

Audit and Risk Management Committee AGENDA

Notice of Meeting:

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

Date: Thursday 30 May 2019
Time: 9am
Venue: Council Chambers, Level 2, Civic Offices,
53 Hereford Street, Christchurch

Membership

Chairperson	Ms Kim Wallace
Deputy Chairperson	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

23 May 2019

Principal Advisor

Carol Bellette
General Manager Finance and
Commercial

Mark Saunders
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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.

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Strategic Framework

The Council's Vision – Christchurch is a city of opportunity for all.

Open to new ideas, new people and new ways of doing things – a city where anything is possible.

Whiria ngā whenu o ngā papa Honoa ki te maurua tāuikiuki

Bind together the strands of each mat
And join together with the seams of respect
and reciprocity.

The partnership with Papatipu Rūnanga
reflects mutual understanding and respect,
and a goal of improving the economic,
cultural, environmental and social
wellbeing for all.

Overarching Principle

Partnership – Our
people are our taonga
– to be treasured and
encouraged. By working
together we can create
a city that uses their
skill and talent, where
we can all participate,
and be valued.

Supporting Principles

Accountability	Collaboration
Affordability	Prudent Financial Management
Agility	Stewardship
Equity	Wellbeing and resilience
Innovation	Trust

Community Outcomes

What we want to achieve together as our city evolves

Strong communities

Strong sense of
community
Active participation in
civic life
Safe and healthy
communities
Celebration of our
identity through arts,
culture, heritage and
sport
Valuing the voices of
children and young
people

Liveable city

Vibrant and thriving
central city, suburban
and rural centres
A well connected and
accessible city
Sufficient supply of, and
access to, a range of
housing
21st century garden city
we are proud to live in

Healthy environment

Healthy waterways
High quality drinking
water
Unique landscapes and
indigenous biodiversity
are valued
Sustainable use of
resources

Prosperous economy

Great place for people,
business and investment
An inclusive, equitable
economy with broad-
based prosperity for all
A productive, adaptive
and resilient economic
base
Modern and robust
city infrastructure and
community facilities

Strategic Priorities

Our focus for improvement over the next three years and beyond

Enabling active citizenship and connected
communities

Maximising opportunities to develop a vibrant,
prosperous and sustainable 21st century city

Climate change
leadership

Informed and proactive
approaches to natural
hazard risks

Increasing active, public
and shared transport
opportunities and use

Safe and sustainable
water supply and
improved waterways

AUDIT AND RISK MANAGEMENT COMMITTEE - TERMS OF REFERENCE

Chair	Kim Wallace (Independent)
Deputy Chair	Councillor Manji as the Chair of the Finance and Performance Committee
Membership	<p>Mayor Dalziel and Deputy Mayor Turner</p> <p>The Chair of the following committees:</p> <ul style="list-style-type: none"> • Innovation and Sustainable Development Committee • Social and Community Development Committee • Infrastructure, Transport and Environment Committee • Regulatory Performance Committee <p>2 External Members</p>
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

- 1.1 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.
- 1.2 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

- 2.1 In order to give effect to its advice the Committee should make recommendations to the Council and to Management.
- 2.2 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.
- 2.3 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.

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

Responsibilities

3.1 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.

3.2 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.

3.3 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.

3.4 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.

3.5 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.

3.6 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.

3.7 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

- 4.1 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

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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 [Friday, 8 March 2019](#) be confirmed (refer page 9).

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: Friday 8 March 2019
Time: 12.32pm
Venue: Council Chambers, Level 2, Civic Offices,
53 Hereford Street, Christchurch

Present

Chairperson	Ms Kim Wallace
Deputy Chairperson	Councillor Raf Manji
Members	Councillor Vicki Buck
	Councillor Phil Clearwater
	Councillor Pauline Cotter
	Councillor David East
	Deputy Mayor Andrew Turner
	Mr Mark Russell
	Mr Michael Rondel

5 March 2019

Principal Advisor

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- 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

Committee Resolved ARCM/2019/00004

Committee Decision

That the apologies for absence from Mayor Dalziel, for early departure from Deputy Mayor Turner, and for lateness from Councillor Buck be accepted.

Councillor Cotter/Councillor Clearwater

Carried

2. Declarations of Interest

Part B

There were no declarations of interest recorded.

3. Confirmation of Previous Minutes

Part C

Committee Resolved ARCM/2019/00005

Committee Decision

That the minutes of the Audit and Risk Management Committee meeting held on Friday, 1 February 2019 be confirmed.

Councillor Clearwater/Mr Russell

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. Audit New Zealand - 2018/19 Audit Plan

Committee Comment

Andy Burns of Audit New Zealand joined the table with staff to present this item.

Committee Resolved ARCM/2019/00006 (Original Staff Recommendations Accepted without Change)

Part C

That the Audit and Risk Management Committee:

1. Receives the Audit Plan for Christchurch City Council and Consolidated Group from Audit New Zealand.
2. Notes that Council staff will report at the next meeting any critical judgements, estimates and assumptions that will be made during the preparation of the Annual Report in accordance with accounting and audit standards for public benefit entities.
3. Notes that the Committee will be further updated on these issues and any other issues that arise at its 28 August 2019 meeting prior to the audit clearance scheduled for 16 September 2019.

Ms Wallace/Mr Rondel

Carried

Committee Decided ARCM/2019/00007 (Original Staff Recommendations Accepted without Change)

Part A

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

1. Receives the Audit Plan for Christchurch City Council and Consolidated Group from Audit New Zealand, and:
 - a. Notes that property, plant and equipment will again be a focus for the audit team in 2019;
 - b. Notes that internal controls to prevent fraud and the compliance with continuous disclosure requirements will also be reviewed in-depth as part of the 2019 audit; and
 - c. Notes the timetable for deliverables to ensure the audit proceeds smoothly.

Ms Wallace/Mr Rondel

Carried

Councillor Buck joined the meeting at 12:44pm during consideration of the above item.

8. Status of Christchurch City Council Water Safety Plans

Committee Resolved ARCM/2019/00008 (Original Staff Recommendations Accepted without Change)

Part C

That the Audit and Risk Management Committee:

1. Notes the status of the Water Safety Plans for community drinking water supplies including the actions required to address the non-conformances identified in recent Drinking Water Assessor's Water Safety Plan Implementation Audit reports.
2. Notes the agreement to update all Water Safety Plans in accordance with the new Ministry of Health framework.

Deputy Mayor/Deputy Chair Manji

Carried

Committee Decided ARCM/2019/00009 (Original Staff Recommendations Accepted without Change)

Part A

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

1. Receives this report on the status of its Water Safety Plans.

Deputy Mayor/Deputy Chair Manji

Carried

9 Resolution to Exclude the Public

Committee Resolved ARCM/2019/00010

Part C

That the following persons remain after the public have been excluded for the following items of the public excluded agenda as they have knowledge that is relevant to these items and will assist the Council:

- Andy Burns and Ben Wright of Audit New Zealand, and David Seath of Deloitte, for:
 - Item 11, Cyber Security Programme Update and Vulnerability Assessment;
 - Item 12, Quarterly Procurement Report;
 - Item 13, Internal Audit Status Report;
 - Item 14, Risk Management Status Report;
 - Item 15, Fraud Status Report; and
- Anu Nayar of Deloitte for:
 - Item 11, Cyber Security Programme Update and Vulnerability Assessment.

AND

That at 1:06pm the resolution to exclude the public set out on pages 40 to 42 of the agenda be adopted.

Mr Rondel/Mr Russell

Carried

The public were re-admitted to the meeting at 2:29pm.

Meeting concluded at 2:30pm.

CONFIRMED THIS 30th DAY OF MAY 2019

KIM WALLACE
CHAIRPERSON

7. Critical Judgements, Estimates and Assumptions in the 2019 Annual Report

Reference: 19/491409

Presenter(s): Len van Hout, Manager, External Reporting and Governance

1. Purpose of Report

- 1.1 The purpose of this report is to advise the Audit and Risk Management Committee of potential critical judgements, estimates and assumptions which have been considered as part of the preparation of the 2019 Annual Report.

2. Staff Recommendations

That the Audit and Risk Management Committee:

1. Reviews and considers the critical judgements, estimates and assumptions made to date for the Council's 2019 Annual Report, noting that these will be reflected in the final annual report to be considered by the Committee at its September meeting.
2. Recommends to the Council that it receive this report.

3. Context/Background

Key Points

- 3.1 Council staff have highlighted four significant judgements, estimates and assumptions.

4. Significant judgements, estimates and assumptions

Early adoption of PBE IFRS 9 – Financial Instruments

- 4.1 The Council will be early adopting PBE IFRS 9 for the year ended 30 June 2019.
- 4.2 The adoption will result in a change to the disclosure of financial instruments in the financial statements of the Council.
- 4.3 Significant changes include
 - 4.3.1 Enhanced disclosure of credit loss risk on financial assets;
Enhanced disclosure of hedging strategies and effectiveness / ineffectiveness;
- 4.4 There are no proposed changes to value assessment for financial assets.
- 4.5 Council staff have used check lists provided by external organisations including Audit NZ to prepare for the changes required following the adoption of PBE IFRS 9 and will review most assets and liabilities to determine whether specific provisions are needed.

Ōtautahi Community Housing Trust (OCHT)

- 4.6 The Council and OCHT entered into an arrangement for the transfer of \$50 million of cash and properties to provide OCHT with working capital and assets to deliver social housing for Council. The \$50 million is made up of a gift of \$5 million and a long term loan of \$45 million.

- 4.7 Documentation for the \$45 million loan has been completed, with zero interest payable, no repayments until expiry in 27 years, October 2046. 2046 is the same year that the existing lease of social housing properties to OCHT by Council also set to expire.
- 4.8 In the current year, the Council has transferred 14 properties to OCHT with a value of \$17.15 million.
- 4.9 No further properties are expected to be transferred prior to 30 June 2019. Council is awaiting final subdivisional plans and other clearances prior to transferring the remaining \$27.887 million of properties to OCHT.
- 4.10 Because of the zero interest and zero repayment terms of the loan and loan expiry in 2046, the value of the loan receivable (\$17.15 million) will be impaired by approximately \$15 million to \$2.15 million.

Global Settlement

- 4.11 Due diligence is underway and negotiations between Council and the Crown are forecast to be completed early in the new financial year.

Valuations

- 4.12 Council has engaged qualified valuers to undertake valuation of the following property, plant and equipment for inclusion in the 2019 financial statements.
 - 4.12.1 **Roading Infrastructure;** This asset class has a current carrying value of \$2.5 billion and was last valued in 2017. The valuation is proceeding well with indications of a 5.0% increase (inclusive of additions and disposals). The final report is due in early June. Opus WPS is undertaking this valuation.
 - 4.12.2 **Christchurch Art Galley Collection;** the collection has a current carrying value of \$71.8 million and was last valued in 2015. This valuation is also proceeding well and the final report is due at the end of May 2019.
 - 4.12.3 Asset classes which are not being revalued will be assessed for any material difference between their carrying value and fair values.

Weather tightness

- 4.13 Staff are reviewing the adequacy of the weather tightness provision. The provision is a mix of external assessments through actuarial analysis and internal assessment of claims and settlements.

Attachments

There are no attachments to this report.

Confirmation of Statutory Compliance

Compliance with Statutory Decision-making Requirements (ss 76 - 81 Local Government Act 2002).

(a) This report contains:

- (i) sufficient information about all reasonably practicable options identified and assessed in terms of their advantages and disadvantages; and
- (ii) adequate consideration of the views and preferences of affected and interested persons bearing in mind any proposed or previous community engagement.

(b) The information reflects the level of significance of the matters covered by the report, as determined in accordance with the Council's significance and engagement policy.

Signatories

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

8. Audit Management Letter - Interim 2018/19

Reference: 19/534384

Presenter(s): Len van Hout - Manager, External Reporting and Governance

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 the Council for the year ending 30 June 2019.

2. Executive Summary

- 2.1 The 2018/19 report by Audit New Zealand to Council on effectiveness of internal controls highlights that the controls in place are effective and/or adequate.
- 2.2 Having effective and adequate internal controls is important to minimising the risk of fraud or misstatements.

3. Staff Recommendations

That the Audit and Risk Management Committee:

1. Notes 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. Notes that Audit New Zealand reviewed the Council's information systems and processes and concluded that the Council's IT Governance is effective;
3. Notes 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. Considers the recommendation made by Audit New Zealand in Appendix 1 of the Interim Management Report on the audit of the Council and management's response; and
5. Recommends to the Council that it receives the Audit New Zealand Interim Management Report on the audit of the Council for the year ended 30 June 2019.

4. Context/Background

Issue or Opportunity

- 4.1 The Audit New Zealand Interim Management Report on the audit of the Council for the year ending 30 June 2019 outlines the work and findings from their interim audit visit in March / April 2019.
- 4.2 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.
- 4.3 The key points in the Interim Management Report are:

Control Environment

- 4.3.1 Audit New Zealand's high level assessment of the control environment assists with their planning for the end of year audit assignment. As highlighted in the Audit Plan, submitted earlier this year, along with their more traditional work, they intend to focus on project management and procurement management.

Internal controls

- 4.3.2 From the testing undertaken by Audit New Zealand, they consider that the key controls have operated effectively and can be relied upon to gain audit assurance over account balances at year end.

Information systems

- 4.3.3 Audit New Zealand's assessment of the control process for the design and operating effectiveness of information systems is deemed to be effective.
- 4.3.4 A previous recommendation (beneficial) SAP Three Way Matching has been closed as a result of their review and assessment. See Appendix 1 in their report.
- 4.3.5 Audit New Zealand received an update on SAP Suite for Hanna conversion.

Service performance systems and controls

- 4.3.6 From the testing undertaken by Audit New Zealand on significant service performance measures, they consider that the Council has appropriate systems and processes in place to capture and accurately report service performance information.
- 4.3.7 Audit New Zealand has recommended that Council include a mandatory performance measure in the "road safety" activity in addition to the measure required as per the 2018/28 Long Term Plan. Council has agreed to this request.

Business risks and issues identified in the audit plan

- 4.3.8 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.
 - Capital asset additions and work-in-progress
 - Early adoption of accounting standards
 - Management override of controls
- 4.4 Audit New Zealand were updated on the status of the Holidays Act 2003 compliance review being undertaken by Ernst Young.
- 4.5 Audit New Zealand were updated on the status of the work being undertaken for the early adoption of PBE IRFS 9 Financial Instruments.
- 4.6 There are no new recommendations for improvement identified in the Interim Management Report.
- 4.7 An update is given on the progress of the remaining issue that was identified in the 2016/17 audit.

- 4.7.1 Reconciliations of the income in advance accounts for building inspections and code of compliance certificates are up to date however the process is still manual and staff are working with IT to enable the process to be automated.
- 4.8 As part of the interim audit work, one item deemed beneficial was closed.
 - 4.8.1 Interim audit work confirmed that purchase orders matched to invoices needed to be goods receipted prior to payment. The SAP control setting for 3 way matching is set to optional to remove the zero tolerance matching function. Note: Zero tolerance requires the purchase order, goods received note and invoice to all record the exact value, which does not always occur.
- 4.9 Audit New Zealand will return in June 2019 to undertake a second interim audit to ensure the control environment continues to be effect prior to the commencement of the final audit of the financial statements in July 2019.

Attachments

No.	Title	Page
A ↓	Audit NZ Interim Audit Management Report 2019	22

Confirmation of Statutory Compliance

Compliance with Statutory Decision-making Requirements (ss 76 - 81 Local Government Act 2002).

(a) This report contains:

- (i) sufficient information about all reasonably practicable options identified and assessed in terms of their advantages and disadvantages; and
- (ii) adequate consideration of the views and preferences of affected and interested persons bearing in mind any proposed or previous community engagement.

(b) The information reflects the level of significance of the matters covered by the report, as determined in accordance with the Council's significance and engagement policy.

Signatories

Author	Len Van Hout - Manager External Reporting & Governance
Approved By	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 2019

Attachment A Item 8

Key messages

This report outlines the work we have performed to date and our findings from the interim audit visits conducted in March and April 2019. We have scheduled a further visit in June 2019 to complete additional control environment work and undertake final 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. 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 roading and artwork assets (we have been informed by management that the Council will now be revaluing stormwater assets in the 2019/20 financial year);
- assessment of the carrying values of other property, plant and equipment (PPE);
- review of the costs coded to PPE additions, work-in-progress and operational expenditure; and
- review of the Council's financial instruments following the adoption of the new accounting standard PBE IFRS 9.

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

Prior period recommendations

We have provided further details on the status of our prior years' recommendations in Appendix 1 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 2019.

Our thanks

We would like to thank management and staff for their assistance provided to us during the audit process.

Andy Burns
Appointed Auditor
20 May 2019

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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.

We review internal controls relevant to the audit to design audit procedures that are appropriate in the circumstances. Our findings related to our normal audit work, and may not include all weaknesses in internal controls.

1.1 Control environment

The control environment reflects the overall attitudes, awareness and actions of those involved in decision-making in the organisation. It encompasses the attitude towards the development of accounting and performance estimates and the organisation's external reporting philosophy, and is the context in which the accounting system and control procedures operate. Management, with the oversight of those charged with governance, need to establish and maintain a culture of honesty and ethical behaviour through implementation of policies, procedures and monitoring controls. This provides the basis to ensure that the other components of internal control can be effective.

We have performed a high level assessment of the control environment, risk management process, and monitoring of controls relevant to financial and service performance reporting. We considered the overall attitude, awareness, and actions of the Council and management to establish and maintain effective management procedures and internal controls.

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

- budgeting and monitoring procedures;
- governance;
- risk management; and
- arrangements to manage the risks from conflicts of interest.

Other areas of Council's broader control environment include procurement and contract management and asset management. As outlined in our audit plan, we intend to utilise a specialist from our Specialist Audit and Assurance Services team to perform work that will include:

- a review of the current framework for procurement policy and guidance;
- a specific review of any refreshed policy and guidance for procurement; and
- review of selected procurement and contract management practices as appropriate.

We also intend to focus on project governance. This will include reviewing steps being taken to consider lessons learned from the past to inform future projects, specifically in relation to the Council's project management policy, guidance and capability.

This work will be performed as part of our second interim visit in June 2019 and at the final audit visit.

2 Internal controls



The Council, with support from management, is responsible for the effective design, implementation, and maintenance of internal controls. Our audit considers the internal control relevant to preparing the financial statements and the service performance information.

We reviewed the relevant internal controls in place for your key financial and non-financial information systems, as detailed below.

In performing our control environment assessment we consider both the “design effectiveness” and “operational effectiveness” of internal controls. Both “design effective” and “operationally effective” internal control is important to minimising the risk of either fraud or misstatement occurring.

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.

We reviewed the adequacy of internal controls over the following key systems:

- 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; and
- property, plant and equipment assets including infrastructure, operational assets and vested assets.

We tested the operational effectiveness of controls over expenditure, payroll and the reconciliation of bank accounts and key general ledger accounts. Our testing found that the key controls have operated effectively to date. We plan to rely on these controls to gain audit assurance over these account balances for the year ending 30 June 2019.

We did not identify any significant new issues to bring to your attention.

In sections 3 and 4 we comment on findings from our review of information and service performance systems and controls and where these could potentially be further enhanced.

3 Information systems and controls



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 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 did not identify any significant deficiencies in internal control with regard to Council's IT governance processes. We assessed 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; and
- Payroll – All timesheets are system enforced to be authorised on a one-up basis.

We confirmed that the controls are in place and operating effectively. There are no new issues identified from our testing of the system controls and settings. We have updated in Appendix 1 the prior year recommendation relating to the matching of purchase orders, goods receipting and invoices.

We also gained an understanding of the completed upgrades to SAP and planned release of additional SAP modules. We concluded that appropriate project practices, from an IT perspective, are in place.

4 Service performance systems and controls



We 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).

Based on our work to date, we are planning to take a substantive approach to our audit of the Council's service performance reporting, either because we could not identify effective internal controls in the system or because it would be less efficient for us to test and rely on controls.

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.

Through our work we comment on the following issue:

- **Road safety performance measures**

Council is required to report against a mandatory road safety measure, disclosing the year on year change in the number of fatalities and serious injury crashes on the local road network. A change in the wording of this performance measure in Council's 2018-28 Long-

term Plan had resulted in Council reporting against the change in the number of fatalities and serious injuries rather than the change in the number of crashes.

In our discussions with management to address this, Council propose to report in its 2018/19 annual report, the change in both the number of fatalities and serious injuries and the number of crashes from the previous year. In our view, we consider this addresses the issue and note that this is not a significant change to make as the data to report against both targets comes from the same system.

5 Audit risks identified in the audit plan



The specific risk areas that we are paying particular attention to this year were outlined in our audit plan dated 11 March 2019. Based on our work to date, we comment on the status of the following areas:

Audit risk/issue	Current status
Valuation of property plant and equipment (PPE)	<p>In progress</p> <p>The Council has engaged the respective valuers and timetables have been put in place to perform these valuations.</p> <p>Council no longer expects to perform a valuation of its stormwater asset class in 2018/19 which was brought forward one year. Instead, Council will revalue this asset class in 2019/20 alongside the other 'three waters' assets.</p> <p>Our review of the roading and artworks valuations is scheduled to take place as part of our final audit visit commencing in July 2019.</p>
Fair value assessment of property, plant and equipment (not subject to revaluation this year)	<p>In progress</p> <p>The Council has several asset classes carried at revaluation that are not being revalued this year. For the classes of assets not revalued in 2018/19, 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 will be prepared and reviewed after 30 June 2019.</p>
Capital asset additions and work-in-progress (WIP)	<p>Not started</p> <p>As part of our pre-final audit visit in June 2019 and our final audit visit commencing in July 2019 we will perform an assessment as to whether expenditure has been appropriately categorised as either PPE additions, WIP additions or operational expenditure in accordance with relevant accounting standards.</p>
Early adoption of accounting standards (the Council and group)	<p>In progress</p> <p>Management is in the process of assessing the impact of PBE IFRS 9: <i>Financial Instruments</i>. We will continue to liaise with management to understand the impact of this new standard and how it will impact the Council's accounting for, and disclosure of, financial instruments in the financial statements.</p> <p>Refer to section 7 below for an overview of the actions we expect management to take in response to the adoption of this new standard.</p>

Audit risk/issue	Current status
Management override of controls	<p>In progress</p> <p>We reviewed the Council's internal controls and control environment as part of our interim audit. Refer to sections 1 – 4 of this report for further detail.</p> <p>We will continue to maintain a watching brief to identify any instances of management override of controls.</p> <p>As part of pre-final and final audit visits we will perform detailed testing over areas highlighted in the audit plan.</p>

6 Other matters



We have outlined below other matters considered as part of the interim audit to bring to the Council's attention:

6.1 Holidays Act 2003 compliance

In 2016/17 the Council engaged Deloitte to review its compliance with the Holidays Act 2003. This initial review resulted in several issues being identified by Deloitte that were subsequently worked through with Council staff. Residual issues to be addressed included:

- Calculation and payment of Bereavement Leave, Alternative Leave, Public Holiday Leave and Sick Leave (BAPS).
- Annual Leave calculations such as when an employee changes their standard hours of work.

Management are in the process of working through the residual issues via an action plan and have contracted Ernst & Young (EY) to carry out the final programme. As part of the SAP upgrade, the system has in-built functionality to ensure compliance with the Act.

7 Adoption of new accounting standards



The Council has decided to early adopt the new accounting standard PBE IFRS9: *Financial Instruments* in preparing the 30 June 2019 financial statements.

Management is responsible for performing the necessary transition work to successfully implement this new standard. This includes:

- Documenting an impact assessment of the new standard and identifying changes required to accounting practices.
- Implementing changes to systems and processes that may be necessary to support changes in accounting practices.
- Updating the Council's accounting policies.
- When required, making adjustments to the financial statements in accordance with the transitional provisions of the new standard and providing support for these adjustments.
- Updating the Council's financial instrument related disclosures in the financial statements.
- Keeping relevant parties informed, such as your auditor and audit committee.

The transition to this new standard may be complex and time consuming for some entities. It is therefore important that the Council substantially completes its transition work on this new standard well in advance of 30 June 2019.

We are responsible for reviewing management's transition work, and ensuring transition adjustments are reasonable and complete. We encourage the Council to share its transition plan and transition work with us early in the audit process so we can agree issues and adjustments in a timely manner.

Appendix 1: Status of previous recommendations

Open recommendations

Recommendation	First raised	Status
Necessary		
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.	2016/17	<p>In progress</p> <p>Management have established an opening balance as at 1 July and are working through the remaining months to clear the revenue.</p> <p>Council has received legal advice and do not plan to clear the entire balance but are taking steps to reduce the balance based on an assessment of the likelihood of the revenue recognition criteria being met.</p>

Implemented or closed recommendations

Recommendation	First raised	Status
Beneficial		
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>	2016/17	<p>Risk accepted – matter closed</p> <p>Management accept the current process.</p> <p>The Council will consider the full activation of three-way matching as part of the SAP Suite 4 Hana conversion project.</p>

Appendix 2: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carry out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements 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 Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining systems of controls for detecting these matters.</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 the audit of the Council and its subsidiaries, excluding Lyttelton Port Company (audited by KPMG), we carried out other audit and assurance engagements for the Council and its subsidiary companies.</p> <p>The assurance engagement we carried out for the Council parent was related to:</p> <ul style="list-style-type: none"> • Council's Debenture Trust Deed. <p>The assurance engagements for the Council's subsidiaries were related to:</p> <ul style="list-style-type: none"> • Orion's annual regulatory information disclosures, prepared under the Electricity Distribution Information Disclosure Determination 2012; • Orion's annual compliance statement, prepared under the Electricity Distribution Services Default Price-Quality Path Determination 2010; • Christchurch International Airport Limited's (CIAL) annual regulatory information disclosures, prepared under the Commerce Act (Specified Airport Services Information Disclosure) Determination 2010; and • CIAL's bond registry. <p>These engagements are compatible with those independence requirements.</p> <p>Other than the audits and the other audit and assurance engagements, we have no relationship with or interests in the Council or any of its subsidiaries.</p>

Area	Key messages
Other relationships	<p>To date, 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 or its subsidiaries that is significant to the audit.</p> <p>We are aware of a situation where a staff member of Audit New Zealand accepted a position of employment with the Council during the current financial year. The staff member is employed as a financial accountant within the Financial Management Unit. The staff member was not involved in the audit of the Council while employed by Audit New Zealand, but was involved in auditing Group entities.</p>

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9. 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
10	PUBLIC EXCLUDED AUDIT AND RISK MANAGEMENT COMMITTEE MINUTES - 8 MARCH 2019			REFER TO THE PREVIOUS PUBLIC EXCLUDED REASON IN THE AGENDAS FOR THESE MEETINGS.	
11	QUARTERLY PROCUREMENT REPORT - QUARTER 3 - 2018/19	S7(2)(C)(II), S7(2)(H), S7(2)(I)	PREVENT DAMAGE TO THE PUBLIC INTEREST, 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.
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 AND IDENTIFIED CONTROL WEAKNESSES FROM BEING USED FOR IMPROPER ADVANTAGE.	WHEN THE CHIEF EXECUTIVE DETERMINES THERE ARE NO LONGER ANY REASONS TO WITHHOLD THE INFORMATION UNDER THE ACT AND THE RELEVANT INTERNAL AUDIT FINDINGS HAVE BEEN RESOLVED.
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	CYBER SECURITY PROGRAMME UPDATE	S7(2)(C)(II)	PREVENT DAMAGE TO THE PUBLIC INTEREST	DISCLOSURE OF OUR APPROACH TO CYBER SECURITY AND IDENTIFIED AREAS OF LOW MATURITY WILL INCREASE THE RISK OF COUNCIL BEING A TARGET, RESULTING IN POTENTIAL SERVICE DISRUPTIONS AND / OR INFORMATION BREACHES THAT WILL NOT BE IN THE PUBLIC INTEREST.	WHEN THE CHIEF EXECUTIVE IS SATISFIED THAT THERE ARE NO LONGER GROUNDS UNDER THE ACT FOR WITHHOLDING THE INFORMATION.