

Notice of Meeting:

I hereby give notice that an ordinary meeting of Audit & Risk Committee will be held on:

Date: Wednesday 8 June 2016
Time: 2:30pm
Meeting Room: Committee Room 1
Venue: Municipal Building, Garden Place, Hamilton

Richard Briggs
Chief Executive

Audit & Risk Committee OPEN AGENDA

Membership

Chairperson Mr Paul Connell
Members Mr Tony Steele
Her Worship the Mayor J Hardaker
Cr A O'Leary
Cr R Pascoe

Quorum: Three Members (including one external appointee)

Meeting Frequency: Quarterly

Mary Birch
Committee Advisor
1 June 2016
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Terms of Reference:

The role and scope of the Audit and Risk Committee is defined in the Audit and Risk Committee Charter.

Special Notes:

- The Chief executive and Internal Auditor are required to attend all meetings but are not members and have no voting rights.
- Members are appointed for an initial term of no more than three years that aligns with the triennial elections, after which they may be eligible for extension or reappointment.
- Appointment of external members is by contract.
- External member contracts are to be reviewed and assessed six (6) months after each triennial election.

Power to act:

- The committee has no decision making powers.
- The committee may request expert advice through the Chief Executive when necessary.

Power to recommend:

This Committee may make recommendations:

- To Council.
- To the Chief Executive.

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1 Apologies

2 Confirmation of Agenda

The Committee to confirm the agenda.

3 Declaration of Interest

Members are reminded of the need to be vigilant 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.

4 Public Forum

Not required.

Committee: Audit & Risk Committee **Date:** 8 June 2016
Report Name: Minutes of the Audit and Risk Committee Meeting Open - held on 23 March 2016 **Author:** Mary Birch

Status	<i>Open</i>
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Recommendation

That the Committee confirm and adopt as a true and correct record the open Minutes of the Audit and Risk Committee Meeting held on 23 March 2016.

1. Attachments

- Attachment 1 - Audit and Risk Subcommittee - Open Minutes - 23 March 2016

Audit & Risk Committee

OPEN MINUTES

Minutes of a meeting of the Audit & Risk Committee held in Committee Room 1, Municipal Building, Garden Place, Hamilton on Wednesday 23 March 2016 at 2:30pm.

PRESENT

Chairperson	Mr Paul Connell
Members	Mr Tony Steele Her Worship the Mayor Julie Hardaker Cr Angela O'Leary Cr Rob Pascoe
In Attendance	Richard Briggs – Chief Executive Kelvyn Eglinton – General Manager City Growth Lance Vervoort – General Manager – Community Sean Murray – Director H3 & Events Helen Paki - Group Business Manager Community Stephen Standley – Zoo Director, Hamilton Zoo Barnaby Pace – Risk Manager Tracey Musty – Financial Controller Tracey Stevenson – Health and Safety Manager Diane Crawford – Senior Communication Advisor Irene James – Finance Manager H3 Andrew Holmes PwC Yoonyoung Y Lee - PwC Leon Pieterse – Audit New Zealand Naude Kotze – Audit New Zealand
Democracy Advisor	Mary Birch – Democracy Team Leader

1. Apologies

There were no apologies from Committee Members. However, the Chair noted that apologies had been received from Audit New Zealand staff for lateness.

2. Confirmation of Agenda

Resolved: (Mr Connell/Cr O'Leary)

The Committee to confirm the agenda.

3. Declarations of Interest

The Chair declared an interest relating to Item 9 - *Health and Safety Update*. He explained that he was a Director of Telarc Limited, a company involved in the health and safety industry.

4. Public Forum

Not required.

5. Minutes of the Audit and Risk Committee Meeting Open - held on 26 November 2016

Resolved: (Her Worship the Mayor Hardaker/Pascoe)

That the Committee confirm and adopt as a true and correct record the open Minutes of the Audit and Risk Committee Meeting held on 26 November 2016.

The following matters were noted in relation to the Minutes:

- a) **Underground Infrastructure Insurance** – Clarity had previously been requested regarding who was responsible for the cover of underground infrastructure. The Chief Executive (CE) would ensure that this was followed up.
- b) **Senior Leadership Team (SLT) Review of Insurance Cover** – The asset re-valuations were still being worked though. The Committee requested a timeline regarding this work and when the SLT would be reviewing the cover. The CE would forward this to Committee Members.
- c) **Maximum Probable Loss** - The CE advised that there had been a review of the maximum probable loss; he would provide an update to Committee Members.
- d) **Health and Safety Briefing to Elected Members** – This briefing had not yet taken place. It was important that Elected Members understood their duty of care obligations in a local government setting. The CE would arrange for the briefing to take place. The Chair would be in attendance.
- e) **Work In Progress** – Staff had not yet reported back to the Committee on this matter. A report was still required and would come back to the next meeting.
- f) **Action List** - It was requested that the Democracy Advisor produced an Action List; the Action list was to be circulated to Committee Members.
- g) **Movement of Funds** – Communication with the Roman Catholic Schools Fund and Dame Hilda Ross Funds in respect of the movement from reserves to general funds was still to be undertaken.

It was agreed that Item 6 - *Recommended dates for reports to be presented to Audit and Risk Committee* would be deferred until later in the Meeting, to enable Audit New Zealand staff to comment.

7. Organisational Risk Report

The CE introduced the report. It was noted that the Risk Management Workshop for Committee Members and the SLT, to discuss the material risks identified by the SLT, had taken place on 10 March 2016. An informal workshop would be arranged for Committee Members to cover off the outcomes of the 10 March Risk Management Workshop; staff would report back at the next Committee Meeting. A report would also go to Council, to ensure that Elected Members were updated.

Resolved: (Cr Pascoe/Mr Steele)

That the report be received.

8. Organisational Improvement Work Programme Status Report

The CE and the Risk Manager (“the Manager”) spoke to this report. The Manager tabled an updated attachment: *Organisational Improvements Control List*.

Project Management Office (PMO) – The role of PMO Manager had remained vacant for over four months; General Manager (GM) Corporate was to review and recruit for this role. In the absence of the PMO Manager, third party expertise associated with the projects and external contractors were being utilised. It was recognised that the organisation needed to prioritise and focus on the high risk projects. The CE advised that the SLT went through the key projects during their weekly operational meeting; Committee Members would be taken through the Operational Management Room. There were good PMOs throughout the organisation; City Infrastructure had a robust system in place.

Resolved: (Cr Pascoe/Mr Steele)

That the report be received.

9. Health and Safety Update

Health and Safety Manager introduced this report. She updated the Committee in relation to, and responded to questions on, the following matters:

- a) **Project Charter** – This was a work in progress. The new legislation provided an opportunity to do a complete review in order to capture best practice. It was anticipated that this would be completed by the end of June 2016.
- b) **Working Party** - Staff were also working with the Health and Safety Working Party that had been set up by the Waikato Local Authority Shared Services.
- c) **Consultation with Contractors** – This would become a statutory obligation. Staff were already working with other territorial authorities and Worksafe NZ on this matter, particularly in the area of overlapping duties and responsibilities. Health and Safety Reports were considered at contract meetings but were not collated at an organisational level.
- d) **Volunteer Workers** – This was now being well managed; volunteers were the same as paid workers in respect of health and safety issues.
- e) **ACC** – ACC concentrated primarily on rehabilitation and getting people back to work.

It was recognised that health and safety best practice needed to be embedded in the culture within the organisation, led by the SLT. The Health and Safety Leadership Forum would be accessing external support to drive the change in culture across Council.

Resolved: (Mr Connell/Cr O'Leary)

That the report be received.

10. PWC Internal Audit Update

Andrew Holmes and Yoonyoung Y Lee, PwC introduced this report. Due to the new appointments of the GM Corporate and the Financial Controller, the strategy and model for the internal audit programme was currently being worked through.

Resolved: (Her Worship the Mayor Hardaker/Cr O'Leary)

That the report be received.

11. Fitch Annual Rating Report

The Financial Controller introduced this report. Council's credit ratings had been maintained at AA- (long term) and F1+ (Short term). The following points were noted:

- a) This was a very positive review by FitchRatings which acknowledged Hamilton City Council's (HCC) improved financial performance.
- b) There had been a slight improvement on the previous year.
- c) HCC had no control over the choice of peer comparisons, which included Paris and Invercargill.
- d) The report mentioned that the six new Councillors, elected in October 2013, had solid financial experience and that this had helped to strengthen Hamilton's governance and risk management.
- e) Whilst up-to-date information had been provided to FitchRatings, the fact that the graphs on the FitchRatings Public Finance Report only showed 2013 data, perhaps reflected the availability of data provided by the peer comparisons.

Resolved: (Mr Connell/Cr O'Leary)

That the report be received.

12. Audit and Risk Committee Self Review

The Chair introduced this report. He explained that his report was factual and covered what the Committee had achieved. The following points were noted by the Committee:

- a) Risk Management – This was a journey and HCC was heading in the right direction.
- b) Many other territorial authorities used HCC's model, indicating that the Committee was recognised as a benchmark for best practice.
- c) There was a high level of comfort over the scrutiny of matters.
- d) External assessment was critical and the key to having robust scrutiny in place.
- e) The Action List would provide additional support in this area.

Resolved: (Messrs Connell/ Steele)

That:

- a) the report be received; and
- b) the Audit and Risk Committee was operating effectively.

13. Annual Report 2016 Planning Update

The Financial Controller introduced this report. She confirmed that:

- a) **Key Dates**
 - i. 30 August 2016 – this would be an informal Audit and Risk catch up with Audit New Zealand; any potential issues would be flagged.
 - ii. 13 September 2016 – Audit and Risk Committee Meeting – Audit New Zealand would provide verbal audit clearance sign off.

- b) **Council Controlled Organisations (CCOs)** – Staff were liaising with the CCOs to ensure that timely information was produced, which effectively meant that the information was to be provided to HCC earlier. Good communications with the CCOs had been set up to support this.

- c) **Treasury Accountant** - Whilst the role of Treasury Accountant remained vacant since the resignation of David Leong in April 2015, the work was being covered by three to four finance staff; the Financial Controller was currently working through a restructure of the unit.

- d) **Timeframes** - The timeframes for carrying out the relevant work were appropriate.

Resolved: (Messrs Connell/ Steele)

That the report be received.

Item 6 was taken next, as agreed by the Committee at the conclusion of Item 5.

6. Recommended dates for reports to be presented to Audit and Risk Committee

The Action List was to be introduced as a Standard Report at all future Audit and Risk Committee Meetings.

It was noted that the Governance Structure for the next triennium would be determined by the newly elected mayor. Consequently, it was not possible to arrange Committee Meetings until the new structure had been established.

Resolved: (Messrs Connell/ Steele)

That the report be received, noting that the dates for meetings after the Local Government Elections in October 2016 were still to be confirmed.

14. Audit Planning for 2016

The Financial Controller spoke to this report in conjunction with Leon Pieterse and Naude Kotze, Audit New Zealand. Audit New Zealand confirmed that the format of the report document had been changed and shortened. The areas of audit focus had already been highlighted and HCC had set out its expectations to ensure that there was an agreed approach to completing the audit in a timely manner. Committee Members requested an opportunity to see the accounts before they were locked down; it was confirmed that the 30 August 2016 informal meeting would provide guidance to the Committee.

Committee Members commented on the following:

- a) The CCOs were owned by HCC, therefore, the CCOs needed to align with HCC timeframes.
- b) Early communication strategies were required and this needed to be highlighted at the next CCO Subcommittee.
- c) Councillor Garry Mallet, Chair of the CCO Subcommittee, should be updated accordingly.

Resolved: (Mr Steele/Cr O'Leary)

That the report be received.

15. 2015 Final Audit New Zealand Management Report

The Financial Controller spoke to this report. It was noted that:

- a) **Focus** - The focus had been directed to areas where there had been issues in the past.
- b) **Work In Progress** - A more regular and systematic approach to capitalising Work In Progress throughout the year was needed.
- c) **Revaluations** - Revaluations had become more robust and Hansen had the functionality to complete these annually rather than every three years.
- d) **Asset Management** - Improvements had been made to the asset management processes and the CE would update the Committee on the status of work being undertaken by Paul Gower, Programme Manager – Growth and Assets, Asset Management Plans, Centre of Excellence and Hansen.
- e) **Resourcing** - Whilst HCC was currently under resourced in the areas of PMO, asset management and the CCOs, external contractors were brought in to provide the necessary cover.
- f) **Gifts and Hospitality** – the Policy needed to be reviewed; responsibility for the process remained with the GM Corporate. An update on this matter was to be provided to the Committee.
- g) **Sensitive Expenditure Policy** - Staff were asked to confirm whether this Policy also required review.
- h) **Payroll System** - The necessary controls were now in place.
- i) **Outstanding Issues** – There was concern that previous outstanding matters were not always being addressed. These matters needed to be captured on an the organisational improvements list, with due dates included.

Director H3 and Events introduced Irene James, the new Finance Manager H3. The majority of the issues raised in respect of H3 internal controls had now been addressed and would be completed within the next two months. An Integrity Control Register had been established within H3 to manage the recording of key integrity checks.

Resolved: (Mr Steele/Cr O’Leary)

That the report be received.

16. Resolution to Exclude the Public

Resolved: (Mr Connell/Cr Pascoe)

Section 48, Local Government Official Information and Meetings Act 1987

The following motion is submitted for consideration:

That the public be excluded from the following parts of the proceedings of this meeting, namely consideration of the public excluded agenda.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution follows.

General subject of each matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
C1. Minutes of the Audit and Risk Committee Meeting - Public Excluded - 26 November 2016) Good reason to withhold information exists under Section 7 Local Government Official Information and Meetings Act 1987	Section 48(1)(a)
C2. Hamilton Zoo Investigation Update)	
C3. PwC - Internal Audit Status Report		
C4. Cyber Security Risk Update		

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, as follows:

Item C1.	to enable Council to carry out commercial activities without disadvantage	Section 7 (2) (h) Section 7 (2) (i)
Item C2.	to enable Council to carry out negotiations	
Item C3.	to maintain legal professional privilege	Section 7 (2) (g)
Item C4.	to enable Council to carry out commercial activities without disadvantage	Section 7 (2) (h)
Item C4.	to prevent the disclosure or use of official information for improper gain or improper advantage	Section 7 (2) (j)

The Meeting adjourned (4.20pm to 4.27pm) and moved into a Public Excluded session (4.27pm to 5.55pm).

The Meeting was declared closed at 5.55pm.

Committee: Audit & Risk Committee **Date:** 8 June 2016
Report Name: Audit and Risk Subcommittee - **Author:** Mary Birch
Action List (Open) - 8 June
2016

Status	<i>Open</i>
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Recommendation

That the Report be received.

1. Attachments

- Attachment 1 - Audit and Risk Subcommittee - Open Action List - 8 June 2016

**AUDIT AND RISK
Action List - 2013-16**

OPEN

Ref.	GM Responsible	Action	DUE DATE for reporting back	Status (relative to due by date)	Notes
1	GM Corporate	Clarify for insurance purposes, where the responsibility for underground infrastructure lies on private/public land - HCC or the property owner	08-Jun-16	In progress	<p>Aon's formal response regarding insurance provision for residential underground services and where is the "cut-off":</p> <p>Coverage: Our domestic expert has reviewed both policies we provide and those of our competitors. Under the general definition of home it details the following as forming part of the home: "public utility services supplying the residential dwelling(s) and/or any of its outbuildings included above, such as: power and telephone lines, data cables, supply and waste water pipes." In addition to the above, under the EQC definition of what is covered it also refers to the following: "Services that you own (e.g. water pipes and electrical cables) up to 60 metres from the dwelling." Based on the above, we would suggest that the majority of residential home insurance policies should cover underground services. However, we have not reviewed all policies available in the market (including those provided by direct insurers). It is also worth noting – that if the policy is not specific in excluding an item then the benefit of the doubt sits with the insured not the insurer.</p> <p>Application: With regards to application, the EQC covers up to 60m which would be cover the majority of urban residences. With regards to the insurance policies we reviewed – they are not so specific – and this is generally preferable as it is less restrictive. Based on our experience (including actual claims settlement), the general approach is usually pragmatic with replacement of underground services up to the site boundary and this would appear to be the standard industry practice.</p>
2	CE	SLT to undertake review of revised insurance cover and provide a timeline to the Committee accordingly.	08-Jun-16	In progress	Aon has provided a renewal proposal and work plan which is currently under consideration.
3	GM Corporate	Communicate with the Catholic Diocesan regarding the Roman Catholic Schools Fund regarding the movement from reserves to general funds	08-Jun-16	Completed	It was noted at the September 2015 Audit and Risk Committee that this fund was to be removed from reserves upon appropriate communication with the fund originators or their representatives. The CFO at that time had no success in identifying or contacting any representatives and therefore concluded that it is appropriate to remove the reserves. On 9 May 2016 SLT approved the fund be removed from the reserves list by transferring the entire balances to general funds. This has been completed by Finance.
4	GM Corporate	Communicate regarding the Dame Hilda Ross Funds Fund regarding the movement from reserves to general funds	08-Jun-16	Completed	It was noted at the September 2015 Audit and Risk Committee that this fund was to be removed from reserves upon appropriate communication with the fund originators or their representatives. The CFO at that time had no success in identifying or contacting any representatives and therefore concluded that it is appropriate to remove the reserves. On 9 May 2016 SLT approved the fund be removed from the reserves list by transferring the entire balances to general funds. This has been completed by Finance.

Updated: 30/05/16 14:28

Ref.	GM Responsible	Action	DUE DATE for reporting back	Status (relative to due by date)	Notes
5	GM Corporate	Arrange Health and Safety Briefing for Elected Members regarding the duty of care to be satisfied in a local government setting.	08-Jun-16	Completed	Health and Safety briefing for Elected Members was held on Tuesday 19 April
6	GM Corporate	Inform Chair of Health and Safety Briefing details	08-Jun-16	Completed	A copy of the Health and Safety briefing presentation was sent to the Chair on 20 May 2016.
7	GM Corporate	Capital Work in Progress - Staff to provide an update report to the next Committee Meeting	08-Jun-16	In progress	Report coming to 8 June Audit & Risk Committee meeting
8	GM Corporate	Action List to be created and a standard report produced for each Committee Meeting	08-Jun-16	Completed	
9	GM Corporate	Undertake review of current PMO situation and recruit for the role	08-Jun-16	Completed	PMO Manager has been recruited and starts in role on 7 June 2016.
10	GM Corporate	Additional workshop to be arranged for Committee Members to cover off the outcomes of the Risk Management Workshop (with Committee Members and SLT) held on 10 March 2016.	08-Jun-16	Completed	Completed - Workshop arranged for 10.30am to 12.00pm Tuesday 31 May 2016
11	GM Corporate	Staff to report back on outcomes of the Risk Management Workshop	08-Jun-16	In progress	Will be undertaken once outcomes of Risk Management Workshop are known.
12	CE	Arrange a walk through of the Operational Management Room for the Committee Members	08-Jun-16	In progress	Walk through of Operational Meeting Room will be completed at the Audit & Risk Workshop on 31 May 2016
13	GM Corporate	Arrange a workshop to facilitate Committee Member input to the internal audit programme	08-Jun-16	In progress	Currently arranged for 10am to 12pm on Tuesday 13 September 2016 (the same day as the Audit and Risk Committee Meeting).
14	GM Corporate	Informal catch up to be arranged for 30 August 2016 for Committee Members and Audit NZ. The purpose of the meeting is to brief Members on the audit before the report is locked down.	08-Jun-16	In progress	Currently arranged for 10am to 12pm on Tuesday 30 August 2016.
15	GM Corporate	Update Councillor Mallett, Chair of CCO Subcommittee, and the CCOs on HCC's expectations and timeframes.	08-Jun-16	Completed	Tracey Musty emailed this information to Councillor Mallett on 24 May 2016.
16	GM Corporate	Provide update on the status of work being undertaken regarding Hansen AMPs and Center of Excellence	08-Jun-16	In progress	An update will be provided by Paul Gower at the 8 June Audit & Risk Committee meeting.
17	GM Corporate	Gifts and Hospitality Policy - review and update Committee Members	08-Jun-16	In progress	Policy currently under review by Procurement. Is also noted on Organisational Risk Register.
18	GM Corporate	Sensitive Expenditure Policies - Confirm whether these policies require review.	08-Jun-16	In progress	Sensitive expenditure policies listed below with their review status: Hospitality and Entertainment Policy - Currently under review. Fleet Vehicle Use Policy - Merged into Fleet Management Policy - currently under review. Gifts and Hospitality Policy - Currently under review (see action item 17). Travel Policy - Current (due for review May 2018). Vehicle Mileage Reimbursement Policy - Merged into Travel policy (current, due for review May 2018). Recognition and Rewards Policy - Merged into Remunerations and Benefits Policy (current, due for review February 2018). Leaving and Retirements Functions Policy - Merged into Remunerations and Benefits Policy (current, due for review February 2018).
19	GM Corporate	Due dates to be included in the Organisational Improvements Register	08-Jun-16	Completed	Due dates are now included in register.

Committee: Audit & Risk Committee

Date: 8 June 2016

Report Name: Recommended dates for reports to be presented to Audit and Risk Committee

Author: Jessica Ashworth

Status	<i>Open</i>
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Recommendation

That the report be received.

1. Attachments

- Attachment 1 - Recommended Schedule of Reports to Audit and Risk Committee 2016

3. Purpose of the report

- This report provides detail of recommended dates of reports to the Audit and Risk Committee for 2016.

Signatory

Authoriser	David Bryant, General Manager Corporate
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Updated: 26/05/16

Audit and Risk Committee Reports - 2016										
D-1358919	Audit and Risk Committee Meetings					Informal Audit and Risk Committee Meetings Aug/Sept	Non-Audit and Risk Committee Meetings			
							Council Workshop 10/03/16	Council Sept		
Presenters	Notes	23/03/16	08/06/16	13/09/16	TBC NOV					
Standard Reports										
Organisation Improvement Report	Corporate									
Risk Management Report	Corporate/Risk									
Health and Safety Update	Corporate/Health & Safety									
Fitch Credit Rating Report	Corporate/Finance									
Insurance Renewal	Corporate									
Cyber Security Update	Corporate									
Audit and Risk Committee Self Review	Chairperson									
Annual Report Related										
Risk and Opportunities Report (FC)	Corporate/Finance									
Legal Review (Contingent Liabilities) - Public Excluded	Corporate/Democracy									
Annual Report Planning Update	Finance Group									
Review of Draft Financial Statements	Finance Group									
Annual Report (recommendation to Council)	Finance Group									
Internal Audit (PricewaterhouseCoopers)										
Draft Internal Audit Plan	PWC / Corporate									
Update on Previous Audit Points (follows Org Improvement Report)	PWC									
Internal Audit Update	PWC									
Internal Audit - Reports (Public Excluded)	PWC	as required								
Risk Workshop	PWC									
External Audit (Audit New Zealand)										
IS Assurance Report		as required								
Audit Engagements Letter/Audit Arrangements Letter	Audit NZ									
Interim Management Report	Audit NZ	as required								
Clearance to Audit and Risk Committee	Audit NZ									
Issue of Audit Opinion	Audit NZ									
Final Management Report	Audit NZ	as required								

Committee: Audit & Risk Committee **Date:** 8 June 2016
Report Name: Risk and Opportunities Report to 30 April 2016 **Author:** Tracey Musty

Report Status	<i>Open</i>
Strategy, Policy or Plan context	<i>2015/16 Annual Plan</i>
Financial status	<i>There is no budget allocated</i>
Assessment of significance	<i>Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendations is not considered to have a high degree of significance</i>

1. Purpose of the Report

- The purpose of this report is to outline the Risk and Opportunity impact on the “Balancing the Books” target for the year ended 30 June 2016.

3. Discussion

- The Risks and Opportunity Schedule is presented to the Finance Committee on a regular basis.
- The attached schedule is a forecast of the financial outcome of Council for the year ended 30 June 2016. This forecast uses data as at 30 April 2016.
- The Risks and Opportunities Schedule forecasts the accounting result to be \$13.4m, the balancing the books result to be \$11.1m and the capital program to increase by \$2.7m.
- The accounting result includes an \$11.7m surplus from Development Contributions. If this item is eliminated then the result from operating activities still remains a surplus of \$1.7m.
- The overall result within the Risk and Opportunities Schedule reflects the outcome from Council’s every day operations by accommodating unplanned works and events. As the overall result is a surplus it will be applied to reducing debt.

9. Recommendation from Management

- That the report be received

11. Attachments

- Attachment 1 - Risk and Opportunities April 2016

Signatory

Authoriser	David Bryant, General Manager Corporate
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Risks and Opportunities Schedule
for the year ended 30 June 2016
Summary

Actual Risks and Opportunities		2015/16	2016/17
CORPORATE			
Pensioner Housing Renewals - reduced renewal programme reflecting essential health and safety works following the decision to sell Pensioner Housing portfolios.			180
Pensioner Housing Debt - Repayment of a suspensory loan to Housing New Zealand.		(480)	
Pensioner Housing Sale - corporate overhead charges will have to be redistributed across other activities. 2015/16 impact from 7th of March 2016 to 30 June 2016 is \$75k.		(75)	
Energy Efficiency - is an initiative undertaken to provide energy savings. The budget is included in operating and reclassification is required as work is of a capital nature.		100	(100)
Caro Wing relocation and subletting - costs associated with the relocation of staff from the Caro Street Wing. Relocation costs are estimated as \$260k with a potential revenue offset estimated to be \$62k 2015/16 and \$142k thereafter noting there is a risk the premises may take longer to let with a consequential impact on income.		62	(260)
CORPORATE TOTAL		(393)	(180)
ED SPECIAL PROJECTS			
Shared Water Business Case - contribution to Water CCO business case project (50% share). Invoices related to 2014/15 were missed in the accruals process despite purchase orders being raised.		(150)	
Shared Water Business Case - contribution to Stage 2 of the Water CCO business case project (50% share), along with Waikato and Waipa Councils.		(175)	
River Plan - Budget for the River Plan while approved during the 10-Year Plan was to be funded by savings identified from the Support Service Review		(250)	
Support Service Review - Savings identified from the support service review being used to fund the River Plan. (see above)		250	
ED SPECIAL PROJECTS TOTAL		(325)	0
COMMUNITY			
Rototuna Town Centre - required to complete additional design work to integrate Stage 1 plans and respond to increased complexity – roading and parking detail, additional specific traffic design and a rationale for cost sharing between parties involved. The revised scope includes additional project management fees due to extended time required to manage the various complexities.		(90)	
Community Facilities - grant funding approval to Age Concern.		(30)	
Pensioner Housing Sale - reduced ground maintenance charge impact of sale of Pensioner Housing Stock. 2015/16 impact from 7th of March 2016 is that City Park income will decrease by \$44k.		(44)	
One Victoria Trust Grant – the \$75k grant included in the 15/16 budget is unlikely to be paid due to a condition in the agreement that states payment can only be made upon completion of Earth-quake proofing work at the Meteor Theatre. If the work is not completed within the 15/16 year, a total of \$150k (inclusive of \$75k previously deferred from 14/15) is payable when work is completed in 16/17.		75	
Museum Acquisitions - Gifting of Collection to Museum will come with the condition that Council invests \$50k per annum in new Art.		(50)	
Zoo Tiger Service Area - construction of Tiger service area fencing.			(120)
Zoo – capital expenditure required for various works.			(300)
Library - repair of the Central Library concrete flooring and relocation of library stock. The maintenance work is expected to cost \$165k with a further \$20k requirement for offsite storage and document retrieval.		(185)	
Indoor recreation centre - Council approval 24th February 2016 for funding to be brought forward from 2021/22 to the 2015/16 financial year and increased by up to \$500k as a grant towards the construction of two of the four courts to be built at the new Rototuna High Schools.		(4,500)	
Aquatic Services – an unfavourable variance of \$223k is forecast at Waterworld. Club Aqua income continues to track well below budget and pool related costs such as chemicals and trade waste costs are higher than expected. Favourable lane swimming revenue will reduce the overall Aquatic Services variance to between \$150k and \$200k.		(200)	
Waikato Museum - Replacement/upgrade of the Building Mangement System		(90)	
COMMUNITY TOTAL		(4,824)	(420)
STRATEGY & COMMUNICATION			
STRATEGY AND COMMUNICATION TOTAL		0	0
CITY INFRASTRUCTURE			
VOTR Carpark Revenue – Reduced capacity due to ground conditions.		(135)	
Hamilton Organic Recycling Centre Wall - unbudgeted works required to ensure drop off wall structure is safe for public use (offset by \$120,000 opportunity in City Growth)			(120)
Water treatment plant renewals and minor capex - \$572k funding reprioritised from water treatment plant renewals and minor capex to wastewater treatment plant renewals and minor capex.			572
Wastewater treatment plant renewals and minor capex - \$572k funding reprioritised from water treatment plant renewals and minor capex to wastewater treatment plant renewals and minor capex.			(572)

Risks and Opportunities Schedule
for the year ended 30 June 2016
Summary

	Original Budget 2015	Latest Programme 2016
Western Rail Trail - \$3m external funding from Urban Cycleways Fund (capital expenditure will be over budget by \$3m but will be offset by capital contributions of \$3m)	3,000	(3,000)
Wastewater treatment plant Opex - reduced spending in chemicals, planned maintenance, water charges and disposal of biosolids due to a stable running environment at the plant.	1,050	
Water rates - Increased recovery of Water by Meter revenue	400	
Water treatment plant Opex - reduced spending in maintenance, operational planning and works, service delivery contract, contractually committed work, and chemicals.	520	
Rubbish and recycling Opex - increased Waste Levy revenue and reduced Waste Minimisation spending due to timing of the works	350	
CE15088 - Roading in Peacocks Stage 1 - Forecast underspend of up to \$775k identified due to Dixon Road upgrade works being completed without a requirement for HCC upside contributions.		775
CE15062 - Peacocks Stage 1 Stormwater - Reallocation of \$360k to ICMP budget (CE15162) to complete Mangakotukutuku ICMP		360
CE15162 - Integrated Cathment Management Plans - Reallocation of \$360k from Peacocks Stage 1 Stormwater (CE15062) to complete Mangakotukutuku ICMP		(360)
CE10138 - Replacement of water treatment plant and reservoir assets - Forecasted underspend identified due to favourable market pricing and work programme reprioritisation at the water treatment plant. Includes \$150k saving from favourable tender price for Hamilton South Reservoir roof.		348
CE15139 - Water treatment plant compliance - Minor Upgrades - Forecasted underspend identified due to favourable market pricing and work programme reprioritisation at the water treatment plant		325
CE15139 - Water treatment plant compliance - Minor Upgrades - Funding reprioritised to CE15120 (Wastewater treatment plant renewals and minor capex)		231
CE10115 - Replacement of wastewater treatment plant assets - Funding reprioritised to CE15120 (Wastewater treatment plant renewals and minor capex)		219
CE15120 - Wastewater Treatment Plant Minor Capital Improvements - Funding reprioritised from CE15139 (Water treatment plant compliance - Minor upgrades) and CE10115 (Replacement of wastewater treatment plant assets)		(450)
CE15104 - Wastewater Pipe Upgrade Growth - Forecast underspend		250
CE10123 - Replacement of Watermains - Tracking behind baseline program and currently forecast not to complete works program.		328
CE10058 - Replacement of Stormwater Assets - Forecast to deliver under budget due to physical works cost savings and work program reprioritisation		150
PIF12031 - Structure to extract water from Waikato River - Forecast project overspend		(200)
CITY INFRASTRUCTURE TOTAL	5,185	(1,144)
CITY GROWTH		
Victoria On The River (VOTR) - Phase 1 Planning	(140)	
VOTR Site - Year 1 costs approved 15 December for design and consents.		(350)
VOTR Site - Year 1 costs approved 15 December for earthworks.		(1,150)
LIM's and Building Consents	495	
Online Building Consenting Roadmap - Phase 2: implement an online consenting solution for the Building Unit	(495)	
Hamilton Organic Recycling Centre - Funding for drop off wall works to ensure structure is safe for public use		120
Economic Growth - Budget required to prepare a business plan that will give options for replacement of the DC modelling tool.	(175)	
CE10053 - Tenancy Inducement Renewals - This budget is a contingent allocation to enable attraction or retention of commercial tenants at lease expiry. The allocation is based on current market rates. There are currently no vacant commercial premises nor any leases of Council's commercial property expiring within the remainder of the current financial year. The allocation is therefore no longer required.		354
CITY GROWTH TOTAL	(315)	(1,026)
H3 & EVENTS		
Legal Costs - Recovery of legal costs associated with defending the Waikato Show Trust. Could be up to 75% of total incurred by Council	100	
Clarence St Theatre - Council resolved in July 2015 to gift the Theatre to a Trust. This removes the net direct cost budget.	120	
Clarence St Theatre - As part of the resolution to gift the Theatre to a trust Council approved a one-off \$75k grant.	(75)	
Founders Safety Assessment - This is as a result of our current investigations into Founders Theatre and a consequential decision to undertake additional health and safety and building structure assessments. The engineers work may possibly be capitalised.	70	
H3 & EVENTS TOTAL	215	0
COUNCIL WIDE		
ACC Levies - based on actual costs from the previous year there will be a favourable position.	120	
Rates - Additional rates revenue. This has occurred due to the timing of the Council resolution and the actual striking of the rates.	100	
Rates Penalties - based on the previous years actuals	300	

Risks and Opportunities Schedule
for the year ended 30 June 2016
Summary

	2015-16 Budget	2015-16 Actual
Rates Remissions - Remissions relating Council properties and other qualifying properties (this excludes the hardship remissions) have been processed for the year. Final cost was favourable to budget.	200	
COUNCIL WIDE TOTAL	720	0
Net Business Impact before Debt Servicing, Development Contributions, Unrealised Gains/Losses and Non Cash Items	(27)	(2,770)
DEBT SERVICING AND DEVELOPMENT CONTRIBUTIONS, UNREALISED GAINS/LOSSES, NON CASH ITEMS		
Net interest cost - Year end forecast using the actual opening debt position for 2015-16 and current interest rates.	1,500	
Development Levies and Financial Contributions - based on the actual year to date results. These are not forecast amounts	11,750	
Vested Assets - based on the actual year to date results. These are not forecast amounts	19,133	
Depreciation - based on preliminary results from the 3 water revaluation.	(2,800)	
Pensioner Housing Sale - Loss on sale associated with sale of Pensioner Housing Stock. Adjusted from the \$4.4m previously reported to incorrect accounting treatment.	(7,483)	
Losses on Asset Sales - based on the actual year to date results. These are not forecast amounts	(2,486)	
Unrealised Losses - this is on interest rate swaps, based on the actual year to date results. These are not forecast amounts	(15,385)	
DEBT SERVICING AND DEVELOPMENT CONTRIBUTIONS, UNREALISED GAINS/LOSSES, NON CASH ITEMS	4,229	0
Net Business Impact after Debt Servicing, Development Contributions, Unrealised Gains/Losses and Non Cash Items	4,202	(2,770)
IMPACT ON THE ACCOUNTING RESULT		
10-Year Plan - Surplus(Deficit)	9,232	
Risks and Opportunities	4,202	
Revised Accounting Result - Surplus(Deficit)	13,434	
IMPACT ON BALANCING THE BOOKS		
10-Year Plan - Surplus(Deficit)	751	
Risks and Opportunities	4,202	
<i>Items eliminated</i>		
-Vested Assets	(19,133)	
-Loss on Pensioner Housing	7,483	
-Loss on Other Asset Sales	2,486	
-Loss interest rate swaps	15,385	
Revised Balancing the Books - Surplus(Deficit)	11,174	

Committee: Audit & Risk Committee

Date: 8 June 2016

Report Name: Organisation Improvement Programme

Author: Barnaby Pace

Report Status	<i>Open</i>
Strategy, Policy or Plan context	Organisation Improvement Programme
Financial status	<i>This activity is funded through the internal audit programme.</i>
Assessment of significance	<i>Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendations is/is not considered to have a high degree of significance</i>

1. Purpose of the Report

- To provide an update on the status of the Council's Organisation Improvement Programme as at May 2016.

3. Recommendation from Management

That the report be received.

4. Attachments

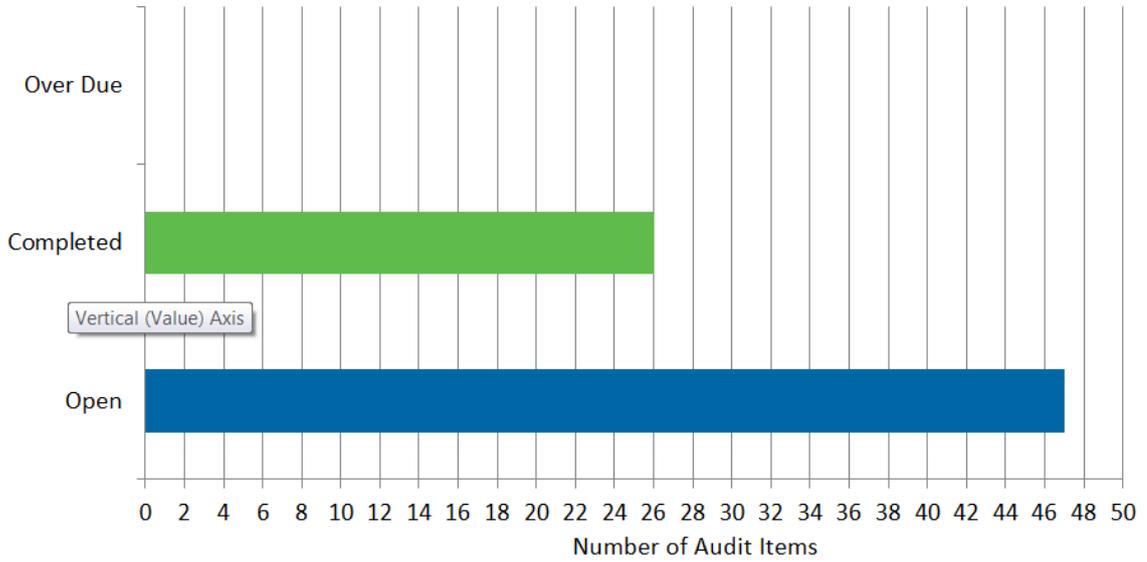
- Attachment 1 - Organisation Improvement Register

6. Discussion

- Twenty-three items have been closed and 28 new items have been added since the last reporting period.
- The Council's Organisation Improvement Register has been revitalised as it had become cumbersome to use. It was difficult to track individual audit items through their audit life cycle.
- A new Organisation Improvement Programme Register has been developed. The register has been designed to allow for item tracking to determine where items are within their audit life-cycle. The register is also a repository for all completed audit items.

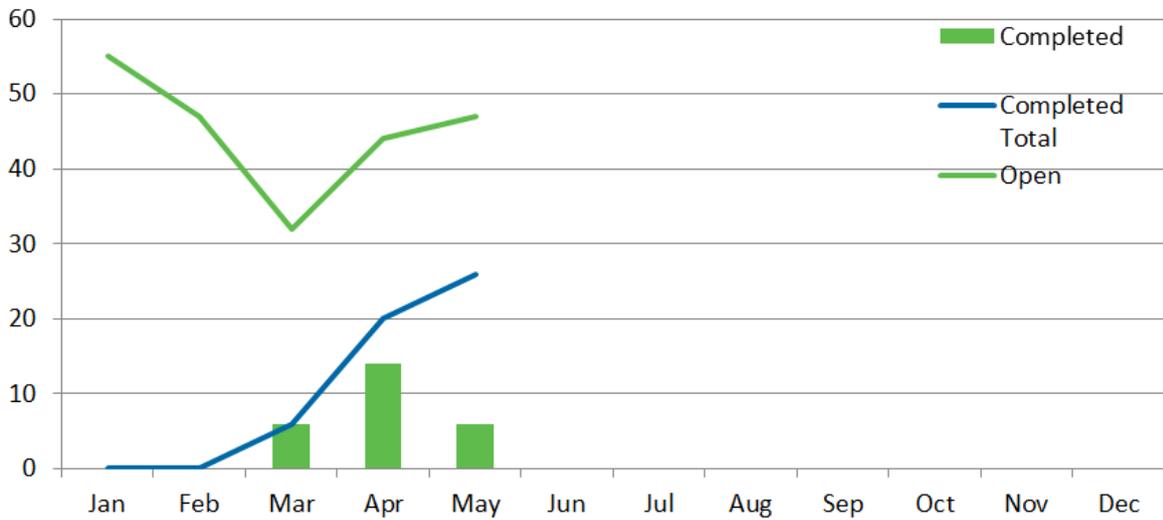
10. Organisational Work Programme Update Summary

11. Since the March 2016 report, a summary of the activity is as follows:



12. Since the last reporting period:

- 26 historical items have been closed, including 12 overdue items.
- 28 new items have been added



Signatory

Authoriser	David Bryant, General Manager Corporate
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Organisational Improvement Programme Register: Database (Open Items)

Int Ref		Audit Information					Risk Assessment		Improvement Action Plan			
No.	Status (O,C)	Issue	Audit Comment	Source	Ref.	Agree Management Response	Risk Rating	Flag	Action to be Taken	Owner	Target Completing Date	GM
198	O	Project Management Framework	No project portfolio management framework is in place.	PWC Project Mgt Framework assessment 20 May 2014, Trim D-1419095	Finding #1 page 6	Management acknowledge that a portfolio management approach to HCC projects is the preferred and ideal environment in which to manage the organisation's projects. Business planning and project prioritisation are current activities that are acknowledged as under resourced - recruitment has just been successful for the appointment of a business planning specialist who will contribute significantly to this area of the business. However this may not occur for another 12-18 months. A simple prioritisation tool has been developed (Business Improvement Unit/PMO combined effort) and accepted by SLT. The business planning framework (as part of the Business Improvement Unit - Organisational Development Group) is seen as a key contributor to assisting the organisation to establish greater visibility of project activities. Agreement is in place with SLT that activities would be reviewed in 3 month time periods. The Business Planning role (appointed in May 2014) will be seeking to address this matter and will continue to work closely with PMO on this.	High		Portfolio Mgmt Framework - Under action - PMO will be actively working with Business Improvement (specifically Tania Hermann and Tracey Hancock) as a follow on to the Organisational business planning exercise to identify where progress can be made. Must be mindful of change "impact on the business" and ensure decisions on steps for change are pragmatic and minimise impact as possible. Portfolio Owner – Under action in relation to work being undertaken between Bi and PMO – Prioritisation component Under action - SLT have identified 21 priority pieces of work for the 2014/15 year – on going work to continue to address prioritisation is part of the business planning process and will be actively managed through the new resource (Tracey Hancock)	PMO Manager	30/09/16	GM Corp
199	O	Project Management Framework	Maturity of PM practices requires improvement.	PWC Project Mgt Framework assessment 20 May 2014, Trim D-1419095	Finding #2 page 7	The approach taken to date has been to provide a PMO that is "enabling" not "controlling". This has been intentional with the PMO designed to address HCC's needs in an incremental way. Management acknowledge that a more directive line is likely to have achieved a faster result, in terms of engagement with and of the PMO. However a directive approach was considered to require a greater level of staffing than the current PMO was able to provide. Inability to meet demand created by a directive approach in addition to the added burden on the organisation this approach would create were considered significant risks to the PMO's ongoing success. The PM Policy can be revisited in light of the recommendation to provide direction on engagement with the PMO and can be updated to include a single project lifecycle. This can be completed within the first quarter 2014/15. Since the commencement of this assessment process 32 staff have completed all three project management modules and a community of practice has been established. It is envisaged that this will enable a monthly forum for PMs to meet on an ongoing basis. The primary objective is to continue to develop HCC's PM capability and continue to strengthen the PMO's visibility and positive working relationship across the organisation. It is intended that the PM in house training courses will continue. HCC has engaged a provider who is also delivering equivalent PM training to Waikato Regional Council and Western BOP. Discussions between the arranging staff at these Councils has been on the basis of enabling cross over to enable training sessions to be filled, as going forward the demand will lessen with more and more people having been captured. Training is actively promoted via intranet and direct with GMs and staff eligible to undertake the next module HR has been requested to support PM training further with ensuring new staff receive information concerning PM practices and training opportunities at HCC Buddying will be possible once all staff who have completed the training are in a position of being confident with their new skills and have had experience and success with applying them. The PMO currently provides a buddying service through the PMO manager – with the increasing maturity of project management and improved capacity with staff completing the 3 training modules and successfully implementing projects more staff will be available to participate in this process and provide buddying to new PMs Ideally all UMs should undertake Module 1 – however the practicality of ensuring attendance when workloads are as significant as they are will continue to be a barrier. Ongoing visibility of the training is planned by PMO and	High		Monthly meetings - Actioned and ongoing – with commencement of community of practice meetings – held monthly and coordinated by PMO	PMO Manager	30/09/16	GM Corp
205	O	Project Management Framework	Sub-optimal PM systems and tools.	PWC Project Mgt Framework assessment 20 May 2014, Trim D-1419095 13/14	Finding #8 page 13	Current tools and systems support the current reporting framework. Management agree that an extension beyond the existing reporting structure will require additional investment in technology and resources for the PMO to provide additional services. There are currently no plans to extend either. MS Project is available to all staff on the citrix network – it is unlikely to be changed because this is currently the most cost effective way of managing licensing costs. Agreement on the what tools will most effectively support HCC PMs is required ahead of investment in this area. This discussion will be ongoing and held in conjunction with the Business Improvement Unit as business planning changes are implemented over the next 12-18 months.	High		Systems and tools – No activity currently planned – activity highlighted above on reporting and in conjunction with BI will determine outcomes in this area MS Project – as indicated in management response – No change in current practice is envisaged PM and organisational reporting tool is under development and anticipated for release early 2nd quarter	PMO Manager	30/06/16	GM Corp
106	O	Event Management	There is a lack of formal review of event planning to ensure that appropriate services are provided to clients.	PWC Internal Audit Event Management Review 10 Jun 13 12/13	Finding #3, Page 12	Management are currently in the process of developing an Event Order confirmation report within EBMS. This report will detail all services and requests that the client has made and will be required to be signed off by the client and event co-ordinator prior to the commencement of an event. This will assist in ensuring that all client requests are raised as service orders. This report is due for release in 11 June 2013. We agree with all the other recommendations detailed in the outcome of the review and will be putting together a project team to create a clear and simple process supported by a detailed checklist for our entire event staff. The timeline for this will be incorporated into the overarching programme of changes.	Moderate		Management have developed an Event Order confirmation report within Ungerboeck. This report details all services and requests that the client has made and is required to be signed off by the client and the event co-ordinator prior to the commencement of an event. This will assist in ensuring that all client requests are raised as service orders. Management agrees with all of the other recommendations detailed in the outcomes of the review and has put in place a project team to create a clear and simple process supported by a detailed checklist for our entire event staff. The timeline for this will be incorporated into the overarching programme of changes Update - 9/5/16 This will be addressed as part of H3's Quotes, EOC & Invoice Project and processes are to be developed to resolve the audit recommendations by December 2016 This project has been pushed back due to resourcing.	GM H3	01/12/16	GM H3

193	O	Development Contribution Processes and Controls	Development contribution applicability assessments are not captured and information on development contributions cannot be reported on nor reviewed for authority.	PWC Assessment of Development Contribution Processes and Controls, 3 Mar 2014, Trim D-1359727 13/14	Finding #2, page 8	Assessments are captured in a temporary database that can theoretically be linked to Authority for reporting purposes, however a significant amount of work is needed to do this and/or implement a more stable solution. There is a need to set-up a repeatable and well documented process for linking charges calculated by the Development Contributions Model to the charge calculation spread sheet and the online GIS viewer. This will require a significant amount of work but is on hold due to other priorities. Additional resource will be needed if this is to be completed within reasonable timeframe. As previously reported.	Moderate	The current solutions remains fit for purpose whilst further investigation continues in modeling solutions .	Chief Financial Officer	01/06/16	GM City G
196	O	Development Contribution Processes and Controls	Evidence of the compilation of "base charges" by catchment has not been retained.	PWC Assessment of Development Contribution Processes and Controls, 3 Mar 2014, Trim D-1359727 13/14	Finding #5, page 16	Assessments are captured in a temporary database that can theoretically be linked to Authority for reporting purposes, however a significant amount of work is needed to do this and/or implement a more stable solution. There is a need to set-up a repeatable and well documented process for linking charges calculated by the Development Contributions Model to the charge calculation spread sheet and the online GIS viewer. This will require a significant amount of work but is on hold due to other priorities. Additional resource will be needed if this is to be completed within reasonable timeframe. As previously reported.	Moderate	The current solutions remains fit for purpose whilst further investigation continues in modeling solutions .	DC Team	01/06/16	GM City G
110	O	Event Management	There is no formalised and independent review performed to ensure operational event management procedures are followed.	PWC Internal Audit Event Management Review 10 Jun 13 12/13	Finding #7, Page 17	As part of the overall upgrade, programme management will initiate a project to facilitate the report recommendations. Where possible we will automate the processes within EBMS. The internal event audit process is still to be developed and expected to be complete by the end of the year.	Low	Management will address this issue as part of the overall upgrade programme of EBMS with core HCC finance systems Update - 9/5/16 This will be addressed as part of H3's Quotes, EOC & Invoice Project and processes are to be developed to resolve the audit recommendations by December 2016 This project has been pushed back due to resourcing.	GM H3	01/12/16	GM H3
243	O	Property, plant and equipment	Improve the quality of information in the asset management system by implementing the identified changes in the AECOM report	Audit NZ 2014 Final Mgt Report 19 Nov 2014 (Trim D-1628444) 14/15	3.8, page 10	On-going continuous improvements are being made to asset information where there are resources available to do so. Through the 2015-25 10 year plan, funding and resource allocation has been requested to enable the significant items to be addressed.	Low	Improvements identified by AECOM are incorporated in the Water, Wastewater, Stormwater and SolidWaste AMP's for 2015-45. In addition the draft 2-15-25 LTP has budget allocation in opex to enable further improvements in the quality of information. Improvements to Pump Station assets have been completed, and planning to commence a 2 to 4 year improvement programme for treatment plants is underway. Follow Up comment 19.05.16 An organisational improvement plan is in place to address the quality of asset information in the Water, Wastewater and Refuse area. Council are focusing resourcing on addressing the issue. This issue will take the Council a while to address.	Waters Manager	01/01/26	GM City I
266	O	Infrastructure Strategy and Asset Management Plans	As part of future strategy preparation processes, a procedure is required that provides an indication as to the quality of information regarding the age, description, condition and performance of infrastructure assets	Audit NZ Management Report, August 2015	P3	The recommended improvements for the Infrastructure Strategy will be included in specific AMPs and considered for inclusion in the next version of the Infrastructure Strategy.	Low	Action is included in the AMIP (Asset Management Improvement Programme) as part of the Asset Management Information Strategy.	Programme Manager - Assets Strategy	01/12/17	GM City I
267	O	Infrastructure Strategy and Asset Management Plans	As part of future strategy preparation processes, a summary of historical expenditure for key asset types to provide a benchmark for future expenditure levels	Audit NZ Management Report, August 2015	P3	The recommended improvements for the Infrastructure Strategy will be included in specific AMPs and considered for inclusion in the next version of the Infrastructure Strategy.	Low	Action is included in the AMIP (Asset Management Improvement Programme) as part of the Asset Management Information Strategy.	Programme Manager - Assets Strategy	01/12/17	GM City I
268	O	Infrastructure Strategy and Asset Management Plans	As part of future strategy preparation processes, consider proposed funding strategies for planned expenditure, e.g., stating what changes are proposed (if any) in how services are funded going forward	Audit NZ Management Report, August 2015	P3	The recommended improvements for the Infrastructure Strategy will be included in specific AMPs and considered for inclusion in the next version of the Infrastructure Strategy.	Low	Action is included in the AMIP and infrastructure will be considered when next strategy is developed in 2017	Programme Manager - Assets Strategy	01/12/17	GM City I
269	O	Infrastructure Strategy and Asset Management Plans	As part of future strategy preparation processes, the identification of any planned deferral of expenditure, the consequences of that deferral and the City Council's planned response is noted	Audit NZ Management Report, August 2015	P4	The recommended improvements for the Infrastructure Strategy will be included in specific AMPs and considered for inclusion in the next version of the Infrastructure Strategy.	Low	Action is included in the AMIP and infrastructure will be considered when next strategy is developed in 2017	Programme Manager - Assets Strategy	01/12/17	GM City I
270	O	Infrastructure Strategy and Asset Management Plans	As part of future strategy preparation processes, consider council's intended approach for delivery of services to maintain the assets and build new assets	Audit NZ Management Report, August 2015	P4	The recommended improvements for the Infrastructure Strategy will be included in specific AMPs and considered for inclusion in the next version of the Infrastructure Strategy.	Low	Action is included in the AMIP and infrastructure will be considered when next strategy is developed in 2017	Programme Manager - Assets Strategy	01/12/17	GM City I
271	O	Infrastructure Strategy and Asset Management Plans	As part of future strategy preparation processes, consider any significant changes in the way assets will be managed over time compared to current arrangements	Audit NZ Management Report, August 2015	P4	The recommended improvements for the Infrastructure Strategy will be included in specific AMPs and considered for inclusion in the next version of the Infrastructure Strategy.	Low	Action is included in the AMIP and infrastructure will be considered when next strategy is developed in 2017	Programme Manager - Assets Strategy	01/12/17	GM City I
272	O	Infrastructure Strategy and Asset Management Plans	As part of future strategy preparation processes, consider any expected changes in technical, legislative or regulatory requirements and City Council's response to those changes.	Audit NZ Management Report, August 2015	P4	The recommended improvements for the Infrastructure Strategy will be included in specific AMPs and considered for inclusion in the next version of the Infrastructure Strategy.	Low	Action is included in the AMIP and infrastructure will be considered when next strategy is developed in 2017	Programme Manager - Assets Strategy	01/12/17	GM City I
273	O	Infrastructure Strategy and Asset Management Plans	In the contents of the Asset Management Policy, Council should consider including performance measures for AM such as timeframes for reviews and community consultation	Audit NZ Management Report, August 2015	P4	Council is currently reviewing a number of its policies and the Asset Management Policy is being recreated as a management level policy given the new legislative requirement for an Infrastructure Strategy. An update of the policy will include the role and preparation of the Infrastructure Strategy in the Management Policy. The other respects raised above will be included in either the reviewed management policy or documented standard operating procedures.	Low	Action is included in the AMIP and review of the AM Policy has begun. This management policy review is an early priority in the AMIP.	Programme Manager - Assets Strategy	01/08/16	GM City I

274	O	Infrastructure Strategy and Asset Management Plans	In the contents of the Asset Management Policy, Council should consider including procedures for audit and review	Audit NZ Management Report, August 2015	P4	Council is currently reviewing a number of its policies and the Asset Management Policy is being recreated as a management level policy given the new legislative requirement for an Infrastructure Strategy. An update of the policy will include the role and preparation of the Infrastructure Strategy in the Management Policy. The other respects raised above will be included in either the reviewed management policy or documented standard operating procedures.	Low	Action is included in the AMIP and review of the AM Policy has begun. This management policy review is an early priority in the AMIP.	Programme Manager - Assets Strategy	01/08/16	GM City I
275	O	Infrastructure Strategy and Asset Management Plans	In the contents of the Asset Management Policy, Council should consider including contribution of AM to the City Council's sustainable development objectives	Audit NZ Management Report, August 2015	P4	Council is currently reviewing a number of its policies and the Asset Management Policy is being recreated as a management level policy given the new legislative requirement for an Infrastructure Strategy. An update of the policy will include the role and preparation of the Infrastructure Strategy in the Management Policy. The other respects raised above will be included in either the reviewed management policy or documented standard operating procedures.	Low	Action is included in the AMIP and review of the AM Policy has begun. This management policy review is an early priority in the AMIP.	Programme Manager - Assets Strategy	01/08/16	GM City I
276	O	Infrastructure Strategy and Asset Management Plans	Council should amend the AM Policy to provide clearer direction for each activity as to what aspects of AM the lower level is acceptable and which parts are expected to be at the higher level.	Audit NZ Management Report, August 2015	P5	The maturity targets for asset management have been developed after assessing the risk associated with each activity and the value of assets that relate to the activity. Independent expert advice was taken in setting the activity maturity targets within the existing policy. Each AMP contains an improvement programme specific to asset management practice for that activity. These improvement programmes outline what changes are priorities and in doing so guide what is recommended in order to achieve appropriate practice. As part of the improvement programme in each AMP, more specific maturity targets for aspects of each activity will be considered and documented where appropriate	Low	Action is included in the AMIP and review of the AM Policy has begun. This management policy review is an early priority in the AMIP.	Programme Manager - Assets Strategy	01/08/16	GM City I
277	O	Infrastructure Strategy and Asset Management Plans	Council should ensure that issues identified from the independent peer reviews are incorporated into the AM Improvement Plans. We also encourage the City Council to continue with assigning appropriate time and resource to enable the tasks identified in the 2015 AMP improvement programme to be undertaken.	Audit NZ Management Report, August 2015	P6	Improving asset management data and practices is a clear focus for council. Cross-organisational teams exist to deliver these types of improvements across the business. The recent restructuring has also led to a new corporate position being created to lead these types of changes across the organisation. An updated corporate improvement plan is being prepared during 2015 to make sure improvement actions are still appropriate and adequately prioritised and resourced.	Low	Improvement plans within individual activity AMPs are being reviewed to ensure focus for improvements are still valid and have taken on board external advice.	Programme Manager - Assets Strategy	01/08/16	GM City I
278	O	Infrastructure Strategy and Asset Management Plans	Council needs to ensure that it obtains a complete set of asset attributes, condition ratings and performance data for all asset components in the water treatment plants/reservoirs and wastewater treatment plant/pump stations. This data should be held in the Council's AM system and periodically updated so that reliable information is available to generate future operating and capital programmes and to reduce the reliance upon informal anecdotal evidence	Audit NZ Management Report, August 2015	P6	More through cataloging of assets relating to the Water and Wastewater treatment plants is underway. This is being done as part of planning for future upgrades to these plants. The initial work is focussed on accurately locating and capturing assets in a 3D spatial (BIM) model. The use of BIM models is regarded as standard industry practice for understanding complex sites and underground services. Data capture of asset information will continue over 2015/16 and 2016/17	Low	Consultant support has been engaged for the implementation of BIM modelling for the treatment plants. This is a multi year programme and has been discussed with Audit.	Programme Manager - Assets Strategy	01/01/19	GM City I
279	O	Infrastructure Strategy and Asset Management Plans	We recommend that the business process for inputting data into the AM system is amended so that the condition and performance ratings are incorporated into the information loaded. This will enable optimal decisions to be made about the maintenance and renewal of those assets in future budget rounds	Audit NZ Management Report, August 2015	P7	A review of these business processes and asset management practice will be included in the relevant improvement plans for infrastructure assets	Moderate	This recommendation in the AMIP and as part of the Asset Management Information Strategy.	Programme Manager - Assets Strategy	01/12/16	GM City I
280	O	Infrastructure Strategy and Asset Management Plans	We recommend that Council ensures reliable information is recorded in its AM system so as to ensure that the current shortcomings in the valuation of treatment plant assets can be rectified as soon as practicable	Audit NZ Management Report, August 2015	P7	Council has a programme of three yearly revaluations for our treatment plants and above ground assets, unless indices show that costs are moving in such a way that the carrying value is no longer representative of fair value. Focus is currently being placed on improving the asset register of these sites. Once the asset register is completed, a more robust revaluation will be able to be calculated. Once assets have been identified, we can use market values for the majority of our assets that are purchased annually such as pumps, valves, motors etc. However some assets contained within the treatment plants are bespoke and their value are best determined through tender process. For these assets we will continue to use an inflation factor where it is appropriate.	High	Consultant support has been engaged for the implementation of BIM modelling for the treatment plants. This is a multi year programme and has been discussed with Audit.	Programme Manager - Assets Strategy	01/01/19	GM City I
297	O	Zoo Revenue Process and Control Assessment	Re Cash handling activities are not aligned to best practices Management should Ensure that video surveillance is in place to deter theft and operating to assist authorities to identify thieves in the event of a robbery.	PWC Review August 2015	P10	Video camera is a dummy pointing at shop area to deter shoplifters. Put project forward for consideration in 2016/17 Annual Plan	Moderate	As noted in management response. HCC CCTV Strategy meeting held on October 7. Progress here: D-1960231	Zoo Director	01/12/16	GM Comm
304	O	Group Consolidation	For consolidation process, ensure good communication with the subsidiaries to align revaluation cycles and monitor any changes differences between the accounting standards applicable to the City Council and subsidiaries	Audit NZ Management Report, March 2016	P3	Staff agree the group consolidation process could be improved. To achieve this we will prepare and distribute a Group Consolidation Reporting Pack to each entity to request the necessary information and supporting documentation to enable an accurate and efficient consolidation process.	Moderate		Financial Controller	30/06/16	GM Corp

305	O	Property, plant and equipment	Capitalise completed projects timely in the fixed asst register	Audit NZ Management Report, March 2016	P3	Staff agree, the amount of WIP which should have been capitalised is high. We also note that the misalignment does not result in a material misstatement. Business processes are being improved. This includes the establishment of a Capital Monitoring Group lead by the Coporate Services Manager to ensure delivery of the asset programme and its capitalisation. Council has also initiated a centre of excellence approach to asset management and one of the initial tasks is to review and consider information gaps in WIP or business processes to improve organisational performance around capitalisation of assets and capitalisation.	High	Follow Up Comment 18.05.16 An asset management organisational improvement plan has been put in place to address this issue. The work in progress balances are being monitored monthly with reports provided to staff (through the asset management intranet portal) and Senior Leadership Team. During our interim visit, we noted there is still a number of assets that need to be capitalised and the WIP balance is still very high. This should be completed by 30 June 2016.	Financial Controller	30/06/16	GM Corp
306	O	Property, plant and equipment	Asset Managers provide timely information to finance staff to ensure vested assets are capitalised in a timely manner	Audit NZ Management Report, March 2016	P3	Staff agree, the amount of non capitalised vested assets on the WIP schedule is high. We also note that the misalignment does not result in a material misstatement as these non-capitalised vested assets were land which is not depreciated. Business processes are being developed. Part of this process development and implementation is to ensure vested asset information is obtained from asset managers to enable capitalisation in a timely manner. Council has also initiated a centre of excellence approach to asset management and one of the initial tasks is to review and consider information gaps in capitalisation of vested assets.	High	Follow Up Comment 18.05.16 An asset management organisational improvement plan has been put in place to address this issue. During our first interim visit, we identified that there vested asset WIP balance was \$26.8m. There still appears to be an issue around timely capitalisation. However, we understand that this is a focus for the Council and we expect to see a significant reduction before 30 June 2016. Additional staff resources are being employed to help with the backlog of assets not being capitalised.	Centre for Excellence Manager	30/06/16	GM Corp
307	O	Property, plant and equipment	Ensure disposal and additions in the asset management systems are reconciled to the financial system on a monthly basis and also formalise the process around disposals and capitalisations	Audit NZ Management Report, March 2016	P3	Staff agree, Hansen 8 was only partially operations for parks assets in 2014/2015. From 1 July 2015 Hansen 8 is being used by Parks and Open Spaces and Hamilton Gardens. Three waters reticulation assets will be operation in H8 by the end of December. Reconciliations between H8 and AX financial are being prepared monthly from July 2015. AS we are developing new systems policy and procedures need to be documented. We have identified that with the changes in responsibilities for the management of asset information there is a need for more training and development of formal policies.	High	Follow Up Comment 18.05.16 An asset management organisational improvement plan has been put in place to address this issue. Currently, monthly reconciliations between the asset management systems and the finance systems are not being performed. Further work is required to ensure that the systems are generating data that can be reconciled easily on a frequent basis so this process is not time consuming and difficult.	Financial Controller	30/06/17	GM Corp
308	O	Property, plant and equipment	Ensure all parks,gardens and building assets are added to the Hansen 8 system so information is all contained with one asset management system	Audit NZ Management Report, March 2016	P3	Staff agree. Council is in the development stage of implementing new systems and plan to have all out parks, gardens and building assets data held in Hansen 8. Council has initiated a centre of excellence approach to asset management and one of the initial tasks is to review and consider information gaps in appropriate systems.	Low	Follow Up comment 18.05.16 Zoo animal enclosures have been added to Hansen 8. There are still some parks and garden assets that are being maintained on manual spreadsheets. Staff need to be provided training on how to use the Hansen 8 system prior to transferring the remaining asset data over. Until this is completed, staff will continue to records asset data using the current systems. Improvement in quality and completeness of asset data remains a focus for the Council.	N/O	30/06/17	GM Comm
309	O	Statement of Service Performance	Adopt appropriate processes to ensure that the data within the Hansen 8 system is accurate and can be relied upon for reporting purposes	Audit NZ Management Report, March 2016	P3	Staff agree. To achieve this we will implement a business process to review and audit service performance data within Hansen to provide evidence of data reliance.	High		N/O	30/06/17	GM Strat
310	O	Statement of Service Performance	Establish controls to ensure that information entered into Hansen 8 for reporting against water and wastewater measures are correct	Audit NZ Management Report, March 2016	P3	Staff agree. An improved system to capture services performance data and asset information commenced during 15/16. This improved system captures service request data in Hansen 8 using an in field mobile solution resulting in a reduction in manual paper administration and data entry. As part of the new system implementation, business processes will be updated and created to reflect new data capture processes. This will also include a review and audit of service performance data with Hansen to provide evidence of data reliance.	High	Follow Up comment 18.05.16 We understand Reticulation Team Leader is now completing a monthly independent review of data entered into Hansen 8 to ensure that the information is accurate by identifying any irregularities.	N/O	30/06/17	GM Strat
313	O	Other less significant matters	Procedures put in place to ensure all the fields are updated and checked in the Authority system when tariffs to be changed changes	Audit NZ Management Report, March 2016	P3	Staff agree with the comments regarding updating Authority fields following any bylaw changes. To achieve this we will impement a business process to periodically audit a sample of invoices for accuracy from Authority to provide avoidance of invoice calculations, this audit will als be completed following any changes to bylaws.	Moderate		Financial Controller	30/06/17	GM Corp
314	O	Other less significant matters	Consider incorporating legislation compliance as part of the internal audit programme to identify weaknesses in the system where changes to the legislation were not incorporated into the system controls	Audit NZ Management Report, March 2016	P4	The recommendation is partially accepted. While two minor changes were not addressed is important for all legislative changes to be reflected in updated processes and procedures. We do not agree that the internal audit programme can be expected to ensure all changes to legislation are incorporated and all legislation is complied with. The internal audit can only give assurance that processes exist to ensure legislative compliance requirements are met. An internal audit on legislation will be considered as part of the development of the programme. Legislative compliance is a culture that is being fostered within Council. A number of other processes exist to ensure legislative compliance requirements are met. These include: Clear expectation on managers and staff to ensure that they have current knowledge of legislation and comply. Maintaining an appropriate level of professional staff and subject matter experts Monitoring proposed and new legislation, development implementation plans for changes Access to professional and sector advice or training Regular reporting at a governance level on significant legislative changes	Moderate	An internal audit on legislation will be considered as part of the development of the programme. Follow Up comment 18.05.16 We have not noted any further breaches around legislation this year. Council have chosen for legislative compliance not to be formally reviewed by Internal Audit as they do not foresee this as being a risky area. From our review of legislative compliance, we have noted that the Council has a draft legislative compliance policy in place. This legislative compliance policy has not been formally adopted. We recommend this policy should be formally approved. Given there has been so much change in the Council organisation structure we also recommend that a review around all the legislation should be performed and responsibility for each of the legislation should be documented and formally communicated to each of the GM so they each understand their areas of responsibility around legislative compliance.	Risk Manager	01/12/16	GM Corp

315	O	Other less significant matters	An internal review performed over H3's revenue and expenditure systems to ensure adequate controls are in place	Audit NZ Management Report, March 2016	P4	Staff agree and the newly appointed H3 finance Manger will be address the matters as follows: An integratiry Control register will be established within H3 Group to manage the recording of key integrity checks. This will be reportedto management as a part of the regualr internal reporting.	Moderate	Follow Up comment 18.05.16 From our review of the revenue systems at H3, we have identified that management do not see any risks around invoices not being independently reviewed prior to be sent to customers or new debtors not being independently checked. This is because every invoice or new debtor is supported by a contract and customers would complain is the amount invoiced would be incorrect. We have noted that for refunds a formal form is now required to be completed and authorised prior to payment. From our review of the expenditure system at H3, we have identified a creditor masterfile change report is not being run or independently reviewed. We noted a creditors was processed by H3 from instruction that had been received from the procurement team. This had not been signed off by the procurement manager. We also noted the bank reconciliations are being prepared and have been independently reviewed. However, the reviewer was not signing or dating the reconciliations to show evidence or timeliness of the review.	N/O	30/06/17	GM H3
316	O	Other less significant matters	Review of H3's year-end processes to ensure that cut-off is performed correctly and revenue is recognised in the appropriate period	Audit NZ Management Report, March 2016	P4	The recording of revenue is configured in the invoicing and payment plans which are linked to contracts, through the Ungerboeck system. H3 Group will review at each major period Event bookings and, where material, will accrue the appropriate revenue (and any associated costs), in the appropriate period. This will form part of the half year and year end processes.	Moderate	Follow Up comment 18.05.16 H3 intend to perform their own year-end processes to ensure that cut-off is performed correctly and revenue is recognised in the appropriate period. We will check this during our final audit visit.	N/O	30/06/17	GM H3
317	O	IT Controls	Refine the process for adding, amending and removing user's network access	Audit NZ Management Report, March 2016	P4	The on-boarding and off-boarding process generally works wells. This particular example falls outside the norm. An audit has been completed to ensure no other anomalies. Council is investing in furhter automation to reduce the possibility of this happening again.	Moderate	Follow up comment 19.05.16 We noted that the process for adding and removing users is still not always being followed correctly. We were unable to confirm that access had been removed promptly when two Group Managers left this year. Another fixed term person had not had her access removed due to IT not being notified.	CIO	30/06/17	GM Corp
318	O	IT Controls	Implement stronger controls for remote access to its network and applications	Audit NZ Management Report, March 2016	P4	Staff will review the remote access policy as part of implementing the new remote access technology.	Moderate	Follow up comment 19.05.16 Remote access now requires managers approval as council moves to Government Desktop as a Service and council looks to reduce the number of software licences. As part if the changeover a full review of licences, including remote users is being done. Council should continue to ensure remote access is only provided to users who require that access and that it is terminated when a user leaves.	CIO	01/07/16	GM Corp
319	O	General ledger reconciliations	From our review of monthly reconciliations, we identified the following: <ul style="list-style-type: none"> The suspense accounts were not always prepared or when they were prepared they were not always dated so we could evidence the timeliness of the review. These reconciliations were not always independently reviewed in a timely manner. The fixed assets reconciliations were not prepared until March 2015. The October 2014 Bank Reconciliation could not be found. We understand that the significant delays in preparing or independently reviewing the reconciliations are mainly to due to the system upgrade. We recommended reviews of general ledger reconciliations be carried out in a timely manner.	Audit NZ Fact Sheet HCC Interim April 2016	P15	Based on our review of the suspense account reconciliations, we have identified that these were either not prepared in a timely manner or not reviewed independently. We noted the December 2015 reconciliation had not been prepared until February 2016 and was not independently reviewed. The February 2016 was not independently reviewed until April 2016. The fixed asset reconciliations were only prepared for November 2015 and March 2016. These reconciliation had not been independently reviewed. All the bank reconciliation had been prepared and reviewed in a timely manner.			N/O	30/07/16	GM Corp
320	O	Liability management policy	During our review of the City Council compliance with the Treasury Policy, we identified three breaches of the policy during the year. The breaches have been reported to the finance and audit committees. The City Council was in full compliance by 30 June 2015. We recommended that City Council introduce processes to ensure such breaches do not occur in future.	Audit NZ Fact Sheet HCC Interim April 2016	P16	During our review of the City Council compliance with the Treasury Policy, we identified two potential breaches of the policy during the year. The Policy now allows HCC 90 days to correct any issues. The breaches have been reported to the finance and audit committees. The only reason for the breach was the Council paid off debt quicker than expected which is resulted in the percentage of fixed and floating being identified as an issue. The City Council is expected to be in full compliance by 30 June 2016.			N/O	30/06/16	GM Corp

321	O	Sensitive expenditure policies	From our review, of sensitive expenditure policies this year we note many of the policies we looked at are now overdue for review. These include but are not limited to: <ul style="list-style-type: none"> • Hospitality and entertainment policy (approved in August 2015); • Gifts and hospitality policy; • Koha and Donations policy (approved in May 2015); • Travel management policy (approved in June 2015); • Remuneration and benefits policy; • Fleet management policy (approved July 2015). <p>We recommended sensitive expenditure policies are regularly reviewed to ensure they continue to be appropriate.</p>	Audit NZ Fact Sheet HCC Interim April 2016	P17	We noted that a number of policies have now been reviewed and updated. The Council hospitality and entertainment policy has not been updated on the internet with the new policy. The policy that still remains outstanding for review includes the remuneration and benefits policy and the gifts and hospitality policy.			Scott Copeland	30/06/17	GM Corp
322	O	Conflicts of Interest	From our review of the conflict of interest register maintained for Council staff, we noted that interest register for Council staff had not been updated during the year. We recommend that the interest register should be updated annually.	Audit NZ Fact Sheet HCC Interim April 2016	P18	During our interim visit we were provided with an interest register for Council staff that was last updated in June 2013. We were advised that the Council were in the process of updating the register for staff. We will review the updated interest register at our 2nd interim visit. We are satisfied that the interest register for elected members is up to date and updated on a regular basis.			N/O	30/06/17	GM Corp
324	O	Transportation Measure	An independent audit is being completed over the Downer progress payments and claims process. We recommended the City Council ensures the independent audit includes a review of the Downer's performance information management systems as these systems are relied on for the statement of service performance reporting. This will give the City Council assurance that the information in Downer's system is complete and accurately recording the information.	Audit NZ Fact Sheet HCC Interim April 2016	P21	We will follow up a year-end whether a review over Downer performance information systems has been completed.			N/O	30/06/17	GM City I
326	O	Ministry of Transport Accrual	We continue to note the City Council has a long outstanding payable to Ministry of Transport for traffic infringements payable to the Ministry that were collected from the public by the Council. The amount that has been accrued is \$1.25 million. Included in this, is an amount of \$1.1 million which relates to periods between 2006 and 2010. We recommend a formal review be completed over this accrual to determine if the amounts accrued from 2006 through to 2010 are still payable or not.	Audit NZ Fact Sheet HCC Interim April 2016	P23	We will follow up a year-end whether a review over the transport accrual has been completed.				30/06/17	GM City I

328	O	IT Issue - Dynamics AX user profiles	We noted during our review of Dynamics AX financial system user access that there were staff who had been assigned incorrect profiles in the system and staff who had left but not removed. We also noted that staff are disabled in the system but not removed when they leave the council, and that the workflow which manages delegated authority approvals is not working correctly because staff changes have not been updated in the workflow system. We discussed these with the Procurement Manager and corrections have now been made to the profiles. We understand that staff are working to correct the workflow for delegated authorities. Improvements need to be made to procedures for adding and removing users and managing changes to the structure chart and workflow for delegated authorities in Dynamics AX. Given the amount of change that council has undergone recently, a full review of all roles should be performed in Dynamics AX and Authority.	Audit NZ Fact Sheet HCC Interim April 2016	P25				30/06/17	GM Corp
329	O	IT Issue - No Organisational Business Continuity Plan or IT Disaster Recovery Plan	We have noted in prior years that Council has continued to defer the development and testing of an organisational Business Continuity Plan and an IT Disaster Recovery Plan. We continue to recommend that Council prioritises development and testing of Organisational Business Continuity and IT Disaster Recovery plans. Update in 2015. The project to outsource all IT support and datacentre hosting to Fujitsu, will include development of new IT Disaster Recovery management systems and processes.	Audit NZ Fact Sheet HCC Interim April 2016	P28	The IT DRP is awaiting finalisation with the pending changes to Desktop as a service, and server hosting redundancy services currently under negotiation with Fujitsu and Azure. During the year the Azure datacentre was down for one day and there was no backup service available to the council. Responsibility for Organisational Business Continuity lies with another area within council. We continue to recommend that council develops and tests organisational business continuity and IT disaster recovery plans.			30/06/17	GM Corp
330	O	IT Issue - Recording of IT assets and their Antivirus status	The monthly Fujitsu report contains inconsistencies in numbers of IT assets owned by council, raising the risk that not all IT devices are being updated with Anti-Virus software and may not be patched on a regular basis. Fujitsu have acknowledged this and are working on a project to improve asset recording and reporting. This is part of the project to move to Desktop as a Service. Priority should continue to be given to ensuring all councils desktops are recorded, managed and updated with Anti Virus updates and patches.	Audit NZ Fact Sheet HCC Interim April 2016	P29				30/06/17	GM Corp
331	O	IT Issue - Regular patching of councils desktops	The monthly Fujitsu report contains inconsistencies in numbers of IT assets owned by council, raising the risk that not all IT devices are being updated with Anti-Virus software and may not be patched on a regular basis. Fujitsu have acknowledged this and are working on a project to improve asset recording and reporting. This is part of the project to move to Desktop as a Service. Priority should continue to be given to ensuring all councils desktops are recorded, managed and updated with Anti Virus updates and patches.	Audit NZ Fact Sheet HCC Interim April 2016	P30				30/06/17	GM Corp

Committee: Audit & Risk Committee

Date: 8 June 2016

Report Name: Health and Safety Update

Author: Tracey Stevenson

Report Status	<i>Open</i>
Strategy, Policy or Plan context	
Financial status	<i>There is budget allocated</i>
Assessment of significance	<i>Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendations is/is not considered to have a high degree of significance</i>

1. Purpose of the Report

- This report provides an update on the key health and safety projects within Hamilton City Council and the organisational 2015/16 health and safety key performance indicators as at quarter three.

3. Recommendation from Management

- That the report be received.

5. Attachments

- Attachment 1 - Health and Safety - Quarterly Statistics
- Attachment 2 - Health and Safety Management System framework - 2016

8. Discussion

- The Health and Safety at Work Act 2015 became effective from 4 April 2016 in conjunction with a number of new health and safety regulations.
- Council's health and safety management system has been updated to reflect the new legislation and international best practice.
- In April, Council's senior leadership team participated in a Health and Safety Risk Management Framework workshop run by PwC. The focus was on introducing the "bowtie" risk assessment approach to identifying critical risks and associated controls. This approach is to be cascaded throughout the organisation to focus leadership efforts and drive improved and safer outcomes.

Item 10

- 12. The Waikato Local Authority Shared Services Health and Safety Working Party project team have successfully negotiated a contract with an IT solution company to deliver a contractor health and safety pre-qualification system with an anticipated go-live of 1 September 2016. The six Councils are involved in the project at this stage.
- 13. There has been a significant increase in the number of audits and observations carried out by managers which has involved managers engaging with workers to discuss health and safety matters.
- 14. All overdue corrective actions have been completed and closed since the quarter three results were generated.

Signatory

Authoriser	David Bryant, General Manager Corporate
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Health and Safety | QUARTER THREE STATISTICS 2015/16

KEY PERFORMANCE INDICATORS

2015/16 Indicators	2014/15 actual	2015/16 target	Q3 YTD actual	Q3 YTD target
Recorded near hits	803	883 (10% increase on 14/15)	590	660
Lost Time Injury Frequency Rate	NA	<3.0 (benchmarking against Business Leaders H&S Forum)	2.90 (FYTD)	<3 (FYTD)
Recorded audits and observations	278	420 (1 per unit/team per month)	364	330
Overdue corrective actions	135 (at year end)	0	4	0

As at 05/04/16
TRIM: D-2117283

THINK SAFE WORK SAFE HOME SAFE EVERYDAY



Health and Safety |

Creating a culture where our people are safe and well at work and at home



Committee: Audit & Risk Committee **Date:** 8 June 2016
Report Name: Local Government Risk Agency and Insurance Update **Author:** Barnaby Pace

Report Status	<i>Open</i>
Strategy, Policy or Plan context	<i>Organisational Insurance Programme</i>
Financial status	<i>There is budget allocated</i>
Assessment of significance	<i>Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendations is not considered to have a high degree of significance</i>

1. Purpose of the Report

- To provide an update on the Local Government Risk Agency and Insurance.

3. Executive Summary

- LGNZ and Treasury have proposed a business case for the establishment of the Local Government Risk Agency (LGRA), with the objective of increasing community risk awareness and resilience. If approved, there are wide ranging implications to all Councils.
- Associated with the establishment of a LGRA, there are significant changes proposed to the 60/40 government disaster recovery funding scheme which will have an impact on Hamilton City Council if approved.
- The commissioned Probable Maximum Loss modeling by Aon/Tonkin and Taylor for seismic events has indicated a need to increase our current levels of insurance cover and this is to be taken into consideration in the 16/17 insurance renewal programme.

Recommendation from Management

That the report be received.

7. Attachments

- Attachment 1 - Local Government Risk Agency Presentation 2016-04-20
- Attachment 2 - Earthquake Loss Modelling Executive Summary Report

10. Local Government Risk Agency

11. The Local Government Risk Agency (LGRA) is being developed jointly by LGNZ and Treasury. This is still a business case proposal due to be released for final consideration shortly (dates are running slightly later than outlined in the presentation (Attachment 1)).
12. The purpose for the LGRA is to increase risk awareness capability and community wellbeing through:
 - Greater community resilience and welfare as a result of better risk management and governance.
 - Improved national and local visibility through information sharing and cost certainty of risk exposure.
13. This has significant implications for the local government sector in risk frameworks, risk profiling, standards of information (i.e. standardized information and systems), hazard identification, mitigation strategies and insurance.
14. Our understanding is that the business case will be fully considered in June, with consultation occurring soon after that.

15. 60/40 Government Disaster Fund

16. Significant changes are also proposed to the 60/40 government disaster recovery funding scheme (Second half of the presentation in Attachment 1).
17. These significant changes (if approved) will be phased in over the next two years.
18. Treasury focus is the contingent liability they carry at present (the 60%) with no certainty over risk, the profile of that risk and likelihood/cost. The LGRA will be the first response in mitigation, followed by the amended 60/40 regime (second response).
19. HCC and the Waikato insurance collective is well placed to operate under this new regime ([refer to 26 November 2015 Insurance report](#)) although levels of cover will need to increase.
20. The Waikato collective underground assets insurance (reflecting 60/40 split), as well as a \$10m 100% layer and extent of cover will need to be reconsidered and increased under the LGNZ/Treasury proposal.

21. Probable Maximum Loss Modeling

22. Councils insurance programme is on a journey of improvement and with better information for risk profiling we are well placed to align with the potential 60/40 changes, particular in light of the Aon/Tonkin and Taylor work and specialist advice.
23. Hamilton City Council commissioned Aon/Tonkin and Taylor to undertake earthquake modeling to provide an increased understanding of HCC Probable Maximum Loss resulting from a seismic event. This work has previously been identified to the Audit and Risk Committee ([Report 26 November 2015, section 25-26](#)).
24. Aon/Tonkin and Taylor have produced a report identifying a much higher Probable Maximum Loss (Appendix Two). The conclusions have been reached following detailed risk analysis and an understanding of this risk and the potential impact of seismic activity in Hamilton and the surrounding districts (Waipa and Waikato).

25. As a consequence of this new information there is a need to increase HCC levels of cover and this will be factored into the 16/17 insurance renewal programme.
26. This need to increase our current levels of cover will have budgetary implications; however this amount is currently unknown.
27. The next report to the Audit and Risk committee in September 2016 will outline the proposed insurance programme reflecting the new Probable Maximum Loss modeling information.

Signatory

Authoriser	Blair Bowcott, Executive Director Special Projects
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Local Government Risk Agency

Frances Sullivan & Richard Dore
Establishment Board Secretariat

20 April 2016

**We are.
LGNZ.**



Workshop Objectives

> Provide an overview of the business case including:

- Strategic/Economic case
- Funding model
- Governance



> Obtain feedback on the priority services that the LGRA might offer

> Update on the Crown review of the 60/40 cost sharing arrangements

**We are.
LGNZ.**

Background

- > Single stage business case using the Government's Better Business Case framework
- > Establishment Board to provide to Ministers a finalised business case before 30 June 2016
- > Going to National Council meeting on 27 May for endorsement

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Themes from previous workshops (1)

- > Support exists for creating an entity to facilitate and provide guidelines and information on good practice
- > The entity should have an audit or accreditation role linked to assistance to improve practice
- > Benchmarking practice with other councils is useful

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Themes from previous workshops (2)

- > Caution for incentivising through the 60 : 40 arrangement with the Crown for post-event restoration costs
- > Seed funding might be required to help the LGRA prove its value before becoming self-funding
- > Discussion on scope varied



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LGNZ.**

LGRA business case – Strategic Case (1)

- > Local government assets are critical to the economy and community wellbeing
- > By enabling greater capability and understanding the LGRA will generate two overall benefits:



1. Greater community resilience and welfare as a result of better risk management and governance
2. Improved national and local visibility (greater sharing and understanding) and cost certainty of risk exposure

**We are.
LGNZ.**

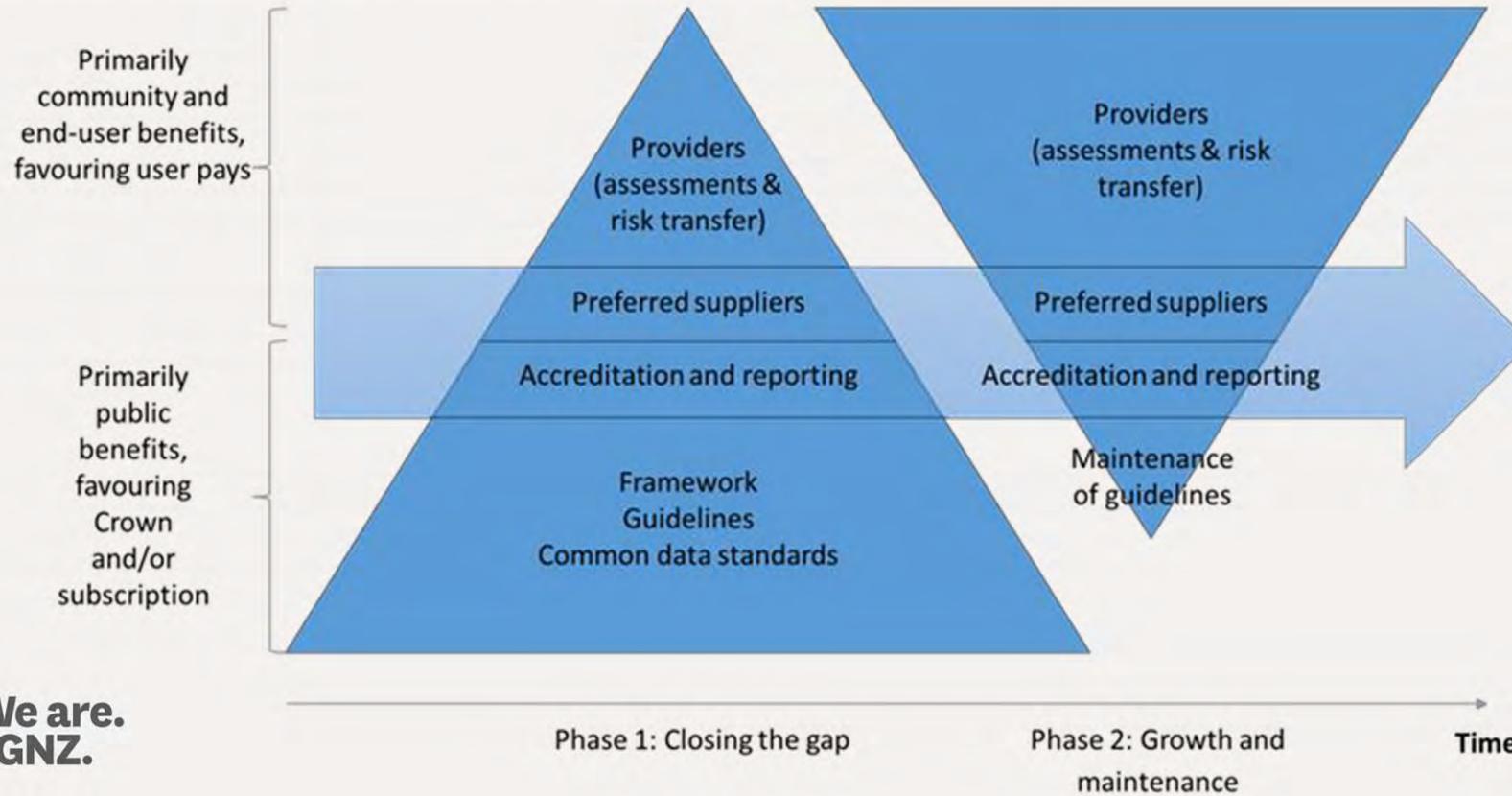
LGRA business case – Strategic Case(2)

- > Alignment with international direction and research
 - Sendai Framework for Disaster Risk reduction
 - Australian Productivity Commission

- > Alignment with other NZ initiatives
 - Review of the 60% Crown share for 3 waters and flood control
 - Metadata (shared data) standards project
 - National geotechnical database project
 - Three waters infrastructure review
 - Other

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LGNZ.**

LGRA proposed services roadmap



Item 11

Attachment 1

LGRA proposed services outputs (Phase 1)

Guidelines and frameworks

- The risk and resilience assessment approach
- Treatment of risk and improving resilience
- Identification and benchmarking of risk and resilience maturity
- Information about appropriate risk financing approach

Current state and gap analysis

- Identifying, analysing, evaluating risks
- Treating risks and improving resilience
- Application of an appropriate risk and resilience management self assessment tool
- Application of the framework and guidance documentation

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LGRA proposed services outputs (Phase 1)

Data collection and centralised reporting

- Standardised approach to data collection and centralised reporting
- Potential vehicle to assist in implementation and subsequent reporting from the results of metadata standards project

Loss estimates

- Where required provide standardised approach
- Outsourced to appropriate provider

Governance and technical training

- Expedite related professional development opportunities for local authorities

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LGNZ.**



LGRA proposed services outputs (Phase 2)

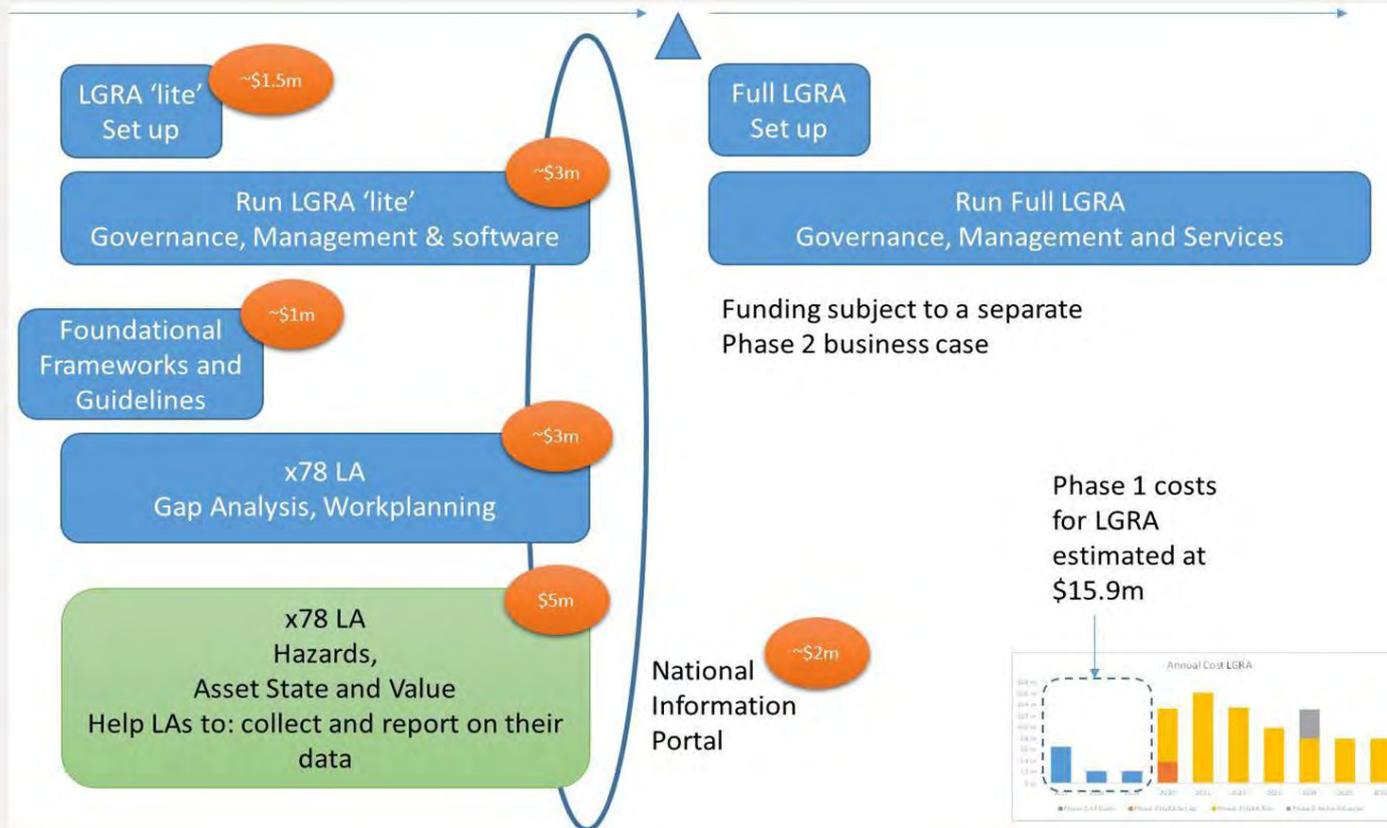
- > Builds on the services delivered in phase 1
 - Longer term sustainable LGRA

- > Provision of decision support services for risk financing
 - May include alternative risk transfer products

- > Accreditation and/or assessment of local authority risk management practices

**We are.
LGNZ.**

LGRA business case - funding



**We are.
LGNZ.**

LGRA business case – governance

- > The objective is to incentivise uptake of LGRA services in the local government sector while minimising compliance costs.

- > Discussions with Establishment Board and Treasury suggest that:
 - Joint venture between the Crown and local government is most appropriate
 - A five member board would be the most efficient and effective.

- > Note key question about appropriate trade-off between local government governance representation and the appropriate structure for the accountability to the Crown.

**We are.
LGNZ.**

LGRA business case - next steps

- > Going to National Council meeting on 27 May for endorsement
- > Will then be circulated to relevant stakeholders, including Ministers and Treasury
- > Decisions about Crown funding is expected around September/October

**We are.
LGNZ.**



Value of risk management to a Local Authority

- > **Risk management** - structured, embedded approach that supports alignment of strategy, processes, people, assets, technology, decisions, products, services and knowledge
- > **Risk** - is the possibility of organisational objectives being impacted due to an (unforeseen) event or an (unexpected) outcome occurring
- > **Resilience** - is the outcome of good risk management. It reflects the ability to absorb and recover from shocks

**We are.
LGNZ.**

Value of risk management – broader benefit

- > Mitigation that avoids damage during disaster events has a material long-term value because of the flow-on economic benefits for the community
- > The operational benefits of risk management are estimated to exceed \$1,026 per rateable unit over a 20-year period
- > Risk management costs were estimated to be \$735 per rateable unit over a 20-year period
- > The net operational benefit (without any disasters) was \$292 per rateable unit



**We are.
LGNZ.**

Value of risk management – council benefit

- > Risk management will be cheaper to implement
- > There is an opportunity to lower insurance costs. This will rely upon careful matching of council risks with those they may be pooled
- > Risk management is likely to be implemented faster if a council works with the LGRA

**We are.
LGNZ.**

Value of risk management – maturity index

Section	Aware	Initial	Repeatable	Managed	Advanced
Risk management	The organisation recognises the benefits of risk management but has yet to implement consistent, formalised or documented risk management arrangements or processes. Typically, risk activity depends on the actions of specific individuals, with improvised procedures and poorly understood processes.	Risk management arrangements and processes are structured but incompletely put into practice. Formalisation is ongoing but not fully accepted in the organisation. Risk is managed independently, with little integration. Critical assets are understood by staff involved in maintenance/renewal decisions.	Risk management framework and processes are standardised with defined and documented procedures and incorporated into staff training. Risk management is aligned with the organisation's external and internal environment as well as the organisation's risk profile. Critical assets and high risks are identified with documented risk management strategies. Frontline staff actively participate in the identification, assessment and treatment of risks and opportunities facing the business.	Organisation-wide risk management activities are integrated and harmonised with measures and controls established. Risk information is structured in a manner that can easily be cascaded throughout the organisation for information collection and aggregated for senior-level reporting. Risk procedures are communicated and fully understood throughout the organisation with the risk management principles integrated fully within the management process with measurement metrics incorporated into the organisation's performance metrics.	In addition to organisation-wide integration of risk management, risk-based discussions are embedded to a strategic level, such as long-term planning, capital allocation and decision making. Risk appetite (risk/reward) and tolerances are clearly understood with alerts in place to ensure executive management is made aware when set thresholds are exceeded. Planned critical review of the risk management programme provides guidance for adjusting/improving application of the risk management principles, arrangements and processes across the organisation to advance objectives.

**We are.
LGNZ.**

Risk financing guide for Local Authorities

- > Risk appetite and risk tolerance
- > Risk retention and risk transfer
- > Administrating self insurance
- > Essential features and principles of insurance
- > The amount insured and basis of settlement
- > Valuations for insurance purposes
- > Dealing with the insurance market
- > Deductibles and policy layering
- > Making a claim
- > Other options for transferring risk

**We are.
LGNZ.**

Discussion on prioritising services

Communications and Education

Guidelines

- Do you use existing guidelines and guidelines? What are they?

Training courses

- What do you need for your decision makers and staff?

Information

- Where do you currently get this information and data?
- What data do you have? How is it used?

Co-ordination with communities of interest

- Who is most important to you? How do they make a difference?

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Discussion on prioritising services

Accreditation, quality assurance and incentives

Certification and accreditation

- Is your work currently QA or benchmarked? By who?
- Why or why not?

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Discussion on prioritising services

Risk assessment and decision support services

Modelling advisory services

- What models do you currently use?
- What risk mitigation strategies do you currently use?

Supply of expertise

- What skill sets do these experts have?
- What do they do?

Risk financing and transfer services

- What skill sets do these experts have?
- What do they do?

**We are.
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Review of 60/40 Cost Sharing Arrangements

Principles underlying Crown support

- > Local risks are a local responsibility
- > Financial assistance policies should incentivise effective council risk management
- > Risk management costs should be borne by those who benefit
- > Risk should be mitigated and managed where possible
- > The Crown has a role in supporting welfare of communities post disaster

Objective of reform options is to balance the role of the Crown in supporting community welfare with the responsibility of councils to manage local risks.

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Potential changes in assets covered

Include:

- > Three waters infrastructure and flood protection assets
 - Definitions aligned to national engineering standards
 - Aligns coverage to critical infrastructure

Exclude:

- > Electrical and gas facilities (Profit making , well-insured. No rationale for Crown financial assistance)
- > Other community assets where damaged by the failure of flood protection schemes (Most are likely to be insurable and are not 'lifeline utilities')
- > Assets covered irrespective of ownership arrangements
- > CCO's are included - asset criticality is not linked to institutional form

**We are.
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Current and potential options



The above options should be considered in conjunction with proposed changes to the assets covered and the regulations/guidance that support the cost sharing arrangement

**We are.
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Potential Changes

- > Enhanced disclosure: each council required to disclose its PML, and what its risk financing strategy is to meet its PML, in its annual report
- > Risk management regulations introduced into the Local Government Act. That is, councils must demonstrate that they are undertaking a robust risk management process in accordance with issued guidelines
- > The proposed LGRA would be well placed to assist rural and provincial councils with their PML assessments and/or their risk management process generally

**We are.
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Draft – not Government policy

Next Steps for the Review

- > Develop the reform options into a consultation paper with DIA and MCDEM – end of April 2016
- > Public submissions open for 6 – 8 weeks
- > Cabinet consider submissions and makes final decisions
- > Changes implemented over transition period



**We are.
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Key questions for discussion

- > What level of service should the 3 waters networks be restored to?
- > To what standard of restoration should the Government provide a funding contribution towards?
- > Should the depreciated portion of an asset be eligible for a funding contribution?
- > What PML thresholds would be reasonable?

**We are.
LGNZ.**

Hamilton City Council
Earthquake Loss Modelling Executive
Summary Report



Quantifying Natural Disaster Risk
May 2016





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Confidentiality Notice

This report contains information and analysis which is confidential to Hamilton City Council, Waikato District Council, Waipa District Council, Waikato Regional Council, Tonkin + Taylor and Aon New Zealand. This report is provided in confidence and may not be reproduced in any form or communicated to any other person, firm, company without the prior approval of Aon.

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Quantifying Natural Disaster Risk

Treasury has signalled that there will be changes in the Crown's risk financing and insurance arrangements. As a consequence of the Canterbury earthquake, the understanding and quantification of natural hazard risk for infrastructural assets is now more important than ever.

As part of the ongoing 60/40 infrastructure cost sharing review, Treasury has indicated that natural hazard loss modelling (risk quantification) for earthquake, flood, volcano and tsunami will be a requirement going forward.

This report is an executive summary of the outcomes from the Aon and Tonkin+Taylor earthquake loss modelling analysis on Hamilton City Council's infrastructural and building portfolio assets. This analysis considered 3 earthquake scenarios with epicentres located over the major accumulations of assets for Hamilton City, Waikato District, Waikato Regional and Waipa District Councils.

A full report providing further detail will be provided to Hamilton City Council. This report provides an executive summary of the mean Probable Maximum Loss (PML) expectancies for both infrastructural and building portfolio assets. The PML equates to an earthquake scenario with an expected recurrence interval of 1 in 1,000 years.

The Aon approach, in partnership with Tonkin+Taylor, incorporates the latest scientific understanding, with geotechnical and risk engineering, and is the most progressive and robust loss modelling methodology currently available. Tonkin+Taylor are geotechnical experts and global leaders in the understanding of liquefaction. The Aon Global Risk Consulting team provides risk engineering expertise to clients across the world, assisting with determining loss expectancies (damage to dollars) from a multitude of hazards, including natural hazards. This enables better quantification of risk, turning damage expectations into realistic costs of reinstatement. Figure 1 represents the process by which this is achieved.



Figure 1 – Simplified Process Summary of Loss Modelling Methodology



Loss Modelling Outcomes

The loss modelling methodology incorporates the understanding gained following the Canterbury sequence and other earthquake events that have impacted horizontal infrastructure providing a realistic assessment of reinstatement costs (based on the valuations provided by Hamilton City Council).

The following table summarises mean damage expectations for Hamilton City Council for Probable Maximum Loss (PML) for both infrastructural and building portfolio assets -

Hamilton City Council		Mean PML Loss Expectancy (\$m)		Current Loss Limit (\$m)		Suggested Loss Limit (\$m)	
		HCC	Region	HCC	Shared	HCC	Shared
Infrastructural Assets		201	246	90	120 ¹	250	300 ²
Building Portfolio	Soil Type 'B' ³	136	151	300	300	300	300
	Soil Type 'C' ⁴	251 ⁴	282			420	420
	Soil Type 'D'	355	406				

Please note the following considerations regarding these outcomes:

- The summary above is an indication of the mean loss expectancy; the 90th percentile loss percentile is significantly higher and conversely the 10th percentile is less. The statistical variation of the analysis will be provided in the full loss modelling report;
- The modelling provides an indication of the material damage loss. Potential business interruption and other associated costs such as claims preparation, enablement, expediting expenses and additional increased cost of working have not been considered but should be considered when determining policy limits.
- The modelling incorporates the asset valuations provided by council. It is assumed that these values are insurance reinstatement values.
- The outcomes are also subject to assumptions and limitations – these are provided in detail in the full loss modelling report. Additional detailed geotechnical and structural engineering assessment would allow more refined outcomes to be determined.

¹ Based on the current shared loss limit

² Assumes contingency for additional increased cost of work, enablement costs, expediting expenses & claims preparation cost.

³ NEHRP soil types as defined by USGS – softer soil types that are also of significant depth amplify ground shaking effects. This can significantly impact the performance of assets and structures above ground. It is likely that the urban centres in the Waikato region are a mixture of soil types B, C and D.

⁴ These loss estimates are based on Council's seismic assessment of buildings using an initial evaluation procedure (IEP). The outcomes provided show the 3 possible soil types located within the Hamilton region with class 'C' (as per NEHRP soil classes) being deemed the 'average' condition. Actual ground conditions and a building's structural response to earthquake can only be determined with more detailed geotechnical and structural engineering assessment.

Risk Transfer Recommendations

The loss modelling provides an indication of potential loss. There are multiple factors which can affect the actual loss following an event. Soil types, shaking intensity and liquefaction potential can all vary and the structural response of a building also determines if the damage can be simply repaired or if a full reinstatement is needed. The New Building Standard ensures that buildings are designed to protect the occupants, and although the building structure is made more resilient – it may not reduce the requirement for a full rebuild post loss. The key assumptions and definitions of soil types, shaking intensity etc. are outlined in the main report.

Depending on how conservative an entity is, with regards to its risk appetite, defines the risk transfer requirement. We would recommend that a conservative approach is taken when considering loss limits for insurance purposes since it is preferable to have coverage available when it's needed plus the cost of capacity reduces significantly as the likelihood of loss reduces.

Based on the outcomes of this loss modelling, and assuming an 'average' soil condition of soil Type 'C' it is recommended that the existing loss limit (\$300m) for the building portfolio (Material Damage) be maintained at the current level for Hamilton City Council. However, consideration of additional capacity over and above the \$300m shared limit should be considered if a more conservative approach is desired (i.e. assuming more deeper and softer soil types prevail around Hamilton and the average soil type 'C' assumption is overly optimistic).

Based on the loss modelling for the infrastructural assets, a review and consideration to increase the infrastructure insurance loss limit is recommended (currently \$120m). Since soil type has less influence on damage to underground assets, a comparison showing the soil types has not been provided. Since the loss modelling only considers the material damage components of the loss and not the other costs that would be incurred (i.e. enablement costs, Additional Increased Cost of Working (AICOW), expediting expenses (temporary repairs) and claims preparation costs, it is recommended the loss limit is greater than the value indicated. A loss limit increase to at least \$300m is therefore recommended for the Waikato LASS collective.

At the moment, any placement assumes that Central Government provides discretionary cover for 60% of the placement. This arrangement will need to be reviewed in line with the proposed changes on the 60/40 cost sharing agreement.



Community Resilience

Aon works with Councils to improve Community Resilience at a local level across New Zealand. New Zealand simply cannot afford to fund its inherent natural hazard exposure and has to understand and mitigate its risk exposure and engage international underwriters to provide the required insurance capacity. Robust loss modelling, risk management and risk transfer are essential considerations, all demanding expert assistance. Aon's role, using its local, global and partnership expertise, is to ensure that risks are identified and quantified and that, as part of a risk mitigation strategy, adequate and sustainable insurance capacity is made available to our clients.

As illustrated below, the outcomes from this work can also be incorporated into and enhance Hamilton City Council's Risk Transfer, Infrastructure Strategy, Insurance Strategy and Disaster Response Planning.

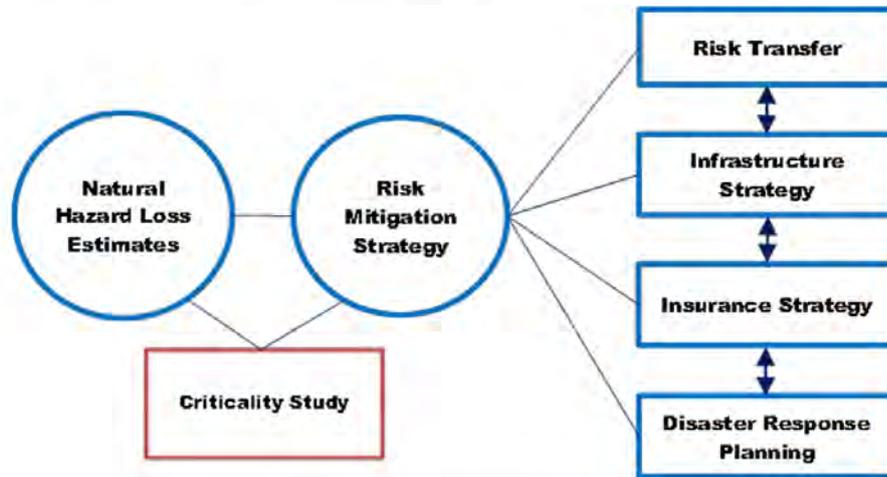


Figure 2 – A benefit map, demonstrating how outcomes can be utilised by Council

Where:-

- Risk mitigation strategies – either risk transfer or risk improvement;
- Infrastructure strategy – helping optimise strategies to replace/protect critical or vulnerable assets;
- Insurance strategies – assisting in determining how much risk is to be retained and transferred;
- Disaster response planning – determining high vulnerability areas;

Councils with a detailed understanding of the criticality of infrastructural assets have the essential components needed to effectively manage risk, ultimately enhancing community resilience. The combination of criticality, combined with a detailed understanding of vulnerability and consequences, enables informed and cost effective strategic decision making around risk mitigation and risk transfer.



Aon and Tonkin+Taylor have the expertise to assist in maximising the gains from this work, particularly around risk mitigation strategies e.g. earthquake strengthening or brittle pipe replacement in vulnerable areas. These improvements not only reduce the risk, they increase resilience and in the long term help to reduce the costs of risk transfer. The modelling can also be extended to include areas designated for future use. Guidance can be provided on suitability and/or measures needed to mitigate risk.

Understanding of natural hazards and management of natural hazard risks are constantly evolving. Aon works closely with Tonkin+Taylor and uses our global resources for both engineering and science (including analytics) to ensure that the natural hazard modelling and mitigation methodologies are robust and remain current.



Contact Details

If you require any further information or have any queries, please contact:

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Committee: Audit & Risk Committee **Date:** 8 June 2016
Report Name: Update on Capitalisation and Asset Management activities **Author:** Paul Gower

Report Status	<i>Open</i>
Strategy, Policy or Plan context	<i>The Hamilton Plan goal of providing outstanding infrastructure is a key driver of asset management improvement</i>
Financial status	<i>Budget for asset management activity is included in existing budgets across the organisation</i>
Assessment of significance	<i>Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendations is not considered to have a high degree of significance</i>

1. Purpose of the Report

- The purpose of this report is to update the committee on progress with capitalization / Work in Progress clearances and asset management activities.

3. Recommendation from Management

That the report be received.

4. Attachments

- There are no attachments for this report.

6. Key Issues

- Capitalisation and Work in Progress update
- During the audit on the 2014/15 financial year, Audit New Zealand noted that some issues raised in the prior year around work in progress were still outstanding. The issues related to the timeliness of completing capitalization of new assets (whether capital projects undertaken by Council or new assets vested in Council).
- Timely capitalisation is an issue that the organisation has consistently struggled in the past to stay on top of.
- The effect of slow capitalisation is twofold:
 - Asset registers are not updated and information is not available to accurately forecast future asset requirements
 - Depreciation is not able to be calculated on assets until the information is collected and therefore is likely to be understated.

11. The Work in Progress (WIP) balance include two main categories of projects:
 - Projects that are not completed and don't yet have assets in use (these are not able to be capitalised at this point and need to remain on the WIP schedule) e.g. Rototuna Reservoir.
 - Projects that are completed and capitalisation now needs to be completed or is overdue.
12. As Council undertakes capital expenditure or has new assets vested through development activity, these transactions are added to the WIP balance.
13. At the beginning of the 2015/16 financial year, the WIP balance that was due for clearing that had not been completed was approximately \$25m.

	WIP 30 June 15		WIP 30 April 16	
	Balance (\$m)	Due (\$m)	Balance (\$m)	Due (\$m)
Council projects	78.3	12.3	78.9	33.6
Vested assets	12.8	12.8	26.7	19.9
TOTAL	91.1	25.1	105.6	53.5

14. By the end of April 2016 the WIP balance (that was at that point due for clearing) had increased to \$53.3m. This is largely due to:
 - A high level of capital expenditure relative to previous years
 - Increased development activity and vesting of assets
 - Capitalisation clearances for 3 waters not able to be undertaken from July 2015 to February 2016 as a revaluation of these assets was taking place during this time and the fixed asset register for these assets was not available for capitalisations to occur.
 - An update to the facilities asset database that also meant no changes could be made to the asset system over a number of months.

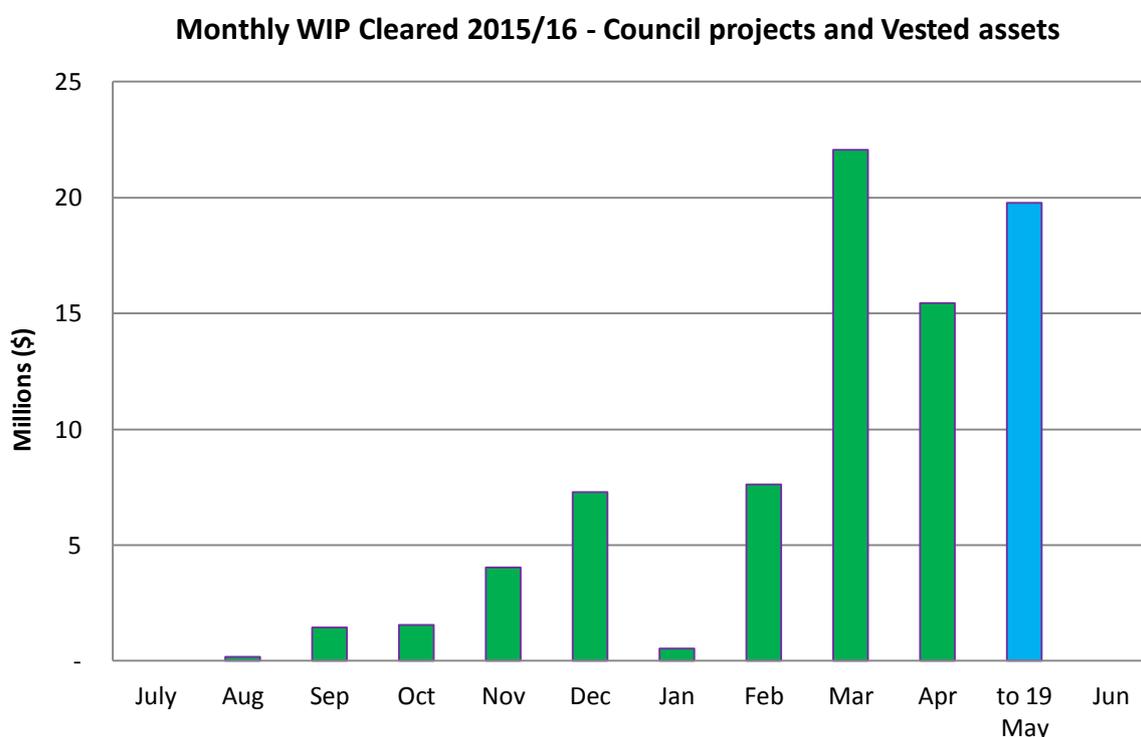
Both of the asset system impediments to capitalisation have been resolved and capitalisation is now occurring in those areas. Significant pressure remains on the staff resources required for completing capitalisation who are also involved with completing capital programmes and receiving vested assets through development activities.

15. A three-pronged approach is being taken to dealing with the current capitalisation issues within the organisation:
 - Redefining capitalisation as an asset management responsibility and not purely a financial process
 - Short-term – clearing the WIP balance that is due for capitalisation
 - Long-term – re-engineering and making process improvements to the asset creation / capitalisation process
16. The capitalisation of WIP is being redefined as an asset management responsibility rather than a finance process. Capitalisation of an asset requires the capturing of accurate asset (including non-financial) data that is required for the on-going management of the asset. The financial recognition of an asset is at the end of an asset management process. Part of this redefining has involved the newly-formed Asset Management Centre of Excellence taking an organisational lead on driving capitalisation throughout the organisation.

17. In order to clear the WIP balance that is due for capitalisation as quickly as possible, additional resource has been brought into the organisation to support the necessary asset management and financial processes to achieve capitalisation clearance. Additional resource has been added to existing staff resources in City Development, City Waters, H3, Hamilton Gardens and Finance.
18. The effect of this intervention is seen in the acceleration of capitalisation clearances over recent weeks. In the period of 1 to 19 May an additional \$19.9m has been cleared from the WIP balance. This leaves a balance of \$33.7m that still requires clearing.

	Balance at 30 April 16 (\$m)	Due for Capitalisation (30 Apr) (\$m)	Cleared since 30 April 16 (\$m)	Remaining (due) balance for clearing (19 May) (\$m)
Council projects	78.9	33.6	10.4	23.2
Vested assets	26.7	19.9	9.4	10.5
TOTAL	105.6	53.5	19.8	33.7

19. Figure 1 shows the rapid increase in capitalisation clearance that has been achieved since March 2016.
20. It is expected that this trend of increased capitalisation clearances will continue over the coming months until the remaining due balance is cleared.



21. The longer-term re-engineering of the asset creation and capitalisation process has begun with a 2 day workshop with the relevant staff from across the organisation on the current processes and identifying where improvements can be made to ensure that capitalisation can occur in a more accurate and timely manner. This approach is helping to change the practice, understanding and culture around capitalisation across Council.

- 22. The outcomes from the work being done on the organisational capitalisation process will be:
 - a clear process for completing WIP and capitalisation to ensure consistency
 - increased clarity on roles and responsibilities for each unit across Council
 - improved training material for staff for completing WIP/Capitalisation
 - accurate financial information for Council’s Assets Register within required timeframes
 - accurate WIP and capitalisation reporting to SLT and units including the development of improved performance indicators
 - a process that is robust and transparent for audit purposes.
- 23. Staff are continuing to liaise and work with Audit New Zealand on the focus being brought to capitalisation in the business and the progress being made on clearing WIP.
- 24. Asset Management Improvement activities
- 25. The Asset Management Centre of Excellence (CoE) was recently established within Council to increase the profile and drive the improvement of asset management practice across the organisation.
- 26. The CoE is a virtual team made up of asset managers within asset based units and organisational support staff from Council’s Finance, Facilities and Asset Strategy teams. An organisational asset management improvement programme has been developed and is being led by the Asset Strategy team in Strategy and Communications Group.
- 27. There are five streams of work to the organisational improvement programme in addition to the stream of Capitalisation Process Improvement that is discussed above. The six streams are:
 - Develop AM Centre of Excellence framework
 - Capitalisation Process Improvement
 - Prepare baseline Asset Management Plans and Infrastructure Strategy as part of the 2018-28 10-Year Plan
 - Develop and implement Asset Management Information Strategy
 - Capital works planning and integration improvements
 - Clarify Internal (cross-organisational) relationships and processes
- 28. SLT are currently reviewing the detail of the organisational improvement programme. More detail on the improvement programme will be available following this review.

Signatory

Authoriser	Chris Allen, General Manager City Infrastructure Group
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Committee: Audit & Risk Committee

Date: 8 June 2016

Report Name: Audit New Zealand Audit Arrangements Letter

Author: Tracey Musty

Report Status	<i>Open</i>
Strategy, Policy or Plan context	<i>Statutory Audit</i>
Financial status	<i>There is budget allocated</i>
Assessment of significance	<i>Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendations is not considered to have a high degree of significance</i>

1. Purpose of the Report

2. To recommend that the Audit Arrangements Letter from Audit New Zealand be approved.

3. Discussion

4. Audit NZ will outline the arrangements for the audit of Hamilton City Council for the year ending 30 June 2016.

5. Recommendations from Management

6. That:
 - a) the report be received; and
 - b) the Audit and Risk Committee recommends to Council that the Mayor signs the Audit Arrangement letter on Council's behalf.

7. Attachments

8. Attachment 1 - Audit NZ Arrangement Letter June 2016

Signatory

Authoriser	David Bryant, General Manager Corporate
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29 April 2016

Julie Hardaker
Mayor
Hamilton City Council
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Hamilton 3240

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Dear Julie

Audit for the year ending 30 June 2016

I am writing to outline our arrangements for the audit of Hamilton City Council for the year ending 30 June 2016. This letter has two main sections – an agreement to be signed, and details of the audit.

Agreement to be signed

On the next page is an agreement that you need to sign. Your signature confirms that the details of the audit match your understanding of the arrangements for this year's audit.

Please sign and return one copy of the agreement, along with a copy of the details of the audit, by 30 May 2016.

Details of the audit

Here we set out the proposed arrangements for this year's audit. This includes:

- risks/issues and our audit response;
- areas of interest for all local authorities; and
- logistics (such as our audit team, timing, and fees).

Additional information attached

We have attached three Appendices for your information:

- Appendix 1: Additional information about the audit;
- Appendix 2: Information we will need and when it will be available; and
- Appendix 3: Areas of interest for all local authorities.

Please take the time to read this document thoroughly before returning the signed agreement. If there are additional matters that should be included, or any matters requiring clarification, please contact me.

Yours sincerely



Leon Pieterse
Director

Agreement to be signed

I acknowledge that the details of the audit set out here are in keeping with my understanding of the arrangements for the audit.

Signed _____ Date _____
Julie Hardaker
Mayor

Details of the audit

1 Introduction

This document sets out the arrangements for the audit of Hamilton City Council (the City Council) for the year ending 30 June 2016. This includes:

- risks/issues and our audit response;
- areas of interest for all local authorities; and
- logistics (such as our audit team, timing, and fees).

2 Your risks/issues and our audit response

Based on the planning work and discussions that we have completed to date, we have identified what we consider to be the main risks and issues facing the City Council that may affect our ability to form an opinion on your financial statements. As part of the wider public sector audit, we are also required to be alert to issues of effectiveness and efficiency, waste and a lack of probity or financial prudence (as set out in the Audit Engagement Letter dated 2 April 2014).

The table below sets out the risks and issues that we have identified in line with these requirements as well as how we plan to respond to these risks/issues during the audit.

Your risks/issues	Our audit response
Property, plant and equipment	
<p>The City Council periodically re-values its land, buildings and infrastructure assets to ensure the carrying value of these assets does not differ significantly from their fair value.</p> <p>This year, the City Council plans to revalue its road assets to ensure the carrying value of these assets reflects its fair value.</p> <p>The City Council will need to formally assess whether a revaluation is required for other asset classes on a revaluation cycle to ensure the carrying value of these assets fairly reflects their fair value.</p> <p>We also made a number of recommendations in our 2014/15 management report around the timely capitalisation of work in progress and vested assets. Improvements could also be made to the addition, disposal and reconciliations processes.</p>	<p>We will undertake sufficient audit work to obtain assurance that the revaluation methodology used complies with generally accepted accounting practice and that the City Council has correctly accounted for the revaluation in its financial statements.</p> <p>We will consider whether the City Council has determined whether there is a material difference between the fair value and the carrying value of these other assets and whether a revaluation of these assets are required.</p> <p>We will follow up on any recommendations made in the 2014/15 management report.</p>

Your risks/issues	Our audit response
Non-financial performance information	
<p>In 2010, the LGA was amended to require the Secretary for Local Government (the chief executive of the Department of Internal Affairs (DIA)) to make rules specifying non-financial performance measures for local authorities to use when reporting to their communities for five groups of activities:</p> <ul style="list-style-type: none"> • stormwater drainage; • sewerage and the disposal of sewage; • flood protection and control works; • water supply; and • the provision of footpaths and roads. <p>The Non-Financial Performance Measures Rules came into force on 1 July 2014. Local authorities incorporated the performance measures in to 2015-2025 LTPs. The performance measures will be reported against for the first time in the 2015/16 annual reports.</p> <p>We also made a number of recommendations in our 2014/15 management report to ensure the City Council has adequate systems in place to ensure all data used for non-financial reporting is complete, accurate, classified correctly, occurred and is recorded in the correct period.</p>	<p>We will ensure that the City Council reports against all the mandatory measures.</p> <p>We will gain an understanding of the new systems in place as part of our 2015/16 audit and follow up on any recommendations made in the 2014/15 management report.</p>
Sale of Pensioner Housing	
<p>During the financial year, the City Council approved the sale of the Pensioner Housing for \$23.5 million to Accessible Properties.</p> <p>The City Council will need to ensure that any gain or loss on the sale of the Pensioner Housing is reflected correctly in the financial statements on the settlement date.</p> <p>The payment for the Pensioner Housing is going to be made in two parts. The Council will need to ensure that they correctly recognise any future receivables related to the transaction.</p> <p>The City Council will also need to consider the GST implications of this transaction.</p>	<p>We will review the sale of the pensioner housing and ensure that it is correctly recognised in accordance with the accounting standards.</p>

Your risks/issues	Our audit response
Group consolidations	
<p>The External Reporting Board has adopted a multi standards approach that means for-profit entities and public benefit entities will have separate accounting standard frameworks.</p> <p>The City Council is classified as a public benefit entity. However, Innovation Waikato Ltd (IWL), one of the City Council's subsidiaries, is classified as a for-profit entity. Therefore, the accounting framework that will apply to IWL differs from the one the City Council will be using.</p> <p>We previously encouraged the City Council to monitor changes between the different accounting standards on a continuous basis as some changes could affect the consolidation process going forward.</p>	<p>We will review the group consolidations and group accounting policies to ensure they are fairly stated in the financial statements and are consistent across the entities.</p> <p>We will ensure the group consolidations are prepared in line with International Public Sector Accounting Standards (IPSAS).</p> <p>We will follow up on the issues raised in our prior year management report.</p>

We will also follow up on progress made by the City Council in its response to our previous recommendations.

Please tell us about any additional matters that we should be aware of as your auditor, and any specific significant business risks that we have not covered.

3 Other areas of interest across the Local government sector.

As part of our audit planning there are areas that are significant to the audit of all Local Authority clients as detailed below. There are also areas of interest that are not necessarily significant to the Council, but are areas we monitor as part of our responsibility to consider the broader risks affecting Local Authorities.

3.1 Matters of particular interest to the Auditor-General

In June 2014, the Auditor-General published an overview report *Reflections from our audits: Service delivery*. The report explores the dynamic context of change in which services are delivered by public entities in New Zealand, both now and in the future.

The Auditor-General will shortly be completing work on the 2014/15 theme, *Governance and Accountability*. This report will be made available in 2016. We are interested in the things that provide strategic direction to public sector entities and their activities, such as people, structures, information and decision-making processes. Further, all public entities are accountable for their use of public funds and the effectiveness of, and compliance with, the accountability mechanisms within public entities that allow their governing bodies to be held to account for their performance and encourage entities to continuously improve and deliver better services to citizens.

The Auditor-General is currently working on the 2015/16 theme, *Investment and Asset Management*. Through our 2015 annual audit we enhanced our understanding of the investments and asset management that public sector entities are making, how they invest and how much they invest.

The 2016/17 work programme theme is *Information*. Investment to improve the information and technology systems supporting the collection, maintenance, and analysis of business critical information is enabling public entities to transform their service delivery in ways not previously possible. The *Information* theme allows us to provide an independent view on the extent to which this is happening, and the opportunities.

During the 2016 audit, we will collect examples of the use, analysis and/or management of information. This may include examples of:

- o significant improvements in the use and/or management of information;
- o small improvements over a period of time;
- o where entities are sharing information to collectively inform and join together activities;
- o where an entity is excelling in their sector, either by way of innovative solutions or technological advances; and/or
- o how the entity keeps the information it holds secure.

3.2 Other areas of interest for all Local Authorities

As well as the risks and issues noted above, there are also a number of other concerns common to the Local Authorities sector. Refer to Appendix 3 for details.

4 Audit of Debenture Trust Deed

The City Council's external loans are secured by way of a Debenture Trust Deed which creates a charge over City Council's rates. Clause 12.2.1 of the Trust Deed requires City Council to report to the Trustee information as specified by that clause.

We are required to audit that information and report to the Trustee in accordance with 12.2.6 within 30 days of signing of the annual report. We will do this as part of the annual audit and the cost are included in the professional fees discussed below. We will issue a separate engagement letter for this assurance engagement.

We will liaise with the City Council in order that we can perform the required audit work on the City Council's report to the Trustee and issue our reporting certificate within 30 days of signing of the annual report.

5 Logistics

5.1 Our audit team

The Audit New Zealand staff involved in the audit are:

Leon Pieterse	Director
Naude Kotze	Audit Manager
Nikita Veaney	Audit Supervisor
Robyn Dearlove	Information Systems Auditor
Jason Biggins	Tax Director

5.2 Important dates in the audit process

Our proposed timetable is:

	Date
First interim audit	4 April 2016
Second interim audit begins	20 June 2016
Draft interim management report issued	8 July 2016
Final interim management report issued with management comments ¹	22 July 2016
Draft financial statements available for audit ²	8 August 2016
Final audit begins	8 August 2016
Draft statement of service performance available for audit	8 August 2016
Final financial statements available ³ for audit	24 August 2016
Annual report ⁴ available for audit	24 August 2016
Verbal audit clearance given	2 September 2016
Draft management report issued for management comments	16 September 2016
Audit opinion issued	23 September 2016
Finalised management report issued	3 October 2016

5.3 Our interim audit visit

We will carry out the interim audit during April and June 2016. During these visits, we will focus on updating our understanding of the City Council's internal controls. This includes reviewing the control environment, risk assessment processes and relevant aspects of information systems controls. We will use the results of this assessment to determine how much we can rely on the information produced from your systems during our final audit.

¹ If management report comments are not received within 10 working days. The management report will be finalised with no comments.

² Financial statements (including notes to the financial statements) with actual year-end figures.

³ Financial statements incorporating all the amendments agreed to between City Council and Audit New Zealand.

⁴ Annual report, including any Chair's and Chief Executive's overview or reports.

5.4 Our final audit visit

Our final audit is scheduled to start on 8 August 2016 and is expected to last three weeks. During this visit we will be auditing the balances, disclosures, and other information included in your financial statements.

5.5 Professional fees

Our audit fee estimate for the year ending 30 June 2016 is \$199,000 plus disbursements (GST exclusive). This is as agreed in the Audit Proposal Letter dated 2 April 2014.

The fee is an estimate and assumes that the expectations discussed in Appendix 1 will be met. If this does not occur, or the scope of the audit changes, we will discuss this further with you.

We propose to bill as follows:

	Amount
January 2016	\$10,000
March 2016	\$20,000
June 2016	\$50,000
August 2016	\$60,000
September 2016	\$50,000
October 2016	\$9,000
	<u>\$199,000</u>

To ensure we can complete the audit within the proposed time frame (see above) and agreed fee, it is critical that you make appropriate supporting documentation available to us on a timely basis. If this is not the case, it is likely to result in cost overruns, which we will seek to recover from you. To help you prepare for the audit, a schedule of the information that we will need for the audit is included in Appendix 2.

Appendix 1: Additional information about the audit

Our reporting protocols

Management reports

We will provide a draft of all management reports to management for discussion/clearance purposes. In the interests of timely reporting, we ask management to provide their comments on the draft within 10 working days. Once management comments are received the report will be finalised and provided to the Audit and Risk Committee.

Reporting of misstatements

We will include details of all uncorrected misstatements in our management report. Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of the City Council's financial statements.

During the audit, we will provide details of any such misstatements we identify to an appropriate level of management. We will ask for each misstatement to be corrected in the City Council's financial statements. Where management does not wish to correct a misstatement we will seek written representations from representatives of the City Council's governing body that specify the reasons why the corrections will not be made.

Our expectations of you to enable an efficient audit

To enable us to carry out our audit efficiently within the proposed audit fee, we expect that:

- the City Council will provide us with access to all relevant records and provide information in a timely manner;
- your staff will provide an appropriate level of assistance;
- the financial statements will be available at the start of the final audit, include all relevant disclosures, and be fully supported by a detailed workpaper file; and
- the annual report and financial statements (including the statement of service performance) will be subjected to appropriate levels of quality review before submission for audit.

Our audit fee is based on the assumption that we will review no more than two sets of the draft annual report, one printer's proof copy of the annual report, and one copy of the electronic version of the annual report for publication on the City Council's website.

Using your internal auditors

Our approach will be to continue to liaise with your internal auditors to ensure appropriate co-ordination of effort. In keeping with the applicable auditing standard, ISA (NZ) 610, *Using the Work of Internal Auditors*, we will make a preliminary assessment of the internal audit function in terms of organisational status, scope, technical competence, and professional care.

If we determine from our preliminary assessment that the internal audit function could be relied on for external audit purposes then we will consider the internal audit work proposed or completed. We will then determine the extent to which we can use the internal audit work to supplement our audit work.

How we consider your compliance with statutory authority

As part of the Auditor-General's mandate, we carry out an audit of compliance with statutory authority. Our audit is limited to obtaining assurance that you have complied with certain laws and regulations that may directly affect the City Council's financial statements or general accountability. Our audit does not cover all of the City Council's requirements to comply with statutory authority.

Our approach to this aspect of the audit will mainly involve assessing the systems and procedures that are in place to ensure compliance with certain laws and regulations that we consider to be significant. We will also complete our own checklists covering the key requirements of significant legislation. In addition, we will remain alert for any instances of non-compliance that come to our attention. We will evaluate the relevance of any such non-compliance to our audit.

Appendix 2: Information we will need

In the table below we have listed the information that we will need during the audit.

Information we will need	Date available
<p>Draft financial statements</p> <p>A complete set of financial statements with all balances that agree to supporting "leadsheets". These should include the accounting policies, a Statement of Comprehensive Income, a Balance Sheet, a Statement of Cash Flows, and the notes to the accounts.</p> <p>Funding Impact Statements (City Council and Group of Activities).</p> <p>Financial Prudence Measures.</p> <p>A draft Statement of Service Performance.</p>	8 August 2016
<p>Final draft financial statements</p> <p>Financial statements incorporating all the amendments agreed to between the Hamilton City Council and Audit New Zealand.</p>	24 August 2016
<p>Annual report</p> <p>Annual report, including the Chair's and Chief Executive's overview or reports.</p>	24 August 2016
<p>Summary annual report</p> <p>Summary annual report.</p>	24 August 2016
<p>General information</p> <p>Supporting schedules for all balances with figures for the current year, budget and last year, along with the dollar and percentage movement. Explanations for variances $\pm 10\%$ or \$500,000.</p> <p>Supporting schedules that agree to the general ledger and to the financial statements, with supporting documentation for any adjustments between the general ledger and the financial statements.</p> <p>Additional, more detailed, supporting schedules where balances are made up of a number of GL accounts providing the applicable GL code. This should clearly show which ledger account codes combine to form each individual figure in the financial statements.</p> <p>Workpapers clearly documenting how the figures in the Statement of Cash Flows were calculated.</p> <p>Reconciliation of all figures in the Statement of Cash Flows back to the Income Statement and Balance Sheet and supporting schedules.</p> <p>Copy of the trial balance.</p>	<p>8 August 2016</p> <p>8 August 2016</p>
<p>Minutes</p> <p>City Council and sub-committee minutes for the year ending 30 June 2016 and all subsequent minutes up to the date the audit opinion is signed.</p>	8 August 2016

Information we will need	Date available
Journals Listing of all journals entries for the year.	8 August 2016
Cost allocation Supporting schedule showing total expenditure by activity. Report showing allocation of costs to each activity. Description of methodology used for allocating costs to the activities.	8 August 2016
Cash and cash equivalents Bank account reconciliations to 30 June 2016 including: <ul style="list-style-type: none"> • schedule of unpresented cheques and/or unprocessed direct payments; • schedule of deposits in transit; and • schedule of any other unreconciled items and an explanation of how they have been accounted for. Details of last cheque issued and last deposit made for the year. All bank statements from the start of the financial year until the date of the audit.	8 August 2016
Debtors Debtors listing, reflecting gross receivable and ageing. Sundry debtors accrual schedule. Reconciliation of debtors listing to general ledger. Details of provision for doubtful debts calculation. Schedule of all debtors written off during the period. Debtor account reconciliations for the year to 30 June 2016.	8 August 2016
Prepayments Listing of all year-end prepayments. Supporting documentation for significant prepayments.	8 August 2016
Property, plant and equipment (including infrastructure) Fixed asset register. Movement reconciliation for the year outlining additions, disposals, and depreciation. Supporting documentation for additions/disposals and write-off of any assets. Reconciliation of fixed asset register to the general ledger. Schedule of capital work in progress at 30 June 2016 and an indication of when each asset is likely to start accruing benefits and when it is likely to be operational.	8 August 2016
Asset revaluations Names and addresses of all valuers used. Copies of any valuation reports. All supporting documentation to account for any revaluation.	8 August 2016

Information we will need	Date available
<p>Creditors and accruals</p> <p>Complete listing of accruals as at 30 June 2016.</p> <p>Supporting documentation for all accruals over \$500,000.</p> <p>Reconciliation of creditors control to the general ledger.</p> <p>Supporting documentation for any significant creditors.</p>	8 August 2016
<p>Suspense accounts</p> <p>Reconciliation of all suspense accounts.</p>	8 August 2016
<p>Equity</p> <p>Supporting documentation for any movement in equity not attributable to the net surplus or deficit.</p>	8 August 2016
<p>Commitments</p> <p>Schedule of commitments at 30 June 2016.</p> <p>Supporting documentation for all commitments.</p>	8 August 2016
<p>Contingencies</p> <p>Schedule of all contingencies and guarantees at 30 June 2016.</p> <p>Supporting documentation for all individual items.</p> <p>Names and addresses of all solicitors/barristers used by the Hamilton City Council and descriptions of matters and estimates of the financial settlement. (A legal letter template to be provided by us.)</p>	8 August 2016
<p>Tax</p> <p>GST returns to 30 June 2016.</p> <p>A reconciliation of the balance of GST payable in the general ledger to the last GST return.</p> <p>The current year tax calculation, deferred tax proof, and supporting work papers.</p> <p>The latest IRD statement of account for income tax (if any).</p> <p>All tax advice, binding ruling applications, tax compliance reports, and IRD correspondence.</p>	8 August 2016
<p>Revenue</p> <p>A reconciliation of general ledger to financial statements.</p> <p>Explanations for variances greater than 10% and \$500,000 when the figure is compared to the previous year and budget.</p> <p>Supporting documentation for any significant revenue streams.</p>	8 August 2016
<p>Expenditure</p> <p>A reconciliation of general ledger to the financial statements.</p> <p>A reconciliation of lease/rental charges to lease agreements.</p> <p>A listing of the fees paid and/or payable to each member of the City Council for the year.</p>	8 August 2016

Appendix 3: Areas of interest for all local authorities

As well as the risks and issues noted in section 2, there are also a number of other general concerns common to the Local Government sector. The table below outlines our areas of interest for this year's audit. The left-hand column describes each matter and the reasons for our interest. In the right-hand column, we describe how we plan to address each matter during the audit.

Areas of interest	Impacts on	Our audit response
Rates		
<p>Rates are Council's primary funding source. Compliance with the Local Government (Rating) Act 2002 (LGRA) in rates setting and collection is critical to ensure that rates are validly set and not at risk of challenge.</p> <p>Due to concerns over rating practices across the local government sector as a whole, during the 2013 audit we focused on Council's compliance with rating legislation and regulations.</p>	<p>Rates revenue</p> <p>Receivables</p> <p>Legislative compliance</p>	<p>For 2016 we will again consider Council's compliance with aspects of the LGRA that materially impact on the financial statements. Principally this means a focus on the rates setting process – the consistency and completeness of the resolution and the Funding Impact Statement (FIS), and reviewing a sample of differentially set and/or targeted rates to assess whether the matters and factors used are consistent with the LGRA.</p>
Asset Management Plans (AMPs)		
<p>Asset Management Plans (AMPs) play an integral part in the maintenance of the Council's significant infrastructure assets. These assets deliver most of the quality-of-life services that are critical to the community.</p> <p>During the last LTP audit we reviewed the AMPs and provided feedback on these.</p>	<p>Infrastructure assets</p>	<p>We will assess and review the Council's progress in relation to the development and maintenance of its AMPs in line with the improvement plans.</p>
Financial reporting disclosures		
<p>Schedule 10 of the Local Government Act and the Local Government (Financial Reporting) Regulations 2014 detail disclosures to be included in the Annual Report. Council should review these requirements to ensure all disclosures have been included in the annual report.</p>	<p>Disclosures</p>	<p>We will ensure all the disclosures required by schedule 10 of the Local Government Act and the Local Government (Financial Reporting) Regulations 2014 have been appropriately included in the Council's annual report.</p>

Areas of interest	Impacts on	Our audit response
Funding impact statements (FIS)		
The Council's annual report will identify and explain any significant financial and service performance variances from those planned. While the FIS incorporates two years' comparative information, we expect the primary focus of variance explanations at the Group of Activities level and whole of Council will be against the 2015-2025 LTP.	Final accounts	We will consider the extent to which the Council's activities are on track against the 2015-2025 LTP. We will assess the reasonableness and completeness of the variance analysis and explanations in the annual report. We will also consider the implications and impact, of any significant variations from the LTP's planned performance, on the financial strategy.
Shared services		
Local authorities are continually exploring opportunities for delivering enhanced and more efficient services. Among the range of options increasingly discussed are shared services, often with other local authorities.	Understanding the entity	We have asked the Council to advise us of any such arrangements they are considering. We will discuss with them any proposals for shared services and any other alternative forms of service delivery. Our objective will be to gain an understanding of the proposals and their potential impact on the organisation and its services and activities.
Development contributions		
Development contributions (and financial contributions, which are levied under the Resource Management Act) are an important funding tool for many local authorities. Development contributions can be contentious. There is a risk that developers may challenge Council's compliance with legal requirements. Council may also face the risk of needing to repay contributions if developments do not proceed. To manage this, the Council needs adequate records.	Development contribution revenue	As part of the audit we will review the Council's controls to ensure all development contributions are charged in accordance with the policy. We will also confirm whether the use and application of funds received is appropriate and has been correctly accounted for.

Areas of interest	Impacts on	Our audit response
Possible LTP amendments		
<p>Every proposed amendment must be audited. An amendment arises where Council proposes:</p> <ul style="list-style-type: none"> a significant change to services levels [section 97 (1)(a)]; or to transfer ownership of a strategic asset [section 97(1)(b)]; or a significant change to the revenue and financing policy [section 103(4)]. 	Legislative compliance	<p>We will remain alert for possible amendments throughout the year. We will maintain contact with management and discuss potential amendments as they arise.</p> <p>We also plan to review the Council's 2016/17 annual plan, to ensure we understand the nature and extent of any changes being proposed.</p> <p>As part of this review we will assess the annual plan's compliance with legislative requirements.</p>
Council's governance role over Council Controlled Organisations (CCOs)		
<p>CCOs are responsible for meeting the accountability requirements of the Local Government Act 2002 (LGA), including preparing Statements of Intent (SOIs) with appropriate involvement from their parent Local Authorities.</p> <p>Local Authorities are responsible for the effective oversight of their CCOs. This includes monitoring their CCOs' performance and reviewing and commenting on draft SOIs of their CCOs within the timeframe in the LGA and ongoing monitoring of performance.</p> <p>Local Authorities also need to ensure that they have articulated the rationale for their investment in their CCOs</p>	Control environment	<p>We will consider whether the Council has appropriate arrangements in place for effectively fulfilling its oversight responsibilities relating to CCOs including establishing the rationale for their investment in their CCOs and the monitoring of the CCOs' performance.</p> <p>We will also establish whether statutory timeframes for preparing 2015/16 SOIs have been met for all CCOs.</p>
Conflicts of interest		
<p>Conflicts of interest are an area of concern from two perspectives; probity and the potential for a conflict of interest that is not well managed to create significant legal and reputation risks.</p> <p>During 2007 the Office of the Auditor-General (OAG) published two sets of guidance for entities in this area.</p> <p><i>Managing conflicts of interest: guidance for public entities</i>, explains how to understand conflicts of interest in the public sector, and how to identify, disclose, and manage them. It also considers both the legal and ethical dimensions of conflicts of interest.</p>	Probity	<p>While it is primarily the responsibility of the Council to identify and manage conflicts of interest, in the course of our usual audit work we will remain alert for conflicts of interest.</p> <p>If we identify particular risks related to the management of conflicts of interest, we may carry out further work to review the Council's systems and processes.</p>

Areas of interest	Impacts on	Our audit response
<p><i>Guidance for members of local authorities about the law on conflicts of interest</i> provides more specific guidance for Councillors. This is an updated version of previously published guidance about the legal requirements that apply to Council members in formal decision-making at meetings of their authority.</p> <p>The Local Authorities (Members' Interests) Act 1968 controls the making of contracts between Councillors and the Council and prevents Councillors from participating in Council matters in which they have a pecuniary interest.</p>		
Treaty settlements and co-management		
<p>The Government aims to settle all historical Treaty of Waitangi claims. One part of cultural redress provided by the Crown to claimant groups is the establishment of future relationships and arrangements ("co-management") with government agencies, such as local authorities, that play significant roles in the areas with which the claimant group has traditional and cultural associations.</p>	<p>Understanding the entity</p>	<p>We are monitoring these types of arrangements and the implications across all Local Authorities.</p> <p>We have asked the Council to advise us if they become aware of new settlements or co-management arrangements that may impact on them.</p>
Elected members – remuneration and allowance		
<p>The Local Government Act gives the Remuneration Authority responsibility for setting the remuneration of local government elected members. The Authority also has the role of approving a Local Authority's policy on allowances and expenses.</p> <p>Council's annual report must disclose the total remuneration received by or payable to each member of the local authority in the reporting period.⁵ A local authority must disclose remuneration paid or payable to each member from both the local authority and any Council organisation of the local authority.</p>	<p>Key management personnel Sensitive expenditure Legislative compliance</p>	<p>We will assess the Council's compliance with the requirement to disclose the remuneration of each member of the local authority in the annual report against the relevant Local Government Elected Members Determination and any amendment to that Determination.</p>

⁵ Schedule 10, clause 18, Local Government Act 2002.

Areas of interest	Impacts on	Our audit response
Risk management		
<p>Sound risk management processes help to minimise the impact of risks on the organisation.</p> <p>Where the Council has not identified risks, or has not put in place specific processes for managing these risks, the organisation remains exposed to the full impact of the particular risk.</p>	Control environment	<p>We will ascertain whether the Council has been implementing its formal organisation-wide approach to risk management.</p> <p>We will perform a high level review of the broad approach taken and the processes in place.</p>
Contract management		
<p>Contract management is an important component of procurement. Contract management includes the effective management and monitoring of the delivery of goods or services to the agreed levels. It is essential to ensuring that the Council obtains value for money from the contracts its procurement processes have put in place.</p> <p>Contract renewals provide opportunities for the Council to refresh contract expectations and deliverables to align to the LTP. This can also provide opportunities for efficiencies or other savings.</p>	Contract management	<p>We will discuss the contract management process the Council has to ensure there is appropriate management. Where we identify particular risks related to contract management we may carry out additional work to review the Council's policies, procedures or approach to contract management in practice.</p>
Project management		
<p>Taking a project-managed approach is an important part of effectively controlling capital works, changes to key IT systems and the process of change more generally – whether that is change to service delivery, or change to the way the entity works.</p>	Project management	<p>We will review the Council's approach to project management to help ensure that an adequate control framework is in place and operating effectively.</p>

Committee: Audit & Risk Committee

Date: 8 June 2016

Report Name: LGOIMA Process

Author: Richard Briggs

Status	<i>Open</i>
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1. Recommendation

- That the report be received.

3. Attachments

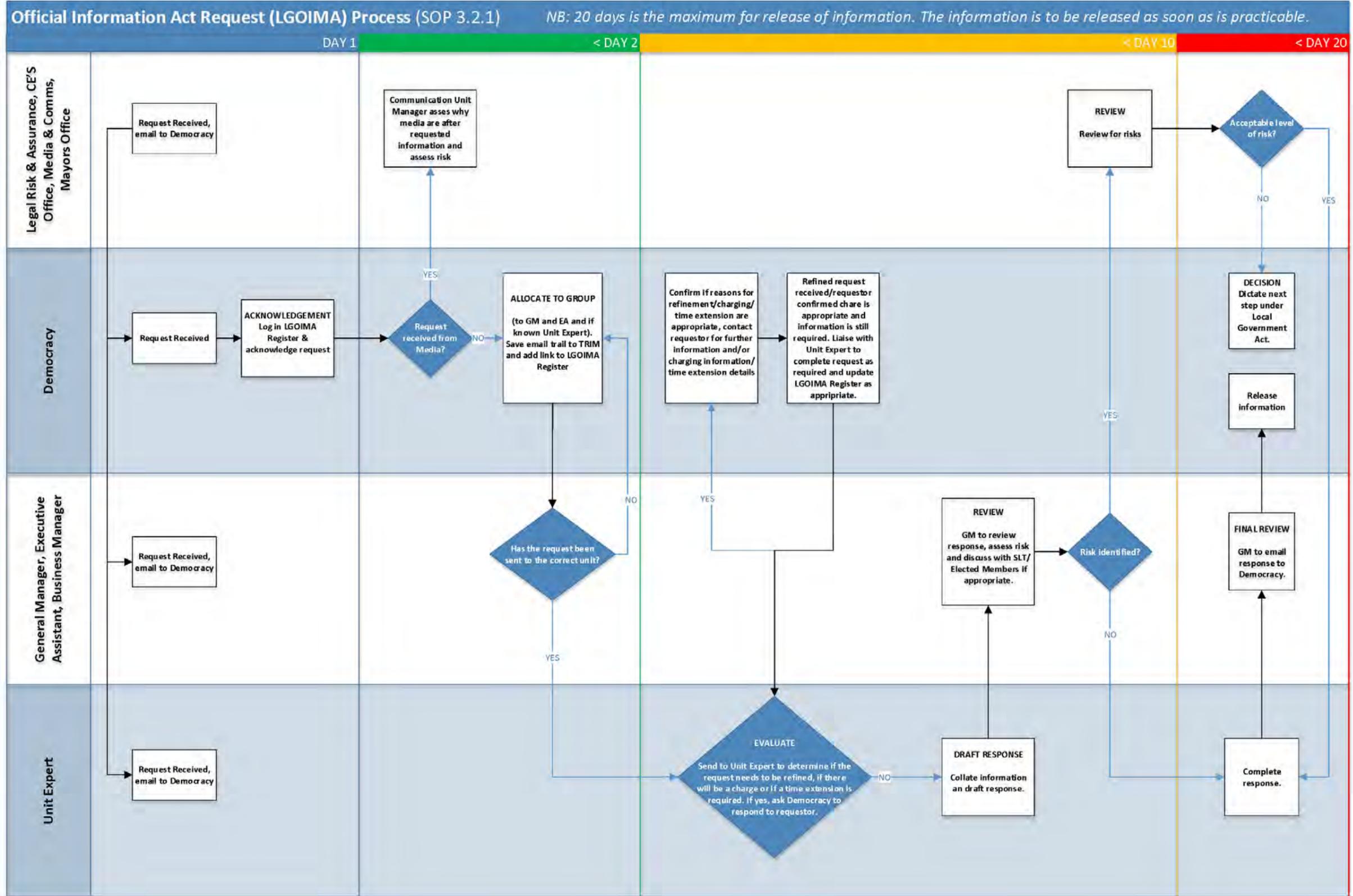
- Attachment 1 - Official Information Act Request (LGOIMA) Process

5. Purpose

- The purpose of this report is to present the current Official Information Act Request process to the Audit and Risk Committee.

Signatory

Authoriser	Richard Briggs, Chief Executive
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Committee: Audit & Risk Committee

Date: 8 June 2016

Report Name: PWC - Internal Audit Update

Author: Tracey Musty

Report Status	<i>Open</i>
Strategy, Policy or Plan context	<i>Internal Audit Plan</i>
Financial status	<i>There is budget allocated. Amount \$150,000 per annum (5 year contract)</i>
Assessment of significance	<i>Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendations is not considered to have a high degree of significance</i>

1. Purpose of the Report

- The purpose of this report is to update the Audit and Risk Committee on PwC's Internal Audit progress for FY16 Quarter 4.

3. Discussion

- The Q4 FY15/FY16 Strategic Lease Property engagement has been completed.
- PwC have been working with Council Management to refresh the material risks and risk management policy.
- PwC have been working with management to formulate the internal audit plan for FY16/17. Given the Finance re-organisation which is in progress and while material risks are being finalized, PwC was requested to focus on core/key financial processes for the remainder of FY15/16 and Q1 FY16/17 as shown in the table below:

FY15/16

Project	Timing	Internal Audit Engagement	Project status
1	Q2	Strategic Lease Property	Complete
2	Q4	Cash Handling processes and controls	In progress. Fieldwork being finalized.

FY16/17

Project	Timing	Internal Audit Engagement	Project status
1	Q1	Payroll process and controls	In progress. Scoping discussion held and Terms of Reference being drafted.
2	Q1	Procure to Pay processes and controls	In progress. Scoping discussion held and Terms of Reference being drafted.
3	Q2 and Q4	Follow up on previous internal audit findings	In progress. Scoping discussion held and Terms of Reference being drafted.

7. PwC have held several meetings and a workshop with the General Manager Corporate and the Financial Controller to develop a 'fit for purpose' internal audit plan for FY16/17 and beyond. Key elements of this will include:

- Coverage of material risks, were applicable
- Focusing resources on complex areas and processes
- Establishing a model whereby less complex areas are assessed leveraging available HCC resources in order to be cost effective.

8. Input from the Audit & Risk Committee and Senior Leadership Team will be sought prior to presenting the draft internal audit plan at the August Audit & Risk Committee meeting for approval.

9. Recommendation from Management

10. That the report be received.

11. Attachments

12. There are no attachments for this report.

Signatory

Authoriser	David Bryant, General Manager Corporate
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Resolution to Exclude the Public

Section 48, Local Government Official Information and Meetings Act 1987

The following motion is submitted for consideration:

That the public be excluded from the following parts of the proceedings of this meeting, namely consideration of the public excluded agenda.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution follows.

General subject of each matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
C1. Minutes of the Audit and Risk Committee Meeting - Public Excluded - 23 March 2016) Good reason to withhold information exists under Section 7 Local Government Official Information and Meetings Act 1987	Section 48(1)(a)
C2. PWC - Internal Audit Reports)	
C3. Legal Update from Tompkins Wake		

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, as follows:

Item C1.	to enable Council to carry out commercial activities without disadvantage	Section 7 (2) (h) Section 7 (2) (i)
Item C2.	to enable Council to carry out negotiations to enable Council to carry out commercial activities without disadvantage	Section 7 (2) (h)
Item C3.	to maintain legal professional privilege	Section 7 (2) (g)