

Chairperson and Subcommittee Members
AUDIT AND RISK SUBCOMMITTEE

6 AUGUST 2015

Meeting Status: **Public**

Purpose of Report: For Information

**REGULAR PROGRESS UPDATE ON CLOSING 2013/14 KEY
AUDIT FINDINGS**

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.3.7
Internal Reporting
7.4 *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 previously reported to the Subcommittee, a formal work programme was created to remedy the control findings, and the action points on the plan will be implemented in the year to 30 June 2015. This is the subject of a separate report.
- 6 At each meeting since 2 October 2014 when the Ernst & Young reports originally were tabled, the Subcommittee has received an update on the progress of the work programme implemented to address the control findings.
- 7 It is considered that the responses to each audit finding have been implemented to the point that the action point is now complete, or is ongoing as part of normal processes.

ISSUES AND OPTIONS

Issues

- 8 Ernst & Young identified 11 issues during its audit of the 2014 Annual Report that it considers appropriate for review by SLT.
- 9 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.
- 10 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 as Appendix 1 to this report.

CONSIDERATIONS

Policy considerations

- 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 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.

Legal considerations

- 12 There are no legal considerations.

Financial considerations

- 13 There are no financial considerations.

Tāngata whenua considerations

- 14 There are no tāngata whenua considerations.

SIGNIFICANCE AND ENGAGEMENT

Degree of significance

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

Consultation already undertaken

- 16 Due to the nature of the decision being made, no consultation process is required to be undertaken.

Engagement planning

- 17 An engagement plan is not needed to implement this decision.

Publicity

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

RECOMMENDATIONS

- 19 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-15-1647.

Report prepared by

Approved for submission

Approved for submission

**Mark de Haast
Financial Controller**

**Stephen McArthur
Group Manager Strategy &
Planning**

**Wayne Maxwell
Group Manager Corporate
Services**

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 (Closed)	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	On-going discussions are being held with Porirua City Council aimed at formalising a shared services agreement that meets the requirements of all parties involved. A proposed project plan will be presented to the Senior Leadership Team for the revaluation of the three waters for the year ended 30 June 2016 for approval. Finance and Infrastructure will work collaboratively with Council's valuers to ensure that a robust valuation process and sufficient due diligence is completed prior to 30 June 2016.

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 (Closed)	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	Ernst& Young's substantive audit of Council's eleven month period ended 31 May has continued to identify asset reporting issues in terms of completeness and aggregation accuracy. Notwithstanding this, significant attention has been focussed on Council's asset accounting, reporting and CWIP capitalisation. Given the size of Council's assets, this will continue to be an area of high focus by Finance to ensure that significant improvements in accounting, reporting and accuracy continues.

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	Non-financial performance reporting – review of underlying data (Moderate)	18 Mar 2015 (On-going)	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>Work was completed on the KPI review with respect to the tier 1 (LTP) KPI measures. These have been included in the 2015-35 Long Term Plan which was adopted by Council on 25 June 2015.</p> <p>The tier 2 measures have been reviewed and are being finalised as part of completing the Activity Management Plans. These plans will be provided to Council for endorsement in the coming months.</p> <p>Further work will be undertaken to further streamline data collection methods during the 2015/16 year as part of on-going work to enhance performance reporting across the Council.</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	Non-financial performance reporting – clerical accuracy of reported information (Low)	18 Sep 2015 (On-track)	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.	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: <ul style="list-style-type: none"> ▪ The KPI review ▪ Establishing performance logic mapping to Council's vision, priorities and outcomes 	Group Manager Strategy and Partnerships and Manager Corporate Planning and Reporting	Work was completed on the KPI review with respect to the tier 1 (LTP) KPI measures. These have been included in the 2015-35 Long Term Plan which was adopted by Council on 25 June 2015. The tier 2 measures have been reviewed and are being finalised as part of completing the Activity Management Plans. These plans will be provided to Council for endorsement in the coming months. Further work will be undertaken to further streamline data collection methods during the 2015/16 year as part of on-going work to enhance performance reporting across the Council.

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 <i>(continued)</i></p>				<ul style="list-style-type: none"> ▪ Ensuring the KPIs appropriate alignment with strategies, priorities, and community and council outcomes ▪ 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 		

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	Non-financial performance reporting – clerical accuracy of reported information <i>(continued)</i>				<ul style="list-style-type: none"> ▪ Developing activity and cluster dashboards or plans on the page ▪ Workshops by activity areas to agree KPI dashboards ▪ Developing a performance management framework guidance document and corporate performance improvement plan ▪ Creating a central repository for KPIs. 		

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
5	Authorisation of payroll voucher (Low)	18 Sep 2015 (On track)	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	A detailed review of Council's internal controls around authorisation of payroll vouchers is on-going.
6	Payroll Variance Analysis (Low)	18 Sep 2015 (On track)	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 is in on-going.

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
7	Agreement of the fixed asset register to control accounts (Low)	18 Sep 2015 (On track)	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 the need to improve the end to end management of fixed asset accounting and reporting.	A Fixed Asset Reconciliation is performed monthly, and then peer reviewed and authorised by managers.	Financial Controller with SLT support	Ernst& Young's substantive audit of Council's eleven month period ended 31 May has continued to identify asset reporting issues in terms of completeness and aggregation accuracy. Notwithstanding this, significant attention has been focussed on Council's asset accounting, reporting and CWIP capitalisation. Given the size of Council's assets, this will continue to be an area of high focus by Finance to ensure that significant improvements in accounting, reporting and accuracy continues.

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
8	Capital Expenditure Policy (Low)	18 Sep 2015 (On track)	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.	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.	Financial Controller with SLT support	A full review of financial transactions from 1 July 2014 to 31 December 2014 has been completed. A review is currently in progress to cover the period to 30 June 2015
9	Timely review of policies (Low)	18 Sep 2015 (On track)	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	The policies identified in the schedule of policies to be developed and/or reviewed are being worked on, with priority being given to the policies explicitly stated by Ernst & Young following the 2013/14 Audit. These are: <ul style="list-style-type: none"> • sensitive expenditure • travel expenditure • disposal of assets • electronic purchase orders • office supplies purchasing

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
10	Building Consents (Low)	18 Sep 2015 (On track)	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.	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 is being substantially reviewed. A detailed report will be provided to the Corporate Business Committee.

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
10	Building Consents <i>(continued)</i>			We will however elect to be the holder and return the money to the IRD if we are not able to locate the individuals.			
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	A draft policy on Elected Member Declarations of Interest (Register) and a draft Corporate Policy (including SLT Declarations of Interest) are scheduled to presented to the SLT on Monday 10 August 2015 for consideration.