

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

18 AUGUST 2016

Meeting Status: **Public**

Purpose of Report: For Information

**REGULAR PROGRESS UPDATE ON 2014-15 KEY AUDIT FINDINGS**

**PURPOSE OF REPORT**

- 1 This report provides the Subcommittee with a progress update against Ernst & Young's Report on Control Findings for the year ended 30 June 2015.
- 2 This report also provides the Subcommittee with a progress update against Ernst & Young's previous recommendations arising from their review of the Council's Information Technology General Control (ITGC) environment.

**DELEGATION**

- 3 The Audit and Risk Subcommittee has delegated authority to consider this report under the following delegation in the Governance Structure, Section C.3.7. *Without limiting the generality of this delegation the Subcommittee has the following functions, duties and powers:*

*Internal Control Framework*

- 7.1 *Review whether management's approach to maintaining an effective internal control framework is sound and effective.*

*External Audit*

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

**BACKGROUND**

- 4 On 7 January 2015, Ernst & Young (Audit) reviewed the Council's ITGC environment and reported a number of control findings for consideration by management.
- 5 Audit issued their Report on Control Findings for the year ended 30 June 2015. Council accepted these findings and developed action plans and work programmes to respond to all of the matters raised.

**ISSUES AND OPTIONS**

**OVERALL PROGRESS**

- 6 A total of twelve issues were identified for corrective action. Ten corrective action plans are now complete. The remaining two issues are expected to be completed in 2016/17.

## **KEY FINDINGS FROM THE 2015 AUDIT**

- 7 None of the seven issues identified were considered to be high risk. However, three of the issues were rated as moderate, requiring substantial improvement, ideally within six months. Corrective actions for two issues raised were completed within the recommended timeframe. Due to resource constraints, corrective action to capture and record data for Council's Key Performance Indicators has been partly completed and further work will continue across 2016/17.
- 8 The remaining four issues were classed as low risk, requiring corrective action to be implemented within six to twelve months. Corrective action for all four issues has been completed within the recommended timeframe
- 9 A consolidated report comprising Audit's recommendations, Council's action plans for addressing each finding and progress to date, is attached as Appendix 1.

## **KEY FINDINGS FROM REVIEW OF THE ITGC ENVIRONMENT**

- 10 Audit identified five issues during its review of the ITGC environment.
- 11 Three issues were rated as high risk, requiring immediate corrective action. These corrective actions have been completed.
- 12 The fourth issue was rated a moderate risk, requiring substantial improvement, ideally within six months. The issue was originally intended to be completed as part of the ICT strategy development however it has now been agreed that it requires a specific work programme to identify system requirements, costs and implementation plans. The full work programme is targeted to be completed by early 2017.
- 13 The fifth and final issue was rated a low risk, requiring corrective action to be implemented within six to twelve months. The corrective action for this issue has been completed.
- 14 A consolidated report comprising Audit's recommendations, Council's action plans for addressing each finding and progress to date is attached as Appendix 2.

## **Financial Considerations**

- 15 Financial considerations have been covered as part of this report.

## **Legal Considerations**

- 16 There are no legal considerations associated with this report.

## **Consultation**

- 17 There are no consultation issues associated with this report.

## **Policy Implications**

- 18 Policy considerations have been covered as part of this report.

## Tāngata Whenua Considerations

19 There are no tāngata whenua considerations.

## Publicity Considerations

20 There are no publicity considerations.

## **SIGNIFICANCE AND ENGAGEMENT**

### Degree of significance

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

## **RECOMMENDATIONS**

22 That the Audit and Risk Subcommittee notes the progress made against the action plans developed to remedy the control findings arising from the 2015 audit, as set out in Appendix 1 of report Corp-16-1966.

23 That the Audit & Risk Subcommittee notes the progress made to address the Information Technology General Control issues raised by Audit, as set out in Appendix 2 of report Corp-16-1966.

**Report prepared by**

**Approved for submission**

**Approved for submission**

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## **ATTACHMENTS**

Appendix 1: Summary of Control Findings for the year ended 30 June 2015

Appendix 2: Summary of ITGC Environment Findings for the year ended 30 June 2015

## Summary of Control Findings for the year ended 30 June 2015

| No. | Control finding and risk ranking                                    | Target date for completion and current status | Ernst & Young Audit Recommendation  | Council's Response   | Action Plan  | Progress to date   |
|-----|---|---|---|--|--|--|
| 1   | <b>Timely Capitalisation of Capital Work in Progress (Moderate)</b> | March 2016<br><b>(Complete)</b>               | The risks we identified in our prior year review continue to be apparent, albeit at a much lower level. We recommend that management perform an overall review on a periodic basis of each WIP 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 WIP in nature. | An external resource was engaged to focus solely on fixed asset recognition and accounting in early January. This dedicated focus also contributed to asset capitalisations in May and June 2015. Management will however continue to implement adequate resource, processes and controls to identify assets that are no longer WIP in nature. | Each quarter, Asset Managers and Group Managers will be required to: <ol style="list-style-type: none"> <li>1. Approve all WIP assets</li> <li>2. Provide forecast asset completion schedules</li> </ol> | Capitalisation of work in progress will continue to be reviewed quarterly. |

| No. | Control finding and risk ranking  | Target date for completion and current status | Ernst & Young Audit Recommendation   | Council's Response  | Action Plan  | Progress to date   |
|-----|---|---|--|---|--|--|
| 2   | <b>Non-financial performance reporting – review of underlying data (Moderate)</b> | March 2016<br><b>(On-going)</b>               | We recommend KCDC to continue to streamline the systems, processes and quality control over KPI reporting necessary to ensure actual performance is captured, recorded and reported appropriately. | Council will continue reviewing all KPI's and improving how KPI data is collected and stored. MagiQ (the Council's financial and business management system) now provides functionality to capture KPI data. This will be further investigated against the above observations.  | <ol style="list-style-type: none"> <li>1. Review KPIs</li> <li>2. Investigate and test MagiQ functionality to capture KPI data.</li> </ol> | A significant amount of data for KPI reporting is currently captured in MagiQ. Work to progressively move remaining data collection to predominately one where the data is electronically collected and reports are automatically generated for reporting purposes will be led by the Business Improvement Team. |
| 3   | <b>Subsequent Costs and de-recognition of Replaced Asset (Moderate)</b>           | Sept 2016<br><b>(Complete)</b>                | We recommend the asset costs and accumulated depreciations be de-recognised when assets are replaced.  | Historically, this formed part of the three yearly asset revaluations. From 1 July 2015, Council will undertake yearly asset revaluations on a rolling basis. Management will however continue to implement adequate resource, processes and controls to identify assets that have been replaced and should be de-recognised. | Each quarter, Asset Managers and Group Managers will be required to approve all assets to be derecognised due to replacement.              | De-recognition of assets that have been replaced will continue to be reviewed quarterly.   |

| No. | Control finding and risk ranking                               | Target date for completion and current status | Ernst & Young Audit Recommendation   | Council's Response   | Action Plan   | Progress to date  |
|-----|--|---|--|--|---|---|
| 4   | <b>Fully Depreciated Property, Plant &amp; Equipment (Low)</b> | Sept 2016<br><b>(Complete)</b>                | We recommend that management undertake a review of fully depreciated assets and where no future economic benefits or service potential is expected the asset be derecognised and removed from the fixed assets register. | Management will continue to implement adequate resource, processes and controls to derecognise assets that have been fully depreciated and will only remove such assets from the fixed asset register where no future economic benefits and/or or no service potential is expected from such assets. | Each quarter, Asset Managers and Group Managers will be required to approve assets to be derecognised due to them not providing any future economic benefit and / or service potential. | Fully depreciated asset reviews will continue to be reviewed quarterly. |

| No. | Control finding and risk ranking                   | Target date for completion and current status | Ernst & Young Audit Recommendation   | Council's Response   | Action Plan   | Progress to date   |
|-----|--|---|--|--|---|--|
| 5   | <b>Timely review of expenditure policies (Low)</b> | Sept 2016<br><b>(On-going)</b>                | Policies should be reviewed periodically to ensure that they correctly reflect Council's expectations. | <p>Council's corporate policy review period has changed to five yearly or earlier, if required</p> <p>The policies identified by Audit have been rationalised into a draft Procurement and a draft Sensitive Expenditure Policy.</p> | <p>The draft Procurement Policy and the draft Sensitive Expenditure Policy are being processed for final approval by the Chief Executive before 30 November 2015.</p> <p>A corporate policy register (approximately 50 policies) has been created and a prioritised review cycle is underway.</p> | <p>The Procurement Policy and General Expenditure Policy (formerly known as the Sensitive Expenditure Policy) have been updated and approved by the Chief Executive.</p> <p>A debt collection process and policy is currently being developed.</p> |

| No. | Control finding and risk ranking            | Target date for completion and current status | Ernst & Young Audit Recommendation   | Council's Response                                       | Action Plan   | Progress to date  |
|-----|---|---|--|--|---|---|
| 6   | <b>Building and resource consents (Low)</b> | Sept 2016<br><b>(Complete)</b>                | We reiterate our recommendation that Council continue to investigate the owners of these bonds and return them where appropriate or elect to be the holder and return the money to the Inland Revenue Department if unclaimed. | Council has commenced regular monitoring of these bonds. | Council will continue to regularly monitor these bonds and return them when appropriate.<br><br>Management will fully investigate the requirements and/or impacts on Council electing to be the holder and returning the money to the Inland Revenue Department if appropriate. | Council will continue to monitor all bonds held on a monthly basis.<br><br>In August 2014, Council held 1,406 road damage deposit bonds totalling \$669,000.<br><br>As at 30 June 2016, Council has returned 1,272 of these bonds totalling \$498,000 to the original owners.<br><br>At present, 134 long dated bonds totalling \$172,000 are still held by Council. Work is continuing to return these to the original owners. |

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|-----|---|---|--|--|--|---|
| 7   | <b>Capital Expenditure Policy (Low)</b> | Sept 2016<br><b>(Complete)</b>                | We recommend that KCDC capitalisation guidelines are followed when making the decision on whether to capitalise expenditure while at the same time reviewing the nature of items before being recorded as capital expenditure. | Management will continue to implement adequate resource, processes and controls to ensure that assets capitalisation guidelines are followed including reviewing the nature of items before being recorded as capital expenditure. | Each quarter, Asset Managers and Group Managers will be required to approve all asset purchases. | Capital expenditure reviews will continue to be reviewed quarterly. |

## Summary of Information Technology General Control Environment Findings for the year ended 30 June 2015

| No. | Control finding and risk ranking | Target date for completion and current status | Ernst & Young Audit Recommendation   | Council's Response  | Action Plan   | Progress to date |
|-----|----------------------------------|---|--|---|---|------------------|
| 1   | <b>Change management (High)</b>  | <b>(Completed)</b>                            | <ul style="list-style-type: none"> <li>▪ Revisiting the Change Management control process documentation and updating it with current Council practices.</li> <li>▪ Enforcing the use of the Change Management Policy to ensure that all changes are appropriately authorised, tested, approved, monitored and evidence documented.</li> <li>▪ Optimising use of existing change management tools to ensure that all changes are adequately captured.</li> <li>▪ Using a version management tool to ensure that Council controls and monitors all changes in the production environment.</li> <li>▪ Reviewing of system generated list of changes within the existing Change Advisory Board process.</li> </ul> | Council agrees with the recommendation and notes the significance of the implications outlined. Council is actively working on the practical implementation of sound change management processes across the organisation with the objective of mitigating the risks identified. | <p>Implement standard process utilising a specific Change Management tool (ManageEngine Service Desk) and rollout to key users.</p> <p>Regular Change Control Meetings, to be reported back to the Group Manager, Corporate Services.</p> | Completed        |

| No. | Control finding and risk ranking                    | Target date for completion and current status | Ernst & Young Audit Recommendation   | Council's Response  | Action Plan   | Progress to date |
|-----|---|---|--|---|---|------------------|
| 2   | <p><b>User access management process (High)</b></p> | <p><b>(Completed)</b></p>                     | <ul style="list-style-type: none"> <li>▪ Document a user access management process which includes the access request, modification, removal, and review procedures.</li> <li>▪ Ensure appropriate notification is provided from HR for terminated employees to ensure that access to systems is removed.</li> <li>▪ Formalise a user access review process so that it is managed through a centralised location to ensure all reviews are completed.</li> <li>▪ Implement regular review of user accounts to ensure that access is only granted to users with a need to access a system.</li> <li>▪ Ensure that individuals that monitor and review these accounts are not administrators within these systems.</li> </ul> | <p>Council agrees with the recommendations. Council is currently engaged in a review of the user management processes in place with the objective of developing and implementing suitable processes to ensure optimal management of the IT infrastructure system.</p> | <p>User Register to be created and maintained with a process for the addition and removal of users based on employee and contractor recruitment and termination.</p> <p>User Review team (responsible for the audit and review of User access) to be created, with representatives from all key business units within the organisation.</p> | <p>Completed</p> |

| No. | Control finding and risk ranking    | Target date for completion and current status | Ernst & Young Audit Recommendation   | Council's Response   | Action Plan  | Progress to date |
|-----|-------------------------------------|---|--|--|--|------------------|
| 3   | <b>Segregation of duties (High)</b> | <b>(Completed)</b>                            | <ul style="list-style-type: none"> <li>▪ Ensure different individuals / system resources perform access requests, access approval, access provisioning, monitoring access violations for both IT privileged and Business end users.</li> <li>▪ Ensure different individuals perform privileged user access reviews, monitoring of privileged accounts and monitoring system generated list of changes in production environment.</li> <li>▪ Different individuals / system resources perform change requests, change approval, move programmes in and out of production and monitor changes and restrict developer access to the production environment.</li> <li>▪ Apply a version management tool to ensure that Council controls and monitors all changes in production environment.</li> </ul> | Council agrees with the recommendation. The process for identifying and authorising duties is currently being reviewed as part of the overall ITGC systems review and appropriate implementation will be actioned as a priority. | <p>Process for addition and removal of user duties to be identified and implemented.</p> <p>Audit and review of administration access to be undertaken with role segregation to be created via access specific logins (i.e. removal of generic admin users).</p> | Completed        |

| No. | Control finding and risk ranking                   | Target date for completion and current status | Ernst & Young Audit Recommendation  | Council's Response  | Action Plan   | Progress to date   |
|-----|--|---|---|---|---|--|
| 4   | <b>General system security settings (Moderate)</b> | March 2016<br><b>(On-going)</b>               | <p>The New Zealand Information Security Manual (NZISM), updated in November 2014 to be considered as a baseline for IT security practices.</p> <p>These policies should be reviewed and approved at least annually to make any necessary adjustments as a result of IT environment changes.</p> | Council agrees with the recommendations and plans are underway to engage an external consultant to conduct a wide ranging audit including a general IT architecture review. The recommendations arising from these audits will provide detailed information on both ICT Strategy and general IT security and will form the basis of the implementation for improvements as a priority item. | Process and policies based on the NZISM will be created and regularly reviewed. | <p>Changes in general security systems continue with the introduction of better user controls and administrative access.</p> <p>The full work programme is targeted to be completed by early 2017.</p> |

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|-----|----------------------------------|---|--|--|---|------------------|
| 5   | <b>Back-up operations (Low)</b>  | Sept 2016 (completed)                         | <ul style="list-style-type: none"> <li>▪ Review current backup operations and approving back-up retention periods as part of the backup policy that is being developed. Business and system owners, in consultation with IT, should authorise and define the retention periods to ensure that these are practical and appropriate.</li> <li>▪ Retain backup logs for all applications and recording corrective actions using the centralised incident management procedures.</li> <li>▪ Implementing activities designed to perform regular testing of DLT tapes stored offsite at EOC, ensuring that critical data can be restored as and when it is required.</li> <li>▪ Perform Disaster Recovery testing offsite.</li> </ul> | Council agrees with the observation. Current back up operations are in place, however these processes are being reviewed along with the wide ranging audit and general IT architecture review. | <p>Review existing back-up hardware and software to ensure adequacy and implement changes when required.</p> <p>Detailed back-up processes and procedures to be created and reviewed regularly.</p> | Completed.       |