

Chairperson and Committee Members
AUDIT AND RISK COMMITTEE

30 MAY 2019

Meeting Status: **Public**

Purpose of Report: For Information

UPDATE ON KEY 2017-18 AUDIT FINDINGS

PURPOSE OF REPORT

- 1 This report provides the Audit and Risk Committee with a progress update regards Ernst & Young's Report on Control Findings for the year ended 30 June 2018.

DELEGATION

- 2 The Audit and Risk Committee has delegated authority to consider this report under the following delegation in the Governance Structure, Section B.3.
 - *Reviewing and maintaining the internal control framework.*
 - *Obtaining from external auditors any information relevant to the Council's financial statements and assessing whether appropriate action has been taken by management in response to the above.*

BACKGROUND

- 3 In accordance with New Zealand Auditing Standards, Ernst & Young (Audit) performed a review of the design and operating effectiveness of the Council's significant financial reporting processes as part of their audit for the year ended 30 June 2018.
- 4 Control risk matters and/or issues are classified as high, moderate or low. Control risk definitions are as follows:
 - **High Risk** – matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within three months.
 - **Moderate Risk** – matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should normally be taken within six months.
 - **Low Risk** – A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6 -12 months.
- 5 Audit identified six new control risk issues for the year ended 30 June 2018, all with low risk rankings. Appendix 1 details the year to date progress against these control findings.
- 6 Audit will consider whether these control findings can be closed, on completion of their audit for the year ended 30 June 2019.

CONSIDERATIONS

Policy Implications

7 There are no policy implications.

Legal Considerations

8 There are no legal considerations.

Financial Considerations

9 Financial issues have been covered as part of this report.

Tāngata Whenua Considerations

10 There are no tāngata whenua considerations.

Publicity Considerations

11 There are no publicity considerations.

SIGNIFICANCE AND ENGAGEMENT

Degree of significance

12 This matter has a low level of significance under the Council Policy.

RECOMMENDATIONS

13 That the Audit and Risk Committee notes the progress update in regards to Ernst & Young's Report on Control Findings for the year ended 30 June 2018 and that Ernst & Young will reassess these as part of their control findings for the year ended 30 June 2019.

Report prepared by:

**Approved for
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Appendix 1: Summary of control findings for the year ended 30 June 2018

Summary of Control Findings for the year ended 30 June 2018

No.	Control finding and risk ranking	Target date for completion and current status	Ernst & Young Audit Observation	Ernst & Young Audit Recommendation	Action Plan	Progress Update
1	Timely update of the Asset Management System (Low)	30/06/2019 & on-going thereafter	Council's Water Asset Management System (Infonet) and MagiQ Fixed Assets Register (FAR) do not inter-face with each other, and whilst reconciliations are performed between the two systems, it was noted that two assets were not entered into Infonet in time for inclusion into the data provided to the valuer for the year-end asset valuation. Whilst the value of the assets was not material, it is important that the asset management systems are updated regularly and any differences between the systems is identified prior to a valuation being performed.	A regular reconciliation should be conducted to ensure that the assets recorded in the FAR and General ledger are consistent with those held within the InfoNet system. This helps to ensure data provided to the valuer is a full and complete record of the assets at balance date.	Such reconciliations will be completed for the 30/06/2019 revaluations of the Roading (excluding land under roads) assets. Responsibility: Chief Financial Officer	A draft valuation of the roading assets up to 31 March 2019 were provided to Council staff in April 2019 for budgeting purposes. A due diligence review of the revaluation will be undertaken and any anomalies (if any) will be directly discussed with the valuers. A reconciliation between the Asset Management System and MagiQ Fixed Assets Register will be completed in May 2019 and a final reconciliation when the revaluation is finalised in early August 2019.

No.	Control finding and risk ranking	Target date for completion and current status	Ernst & Young Audit Observation	Ernst & Young Audit Recommendation	Action Plan	Progress Update
2	Long outstanding building and resource consent bonds (Low)	30 June 2019 & ongoing	Audit noted that some deposits date back to 1997 and given the age Council should review the likelihood of the work being completed and considered whether some of these liabilities can be released.	Audit recommend that Council investigate the owners of these bonds and return them where appropriate.	Management will continue to regularly monitor these bonds and return them when appropriate. In addition, we will perform an analysis of all bonds outstanding for more than six years and fully consider the appropriate requirements and GST implications of releasing them to revenue. Responsibility: Chief Financial Officer	Finance has been closely monitoring the long outstanding bonds and working with the building, resource consent and roading team on understanding and improving the current process across different teams. Furthermore, the review of the outstanding balance has found that 28% of the bonds are older than six years, and the focus is working with the business on investigating, making contact and returning/releasing these bonds before 30 June 2019.

No.	Control finding and risk ranking	Target date for completion and current status	Ernst & Young Audit Observation	Ernst & Young Audit Recommendation	Action Plan	Progress Update
3	Service performance reporting – review of underlying data and calculations (Low)	30 June 2019 & ongoing	<p>Council relies on the data captured in the management information system (MagiQ) to report on a number performance measures. In some instances, the data extracted from the system is put through a further manual process to determine the nature of the request and complaint so these can be included in the calculation of the relevant measure.</p> <p>Audit noted that instances where information was either entered incorrectly into the system or the data extracted from the system, which had been subjected to a further manual categorisation, was not complete therefore affecting the reported results.</p> <p>These errors did not lead to a change in the outcome of these measures against the set targets, however, the weakness in the processes could lead to inaccurate reporting of performance going forward.</p>	<p>Audit recommend that a review is carried out wherein a sample of measures are tested to underlying documentation to assess if data has been captured correctly.</p> <p>The manual process outside the system to determine the nature of the request and complains should also be reviewed.</p> <p>The review process and any follow-up carried out should be documented.</p>	<p>A quarterly internal audit of these performance measure reporting results will be introduced. Additionally, as a result of the issues identified, we have arranged audit wrap-up meetings with key staff in the Operations depot and Water, Wastewater and Storm water teams to identify solutions to the issues raised. Any procedural or reporting changes that result will be documented and included in the 'Audit trail' document for the relevant performance measure for next year's audit. We will also hold audit wrap-up meetings with other staff as we work through the list of issues identified.</p> <p>Responsibility: Manager, Corporate Planning and Reporting</p>	<p>Audit wrap-up meetings were held as planned with key staff to identify improvements to the configuration and use of MagiQ. The key data integrity and reporting issues identified during the audit were written up in October 2018 alongside recommended changes to MagiQ to avoid these issues recurring in future. A list of recommended changes currently sits on the ICT team's priority list for action.</p> <p>Workload constraints have meant we've been unable to institute an internal audit process every quarter. However, we will undertake a preliminary audit to sample measures recorded up to the end of May to identify any issues and remedy them prior to the end of June.</p>

No.	Control finding and risk ranking	Target date for completion and current status	Ernst & Young Audit Observation	Ernst & Young Audit Recommendation	Action Plan	Progress Update
4	User access management - MagiQ & Chris21 (Low)	30 June 2019 & ongoing	<p>Audit noted the following during their assessments:</p> <ul style="list-style-type: none"> ▶ A periodic and documented review of users access is not performed for the Chris21 application. ▶ The query used to pull the MagiQ user access listing is not pulling a complete list. As a result, the user access review being performed is not including the full population of users. ▶ We noted an instance where a user's access to the in-scope application (MagiQ) was set up prior to approval being granted by the module owner. ▶ We noted an instance where a user retained access to the MagiQ application post their termination date. 	<p>To mitigate the risks identified above, KCDC could consider:</p> <ul style="list-style-type: none"> ▶ Implementing and performing a periodic review of users' access in the Chris21 application. The reviews should be documented, approved and stored in a central location. KCDC should also consider the generation of the report and processes to validate that all users are included in the review. ▶ Implementing a process or enforcing the current process whereby appropriate approval is needed before access is provisioned. ▶ Evaluate the existing terminated user process to understand the delay drivers in removing access and establish a process to measure and report delays. If issues are determined to be driven by distributed nature of the current process (i.e. line managers owning the activity), we suggest 	<p>Management notes the following in relation to the above observations:</p> <ul style="list-style-type: none"> ▶ Organisational Development will now complete a quarterly review of user access to Chris21 with documented evidence of the review kept. ▶ A cross check process has been implemented to ensure that the MagiQ user access report is complete in future reviews. ▶ MagiQ ICT administration staff have been reminded that no new users are to be set up before obtaining necessary approvals from the appropriate manager as per our existing process. ▶ This was a one off incident where the employee termination process was not invoked. This has been discussed between ICT and Organisation Development to ensure there is not a reoccurrence. 	<p>The issues identified have been addressed and the action plan continues to be monitored.</p>

				<p>KCDC considers centralising the process and linking it to other key exit processes such as final payroll.</p> <p>If any of the above recommendations are assessed to be impractical or not feasible, management could formally accept the risk by documenting the risk and acceptance in a risk register with appropriate management sign off. This would allow management to more methodically monitor this risk and review it periodically</p>	<p>Responsibility: Chief Information Officer</p>	
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5	Password / authentication management - Active Directory and Chris21	30 June 2019 & ongoing	<p>As part of our assessment of user access management processes we noted instances where the password settings did not meet global audit standards and/or adhere to the KCDC password policy for the in-scope applications.</p> <p>Password setting vulnerabilities increase the risk that a user could gain unauthorised access to the application by guessing or brute force attacking a password without KCDC knowledge resulting in an impact to the financial statements</p>	<p>To mitigate the risk identified above, KCDC could consider modifying the password settings to meet global audit standard requirements.</p> <p>If the above recommendation is assessed to be impractical or not feasible, management could formally accept the risk by documenting the risk and acceptance in a risk register with appropriate management sign off. This would allow management to more methodically monitor this risk and review it periodically.</p>	<p>Management notes the observation in regards to Chris21 password settings, however, to access Chris21 you must first logon to Council's network through active directory making the Chris21 password settings a secondary layer of security only. Management considers this observation to be of a low risk and therefore acceptable.</p> <p>Responsibility: Chief Information Officer</p>	<p>Management considers this observation to be of a low risk and therefore acceptable.</p>

No.	Control finding and risk ranking	Target date for completion and current status	Ernst & Young Audit Observation	Ernst & Young Audit Recommendation	Action Plan	Progress Update
6	Change management - Chris21	30 June 2019 & ongoing	<p>As part of our assessment of the change management processes we noted test plans / documents are not retained to confirm that testing performed has been successful before the change is migrated to production.</p> <p>Lack of documented testing evidence and results mean KCDC may be unable to rapidly track changes and any adverse effects these changes may have, reducing their ability to effectively respond to and remediate errors introduced as a result of the change process.</p>	<p>To mitigate the risk identified above, KCDC could consider retaining and storing testing artefacts, including test plans and results, within a central repository where it can be easily accessed for post implementation issues.</p> <p>If the above recommendation is assessed to be impractical or not feasible, management could formally accept the risk by documenting the risk and acceptance in a risk register with appropriate management sign off. This would allow management to more methodically monitor this risk and review it periodically.</p>	<p>Management agrees and has instructed ICT staff to ensure that all testing evidence and sign offs are retained within future change control tickets.</p> <p>Responsibility: Chief Information Officer</p>	<p>The issue identified has been addressed and the action plan continues to be monitored.</p>