



AGENDA

Ordinary meeting of the

Audit, Risk and Finance Subcommittee

**Tuesday 25 June 2019
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 21 May 2019

6 - 13

Document number M4225

Recommendation

That the Audit, Risk and Finance Subcommittee

- 1. Confirms the minutes of the meeting of the Audit, Risk and Finance Subcommittee, held on 21 May 2019, as a true and correct record.***

6. Chairperson's Report

7. Interim audit letter for the year ending 30 June 2019 **14 - 25**

Document number R10240

Recommendation

That the Audit, Risk and Finance Subcommittee

- 1. Receives the report Interim audit letter for the year ending 30 June 2019 (R10240) and its attachment (A2206215); and***
- 2. Notes the status updates to previous audit recommendations.***

8. Draft Annual Internal Audit Plan - 30 June 2020 **26 - 31**

Document number R10266

Recommendation

That the Audit, Risk and Finance Subcommittee

- 1. Receives the report Draft Annual Internal Audit Plan - 30 June 2020 (R10266) and its attachment (A2202709).***

Recommendation to Council

That the Council

- 2. Approves the Draft Annual Internal Audit Plan - 30 June 2020 (A2202709).***

PUBLIC EXCLUDED BUSINESS

9. Exclusion of the Public

Recommendation

That the Audit, Risk and Finance Subcommittee

- 1. Excludes the public from the following parts of the proceedings of this meeting.***
- 2. 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	Audit, Risk and Finance Subcommittee Meeting - Public Excluded Minutes - 21 May 2019	<p>Section 48(1)(a)</p> <p>The public conduct of this matter would be likely to result in disclosure of information for which good reason exists under section 7.</p>	<p>The withholding of the information is necessary:</p> <ul style="list-style-type: none"> • Section 7(2)(a) To protect the privacy of natural persons, including that of a deceased person • Section 7(2)(g) To maintain legal professional privilege • Section 7(2)(h) To enable the local authority to carry out, without prejudice or disadvantage, commercial activities
2	Bad debt writeoff for year ending 30 June 2019	<p>Section 48(1)(a)</p> <p>The public conduct of this matter would be likely to result in disclosure of information for which good reason exists under section 7</p>	<p>The withholding of the information is necessary:</p> <ul style="list-style-type: none"> • Section 7(2)(a) To protect the privacy of natural persons, including that of a deceased person



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

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

On Tuesday 21 May 2019, commencing at 9.05a.m.

Present: Her Worship the Mayor R Reese, B Dahlberg and Mr J Murray

In Attendance: Councillors P Matheson and B McGurk, Group Manager Infrastructure (A Louverdis), Group Manager Community Services (R Ball), Group Manager Corporate Services (N Harrison), Group Manager Strategy and Communications (N McDonald) and Governance Adviser (J Brandt)

Apologies: Councillor Barker and Mr Peters

1 Appointment of Chairperson

The Group Manager Corporate Services, Nikki Harrison, called for nominations from members to appoint a chairperson for the meeting, as an apology had been received from the appointed Chairperson and there was no appointed Deputy Chairperson for the Subcommittee.

Resolved AUD/2019/013

That the Audit, Risk and Finance Subcommittee

- 1. Appoints Mr John Murray as Chairperson of the Audit, Risk and Finance Subcommittee meeting on 21 May 2019.***

Dahlberg/Her Worship the Mayor

Carried

2. Apologies

Resolved AUD/2019/014

That the Audit, Risk and Finance Subcommittee

2. Receives and accepts the apologies from Councillor Barker and Mr Peters.

Murray/Dahlberg

Carried

3. Confirmation of Order of Business

It was noted that agenda item 12 would be considered after item 7 due to time constraints of the speaker.

4. Interests

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

5. Public Forum

There was no public forum.

6. Confirmation of Minutes

6.1 19 February 2019

Document number M4041, agenda pages 7 - 13 refer.

Resolved AUD/2019/015

That the Audit, Risk and Finance Subcommittee

1. Confirms the minutes of the meeting of the Audit, Risk and Finance Subcommittee, held on 19 February 2019, as a true and correct record.

Murray/Dahlberg

Carried

7. Chairperson's Report

There was no Chairperson's Report.

8. Quarterly Report to 31 March 2019

Document number R10169, agenda pages 14 - 44 refer.

Tracey Hughes, Senior Accountant, tabled a replacement chart for agenda page 23 (document A2194360) and noted that the \$50,000 debtor payment listed on agenda page 26 had been received since the agenda was published.

Questions were answered regarding dividends ahead of budget, reporting for the Investment Performance Audit undertaken by NZTA, impacts on Council resulting from the Pigeon Valley fire emergency in February 2019, management of methane levels at Founders Park, the increased share of NRSBU costs for Council, progress putting a management plan for Andrews Farm in place to address issues between user groups and the predicted shortfall in capital expenditure.

A number of questions regarding the Greenmeadows Centre and Queens Gardens Toilets in attachment 3 of the report were noted for discussion later in the meeting, as part of the public excluded section of the meeting.

Resolved AUD/2019/016

That the Audit, Risk and Finance Subcommittee

Receives the report Quarterly Report to 31 March 2019 (R10169) and its attachments (A2175573, A2176515 and A2180205).

Her Worship the Mayor/Murray

Carried

Attachments

- 1 A2194360 - Replacement table for page 23 of ARF Agenda 21 May 2019

9. Audit plan for the year ending 30 June 2019

Document number R10202, agenda pages 93 - 120 refer.

Jacques Coetzee of Audit New Zealand spoke to the report, noting that he envisaged all Councils would be provided with comparative data for benchmarking purposes by the end of the year.

The meeting adjourned from 9.57a.m. until 10.33a.m.

Resolved AUD/2019/017

That the Audit, Risk and Finance Subcommittee

- 1. Receives the report Audit plan for the year ending 30 June 2019 (R10202) and its attachment (A2186543).***

Murray/Her Worship the Mayor

Carried

10. Quarterly Key Risks Report - 1 January to 31 March 2019

Document number R10167, agenda pages 45 - 67 refer.

Arlene Akhlaq, Manager Business Improvement, presented the report. She made a point of clarity regarding item 3.2 of the report (middle bullet point), noting that it was the consolidation of options that was planned for June, with analysis already under way. Ms Akhlaq further noted that a new rating system had been applied to Quarter 3 risk assessments.

Malcolm Hughes, Health and Safety Advisor, explained the increased rating on higher hazard work situations (5.11) as a result of the March terrorist attack in Christchurch. Mr Hughes answered questions about levels of stress experienced by frontline staff and measures the organisation was taking to provide support.

Ms Akhlaq answered questions about the rating for environmental and legal liability risks, the order of risks in the report, and whether the ratings reflected residual risk.

Nikki Harrison, Group Manager Corporate Services answered a question about the Council's disaster recovery fund, noting the fund remained in deficit.

Resolved AUD/2019/018

That the Audit, Risk and Finance Subcommittee

- 1. Receives the report Quarterly Key Risks Report - 1 January to 31 March 2019 (R10167) and its attachment (A2179264).***

Dahlberg/Her Worship the Mayor

Carried

11. Health & Safety Quarterly Performance Report 1 January to 31 March 2019

Document number R10138, agenda pages 68 - 83 refer.

Malcolm Hughes, Health and Safety Advisor, answered questions about security incidents in the libraries, and plans to limit access to certain internet sites in the libraries. Safe Work Observation visits for Elected Members were discussed and it was noted that Councillors would be invited to attend along with senior staff.

Resolved AUD/2019/019

That the Audit, Risk and Finance Subcommittee

- 1. Receives the report *Health & Safety Quarterly Performance Report 1 January to 31 March 2019 (R10138)* and its attachment (A2173565).**

Dahlberg/Murray

Carried

12. Internal Audit - Quarterly Progress Report to 31 March 2019

Document number R10129, agenda pages 84 - 86 refer.

Lynn Anderson, Internal Audit Analyst, spoke to the report and answered questions about the amounts of cash handled in the libraries, the financial system used by the Building Unit and how this was linked in with other Council systems. It was noted that the debtor invoicing for the marina was being managed by Nelmac, and while debtors were transferred to Council monthly, the overall system was separate from Council's financial system. Discussion took place regarding reporting mechanisms where Audit New Zealand might raise issues with Nelmac for this council asset.

Resolved AUD/2019/020

That the Audit, Risk and Finance Subcommittee

- 1. Receives the report *Internal Audit - Quarterly Progress Report to 31 March 2019 (R10129)* and its attachment (A2173040).**

Murray/Her Worship the Mayor

Carried

13. Internal Audit - Summary of New or Outstanding Significant Risk Exposures and Control Issues to 31 March 2019

Document number R10130, agenda pages 87 - 92 refer.

Lynn Anderson, Internal Audit Analyst, provided a number of updates regarding business continuity planning measures being introduced, training for the Incident Management Team, and working with Civil Defence and Police to inform evacuation plans for Maitai flood zones.

Alec Louverdis, Group Manager Infrastructure, answered questions about the risk of water contamination as a wilful act, and regular ongoing monitoring at the dam.

In regards to asset management plans coming to committee meetings, it was requested that where plans were not as developed as others, due to

delays from the Pigeon Valley fires, this should be highlighted in the report and assistance be given by finance officers to assist members with robust decision-making.

Resolved AUD/2019/021

That the Audit, Risk and Finance Subcommittee

- 1. Receives the report Internal Audit - Summary of New or Outstanding Significant Risk Exposures and Control Issues to 31 March 2019 (R10130) and its attachment (A2174097).***

Murray/Dahlberg

Carried

14. Exclusion of the Public

Resolved AUD/2019/022

That the Audit, Risk and Finance Subcommittee

- 1. Excludes the public from the following parts of the proceedings of this meeting.***
- 2. 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:***

Dahlberg/Her Worship the Mayor

Carried

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	Audit, Risk and Finance Subcommittee Meeting - Public Excluded Minutes - 19 February 2019	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
2	Quarterly Report to 31 March 2019 - Debtor Discussion,	Section 48(1)(a) The public conduct of this matter would be	The withholding of the information is necessary: <ul style="list-style-type: none">Section 7(2)(a)

Item	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Particular interests protected (where applicable)
	Greenmeadows Centre and Queens Gardens Toilets	likely to result in disclosure of information for which good reason exists under section 7	<p>To protect the privacy of natural persons, including that of a deceased person</p> <ul style="list-style-type: none"> • Section 7(2)(h) To enable the local authority to carry out, without prejudice or disadvantage, commercial activities • Section 7(2)(g) To maintain legal professional privilege
3	Quarterly Update on Legal Proceedings	<p>Section 48(1)(a)</p> <p>The public conduct of this matter would be likely to result in disclosure of information for which good reason exists under section 7</p>	<p>The withholding of the information is necessary:</p> <ul style="list-style-type: none"> • Section 7(2)(g) To maintain legal professional privilege
4	Tax planning 10-year outlook report	<p>Section 48(1)(a)</p> <p>The public conduct of this matter would be likely to result in disclosure of information for which good reason exists under section 7</p>	<p>The withholding of the information is necessary:</p> <ul style="list-style-type: none"> • Section 7(2)(h) To enable the local authority to carry out, without prejudice or disadvantage, commercial activities

The meeting went into public excluded session at 11.36a.m. and resumed in public session at 1.11p.m.

RESTATEMENTS

It was resolved while the public was excluded:

2	PUBLIC EXCLUDED: Quarterly Update on Legal Proceedings
	<p><i>That the Audit, Risk and Finance Subcommittee</i></p> <ol style="list-style-type: none"> <i>1. <u>Receives</u> the report Quarterly Update on Legal Proceedings (R10173) and its attachment (A2186227); and</i> <i>2. <u>Agrees</u> that the decision (AUD/2019/026) only be released from public excluded business; and</i> <i>3. <u>Agrees</u> that Report (R10173) and its attachment (A2186227) be excluded from public release at this time.</i>

3	PUBLIC EXCLUDED: Tax planning 10-year outlook report
	<p><i>That the Audit, Risk and Finance Subcommittee</i></p> <ol style="list-style-type: none"> <i>1. <u>Receives</u> the report Tax planning 10-year outlook report (R10163) and its attachment (A2179101); and</i> <i>2. <u>Agrees</u> that the decision (AUD/2019/027) only be released from public excluded business; and</i> <i>3. <u>Agrees</u> that Report (R10163) and attachment (A2179101) be excluded from public release at this time.</i>

There being no further business the meeting ended at 1.11p.m.

Confirmed as a correct record of proceedings:

_____ Chairperson _____ Date

Interim audit letter for the year ending 30 June 2019

1. Purpose of Report

- 1.1 To provide the letter to the Subcommittee on the interim audit for the year ending 30 June 2019 from Audit New Zealand.

2. Recommendation

That the Audit, Risk and Finance Subcommittee

- 1. Receives the report Interim audit letter for the year ending 30 June 2019 (R10240) and its attachment (A2206215); and***
- 2. Notes the status updates to previous audit recommendations.***

3. Discussion

- 3.1 In mid-April Audit New Zealand carried out an interim audit for the year ending 30 June 2019 on the Council's internal controls and the overall control environment. It issued the draft letter on 11 June 2019 (Attachment 1).
- 3.2 There were no minor or significant issues identified during the audit which is a good result.
- 3.3 The Audit New Zealand interim letter also contains a section on previous recommendations made and an update on the status of these recommendations. Officers are working to resolve these issues as soon as practical, while weighing up the relative priority to other business improvement initiatives and internal audit actions.
- 3.4 Audit NZ are currently undertaking a review of the Councils procurement, contract management and project management practices to support the planning, design, procurement and delivery of renewals and new capital infrastructure. This will be reported back on during the final audit.

4. Options

- 4.1 That the Subcommittee note the status updates on previous matters in the letter to the Council on the interim audit of Nelson City Council for the year ending 30 June 2019.

Author: Nikki Harrison, Group Manager Corporate Services

Attachments

Attachment 1: A2206215 - Interim management letter from Audit NZ 11 June 2019 [↓](#)

Important considerations for decision making	
1. Fit with Purpose of Local Government	Section 99 of the Local Government Act 2002 requires the audit of information contained in the Annual Report and Summary and the interim audit forms part of that process.
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 infrastructure which is efficient and effective.
3. Risk	There is a risk that Council will not meet all its legislative responsibilities if the recommendations from Audit NZ are not accepted and actioned.
4. Financial impact	There is no financial impact.
5. Degree of significance and level of engagement	This matter is of low significance because there are no decisions to be made. Therefore no engagement has occurred.
6. Inclusion of Māori in the decision making process	Māori have not been consulted in preparation of this report.
7. Delegations	The Audit, Risk and Finance Subcommittee has the responsibility for considering <i>audit processes and management of financial risk</i> .



AUDIT NEW ZEALAND
Mana Arotake Aotearoa

11 June 2019

Level 2, 100 Molesworth Street
Thorndon
PO Box 99, Wellington 6140

Rachel Reese
Mayor
Nelson City Council
PO Box 645
Nelson 7040

cc John Peters, Chair of the Audit, Risk and Finance Subcommittee
Pat Dougherty, Chief Executive
Nikki Harrison, Group Manager Corporate Services

Dear Rachel

Interim management report on the audit of the Nelson City Council for the year ending 30 June 2019

We have completed our interim audit for the year ending 30 June 2019. This letter sets out our findings from the interim audit.

The primary purpose of our interim audit was to update our knowledge of Nelson City Council's (the City Council) financial systems and control environment, and gain an understanding of the issues facing the City Council.

Audit progress to date

During our interim audit, we:

- updated our understanding and assessment of the City Council's control environment and internal controls (including progress around legislative compliance);
- reviewed the key performance systems that support the City Council's reported performance information;
- updated our assessment of the significant audit risks and our areas of audit focus and commenced our associated audit work; and
- followed up on the progress in addressing the recommendations we made in previous audits.

We also performed preliminary audit work over year to date fixed assets, revenue and expenditure. This also included an assessment of sensitive expenditure incurred to date against the City Council's policies and OAG best practice guidelines.

Based on our audit work completed to date, the overall control environment remains effective for the purposes of our audit.

As indicated in our audit plan for 2018/19 we will consider the procurement, contract management, and project management practices to support the planning, design, procurement and delivery of renewals and new capital infrastructure. This review which is performed by a member of our Special Audit Assurance Services team is currently in progress and will be reported on during our final audit as well as other audit focus areas as identified in the audit plan.

Significant issues identified during the audit

We did not identify any significant issues during our interim audit.

Assessment of your control environment

The control environment reflects the overall attitudes, awareness and actions of those involved in decision-making in the organisation. It encompasses the attitude towards the development of accounting and performance estimates and its external reporting philosophy, and is the context in which the accounting system and control procedures operate. Management, with the oversight of those charged with governance, need to establish and maintain a culture of honesty and ethical behaviour through implementation of policies, procedures and monitoring of controls. This provides the basis to ensure that the other components of internal control can be effective.

We performed a high level assessment of the control environment, risk management process, and monitoring of controls relevant to financial and service performance reporting. We considered the overall attitude, awareness, and actions of the Council and management in establishing and maintaining effective management procedures and internal controls.

Our findings related to our normal audit work, and may not include all weaknesses for internal controls relevant to the audit.

Internal controls

We reviewed the internal controls, in your information systems and related business processes, for your key financial and non-financial information systems as detailed below. Internal controls are the policies and processes that are designed to provide reasonable assurance as to reliability and accuracy of financial and non-financial reporting, as well as compliance with significant legislative requirements.

These internal controls are designed, implemented and maintained by the Council and management. Internal control is important to minimising the risk of either fraud or misstatement occurring. The responsibility for the effective design, implementation and maintenance of internal control rests with the Council.

A2206213

We reviewed the following systems:

- Revenue/accounts receivable
- Expenditure/accounts payable
- Payroll
- Property Plant and Equipment, Intangible Assets and Biological Assets
- Cash and bank
- Related Parties
- Journals
- Legislative compliance
- Debt management
- General ledger reconciliations

We also updated our understanding of key performance measures and relevant controls.

Other matters

Prior year recommendations

We have followed up on the recommendations we made during the previous years. Refer to appendix one on the status of previous recommendations which included some around internal controls. We encourage management to continue to progress these recommendations as some of the matters are long outstanding.

Information systems audit

As part of our 2019 audit we performed an IT General Controls review (ITGC). This review consisted of two parts. The first is a high-level assessment on IT Governance effectiveness. We considered the overall attitude, awareness, and actions of the IS Group Manager and IS Management in establishing and maintaining effective management procedures and internal controls.

We have not identified any significant deficiencies in internal control with regard to the entity's IT governance process.

The second part is an assessment as to the design effectiveness of Activity Level controls. These control areas cover the organisation's ability to manage risk and include the following areas: *Manage Security Services, Manage Changes, Change Acceptance and Transitioning, Manage Service Requests and Incidents, Manage Continuity, Manage Availability and Capacity, and Manage Suppliers*. We also reviewed the operation of Activity Level controls for *Manage Security Services* and *Manage Changes*.

A2206219

Overall, we are satisfied activity controls have remained design effective for all areas and operationally effective for Manage Security Services and Manage Changes. Therefore, we can place reliance on these for the purposes of our audit.

Quality and timeliness of information provided for audit

We received all information in a timely manner and would like to acknowledge that the finance team and support staff assisted the audit team with their queries in a timely manner. We will continue to work closely with management to enhance the process and support the delivery of an efficient and quality audit.

Thank you

We would like to thank management and staff for their assistance during the course of the audit. Should you require clarification on any of the matters raised in this letter please contact me or Jaco Meintjes.

Yours sincerely



Jacques Coetzee
Appointed Auditor

Appendix 1: Status of previous 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 use the following priority ratings for our recommendations.

Priority	Explanation
Urgent	Needs to be addressed <i>urgently</i> These recommendations relate to a significant deficiency that exposes the Institute to significant risk or for any other reason need to be addressed without delay.
Necessary	Address at the earliest reasonable opportunity, <i>generally within six months</i> 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.
Beneficial	Address, <i>generally within six to 12 months</i> These recommendations relate to areas where the Nelson Marlborough Institute of Technology is falling short of best practice. In our view it is beneficial for management to address these, provided the benefits outweigh the costs.

Set out below is a summary of the action taken against previous years' recommendations.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open	-	7	3	10
Implemented or closed	-	1	-	1

Open recommendations

Recommendation	First raised	Status	Management comments
Necessary			
Valuation of infrastructure assets			
Implement the recommendations made by the valuer to enhance the current valuation process and the reliability of the database.	2017-18	In progress The City Council is currently addressing the recommendations as part of preparation for current year's valuation.	Status update noted.
Approval of staff time charged to capital projects			
Formalise the review of time charged to capital projects to ensure the accuracy and classification of staff time recorded.	2017-18	In progress The City Council intends to address the recommendation as part of the annual report process.	Status update noted.
Lack of system restriction/controls to prevent any unauthorised data editing for call out time measures			
Introduce a process to monitor and track all changes or edits to records for the "resolution of call-outs - median time" data.	2017-18	In progress Management is currently investigating the different options.	Status update noted.
Reliance on third party to ensure payment is correct at different sites			
The City Council obtains a transaction listing from third parties and a member of the finance team reconciles that with bank statements. However there is no process in place to ensure that the third party listing is complete. We recommended management investigate opportunities to ensure that third parties provide complete listings of the	2016-17	In progress Changes are made as contracts are renewed with the inclusion of clauses around effective cash management as a priority. The Parking Revenue contract is currently on hold until a Parking Strategy is completed. The City Council is currently considering the options for the Transfer Station including delivering the service in-house.	Status update noted.

A2206215

Recommendation	First raised	Status	Management comments
receipts they collect on behalf of the City Council.			
Contract management system			
We recommended management implement an integrated contract management system. This will allow the City Council to better monitor the performance of contractors and manage project delays on an organisation-wide basis. It will also enable the City Council to make more informed decisions regarding contract renewals.	2015-16	<p>In progress</p> <p>Testing has been completed for the Contracts module in MagiQ, a software service provider.</p> <p>The City Council is current reviewing the specifications of the module to ensure it is fit for purpose. The City Council intends to complete a consolidation of existing contract later in 2019 to provide corporate visibility of contracts, contract value, and renewals.</p> <p>A review and assessment of the options for linking contract and financial data will be completed in later 2019.</p>	Status update noted.
Project Management			
<p>We recommended management:</p> <ul style="list-style-type: none"> implement realisation and post-implementation reviews upon the completion of significant projects; and develop a project management policy. 	2015-16	<p>In progress</p> <p>The City Council reviewed the draft project management policy and has agreed to not progress further for the time being.</p> <p>A benefits / implementation review has been incorporated into the 2018/19 work plan.</p>	<p>Project Management Policy approved by Senior Leadership Team 27 May 2019.</p> <p>Benefits/implementation review is in the Business Improvement plan for 2019/20.</p>
Water Charge Data Management System			
We recommended the process be automated and investigate system changes to enable historic reporting	2016-17	<p>In progress</p> <p>The City Council still intends to complete review in later 2019.</p>	Status update noted.

A2206215

Recommendation	First raised	Status	Management comments
of the volumes supplied throughout the financial year and record the volumes charged per rating category.			
Beneficial			
Financial statements preparation process			
<p>Formalise the processes and procedures for the consolidation process to reduce potential risks, including:</p> <ul style="list-style-type: none"> • creating a separate master spreadsheet file where all data is managed and collected; and • where possible, consideration be given towards an automated process through consolidation software. 	2017-18	<p>In progress</p> <p>The City Council continues to assess the effectiveness of its processes around this and is likely to develop the recommended separate master spreadsheet.</p>	Status update noted.
Related Party Processes			
Formalise an in-house company search at year end to obtain comfort that all interest are disclosed and all related party transactions are reported. Councillors and key management personnel should be encouraged to disclose all interests held.	2017-18	<p>In progress</p> <p>The Manager for Governance and Support Services has completed a company search of all Councillors, Senior Leadership Team and their close family members in the interim. A follow up search is required for year-end for any changes during the year.</p>	Status update noted.
Impact of the new “for profit” accounting standards on the Group audit			
Management should engage early in the financial year with Port Nelson, Nelson Airport and Nelmac	2017-18	<p>In progress</p> <p>The City Council has been in discussions with Council Controlled Trading</p>	Status update noted.

A2206219

Recommendation	First raised	Status	Management comments
and implement appropriate systems and processes to accurately capture and report on the requirements of the new accounting standards and adequately consider the "mixed group" reporting issues on the City Council and group.		Organisations (CCTO) and has set its expectations for reporting requirements. Assessments on the changes are either completed or largely completed by the CCTOs.	

Implemented or closed recommendations

Recommendation	First raised	Status
Necessary		
Suspense accounts		
We recommended clearing of suspense accounts and the system suspense account should be formally documented and reviewed on a one-up basis. The clearing and reviewing of suspense accounts should also take place in a timely manner.	2016-17	The City Council has included a specific procedure for month and year-end processes requiring the review of suspense accounts and ensuring that they are nil. Whilst there is no one-up review, we note that there are minimal transactions through the suspense accounts, and the balance has been for all months in the financial year.

Draft Annual Internal Audit Plan - 30 June 2020

1. Purpose of Report

- 1.1 To approve the Draft Annual Internal Audit Plan to 30 June 2020.

2. Recommendation

That the Audit, Risk and Finance Subcommittee

1. ***Receives the report Draft Annual Internal Audit Plan - 30 June 2020 (R10266) and its attachment (A2202709).***

Recommendation to Council

That the Council

1. ***Approves the Draft Annual Internal Audit Plan - 30 June 2020 (A2202709).***

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 Management continues 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 Internal Audit Plan (Attachment 1 A2202709) was compiled following discussions with the Group Manager Corporate Services, Manager Business Improvement, Chair of Audit, Risk and Finance

Item 8: Draft Annual Internal Audit Plan - 30 June 2020

subcommittee and Audit NZ. Council's most recent Quarterly Key Risks Report has also been reviewed.

- 4.2 Due to the organisation's current stretched capacity throughout and the downstream impact on the organisation of internal audits, the Draft Plan continues to provide a split plan incorporating internal audits and business improvement activities.
- 4.3 The proposed Plan would not compromise objectivity for the internal audit function.
- 4.4 This proposal will not require additional budget this financial year.

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

- 4.5 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.
- 4.6 The officers believe that the best use of internal audit for this financial year is to place some emphasis on business improvements which will contribute to the achievement of the goal to lift Council performance.
- 4.7 This proposal will not require additional budget for 2019/20 financial year.
- 4.8 The Draft Plan allows for two currently unplanned audits and two pre-determined audits. The planned topics are intentionally outside the business improvement focus areas because: a) it ensures internal audit independence is not compromised, and; b) it is considered too early to be auditing key areas such as contract management where improvements are currently underway.
- 4.9 Following discussions with Audit NZ, it is clear that priority areas for improvement are contracts and contractor management. These have been included in the business improvement section.
- 4.10 Other key business improvement projects to help lift Council performance which internal audit could contribute to include: a) improvements to asset management systems and processes based on the drawing together of difference improvement strands identified through audits; b) the simplification of procedures and tools. Time has been provided for these in the Draft Plan.

5. Options

- 5.1 Option 1, is to approve the Draft Internal Audit Plan, which provides for a smaller number of audits, as well as a contribution to business improvement. This option is recommended.
- 5.2 The alternative, Option 2, is for Council to decide the Internal Audit Plan should only provide for internal audits this financial year. This is

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considered less favourable as the downstream effect of a large volume of audits on the organisation is not considered viable.

Option 1: Approve Draft Internal Audit Plan proposal	
Advantages	<ul style="list-style-type: none"> • Remedying some of the already known weaknesses, such as contracts and contractor performance management, 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.
Option 2: Provide for Internal Audits only in the Audit Plan	
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 organisational 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 throughout the organisation.

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

Attachments

Attachment 1: A2202709 - Draft Internal Audit Plan to 30 June 2020 [↓](#)

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 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 effective.
3. Risk It is more likely that Council may not meet its responsibilities effectively and efficiently if this recommendation is not accepted.
4. Financial impact This decision will fit within existing budgets.
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 the Annual Internal Audit Plan and the resourcing for this each year. <i>Areas of Responsibility:</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>

Annual Internal Audit Plan to 30 June 2020 for Audit, Risk & Finance Subcommittee meeting 25 June 2019			
AUDITS			
Responsible	Audit Topic	Audit Objective	What could go Wrong?
Internal Audit Analyst	Formal Risk Assessment	To confirm or update the initial assessment in 2015 of areas throughout council considered at most risk from fraud/bribery/corruption - in order to inform future internal audits and to provide focus for self-reviews of key controls	Key areas where inappropriate activity could be occurring may not have sufficient controls or visibility. It is possible this could result in moderate financial loss and/or major negative public reaction
Internal Audit Analyst	Founders Control Environment	To evaluate the effectiveness of the control environment at Founders to determine how much reliance can be placed on operations and internal controls	Financially not significant, but poor financial management procedures and oversight can lead to unexplained transactions with resultant moderate negative public reaction likely
External Contractor	Adhoc allowance	Unknown	Unknown
External Contractor	Adhoc allowance	Unknown	Unknown
BUSINESS IMPROVEMENT			
Topic		Work Proposed	What could go Wrong?
Internal Audit Analyst	Contracts & Contract Performance Management	Continue to contribute to the development and simplification of systems and controls to aid the management of contract risk and contractor performance, including procurement	Complex systems, difficult to use tools, and procurement that is not right-sized may lead to staff resistance, and to poor visibility of contracts and the management of contractor performance. This may lead to financial and reputational loss and less than optimal procurement outcomes
Internal Audit Analyst	Simplification of Systems and Tools	Help elicit key areas for simplification and contribute to the reduction of complex procedures and/or tools to increase staff engagement in these areas	Staff inefficiency or reluctance to follow complex procedures or use tools that lack intuitiveness can lead to controls being by-passed and increased risk to Council
Internal Audit Analyst	Asset Management	Contribute to work programme to facilitate the various strands of asset management improvements highlighted through a number of audits	It is possible that Council is sub-optimally managing its assets and spending more on its assets than necessary. This could lead to service, reputational and financial loss