | Business Support - Manager | Dec-19 | Procurement Policy has been updated was adopted by Council in October 2018. Associated documentation will be reviewed as operational priorities allow through out 2019. | Open |
| Open Purchase Orders | 2017-01-31 | 4.1 | Invoice Paid Twice | We identified one instance of a supplier invoice being paid twice during the 2016 calendar year. . | High | We recommend finance team management and the systems accountant review system controls within TechOne. This should be done in a test environment to accurately document what details can be entered into TechOne without an application error occurring. We recommend TechOne is configured to allow an invoice number be applied to the respective supplier on one occasion only. The circumstances of the identified exception should be reviewed to understand the rationale for adjusting the order by one cent. That is; to determine if this was a deliberate attempt to circumvent controls, or simply to facilitate administration of the payment | We will review the system controls within TechOne and investigate whether amendments can be made to improve the current controls. We have looked into the exception and the original purchase was incorrectly amended. We note that there were two copies of the invoice which were in different formats. After further investigation we can confirm that TechOne was not manually overridden. If a purchase order is raised as exclusive of GST, it is a common occurrence that the final inclusive invoice amount can vary by 1 cent due to rounding. When the purchase order is matched to the invoice, the accounts payable staff can then amend the purchase order details in order to align to the invoice. In this situation, there appears to have been a rounding discrepancy between the PO and the invoice. This 1 cent difference was overlooked and not amended at the time of matching the PO to the invoice. The system therefore allowed the payment to occur as the transaction was not recognised as a duplicate due to the differing amounts. | Review System controls in TechOne to see if any amendments can be made to the current controls. We intend to communicate with Tech One to see if this issue has been encountered by other user sites before and if there is a compensating control. We will look at what reports/queries we can run prior to payables runs to check for potential double payments. We will also look at what further training can be provided to payables staff. | Finance Team | Jun-18 | We have looked into the exception and the original purchase was incorrectly amended. We note that there were two copies of the invoice which were in different formats. After further investigation we can confirm that TechOne was not manually overridden. The introduction and streamlining of our Accounts Payable Automation (APA) system will further reduce the level of manual intervention required. There are various system controls in place to prevent duplication of invoices. This, along with overall performance will continue to be monitored as we fine-tune APA. | Closed |
| Open Purchase Orders | 2017-01-31 | 4.4 | Timing of receipting | The procurement procedures manual specifies purchase orders are to be receipted when goods/ services are received. However in practice this is infrequently occurring. | Low | We recommend the procurement procedures manual is amended to relax the requirement for purchase orders to be receipted within 2 days of completion of work. This could be adjusted to 'purchase orders are to be receipted within the earlier of 20 working days or receipt of supplier invoice'. Doing so would be more fitting with current business practice and be more realistic to adhere to. An alternative is to leave the procurement procedures manual as it is, and reinforce the need to receipt purchase orders within 2 days of completion of work. There is no automated control to ensure this is completed, so adherence would need to be self-policed with some form of monitoring control to ensure it is occurring. | We agree with the recommendation to relax the requirement for purchase orders to be receipted within 2 days of completion of work and will do so as part of a key procurement policy documents review and update. | Update the procedures manual to remove this constraint that we (as Council) are not achieving. This will be as part of the overall procurement review. | Finance Team | Dec-17 | Business Support Manager joined Council in early 2018. This initiated a full review of the procurement process. This resulted in the recent adoption of a new procurement policy at Council in October 2018. Following the adoption of the new procurement policy there will be work undertaken to develop the processes and documentation to support the policy. The new policy no longer mentions timeframes for PO payment - therefore this action can be closed. | Closed |
| Payroll Audit | 16/11/2017 | 4.2 | Monitoring changes to personnel master data | There is no monitoring of changes to the personnel master data. We recommend compensating controls are used in the interim until the point where monitoring reports are available for use. | High | Implication: No automated monitoring of changes to master data creates a risk that inaccurate or dishonest changes are not detected by the Council. This risk is heightened due to there being weaknesses in preventative controls to access master data as documented in point 4.1 of this report. Key risks that are currently not monitored, via the system or reporting, are unauthorised changes to the employee bank accounts and the use of fictitious employees. Recommendations: 1. We understand this point has been raised previously by external auditors, and progress is being made between the Council and TechOne to build reporting that will enable monitoring of master data changes. We recommend the following reports are written, and that there is a monthly review of the reports performed by the P&C Team Leader as this person is not involved with payroll processing: <ul style="list-style-type: none">* Bank account changes* New starters* Terminations* Pay rate changes* PAYE and Kiwisaver rate changes* User name login to payroll module in TechOne (search for inappropriate login) 2. There is an opportunity to use compensating controls in the interim until the new TechOne reports are ready for use. During our work we established there are standard 'audit reports' available in TechOne that may be of use – such as bank account changes. The format of the reports are not user friendly, however with filter of data it is possible to detect changes to bank accounts. We recommend the P&C Team Leader discusses available reports with the Systems Analyst – application support and considers use of these reports in the interim until which time | Management accepts these comments and is looking to TechOne to provide regular reporting of data for review by the team. P&C Team Leader and ICT are to review interim options to review this data. It is expected to include exception reporting, bank account changes across a period of time (possibly last 4 payruns). | 1. HR and ICT to arrange interim report for review 2. ICT to work with TechOne to set up regular reporting that can be automatically produced every payroll. | P&C - Marie Notton | Feb—18 Sept - 18 | People & Capability now use an interim report as standard practice, therefore the risk has been addressed. This has now been automated and is now Business as usual. The new process was reviewed by External Audit who were comfortable with the assurance provided by the approach. | Closed |
| Payroll Audit | 16/11/2017 | 4.3 | Review of payroll prior to payment | The is an opportunity to enhance the effectiveness of the payroll review prior to payment. We recommend an analytic review for payroll anomalies is performed by the P&C Team Leader. | Medium | Implications: There is a lack of effective analytic review of payroll amounts prior to the authorisation of the payment which creates a risk that erroneous or inappropriate payments are made. We acknowledge there is monthly HR and payroll reporting to Group managers which includes overtime paid and sick leave statistics, and on a quarterly cycle Group managers access reporting that includes salary paid vs budget by department. This review is retrospective and at a high level. Recommendations: A detailed review of employee payments should be performed by a senior staff member who has adequate knowledge of staffing levels, movements, etc and then by someone who is removed from the payroll process. We recommend the following changes are made: 1. The P&C Team Leader performs a detailed review of planned employee payments prior to payment. This could take the form of a report that shows at an employee level - gross pay, leave paid, overtime and allowances for the current fortnight compared to the previous 4 fortnights and to the contracted pay rate for the respective employee. 2. Following the P&C Team Leader review, one of the two Senior Financial Accountant follows the existing control of reviewing the payroll reconciliation to ensure balances are supported by payroll reports, however there should be no expectation of the finance team to identify anomalies in the payroll at a detailed employee level. | This will require further discussion within Council to identify roles and responsibilities for P&C Team Leader and the Finance function to ensure appropriate checks are completed. The expectation is that we will hold a session with all stakeholder parties to identify intent of checks and confirm who should complete them. | 1. P&C and Finance Team to discuss and confirm the process to create a 2 tier check for payments. (Finance to provide 'sanity check' rather than detailed review). 2. ICT to be engaged to provide a automated comparison report for the teams to use. | P&C - Jenny Antunovich | Apr-18 | 1. People & Capability Team leader and the People & Capability Department Manager are now manually reviewing these payments regularly. This addresses the risk. 2. Work continues to progress to an automated process. UPDATE: This is now in place. There is a report run every fortnight and sent to finance who sign off prior to payment. | Closed |
| Procurement Audit | 17/05/2018 | 4.3 | Conflict of Interest - Requirements | Currently conflict of interest declarations are required to be completed by 'contract management staff'. We recommend conflict declarations are also completed by staff approving the supplier recommendation and that this is done prior to the supplier evaluation phase. | Low | Our recommendation is to introduce a process to prevent the risk of a conflict not being detected and managed, or the risk of conflict only being identified after the evaluation of suppliers has been completed. We recommend that conflict checks are widened in the initial stages of the procurement process. A practical application of this is a process whereby the procurement leader (person leading a procurement process) emails the short-list of suppliers to relevant approvers to confirm they do, or do not have a conflict. Once responses have been received the procurement leader can determine how any conflicts are to be managed, before moving onto the evaluation phase of the procurement process. An alternative to the above could be a process whereby the procurement leader cross references the short list of suppliers with a conflict of interests register for the leadership team and elected members. This alternative would not be as effective as the above recommendation which requires a positive e-mail response. | The conflict of interest requirements will be reviewed as part of the policy development. | Procurement policy to be reviewed including conflict of interest requirements | Business Support - Manager | Dec-18 | Procurement Policy has been updated was adopted by Council in October 2018. The policy talks about conflicts but doesn't specify which documents are to be completed by which staff. This gap will be closed with the review of the associated documentation as mentioned in Point 4.4 from the Procurement Audit. | Closed |

| Audit | Date of Audit | Audit report Reference | Title | Internal Audit Key Finding (summary as detailed in report) | Status | IA Recommendation (Summary as detailed in report) | Management Commitment | Action (extracted from management comment) | Owner | Due date | Update | Status |
|-------------------|---------------|------------------------|--|--|--------|--|--|---|----------------------------|----------|--|--------|
| Procurement Audit | 17/05/2018 | 4.6 | Variation of Procedure - Documentation | During the testing phase of our review we identified two instances where a variation to procurement procedure was obtained but documentation to support the variation needed to be improved. In both of these Risk High 4 May 2018 instances final contracts were not obtained and signed. We recommend that documentation to support variations is strengthened, and these two specific contracts are signed immediately. | High | We recommend immediate action is taken to formalise the agreement/contract between Council and the suppliers. We recommend that documentation to justify the reasons for variations from procedure are strengthened, as illustrated in finding 4.5. | Both of the contracts identified have been reviewed. One contract has been completed and signed by the other party, the other is currently out for tender and will be an open risk until that process is completed, this is expected to be finalised by 3 Sept18. The variation to procedure and/or policy form and process will be reviewed as part of the policy review and included in the training. | Close the gap on the identified contracts. Procurement documentation to be reviewed including variation to procedure requirements and process. | Business Support - Manager | Dec-18 | Work completed on both contracts to ensure compliance. Procurement Policy has been updated was adopted by Council in October 2018. Associated documentation will be reviewed as operational priorities allow through out 2019. | Closed |

4.7 Risk Register Update – December 2018

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|---------------------------|---|
| Meeting: | Audit and Risk Committee |
| Date of meeting: | 5 December 2018 |
| Reporting officer: | Emily Thompson (Audit and Risk Analyst) |

1 Purpose

The purpose of this report is to provide an update on the status of the organisational wide risk register, highlight areas of high risk and strategic risk for Council.

2 Recommendation

That the Audit and Risk Committee notes the report.

3 Maturity of Operational Risks

During 2017/18 staff implemented the risk framework adopted on 27 April 2016. This framework provided the evaluation tables required for determining the likelihood and impact of risk across the organization.

During the last three Audit and Risk Committees staff have reported on the details of the risk register, the developing risk awareness and the spread of residual risk across the organization. A summary and comparison of results over this period can be found in the attachment.

The risk register process is maturing and we are noticing an increase in risks across the departmental risk registers. This is a good development as it shows that the operational departments are understanding the process and value of reporting our risks via the Council's risk management framework.

Work continues at an operational level to mitigate and manage these operational risks. However, in some areas risks have not been updated and as a result there has been a lack of movement in the risk spreadsheet.

To assist departments, and ensure an ongoing/comprehensive risk review, the Audit and Risk Analyst will offer to undertake departmental risk workshops in the first quarter of 2019. Staff are also looking at other ways to ensure that the work completed to date is used as a foundation block for actively managing risks and moving towards a resilient organization.

Overall, staff are becoming more aware of the need to understand and recognize these risks and it has been great to see the increase in questions about risks relating to operational matters.

4 Significance and engagement

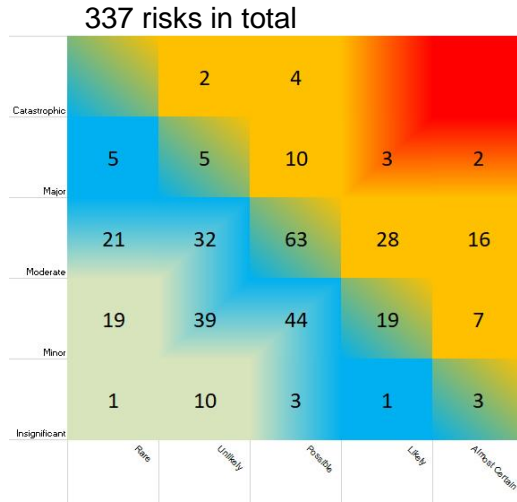
The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via Agenda publication on the website

5 Attachment

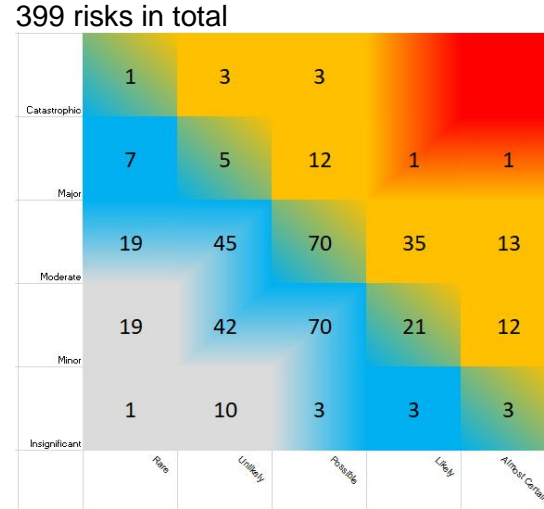
Summary Risk Spread over 2018

Attachment – Summary Risk Spread over 2018

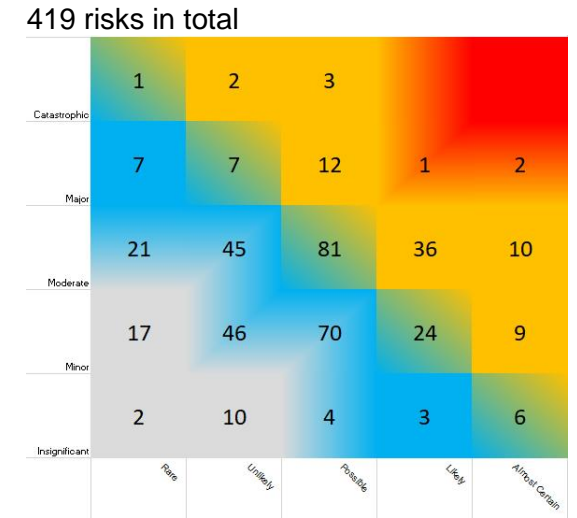
MARCH 2018



JUNE 2018



DECMEBER 2018



4.8 Insurance Renewal - AON

| | |
|---------------------------|---|
| Meeting: | Audit and Risk Committee |
| Date of meeting: | Wednesday 5 th December 2018 |
| Reporting officer: | Emily Thompson (Audit and Risk Analyst) Matthew Wilson (Associate Director, AON) Emma Jurisich (Account Executive, AON) |

1 Purpose

To advise the committee on the recent insurance renewal, and the changes to the insurance landscape nationally.

2 Recommendation/s

That the Committee notes the information.

3 Discussion

Council's insurance renewed on 1 November. There have been changes to some of the Council's insurance providers. The premiums for some insurance schedules have decreased (material damage resulting from fire, forestry and business travel) whilst others have increased.

The largest percentage increases have been seen in the business interruption schedule, and the crime/fidelity schedule. We have also seen 10-14% increases in the commercial motor insurance and the material damage from non-fire events.

Council's brokers (AON) are attending this December Audit and Risk Meeting to share details of the current insurance market and discuss these changes.

4 Significance and engagement

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via Agenda publication on the website.

RESOLUTION TO EXCLUDE THE PUBLIC

That the public be excluded from the following parts of proceedings of this meeting.

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:

| | |
|----|---|
| 1. | The making available of information would be likely to unreasonably prejudice the commercial position of persons who are the subject of the information. {Section 7(2)(c)} |
| 2. | To enable the council (the committee) to carry on without prejudice or disadvantage commercial negotiations. {(Section 7(2)(i))}. |
| 3. | To protect the privacy of natural persons. {Section 7(2)(a)}. |
| 4. | Publicity prior to successful prosecution of the individuals named would be contrary to the laws of natural justice and may constitute contempt of court. {Section 48(1)(b)}. |
| 5. | To protect information which is the subject to an obligation of confidence, the publication of such information would be likely to prejudice the supply of information from the same source and it is in the public interest that such information should continue to be supplied. {Section7(2)(c)(i)}. |
| 6. | In order to maintain legal professional privilege. {Section 2(g)}. |
| 7. | To enable the council to carry on without prejudice or disadvantage, negotiations {Section 7(2)(i)}. |

Resolution to allow members of the public to remain

If the council/committee wishes members of the public to remain during discussion of confidential items the following additional recommendation will need to be passed:

Move/Second

"That _____ be permitted to remain at this meeting, after the public has been excluded, because of his/her/their knowledge of Item_____.

This knowledge, which will be of assistance in relation to the matter to be discussed, is relevant to that matter because_____.

Note:

Every resolution to exclude the public shall be put at a time when the meeting is open to the public.