

Audit and Risk Management Committee

AGENDA

Notice of Meeting:

An ordinary meeting of the Audit and Risk Management Committee will be held on:

Date: Wednesday 30 May 2018
Time: 9am
Venue: Council Chambers, Level 2, Civic Offices,
53 Hereford Street, Christchurch

Membership

Chair	Ms Sue Sheldon
Deputy Chair	Councillor Raf Manji
Members	Councillor Vicki Buck
	Councillor Phil Clearwater
	Councillor Pauline Cotter
	Mayor Lianne Dalziel
	Councillor David East
	Deputy Mayor Andrew Turner
	Mr Mark Russell
	Mr Michael Rondel

30 May 2018

Principal Advisor

Carol Bellette
General Manager Finance and
Commercial

Mark Saunders
Committee and Hearings Advisor
941 6436
mark.saunders@ccc.govt.nz
www.ccc.govt.nz

Note: The reports contained within this agenda are for consideration and should not be construed as Council policy unless and until adopted.
If you require further information relating to any reports, please contact the person named on the report.

To view copies of Agendas and Minutes, visit:

<https://www.ccc.govt.nz/the-council/meetings-agendas-and-minutes/>

AUDIT AND RISK MANAGEMENT COMMITTEE - TERMS OF REFERENCE

Chair	Sue Sheldon (Independent)
Deputy Chair	Councillor Manji as the Chair of the Finance and Performance Committee
Membership	Mayor Dalziel and Deputy Mayor Turner The Chair of the following committees: <ul style="list-style-type: none">▪ Innovation and Sustainable Development Committee▪ Social and Community Development Committee▪ Infrastructure, Transport and Environment Committee▪ Regulatory Performance Committee 2 External Members
Quorum	Half of the members if the number of members (including vacancies) is even, or a majority of members if the number of members (including vacancies) is odd.
Meeting Cycle	To be separately considered
Reports To	Council

Purpose

To assist the Council to discharge its responsibility to exercise due care, diligence and skill in relation to the oversight of:

- the robustness of the internal control framework;
- the integrity and appropriateness of external reporting, and accountability arrangements within the organisation for these functions;
- the robustness of risk management systems, process and practices;
- internal and external audit;
- accounting policy and practice;
- compliance with applicable laws, regulations, standards and best practice guidelines for public entities; and
- the establishment and maintenance of controls to safeguard the Council's financial and non-financial assets.

The foundations on which this Committee operates, and as reflected in this Terms of Reference, includes: independence; clarity of purpose; competence; open and effective relationships and no surprises approach.

Procedure

In order to give effect to its advice the Committee should make recommendations to the Council and to Management.

The Committee should meet the internal and the external auditors without Management present as a standing agenda item at each meeting where external reporting is approved, and at other meetings if requested by any of the parties.

The external auditors, the internal audit manager and the co-sourced internal audit firm should meet outside of formal meetings as appropriate with the Committee Chair.

The Committee Chair will meet with relevant members of Management before each Committee meeting and at other times as required.

Responsibilities

Internal Control Framework

- Consider the adequacy and effectiveness of internal controls and the internal control framework including overseeing privacy and cyber security.
- Enquire as to the steps management has taken to embed a culture that is committed to probity and ethical behaviour.
- Review the processes or systems in place to capture and effectively investigate fraud or material litigation should it be required.
- Seek confirmation annually and as necessary from internal and external auditors, attending Councillors, and management, regarding the completeness, quality and appropriateness of financial and operational information that is provided to the Council.

Risk Management

- Review and consider Management's risk management framework in line with Council's risk appetite, which includes policies and procedures to effectively identify, treat and monitor significant risks, and regular reporting to the Council.
- Assist the Council to determine its appetite for risk.
- Review the principal risks that are determined by Council and Management, and consider whether appropriate action is being taken by management to treat Council's significant risks. Assess the effectiveness of, and monitor compliance with, the risk management framework.
- Consider emerging significant risks and report these to Council where appropriate.

Internal Audit

- Review and approve the annual internal audit plan, such plan to be based on the Council's risk framework. Monitor performance against the plan at each regular quarterly meeting.
- Monitor all internal audit reports and the adequacy of management's response to internal audit recommendations.
- Review six monthly fraud reporting and confirm fraud issues are disclosed to the external auditor.
- Provide a functional reporting line for internal audit and ensure objectivity of internal audit.
- Oversee and monitor the performance and independence of internal auditors, both internal and co-sourced. Review the range of services provided by the co-sourced partner and make recommendations to Council regarding the conduct of the internal audit function.
- Monitor compliance with the delegations policy.

External Reporting and Accountability

- Consider the appropriateness of the Council's existing accounting policies and practices and approve any changes as appropriate.
- Contribute to improve the quality, credibility and objectivity of the accounting processes, including financial reporting.
- Consider and review the draft annual financial statements and any other financial reports that are to be publicly released, make recommendations to Management.
- Consider the underlying quality of the external financial reporting, changes in accounting policy and practice, any significant accounting estimates and judgements, accounting implications of new and significant transactions, management practices and any significant disagreements between Management and the external auditors, the propriety of any related party transactions and compliance with applicable New Zealand and international accounting standards and legislative requirements.
- Consider whether the external reporting is consistent with Committee members' information and knowledge and whether it is adequate for stakeholder needs.
- Recommend to Council the adoption of the Financial Statements and Reports and the Statement of Service Performance and the signing of the Letter of Representation to the Auditors by the Mayor and the Chief Executive.
- Enquire of external auditors for any information that affects the quality and clarity of the Council's financial statements, and assess whether appropriate action has been taken by management.
- Request visibility of appropriate management signoff on the financial reporting and on the adequacy of the systems of internal control; including certification from the Chief Executive, the Chief Financial Officer and the General Manager Corporate Services that risk management and internal control systems are operating effectively;
- Consider and review the Long Term and Annual Plans before adoption by the Council. Apply similar levels of enquiry, consideration, review and management sign off as are required above for external financial reporting.
- Review and consider the Summary Financial Statements for consistency with the Annual Report.

External Audit

- Annually review the independence and confirm the terms of the audit engagement with the external auditor appointed by the Office of the Auditor General. Including the adequacy of the nature and scope of the audit, and the timetable and fees.
- Review all external audit reporting, discuss with the auditors and review action to be taken by management on significant issues and recommendations and report to Council as appropriate.
- The external audit reporting should describe: Council's internal control procedures relating to external financial reporting, findings from the most recent external audit and any steps taken to deal with such findings, all relationships between the Council and the external auditor, Critical accounting policies used by Council, alternative treatments of financial information within Generally Accepted Accounting Practice that have been discussed with Management, the ramifications of these treatments and the treatment preferred by the external auditor.
- Ensure that the lead audit engagement and concurring audit directors are rotated in accordance with best practice and NZ Auditing Standards.

Compliance with Legislation, Standards and Best Practice Guidelines

- Review the effectiveness of the system for monitoring the Council's compliance with laws (including governance legislation, regulations and associated government policies), with Council's own standards, and Best Practice Guidelines.

Appointment of Independent Members

- Identify skills required for Independent Members of the Audit and Risk Management Committee. Appointment panels will include the Mayor or Deputy Mayor, Chair of Finance & Performance Committee and Chair of Audit & Risk Management Committee. Council approval is required for all Independent Member appointments.
- The term of the Independent members should be for three years. (It is recommended that the term for independent members begins on 1 April following the Triennial elections and ends 31 March three years later. Note the term being from April to March provides continuity for the committee over the initial months of a new Council.)
- Independent members are eligible for re-appointment to a maximum of two terms. By exception the Council may approve a third term to ensure continuity of knowledge.

Long Term Plan Activities

1. Consider and review the Long Term and Annual Plans before adoption by the Council. Apply similar levels of enquiry, consideration, review and management sign off as are required above for external financial reporting.

Part A	Matters Requiring a Council Decision
Part B	Reports for Information
Part C	Decisions Under Delegation

TABLE OF CONTENTS

C	1.	Apologies.....	7
B	2.	Declarations of Interest.....	7
C	3.	Confirmation of Previous Minutes	7
B	4.	Public Forum	7
B	5.	Deputations by Appointment.....	7
B	6.	Presentation of Petitions	7

STAFF REPORTS

CA	7.	Audit New Zealand Audit Plan Letter	11
CA	8.	Audit New Zealand report to Council on the audit of the Consultation Document for the 2018-28 Long Term Plan.....	31
CA	9.	Audit New Zealand Interim Management Report	49
C	10.	Resolution to Exclude the Public	65

1. Apologies

At the close of the agenda no apologies had been received.

2. Declarations of Interest

Members are reminded of the need to be vigilant and to stand aside from decision making when a conflict arises between their role as an elected representative and any private or other external interest they might have.

3. Confirmation of Previous Minutes

That the minutes of the Audit and Risk Management Committee meeting held on [Tuesday, 13 February 2018](#) be confirmed (refer page 8).

4. Public Forum

A period of up to 30 minutes may be available for people to speak for up to five minutes on any issue that is not the subject of a separate hearings process.

5. Deputations by Appointment

There were no deputations by appointment at the time the agenda was prepared.

6. Petitions

There were no petitions received at the time the agenda was prepared.



Audit and Risk Management Committee OPEN MINUTES

Date: Tuesday 13 February 2018
Time: 1:04pm
Venue: Council Chambers, Level 2, Civic Offices,
53 Hereford Street, Christchurch

Present

Chair	Ms Sue Sheldon
Deputy Chair	Councillor Raf Manji
Members	Councillor Vicki Buck
	Councillor Phil Clearwater
	Councillor Pauline Cotter
	Mayor Lianne Dalziel
	Councillor David East
	Deputy Mayor Andrew Turner
	Mr Mark Russell
	Mr Michael Rondel

13 February 2018

Principal Advisor

Carol Bellette
General Manager Finance and
Commercial

Mark Saunders
Committee and Hearings Advisor
941 6436
Mark.Saunders@ccc.govt.nz
www.ccc.govt.nz

To view copies of Agendas and Minutes, visit:
www.ccc.govt.nz/Council/meetingminutes/agendas/index

-
- Part A** **Matters Requiring a Council Decision**
Part B **Reports for Information**
Part C **Decisions Under Delegation**
-

The agenda was dealt with in the following order.

1. Apologies

Part C

There were no apologies.

2. Declarations of Interest

Part B

There were no declarations of interest recorded.

3. Confirmation of Previous Minutes

Part C

Committee Resolved ARCM/2018/00001

Committee Decision

That the minutes of the Audit and Risk Management Committee meeting held on Wednesday, 29 November 2017 be confirmed.

Chair Sheldon/Councillor Buck

Carried

4. Public Forum

Part B

There were no public forum presentations.

5. Deputations by Appointment

Part B

There were no deputations by appointment.

6. Presentation of Petitions

Part B

There was no presentation of petitions.

7. Approval of Protected Disclosures Policy

Committee Decided ARCM/2018/00002

Part A

That the Audit and Risk Management Committee recommends that the Council:

1. Approve the new Protected Disclosures Policy attached to this report.
2. Amend the wording, and Council officers to whom delegations under the Protected Disclosures Act 2000 are made, as follows:

	Protected Disclosures Act 2000		
Section	Delegation	CEO	Protected Disclosures Officer
All	All of its responsibilities, duties, and powers under this Act (to be exercised in accordance with the procedures in Council's Protected Disclosures policy), except the power to adopt the internal procedures (Policy) under section 11.	✓	✓

Mayor/Deputy Mayor

Carried

8 Resolution to Exclude the Public

Committee Resolved ARCM/2018/00003

Part C

That Richard Hollebon of Ernst Young remain after the public have been excluded for Item 12 of the public excluded agenda, David Seath of Deloitte remain after the public have been excluded for Items 9-15 of the public excluded agenda, and that Andy Burns and Andrew Timlin of Audit New Zealand and Jonathan Salter of Simpson Grierson remain after the public have been excluded for Item 14 of the public excluded agenda, as they have knowledge that is relevant to those items and will assist the Committee.

That at 1:17pm the resolution to exclude the public set out on pages 31 to 33 of the agenda be adopted.

Mr Rondel/Councillor Cotter

Carried

The public were re-admitted to the meeting at 5:18pm.

Meeting concluded at 5:19pm.

CONFIRMED THIS 30th DAY OF MAY 2018

SUE SHELDON
CHAIRPERSON

7. Audit New Zealand Audit Plan Letter

Reference: 18/491252

Presenter(s): Diane Brandish – Head of Financial Management

1. Purpose and Origin of Report

Purpose of Report

- 1.1 The purpose of this report is for the Audit and Risk Management Committee to confirm with Audit New Zealand the audit arrangements for the audit of the financial statements for the year ending 30 June 2018 for the Council and Consolidated Group.

Origin of Report

- 1.2 This report is staff generated in response to receipt of the Audit Plan Letter from Audit New Zealand.

2. Staff Recommendations

That the Audit and Risk Management Committee consider the Audit Plan for Christchurch City Council and Consolidated Group from Audit New Zealand and recommend to the Council that it:

1. Note that property, plant and equipment will again be a focus for the audit team in 2018;
2. Note that internal controls to prevent fraud and the compliance with continuous disclosure requirements will also be reviewed in-depth as part of the 2018 audit; and
3. Note the timetable for deliverables to ensure the audit proceeds smoothly.
4. Note that critical judgements, estimates and assumptions are made during the preparation of the Annual Report in accordance with accounting and audit standing for public benefit entities and these are disclosed in the Annual Report;
5. Note that the Committee will be further updated on these issues and any other issues that arise at its 31 August 2018 meeting prior to the audit clearance scheduled for 19 September 2018.

3. Key Points

- 3.1 The Audit Plan Letter is issued each year outlining audit issues, audit timetable and audit process. The letter is at **Attachment A**.
- 3.2 In accordance with the terms of reference of the Audit and Risk Management Committee, it is the role of the Audit and Risk Management Committee to consider the nature and scope of the audit and audit timetable.
- 3.3 The main audit issues for 2018 include:
 - The valuation of property, plant and equipment with park improvement assets, land and buildings due to be revalued this year on a triennial cycle.
 - Fair value assessment of asset categories that are outside of the revaluation cycle this year. If this assessment identifies that there is a material difference with the carrying values of these asset categories, a revaluation will be required.
 - Procurement and contract management. Council has updated its procurement policies. Audit New Zealand will update their understanding of the procurement and contract

management control environment, liaise with internal audit to understand their work programme in this space and if needed undertake further work in this area.

- Ongoing accounting issues recognising aspects of the cost sharing agreement with the Crown.
- Risk of management override of internal controls. Audit New Zealand will perform targeted audit procedures to minimise this inherent risk.
- Christchurch City Holdings Limited (CCHL) NZX listing rules. Audit New Zealand will review how CCHL and Council are mitigating the risk of breaching NZX listing rules as a result of CCHL having to make reports available to Council Committees ahead of CCHL making their market announcements.
- Vbase will transition from a for-profit reporting regime to public benefit entity reporting this year. This will not have an impact on Council as consolidation journals have been made each year to convert Vbase figures to the same basis as Council.

3.4 The audit timetable in the letter has been reviewed and agreed with Council staff.

3.5 Audit New Zealand have provided a progress update – refer **Attachment B**.

Attachments

No.	Title	Page
A ↓	Audit Plan 2018	13
B ↓	ARMC Progress Report Audit NZ	28

Signatories

Author	Mushe Shoko - Manager External Reporting & Governance
Approved By	Len Van Hout - Manager External Reporting & Governance Diane Brandish - Head of Financial Management Carol Bellette - General Manager Finance and Commercial (CFO)

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Audit plan

Christchurch City Council and group

For the year ending 30 June 2018

Attachment A Item 7

Audit plan

I am pleased to present the arrangements for the audit of Christchurch City Council (the Council) and group for the year ending 30 June 2018. The purpose of this audit plan is to discuss:

Audit risks and issues	2
Our audit process	6
Reporting protocols.....	9
Audit logistics	10

The contents of this plan should provide a good basis for discussion when we meet with you.

We will be happy to elaborate further on the matters raised in this plan.

We are committed to delivering a high-quality audit. Our audit is risk based, which means that we focus on the areas that matter. Every member of the audit team will contribute to achieving the highest standard of professional excellence.

If there are additional matters that you think we should include, or any matters requiring clarification, please discuss these with me.

Yours sincerely

Andy Burns
Director
15 May 2018

Audit risks and issues

Focus areas



Based on the planning work and discussions that we have completed to date, this table sets out the main audit risks and issues.

Audit risk/issue	Our audit response
Valuation of property, plant and equipment	
<p>The accounting standard PBE IPSAS 17 Property, Plant and Equipment, requires that valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.</p> <p>The asset categories that are due to be revalued in the 2017/18 year are:</p> <ul style="list-style-type: none"> • Land and building assets; and • Parks improvement assets. 	<p>We will obtain assurance that the revaluation methodology used complies with generally accepted accounting practice and that the Council has correctly accounted for the revaluations within its financial statements.</p>
Fair value assessment of property, plant and equipment	
<p>Council has other classes of infrastructure and operational assets that are outside of their revaluation cycle this year. Council will need to complete a fair value assessment to determine whether there is a significant difference between their carrying amounts and their fair values. If this assessment identifies that there is a material difference in the carrying values of these asset classes, a revaluation is required.</p> <p>In 2017 Council revalued all infrastructure asset classes, including stormwater and roading, which had previously been subject to modified audit reports. This provided Council with robust asset values that will form the basis for a fair value assessment in 2018.</p>	<p>We will review the Council's assessment of whether there is any significant difference between the carrying amount and fair value of those asset classes that are not being revalued in 2017/18.</p> <p>We encourage the Council to perform this assessment early so that if a revaluation is required, there is time to complete it without it impacting on the annual report process.</p>
Procurement and contract management	
<p>The areas of procurement and contract management have been an area of focus for Council recently. They are also areas that the Office of the Auditor-General (OAG) intend to include in future work streams for auditors in the public sector.</p>	<p>We are mindful of the work that has been performed to date by Council, including updating procurement policies and operationalising these policies across all activities of Council.</p>

Audit risk/issue	Our audit response
<p>Council continues to operate in a period of significant capital spend, mainly due to the delivery of the capital programme, and the establishment and application of sound procurement policies and practices is important.</p> <p>Additionally, effective contract management practices are important across the life cycle of a contract to ensure Council receives value from its contracting arrangements.</p>	<p>We are also aware that internal audit has recently completed a procurement review and contract management work. We wish to avoid any duplication of effort in these areas.</p> <p>We will update our understanding of the control environment that the Council has in place in relation to procurement and contract management, including continuing to liaise with internal audit to understand their work programme. Depending on our findings, we may undertake further work in this area. This may include reviewing a sample of procurement processes."</p>
Accounting for the cost sharing agreement with the Crown	
<p>In August 2017, Council agreed some changes to the cost sharing agreement that it is a party to with the Crown. This 'refresh' of the agreement clarifies payments and ownership of the respective parties under the agreement, particularly where the original 2013 agreement was not clear.</p> <p>Assets specifically addressed in the resolution include the bus interchange, central city public realm (Margaret Mahy family playground and the Otakaro/Avon river precinct) and residential red zoned land in the Port Hills, Brooklands and Southshore.</p> <p>Management will need to assess during the year and at year end, Council's obligations under the agreement. Potentially, Council may need to recognise assets that have transferred to Council, its commitments of costs towards anchor projects or revenue where funding to Council is able to be recognised.</p>	<p>We will review management's assessment and the supporting information behind any recognition of obligations and asset transfers within the annual report.</p>
The risk of management override of internal controls	
<p>There is an inherent risk, in every organisation, of fraud from management override of internal controls. Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by override of controls that otherwise appear to be operate</p>	<p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> • testing the appropriateness of selected journal entries; • review of accounting estimates for indications of bias; and

Audit risk/issue	Our audit response
effectively. Auditing standards require us to treat this as a risk on every audit.	<ul style="list-style-type: none"> evaluating any unusual or one-off transactions, including those with related parties.
Group issues	
<p>We have identified the following issue within the wider Council group that may need to be considered from a group reporting perspective:</p> <ul style="list-style-type: none"> CCHL has undertaken a bond issue during the year. As a result the company is now subject to NZX listing rules and their reporting and disclosure requirements. Both CCHL and Council will need to ensure that these are not breached if CCHL reports to Council committees in advance of them making their market announcements. <p>We also note that Council's subsidiary Vbase is changing their accounting designation from a 'for-profit' entity to a 'public benefit entity'. There are implications for Vbase in terms of the adjustments required to their financial statements, mainly related to the carrying values of their building assets. This is unlikely to have a significant impact on Council as consolidation adjustments have been made to prepare Council's group financial statements on a consistent basis.</p>	<p>We will review Council's response to this issue including the timing of any reporting from CCHL to Council and how this risk is mitigated.</p>

Please tell us about any additional matters we should consider, or any specific risks that we have not covered. Additional risks may also emerge during the audit. These risks will be factored into our audit response and our reporting to you.

Fraud risk

Misstatements in the financial statements, and performance information, can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action is intentional or unintentional. In considering fraud risk, two types of intentional misstatements are relevant – misstatements resulting from fraudulent reporting, and misstatements resulting from misappropriation of assets.

The primary responsibility for the prevention and detection of fraud and error rests with the Council, with assistance from management. We will discuss the following questions with you:

- What role does the Council play in relation to fraud? How do you monitor management's exercise of its responsibilities?
- Has a robust fraud risk assessment been completed? If so, is the Council satisfied that it had appropriate input into this process?
- How does management provide assurance that appropriate internal controls, to address fraud risks, are in place and operating?
- What protocols/procedures have been established, between the Council and management, to keep you informed of instances of fraud, either actual, suspected, or alleged?
- Are you aware of any actual, suspected, or alleged fraud? If so, have the results of management's investigation been reported to the Council? Has appropriate action been taken on any lessons learned?

Our responsibility

Our responsibility is to obtain reasonable, but not absolute, assurance that the financial statements and performance information are free from material misstatement resulting from fraud. Our approach to obtain this assurance is to:

- identify fraud risk factors and evaluate areas of potential risk of material misstatement;
- evaluate the effectiveness of internal controls to mitigate the risks;
- perform substantive audit procedures; and
- remain alert for indications of potential fraud in evaluating audit evidence.

The Auditor-General has published useful information on fraud that can be found at oag.govt.nz/reports/fraud-reports.

Our audit process

Initial planning

Initial planning activities include verification of compliance with independence requirements and building the audit team.

Understand your business and environment

We use our extensive sector and business knowledge to ensure we have a broad and deep understanding of you, your business, and the environment you operate in.

Assess audit risk

We use our knowledge of the business, the sector and the environment to identify and assess the risks that could lead to a material misstatement in the financial statements, and performance information.

Evaluate internal controls (interim audit)

During the audit, we update our understanding of internal control. This includes review of the control environment, risk assessment processes, and relevant aspects of information systems controls.

Finalise the audit approach

We use the results, of the internal control evaluation, to determine the extent to which we can rely on the information produced from your systems during our final audit.

Gather audit evidence (final audit)

During the final audit we will audit the balances, disclosures, and other information included in the City Council's financial statements and performance information.

Conclude and report

We will issue our audit report on the financial statements and performance information. We will also report to the Council on any relevant matters that come to our attention.

Materiality

In performing our audit, we apply the concept of materiality. In the public sector, materiality refers to something that if omitted, misstated, or obscured could reasonably be expected to:

- influence readers' overall understanding of the financial statements and performance information; and
- influence readers in making decisions on the stewardship and allocation of resources, or assessment of your performance.

This definition of materiality is broader than the one used in the private sector.

Accounting standards also require the Council and management to consider materiality in preparation of the financial statements. IFRS Practice Statement 2, *Making Materiality Judgements*, provides guidance as to how to make materiality judgements from a financial statements preparer's perspective.

Whether information is material is a matter of judgement. We consider the nature and size of each item judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor. Materiality will be lower for some items due to their sensitivity.

Misstatements

Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of your financial statements and performance information. During the audit, we will provide details of any such misstatements we identify, to an appropriate level of management.

We will ask for each misstatement to be corrected, other than those that are clearly trivial. Where management does not wish to correct a misstatement, we will seek written representations from representatives of Council that specify the reasons why the corrections will not be made.

Professional judgement and professional scepticism

Many of the issues that arise in an audit, particularly those involving valuations or assumptions about the future, involve estimates. Estimates are inevitably based on imperfect knowledge or dependent on future events. Many financial statement items involve subjective decisions or a degree of uncertainty. There is an inherent level of uncertainty which cannot be eliminated. These are areas where we must use our experience and skill to reach an opinion on the financial statements and performance information.

The term "opinion" reflects that professional judgement is involved. Our audit report is not a guarantee but rather reflects our professional judgement based on work performed in accordance with established standards.

Auditing standards require us to maintain professional scepticism throughout the audit. Professional scepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. Professional scepticism is fundamentally a mind-set. A sceptical mind-set drives us to adopt a questioning approach when considering information and in forming conclusions.

Exercising professional scepticism means that we will not accept everything we are told at face value. We will ask you and management to provide evidence to support what you tell us. We will also challenge your judgements and assumptions and weigh them against alternative possibilities.

How we consider compliance with laws and regulations

As part of the Auditor-General's mandate, we consider compliance with laws and regulations that directly affect your financial statements or general accountability. Our audit does not cover all of your requirements to comply with laws and regulations.

Our approach involves first assessment of the systems and procedures that you have in place to monitor and manage compliance with laws and regulations relevant to the audit. We may also complete our own checklists. In addition, we will ask you about any non-compliance with laws and regulations that you are aware of. We will evaluate the effect of any non-compliance on our audit.

Wider public sector considerations

A public sector audit also examines whether:

- the City Council carries out its activities effectively and efficiently;
- waste is occurring or likely to occur as a result of any act or failure to act by the City Council;
- there is any sign or appearance of a lack of probity as a result of any act or omission by the City Council or by one or more of its members, office holders, or employees; and
- there is any sign or appearance of a lack of financial prudence as a result of any act or omission by the City Council or by one of more of its members, office holders, or employees.

Reporting protocols

Communication with management and the Council



We will meet with management and the Council during the audit. We will maintain ongoing, proactive discussion of issues as and when they arise to ensure there are “no surprises”.

Reports to governors



We will provide a draft of all reports to management for discussion/clearance purposes. In the interests of timely reporting, we ask management to provide its comments on the draft within 10 working days. Once management comments are received, we will final the report and provide it to Council.

We will also follow up on your progress in responding to our previous recommendations.

Audit logistics

Our team



Our senior audit team members are:

Andy Burns	Director
Karen MacKenzie	Engagement Quality Control Director
Andrew Timlin	Audit Manager
Ben Wright	Assistant Manager
Sharon Bowler	Information systems auditor

Our engagement team is selected to ensure that we have the right subject matter expertise and sector knowledge. Each member of the audit team has received tailored training to develop their expertise.

Timetable



Our proposed timetable is:

03 April 2018	First interim audit (completed)
15 May 2018	Draft interim report to the Council issued (completed)
30 May 2018	ARMC meeting
18 June 2018	Second interim audit begins
30 July 2018	Draft financial statements available for audit (including notes to the financial statements) with actual year-end figures
30 July 2018	Final audit begins
6 August 2018	Draft Council activities and services sections available for audit
13 August 2018	Draft group financial statements available for audit
20 August 2018	Full draft annual report available for audit
29 August 2018	ARMC meeting
14 September 2018	Final annual report available for audit including Mayor's and Chief Executive's overview or reports
19 September 2018	Verbal audit clearance given
19 September 2018	Final report to the Council issued (in draft)
28 September 2018	ARMC meeting – to approve the 2018 annual report
30 September 2018	Draft summary annual report available for audit
11 October 2018	Council meeting to adopt annual report
11 October 2018	Audit opinion issued

Expectations



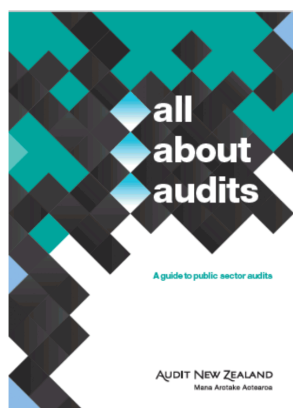
For the audit process to go smoothly for both you and us, there are expectations that each of us need to meet.

Our respective responsibilities are set out in our audit engagement letter dated 26 May 2017.

We expect that:

- you will provide us with access to all relevant records and provide information in a timely manner;
- staff will provide an appropriate level of assistance;
- the draft financial statements, including all relevant disclosures, will be available in accordance with the agreed timetable;
- management will make available a detailed workpaper file supporting the information in the financial statements; and
- the annual report, especially the financial statements will be subjected to appropriate levels of quality review before being provided to us.

To help you prepare for the audit, we will liaise with management and provide them with a detailed list of the information we will need for the audit. We have also published information to explain what to expect from your audit:



Health and safety



The Auditor-General and Audit New Zealand take seriously their responsibilities to provide a safe working environment for audit staff.

Under the Health and Safety at Work Act 2015, we need to make arrangements with management to keep our audit staff safe while they are working at your premises.

We expect you to provide a work environment for our audit staff that minimises or, where possible, eliminates risks to their health and safety. This includes provision of adequate lighting and ventilation, suitable desks and chairs, and safety equipment where required. We also expect management to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Level 3, 335 Lincoln Road, Addington, Christchurch
PO Box 2, Christchurch 8140, New Zealand
www.auditnz.govt.nz



AUDIT NEW ZEALAND
Mana Arotake Aotearoa

ARMC Meeting 30 May 2018 – progress report

Annual Audit

Audit Plan 2018

Included in the papers is our Audit Plan for the 2018 audit. The Audit Plan has a new look to it but essentially replaces the previous annual Audit Arrangements Letter. The key features of the document are:

- The audit risks and issues that are our areas of audit focus for 2018;
- Overview of the audit process and explanation of concepts such as materiality, misstatements and wider public sector audit considerations;
- Our reporting protocols, logistics and timetable for this year's audit.
- We have discussed the audit plan with management who are in agreement with the areas of focus.

The audit fee is not separately included in the Audit Plan as this was agreed in 2017 as part of the three year contract covering the 2017-2019 audits. The fee for the 2018 audit is \$332,330. This is a reduction of \$19,218 from the 2017 fee (2017: \$351,548) as the prior year's audit involved a large number of asset revaluations. Council has returned to its normal cycle of valuations in 2018.

Interim management report

The first interim visit took place in April and we issued our interim management report on 16 May. This report is attached to your papers today.

The report is positive, confirming that from our review and testing of Council's controls within its key financial systems these are designed and operating effectively for the purposes of the audit. We also reviewed Council's non-financial systems for performance measures we have identified as key, including the mandatory performance measures.

Next steps

Our second interim visit commences on 18 June and will focus on work that can be completed prior to the final audit. We do not propose to issue a formal report from this visit, but will bring any matters arising to the attention of management.

LTP audit

Consultation Document (CD) audit

We issued an unmodified opinion on Council's CD initially on 21 February 2018 and subsequently when Council readopted the CD on 8 March 2018. This means that in our view the CD provided an effective basis for public participation in Council's decision making processes relating to the content of the 2018-28 LTP.

We issued a management report on the CD audit on 12 March 2018. The report commented on the key issue for consultation, being the development of a capital programme that balances affordability and pace of the rebuild, and the underlying information, assumptions and financial forecasts that supported this issue and the other issues and questions that were included in the CD.

LTP audit and timeline

As well as the opinion issued on the CD, we will also issue an opinion on the final LTP. Under section 94(1) of the Act, our audit report on the final LTP forms part of the LTP, which Council is required to adopt by 30 June 2018 (section 93(3)).

We are responsible for reporting on whether the LTP meets the statutory purpose and provides a reasonable basis for integrated decision making by the Council and accountability to the community. We also provide an opinion on whether the information and assumptions underlying the financial forecasts are reasonable. Finally, we will provide our opinion on whether the disclosures in the LTP meet the requirements of Part 2 of the Local Government (Financial Reporting and Prudence) Regulations 2014 and accurately reflect the information drawn from the plan.

The final audit will also consider any key changes to the financial forecasts since the CD was adopted, that impact the long term plan, for example:

- Changes in timing and budgets for significant capital projects; and
- Any updates to expected capital expenditure, previously expected to be completed prior to the end of June that will now flow into the LTP period.

The proposed timeline through to adoption of the LTP will be extremely tight. We are working with management to ensure that we can carry out the necessary audit work in a way that supports the timetable and allows management the time they need to complete their work.

At the next committee meeting on 18 June 2018 the audit will be underway but will not be completed. We will issue a progress report for that meeting to confirm the audit status and the steps to be completed prior to Council adopting the LTP before the end of June 2018.

8. Audit New Zealand report to Council on the audit of the Consultation Document for the 2018-28 Long Term Plan

Reference: 18/508389

Presenter(s): Peter Ryan, Head of Performance Management

1. Purpose of Report

- 1.1 The purpose of this report is for the Audit and Risk Management Committee to be informed about the information in the Audit New Zealand report to Council on the audit of the Consultation Document of Christchurch City Council for the 2018-28 Long Term Plan, and to recommend to Council to note that Audit New Zealand has issued an unmodified opinion on the Consultation Document on 8 March 2018.

2. Staff Recommendations

That the Audit and Risk Management Committee:

1. Receive the information in the Audit New Zealand report to Council on the audit of the Consultation Document of Christchurch City Council for the 2018-28 Long Term Plan.
2. Recommends to the Council that it notes that Audit New Zealand issued an unmodified opinion on Christchurch City Council's Consultation Document on 8 March 2018.

3. Key Points

- 3.1 Audit New Zealand has completed the audit of Christchurch City Council's draft Consultation Document for its 10 year Long Term Plan covering the period 1 July 2018 to 30 June 2018.
- 3.2 The Council has adopted the draft Long Term Plan at its meeting on 21 February 2018.
- 3.3 The Consultation Document (the CD) originally adopted on 21 February 2018 was subsequently readopted on 8 March to allow an additional consultation question to be added prior to going out to consultation.
- 3.1 Audit New Zealand issued an unmodified opinion on Council's CD on 8 March 2018.

Attachments

No.	Title	Page
A ↓	AuditNZ report to Council on the audit of the Consultation Document 2018-28 LTP	33

Signatories

Authors	Monika De Neef - Senior Business Analyst Peter Ryan - Head of Performance Management
Approved By	Peter Ryan - Head of Performance Management Carol Bellette - General Manager Finance and Commercial (CFO)

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Report to Council
on the audit of the consultation document of
Christchurch City Council
for the 2018-28 Long-Term Plan

Attachment A Item 8

Key messages

We have completed the audit of Christchurch City Council's (the Council's) Consultation Document (the CD) for its 10 year Long-Term Plan (LTP) covering the period 1 July 2018 to 30 June 2028. Council will adopt its LTP in June 2018. This report sets out our findings from the audit of the CD stage of the LTP.

Unmodified opinion

The CD originally adopted on 21 February 2018 was subsequently readopted on 8 March to allow an additional consultation question to be added prior to going out to consultation.

We issued an unmodified opinion on Council's CD on 8 March 2018. This means that we are of the opinion that the CD provides an effective basis for public participation in Council's decision making processes relating to the content of the 2018-28 LTP.

Areas of audit emphasis

Key matter for consultation

This is the second LTP prepared by Council since the Christchurch earthquakes. The impacts from the earthquakes continue to significantly influence the proposed decisions in this LTP. Seven years after the earthquakes, there remains much rebuild work to do on Council's infrastructure assets and facilities, and the affordability and timing of this work is the significant issue for consultation. Therefore, the major matter for consultation for this LTP is the determination of a realistic capital programme that is affordable to the ratepayer, maintains the asset condition and levels of service, and is financially prudent over the next 10 years.

In determining this capital programme, and in particular, the renewal programme for infrastructure assets, Council has prioritised those assets that are most at risk of failing. Council proposes to perform this work within a financial envelope where rate increases are kept as affordable as possible, and levels of service are generally maintained.

In the CD, Council is asking the ratepayers if it has got the balance right between the proposed rate increases, and the proposed capital programme. In performing our work we have formed the view that the CD provides a fair representation of the matters proposed for inclusion in the LTP.

Preparation of the CD and underlying information

The development of a CD together with the required underlying information is a large and complex task, requiring the input of the Mayor and Councillors and a large number of Council staff. Even without the complications brought about by the earthquakes, the task is significant.

We are pleased to report that the process for developing the CD, and preparing the associated underlying information, was much improved on the process for the previous 2015-25 LTP. We felt that the process was well managed and generally went smoothly in accordance with the project timetable.

Audit of the final LTP

As well as the opinion issued on the CD, we will also issue an opinion on the final LTP that will be adopted by 30 June 2018, following Council's consideration of public submissions. To ensure our audit of the final LTP is efficient, we expect Council to prepare and provide us with a schedule of changes to the financial forecasts and other underlying information that were the basis for the CD.

Thank you

We would like to thank the Council, management and staff for their assistance during the audit.



Andy Burns
Audit Director
12 March 2018

Contents

1	Our audit opinion	4
2	Significant matters of audit emphasis	4
3	Next steps for Council	12
	Appendix 1: Mandatory disclosures	14

1 Our audit opinion

1.1 We issued an unmodified audit opinion on the CD

The CD originally adopted on 21 February 2018 was subsequently readopted on 8 March to allow an additional consultation question to be added prior to going out to consultation.

We issued an unmodified opinion on Council's CD on 8 March 2018. This means that we are of the opinion that the CD provides an effective basis for public participation in Council's decision making processes relating to the content of the 2018-28 LTP. We also found the underlying information and assumptions used to prepare the CD are reasonable.

In our audit opinion for the previous 2015-25 CD, we included an emphasis of matter paragraph on:

- the high level of uncertainty over both the estimated costs to repair and rebuild assets;
- the uncertainties that Council faced in a number of areas, such as asset revaluations and insurance recoveries; and
- the Council's proposal to address the \$1.2 billion funding gap.

We did not consider it necessary to draw attention to these matters, or any other issues, in our opinion on this CD. We comment further on this below in the section 'Uncertainties in the underlying information'.

1.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial.

2 Significant matters of audit emphasis

2.1 Key consultation matter

The key matter for Council to address in this LTP is the determination of a proposed capital works programme over the next 10 years that, firstly, addresses the issues affecting the city, and secondly, is affordable and acceptable to the ratepayer. This situation is not new. Council was faced with a similar scenario three years ago when developing the last LTP. In that LTP, there was a large \$1.2 billion funding gap. The Council consulted with the community on how to address this gap.

A lot has happened since the last LTP three years ago. Council has made significant progress in the rebuild. The SCIRT programme ended in mid-2017. The programme did not complete

all the necessary repairs to horizontal infrastructure because the Cost Sharing Agreement did not cover all the earthquake-related damage, however some of the uncertainties present in the last LTP have now been resolved. Despite all of this, the key issue from the last LTP around rebuild cost and timing remains the key matter for consultation in this LTP.

Below, we comment on several aspects that we considered which impact on this key consultation matter.

2.2 Capital programme matters

Despite it being seven years after the earthquakes, and the significant rebuild progress made since that time, there remains a large amount of repair and rebuild work still to be done on Council's infrastructure assets and key community facilities. As well as earthquake damaged assets which have not yet been repaired or rebuilt, there is also a significant amount of asset renewals required in the next 30 years.

In addition there are also infrastructure costs associated with the regeneration of key areas of the city, such as the CBD and New Brighton. Further, there are also substantial costs remaining, associated with Council's contribution towards several anchor projects as agreed in the Cost Sharing Agreement. The \$253 million agreed for a Multi-Use Arena is an example of this.

The balancing of all of this expenditure, along with affordability, therefore remains the key matter that Council is consulting on in the 2018-28 LTP.

The cost of all the work identified or proposed, is not affordable in the immediate future. Since the earthquakes, the annual rate increases have been relatively high. Council is cognisant of the continuing impact of high rate increases on the ratepayer, and has proposed that rate increases over the next 10 years will be capped at a more reasonable level - approximately 5.5% for the first two years of the LTP, and trending down to around 2% to 4% over the remaining eight years of the LTP.

Therefore, given the constraints of this financial envelope, Council has had to make hard choices as to what it can afford to do and what should be prioritised first. A number of iterations of the capital programme were developed for consideration.

For consultation purposes, Council has proposed three capital programme scenarios, or options in the CD. Each provides a different level of asset management and level of service, and has a different financial impact on the available funding mechanisms (rates and borrowings). The CD sets out Council's preferred option which is based on the proposed capped rate increases noted above. It also sets out a lower cost option ('what if we spent less') and a higher cost option ('what if we spent more'). It will be up to ratepayers through the submission process to let Council know if it has got the balance right.

Under the preferred option, the capital programme, at \$4.3 billion over the 10 years, comprises a large portion (nearly 40%) of Council's total expenditure of \$10.7 billion

(comprising operating expenditure, capital expenditure and interest), and is a critical component of the underlying information supporting the CD. Given the importance of the capital programme to the LTP, asset management was a significant area of our audit focus.

We discussed with Council staff the process used to develop the various capital programme scenarios, including for renewals work, which accounts for \$3 billion of the \$4.3 billion noted above. In respect of this, and other asset management matters, we comment on the following:

2.2.1 Infrastructure strategy

While Council's infrastructure strategy has been completed, its asset management plans (AMPs) are still at different stages of completion. While we would normally see AMPs completed before the infrastructure strategy, we consider it reasonable that Council's AMPs followed, and are subsidiary to, the infrastructure strategy. The completion of the infrastructure strategy (essentially an organisational strategic asset management plan) in advance of the AMPs allows Council's asset management objectives to be set and for the strategy to guide the development of the AMPs at an activity level. This is recommended by the International Standard for asset management ISO 55000.

For the LTP process, due to the affordability issues, the completion of the infrastructure strategy required guidance from Council on the prioritisation of work, and the funding envelope available. Due to the difficulty in balancing these factors, a number of capital programme iterations were prepared and reviewed. This meant that the capital programme was not agreed until quite late in the process. This then allowed the three options noted above for the management and delivery of capital work to be articulated in the infrastructure strategy.

Our view of the infrastructure strategy was that the document was of a good standard. While it is a large document compared to that of other Councils, it was well written, included all required information and complied with the legislative requirements. From our review we provided some minor recommended changes to management for inclusion within the infrastructure strategy.

2.2.2 Renewal Programme

The renewals programme, which is a significant part of the total capital programme, is based on the condition of Council's assets. Council now has better knowledge of the condition of much of its infrastructure assets. Some of this is information provided recently by SCIRT as part of its rebuild programme, while others are from sources such as the CCTV inspection programme. For the 3 waters assets, a number of probability based mathematical models were developed to determine the three renewal programme options articulated in the CD. Each model looked forward for at least 30 years, calculating the renewal year based on the estimated remaining life.

We note that there is a large backlog of renewals work which is addressed in the renewals programme. Following the earthquakes, due to the focus on fixing the damaged assets, very little renewal work was performed. Despite the large repair programme performed by SCIRT, there is a significant amount of ageing infrastructure assets reaching or past the end of its useful life. This situation, together with earthquake damage reducing the useful life of some assets, means that there are significant renewal peaks on the horizon that required addressing in the renewal programme.

For example, we note that in the next 20 years, there are a large number of water supply and wastewater mains that have reached, or will reach the end of their useful life. Despite this situation, current levels of service are expected to be maintained by Council because those assets that are in the poorest condition and most subject to failure, will be replaced first in the renewal programme.

2.2.3 Wastewater

While the preferred option will generally result in maintaining current network condition and levels of service for the next 30 years, there is expected to be a slight deterioration in wastewater asset condition in the next 10 years.

Our understanding is that this deterioration is based on an estimated 1.8% increase in quantity of condition five wastewater pipes during the period (condition five pipes are those in the poorest condition and expected to fail in the next one to two years, on a scale of one to five where one is the best condition). However, we also understand that while this deterioration is measured in terms of asset condition, in practice, any broken pipes will be assessed and may be renewed or repaired.

Notwithstanding this, the CD does make it clear that under the preferred option, wet weather wastewater overflows could increase. It also explains that by allowing wastewater assets to deteriorate, Council is able to allocate more funding to improving roads and facilities. This is articulated in the CD and the ratepayer will have an opportunity to comment on this.

2.2.4 Roading

The state of the Christchurch roads is a significant area of interest to many residents. Many of the roads have not yet been repaired to the standard that existed before the earthquakes, particularly on the east side of Christchurch.

The condition and smoothness of roads in general, and the perception of the public that repairs could be better planned to avoid duplication of road works, continue to be an area of frustration to road users. While repairing the roads is a high priority for Council, it is unaffordable to do all the work at once. The CD makes it clear that, under the preferred option, it will take 20 years to restore the condition of the roads to that comparable in other major New Zealand cities. This would be reduced to 10 years under the 'What if we spent more' option. This provides the ratepayer with a choice.

2.2.5 Water supply

The quality of the Christchurch drinking water has recently been headline news. Following the Havelock North water supply contamination issue, Council investigated its below ground well heads as these were identified as a potential source of contamination. This found that some well heads needed repairs and improvements to prevent contaminants entering them.

Due to this risk of contamination, the Drinking Water Assessor changed the security status for the Christchurch and Brooklands/Kainga water supplies from provisionally secure to unsecure. Council has resolved to repair the affected well heads. It also made a decision to temporarily chlorinate the city's water supply to minimise any risk of contamination until the well heads are fixed.

The Havelock North water inquiry recommended that all local authorities be required to treat their drinking water supply. Central government has not yet made a decision on this. Council decided not to include provision for this work in the draft LTP, which is estimated to cost \$100 million, given that any requirement is uncertain at this point in time. Council has made it clear in the CD that it does not want to permanently treat the water supply.

2.2.6 Deliverability of the capital programme

We noted in the previous LTP that deliverability of the capital programme was a challenge for Council. At that time, some of Council's forecast annual capital programmes were so large that they were unrealistic and not able to be delivered by Council. This resulted in large amounts of capital carry-forwards from year to year.

The scale of the capital programme for each of the 10 years of the 2018-28 LTP has been set at a level that is considered to be more realistic and achievable than for the previous LTP. The annual capital programmes in the 2018-28 LTP range from \$372 million to \$530 million. In the previous 2015-25 LTP, the capital programme was very large for 2016 and 2017 (\$958 and \$798 million respectively) which Council was not able to deliver.

To assist in the future delivery of capital projects, we noted that Council have put into place some actions and initiatives to improve the deliverability of capital projects.

2.2.7 Summary of the key consultation matter

As noted above, Council has signalled a preferred option in the CD. Under this option, the focus of the capital programme is on improving roads, facilities and parks while water supply and stormwater assets would be maintained to their current condition. Wastewater assets would be allowed to deteriorate as noted above.

For consultation purposes, the CD also provides two alternatives to the preferred option – a 'lower-cost' option and a 'higher-cost' option. The three scenarios or options are clearly

articulated, and are aligned, in the consultation document, infrastructure strategy and financial strategy.

2.3 Uncertainties in the underlying information

We noted that the quality of the underlying information has improved from the last LTP. As noted above, there were some uncertainties in the last LTP that have been resolved:

- Uncertainty over asset information. A good understanding and knowledge of Council's infrastructure assets and the cost of adequately maintaining and renewing them, is important in determining the cost associated with the management of these assets. Condition data is a particularly important part of this.

In the last LTP, Council had challenges determining and understanding the quantum of damage to much of its assets and estimate the associated repair and rebuild costs. This issue also impacted on Council's ability to revalue certain classes of property, plant and equipment assets. As a result, while the last LTP was based on the best information available, we were concerned about the uncertainty over the underlying asset information, and therefore included an emphasis of matter in our CD opinion on this matter.

Council now has much better information on the condition of its infrastructure assets. Due to this improvement in asset information, Council has been able to revalue all of its infrastructure assets in the last three years.

- Uncertainty over funding for the \$1.2 billion funding gap. In the last LTP, one of the tools that Council proposed to use to address the funding gap was a capital release programme where Council proposed to sell some assets. Following the Council's decision in August 2016 not to sell City Care Limited, the capital release programme was substantially amended and has now been replaced by a borrowing programme. In the 2018-28 LTP, any other funding required will be provided from borrowings by both CCHL and Council. In respect of this, we note that CCHL will provide a special dividend of \$140 million to Council in 2018/19. This follows a similar dividend in the previous 2017/18 year.
- The insurance settlement with Civic Assurance was concluded in December 2015 for the above ground assets damaged by the earthquakes. Therefore, this uncertainty has been resolved.

Some uncertainties still exist. We understand that a revised Cost Sharing Agreement has been discussed with the Crown. However, as the agreement has not yet been signed, there is still a degree of uncertainty. Therefore, Council has made some assumptions in the draft LTP around the content of the agreement, such as the ownership of some anchor projects. These are disclosed in the Statement of Significant Assumptions.

Other areas of uncertainty include the future plans for the Residential Red Zone, and the pre-election Labour party pledge of a \$300 million capital fund for the Christchurch rebuild. No provision has been made for these in the draft LTP due to the level of uncertainty. We agree with this.

2.4 Financial prudence

In respect of the preferred option, our overall assessment is that the Council has been prudent in achieving a realistic balance between its income, its debt, and the work it proposes to do over the 10 years, as outlined in the financial strategy.

For the proposed scenario, rate increases are set at levels affordable to the community. The level of proposed borrowings over the 10 years is well within the LGFA borrowing covenants. The latter is significant because it provides Council with sufficient headroom to borrow for any future eventuality, if required. We note that this headroom ranges from \$420 million to \$1.1 billion over the 10 years which is a substantial improvement from that in the last LTP.

The capital programme set within these parameters is affordable, deliverable, and allows Council to maintain current asset condition and levels of service for the most part. More importantly, Council is able to balance the books through a revised capital release programme that doesn't require the need to sell assets as it proposed to do in the last LTP.

Given the current affordability issues that Council has, we note that Council is raising the possibility of alternative revenue sources such as a regional fuel tax. While any such option is still in its infancy, such revenue in the future could lessen the burden on the ratepayer. The ratepayer is asked for their views on this in the CD.

2.5 Process to develop the CD and underlying information

The process to develop the CD and associated LTP is a significant and complex project. It requires Council to have, and be able to articulate a vision of where they see the organisation in the future. It also requires management to be able to interpret that vision into a series of operational plans and financial and non-financial forecasts covering a long period of time. For this LTP, the affordability issue mentioned above has significantly impacted on Council's ability to deliver that vision.

We felt that the process to develop the CD and prepare the underlying information was much better than for the last LTP. We saw positive aspects of project planning and management, direction from the top, internal coordination, use of experts and quality assurance reviews. These factors all helped to contribute to the success of the overall process. There were a few delays in meeting the timetable, but we did not consider these significant to our audit progress. In general, draft documents were provided to us in a timely manner. Communication between the project manager's team and us was excellent.

We noted that Council used external experts and advisors to assist in key areas, including:

- The appointment of an External Advisory Group, comprising engineering and financial expertise, to provide independent advice to assist the Mayor and Councillors in the review, development, prioritisation, and phasing of the delivery of the capital programme, and related opex implications in the draft LTP.

We note that the Group was due to present a final report to the Mayor and Councillors in December 2017. We are interested in the contents of that report. However, we were advised that the report has not yet been completed and presented to Council.

- The engagement of Kathy Dever-Tod (Dever-Tod Advisory Services) to complete an asset management maturity assessment and to review the draft infrastructure strategy. She has also been engaged to update Council's asset management policy and asset management strategy. While some of these are not directly related to the development of the LTP, they provide additional support and assurance to the Mayor and Councillors over the robustness of Council's asset management processes used to develop the capital programme for the draft LTP.
- The engagement of Jonathan Salter of Simpson Grierson to review the draft CD for legal compliance with the Local Government Act 2002. This also included reviewing the revenue and financing policy and the rating policy (funding impact statement). Simpson Grierson's opinion is that the draft CD provides a fair representation of the matters proposed for the LTP and they concluded that there is appropriate compliance with s93B and s93C of the Act.

We acknowledge that it can be difficult for the CD to articulate the right debate between Council and its community. The determination of significant and important issues to include in the CD requires direction and guidance from both elected members and management. Coupled with this is a requirement for the CD to comply with the legislation. These factors, which can be conflicting, affected the finalising of the draft CD in a timely manner. Council's CD went through a large number of iterations before it was finalised close to the adoption date. We accept that the large number of draft CD documents was inevitable given the need to have a balanced good quality document acceptable to both management, the Mayor and Councillors, and which met legislative requirements.

Despite this, we felt that the process for developing the CD and underlying information was well managed and went well.

We noted one area which Council may wish to consider addressing in the future.

Due to delays in Council determining the capital components and budgets for its preferred option, service plans were not finalised until quite late in the process. Those plans that were presented to Council committees earlier in August and September 2017 in accordance with the LTP timetable, were draft and uncertain, particularly around costs and could not

include budgets as the Council had at that stage not agreed on its preferred option for capital and operational spending. These plans were subject to re-review and change once the preferred option was known in December 2017. We noted that there were a large number of changes made to levels of service performance measures after the plans had been presented to Council committees, both as a consequence of committee feedback and subsequent work by staff.

Our understanding is that the lateness of finalising these service plans in December 2017 meant that Council did not see finalised versions until they were available for adoption in February 2018, although we understand that Councillors were provided with schedules of Levels of Service changes in December 2017. Ideally, we would have expected that Councillors would have had the opportunity to review and discuss all of the finalised service plans prior to their adoption as part of the underlying information supporting the CD.

3 Next steps for Council

The consultation period for ratepayers to make submissions on the proposed LTP is from 9 March 2018 to 13 April 2018. Council will then consider the submissions made before adopting the final LTP.

This process means that there may be changes to the draft LTP that went out for consultation. Changes may arise from submissions received by Council, or from updated or improved underlying supporting information or management initiated changes. Council may also be affected by announcements outside of its control that impact on the decisions and assumptions within the CD. For example, decisions relating to anchor projects or red zone land. Some of these decisions may also trigger a need for further consultation.

We will review any significant changes in our audit of the final LTP.

3.1 Audit of the final LTP

The last step in the LTP audit process will be the audit of the final LTP document. This audit is scheduled to be undertaken in late May/early June 2018.

To ensure our audit of the LTP is efficient we expect Council to prepare and provide us with a schedule of changes to the financial forecasts and other underlying information that were the basis of the CD. This will enable us to assess the extent of changes and tailor our audit work accordingly.

In respect of these changes, we will gain assurance that appropriate consequential changes and disclosures have been made.

Under section 94(1) of the Act, our audit report on the final LTP forms part of the LTP, which Council is required to adopt by 30 June 2018 (section 93(3)). Our agreed timeframes will enable us to issue our audit report in time for the Council meeting scheduled for 26, 27

or 29 June 2018 (as per the signed Audit Engagement Letter), at which time the 2018-28 LTP will be formally adopted.

We are responsible for reporting on whether the LTP meets the statutory purpose and provides a reasonable basis for integrated decision making by the Council and accountability to the community. We also provide an opinion on whether the information and assumptions underlying the financial forecasts are reasonable. Finally, we will provide our opinion on whether the disclosures in the LTP meet the requirements of Part 2 of the Local Government (Financial Reporting and Prudence) Regulations 2014 and accurately reflect the information drawn from the plan.

At the conclusion of the LTP audit, we will ask Council to provide us with a signed management representation letter on the LTP. We will provide the letter template during the LTP audit.

Appendix 1: Mandatory disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the consultation document and reporting that opinion to you. This responsibility arises from section 93C(4) of the Local Government Act 2002.</p> <p>The audit of the consultation document does not relieve management or the Council of their responsibilities.</p> <p>Our audit engagement letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carry out our audit in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (Revised): <i>Assurance Engagements Other Than Audits or Reviews of Historical Financial Information</i>, the International Standard on Assurance Engagements 3400: <i>The Examination of Prospective Financial Information</i>, and the Auditor-General's auditing standards.</p>
Auditor independence	<p>We are independent of the Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to our audit of the Council's consultation document and all legally required external audits, we have provided an assurance report on certain matters in respect of the Council's Debenture Trust Deed. These assignments are compatible with those independence requirements. Other than these assignments, we have no relationship with or interests in the Council or any of its subsidiaries.</p>
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the Council that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the Council during or since the audit.</p>

Report to Council on the audit of the consultation document
for the 2018-28 Long-Term Plan

Page 15

Area	Key messages
Unresolved disagreements	We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the consultation document. Management has not sought to influence our views on matters relevant to our audit opinion.

Item 8

Attachment A

9. Audit New Zealand Interim Management Report

Reference: 18/490875

Presenter(s): Diane Brandish – Head of Financial Management

1. Purpose of Report

- 1.1 The purpose of this report is for the Audit and Risk Management Committee to receive the Audit New Zealand Interim Management Report on the audit of Christchurch City Council for the year ending 30 June 2018.

2. Staff Recommendations

That the Audit and Risk Management Committee:

1. Note that Audit New Zealand reviewed the internal controls in place for our key financial and non-financial information systems and concluded that the Council has appropriate systems of internal control over its key financial systems and that they were operating effectively;
2. Note that Audit New Zealand reviewed the Council's information systems and processes and concluded that the Council's IT Governance to be effective;
3. Note that Audit New Zealand reviewed the Council's systems and controls for reporting its service performance information and concluded for the sample selected that the Council has appropriate systems and processes in place to capture and accurately report its achieved results against the performance measures;
4. Consider the three recommendations made by Audit New Zealand in Appendix 2 of the Interim Management Report on the audit of the Council and management's response to these; and
5. Recommend to the Council that it receive the Audit New Zealand Interim Management Report on the audit of Christchurch City Council for the year ended 30 June 2018.

3. Key Points

- 3.1 The Audit New Zealand Interim Management Report on the audit of Christchurch City Council for the year ending 30 June 2018 outlines the work and findings from their interim audit visit in April 2018. The primary objective of the interim audit was for Audit New Zealand to update its understanding of the Council's control environment and systems of internal control relevant to the audit. Their report is at **Attachment A**.
- 3.2 The key points in the Interim Management Report are:
 - 3.2.1 Internal controls

Council has appropriate systems of internal control over its key financial systems and the relevant controls that were tested were operating effectively.
 - 3.2.2 Information systems

Review of the information systems and processes indicated that the Council's IT governance is effective. An assessment of the Activity-level Control Processes indicated they were effectively designed and operated effectively.

While Audit New Zealand noted no significant issues with the automated controls in SAP the prior year recommendation they made regarding the full activation of all available system controls in SAP for three-way matching was still open. The restriction for all

invoices to require goods to be receipted before payment is not fully set. This recommendation has not been flagged as necessary, but beneficial.

3.2.3 Service performance systems and controls

Council has appropriate systems and processes in place to capture and accurately report its service performance information.

3.2.4 Business risks and issues identified in the audit plan

The specific areas of focus that Audit New Zealand are paying particular attention to are outlined in the Audit Plan Letter and they include:

- Valuation of property, plant and equipment
- Fair value assessment of property, plant and equipment not subject to revaluation this year.
- Accounting for the cost sharing agreement with the Crown

3.3 There are no new recommendations for improvement identified in the Interim Management Report. An update is given on the progress of three issues that were identified from last year's audit.

3.3.1 An independent check of the SAP delegation of authority Masterfile changes for "super-users" as recommended last year is now being done.

3.3.2 The recommendation to review the revenue in advance accounts and clearing out items that are not valid Revenue in Advance is in the process of being implemented.

3.3.3 Management has accepted that not having the full activation of all available systems controls in SAP for three-way matching is not ideal, it is management's intention to adopt full activation in future developments within the P2P programme of work. In the meantime it will continue to focus on increasing awareness of the benefits of purchase to pay within Council. Audit New Zealand are comfortable with this position.

3.4 Audit New Zealand will return in June 2018 to undertake a second interim audit to ensure the control environment continues to be effective prior to the commencement of the final audit of the financial statements in July 2018.

Attachments

No.	Title	Page
A ↓	Interim Report 2017-18	51

Signatories

Author	Mushe Shoko - Manager External Reporting & Governance
Approved By	Len Van Hout - Manager External Reporting & Governance Diane Brandish - Head of Financial Management Carol Bellette - General Manager Finance and Commercial (CFO)

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Report to Council on the interim audit of
Christchurch City Council
for the year ending 30 June 2018

Attachment A Item 9

Key messages

Summary

This report outlines the work we performed and our findings from the interim audit visit conducted in April 2018. We have scheduled a second interim visit in June 2018 to complete additional control environment work and perform some year-end audit work in advance of balance date.

Purpose and scope of our interim audit

The primary objective of our interim audit was to update our understanding of the Council's control environment and systems of internal control relevant to the audit. We have documented and tested controls within Council's key financial systems and will use the results of this work to determine the audit approach for our final audit. Where we have noted matters which we believe would improve the effectiveness of the internal control environment, we have commented on these within this report.

During the interim visit, we also reviewed the non-financial systems that Council has in place to report against its measures and targets set out in its Long-term Plan and Annual Plans. Our review also covered the systems that support the mandatory performance measures that Council are required to report on.

Key matters for the final audit

The key matters for our final audit are consistent with those outlined in our audit plan. These include:

- the revaluation of Council's land and building assets;
- assessment of the carrying values of other property, plant and equipment (PPE); and
- accounting for the cost sharing agreement.

Where appropriate to do so at this stage of the audit, we comment on these items in more detail in the report.

Prior period management report items

We have provided further details on the status of our prior years' recommendations in Appendix 2 to this report. We will follow up on progress and report against the matters still outstanding following completion of our final audit for the year ended 30 June 2018.

Interim management report on the audit of Christchurch City Council
for the year ending 30 June 2018

Page 2

Thank you

We would like to thank the Council and management for their assistance and cooperation during our interim audit visit.



Andy Burns
Director
16 May 2018

Interim management report on the audit of Christchurch City Council
for the year ending 30 June 2018

Page 3

Contents

1	Assessment of your control environment	4
2	Internal controls.....	5
3	Information systems	6
4	Service performance systems and controls.....	7
5	Business risks and issues identified in our audit plan.....	8
6	Group issues.....	8
7	Summary of recommendations	9
	Appendix 1: Explanation of priority rating system.....	10
	Appendix 2: Status of recommendations	11

1 Assessment of your control environment

We have performed a high-level assessment of the control environment. This assessment was performed for the purpose of planning the most effective and efficient audit approach, in order to enable us to express an audit opinion on the Council's financial statements and the non-financial information. We considered the overall attitude, awareness, and actions of the Council and management in establishing and maintaining effective management procedures and internal controls.

In performing this assessment we consider both the "design effectiveness"¹ and "operational effectiveness"² of internal control. The explanation of these terms is outlined below. However, it is not the purpose of our assessment to provide you with assurance on internal control in its own right. As such we provide no assurance that our assessment will necessarily identify and detect all matters in relation to internal control.

The control environment is defined by the standards, processes and structures that guide people throughout the organisation in carrying out their responsibilities for internal control and making decisions. It creates the discipline that supports the other aspects of internal control – risk assessment processes, performance of control activities, information and communication systems, and monitoring of controls.

Our review of Council's broader control environment included the following areas:

- budgeting and monitoring procedures;
- governance;
- risk management;
- arrangements to manage the risks from Conflicts of Interest; and
- project management.

Other areas of Council's broader control environment include procurement and contract management and asset management. As outlined in our audit plan, any work we propose to do in the procurement and contract management areas will be dependent on the work completed, or planned, by Council's internal audit function.

We reviewed aspects of Council's asset management processes as part of our audit of Council's Consultation Document for the 2018-28 Long-term Plan. The outcomes from this work were included in our report on the Consultation Document dated 12 March 2018.

Particular aspects of the control environment that we would like to comment on are as follows.

¹ Control is effective to either prevent or detect a material error in either the financial statements and/or non-financial information. The control is "fit for purpose".

² Control has operated effectively throughout the period tested.

2 Internal controls

We reviewed the internal controls in place for your key financial and non-financial information systems, as detailed below. Internal controls are the policies and processes that are designed to provide reasonable assurance as to reliability and accuracy of financial and non-financial reporting, as well as compliance with significant legislative requirements. These internal controls are designed, implemented and maintained by the Council and management. Both “design effective” and “operationally effective” internal control is important to minimising the risk of either fraud or misstatement occurring. The responsibility for the effective design, implementation and maintenance of internal control rests with the governing body.

Key financial systems that we reviewed included:

- payroll;
- expenditure/accounts payable;
- cash receipting
- revenue/accounts receivable, including rates, NZTA subsidies, and development contributions;
- treasury management systems, including investment and debt management and hedging;
- general financial systems, including journals;
- property, plant and equipment assets including infrastructure, operational assets and vested assets; and
- legislative compliance.

We did not identify any significant new issues to bring to your attention. Our review concluded that Council has appropriate systems of internal control over its key financial systems. Relevant controls within the systems that we tested were operating effectively, allowing us to place reliance on them for the purposes of our audit.

One change in the above systems that we reviewed related to the change in cash receipting system used at the Council’s Civic Offices. We completed work documenting and reviewing the controls within the Cash Desk system that replaced the previous GEMS system. There are no issues to bring to your attention.

In section 3 we comment on findings from our Information Systems review of the automated controls within key systems and where these could potentially be further enhanced.

3 Information systems

As part of our assessment of Council's systems and controls, we reviewed Council's Information systems and processes. This work was carried out by our Information Systems auditors and consisted of a high level assessment of the overall effectiveness of IT Governance control processes. We considered the overall attitude, awareness, and actions of the Chief Information Officer (CIO) and ICT Management in establishing and maintaining effective management procedures and internal controls.

We found Council's IT Governance to be effective.

This means that from an IT perspective, Council has appropriate processes in place to manage key risks. There are no significant areas of concern and controls are in place that can be relied on.

We also completed an assessment as to the design effectiveness and operation of Activity Level controls. These control areas cover the organisation's ability to manage risk and include the following areas: *Manage Security Services; Manage Changes, Change Acceptance and Transitioning; Manage Service Requests and Incidents; Manage Continuity; and Manage Availability and Capacity.*

A summary of our findings is provided below.

Activity-level Control Processes	Design effective/ ineffective	Operating effective/ ineffective
Manage Security Services	Effective	Effective
Manage Changes, Change Acceptance and Transitioning	Effective	Effective
Manage Service Requests and Incidents	Effective	Effective
Manage Continuity	Effective	Effective
Manage Availability and Capacity	Effective	Effective

3.1 SAP automated controls

Council uses SAP as its main financial information system. As part of our review of Council's payroll and expenditure systems, we considered the automated controls within the SAP software and their current settings. Automated controls, where available and properly activated, can enhance the overall system's control environment as these eliminate elements of human error in processing transactions.

The automated controls tested were:

- Expenditure – SAP only allows purchase orders over \$1,000 to be released by someone with delegated authority.
- Expenditure – Three way matching is required for purchase orders, goods receipting and invoices (with zero tolerance) in order for the system to let payment proceed.
- Payroll – All timesheets are system enforced to be authorised on a one-up basis.

While there are no significant issues with the current settings we have noted in Appendix 2 that the prior year recommendation relating to the matching of purchase orders, goods receipting and invoices remains open.

4 Service performance systems and controls

We have reviewed Council's systems and controls for reporting its service performance information. We particularly focused on understanding whether the Council has appropriate systems in place to accurately report against those measures that are key, from an audit perspective, to understanding the Council's overall performance. Note that our focus is on external performance measures as set out in Council's Long-term Plan or Annual Plan and reported against in its Annual Report. There are additional levels of service (LOS) performance measures across Council's activities that are reported internally.

Council has a wide range of systems and processes to capture the information to report its performance including the use of surveys, in-house resources, call centre information and utilising external contractors for testing and measurement (including reliance on contractor's own systems).

During the interim audit visit, we reviewed the systems that support the significant service performance measures and targets within the following activities that we consider are key to our audit:

- flood protection and river control;
- roads and footpaths;
- transport;
- sewerage collection, treatment and disposal;
- stormwater drainage; and
- water supply.

We concluded that the Council has appropriate systems and processes in place to capture and accurately report its achieved results against the measures we selected.

No new issues were noted from our review.

5 Business risks and issues identified in our audit plan

The specific risk areas that we are paying particular attention to this year were outlined in our audit plan. Based on our work to date, we comment on the following areas:

Issue	Current status
Valuation of property, plant and equipment	<p>In progress</p> <p>Council is progressing with the valuation of its land and building assets and parks improvements assets effective 30 June 2018.</p> <p>We have obtained Council's timetable for the valuation and plan to complete work in advance of the final audit commencing, where possible.</p>
Fair value assessment of property, plant and equipment (not subject to revaluation this year)	<p>In progress</p> <p>Council completed a suite of infrastructure asset valuations in 2017. The valuations on cycle this year are those mentioned above. For the classes of assets not revalued in 2018, we will review Council's fair value assessment that there is not a material difference between their carrying values and fair values.</p> <p>This assessment is yet to be reviewed.</p>
Accounting for the cost sharing agreement with the Crown	<p>Watching brief</p> <p>Council agreed to a refresh of the cost sharing agreement in August 2017. The refresh clarified asset ownership and obligations of parties where future ownership or timing was previously not clear. We understand that Council is currently working with relevant parties to identify assets that are expected to be transferred to Council, for example improvements in the South and East Frames, Avon River Precinct work and Victoria Square redevelopment.</p> <p>We will continue to liaise with Council as to whether any of these assets will be transferred by balance date.</p>

6 Group issues

As part of our audit of the Council and Group, we liaise with the auditors of the significant components of the wider Council group, including Christchurch City Holdings Limited (CCHL) and its subsidiaries and other entities that are consolidated directly into the Council group, i.e. Vbase.

We issue group audit instructions to the component auditors; collating the results of their planning and identification of any significant risks to consider for our audit of the Council group. The auditors of these entities have identified their own specific accounting issues and areas of audit focus. There are no significant risks or concerns raised with us to date that could be a material issue to Council's group financial statements.

Changes within the group that we are aware of for this year's audit include:

- CCHL's bond issue in November 2017 has resulted in the company becoming a listed issuer. This creates additional reporting and disclosure requirements in accordance with listing rules that Council will need to be aware of.
- Council subsidiary Vbase is changing its reporting designation from a for-profit entity to a public benefit entity for the 2017-18 reporting year. There are no significant accounting issues for Council as a result of this, as the consolidation of Vbase in prior years required adjustments to Vbase's financial statements to maintain consistent group accounting policies. The change in designation will bring Vbase in line with Council and no future adjustments will be required.

We will continue to liaise with the component auditors prior to and during their respective audits to identify any issues arising and discuss these with management. Council management also has a process of communicating with its group entities through their annual reporting timetable and group instructions. To date, we have not been made aware of any significant issues through this process.

7 Summary of recommendations

Summary of action taken against previous years' recommendations:

Number of recommendations from previous years' audits	Current status
Two	Matters that have been resolved
Two	Matters that are in progress or where managements accepts the risk
Nil	No progress has been made

This summary needs to be read in conjunction with the status of recommendations raised in previous years' management reports as detailed at Appendix 2.

Appendix 1: Explanation of priority rating system

Our recommendations for improvement and their priority are based on our assessment of how far short the Council is from a standard that is appropriate for the size, nature, and complexity of its business. We have developed the following ratings for our recommendations:

Urgent Major improvements required	Needs to be addressed <i>urgently</i> These recommendations relate to a serious deficiency that exposes the Council to significant risk. Risks could include a material error in the financial statements and the non-financial information; a breach of significant legislation; or the risk of reputational harm.
Necessary Improvements are necessary	Address at the earliest reasonable opportunity, <i>generally within 6 months</i> These recommendations relate to deficiencies that need to be addressed to meet expected standards of good practice. These include any control weakness that could undermine the system of internal control or create operational inefficiency.
Beneficial Some improvement required	Address, <i>generally within 6 to 12 months</i> These recommendations relate to deficiencies that result in the Council falling short of best practice. These include weakness that do not result in internal controls being undermined or create a risk to operational effectiveness. However, in our view it is beneficial for management to address these.

Appendix 2: Status of recommendations

Matters that have been resolved

Recommendation	Outcome
SAP delegation of authority masterfile changes	
We recommended that an independent check is performed on SAP delegation of authority masterfile changes for “superusers” by the Security Analyst. However, these checks are not signed and dated.	Checks are now in place and records of reviews are held, as confirmed during our interim audit visit.
Annual leave balances	
<p>We recommended that annual leave balances continue to be closely monitored and reduced.</p> <p>Through testing of the main annual leave accrual data, we identified that there are a large number of staff with annual leave balances in excess of four and five weeks (i.e. greater than one year’s leave entitlement).</p> <p>High annual leave balances can cause additional risks to a business (such as fraud risks or health and safety risks).</p>	<p><i>In our opinion four weeks is not an appropriate annual leave balance benchmark as numerous employees have an entitlement to five weeks or more annual holidays per annum in accordance with the terms and conditions of their employment agreement. Many of those with high balances are long term employees and the balance was accumulated in previous years.</i></p> <p><i>The current practice is to manage the outstanding leave of new employees and encourage those with larger balances to take at least their annual entitlement each year.</i></p> <p><i>HR continues to support the business to manage high annual leave balances with the provision of statistics and advice to Heads of and General Managers on developing and managing leave plans as necessary.</i></p> <p>Resolved - Audit accepts management’s current practices to actively monitor staff leave balances.</p>

Matters that are in progress or where management accepts the risk

Recommendation	Current status	Priority	Management's response and proposed action
Review of revenue in advance accounts			
Council staff perform a review of all revenue in advance items older than one year and clear out to revenue those that are not valid Revenue in Advance. This is particularly relevant for revenue in advance accounts relating to building consent applications, inspections and issuance of code compliance certificates.	In progress	Necessary	Work has been undertaken to review all building consent applications that have Code Compliance issued or where consents have lapsed. This exercise has gone back six years to 1 January 2012 and has resulted in the identification of refunds due to customers and items that should be recognised as revenue. Balances older than six years will be recognised as revenue at year end.
SAP accounts payable three-way matching			
<p>We recommended that all available SAP system controls for three-way matching are fully activated.</p> <p>We found that the "three-way matching" system control is only partly activated. The system setting requiring purchase orders to be matched to invoices with zero tolerance is correctly activated within the SAP system. However, the restriction for all invoices to require goods to be receipted before payment, is not fully set. The control is currently marked as "optional" in the system. Per the SAP settings this feature would be enhanced if this was set to "required".</p>	In progress	Beneficial	Management accepts that the current practice is not ideal and intend to introduce this as part of our future development within P2P. In the short term our focus remains on increasing awareness of the benefits of purchase to pay within Council and ensure that we get maximum alignment with the SAP upgrade.

10. Resolution to Exclude the Public

Section 48, Local Government Official Information and Meetings Act 1987.

I move that the public be excluded from the following parts of the proceedings of this meeting, namely items listed overleaf.

Reason for passing this resolution: good reason to withhold exists under section 7.

Specific grounds under section 48(1) for the passing of this resolution: Section 48(1)(a)

Note

Section 48(4) of the Local Government Official Information and Meetings Act 1987 provides as follows:

“(4) Every resolution to exclude the public shall be put at a time when the meeting is open to the public, and the text of that resolution (or copies thereof):

- (a) Shall be available to any member of the public who is present; and
- (b) Shall form part of the minutes of the local authority.”

This resolution is made in reliance on Section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public are as follows:

ITEM NO.	GENERAL SUBJECT OF EACH MATTER TO BE CONSIDERED	SECTION	SUBCLAUSE AND REASON UNDER THE ACT	PLAIN ENGLISH REASON	WHEN REPORTS CAN BE RELEASED
11	PUBLIC EXCLUDED AUDIT AND RISK MANAGEMENT COMMITTEE MINUTES - 13 FEBRUARY 2018			REFER TO THE PREVIOUS PUBLIC EXCLUDED REASON IN THE AGENDAS FOR THESE MEETINGS.	
12	INTERNAL AUDIT STATUS REPORT	S7(2)(E), S7(2)(F)(II), S7(2)(J)	PREVENTION OF MATERIAL LOSS, PROTECTION FROM IMPROPER PRESSURE OR HARASSMENT, PREVENTION OF IMPROPER ADVANTAGE	PREVENT THE USE OF INTERNAL AUDIT FINDINGS BEING UTILISED FOR IMPROPER ADVANTAGE.	CONSIDERATION OF RELEASE WHEN REPORTED FINDINGS HAVE BEEN ADDRESSED.
13	RISK MANAGEMENT STATUS REPORT	S7(2)(C)(II), S7(2)(F)(II)	PREVENT DAMAGE TO THE PUBLIC INTEREST, PROTECTION FROM IMPROPER PRESSURE OR HARASSMENT	PREVENT THE IMPROPER USE AND MISINTERPRETATION OF INFORMATION	WHEN THE CHIEF EXECUTIVE DETERMINES THERE ARE NO LONGER ANY REASONS TO WITHHOLD THE INFORMATION UNDER THE ACT
14	INTERNAL AUDIT DRAFT PLAN 2018/19 TO 2020/21	S7(2)(C)(II)	PREVENT DAMAGE TO THE PUBLIC INTEREST	INFORMATION CONTAINED MAY JEOPARDISE EFFECTIVE DELIVERY OF INTERNAL AUDIT SERVICES IF RELEASED.	CONSIDERATION OF RELEASE UPON FINALISATION OF THE INTERNAL AUDIT PLAN
15	QUARTERLY PROCUREMENT REPORT - QUARTER 3 - 2017/18	S7(2)(B)(II), S7(2)(H), S7(2)(I)	PREJUDICE COMMERCIAL POSITION, COMMERCIAL ACTIVITIES, CONDUCT NEGOTIATIONS	THE FOLLOWING INFORMATION MAY PREJUDICE THE COUNCIL'S COMMERCIAL POSITION.	WHEN THE CHIEF EXECUTIVE DETERMINES THERE ARE NO LONGER ANY REASONS TO WITHHOLD THE

					INFORMATION UNDER THE ACT.
16	CONTRACT VARIATION PROPOSAL	S7(2)(B)(II)	PREJUDICE COMMERCIAL POSITION	THE INFORMATION MAY PREJUDICE THE PARTIES' COMMERCIAL POSITION AND CONSIDERS COMMERCIAL RESPONSES TO CHANGES IN INTERNATIONAL MARKETS.	WHEN THE CHIEF EXECUTIVE DETERMINES THERE ARE NO LONGER ANY REASONS TO WITHHOLD THE INFORMATION UNDER THE ACT.
17	RISK MANAGEMENT REPORTING - DEVELOPMENT CHRISTCHURCH LIMITED	S7(2)(H)	COMMERCIAL ACTIVITIES	DISCUSSES MATTERS THAT MAY BE COMMERCIALY SENSITIVE.	WHEN THE CHIEF EXECUTIVE DETERMINES THERE ARE NO LONGER ANY REASONS TO WITHHOLD THE INFORMATION UNDER THE ACT.