



AGENDA

Ordinary meeting of the

Audit, Risk and Finance Subcommittee

Tuesday 25 September 2018

Commencing at 9.00a.m.

Council Chamber

Civic House

110 Trafalgar Street, Nelson

**Pat Dougherty
Chief Executive**

Membership: Mr John Peters (Chairperson), Her Worship the Mayor Rachel Reese, Councillors Ian Barker, Bill Dahlberg and Mr John Murray

Quorum: 3

Nelson City Council Disclaimer

Please note that the contents of these Council and Committee Agendas have yet to be considered by Council and officer recommendations may be altered or changed by the Council in the process of making the formal Council decision.

Guidelines for councillors attending the meeting, who are not members of the Committee, as set out in Standing Order 12.1:

- All councillors, whether or not they are members of the Committee, may attend Committee meetings
- At the discretion of the Chair, councillors who are not Committee members may speak, or ask questions about a matter.
- Only Committee members may vote on any matter before the Committee

It is good practice for both Committee members and non-Committee members to declare any interests in items on the agenda. They should withdraw from the room for discussion and voting on any of these items.

1. Apologies

Nil

2. Confirmation of Order of Business**3. Interests**

3.1 Updates to the Interests Register

3.2 Identify any conflicts of interest in the agenda

4. Public Forum**5. Confirmation of Minutes**

5.1 14 August 2018

7 - 13

Document number M3685

Recommendation

That the Audit, Risk and Finance Subcommittee***Confirms the minutes of the meeting of the Audit, Risk and Finance Subcommittee, held on 14 August 2018, as a true and correct record.*****6. Draft Annual Report 2017/18****14 - 17**

Document number R9204

Recommendation

That the Audit, Risk and Finance Subcommittee***Receives the report Draft Annual Report 2017/18 (R9204) and its attachment (A1983431); and******Refers all powers of the Audit Risk and Finance Committee relating to the adoption of the final Annual Report 2017/18 to Council provided that***

there are no material changes to the draft resulting from the audit.

Recommendation to Council

That the Council

Notes the draft Annual Report 2017/18 (A1983431) has been prepared and will be audited before being presented to Council for adoption on 25 October 2018; and

Notes that if there are material changes to the draft resulting from the audit, these will be brought back to a specially convened Audit, Risk and Finance Subcommittee meeting prior to the Council meeting on 25 October 2018; and

Considers all matters relating to the adoption of the final Annual Report 2017/18 directly if there are no material changes to the draft resulting from the audit.

7. Carry Forwards 2017/18

18 - 26

Document number R9558

Recommendation

That the Audit, Risk and Finance Subcommittee

Receives the report Carry Forwards 2017/18 (R9558) and its attachment (A2042278).

Recommendation to Council

That the Council

Approves the carry forward of \$4,945,000 unspent capital budget for use in 2018/19; and

Approves the offsetting of \$1,145,000 of capital spent in 2017/18 against 2018/19 budgets; and

Approves the carry forward of \$700,505 of unspent operating budget for use in 2018/19; and

Approves the release of \$4,025,000 of 2018/19 capital budget unlikely to be spent as itemised in attachment 1; and

Notes savings in 2017/18 capital expenditure of \$945,000; and

Notes that the total capital budget (including staff costs but excluding consolidations and vested assets) will be adjusted by these resolutions to a total of \$41,868,000.

8. Draft Internal Audit Charter - Review September 2018 27 - 38

Document number R9637

Recommendation

That the Audit, Risk and Finance Subcommittee

Receives the report Draft Internal Audit Charter - Review September 2018 (R9637) and its attachment (A2026584).

Recommendation to Council

That the Council

Approves the Draft Internal Audit Charter – Review September 2018 (A2026584).

9. Draft Annual Internal Audit Plan - 30 June 2019 39 - 45

Document number R9657

Recommendation

That the Audit, Risk and Finance Subcommittee

Receives the report Draft Annual Internal Audit Plan - 30 June 2019 (R9657) and its attachment (A2026190).

Recommendation to Council

That the Council

Approves the Draft Annual Internal Audit Plan to 30 June 2019 (A2026190).

PUBLIC EXCLUDED BUSINESS

10. Exclusion of the Public

Recommendation

That the Audit, Risk and Finance Subcommittee

Excludes the public from the following parts of the 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:

Item	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Particular interests protected (where applicable)
1	Update on Legal Proceedings Against Council	Section 48(1)(a) The public conduct of this matter would be likely to result in disclosure of information for which good reason exists under section 7	The withholding of the information is necessary: <ul style="list-style-type: none">• Section 7(2)(g) To maintain legal professional privilege



Minutes of a meeting of the Audit, Risk and Finance Subcommittee

**Held in the Council Chamber, Civic House, 110 Trafalgar Street,
Nelson**

On Tuesday 14 August 2018, commencing at 9.04a.m.

Present: Mr J Peters (Chairperson), Her Worship the Mayor R Reese,
Councillors I Barker, B Dahlberg and Mr J Murray

In Attendance: Councillors G Noonan, M Rutledge, S Walker, Chief Executive
(P Dougherty), Group Manager Infrastructure (A Louverdis),
Group Manager Community Services (R Ball), Group Manager
Corporate Services (N Harrison), Manager Communications (P
Shattock), Manager Governance and Support Services (M
Birch), Team Leader Governance (R Byrne) and Governance
Adviser (R Terry).

Apologies: Nil

1. Apologies

2. Confirmation of Order of Business

There was no change to the order of business.

3. Interests

There were no updates to the Interests Register, and no interests with
items on the agenda were declared.

4. Public Forum

There was no public forum.

5. Confirmation of Minutes

5.1 26 June 2018

Document number M3580, agenda pages 6 - 9 refer.

Resolved AUD/2018/034

That the Audit, Risk and Finance Subcommittee

Confirms the minutes of the meeting of the Audit, Risk and Finance Subcommittee, held on 26 June 2018, as a true and correct record.

Murray/Dahlberg

Carried

6. Chairperson's Report

The Chair noted that the Council was obtaining legal advice for the Greenmeadows project and the Chief Executive would be conducting internal and external reviews. The Terms of Reference for the reviews would be signed off by the Mayor and Chair of Audit, Risk and Finance, Mr John Peters.

It was noted that an external review was appropriate to determine how Council could improve their processes moving forward. Confidence was expressed in the Chief Executive.

Clarification of the committee's responsibilities and confirmation of governance oversight of the reviews and reports was requested.

7. Quarterly Key Risks Report - Quarter 2 Calendar 2018

Document number R9523, agenda pages 10 - 26 refer.

Risk and Procurement Analyst, Steve Vaughan presented the report. He advised the Council had completed a test scenario for major disruptions on 27 July 2018 and observers notes were being worked through. He noted that internal communications and clarification of roles would be an area of focus.

There was discussion regarding risk assessments and reporting, including:

- Project delays were not being reported in detail to committees
- Issues highlighted needed to be reported to the relevant Chair or committee as soon as possible
- The risk rating was spread across all projects, balancing out ratings so that Council may not be aware of any individual issues.

It was noted that with some capital projects significantly behind schedule, performance and delivery of projects resolved in the Long Term Plan, 2018 – 28 could be compromised.

In response, it was advised that there would be quarterly performance reporting to committees. It would include a section on risks, current issues and activity budgets so that each committee could review any

potential risk to Council. Any projects over \$1million would still also be reported to Audit, Risk and Finance for review. These changes would be introduced from the September quarter.

The subcommittee requested the following amendments for risk assessments and reporting of organisational risks to this subcommittee:

- Greater clarity relating to risk for individual projects
- Greater transparency of risk management and controls
- Measuring and reporting on the effectiveness of the controls
- Confirmation risk is being minimised and controlled

Mr Murray also requested a separate report to cover Council's risk management framework. This would include the processes for risk identification and management, allocation of risk to the correct person, and improvement of controls to ensure they are effective.

The meeting was adjourned at 9.25am and reconvened at 9.32am.

Resolved AUD/2018/035

That the Audit, Risk and Finance Subcommittee

Receives the report Quarterly Key Risks Report - Quarter 2 Calendar 2018 (R9523) and its attachment Key Organisational Risks Report Quarter 2 Calendar 2018 (A2011772).

Requests a report that looks at the risk management framework and escalation of risks; and

Requests a report which provides more detail around the controls in place and treatments including who is responsible and how effective the controls are and the timeframes of treatments;

Requests that the quarterly key risk report be revised so it is fit for the Audit, Risk and Finance Subcommittee's purpose, reflecting the feedback and discussion at the current meeting.

Peters/Dahlberg

Carried

8. Internal Audit - Quarterly Progress Report to 30 June 2018

Document number R9533, agenda pages 27 - 30 refer.

Internal Audit Analyst, Lynn Anderson presented the report.

Ms Anderson said that there had been an update to the contract renewals item on page 29; contract payments had now been added to an electronic purchase order system. Work was being completed to bring historic contracts in to the document management system. This work was on-going and additional resources may be required.

The audit reports for monitoring and management of contractor performance were currently being drafted and would be presented to the Senior Leadership Team when complete. If any high-risk findings were identified during the audit, the Chair would be notified.

Group Manager Corporate Services, Nikki Harrison provided an update on the annual audit plan, noting a new audit programme would be presented at the next meeting in September after discussions with Audit New Zealand and the Chair.

Resolved AUD/2018/036

That the Audit, Risk and Finance Subcommittee

Receives the report Internal Audit - Quarterly Progress Report to 30 June 2018 (R9533) and its attachment (A2008536).

Dahlberg/Barker

Carried

9. Internal Audit - Summary of New or Outstanding Significant Risk Exposures and Control Issues to 30 June 2018

Document number R9534, agenda pages 31 - 34 refer.

Internal Audit Analyst, Lynn Anderson presented the report.

There was discussion around the significant risk exposures. Ms Anderson noted that the new contract templates had improved the quality of the contracts and would assist to reduce risk.

Ms Anderson said that work was being done to prevent water contamination and sabotage of waterways, including international research, controls and filters. There had been a duplication of lines for any at-risk areas at the water treatment plant and frequent testing and recording of data.

The new contracts template had decreased risk going forward, but it was noted that a number of contracts in the old template format were still in the system. It was decided that the Chair of each committee would have a meeting with the relevant Group Manager to understand any residual risk from older contracts.

In response to a question, Ms Anderson noted that the control environment item at 3.2 was still current and advice was being sought from the risk analyst to confirm the current risk rating.

Resolved AUD/2018/037

That the Audit, Risk and Finance Subcommittee

Receives the report Internal Audit - Summary of New or Outstanding Significant Risk Exposures and Control Issues to 30 June 2018 (R9534) and its attachment (A2006732).

Barker/Murray

Carried

10. Corporate Report to 31 May 2018

Document number R9200, agenda pages 35 - 45 refer.

Senior Accountant, Tracey Hughes and Manager Capital Projects, Shane Davies presented the report.

Mr Davies advised there had been an underspend on capital projects due to construction delays. A break-down of the underspend, by project, was requested, including timeframes for staging and completion.

The committee expressed its concern regarding the capital underspend only becoming apparent at this stage. It was agreed that the Chairs would be informed of any project issues at their weekly meetings with the Group Manager and any issues would be further reported to the Mayor.

Group Manager Corporate Services, Nikki Harrison noted an underspend of \$700,000 within the IT space on three projects.

Further information would be included in the carry forward report at the next meeting.

Attendance: Her Worship the Mayor Reese left the meeting at 12.08p.m and returned to the meeting at 12.15p.m.

Resolved AUD/2018/038

That the Audit, Risk and Finance Subcommittee

Receives the report Corporate Report to 31 May 2018 (R9200) and its attachments (A2023685 and A2025408).

Murray/Barker

Carried

11. Health, Safety and Wellbeing Performance Report

Document number R9217, agenda pages 46 - 60 refer.

Health and Safety Adviser, Malcolm Hughes presented the report.

Mr Hughes noted a correction on page 47. Item 5.3 should read that 'during this reporting period, no councillors participated in a safe work observation'.

In response to questions, Mr Hughes advised:

- there were still a range of security measures in place at the Stoke Library and that the youth worker's contract would be extended
- an update on the Elma Turner library upgrade and on the review of procedures and practice in river monitoring work would be presented at the next subcommittee meeting
- a diving contractor had received a minor injury from a stingray strike. This was a seasonal issue as they were attracted to shallow water in the warmer weather. Mr Hughes would research and establish if further precautions were required to ensure Council was following industry best practice
- worksafe observations - target measures would be set for completion of observations
- the possibility of driver training or withdrawing access to vehicles for repeat offenders of speeding.

Resolved AUD/2018/039

That the Audit, Risk and Finance Subcommittee

Receives the report Health, Safety and Wellbeing Performance Report (R9217) and its attachment (A2011373).

Barker/Dahlberg

Carried

12. Draft Governance Members' Protected Disclosure Policy

Document number R9579, agenda pages 61 - 73 refer.

Manager Governance and Support Services, Mary Birch presented the report, noting this was a stand-alone policy and would not need to be referenced in Standing Orders.

Resolved AUD/2018/040

That the Audit, Risk and Finance Subcommittee

Receives the report Draft Governance Members' Protected Disclosure Policy (R9579) and its attachment (A2013157).

Barker/Dahlberg

Carried

Recommendation to Council AUD/2018/041

That the Council

Adopts the Governance Members' Protected Disclosure Policy (R9579).

Barker/Dahlberg

Carried

There being no further business the meeting ended at 12.36pm.

Confirmed as a correct record of proceedings:

_____ Chairperson _____ Date

Draft Annual Report 2017/18

1. Purpose of Report

- 1.1 To provide a copy of the draft Annual Report 2017/18.

2. Summary

- 2.1 The draft Annual Report for the 2017/18 financial year has been prepared and is provided as Attachment 1, for information. It is in the process of being audited and there are likely to be some changes as a result of the audit process.

3. Recommendation

That the Audit, Risk and Finance Subcommittee

Receives the report Draft Annual Report 2017/18 (R9204) and its attachment (A1983431); and

Refers all powers of the Audit Risk and Finance Committee relating to the adoption of the final Annual Report 2017/18 to Council provided that there are no material changes to the draft resulting from the audit.

Recommendation to Council

That the Council

Notes the draft Annual Report 2017/18 has been prepared and will be audited before being presented to Council for adoption on 25 October 2018; and

Notes that if there are material changes to the draft resulting from the audit, these will be brought back to a specially convened Audit, Risk and Finance Subcommittee meeting prior to the Council meeting on 25 October 2018; and

Considers all matters relating to the adoption of the final Annual Report 2017/18 directly if

***there are no material changes to the draft
resulting from the audit.***

4. Background

- 4.1 The purpose of the Annual Report is to compare Council's actual performance against the targets as set out in year three of the Long Term Plan 2015-25 and Annual Plan 2017/18. It also provides accountability to the Nelson community for the decisions made throughout the year.

5. Discussion

- 5.1 The attached draft Annual Report 2017/18 is intended to provide Council with information officers have to date. This is not the final Annual Report for the year, and has not yet been audited. It is likely to require modification through the auditing process. Some sections are still to be completed.
- 5.2 As the final Annual Report 2017/18 is required to be adopted by Council within four months of the end of the financial year, it is proposed that it be brought to be brought to Council for adoption at Council's 25 October meeting. Given the time constraints, it is recommended that the Annual Report be presented directly to Council, rather than to the Audit, Risk and Finance Subcommittee first.
- 5.3 However, if there are material changes to the draft Annual Report resulting from the audit, these will be brought to a specially convened meeting of the Audit Risk and Finance subcommittee prior to the Council meeting for information.
- 5.4 The surplus before revaluation is \$11.4 million more than budgeted. There are multiple reasons for this variance which will be detailed in the final Annual Report.
- 5.5 The following items are better than budgeted – Development Contributions (\$1.2 million) and salaries (\$0.7 million). The following items are worse than budgeted – Vested assets (\$1.1 million), storm events (\$0.8 million), other un-programmed maintenance (\$0.6 million), unbudgeted impairments, losses on disposal, abandoned assets (\$1.7 million) and derivatives revaluation (\$0.8 million).

6. Options

- 6.1 This report is provided for information. The Audit Risk and Finance Subcommittee has the option to receive this report and attachment or not to receive this report and attachment. It is recommended that the Subcommittee receives this report and notes the final Annual Report 2017/18, with any changes resulting from the audit process, will be presented directly to Council before the end of October.

7. Conclusion

- 7.1 An Annual Report must be completed to comply with section 98 of the Local Government Act 2002.
- 7.2 The purpose of this report is to provide the Committee with a draft of the Annual Report 2017/18. A final, audited report will be provided to Council for adoption on 25 October 2018.

Author: Nicky McDonald, Group Manager Strategy and Communications

Attachments

Attachment 1: A1983431 - Draft Annual Report 2017/18 - unaudited
(Circulated separately) ➡

Important considerations for decision making
<p>1. Fit with Purpose of Local Government</p> <p>The Annual Report 2017/18 is a requirement of the Local Government Act 2002 and fits the purpose of local government by providing information about Council's performance during 2017/18, thereby promoting accountability.</p>
<p>2. Consistency with Community Outcomes and Council Policy</p> <p>The Annual Report 2017/18 contributes to the community outcomes by measuring performance across the full range of Council activities.</p>
<p>3. Risk</p> <p>The content of the Annual Report is prescribed by statute so there is a very low risk that it will not achieve the required outcome. There is a risk that Council would not be able to adopt the Annual Report 2017/18 by 31 October and meet the requirements under the Local Government Act 2002 if the final Annual Report is presented to the Audit Risk and Finance Subcommittee first, rather than going directly to Council.</p>
<p>4. Financial impact</p> <p>Preparation and publication of the Annual Report can be achieved within funding allocated in the Annual Plan.</p>
<p>5. Degree of significance and level of engagement</p> <p>The decision to receive this report is of low significance. The final audited Annual Report will be provided to Council for adoption in October. There will be a summary Annual Report available following adoption of the final audited Annual Report and this will also be made available to the public.</p>
<p>6. Inclusion of Māori in the decision making process</p> <p>No engagement with Māori has been undertaken in preparing this report.</p>
<p>7. Delegations</p> <p>The Audit Risk and Finance Subcommittee has the following delegations to consider the Annual Report 2017/18.</p> <p><i>Areas of Responsibility:</i></p> <ul style="list-style-type: none"> • <i>Council's Annual Report</i> • <i>Council's financial and service performance</i> <p><i>Powers to Recommend:</i></p> <ul style="list-style-type: none"> • <i>Adoption of Council's Annual Report</i>

Carry Forwards 2017/18

1. Purpose of Report

- 1.1 To approve carry forward of unspent budget to the new financial year.

2. Summary

- 2.1 Invoice processing is complete for the 2017/18 financial year and officers have reviewed project expenditure in order to identify savings and consider whether unspent budget is still required.

3. Recommendation

That the Audit, Risk and Finance Subcommittee

Receives the report Carry Forwards 2017/18 (R9558) and its attachment (A2042278).

Recommendation to Council

That the Council

Approves the carry forward of \$4,945,000 unspent capital budget for use in 2018/19; and

Approves the offsetting of \$1,145,000 of capital spent in 2017/18 against 2018/19 budgets; and

Approves the carry forward of \$700,505 of unspent operating budget for use in 2018/19; and

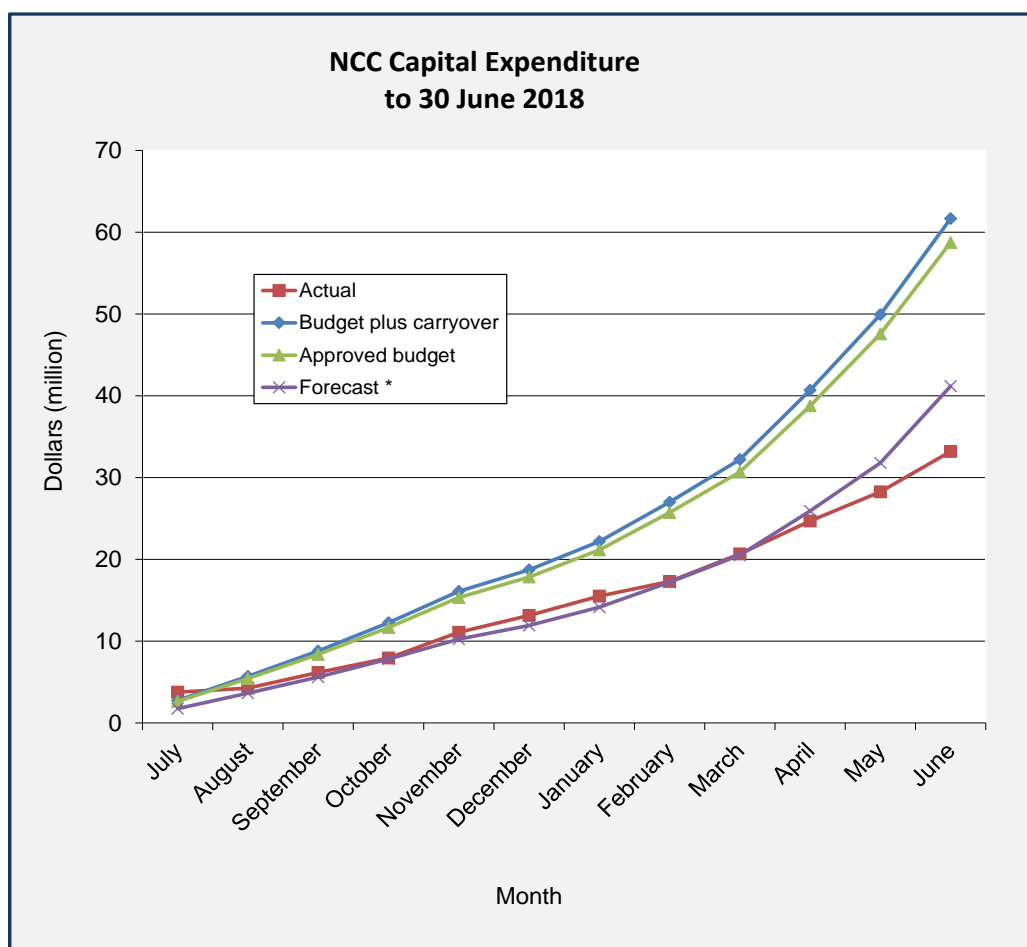
Approves the release of \$4,025,000 of 2018/19 capital budget unlikely to be spent as itemised in attachment 1 (A2042278); and

Notes savings in 2017/18 capital expenditure of \$945,000; and

Notes that the total capital budget (including staff costs but excluding consolidations and vested assets) will be adjusted by these resolutions to a total of \$41,868,000.

4. Background

- 4.1 The capital programme for 2017/18, as agreed in the Annual Plan 2017/18, totalled \$55.7 million, including staff costs of \$2.2 million and excluding Nelson Regional Sewerage Business Unit (NRSBU). All figures quoted in this report do not include vested assets.
- 4.2 The addition of 2016/17 carry forwards, and other resolutions of Council over the 2017/18 year adjusted the total capital budget to \$56.2 million.
- 4.3 The 2017/18 capital budgets were reforecast in January 2018 with a view to what could realistically be achieved in the remainder of the financial year, to inform the Long Term Plan process. The total capital budget was reforecast to \$39.4 million. Decisions made subsequent to that forecast brought the budget to \$41 million.



- 4.4 Total capital expenditure for the 2017/18 year was \$32.4 million, \$8.6 million less than forecast. Of this, \$945,000 has been identified as savings.
- 4.5 Reasons for capital carry forwards being requested include:
- alterations to the phasing of multi-year projects
 - reliance on external funds
 - delays created by weather/season requirements, negotiations with external parties
 - construction delays

- lead time in procuring materials and equipment
- projects running behind time

- 4.6 Carry forwards for operating budgets are presented for the approval of the sub-committee and are requested to complete programmed work.
- 4.7 Once the 2017/18 year was closed for invoice processing, officers collated data relating to the projects undertaken during the year, identifying variances against the reforecast. Project managers were asked to identify which variances represented savings, and where they wished to carry forward budget into 2018/19 they were asked to support their request. The Senior Leadership Team have reviewed the resulting information to ensure that the requested carry forward is justified.
- 4.8 The Corporate report presented at the 14 August 2018 subcommittee meeting indicated an under-spend of \$8.1 million against 2017/18 projections. After revisions only \$5 million carry forward has been requested. The difference is essentially phasing changes on multi-year projects – for projects where there is sufficient budget in 2018/19, the 2017/18 underspend will need to be added down the line (2019/20 or even later) to maintain the total project budget.

5. Discussion

Capital savings

- 5.1 Officers identified \$945,000 of net savings in capital expenditure against forecast. This will have a positive impact on interest, depreciation and debt levels, in excess of that already identified in the 2018/19 annual plan.
- 5.2 Savings have been identified as follows:
- 5.2.1 On completion of projects or stages of projects, for example:
- \$165,000 renewal Jenner Road wastewater
 - \$340,000 for York Stream channel upgrade
 - \$141,000 Hampden St East Little Go Stream stage 2

Capital carry forwards

- 5.3 For renewals budgets and multi-year projects, any spend over the 2017/18 projection is considered a timing variance and is offset against the 2018/19 budget, thereby reducing it in the amount of \$1.1 million.
- 5.4 Officers have requested that \$5 million be carried forward and a total of \$1.1 million deducted from 2018/19. In addition, \$4.0 million of 2018/19 budget should also be deducted as project delays indicate that the budget will not be spent in this financial year. This revises the total capital programme for 2018/19 to \$41.9 million (excluding vested assets and NRSBU but including staff time), equivalent to the budget established through the long term plan of \$42.1 million. Interest, depreciation, and debt relating the requested carry forward amount was already built into year one of the 2018/28 Long Term Plan.

Item 7: Carry Forwards 2017/18: Attachment 1

- 5.5 A breakdown of budget movements in capital budgets is provided as Attachment 2.
- 5.6 Attachment 1 itemises capital projects with carry overs requested greater than \$100,000 along with budget identified for release.

Operating expenditure carry forwards

- 5.7 Officers were asked to identify operating projects and programmes that will be completed in the new financial year and which require a carry- over of funds in order to do so. A total of \$0.7 million has been requested.
- 5.8 Totals by activity are as follows:

	Full Year Actuals 2017/18	Forecast 2017/18	Difference Forecast to Actual	Carry forward requested
Stormwater	102	314	212	50
Corporate	209	535	326	110
Economic	0	50	50	50
Environmental Management*	1,601	1,676	75	97
Social	286	626	340	99
Parks & Active Recreation	724	1,076	352	300
Totals relating to carry forward items only	2,922	4,277	1,355	706

- 5.9 Operating programmes/projects with carry overs requested greater than \$50,000 are itemised in Attachment 1.

Reasons for requesting operating carry forwards include:

- Grants or collaborative expenditure agreed to
- Work contracted but not complete at 30 June
- Health and safety items which cannot be funded from 2018/19 budgets
- Programmed maintenance delayed due to weather or contractor availability some of which has now been spent in 2018/19
- Operating projects that span more than one year

2. Other capital expenditure matters

- 5.10 The sub-committee's attention is drawn to the following two projects, namely Saltwater Creek Bridge and Queens Gardens Toilets that will require additional funding to ensure successful delivery. The reasons for this additional funding is briefly covered below for each item, but separate more detailed reports will be presented to the Works and Infrastructure and Community Services Committees respectively.
- 5.10.1 Saltwater Creek Bridge – Following closing of tenders and detailed evaluation, the overall budget has been exceeded. This project attracts Urban Cycleway Funding that needs to be spent by the end of June 2019.
- 5.10.2 Queens Gardens Toilets – Following the withdrawal of the contractor from this project and re-assessment of the estimate additional funding is required prior to the project having to be re-tendered this financial year.

6. Options

- 6.1 Council officers recommend Option 1, approve the recommendations. Not approving the recommendations would be problematic as the future scope of some of these projects has been agreed through Committee and Council resolutions including Annual and Long Term Plans prior to this meeting. Work has continued on these projects based on those decisions.

Option 1: Approve the recommendations	
Advantages	<ul style="list-style-type: none"> • Work has continued on 2017/18 capital projects and programmed operating projects and costs have been incurred. • The carry forward spending is within previously approved budgets.
Risks and Disadvantages	<ul style="list-style-type: none"> • None
Option 2: Approve carry forwards with exceptions	
Advantages	<ul style="list-style-type: none"> • Council could if they wished remove some items from the list of budgets to be carried forward. • Savings in future debt, depreciation, interest and maintenance costs would occur.
Risks and Disadvantages	<ul style="list-style-type: none"> • The projects concerned would then not have sufficient budget to be completed. • Council do not have complete information through this report to fully inform such a decision.

7. Conclusion

- 7.1 An analysis of capital and programmed operating expenditure against forecast for 2017/18 and subsequent review by the Senior Leadership Team indicates:
- There are savings from the capital budget of \$945,000
 - Renewals and multi-year projects overspent by \$1.1 million should be offset against 2018/19 budgets
 - 2018/19 capital budgets should be further reduced by \$4.0 million to acknowledge budget that will not be spent
 - \$5 million of capital budget not spent should be carried forward into 2018/19.
- 7.2 \$0.7 million of programmed operating expenditure not spent should be carried forward into 2018/19 to progress or complete programmed work that has already been rated for.

Author: **Tracey Hughes, Senior Accountant**

Attachments

Attachment 1: A2042278 - Carry forward items [↓](#)

Attachment 2: A2042278 - Budget breakdown [↓](#)

<p>Important considerations for decision making</p>
<p>1. Fit with Purpose of Local Government Approval of the recommendation will allow progress/completion of approved projects, supporting the delivery of public infrastructure and services.</p>
<p>2. Consistency with Community Outcomes and Council Policy Approval of this recommendation will allow projects as approved in the Annual Plan 2017/18 and subsequent Council resolutions to be delivered.</p>
<p>3. Risk Failure to approve the recommendation will introduce risk (financial, contractor and community relationships, health and safety) which does not currently exist.</p>
<p>4. Financial impact There is little financial impact from approving the recommendation as budgets are already approved and funded.</p>
<p>5. Degree of significance and level of engagement This matter is of low significance as budgets are already approved and the recommendation confirms business as usual. Therefore no engagement is required.</p>
<p>6. Inclusion of Māori in the decision making process No engagement with Māori has been undertaken in preparing this report.</p>
<p>7. Delegations The Audit, Risk and Finance Subcommittee has the following delegations to consider the 2017/18 Carry Forwards.</p> <p><i>Areas of Responsibility:</i></p> <ul style="list-style-type: none"> • <i>Management of financial risk</i> • <i>Council's financial and service performance</i> <p><i>Powers to Decide:</i></p> <ul style="list-style-type: none"> • <i>None</i> <p><i>Powers to Recommend:</i></p> <ul style="list-style-type: none"> • <i>Any matters within the areas of responsibility or such other matters referred to it by the Council</i>

Item 7: Carry Forwards 2017/18: Attachment 1

Attachment 1

Carry forward items greater than \$100,000

Project	2017/18 variance to approved budget \$000s	Approved budget 18/19 \$000s	Carry forward requested \$000s	Adjusted Budget 2018/19 \$000s
3072 E-Plan	163	-	163	163
3134 Building Systems Upgrade	109	-	102	102
3111 Brook MTB Hub	158	-	158	158
2272 Replacement tiered seating Trafalgar Centre	245	-	245	245
1175 Greenmeadows Centre	738	125	738	863
1314 WC 452 UCP Saltwater Creek Crossing	503	400	503	903
3119 WC324 Streetlight conversion to LED	274	723	274	997
1187 Neale Park PS	1,115	2,117	1,115	3,231
2909 Queens Garden toilets	186	-	186	186

Opex carry forward requests \$50,000 and above

Account	Full Year Actuals 2017/18 \$000s	Forecast 2017/18 \$000s	Difference Forecast to Actual \$000s	Carry forward requested \$000s
353123123153. Maitai Tracks (Grant)	-	60	60	60
353247402251. Tahuna Erosion Study	57	171	115	115
450423101478. Nelson Plan base expenses	1,123	1,204	81	81
651020310635. Building Act Compliance: Dams	34	119	85	50
430543123087. Gondola	-	50	50	50

2018/19 Budgets recommended for release:

Project	LTP 2018/19 \$000s	Budget release \$000s	Adjusted Budget 2018/19 \$000s
2689 Saxton Creek upgrade	2,796	(2,000)	796
2899 Tahuna Beach to Great Taste Trail (airport)	809	(300)	509
2142 Water sports building at Marina	600	(540)	60
2226 Elma Turner Library Extension/ Relocation	400	(200)	200
3100 Church Street Improvements	400	(385)	15
2128 Residential Meters renewals	1,100	(600)	500
Total	6,105	(4,025)	2,080

Carry Overs 2017_18 - Attachments for report - 29Aug2018 (A2042278).xlsx

Item 7: Carry Forwards 2017/18: Attachment 2

Attachment 2

Capital Budget Movements

	A	B	C	D	E	F	G	H
	2017/18 Variance to approved budget \$000	Saving taken 2017/18 \$000	Available to carry forward \$000	Carry Forward requested \$000	2018/19 LTP budget \$000	2018/19 Budget Reduction \$000	Further 2018/19 Budget released \$000	Updated budget 2018/19 \$000
Transport	1,574	(37)	1,537	1,013	8,762	(19)	(385)	9,371
Wastewater	2,167	(174)	1,993	1,172	4,747	(58)	0	5,861
Stormwater	729	0	729	37	2,582	(23)	0	2,596
Water Supply	762	(44)	718	60	8,401	(215)	(600)	7,646
Flood Protection	1,077	(485)	592	32	4,730	(105)	(2,000)	2,657
Solid Waste	35	(35)	0	0	30	0	0	30
Corporate	778	(102)	676	485	2,537	(46)	0	2,976
Economic	0	0	0	0	200	0	0	200
Environmental Management*	(100)	(1)	(101)	0	258	(6)	0	252
Social	1,359	(47)	1,312	1,120	2,971	(37)	(200)	3,854
Parks & Active Recreation	203	(20)	183	1,026	6,875	(636)	(840)	6,425
Grand Total	8,584	(945)	7,639	4,945	42,093	(1,145)	(4,025)	41,868

The updated budget in column H is the total of columns D through G

Carry Overs 2017_18 - Attachments for report - 29Aug2018 (A2042278).xlsxSummary

Draft Internal Audit Charter - Review September 2018

1. Purpose of Report

- 1.1 To seek approval for proposed changes to the Internal Audit Charter which will enhance its relevance whilst upholding compliance with international internal auditing standards.

2. Summary

- 2.1 Under the *International Standards for the Professional Practice of Internal Auditing* (Standards) and Nelson City Council's Internal Audit Charter, the Internal Audit Charter requires periodic review to ensure relevance.
- 2.2 Changes to the Charter must be considered by the Audit, Risk and Finance Subcommittee and approved by Council.
- 2.3 The proposed Internal Audit Plan to 30 June 2019, to be considered by the Audit, Risk and Finance Subcommittee on 27 September 2018, includes activities to be performed by internal audit that fall outside the internal audit function.
- 2.4 This additional role for internal audit is considered necessary to respond to the organisation's current need to expedite business improvements particularly in areas considered high risk.
- 2.5 The blend of activities for internal audit has the potential to impair internal audit objectivity, unless carefully managed.
- 2.6 The attached proposed changes to the Charter are intended to address objectivity concerns, comply with Standards, and assist the organisation to make business improvements considered high priority.

3. Recommendation

That the Audit, Risk and Finance Subcommittee

***Receives the report Draft Internal Audit Charter
- Review September 2018 (R9637) and its
attachment (A2026584).***

Item 8: Draft Internal Audit Charter - Review September 2018

Recommendation to Council

That the Council

Approves the Draft Internal Audit Charter – Review September 2018 (A2026584).

4. Background

- 4.1 The Internal Audit Charter was approved by Council on 15 October 2015. There is a requirement under the Charter for periodic revision to ensure relevance. This is the first revision since establishment.
- 4.2 The *International Standards for the Professional Practice of Internal Auditing* (Standards) require that a review of an internal audit Charter should include any changes in roles or responsibilities that may affect the internal audit activity, particularly those that have the potential to impair objectivity, either in fact or appearance.
- 4.3 The proposed Internal Audit Plan to 30 June 2019 incorporates activities to be undertaken by internal audit that fall outside the area of internal audit.
- 4.4 The existing Internal Audit Charter states that any changes require consideration by the Audit, Risk and Finance Subcommittee and the approval of Council (by recommendation of the Governance Committee), after taking into account the recommendation of the Chief Executive.

5. Proposed Changes to Charter

- 5.1 Minor Changes
 - 5.1.1 The Introduction is now a Purpose Statement with a high-level description of how that purpose will be achieved.
 - 5.1.2 The business unit Organisational Assurance no longer exists and is replaced with Business Improvement.
 - 5.1.3 Reference to the Governance Committee in clause 4.2 has been removed.
- 5.2 More Substantive Changes
 - 5.2.1 Clause 5.1.1 now identifies that the reporting line to the business unit manager is for administrative purposes. This is to clarify that the relationship does not compromise independence.
 - 5.2.2 Clause 5.1.2 now includes direct communication with the Chief Executive and Group Manager Corporate Services (as well as the Chair of Audit, Risk and Finance). This is to ensure matters of significant concern are promptly communicated to the highest level.

Item 8: Draft Internal Audit Charter - Review September 2018

- 5.2.3 Clause 5.1.3 strengthens the notion that, for the internal audit to function for Council as intended, compliance with the international internal audit Code of Ethics is paramount.
- 5.2.4 New clauses have been added under section 5 (Organisation) which refer to the responsibilities of the Senior Leadership Team in relation to internal audit. Included is the provision of sufficient and timely resources to enable the achievement of any approved Annual Internal Audit Plan; and clarification of the overall responsibility for managing risks identified during internal audits.

6. Proposed Changes to the Internal Audit Plan Which May Impact on Objectivity

- 6.1 Internal auditors must be objective in performing their work. For the first time since the internal audit function was established, the proposed Annual Internal Audit Plan to 30 June 2019 includes a blend of internal audit and business improvement activities. This is not expected to be a permanent arrangement but may raise objectivity concerns. The Chief Executive considers that in order to make real business improvement gains this arrangement should extend to 30 June 2020.
- 6.2 The Standards do not prohibit roles and responsibilities outside internal audit for internal auditors. To counter possible objectivity impairment from this, there is a requirement (Standard 1112) that where these roles or responsibilities *"may impair, or appear to impair, the organisational independence of the internal audit activity or individual objectivity of the internal auditor"*, safeguards must be put in place. These include oversight activities, and may include such activities as *"periodically evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibility"*.
- 6.3 Changes to the Charter which are intended to address objectivity concerns (noting applicable Standards) are:
 - 6.3.1 Clause 6.2 specifies that objectivity impairment occurs when an internal auditor performs an audit on an activity over which they had direct authority or responsibility within the previous 12 months (Standards guidance 1130.A1).
 - 6.3.2 Clause 6.3 requires that work to be performed by internal audit that falls outside the internal audit function be pre-approved by Management and the Audit, Risk and Finance Subcommittee.
 - 6.3.3 Clause 6.3.1 provides the level of detail that may be required in order for that approval to be properly considered. This includes a risk assessment, proposed mitigations, and a plan to transition from this type of work (Standards 1000, 1130).

- 6.3.4 Clause 6.3.2 provides the option to obtain an independent assessment of the areas where internal audit had undertaken roles outside internal auditing (Standard 1130.A2).

7. Options

- 7.1 The preferred option is option 3 - that all proposed changes are accepted.

Option 1: Accept no changes	
Advantages	<ul style="list-style-type: none"> All internal audit resource can be allocated to performing internal audits.
Risks and Disadvantages	<ul style="list-style-type: none"> The current Internal Audit Charter includes detail which is no longer accurate and it does not clearly identify responsibilities. This could limit the effectiveness of the internal audit activity. The flow-on organisational impact from internal audits cannot be easily accommodated with current organisational resourcing levels. Some critical process improvements will be delayed without the assistance available from internal audit.
Option 2: Accept all changes except those which provide for a dual role for internal audit	
Advantages	<ul style="list-style-type: none"> All internal audit resource can be allocated to performing internal audits.
Risks and Disadvantages	<ul style="list-style-type: none"> The flow-on organisational impact from internal audits cannot be easily accommodated with current organisational resourcing levels. Some critical process improvements will be delayed without the assistance available from internal audit.
Option 3: Accept all changes	
Advantages	<ul style="list-style-type: none"> Allows alignment to the organisation's current business improvement needs and organisational capacity. Provides Council with the flexibility to best utilise the skills available in the internal audit activity as business conditions change.
Risks and Disadvantages	<ul style="list-style-type: none"> There may be instances where an urgent audit is required but internal audit skills are not available internally.

Item 8: Draft Internal Audit Charter - Review September 2018

	<ul style="list-style-type: none">• This risk is mitigated to an acceptable level in the Annual Audit Plan, with allowance for an adhoc audit. Further, careful selection of both planned internal audits, and of the business improvement areas proposed, ensure that known high risk areas are being attended to.
--	---

Author: Lynn Anderson, Internal Audit Analyst

Attachments

Attachment 1: A2026584 - DRAFT Internal Audit Charter - 8Aug 2018 [↓](#)

Important considerations for decision making
1. Fit with Purpose of Local Government This decision will help to ensure the resources available in internal audit contribute optimally to business improvement and internal auditing that will help give confidence that Council will be able to meet its responsibilities cost-effectively and efficiently.
2. Consistency with Community Outcomes and Council Policy This report supports the community outcome that Council provides leadership, which includes the responsibility for protecting finances and assets, and to have an infrastructure which is efficient and cost effective.
3. Risk There is more risk that Council may not meet its responsibilities cost-effectively and efficiently if this recommendation is not accepted.
4. Financial impact There is no financial impact from this decision.
5. Degree of significance and level of engagement This matter is of low significance because it does not affect the level of service provided by Council or the way in which services are delivered. Therefore no engagement has been undertaken.
6. Inclusion of Māori in the decision making process No engagement with Māori has been undertaken in preparing this report.
7. Delegations The Audit, Risk and Finance Subcommittee has the delegation to consider changes to the Internal Audit Charter: <i>Area of Responsibility includes:</i> <ul style="list-style-type: none">• <i>The internal audit function</i> <i>Powers to Recommend:</i> <ul style="list-style-type: none">• <i>To Council any matters within the areas of their responsibility</i>



Internal Audit Charter

Effective Date:

This Review Date:	September 2018
Next Review Date:	September 2021

Contact: Manager Business Improvement

1. Purpose

- 1.1 The purpose of internal audit is to provide independent assurance that Council's risk management, governance and internal control processes are operating effectively. Internal Audit assists the Council in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate the above and then to recommend improvements to their effectiveness.

2. Role

- 2.1 The internal audit activity is established by the Audit, Risk and Finance Subcommittee (ARF) and the Manager Business Improvement. The internal audit activity's responsibilities are defined and approved by the Council (by recommendation from ARF as part of their oversight role).

3. Professionalism

- 3.1 Professional oversight of the internal audit activity is to be guided by reference to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.
- 3.2 The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers are also to be adhered to, as applicable, in order to guide internal audit operations. In addition, the internal audit activity will adhere to the Council's relevant policies and procedures and the internal audit activity's standard operating procedures manual.

4. Authority

- 4.1 The internal audit activity, with strict accountability for confidentiality and the safeguarding of records and information, is authorised to have full, free, and unrestricted access to any and all of Nelson City Council's records, physical properties, and employees pertinent to carrying out any engagement. All employees are required to assist the internal audit activity in fulfilling its roles and responsibilities.
- 4.2 The internal audit activity will have free and unrestricted access to the Chief Executive, and ARF (through the Chair).

5. Organisation

- 5.1 Internal audit will:
- 5.1.1 Report to the Manager Business Improvement for administrative purposes.
- 5.1.2 Communicate and interact directly with the Chief Executive, Group Manager Corporate Services, and ARF through the Chair as required. This will include

the timely advice of any issue that has been identified during an audit as having a high or very high risk to Council.

- 5.1.3 Champion the principles of the Code of Ethics. From time to time this may require direct interaction with the Chief Executive and/or the Chair of ARF (to seek guidance on any matters which could potentially compromise these principles).

5.2 The Audit, Risk and Finance Subcommittee will:

- 5.2.1 Approve the internal audit charter and any amendments.
- 5.2.2 Approve the risk based internal audit plan.
- 5.2.3 Receive communications from internal audit on the internal audit activity's performance relative to its plan and other matters.
- 5.2.4 Make appropriate inquiries of management and internal audit to determine whether there is inappropriate scope or resource limitations.

5.3 The Senior Leadership Team (SLT) will:

- 5.3.1 Support the internal audit function in its purpose, and with the provision of timely resources and information, so that the Annual Internal Audit Plan approved by Council is achievable.
- 5.3.2 Not delegate to internal audit the overall responsibility for the treatment of risks identified and recorded from internal audits in accordance with Council's risk criteria and risk tolerance framework.

6. Independence and Objectivity

- 6.1 The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.
- 6.2 Internal auditors will have no direct operational responsibility or authority over any of the activities being audited in order to maintain objectivity. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity over which the internal auditor had direct authority or operational responsibility within the previous year. Accordingly, they will not, except in special circumstances, implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair, or be perceived to impair, their objectivity.
- 6.3 In special circumstances however, an internal auditor may be required to contribute to organisational improvement projects. Where an internal auditor is assigned to such roles and/or responsibilities that fall outside the internal audit activity, safeguards must be in place to limit future possible impairment to internal audit's independence or objectivity. In all such cases these special circumstances will form part of the Annual Audit Plan to be pre-approved by ARF and, if necessary, alternative arrangements developed to ensure that

objectivity is not, or does not appear to be, impaired if audit topics overlap with these projects.

- 6.3.1 To enable ARF to evaluate the overall risk of potential impairment the following topics may be required when seeking approval:
- Roles and responsibilities internal audit is being asked to perform
 - Reporting relationships proposed
 - Assessment of associated risks to impairment
 - Mitigations proposed to address risks
 - Controls proposed to validate mitigations effectiveness
 - Transition plan, if the assignment is short term
- 6.3.2 Conformance with Standard 1112 (to safeguard potential impairments to objectivity) may be demonstrated by an independent assessment (either internal or external) of the areas where internal audit had undertaken roles beyond internal auditing.
- 6.4 Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interest or by others in forming judgments.
- 6.5 Internal Audit will communicate with the Chair of ARF, if there are concerns about the organisational independence of the internal audit activity.

7. Responsibility

- 7.1 The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's performance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. This includes:
- Evaluating risk exposure relating to achievement of the organisation's strategic objectives.
 - Evaluating and testing the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
 - Evaluating and testing the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation.
 - Evaluating and testing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
 - Evaluating the effectiveness and efficiency with which resources are employed and integrated, and their contribution to council outcomes.

- Evaluating operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
- Monitoring and evaluating the effectiveness of the organisation's risk management processes.
- Liaising with external auditors in the performance of their duties.
- Performing investigation and advisory services related to risk management and control as appropriate for the organisation.
- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
- Reporting very high or high risk exposures and control issues, including fraud risks, and other matters needed or requested by ARF.
- Evaluating specific operations at the request of ARF or management, as appropriate.

8. Internal Audit Plan

- 8.1 At least annually, internal audit, the Manager of Business Improvement and the Group Manager Corporate Services will submit to SLT and ARF an internal audit plan for review and recommendation to the Council for approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal year. Internal audit will communicate the impact of resource limitations and significant interim changes to SLT and ARF.
- 8.2 The internal audit plan will be developed based on a prioritisation of a list of all potential audit topics¹ using a risk-based methodology, including input of SLT and ARF. Internal audit will review and adjust the plan (with signoff from the Manager Business Improvement and Group Manager Corporate Services), as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems and controls. Any significant deviation from the approved internal audit plan will be considered by ARF after seeking guidance (if appropriate) from the Chief Executive and if necessary the Council.

9. Reporting and Monitoring

- 9.1 A written report will be prepared and issued by internal audit following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will, where appropriate, be communicated to SLT, and ARF.
- 9.2 The internal audit report should include management's response and corrective action taken or to be taken in regard to the specific findings and

¹ Called the internal audit "universe".

recommendations. Management's response, whether included within the original audit report or provided thereafter by management, of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

- 9.3 The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations, although it is management's responsibility to address. All significant findings will remain open until cleared.
- 9.4 Internal audit will periodically report to SLT and ARF on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include very high and high risk exposures and control issues, including fraud risks, and other matters needed or requested by Council, ARF or SLT.

10. Quality Assurance and Improvement Programme

- 10.1 The internal audit activity will maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The programme will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.
- 10.2 Internal audit will communicate to SLT and ARF on the internal audit activity's quality assurance and improvement programme, including results of ongoing internal assessments and external assessments conducted at least every five years.

11. Update of the Internal Audit Charter

- 11.1 Internal Audit will ensure this Internal Audit Charter is periodically reviewed and revised for relevance. Any changes to the Internal Audit Charter will require consideration by ARF and the approval of the Council (by recommendation from ARF) after taking account of the recommendation of the Chief Executive.

Related documents:

Organisational Assurance Internal Audit Procedure – A1428836

Annual Internal Audit Plan – A1400023

Conflicts of Interest Policy – A1288320

Approved by resolution of Council at the meeting held on TBA

Draft Annual Internal Audit Plan - 30 June 2019

1. Purpose of Report

- 1.1 To approve the Draft Annual Internal Audit Plan to 30 June 2019.

2. Recommendation

That the Audit, Risk and Finance Subcommittee

Receives the report Draft Annual Internal Audit Plan - 30 June 2019 (R9657) and its attachment (A2026190).

Recommendation to Council

That the Council

Approves the Draft Annual Internal Audit Plan to 30 June 2019 (A2026190).

3. Background

- 3.1 The Internal Audit Charter approved by Council on 15 October 2015 requires *that at least annually, the Audit, Risk and Finance Subcommittee consider the Annual Internal Audit Plan.*
- 3.2 The Internal Audit Charter cl. 8.2 requires the Internal Audit *Plan to respond to changes in the business.*
- 3.3 Historically, approval for the following year's Draft Internal Audit Plan (Draft Plan) would have been sought prior to year-end. The Draft Plan for the year to 30 June 2019 has been delayed to allow Management to assess how to allocate the internal audit resource to provide most benefit to the organisation. This report reflects Management's decision.

4. Discussion

- 4.1 The Draft Plan (Attachment 1) was compiled following discussions with the Chief Executive, Group Manager Corporate Services, Manager Business Improvement, Chair of Audit, Risk and Finance and information

Item 9: Draft Annual Internal Audit Plan - 30 June 2019

provided by Audit NZ. Council's Top 10 risks, together with the accompanying discussion at the 14 August Audit, Risk and Finance Subcommittee meeting, have also been considered.

- 4.2 Due to the organisation's current business improvement needs and stretched capacity throughout, the Draft Plan incorporates a combination of internal audits and business improvement activities. The Chief Executive considers that currently this is the best use of the internal audit resource.
- 4.3 This blending of internal audit and business improvement is not intended to be permanent, however in order to make real business improvement gains the Chief Executive is of the view that this arrangement should extend to 30 June 2020.
- 4.4 Council approval for internal audit to have responsibilities outside the internal audit function which do not compromise objectivity is being sought contemporaneously through the Draft Internal Audit Charter.

Compilation of the Draft Internal Audit Plan and Best Use of Internal Audit

- 4.5 Council was made aware that the flow-on impact from internal audits places an additional burden on management staff and therefore a high-volume internal audit programme was unsustainable. A much-reduced Internal Audit Plan for the year to 30 June 2018 was approved at the Council meeting of 9 November 2017.
- 4.6 The Chief Executive has confirmed that the availability of staff to respond to internal audits and their outcomes remains limited. Alongside this, Council has a stated key goal in the Long Term Plan 2018-28 to lift Council performance.
- 4.7 The Internal Audit Charter clause 8.2 requires the Internal Audit Plan *to respond to changes in the business*.
- 4.8 The Chief Executive believes that the best use of internal audit for this and next financial year is to place some focus on business improvements which will contribute to the achievement of the goal to lift Council performance. The key activities for internal audit in this year's plan therefore primarily relate to business improvement, while proposed internal audits have been allocated to contractors.
- 4.9 This proposal will not require additional budget this financial year.
- 4.10 The Draft Plan allows for one unexpected audit and two pre-determined audits (one of which to focus on opportunities for the misappropriation of Council's assets).
- 4.11 Audit NZ have flagged the delivery of projects and contract performance as an issue for Council. We believe this has been (or will be) to some extent covered by the management and monitoring of contractor performance audit performed late in the 2017/18 financial year; the

Item 9: Draft Annual Internal Audit Plan - 30 June 2019

review of project management in 2014; and the recently announced review to be commissioned for the Greenmeadows project. There is undoubtedly business improvement required in this area and a review is required to determine the status of recommendations from both the 2014 review and from Audit NZ. This has been included in the business improvement section.

- 4.12 The selection of audit topic to assess the opportunities for the misappropriation of Council's assets was supported by online data provided by the Office of the Auditor General (last updated 23 July 2018) relating to such incidents reported for 2017/18.

Note: these incidents were discovered through internal tip-offs (2), external (2) tip-offs (neither through whistle blower systems available), internal controls (7) or internal audit (2).

	Theft of Cash	Theft of Inventory	Credit or Fuel Card Fraud	False Invoicing	Other Theft	Other
CCOs		1	3			
Licencing & Community Trusts	2	2				
Local Authorities	2			1	1	1

- 4.13 The Chief Executive considers that there are key business improvement projects to help lift Council performance which internal audit could contribute to. These include the development and alignment of a new contract management database to the accounting information system, improvements to asset management systems and processes, and an assessment of the status of project management improvements. Time has been provided for these in the Draft Plan.

5. Options

- 5.1 Options provided are to proceed with a level of internal audits based on previous Plans, or for internal audit to concentrate on contributing to business improvements. A reasonable level of internal audits will be performed in this second option through the use of contractors.
- 5.2 Option 1, which proposes a higher level of audits, is not favoured. This will overwhelm the organisation and resources will be diluted, compromising delivery of the most critical improvements.
- 5.3 The preferred option is Option 2. There are known improvement areas to lift Council performance which require significant effort and the organisation currently has limited resource for this work.

Item 9: Draft Annual Internal Audit Plan - 30 June 2019

- 5.4 The combination of performing a small number of audits to give the Audit, Risk and Finance Subcommittee reasonable confidence that important controls are performing as intended, and of contributing to business improvement, is considered the most valuable use of the internal audit resource. Further, the likelihood of an audit in which the objectivity of internal audit may be compromised is low and mitigations have been addressed in the Draft Internal Audit Charter. The arrangement proposed is for a relatively short period.

Option 1: Undertake a Higher Level of Audits	
Advantages	<ul style="list-style-type: none"> • Council will have a greater knowledge of areas across the organisation where there have been systems or control failures.
Risks and Disadvantages	<ul style="list-style-type: none"> • A higher volume of internal audits impacts on the organisation, taking scarce resources away from performing other key responsibilities, which may have higher consequences to the organisation than those of the risks found from an audit. • While control weaknesses are likely to be identified from an internal audit, the ability to treat these is limited due to scarce resources.
Option 2: Approve Draft Internal Audit Plan proposal	
Advantages	<ul style="list-style-type: none"> • The effort required to make business improvements that address these areas for improvement is significant, and the impact of additional audits would take resources available across the organisation away from these key improvement areas. • Remedying some of the already known weaknesses as soon as practicable is in Council's best interests. • The primary goal of business improvement is to increase effectiveness and efficiency to improve the organisation's ability to deliver services. A good improvement plan will focus on the organisation's most important activities and any associated risks, and will address any necessary mitigations. This is closely aligned to the internal audit process but is forward-looking, while internal audit informs past performance.
Risks and Disadvantages	<ul style="list-style-type: none"> • There may be future costs where external audits are required in areas where internal audit has had some responsibility or involvement in the previous 12 months.

Item 9: Draft Annual Internal Audit Plan - 30 June 2019

Author: **Lynn Anderson, Internal Audit Analyst**

Attachments

Attachment 1: A2026190 - DRAFT Internal Audit Plan to 30 June 2019 [↓](#)

<p>Important considerations for decision making</p>
<p>1. Fit with Purpose of Local Government</p> <p>This decision will help to ensure the resources available in internal audit contribute optimally to business improvement and internal auditing that will help give confidence that Council will be able to meet its responsibilities cost-effectively and efficiently.</p>
<p>2. Consistency with Community Outcomes and Council Policy</p> <p>This report supports the community outcome that Council provides leadership, which includes the responsibility for protecting finances and assets, and to have an infrastructure which is efficient and cost effective.</p>
<p>3. Risk</p> <p>It is more likely that Council may not meet its responsibilities cost-effectively and efficiently if this recommendation is not accepted.</p>
<p>4. Financial impact</p> <p>This decision will fit within existing budgets.</p>
<p>5. Degree of significance and level of engagement</p> <p>This matter is of low significance because it does not affect the level of service provided by Council or the way in which services are delivered. Therefore no engagement has been undertaken.</p>
<p>6. Inclusion of Māori in the decision making process</p> <p>No engagement with Māori has been undertaken in preparing this report.</p>
<p>7. Delegations</p> <p>The Audit, Risk and Finance Subcommittee has the delegation to consider the Annual Internal Audit Plan and the resourcing for this each year.</p> <p><i>Areas of Responsibility:</i></p> <ul style="list-style-type: none"> • <i>The internal audit function</i> <p><i>Powers to Recommend:</i></p> <ul style="list-style-type: none"> • <i>To Council any matters within the areas of their responsibility</i>

Proposed Annual Internal Audit Plan to 30 June 2019 - for Audit, Risk & Finance Subcommittee meeting 25 September 2018

AUDITS			
Responsible	Audit Topic	Audit Objective	What could go Wrong?
Internal Audit Analyst/External	Adhoc allowance	Adhoc	Adhoc
External	Library cash collection processes	Determine the strength of the control environment and procedures relating to all sources of cash collection (including debt collection) at the libraries. Identify any areas for improvement. Test transactions over a specified period	Inconsistent processes or a weak control environment may lead to loss or misappropriation of Council assets and/or reputational damage
External	Performance Management	Evaluate the effectiveness of the current system of managing employee performance. Locate data that demonstrates the realisation of benefits such as improved employee satisfaction, performance, development, and buy-in of strategic objectives	Council's delivery of its objectives can be affected by underperforming or dissatisfied staff, and may not guide the organisation towards continuous improvement
BUSINESS IMPROVEMENT			
Responsible	Improvement Topic	Work Proposed	What could go Wrong?
Internal Audit Analyst	Integration of Contract Management and Accounting Information systems	Contribute to the project to develop and integrate MagiQ's risk management module with its existing financial system to help management contract risk and contractor performance	Poor visibility of contracts and of contractor performance across Council may lead to financial and reputational loss
Internal Audit Analyst	Asset Management	This may include assisting with a literature review of all work in progress and reviews in the asset management space with a view to obtaining an overall picture of council's current asset management maturity. This would help inform the Senior Leadership Team's decision of the top three-five focus areas specific to council for business improvement in 2018/19. This work may also/instead include an evaluation of organisational risk from the quality and completeness of current source data which informs asset planning, decision-making and resource allocation; assessment of information gaps from International Infrastructure Management guidelines (IIM) and provision of recommendations to the Senior Leadership Team for business improvements to reduce risk to the level acceptable to management	The asset information does not flow between systems and therefore does not fully inform asset management planning and resource allocation. It is therefore likely that council is sub-optimally managing its assets and more reactive work is occurring. This could lead to service, reputational and financial loss
Internal Audit Analyst	Project Management	Review status of recommendations from prior external reviews/audits, evaluate gaps and recommend improvements in order to achieve Senior Leadership's agreed level of project management maturity	Poor project management systems, controls and performance may lead to service, reputational and financial loss

A2026190