

Chairperson and Subcommittee Members
AUDIT AND RISK SUBCOMMITTEE

16 DECEMBER 2014

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
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.

ISSUES

- 6 Ernst & Young identified 11 issues during its audit of the 2014 Annual Report that it considers appropriate for review by SLT.

- 7 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.
- 8 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.

CONSIDERATIONS

Financial Considerations

- 9 There are no financial considerations.

Legal Considerations

- 10 There are no legal considerations.

Policy Implications

- 11 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 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

- 12 There are no tāngata whenua considerations.

SIGNIFICANCE AND ENGAGEMENT

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

Publicity Considerations

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

RECOMMENDATIONS

- 15 That the Audit and Risk Subcommittee receive and 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-14-1420.

Report prepared by:

Approved for submission by:

**Mark de Haast
Acting Group Manager
Corporate Services**

**Stephen McArthur
Group Manager
Strategy & Partnerships**

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

Appendix 1

No.	Control finding	Risk	Ernst & Young Audit Recommendation	Council's Response	Action Plan	Responsibility	Progress to date
1	Review of asset revaluation reports	Moderate	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 sup	<p>A meeting was held with Porirua City Council on 4 December 2014. Their rolling asset revaluation programme was discussed and is as follows:</p> <ol style="list-style-type: none"> 1. Roothing (including land under roads) every two years. Next revaluation is due in 2014/15. 2. Three waters every two years. Next revaluation is due in 2015/16 3. Land and Buildings every three years Next revaluation is due in 2016/17. <p>Their valuers include CR Ellis, MWH and Opus. A Shared Service procurement strategy was favoured and further discussions will resume in January 2015.</p>

No.	Control finding	Risk	Ernst & Young Audit Recommendation	Council's Response	Action Plan	Responsibility	Progress to date
2	Capital Works in Progress	Moderate	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).	<p>Establish a Capital Works Oversight Group to meet monthly to review all capital projects.</p> <p>The Oversight Group will be responsible for monitoring project progress, developing robust forecasts, ensuring assets are capitalised when completed and implement a stringent CAPEX carry over process.</p> <p>The Oversight Group will be chaired by the Financial Controller.</p> <p>A monthly report will be provided to SLT and a quarterly report will be provided to the Corporate Business Committee.</p>	Financial Controller with Capital Project Managers' and SLT support	A draft Terms of Reference for a Capital Oversight Group will be developed and proposed to the SLT in January 2015 for approval and implementation.

No.	Control finding	Risk	Ernst & Young Audit Recommendation	Council's Response	Action Plan	Responsibility	Progress to date
3	Non-financial performance reporting – review of underlying data	Moderate	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.	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.	<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 	Group Manager Strategy and Partnerships and Manager Corporate Planning and Reporting	<p>A draft project plan has been developed for review by the Corporate Planning Manager.</p> <p>A review of the KPIs and the current performance management environment in Council is underway</p>

No.	Control finding	Risk	Ernst & Young Audit Recommendation	Council's Response	Action Plan	Responsibility	Progress to date
4	Non-financial performance reporting – clerical accuracy of reported information	Low	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.	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>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 	Group Manager Strategy and Partnerships and Manager Corporate Planning and Reporting	<p>A draft project plan has been developed for review by the Corporate Planning Manager.</p> <p>Key project deliverables to enhance the current performance management framework have been planned out, scheduled and resourced.</p>

No.	Control finding	Risk	Ernst & Young Audit Recommendation	Council's Response	Action Plan	Responsibility	Progress to date
					<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 		

No.	Control finding	Risk	Ernst & Young Audit Recommendation	Council's Response	Action Plan	Responsibility	Progress to date
					<ul style="list-style-type: none"> ▪ Workshops by activity areas to agree KPI dashboards ▪ Developing a performance management framework guidance document and corporate performance improvement plan <p>Creating a central repository for KPIs.</p>		
5	Authorisation of payroll voucher	Low	We recommend that management emphasises the importance of following the Council's processes and controls.	Council agrees with the recommendation and will review its internal controls around authorisation of payroll vouchers.	Ensure payroll vouchers are appropriately authorised each month.	Financial Controller with payroll officer support	<p>A detailed review of Council's internal controls around authorisation of payroll vouchers is scheduled for January 2015.</p> <p>In the interim, all payroll vouchers from 1 July 2014 to current date have been reviewed by the Financial Controller to ensure that payment has been authorised by two signatories.</p>

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6	Payroll Variance Analysis	Low	Management emphasises the importance of following the Council's processes and controls with the individuals responsible.	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.	Payroll Variance Analysis Report will be generated from Chris 21 each month and explanations provided.	Organisational Development and Financial Controller	A detailed review of Council's internal controls around Payroll Variance Analysis is scheduled in January 2015.
7	Agreement of the fixed asset register to control accounts	Low	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.	Council agrees with the recommendation and notes that the need to improve the end to end management of fixed asset accounting and reporting.	Fixed Asset Reconciliation is performed monthly.	Financial Controller with SLT support	The Fixed Asset Reconciliation was reviewed and authorised by the Financial Controller for the four month period ended 31 October 2014. These reconciliations will be completed monthly and authorised by the Financial Controller.
8	Capital Expenditure Policy	Low	We recommend that the KCDC capitalisation guidelines are followed when making the decision whether to capitalise expenditure.	Council agrees with the recommendation. As above, Council notes the need to improve the end to end management of fixed asset accounting and reporting.		Financial Controller with SLT support	

No.	Control finding	Risk	Ernst & Young Audit Recommendation	Council's Response	Action Plan	Responsibility	Progress to date
9	Timely review of policies	Low	Policies should be reviewed periodically to ensure that they correctly reflect Council's expectations.	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.	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.	SLT	A complete register is to be completed by 28 February 2015.

No.	Control finding	Risk	Ernst & Young Audit Recommendation	Council's Response	Action Plan	Responsibility	Progress to date
10	Building Consents	Low	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.	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.	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.	Group Manager Regulatory Services and Financial Controller	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 scheduled for December 2014.

No.	Control finding	Risk	Ernst & Young Audit Recommendation	Council's Response	Action Plan	Responsibility	Progress to date
11	Elected Member interests	Low	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	<p>The Declaration of Interest request for the six month period ended 31 December 2014 has been completed.</p> <p>A Policy will be developed prior to the next Declaration of Interest request which will take place in May 2015.</p>

