

**Chairperson and Subcommittee Members**  
AUDIT AND RISK SUBCOMMITTEE

15 NOVEMBER 2012

Meeting Status: **Public**

Purpose of Report: For Decision

**AUDIT MANAGEMENT REPORT FOR THE YEAR ENDED  
30 JUNE 2012**

**PURPOSE OF REPORT**

- 1 For the Audit and Risk Subcommittee to receive the Audit Management Report for the year ended 30 June 2012 and note the recommendations made by Ernst and Young and subsequent actions to be taken by management.

**SIGNIFICANCE OF DECISION**

- 2 The Council's Significance Policy is not triggered.

**BACKGROUND**

- 3 Council received an unqualified Audit Report for the Annual Report for the year ended 30 June 2012. The process of determining that result involved Council's auditor's Ernst and Young completing an audit of Council financial statements, non-financial performance information and other information required by schedule 10 of the Local Government Act 2002 for the year ended 30 June 2012.
- 4 In addition to the unqualified Audit Report Ernst and Young have also provided the Chief Executive with an Audit Management Report (attached as Appendix 1). This Audit Management Report identifies any audit issues and audit recommendations that Ernst and Young consider appropriate for review by management.

**CONSIDERATIONS**

Audit Issues – Low Risk Rating

- 5 Ernst and Young identified only seven issues during their audit. Those issues are: Capital Works in Progress, Quote Process; Desk Bank Approval; Bond Refunds; Trial Balance Structure; Tracking of Statement of Service Performance Measures and IT-General Controls.
- 6 It is pleasing to note that all seven of these issues are classified as "*Low – Needs Some Improvement*", and as such sit in the lowest category of the Ernst and Young risk ranking system. This "*Low*" category is used for issues where corrective action is required, generally within 6 to 12 months and the risk is

defined as “*A weakness which does not seriously detract from the system of internal control and/or operational effectiveness/efficiency but which should nevertheless be addressed by management*”.

#### Responses to Audit Issues

- 7 Council management has considered each of the issues raised, responded to them and recorded that response as appropriate in the Audit Management Report. At the time of writing two of the seven necessary actions to resolve an issue have been completed and the proposed action to be taken is detailed for the remaining five issues. The five remaining actions required have been listed in the attached table and included in the work programmes with target completion dates. These will be monitored and reported to the Chief Executive and the Senior Leadership Team and also to the Audit & Risk Subcommittee on a quarterly basis until all work is completed.

8 Observations – Low Risk Category Issues:

Audit Observation (1) Capital Works in Progress	Management Response	Action Plan	Targeted Completion Date
<p>Our review of the Capital Works in Progress (CWIP) balance at 30 June 2012 identified some assets which should have been capitalised during the year. This resulted in an audit adjustment for both the transfer of assets and an additional depreciation charge. Failure to ensure items are capitalised in a timely manner results in depreciation expense not being recognised appropriately. As depreciation is funded by rates there is a risk that Council could not only understate depreciation expenditure but also have funding shortfalls. We recommend management regularly review CWIP to ensure items are capitalised on a timely basis.</p>	<p>Management will review the Capital Works in Progress (CWIP) on a monthly basis to ensure that all items are capitalised in a timely basis.</p>	<p>Work in process summaries reported to Asset Managers and Group Managers on a monthly basis to ensure asset information provided and updated on a timely basis.</p>	<p>December 2012  Ongoing monitoring</p>

Audit Observation (2) Quote Process	Management Response	Action Plan	Targeted Completion Date
<p>Our review of debtors and provisions identified two debtors in dispute as a result of quotes for resource consent being significantly different than the actual charges. The difference between actual costs and the original quotes were due to a change in resource requirement of which both customers were aware. While there is no dispute over the change in the extent of work, the customers were not updated during the process as to the extent of the change in costs. Disputes result in Council incurring additional cost and time to reach a resolution. There is potential to reduce this if there is greater communication in relation to the cost impact resulting from a change in resource requirement. We recommend where there are requirement changes customers are notified formally of the updated costs prior to commencement of work.</p>	<p>Council will ensure that clients are kept fully informed as much as practicable of any changes to original quotes that could impact on the final cost. This should avoid any disputes when the final invoices are charged.</p>	<p>Processes to be set up to ensure clients kept informed as much as practicable on any changes to original quotations.</p> <p>Also ensure charging of all costs undertaken on a monthly basis.</p>	<p>Processes will be incorporated as part of improvements to Regulatory functions by February 2013.</p>

Audit Observation (3) Desk Bank Approval	Management Response	Action Plan	Targeted Completion Date
<p>Our testing of expenditure authorisation identified two incidences where the Desk Bank summary was not signed by the approver. We note the Desk Bank system requires two authorisers using unique codes before payment can be processed. We therefore consider signing the Desk Bank summary payments an unnecessary stage in the process and recommend Council consider discontinuing with this activity.</p>	<p>Council agrees with Ernst &amp; Young’s comments that the Desk Bank summary payment schedule does not need to be signed because the Desk Bank system requires two authorisers with unique identification codes to authorise payments before they can be processed.</p>	<p>Activity discontinued.</p>	<p>Completed</p>

Audit Observation (4) Bond Refunds	Management Response	Action Plan	Targeted Completion Date
<p>Council retain a bond when resource and building consents are requested. This is held as a liability until work is completed and the customer requests a refund. At 30 June 2012 bonds held for resource consents totalled \$343k and \$658k for building consents. We note some deposits date back to 2000. Given the age of some of these deposits we suggest Council review the likelihood of work being completed and consider whether some of these liabilities be released.</p>	<p>The Council acknowledges that there are some Bonds that have been held for a number of years and investigation work will be carried out to ensure that these Bonds are released where work has been completed. The Bonds held will be reviewed on a regular basis.</p> <p>It needs to be acknowledged that some of this work has been put on-hold at the request of the Developers due to the economic downturn and some of these need to be further followed up to see whether they intend to continue with the development.</p>	<p>All Bonds reviewed and released when work completed included as part of Regulatory/Compliance Finance Work programme.</p> <p>The outstanding Bonds will be split between those less than 12 months old and those over 12 months.</p> <p>A full review of those Bonds over 12 months old will be incorporated in the work programmes of Finance, Regulatory and Infrastructure to review and release these Bonds within an agreed timeframe.</p> <p>For Bonds less than 12 months Finance will send out monthly outstanding bond lists to Regulatory/Compliance, Infrastructure for follow up on work completed.</p> <p>Will also include Contract Retentions in Review.</p>	<p>Outstanding Bonds monitored and reported on a quarterly basis by December 2012.</p> <p>Review completed by 30 June 2013.</p>

Audit Observation (5) Trial Balance Structure	Management Response	Action Plan	Targeted Completion Date
<p>Council’s financial statements are prepared using an Excel based model that draws from the NCS trial balance. This spreadsheet is stored on a shared drive. The mapping of the trial balance to the Financial Statements is driven by formulae within this spreadsheet. Excel can be easily manipulated and errors in the mapping may go unidentified. There is sufficient opportunity for multiple personnel to change the spreadsheet given it is on a shared drive and not protected by a password. If this spreadsheet was changed or lost it could distort the reporting in the financial statements.</p> <p>Our audit procedures have identified which accounts in the NCS trial balance map to each line item within the financial statements and we are satisfied the balances reported are materially correct. However we recommend Council consider simplifying the process used to prepare the financial statements, this could include consideration of the ongoing need to include source of funding in each eight digit account code.</p>	<p>A full review will be undertaken of the current excel based model with a view to simplifying it and making it more user friendly and less complex.</p> <p>The source of funding still needs to be considered because Council is required to report on its funding impact statement under the new financial reporting requirements.</p>	<p>A key project has been set up in the Finance Group to carry out a full review of the Annual report spreadsheet model and simplify the model and ensure always password protected.</p>	<p>Project completed by May 2013.</p>

Audit Observation (6) Tracking of Statement of Service Performance (SSP) Measures	Management Response	Action Plan	Targeted Completion Date
<p>During our audit of the SSP we identified the following measure where the underlying data was insufficient to provide support for the asserted performance in the SSP;</p> <p>Maintenance requests are measured as follows:</p> <ul style="list-style-type: none"> <li>a. non urgent requests responded to within 24 hours</li> <li>b. urgent request responded to within 8 hours.</li> </ul> <p>Within the system there is the ability to identify a request as urgent and non urgent. However this distinction is not currently being made and therefore cannot be reported. We recommend a process is put in place to ensure this check is made in the system.</p>	<p>Process has been changed so that requests are now being identified using a check box to identify whether requests are urgent or non urgent.</p>	<p>Process has been changed.</p>	<p>Completed.</p>

Audit Observation (7) IT General Controls	Management Response	Action Plan	Targeted Completion Date
<p>Based on our discussions with Council we note there is no formal process to manage user access and no formal access reviews are performed.</p> <p>We recommend formal policies and procedures are established to ensure users are added with appropriate authority and access levels are reviewed to ensure access is consistent with authority and job description.</p>	<p>The current process for establishing a new user and defining their access right requires their Manager to fill out a New User form stating what they require access to. The completed form is then sent to the IT Help Desk. Only the Technical Infrastructure team has authority to change user permissions.</p> <p>We will formalise this current process into policy and also formalise a procedure for regular reviews of user access permissions.</p>	<p>Document formal policies and procedures over management and monitoring IT user access</p>	<p>Policies and procedures in place by December 2012.</p>

## Financial Considerations

- 9 All of the required actions to achieve the improvements identified in the Ernst and Young audit recommendations can be implemented within existing budgets.

## Legal Considerations

- 10 Completing the improvements identified in the Ernst and Young Audit Management Report for the year ended 30 June 2012 will ensure that the Council discharges its responsibilities under section 14 (i)(g) Local Government Act (2002) "Principles Relating to Local Authorities – Council's should ensure prudent and the efficient use of its resources in the interests of its district".

## Delegation

- 11 The Audit and Risk Subcommittee may make a decision 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:*

*External Audit*

- 6.12 Receive the external audit reports and review action to be taken by management on significant issues and audit recommendations raised within.*

## RECOMMENDATIONS

- 12 That the Audit and Risk Subcommittee receive the Ernst and Young Audit Management Report for the year ended 30 June 2012 and note the management responses.

**Report prepared by:**

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## APPENDICES

Appendix 1 to Report Fin-12-723 Ernst and Young Management Report for the year ended 30 June 2012