

Chairperson and Subcommittee Members
AUDIT AND RISK SUBCOMMITTEE

12 FEBRUARY 2015

Meeting Status: **Public**

Purpose of Report: For Information

PROGRESS ON AUDIT MANAGEMENT REPORT

PURPOSE OF REPORT

- 1 This report updates the Audit and Risk Subcommittee on progress made on the recommendations from the Audit Management Report for the year ended 30 June 2014.

DELEGATION

- 2 The Audit & Risk Subcommittee has delegation authority to consider this report under the following delegation in the Governance Structure, Section C.4.6
Without limiting the generality of this delegation the Subcommittee has the following functions, duties and powers:
Internal Reporting
6.4 *To review the processes for ensuring the completeness and quality of financial and operational information, including performance measures, being provided to Council.*

BACKGROUND

- 3 On 2 October 2014 the Audit & Risk Subcommittee received a report which provided them with a summary of Ernst & Young's Closing Audit Report and its Report on Control Findings for the year ended 30 June 2014.
- 4 The Closing Audit report provided an overview of Ernst & Young's audit process, its audit findings, financial statement adjustments required and its Draft Audit Report.
- 5 The Report on Control Findings detailed all of the internal control issues and matters that arose during the audit that Ernst & Young considered appropriate for review by the Senior Leadership Team (SLT). As reported to the Subcommittee on 2 October, a formal work programme has been created to remedy the control findings, and the action points on the plan will be implemented in the year to 30 June 2015.
- 6 At each meeting, the Subcommittee will receive an update on the progress of the work programme implemented to address the control findings.

CONSIDERATIONS

Issues

- 7 Ernst & Young identified 11 issues during its audit of the 2014 Annual Report that it considers appropriate for review by SLT.
- 8 None of the issues identified were considered to be high risk, requiring immediate corrective action however three of the issues were rated as moderate, requiring substantial improvement, ideally within 6 months. The remaining eight issues were classed as low risk, requiring corrective action to be implemented within 6 to 12 months.
- 9 The work programme, a consolidated report comprising Ernst & Young's recommendations and Council's action plan for addressing each finding, and the progress to date, is attached.

Financial Considerations

- 10 There are no financial considerations.

Legal Considerations

- 11 There are no legal considerations.

Policy Implications

- 12 One of the audit findings relates specifically to all policies being reviewed in a more timely fashion. A review of all Council policies has commenced and all corporate policy updates are targeted to be completed in 2015 and will be reviewed at least every five years or more frequently if considered prudent to do so.

Tāngata Whenua Considerations

- 13 There are no tāngata whenua considerations.

SIGNIFICANCE AND ENGAGEMENT

- 14 This matter has a low level of significance under the Council policy.

Publicity Considerations

- 15 There are no publicity issues to be considered at this stage.

RECOMMENDATIONS

- 16 That the Audit and Risk Subcommittee note the progress made on the recommendations in Ernst & Young's Report on Control Findings for the year ended 30 June 2014 as per the Work Programme in Appendix 1 to this report Corp-15-1462.

Report prepared by:

Approved for submission by:

Mark de Haast
Financial Controller

Wayne Maxwell
Group Manager Corporate Services

Approved for submission by:

Stephen McArthur
Group Manager Strategy & Planning

Appendix 1 -Work Programme for audit findings for the year ended 30 June 2014

Work programme for audit findings for the year ended 30 June 2014

No.	Control finding and risk ranking	Target date for completion and current status	Ernst & Young Audit Recommendation	Council's Response	Action Plan	Responsibility	Progress to date
1	Review of asset revaluation reports (Moderate)	18 Mar 2015 (on track)	We recommend that management involved in the preparation of the annual financial statements are actively involved in the valuation process and complete sufficient due diligence to satisfy themselves that the information presented in the valuation report is appropriate for financial reporting purposes.	Council agrees with the recommendation and notes the valuation process requires improvement in terms of clarity of project scope and deliverables, end to end process management and an impact assessment and review process for Senior Management to validate the proposed asset revaluations. Council intends to review its current asset revaluation policy and will consider an annual rolling programme of asset valuations.	Develop an annual rolling programme of asset valuations from 2015/16 including a competitive and robust procurement process for independent and registered valuer(s).	Financial Controller with SLT support	An asset revaluation shared services model is being actively discussed with Porirua City Council (PCC) with two main objectives: <ol style="list-style-type: none"> 1. KCDC to transition to an optimised annual rolling asset revaluation model similar to or the same as PCC's programme. 2. Ensuring a competitive tender process for registered valuers through scalability and strong procurement management. KCDC and PCC are to meet in late February to develop a procurement plan.

No.	Control finding and risk ranking	Target date for completion and current status	Ernst & Young Audit Recommendation	Council's Response	Action Plan	Responsibility	Progress to date
2	Capital Works in Progress (Moderate)	18 Mar 2015 (on track)	The risks we identified in our prior year review continue to be apparent, albeit at a lower level, and we recommend that management perform an overall review on a periodic basis of each CWIP project to ensure items are capitalised on a timely basis. We expect management to implement adequate processes and controls in place to identify assets that are no longer CWIP in nature.	Council agrees with the recommendation and notes that further improvement is required. CWIP will be extensively reviewed at least quarterly or more frequently if appropriate (e.g. completion of a major project).	CWIP will be extensively reviewed at least quarterly or more frequently if appropriate (e.g. completion of a major project).	Financial Controller with Capital Project Managers' and SLT support	The capital works in progress has been substantially reviewed for the 6 months ended 31 December 2014. The review included verifying that all expenditure was related to capital spending and compliant with policy.

No.	Control finding and risk ranking	Target date for completion and current status	Ernst & Young Audit Recommendation	Council's Response	Action Plan	Responsibility	Progress to date
3	<p>Non-financial performance reporting – review of underlying data</p> <p>(Moderate)</p>	<p>18 Mar 2015</p> <p>(on track)</p>	<p>As part of the Council's LTP it should consider the systems, processes and quality control over KPI reporting necessary to ensure actual performance is captured, recorded and reported appropriately.</p>	<p>The Council is reviewing its systems and process for collecting and reporting against KPI's as part of the development of the 2015 – 2035 Long Term Plan. This will include ensuring that KPI's are SMART and good systems are in place to capture and report data to support reporting. This will include reviewing existing processes to ensure the integrity of non-financial data loaded into NCS for KPI reporting purposes. These changes will impact for the 2015/16 financial year.</p>	<ul style="list-style-type: none"> ▪ Develop a Project Plan for developing the Performance Management Framework ▪ Review the KPIs and the current performance management environment in Council. This includes the policy, procedures and quality control over KPI reporting 	<p>Group Manager Strategy and Partnerships and Manager Corporate Planning and Reporting</p>	<p>Work is well underway to address this control finding. This work is occurring as part of the project to review the Council's current non-financial performance framework. The long term KPI review is to be presented to Council over the coming month so that the outcome of this work can be reflected in the 2015/35 LTP.</p>

No.	Control finding and risk ranking	Target date for completion and current status	Ernst & Young Audit Recommendation	Council's Response	Action Plan	Responsibility	Progress to date
4	<p>Non-financial performance reporting – clerical accuracy of reported information</p> <p>(Low)</p>	<p>18 Sep 2015</p> <p>(on track)</p>	<p>Clarity of the performance framework not only has benefit in terms of the quality of the accountability documentation we audit, it has the potential to deliver significant management utility through focus on the things that matter in terms of the Council achieving its key objectives.</p>	<p>As above, the Council is reviewing its systems and process for collecting and reporting against KPI's as part of the development of the 2015 – 2035 Long Term Plan. This will include reviewing systems and process to ensure that what is reported aligns with the agreed data source. This will occur through a mixture of reviewing / reinforcing accountabilities and processes used to validate final reported numbers.</p>	<p>The project plan seeks to examine the Council's performance management framework to identify strengths and weaknesses and make recommendations for improvements with associated time lines and resource allocation. Key <u>initial</u> deliverables include:</p> <ul style="list-style-type: none"> ▪ The KPI review ▪ Establishing performance logic mapping to Council's vision, priorities and outcomes ▪ Ensuring the KPIs appropriate alignment with strategies, priorities, and community and council outcomes 	<p>Group Manager Strategy and Partnerships and Manager Corporate Planning and Reporting</p>	<p>Work is well underway to address this control finding. This work is occurring as part of the project to review the Council's current non-financial performance framework. The long term KPI review is to be presented to Council over the coming month so that the outcome of this work can be reflected in the 2015/35 LTP.</p>

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4	<p>Non-financial performance reporting – clerical accuracy of reported information</p> <p><i>(continued)</i></p>				<ul style="list-style-type: none"> ▪ Enhancing corporate monitoring and reporting processes ▪ Ensuring appropriate consultation on service levels through the LTP ▪ Establishing self-assessment processes regarding KPI reviews (including evidence gathering to support targets and measures) for activity managers ▪ Developing activity and cluster dashboards or plans on the page ▪ Workshops by activity areas to agree KPI dashboards 		

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4	<p>Non-financial performance reporting – clerical accuracy of reported information</p> <p><i>(continued)</i></p>				<ul style="list-style-type: none"> ▪ Developing a performance management framework guidance document and corporate performance improvement plan ▪ Creating a central repository for KPIs. 		
5	<p>Authorisation of payroll voucher</p> <p>(Low)</p>	<p>18 Sep 2015</p> <p>(on track)</p>	<p>We recommend that management emphasises the importance of following the Council's processes and controls.</p>	<p>Council agrees with the recommendation and will review its internal controls around authorisation of payroll vouchers.</p>	<p>Ensure payroll vouchers are appropriately authorised each month.</p>	<p>Financial Controller with payroll officer support</p>	<p>A detailed review of Council's internal controls around authorisation of payroll vouchers is in progress.</p>
6	<p>Payroll Variance Analysis</p> <p>(Low)</p>	<p>18 Sep 2015</p> <p>(on track)</p>	<p>Management emphasises the importance of following the Council's processes and controls with the individuals responsible.</p>	<p>Council agrees with the recommendation. Council has implemented a new payroll reporting system (Chris 21) over the past 12 months and will review its internal controls around payroll variance analysis.</p>	<p>Payroll Variance Analysis Report will be generated from Chris 21 each month and explanations provided.</p>	<p>Organisational Development and Financial Controller</p>	<p>A detailed review of Council's internal controls around Payroll Variance is in progress.</p>

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7	<p>Agreement of the fixed asset register to control accounts</p> <p>(Low)</p>	<p>18 Sep 2015</p> <p>(complete)</p>	<p>A regular reconciliation is performed between the fixed asset register and the general ledger. This reconciliation should be subject to peer review to enhance the quality of the process.</p>	<p>Council agrees with the recommendation and notes the need to improve the end to end management of fixed asset accounting and reporting.</p>	<p>A Fixed Asset Reconciliation is performed monthly, and then peer reviewed and authorised by managers.</p>	<p>Financial Controller with SLT support</p>	<p>Fixed Asset Register Reconciliations are completed monthly and authorised by the Manager, Financial Accounting and the Financial Controller.</p>
8	<p>Capital Expenditure Policy</p> <p>(Low)</p>	<p>18 Sep 2015</p> <p>(complete)</p>	<p>We recommend that the KCDC capitalisation guidelines are followed when making the decision whether to capitalise expenditure.</p>	<p>Council agrees with the recommendation. As above, Council notes the need to improve the end to end management of fixed asset accounting and reporting.</p>	<p>A detailed transactional analysis of the Capital Work in Progress / Fixed Assets additions must be completed monthly to ensure all items are capital in nature and compliant with KCDC policy.</p>	<p>Financial Controller with SLT support</p>	<p>A full review of financial transactions from 1 July 2014 to 31 December 2014 has been completed.</p>

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9	<p>Timely review of policies (Low)</p>	<p>18 Sep 2015 (on track)</p>	<p>Policies should be reviewed periodically to ensure that they correctly reflect Council's expectations.</p>	<p>Council agrees with the recommendation and further notes a review of all Council policies has commenced. All policy updates are targeted to be completed by 30 June 2015 and will be reviewed at least every five years or more frequently if considered prudent to do so by Senior Management.</p>	<p>A Register of all Council Policies is to be established and each policy will be reviewed at least every five years or more frequently if considered prudent to do so by Senior Management.</p>	<p>SLT</p>	<p>The corporate policy register was completed in December 2014 including a draft schedule of policies to be developed and/or reviewed.</p>

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10	<p>Building Consents</p> <p>(Low)</p>	<p>18 Sep 2015</p> <p>(on track)</p>	<p>We reiterate our recommendation that the Council investigate as to whether they are classified as a "holder" under the Unclaimed Monies Act 1971, and whether they are required to return this money to the Inland Revenue Department if unclaimed.</p>	<p>Council agrees with the recommendation. Over the last two years the Council has been actively working to review each case and refund the bonds where appropriate. In June 2012 the Council had 1,406 bonds outstanding and over the last two years 582 bonds have been refunded to individuals. The Council will continue to review the bonds over the coming year with the aim of refunding all applicable bonds. Council has reviewed the Unclaimed Money Act 1971 and has noted that we do not appear to be listed as a holder. We will however elect to be the holder and return the money to the IRD if we are not able to locate the individuals.</p>	<p>Review the bonds over the coming year with the aim of refunding all bonds where appropriate. Council will elect to be the holder and return the money to the IRD if we are not able to locate the individuals.</p>	<p>Group Manager Regulatory Services and Financial Controller</p>	<p>The outstanding bond liability will be reported separately to the Corporate Business Committee each quarter and will be substantially reviewed six monthly. A detailed review is in progress.</p>

No.	Control finding and risk ranking	Target date for completion and current status	Ernst & Young Audit Recommendation	Council's Response	Action Plan	Responsibility	Progress to date
11	Elected Member interests (Low)	18 Sep 2015 (on track)	Council establish a policy to update the Register of Members' Interest on a periodical basis.	Council agrees with the recommendation and believes that a formal policy should increase the response rate to the six monthly update requests.	Develop a formal Declaration of Interest Policy	Democratic Services Team Leader with SLT support	Work on drafting this policy will commence in March 2015 and will include a requirement for the SLT to declare their interests.