
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 3 June 2020

Time: 2pm

Venue: Council Chambers, Level 2, Civic Offices,
53 Hereford Street, Christchurch

Due to Covid-19 alert level requirements physical public access is by appointment. The public may seek to attend the public part of the meeting by contacting the Committee and Hearings Advisor with 24 hours notice to ensure gathering limits and physical distancing can be managed.

Membership

Chairperson	Ms Kim Wallace
Deputy Chairperson	Councillor Sam MacDonald
Members	Mayor Lianne Dalziel
	Ms Jacqueline Robertson Cheyne
	Mr Michael Rondel
	Councillor Pauline Cotter
	Deputy Mayor Andrew Turner

25 May 2020

Principal Advisor

Carol Bellette
General Manager Finance and
Commercial
Tel: 941 8540

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/>

Developing Resilience in the 21st Century

Strategic Framework



Whiria ngā whenu o ngā papa,
honoa ki te maurua tāuiki

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

Ōtautahi–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

Principles

Being open,
transparent and
democratically
accountable

Promoting
equity, valuing
diversity and
fostering inclusion

Taking an inter-generational approach
to sustainable development,
prioritising the social, economic
and cultural wellbeing of
people and communities
and the quality of the
environment, now
and into the
future

Building on the
relationship with
Te Rūnanga o Ngāi Tahu
and the Te Hononga–Council
Papatipu Rūnanga partnership,
reflecting mutual understanding
and respect

Ensuring
the diversity
and interests of
our communities
across the city and the
district are reflected in
decision-making

Actively collaborating and
co-operating with other
local, regional
and national
organisations

Community Outcomes

Resilient communities

Strong sense of community
Active participation in civic life
Safe and healthy communities
Celebration of our identity
through arts, culture, heritage,
sport and recreation
Valuing the voices of all cultures
and ages (including children)

Liveable city

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

Healthy environment

Healthy water bodies
High quality drinking water
Unique landscapes and
indigenous biodiversity are
valued and stewardship
exercised
Sustainable use of resources
and minimising waste

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

Enabling active
and connected
communities
to own their future

Meeting the challenge
of climate change
through every means
available

Ensuring a high quality
drinking water supply
that is safe and
sustainable

Accelerating the
momentum
the city needs

Ensuring rates are
affordable and
sustainable

Ensuring we get core business done while delivering on our Strategic Priorities and achieving our Community Outcomes

Engagement with
the community and
partners

Strategies, Plans and
Partnerships

Long Term Plan
and Annual Plan

Our service delivery
approach

Monitoring and
reporting on our
progress

AUDIT AND RISK MANAGEMENT COMMITTEE - TERMS OF REFERENCE / NGĀ ĀRAHINA MAHINGA

Chair	Kim Wallace (Independent)
Deputy Chair	Councillor MacDonald
Membership	The Mayor Deputy Mayor Turner Councillor Cotter 2 External Members: Ms Jacqueline Robertson Cheyne Mr Michael Rondel
Quorum	Decision-making authority delegated to the Chairperson, deputy Chairperson, the Deputy Mayor and Michael Rondel has the delegated authority
Meeting Cycle	Quarterly and as required
Reports To	Council

Council Resolution – 24 March 2020

At the 24 March 2020 Extraordinary Council meeting the Council resolved the following in response to the COVID-19 Emergency Period:

Amends the Terms of Reference for the Audit and Risk Management Committee by delegating decision-making within the Terms of Reference to the Chairperson, deputy Chairperson, the Deputy Mayor and Michael Rondel (one of the external members on the Committee).

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

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.

Audit and Risk Management Committee Forward Work Programme 2020

2020	Feb – Draft Annual Plan	Mar - Quarterly	Jun - Quarterly	Jun/Jul - Annual Plan	Sep – Quarterly Update	Sep - Annual Report	Dec – Quarterly Update
Quarterly Update Reports		<ul style="list-style-type: none"> • Risk Management • Internal Audit • Health, Safety & Wellbeing • Procurement 	<ul style="list-style-type: none"> • Risk Management • Internal Audit • Procurement 		<ul style="list-style-type: none"> • Risk Management • Internal Audit • Procurement 	<ul style="list-style-type: none"> • Health, Safety & Wellbeing 	<ul style="list-style-type: none"> • Risk Management • Internal Audit • Procurement
Other Reports		<ul style="list-style-type: none"> • Fraud six-month report 	<ul style="list-style-type: none"> • Internal Audit Plan 		<ul style="list-style-type: none"> • Fraud six-month report 		<ul style="list-style-type: none"> • Annual Review of Work Programme
Annual Report	<ul style="list-style-type: none"> • Management Letter from prior year's audit 	<ul style="list-style-type: none"> • External Audit Plan for current year • Critical judgments, estimates & assumptions for current year 	<ul style="list-style-type: none"> • Audit NZ Management Letter for current year interim audit 		<ul style="list-style-type: none"> • Update on critical judgments, estimates & assumptions 	<ul style="list-style-type: none"> • Financial Statements and Annual Report 	<ul style="list-style-type: none"> • Debenture trust audit report • Audit NZ Management Letter from prior year's audit
Annual Plan	<ul style="list-style-type: none"> • Draft Annual Plan 			<ul style="list-style-type: none"> • Annual Plan 			
Deep Dive Topic					<ul style="list-style-type: none"> • Risk focus TBC 		<ul style="list-style-type: none"> • Risk focus TBC

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

TABLE OF CONTENTS

C	1.	Apologies / Ngā Whakapāha.....	10
B	2.	Declarations of Interest / Ngā Whakapuaki Aronga	10
C	3.	Confirmation of Previous Minutes / Te Whakaāe o te hui o mua	10
B	4.	Public Forum / Te Huinga Whānui.....	10
B	5.	Deputations by Appointment / Ngā Huinga Whakaritenga	10
B	6.	Presentation of Petitions / Ngā Pākikitanga.....	10

STAFF REPORTS

C	7.	Audit New Zealand Report to Council on the First Interim Audit Visit for 2019/20	17
C	8.	Resolution to Exclude the Public.....	39

1. Apologies / Ngā Whakapāha

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

2. Declarations of Interest / Ngā Whakapuaki Aronga

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 / Te Whakaāe o te hui o mua

That the minutes of the Audit and Risk Management Committee meeting held on [Tuesday, 17 March 2020](#) be confirmed (refer page 11).

4. Public Forum / Te Huinga Whānui

There will be no public forum at this meeting

5. Deputations by Appointment / Ngā Huinga Whakaritenga

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

6. Petitions / Ngā Pākikitanga

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

Audit and Risk Management Committee OPEN MINUTES

Date: Tuesday 17 March 2020
Time: 1:31pm
Venue: Council Chambers, Level 2, Civic Offices,
53 Hereford Street, Christchurch

Present

Chairperson	Ms Kim Wallace
Deputy Chairperson	Councillor Sam MacDonald
Members	Mr Mark Russell
	Mr Michael Rondel
	Councillor Pauline Cotter
	Deputy Mayor Andrew Turner

17 March 2020

Acting Principal Advisor

Leonie Rae
General Manager Corporate Services

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

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

Secretarial Note: *The meeting was signposted as shifted to the adjacent Council Chambers on the day of the meeting.*

The agenda was dealt with in the following order.

1. Apologies / Ngā Whakapāha

Part C

Committee Resolved ARCM/2020/00006

That the apology received from Mayor Dalziel be accepted.

Ms Wallace/Councillor MacDonald

Carried

2. Declarations of Interest / Ngā Whakapuaki Aronga

Part B

Councillor MacDonald declared an interest in public excluded item 12.

3. Confirmation of Previous Minutes / Te Whakaāe o te hui o mua

Part C

Committee Resolved ARCM/2020/00007

That the minutes of the Audit and Risk Management Committee meeting held on Monday, 3 February 2020 be confirmed.

Ms Wallace/Deputy Mayor

Carried

4. Public Forum / Te Huinga Whānui

Part B

There were no public forum presentations.

5. Deputations by Appointment / Ngā Huinga Whakaritenga

Part B

There were no deputations by appointment.

6. Presentation of Petitions / Ngā Pākikitanga

Part B

There was no presentation of petitions.

7. Report on Critical Judgements, Estimates and Assumptions to be applied in the Council's Annual Report 2020

Committee Resolved ARCM/2020/00008 (Original Staff Recommendations Accepted without Change)

Part C

That the Audit and Risk Management Committee:

1. Notes there are no critical judgements, estimates and assumptions in the preparation of the 2020 financial statements to be included in the Annual Report.
2. Notes the changes to accounting standards for adoption by the Council when considering the Annual Report.
3. Notes that should any material issues arise during the preparation of financial statements that results in the adoption of a critical judgement, estimate or assumption, this will be reported to the Committee at the September 2020 ARMC meeting.

Ms Wallace/Mr Rondel

Carried

Committee Decided ARCM/2020/00009 (Original Staff Recommendations Accepted without Change)

Part A

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

1. Receives this report.

Ms Wallace/Mr Rondel

Carried

8. Audit Plan for the Council's 2020 Annual Report

Committee Comment

Andy Burns and Karina Page of Audit New Zealand joined the table for this item.

Committee Resolved ARCM/2020/00010 (Original Staff Recommendations Accepted without Change)

Part C

That the Audit and Risk Management Committee:

1. Notes the Audit Plan for Christchurch City Council and Consolidated Group from Audit New Zealand.

Ms Wallace/Councillor MacDonald

Carried

Committee Decided ARCM/2020/00011 (Original Staff Recommendations Accepted without Change)

Part A

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

1. Receives this report and authorises the Mayor to sign the Audit Engagement Letter for 2020 audit on behalf of the Council.

Ms Wallace/Councillor MacDonald

Carried

9. Health, Safety and Wellbeing Dashboard

Committee Resolved ARCM/2020/00012 (Original Staff Recommendations Accepted without Change)

Part C

That the Audit and Risk Management Committee:

1. Notes the Christchurch City Council Health, Safety and Wellbeing Dashboard as received and considered by the Health, Safety and Wellbeing Committee (HSWC) on 4 March 2020.
2. Notes that the Council has tasked the HSWC with assisting it to discharge its due diligence responsibilities as a Person Conducting a Business or Undertaking (PCBU), and the Audit and Risk Management Committee does not replicate HSWC's task, but notes that there are risk management and assurance processes in place.

Councillor Cotter/Ms Wallace

Carried

10 Resolution to Exclude the Public

Committee Resolved ARCM/2020/00013

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:

- David Seath of Deloitte, and Andy Burns and Karina Page of Audit New Zealand, for:
 - Item 12, Quarterly Procurement Report;
 - Item 13, Risk Management Status Report;
 - Item 14, Fraud Status Report;
 - Items 15, Internal Audit Status Report;

AND

That at 1:48pm the resolution to exclude the public set out on pages 56 to 59 of the agenda be adopted.

Ms Wallace/Deputy Mayor

Carried

The public were re-admitted to the meeting at 3:30pm.

The Committee at the conclusion of the meeting thanked Mr Michael Rondel and Mr Mark Russell for their concluding terms of service to the Committee.

Meeting concluded at 3:34pm.

CONFIRMED THIS 3rd DAY OF JUNE 2020

**KIM WALLACE
CHAIRPERSON**

Unconfirmed

7. Audit New Zealand Report to Council on the First Interim Audit Visit for 2019/20

Reference / Te Tohutoro: 20/425505

Report of / Te Pou
Matua:

Len van Hout; Manager External Reporting and Governance

General Manager /
Pouwhakarae:

Carol Bellette; General Manager Finance and Commercial

1. Brief Summary

- 1.1 The purpose of this report is receive the report on the first interim audit for 2019/20 and consider management's responses to matters raised by Audit NZ.

2. Officer Recommendations / Ngā Tūtohu

That the Audit and Risk Management Committee:

1. Receive the report and consider the recommendations made by Audit New Zealand from the first interim audit for 2019/20 and management's responses to these.
2. Recommend to Council that the Audit New Zealand Report on the first interim audit for 2019/20 be received.

3. Background

- 3.1 Audit NZ have completed their first interim audit in preparation for their audit of the 2019/20 financial statements. The key focus of the visit was to be aware of any changes to the internal control environment and walk through processes to confirm compliance to that environment.
- 3.2 They have issued a report which identifies two matters that are a departure from the existing internal control environment.
- 3.3 The matters raised relate to
 - 3.3.1 Timely review of Human Resources records for new staff; and
 - 3.3.2 Inadequate training and oversight of new staff within the rates team who are responsible for making manual updates to reflect changes to rates accounts.
- 3.4 Management have responded to these matters and where appropriate have addressed the shortcomings in resource management and staff training.
- 3.5 Audit NZ have also recommended changes to our sensitive expenditure policy of Council to more align with best practice. These suggestions have been adopted immediately.

Attachments / Ngā Tāpirihanga

No.	Title	Page
A ↓	Audit NZ Report on First Interim Audit 2019/20	19

In addition to the attached documents, the following background information is available:

Document Name	Location / File Link
Not Applicable	

Confirmation of Statutory Compliance / Te Whakatūturutanga ā-Ture

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 / Ngā Kaiwaitohu

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

Report to the Council on the interim audit of

Christchurch City Council

For the year ending 30 June 2020

Contents

Key messages	3
1 Recommendations	5
2 Covid 19.....	6
3 Assessment of internal control	7
4 Information systems and controls	11
5 Service performance systems and controls	12
6 Audit risks identified in the audit plan.....	13
7 Other matters	16
8 Long Term Plan 2021 - 2031	17
Appendix 1: Status of previous recommendations	18
Appendix 2: Disclosures	19

Key messages

This report outlines the work we have performed to date and our findings from the interim audit visits conducted in March 2020. We have scheduled a further visit in June 2020 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 Christchurch City Council's (the Council) control environment and systems of internal control relevant to the audit. We have updated our notes of Council's key financial systems and internal controls and tested payroll and expenditure controls. 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 2019/20 Annual Plan. Our review also covered the systems that support the mandatory performance measures that Council are required to report on.

COVID-19

As you will all be fully aware, COVID-19 has had many impacts on how Council carries out its daily business. This will also impact how it operates, accounts for transactions and reports on them in the financial statements and service performance information, potentially the control environment overall, and even financial viability.

We are aware that Council's finance team has already been active in preparing a financial reporting impact assessment document which is to be used to consider the potential impacts for Council and its group entities. We strongly commend this initiative, and look forward to continuing to work closely with the team as the results are collated and reported.

We will discuss with the Audit & Risk Committee any specific additional audit risks we need to respond to, any impact on audit timing, and how to complete the audit with the Council as efficiently as possible.

Other key matters for the final audit

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

- the revaluation of Council's water network asset class;
- assessment of the carrying values of other property, plant and equipment (PPE);
- review of the Council's consolidation following the adoption of the new accounting standard PBE IPSAS 35 to 38;

- review of the Council's financial instruments following the early adoption of the new accounting standard PBE IPSAS 41;
- review of the costs coded to PPE additions, work-in-progress and operational expenditure; and
- review of the management's assessment of provision for Holiday Pay liabilities.

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 2020.

Thank you

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



Andy Burns
Appointed Auditor
6 May 2020

1 Recommendations



Our recommendations for improvement and their priority are based on our assessment of how far short current practice is from a standard that is appropriate for the size, nature, and complexity of your business. We use the following priority ratings for our recommendations.

Explanation	Priority
Needs to be addressed <i>urgently</i> These recommendations relate to a significant deficiency that exposes the Local Government - City Council to significant risk or for any other reason need to be addressed without delay.	Urgent
Address at the earliest reasonable opportunity, <i>generally within six months</i> These recommendations relate to deficiencies that need to be addressed to meet expected standards of best practice. These include any control weakness that could undermine the system of internal control.	Necessary
Address, <i>generally within six to 12 months</i> These recommendations relate to areas where the Local Government - City Council is falling short of best practice. In our view it is beneficial for management to address these, provided the benefits outweigh the costs.	Beneficial

1.1 New recommendations

The following table summarises our new recommendations and their priority.

Recommendation	Reference	Priority
Practice timely independent review of the Human Resources Masterfile changes.	3.2.1	Necessary
Regularly review rateable properties set up in the rates system as 50% rateable or 100% non-rateable to confirm correct classification.	3.3	Beneficial
Review sensitive expenditure policies to comply with the Office of Auditor-General's good practice publication.	7.1	Beneficial

2 Covid 19

The announcement that the COVID-19 virus is a global pandemic has had a significant impact on the majority of organisations and its people across the globe. On March 11 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic and two weeks later the New Zealand Government declared a State of National Emergency. From this the country is at alert level 4, and in lockdown. As a result, economic uncertainties have arisen which are likely to negatively affect the Council and group's operations and services.

As you will all be fully aware, COVID-19 has had many impacts on how Council carries out its daily business. This will also impact how it operates, accounts for transactions and reports on them in the financial statements and service performance information, potentially the control environment overall, and even financial viability.

Our assessment of risk is also affected by our understanding of the control environment. In particular we will want to understand the following:

- how Council is participating in key decisions as a result of COVID-19;
- any major changes in the operating characteristics of the group;
- how are management and the Council including COVID -19 related issues in the risk management processes; and
- how management are identifying and recording any additional COVID-19 related costs.

We are aware that Council's finance team has already been active in preparing an impact assessment document which is to be used to consider the potential financial reporting impacts for Council and its group entities. We strongly commend this initiative.

We will continue to work with management to keep up to date understanding of what changes are happening as a result of COVID-19 across the group, and in turn, understand if any of these changes result in new risks or changes to the level of risk we had previously identified. We will discuss with the Audit & Risk Committee any specific additional audit risks we need to respond to, and how to complete the audit with the Council as efficiently as possible.

Given the significance of the impact already, there may well be an impact on the audit opinion, which we will also work through with the Audit & Risk Committee if needed.

Much of the work completed and summarised below relates to the period up to early March 2020, prior to the current lockdown. During our pre-final visit in June we will complete further testing to confirm that controls continued to operate over this period.

3 Assessment of internal control



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 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 for internal controls relevant to the audit.

3.1 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 its 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.

We have no findings to bring to your attention. Council has established processes and regular reporting to management and governance.

Other areas of Council's broader control environment include procurement and contract management and project governance. 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 progress and outcome of Council's post implementation review of the Town Hall project; and

- a review of selected procurement and contract management practices for compliance against Council policy requirements and good practice, as appropriate.

This work will be performed in as part of our second interim visit in June 2020 and at the final audit visit. Our findings will be included in our next report to Council. We will liaise with internal audit to ensure that any work does not duplicate, but complements, its programme of work.

3.2 Internal controls

Internal controls are the policies and processes that are designed to provide reasonable assurance as to the reliability and accuracy of financial and non-financial reporting. These internal controls are designed, implemented and maintained by the Council and management.

We reviewed the internal controls, in your information systems and related business processes. This included the controls in place for your key financial and non-financial information systems.

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, and development contributions;
- treasury management systems, including investment and debt management and hedging;
- general financial systems, including journals; and
- vested assets.

Due to staff unavailability, we were unable to review the internal controls over NZTA subsidies and property, plant and equipment assets including infrastructure and

operational assets. This work will be performed as part of our second interim visit in June 2020.

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 will complete our testing of those controls in June. We plan to rely on these controls to gain audit assurance over these account balances for the year ending 30 June 2020.

The new issues we want to bring to your attention has been outlined in section 1.1 and in more detail below.

In sections 3 and 4, we comment on our findings from our review of information and service performance systems and controls.

3.2.1 Practice timely review of Human Resources Masterfile changes

Findings

During our review of the internal controls around the payroll system, we identified several instances where the changes made in the Human Resources Masterfile were not being reviewed in a timely manner. The longest time gap we identified related to a change made on 25 September 2019, with the independent review performed on 11 March 2020 (approximately six months delay).

Recommendation

To ensure all changes made are appropriate, and any potential errors are identified in a timely manner, we recommend the Council ensure the independent review is performed on a timelier basis.

Management comment

The HR Administration Team understands the importance of ensuring timely review of Human Resources Masterfile changes and is committed to improving practice.

Legislation changes, such as the reintroduction of the 30 day rule, and an increase in the number of employees that the HR Administration Team support, has meant that the team has fallen behind in reviewing HR Masterfile data changes (checking) due to the volume of additional paperwork that has been created. Also, three new HR Administrators joined the team in the last six months and the time required for them to learn the role has impacted on the team's ability to complete the checking process in a timely manner.

In the last two months the HR Administration Team have come up with ways to ensure we keep on top of our checking. These measures include a new Checking process document and a training session for our new Administrators on how to undertake this task. The HR Administrators have each made a commitment to do three hours of checking per week to

ensure we do not get behind again. I will continue to reiterate with the team how important this task is and follow up with team members on their progress with this on a regular basis.

We no longer have the two casual resources to assist us however with their help they have put us in a much better position to be able to undertake this process in a more timely manner.

3.3 Review of rateable properties

Findings

During our review of the internal controls around the rates revenue system, we came across an instance where a property was incorrectly classified in the rates system. The property was classified as 50% rateable, when it should have been 100% rateable.

Through discussion, we noted this is due to human error when manually inputting the details into the system and this has been subsequently fixed. We understand from further discussions with Council staff that they plan to review a sample of 50% rateable and 100% non-rateable properties to confirm there are no other errors.

Recommendation

Council regularly review rateable properties set up in the rates system as 50% rateable or 100% non-rateable to confirm correct classification.

Management comment

The issue raised has been identified as a “gap” in the training of new staff in relation to non-standard rates settings. The accuracy and completeness of rating records will be reinforced in the training of new staff. In addition, where necessary, the existing manual processes for loading rates accounts will be amended to include a quality assurance review of the keyed input to ensure that the new rates accounts with non-standard rates settings are loaded correctly particularly when the records have been created by a new staff member.

4 Information systems and controls



As part of our assessment of Council's systems and controls, we intend to review the Council's information systems and processes. This work will be carried out by our Information Systems auditors and consist of a high level assessment of the overall effectiveness of IT Governance processes. We will consider 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.

Consistent with previous years, we will test a selection of payroll and expenditure automated controls, to confirm they are operating as described.

This work will be completed on a later date and the findings will be reported in our next report to Council.

5 Service performance systems and controls



We reviewed Council's overall systems and controls for monitoring and reporting its service performance information. We have selected a suite of performance measures (mainly in the infrastructure areas) as material measures for the audit. For those material measures, we focused on understanding whether the Council has appropriate systems in place to accurately report against those measures.

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:

- roads and footpaths;
- transport;
- drinking water safety;
- wastewater and
- stormwater drainage.

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. We have no new findings to report.

Please note that due to staff being unavailable during our interim visit, we were unable to review the internal controls for water supply and wastewater collection, treatment and disposal. This work will be performed as part of our second interim visit in June 2020.

6 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 20 February 2020. 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>The Council has engaged the respective valuers and timetables have been put in place to perform these valuations.</p> <p>At the moment, the Council will be revaluing the water network alongside public art and marine structures in 2019/20 financial year.</p> <p>Our review of the valuations is scheduled to take place as part of our final audit visit commencing in July 2020. If the information is available, we will review the revaluations as part of our second interim visit in June 2020.</p>
Fair value assessment of property, plant and equipment (not subject to revaluation this year)	<p>The Council has several asset classes carried at fair value that are not being revalued this year. For the classes of assets the Council don't intend to revalue in 2019/20, we will review the Council's fair value assessment at our visit June to confirm there is not a material difference between the carrying values and fair values.</p>
Holidays Act 2003 compliance	<p>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:</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>We will discuss the outcome of this process with management. We will obtain management's assessment of whether a provision, liability or contingent liability should be recognised in the financial statements.</p>

Audit risk/issue	Current status
	<p>We will review the assessment to confirm whether the judgements made are in accordance with the relevant accounting standards.</p> <p>We will review this matter in the final audit in July.</p>
<p>New accounting standards (the Council and group)</p>	<p>Public benefit entities must apply the new “group” accounting standards, PBE IPSAS 34 <i>Separate Financial Statements</i>, PBE IPSAS 35 <i>Consolidated Financial Statements</i>, PBE IPSAS 36 <i>Investments in Associates and Joint Ventures</i>, PBE IPSAS 37 <i>Joint Arrangements</i>, and PBE IPSAS 38 <i>Disclosure of Interest in Other Entities</i>, in preparing their 30 June 2020 financial statements.</p> <p>Management has performed a review of the new consolidation standard – PBE IPSAS 35: <i>Consolidated Financial Statements</i>. Management concluded there was no impact from the adoption of the new standard.</p> <p>Management has also advised the Council that they will be early adopting PBE IPSAS 41: <i>Financial Instruments</i>. The assessment prepared to date has indicated that the impact of this standard will not be significant.</p> <p>We have been provided with the assessment of PBE IPSAS 35: <i>Consolidated Financial Statements</i>, we have not concluded on the assessment yet. We will review the assessment prior to the second interim visit in June 2020 and discuss with management.</p>
<p>Capital asset additions and work-in-progress (WIP)</p>	<p>As part of our pre-final audit visit in June 2020 and our final audit visit commencing in July 2020, we will test a sample of capital expenditure to determine whether expenditure has been appropriately categorised as either capital asset additions, WIP additions or operational expenditure.</p>
<p>Management override of controls</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 journals, estimates and other accounting judgements.</p>
<p>Procurement, contract management and project governance</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 have a focus on Council’s developments in the areas of procurement, contract management and project governance.</p>

Audit risk/issue	Current status
	<p>As noted above in section 2.1, we intend to utilise a specialist from our Specialist Audit and Assurance Services team to perform this work.</p> <p>This work will be completed on a later date and the findings will be reported in our next report to Council.</p>

7 Other matters



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

7.1 Review sensitive expenditure policies

Findings

In recent times, the media has reported on inappropriate spending of public money by senior management and the governance of public entities. Audit New Zealand has responded to these reports by reviewing the policies and procedures public entities have in place in detail against the Office of the Auditor-General's good practice publications on sensitive expenditure (<https://oag.parliament.nz/2007/sensitive-expenditure>).

When we compared Council's policies against the good-practice publication, we identified a few minor areas that were not covered, they are summarised below:

- set out requirements regarding the allowance, or not, for credit card cash advances;
- include guidance on taking annual leave, or staying away over weekends during work related travel; and
- specify the most economical type and size of rental car suitable for the planned travel (taking into account the number of passengers, distance to be travelled) to be used.

Recommendation

Council considers including the above areas when it next updates its policies.

Management comment

The travel policy and procedures have been updated to incorporate the suggested changes in line with the good practice guidelines.

Copies of updated policies can be made available to Audit NZ during the second interim visit.

8 Long Term Plan 2021 - 2031

We understand Council has started its preparation for the Long Term Plan 2021 -2031. We have had some initial discussions with Council staff. We will continue to meet with Council staff throughout the year and start our detailed audit work closer to the end of 2020.

Assuming that the Long Term Plan process continues as currently planned, we will issue separate letters in the coming months which will summarise the timetable, team, audit fee and areas of audit focus.

Appendix 1: Status of previous recommendations

Open recommendations

There are no outstanding open recommendations.

Implemented or closed 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	Implemented In 2018/19, Management established an opening balance as at 1 July and worked through the remaining months to clear the revenue. Council has received legal advice and does not plan to clear the entire balance but is taking steps to reduce the balance to a minimal level based on an assessment of the likelihood of the revenue recognition criteria being met. We intend to follow up on the status of this recommendation at our final audit visit. Depending on the progress made, we will consider whether we close this recommendation.

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 Local Government - City 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>To date, other than the audit, we have no relationship with, or interests in, the Local Government - City Council or its subsidiaries.</p> <p>We plan to carry out the 2019/20 Debenture Trust Deed engagement in 2020.</p>
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 Local Government - City Council or its subsidiaries that is significant to the audit.</p> <p>We are not aware of any situations to date where a staff member of Audit New Zealand has accepted a position of employment with the Local Government - City Council or its subsidiaries during or since the end of the financial year.</p>

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Level 3, 335 Lincoln Road
PO Box 2
Christchurch 8140

www.auditnz.parliament.nz



8. 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
9	PUBLIC EXCLUDED AUDIT AND RISK MANAGEMENT COMMITTEE MINUTES - 17 MARCH 2020			REFER TO THE PREVIOUS PUBLIC EXCLUDED REASON IN THE AGENDAS FOR THESE MEETINGS.	
10	QUARTERLY PROCUREMENT REPORT	S7(2)(B)(II), S7(2)(H), S7(2)(I)	PREJUDICE COMMERCIAL POSITION, COMMERCIAL ACTIVITIES, CONDUCT NEGOTIATIONS	TO PREVENT INFORMATION BEING RELEASED THAT COULD BE USED FOR IMPROPER COMMERCIAL ADVANTAGE OR THAT NEEDS TO BE WITHHELD TO AVOID PREJUDICE TO THE COUNCIL'S OR ITS SUPPLY CHAIN'S COMMERCIAL POSITION.	DUE TO THE NATURE AND SENSITIVITY OF THIS INFORMATION, IT IS NOT ANTICIPATED THAT THERE WILL BE A SPECIFIC DATE OR EVENT THAT ALLOWS FOR THE RELEASE OF THIS INFORMATION. THE INFORMATION WILL BE RELEASED IN FULL OR PART, AS APPROPRIATE UPON PERIODICAL REVIEW BY THE HEAD OF PROCUREMENT AND CONTRACTS, WHEN IT IS NO LONGER DEEMED TO IDENTIFY SENSITIVE COMMERCIAL INFORMATION FOR THE COUNCIL OR ITS SUPPLY CHAIN.

11	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	TO PREVENT THE USE OF INTERNAL AUDIT FINDINGS AND IDENTIFIED CONTROL WEAKNESSES FROM BEING USED FOR IMPROPER ADVANTAGE.	DUE TO THE NATURE AND SENSITIVITY OF THIS INFORMATION, IT IS NOT ANTICIPATED THAT THERE BE A SPECIFIC DATE OR EVENT THAT ALLOWS FOR THE RELEASE OF THIS INFORMATION. THE INFORMATION WILL BE RELEASED IN FULL OR PART AS APPROPRIATE UPON PERIODICAL REVIEW BY THE HEAD OF AUDIT AND RISK AND WHEN IT IS NO LONGER DEEMED TO IDENTIFY CONTROL WEAKNESSES THAT COULD BE USED FOR IMPROPER ADVANTAGE AND NO LONGER NEEDS TO BE WITHHELD TO PROTECT FROM IMPROPER PRESSURE OR HARASSMENT AFFECTING THE CONDUCT OF PUBLIC AFFAIRS.
----	------------------------------	--	--	---	---

12	RISK MANAGEMENT STATUS REPORT	S7(2)(C)(II), S7(2)(F)(II)	PREVENT DAMAGE TO THE PUBLIC INTEREST, PROTECTION FROM IMPROPER PRESSURE OR HARASSMENT	TO PREVENT IMPROPER USE OR MISINTERPRETATION OF THIS INFORMATION.	DUE TO THE NATURE AND SENSITIVITY OF THIS INFORMATION, IT IS NOT ANTICIPATED THAT THERE BE A SPECIFIC DATE OR EVENT THAT ALLOWS FOR THE RELEASE OF THIS INFORMATION. THE INFORMATION WILL BE RELEASED IN FULL OR PART AS APPROPRIATE UPON PERIODICAL REVIEW BY THE HEAD OF AUDIT AND RISK AND WHEN IT IS NO LONGER SUBJECT TO AN OBLIGATION OF CONFIDENCE OR BEING PROVIDED UNDER COMPULSION WHERE RELEASE WOULD LIKELY DAMAGE THE PUBLIC INTEREST AND NO LONGER NEEDS TO BE WITHHELD TO PROTECT FROM IMPROPER PRESSURE OR HARASSMENT AFFECTING THE
----	-------------------------------	-------------------------------	--	---	---

					CONDUCT OF PUBLIC AFFAIRS.
--	--	--	--	--	----------------------------