![Hamilton City Council - Te kaunihera o Kirikiriroa]

Notice of Meeting:

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

Date:	**Tuesday 5 September 2017**
Time:	**1.00pm**
Meeting Room:	**Committee Room One**
Venue:	**Municipal Building, Garden Place, Hamilton**

Richard Briggs
Chief Executive

Audit & Risk Committee
OPEN AGENDA

Membership

Chairperson:	External appointee - Paul Connell
Membership:	External appointee – Keiran Horne Mayor Andrew King Chairperson of the Finance Committee – Cr Garry Mallett Chairperson of the Growth and Infrastructure Committee – Cr Dave Macpherson Chairperson of the Community and Services Committee – Cr Paula Southgate Deputy Chairperson of the Finance Committee - Cr Rob Pascoe
Meeting frequency:	As required – no less than four times a year
Quorum:	Four members (including one external appointee)

Lee-Ann Jordan
Governance Manager

29 August 2017

Telephone: 07 838 6439
lee-ann.jordan@hcc.govt.nz
www.hamilton.govt.nz

Purpose:

The Audit and Rick Committee is responsible for:

1. Providing objective advice and recommendations to the governing body on the adequacy and functioning of the Council's risk management, control and governance frameworks and processes.

2. Ensuring Council fulfils its legal responsibilities.

3. Monitoring the Council's external and internal audit process.

4. Ensuring the independence and effectiveness of Council's Internal Audit processes.

5. Monitoring existing corporate policies and recommending new or amended policies to prevent and prohibit unethical, questionable or illegal activities.

6. Providing a communication link between management, internal auditors/external auditors and Council.

7. Supporting measures to improve management performance and internal controls.

The Committee is delegated the following Terms of Reference and powers:

Terms of Reference:

External Audit

1. Engage with Council's external auditors regarding the external audit work programme and agree the proposed terms and arrangements of the external audit.

2. Recommend to Council the terms and arrangements for the external audit programme.

3. Review the effectiveness of the Annual Plan audit and 10 Year Plan audit.

4. Assess management response to audit reports and the extent to which external audit recommendations concerning internal accounting controls and other matters are implemented.

Internal Audit

5. In conjunction with the Chief Executive, agree the scope of the annual internal audit work programme.

6. Monitor the delivery of the internal audit work programme.

7. Assess whether Internal Audit's recommendations have been properly implemented by management.

8. Review the annual Internal Audit Plans to ensure appropriate organisational structures, authority, access, independence, resourcing and reporting arrangements are in place.

Other Matters

9. Review the effectiveness of the risk control environment established by management to safeguard Council's financial and non-financial assets, including the adequacy and appropriateness of insurance policies in place and management's actions to mitigate risks.

10. Review the effectiveness of the systems for monitoring the Council's compliance with laws (including governance legislation, regulations and associated government policies), Council's own standards, and best practice guidelines, including on health and safety.

11. Engage with internal and external auditors on any specific one-off audit assignments.

12. Conduct and monitor special investigations in accordance with Council policy and approved budget, including engaging expert assistance, on matters within its Terms of Reference.

The Committee is delegated the following recommendatory powers:

- The Committee has no decision-making powers.

- The Committee may make recommendations to the Council and/or the Chief Executive, as appropriate.

Special Notes:

- In fulfilling their role on the committee, members shall be impartial and independent at all times.

- 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.

- Council appoints the external members of the committee; the terms of the appointment to be recorded in a contract. External member contracts are to be reviewed and assessed six (6) months after each triennial election.

- The Chief Executive and Internal Auditor are required to attend all meetings but are not members and have no voting rights. Other Council officers may attend the committee meetings, as required.

Oversight of Policies:

- *Risk Management Policy*

ITEM	TABLE OF CONTENTS	PAGE

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**
         As per Hamilton City Council's Standing Orders, a period of up to 30 minutes has been set aside for a public forum. Each speaker during the public forum section of this meeting may speak for three minutes or longer at the discretion of the Chair.

         Please note that the public forum is to be confined to those items falling within the terms of the reference of this meeting.

         Speakers will be put on a Public Forum speaking list on a first come first served basis in the Committee Room prior to the start of the Meeting. A member of the Council Democracy Team will be available to co-ordinate this. As many speakers as possible will be heard within the allocated time.

         If you have any questions regarding Public Forum please contact Democracy by telephoning 07 838 6439.

Item 5

Council Report

Committee:	Audit & Risk Committee	**Date:**	05 September 2017
Author:	Amy Viggers	**Authoriser:**	
Position:	Committee Advisor	**Position:**	

Report Name: Audit and Risk Committee Unconfirmed Minutes - Open - 13 June 2017

Report Status	*Open*

Staff Recommendation

1. That the Audit and Risk Committee confirm the Open Minutes of the Committee Meeting held on 13 June 2017 as a true and correct record.

Attachments

Attachment 1 - Audit and Risk Committee Unconfirmed Minutes - Open - 13 June 2017

Audit & Risk Committee

OPEN MINUTES

Minutes of a meeting of the Audit & Risk Committee held in Committee Room One, Municipal Building, Garden Place, Hamilton on Tuesday 13 June 2017 at 9.30am.

PRESENT

Members:	Paul Connell - Chair Person
	Mayor Andrew King
	Cr Garry Mallett
	Cr Dave Macpherson
	Cr Paula Southgate
	Cr Rob Pascoe
Attendees:	Cr Siggi Henry
	Richard Briggs – Chief Executive
	David Bryant – General Manager Corporate
	Tracey Musty – Financial Controller
	Lance Vervoort – General Manager Community
	Sean Murray – General Manager Venues Tourism and Major Events
	Kelvyn Eglinton – General Manager City Growth
	Barnaby Pace - Risk Manager
	Andre Chatfield – Risk and Insurance Manager
	Mike Lamb – Chief Information Officer
	Pieter Bronkhorst - Chief Technology Officer
	Leon Pieterse – Audit Director of Audit NZ
Governance Advisors:	Lee-Ann Jordan – Governance Manager
	Amy Viggers - Committee Advisor

1. Apologies

Resolved: (Crs Mallett/Macpherson)
That the apology from Cr Southgate for lateness was accepted.

2. Confirmation of Agenda

Resolved: (Crs Mallett/Macpherson)

That the agenda is confirmed.

3. **Declarations of Interest**

No members of the Council declared a Conflict of Interest.

4. **Public Forum**

No members of the public wished to speak.

5. **Audit and Risk Minutes - 14 March 2017**

Resolved: (Cr Mallett/Mayor King)

That the Committee confirm the Open Minutes of the Audit and Risk Meeting held on 14 March 2017 as a true and correct record.

6. **Audit and Risk Committee Draft 2017 Schedule of Reports**

This report was taken as read. It was advised that it is working document that will be circulated with future agenda items.

Resolved: (Crs Mallett/Macpherson)

That the Audit and Risk Committee receives the draft 2017 Schedule of Reports.

Councillor Southgate joined the meeting at 9.35 during the questioning portion of the above item.

7. **Organisational Improvement Register Report**

Chair Paul Connell introduced the report explaining the purpose of the register was to make sure items by Audit NZ were progressed and completed.

Leon Pieterse from Audit NZ, along with staff responded to questions from Committee Members on the status of items and how completion dates were affected by the level of risk identified and staff capacity. Items of high risk level were addressed immediately.

Resolved: (Crs Pascoe/Southgate)

That the Audit and Risk Committee receives this report.

8. **Risk Management Report**

The Chair introduced the report and emphasised that there would be a briefing on 6 July 2017, where all Elected Members would have input into the governance level material risks that they believed to be most important. Staff responded to questions from Committee Members on current risks, the need for the register to be relevant, and Council's risk tolerance.

It was noted that paragraph 7 of the report should read 'that there could be an emerging risk to Council relating to the need to fund infrastructure to meet housing growth obligations and expectations arising from the National Policy Statement and the housing Accord.'

Resolved: (Mayor King/Cr Mallett)

That the Audit and Risk Committee

a)   receives the report;

b)   noting that the risks are going to be discussed in detail on the 6th of July; and

c)   recommend that the financial risk will be included in the report going forward   noted   on the register.

9.   Health and Safety Report

GM Corporate introduced the report and noted the purpose of the report was to highlight the changes that had been made to improve health and safety within Council. All Elected Members would receive a health and safety update and be advised of their obligations as governors at a future Elected Member Briefing. Staff responded to Committee Members' questions on Elected Member's legal responsibility to due diligence in regards to health and safety.

Resolved: (Mayors King/Mallett)

That the Audit and Risk Committee receives the report.

The meeting adjourned (11.16am-11.29)

10.   Audit NZ Engagement and Arrangements Letter June 2017

This report was taken as read. The Financial Controller along with Leon Pieterse from Audit NZ responded to questions from Committee Members on the audit timetable and how the audit focus areas were determined. It was confirmed that areas of audit emphasis were discussed in the previous Audit and Risk meeting and in meetings with the Mayor and Senior Leadership team.

Resolved: (Crs Mallett/King)

That the Audit and Risk Committee:

a)   receives the report;
b)   recommends to Council that the Audit Engagement letter and Audit Arrangements letter are approved; and
c)   recommends to Council that the Mayor is authorised to sign the Audit Engagement letter and the Audit Arrangement letter on Council's behalf.

11.   Audit NZ proposal to conduct audits for the 2017, 2018 and 2019 Financial Years

The General Manager, Corporate spoke to the report and the proposed fee increase. The proposed increase reflected an end to the discounted rates negotiated for previous years as a result of declining confidence in the audit services provided. The relationship and quality of service provided was now greatly improved and the volume of work had increased justifying the that proposed fee. Staff confirmed that proposed fee was in line with benchmarked fee from other councils and that the fee is for the annual end of year audit.

Resolved: (Mayors King/Southgate)

That the Audit and Risk Committee:

a)   receives the report; and
b)   recommends to Council that the Audit NZ Proposal letter is approved and the Mayor is authorised to sign the Proposal letter on Council's behalf.

Cr Macpherson dissenting

12.   Resolution to Exclude the Public

Resolved: (Mr Connell/Mayor King)

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. Audit and Risk - Public Excluded Minutes - 14 March 2017 C2. PWC - Internal Audit Update C3. Legal Update from Tompkins Wake C4. Overdue Debtor - Review of Account	) Good reason to withhold) information exists under) Section 7 Local Government) Official Information and) Meetings Act 1987)	Section 48(1)(a)

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 prevent the disclosure or use of official information for improper gain or improper advantage	Section 7 (2) (j)
Item C2.	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)
Item C4.	to maintain legal professional privilege	Section 7 (2) (g)

The meeting went into public excluded session at 12.30pm.

During the Public Excluded session of the meeting, a resolution was passes to make the PWC – Internal Audit Update public subject to the advice of the Chief Information Officer. The adore mentioned report are attached as appendix 1 to these minutes.

The meeting was declared closed at 1.33pm.

Hamilton City Council
Te kaunihera o Kirikiriroa

council report

Committee:	Audit & Risk Committee	Date:	13 June 2017
Report Name:	PWC - Internal Audit Update	Author:	Tracey Musty

Report Status	*This report is taken as a publicly excluded item to enable Council to carry out commercial activities without disadvantage.*
Strategy, Policy or Plan context	*Internal Audit Plan*
Financial status	*There is budget allocated.* *Amount $150,000 per annum (5 year contract)*
Assessment of significance	*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*

1. Purpose of the Report

2. To inform the Audit and Risk Committee on PwC's Internal Audit progress for FY16/17 Quarter 4.

3. Discussion

4. **Status of internal audit engagements:**

Delivery of the internal audit programme is on track. A summary of the status of the FY16/17 Internal Audit Plan engagements is detailed below:

1	Q1	Cash handling processes and controls	Complete. Report finalised.
2	Q1	Payroll process and controls	Complete. Report finalised.
3	Q1	Procure to Pay processes and controls	Complete. Report finalised.
4	Q2	Cyber security	In progress. In final report stage.
5	Q3	Unusual transaction analysis	In progress. Fieldwork almost complete.

| 6 | Q4 | Procurement | In progress.
Fieldwork underway. |

6. **Engagements in progress:**

7. **Cyber security:** In response to an earlier report on cyber risk presented to the Audit and Risk Committee (attachment 1) a cyber security internal audit was requested as part of the 2017 internal audit plan.
   Internal audit coverage of cyber risks will be addressed in two parts:

   - An organisational-wide cyber governance assessment to determine whether governance mechanisms in place are effective and fit for purpose.
     Draft findings for this piece of work have been reported to management highlighting opportunities for improvement.

   - An internal audit over the design and operation of cyber security controls.
     Planning and scoping has commenced.

8. **Unusual transaction analysis:** The scope of this engagement is in four parts:
   - Data analysis performed across specific payroll, procurement and conflict of interest areas.
   - A high level data maturity assessment to assist management in prioritising the areas of focus to enhance their current data governance framework.
   - Journal analysis.
   - Purchase order and vendor analysis.

9. Draft findings have been reported to management highlighting opportunities for improvement.

10. **Procurement:** An assessment of HCC's procurement framework against good practice and the Controller and Auditor General guidelines; including interviews with key stakeholders. Fieldwork is in progress and key messages are being formed.

Recommendation from Management

That the Audit and Risk Committee receive the report.

11. **Attachments**

Attachment 1 - Audit & Risk Committee Report Cyber Security Risk Update 23 March 2016 Confidential

Signatory

| Authoriser | David Bryant, General Manager Corporate |

Item 5

Attachment 1

Hamilton City Council
Te kaunihera o Kirikiriroa

council report

Committee:	Audit & Risk Committee	Date:	23 March 2016
Report Name:	Cyber Security Risk Update	Author:	Charles Burns

Report Status	*This report is taken as a publicly excluded item to prevent the disclosure or use of official information for improper gain or improper advantage.*
Strategy, Policy or Plan context	*<Enter Strategy, Policy or Plan>*
Financial status	*There is/is not budget allocated* *Amount $<enter amount>*
Assessment of significance	*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*

1. Purpose of the Report

2. This report provides an update to the committee on the management of cyber security risks.

3. Executive Summary

4. There has been a significant increase of public reporting of cyber-attacks in the media which has triggered conversation in numerous board rooms and executive level meetings. Hamilton City Council (HCC) is not immune to these threats.

5. HCC uses a layered approach to detection and prevention of cyber-attacks including a number of hardware, software and process based approaches for monitoring and reacting to attacks.

6. HCC's security practices are audited by both Audit NZ and AMP (formerly known as Kaon Technologies) on an annual basis.

7. IS Executive Governance receives reports on the annual security audit and penetration testing as performed by an external security consultant and any cyber-attacks should they occur.

8. Information Services takes a prudent approach given the operational budgets and the perceived risk.

9. Audits have recently been performed in the primary HCC computer network as well as the water treatment and waste water computer networks.

10. Treatments prescribed by these audits to mitigate cyber security risk where accepted by IS Executive Governance are folded into the Information Services programme of work.

Recommendation/s from Management

a) That the report be received

Attachment 1

Item 5

11. Attachments

12. There are no attachments for this report.

13. Background

14. The number, type and sophistication of cyber security threats to HCC and other organisations are ever increasing. HCC increasingly rely on the internet for delivering products and services to our customers. This increases HCC's risk of malicious cyber activity such as cyber espionage, cyber attack and cybercrime.

15. Discussion

16. Cyber Security and security of technology systems are one of the key tasks assigned to the Information Services unit. Information Services follows an approach of prevention, detection, response, verification and reports on the matter to the Information Services Executive Governance Board.

17. Cyber threats were discussed in a previous report and this threat group has not changed.

18. HCC have been making investments in security and will need to continue the investment as the threat continues to grow.

19. Mitigation of cyber intrusions starts with the 4 mitigation steps that prevent 85% of attacks according to the Australian Signals Directorate and are mandatory for all Australian Government Agencies.

20. The 4 steps are application whitelisting, patching operating systems, patching applications and restricting administrative privileges.

21. This forms the very basic components of the cyber security approach at HCC.

22. Cybersecurity Approach

23. HCC manages the security environment with its managed services partner, Fujitsu.

24. The HCC cyber security approach includes proactive measures to reduce the likelihood of attack.

25. This is achieved by maintaining the level of currency to the IT infrastructure and application systems and through the implementation of security specific products and tools.

26. Security is part of Information Services operational responsibilities and has a key focus in monthly operational reporting.

27. HCC undergoes regular annual external security audits as was done in October 2015 by an external security consultant and the results are to be presented to IS Executive Governance.

28. The report is currently being worked through by the Technical & Operations team along with their counterparts at Fujitsu.

29. A separate audit of the water treatment and waste water network has also been completed by an external agency. We are currently awaiting the results of this audit. These results will be presented to IS Executive Governance.

30. Risk Mitigation

31. In the case of a cyber-attack all council servers and databases are backed up nightly.

32. Restores can be effected within a 6 hour timeframe.

33. The restore process is tested across a sample of servers and databases on a monthly basis.

34. Assurance and Reporting

C-5319   Page 2

35. IS Executive Governance will continue to receive the reports on security.
36. The annual external security audit forms part of an ongoing security improvement process.
37. The security audit continue to evolve with the next audit focusing on the external services that HCC consume and provide to customers from external service providers such as the Citizen E-Services platform.

Signatory

Authoriser	David Bryant, General Manager Corporate

Item 5

Attachment 1

C-5319

Page 3

Page 9 of 9

Item 6

Council Report

Committee:	Audit & Risk Committee	**Date:**	05 September 2017
Author:	Barnaby Pace	**Authoriser:** David Bryant	
Position:	Risk Manager	**Position:** General Manager Corporate	
Report Name:	Organisational Improvement Programme Update Report		

Report Status	*Open*

Purpose

1. To inform the Audit and Risk Committee on the status of Council's Organisational Improvement Programme.

Staff Recommendation

2. That the Audit and Risk Committee receives the report.

Discussion

3. Council's risk management programme includes the completion of internal audits conducted by PricewaterhouseCoopers and external audits by Audit New Zealand.

4. Actions and recommendations resulting from these audits are recorded and monitored through the Organisational Improvement Programme Register (Attachment 1).

5. There are currently 7 open items on the Organisational Improvement Programme Register.

6. There are no overdue items.

Attachments

Attachment 1 - Organisational Improvement Register Aug 2017

Organisational Improvement Programme Register: Database (Open Items)

Internal Ref		Audit Information				Risk Assessment	Improvement Action Plan			
No.	Issue	Audit Comment	Source	Agree Management Response		Risk Rating	Status	Owner	Original Completion Date	Revised Completion Date
308	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	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	**Update: August 2017** An additional specialist resource was recruited in April 2017 to lead this and other organisational asset information improvements with a detailed work plan is being developed during 2017. Mitigation expected to take 2-3 years due to the size of the project.	AMCoE	30/06/2017	30/06/2019
329	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	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.		Necessary	**Update: August 2017** Information Services is developing a information services business continuity specific disaster response capability with existing BAU management practices that addresses this finding. This work is still underway. This due date has been moved due to current resourcing limitations.	CIO	30/06/2017	22/12/2017
339	Adoption of legislative compliance policy	The Legislative Compliance Policy formally approved by Council and made available to staff throughout the organisation.	Audit NZ Interim management report on the audit of Hamilton City Council for the year ended 30 June 2016	The policy will be formally adopted by 1 December 2016		Necessary	**Update: August 2017** Compliance framework and associated policy are currently under development. The scope of the new policy is boarder than legislative compliance and will incorporate other regulatory requirements (i.e. by laws). Once the policy had been completed it will need to go through the Management approval process.	Risk and Insurance Manager	1/12/2016	1/12/2017
340	Review of legislative compliance responsibility	In view of the recent changes in organisational structure and appointment of new key personnel, Council to consider a review of legislative requirements applicable to Hamilton City Council and consider ways to ensure that staff are aware, and take ownership, of responsibilities applicable to them.	Audit NZ Interim management report on the audit of Hamilton City Council for the year ended 30 June 2016	Work is currently underway to address this issue and will be cleared by 1 December 2016.		Necessary	**Update: August 2017** Compliance framework and policy currently under development . Additionally, a legislative compliance audit tool is being developed to monitor and measure levels of compliance.	Risk and Insurance Manager	1/12/2016	1/12/2017
341	Dynamics AX user profiles	Improvements made to the internal control procedures for adding and removing users, and implement procedures to manage changes to delegated authorities in the AX Dynamics system.	Audit NZ Interim management report on the audit of Hamilton City Council for the year ended 30 June 2016	Improvements to processes governing user access have been identified and implemented. A full review of system user profiles is being completed to ensure all users are current staff members and have appropriate access levels to match role responsibilities.		Necessary	**Update: August 2017** The development and improvement of SOP/ProMapp processes is currently underway with regards to the Financial Delegated piece. The rest has been completed.	CIO and Financial Controller	1/06/2018	-
344	A strategy for the management of strategic lease properties should be developed and implemented	A strategy document ("Operational Property Plan for Hamilton City Council") was drafted in in March 2011. This document included objectives for property management activities and a strategy for achieving these objectives. However it was not presented to Council or approved. There is no current formalised strategy document in place to provide direction to the activities of the SPU in relation to strategic lease properties.	PWC Internal Audit Strategic Lease Property Process Assessment	Management should refresh the strategy document and clearly define the strategic objectives and the strategy to be followed for property management activities, including disposal and future property acquisition. Once developed, the strategy should be submitted to Council for approval and implemented. The strategic objectives defined for the SPU should align to the strategy and long term goals of the Council. Examples of strategies that could be employed include: 1. Maintenance of a passive property portfolio – with a target return on investment of around 9-12% (ungeared) 2. Maintenance of an active portfolio with a target return of around 12-18% (ungeared) 3. Maintenance of a blended portfolio with a target return of around 12-14% (ungeared). The strategic objectives defined should also include 'civic' outcomes, such as: 1. Specified preference to support revitalisation of the CBD or reserves, 2. Specified preference to invest in Hamilton or within Waikato boundaries 3. Specified preference to invest in targeted growth areas within Hamilton City (i.e. regeneration areas, new growth areas). The strategy document may also consider when and how proceeds from property sales should be re-deployed.		High	**Update: August 2017** Council has signed off on the reactivation of Hamilton Property ltd. Work currently underway on approved timetable. This item is to be tabled at the council meeting on the 21st of September through a report for the CE detailing risk identified in the independent PWC analysis.	Strategic Property Unit Manager	10/03/2017	-

| 349 | Property management system should be considered to increase the efficiency of property management processes | The strategic property portfolio management processes are currently supported by a Microsoft Access database and a paper based filing system.
As such, property files including contracts, correspondence with leases, rental assessments etc. are all retained in hard-copy and are inefficient to manage.
The current system does not facilitate efficient budgeting, reporting, and management at an individual property level. This reduces the quality of any budgeting and reporting for the SPU as a whole. | PWC Internal Audit Strategic Lease Property Process Assessment | Management should consider implementing a property management system to better support and facilitate the strategic property management processes. | Low | Update: August 2017
IS currently scoping options. There was no further developments at the time of this update (17/08/17) | Strategic Property Unit Manager | 30/06/2018 | - |

Council Report

Committee:	Audit & Risk Committee	**Date:**	05 September 2017
Author:	Andre Chatfield	**Authoriser:**	David Bryant
Position:	Risk and Insurance Manager	**Position:**	General Manager Corporate
Report Name:	Risk Management Report		

Report Status	*Open*

Purpose

1. To provide a quarterly update to the Audit and Risk Committee on progress managing Council's Material Risks.

2. To refer matters from the July 2017 Material Risk workshop for discussion by the Audit & Risk Committee.

Staff Recommendation

3. That the Audit and Risk Committee receives the report.

Discussion

4. On 6 July 2017 Council's Material Risk register was reviewed at a workshop held by elected members and senior staff with the purpose of ensuring it reflected a current view of the significant risks facing the organisation.

5. The attached draft Material Risk register has been updated to reflect the outcomes of the risk workshop. Each risk has also been updated to reflect the current status of risk mitigation actions.

6. A discussion occurred at the risk workshop around whether the material risk 'Reputation of Hamilton' should remain on the register. Elected members present at the workshop requested further discussion on this matter by the Audit and Risk Committee.

7. A further discussion occurred around whether the material risks 'Cyber Attack' and 'Failure of Business Continuity Plans' should be integrated with the material risk 'Failure of Critical Assets'. Again elected members present at the workshop requested that this matter be referred to the Audit and Risk Committee for consideration.

8. A new material risk, 'Council's Financial Strategy Failures', was proposed for inclusion on the Material Risks register by both the Chief Executive and the Mayor. After some discussion it was agreed to add this material risk to the register.

9. The Material Risk register will be finalised by management once the Audit & Risk Committee has discussed the matters described in paragraphs six and seven above.

Attachments

Attachment 1 - Material Risk Report

Material Risks Summary – September 2017

Rank	Risk Description	Inherent Risk Rating	Residual Risk Rating
		Rated before controls are implemented	Rated after the controls have bene implemented
1	**H&S – Workers (incl contracted workers and volunteer workers.** Failure to create and maintain a safe environment for staff leading to death, serious injury.	Extreme* ⊘ Very High	High ○
2	**H&S - Community** Failure to create and maintain a safe environment for the community leading to death, serious injury.	Extreme* ⊘ Very High	High ○
3	**Failure of critical assets** Incorrect investment (timing and/or amounts) results in the unexpected failure of critical assets (loss of levels of service).	Extreme ●	Very High ○
4	**Failure of BCP** Failure of, or inadequate Business Continuity Plans (when they are required), result in unacceptable business interruption and disrupted customer service.	Very High ○	Very High ○
5	**Inadequate civil defence response** Failure to respond adequately during a civil defence emergency results in undue harm to members of the community and delays in restoring the city to an operational standard.	Extreme ●	Very High ○
6	**Financial Strategy Failures** Council's Financial Strategy is not effective in guiding appropriate decision making to meet the financial pressures associated with looking after the assets and amenities of the city whilst investing in growth infrastructure	Very High ○	Very High ○
7	**Cyber attack** Inappropriate access and/or use of Council information or ratepayer data, or inability to operate Council systems due to a cyber-attack resulting in reputational, legal and financial damage and potentially loss of service continuity.	Very High ○	Very High ○
8	**Poor data, analysis and response** Inaccurate data, weak or incorrect analysis leading to inaccurate growth forecasts, financial modelling and untimely responses to trends resulting in inappropriate levels of investment in public assets.	Very High ○	Very High ○
9	**Reputation of Hamilton** Lower than desired reputation of Hamilton contributes to sub-optimal economic and social outcomes for the city and its community.	Very High ○	Very High ○

* There is a very strong relationship between the likelihood and severity (consequence) of H&S incidents. The likelihood of minor injuries is much higher than an incident which could result in a death.

** We take the safety of our people and the community seriously and are working hard to reduce the likelihood of a serious harm incident. Due to the focus and definition of this risk relating to death or a serious injury, the risk rating (and by extension the target risk rating) can never reduce below 'High' because we consider the consequence to be 'catastrophic'.

1

Risk Description			Rank
H&S – Workers includes contracted and volunteer workers Failure to create and maintain a safe environment for HCC workers leading to death or a serious injury incident.			Rank 1
Risk Owner	David Bryant (GM Corporate)	Category	People

Risk Triggers

- H&S roles and responsibilities across the organisation not fully understood or accepted
- Poor understanding of the H&S risks within the organisation
- H&S management system ineffective or inefficient
- Poor safety / organisational culture
- Human error / inappropriate behaviours / complacency
- Unsafe or poorly maintained equipment

Inherent Risk

There is a very strong relationship between the likelihood and severity (consequence) of H&S incidents. The likelihood of minor injuries is much higher than an incident which could result in a death.

(A) Risk of serious injury or death

(B) Risk of other serious harm incidents (as defined in the Health and Safety at Work Act).

Existing Controls and Mitigations

- Health and Safety Management System – system development phases
- Includes Plans, procedures for work practices/activities for all high risk areas
- Pre-qualification engagement program – contractors

Residual Risk

There is a very strong relationship between the likelihood and severity (consequence) of H&S incidents. The likelihood of minor injuries is much higher than an incident which could result in a death.

(A) Risk of serious injury or death

(B) Risk of other serious harm incidents (as defined in the Health and Safety at Work Act).

2

Further Actions Required	Update –September 2017	Action Owner
1. Establish a governance framework for the engagement and management of contractors 2. Enhance the safety behaviours / culture program (take it to the next level of maturity) 3. Design and implement an appropriate monitoring approach (audits and reviews by both external parties and leadership inspections) and reporting framework to ensure oversight and focus on resolving actions 4. Enhance understanding of key risk scenarios and commonality of critical controls. Ensure on-going monitoring of effectiveness of critical controls.	• A suite of Current Best Practice Principals and Guidelines is being developed with an SME resource to support critical risk management. Current works are expected to be completed and implemented by 15/12/2017 • Restructure of the H&S and HR teams has taken affect with the People Wellness and Safety Manager assigned in July 2017. • Communications Advisor resource has been assigned to PWS Manager to support effective communications across the council. • 32% reduction in LTI's over 12 month period. • H&S Prequalification contractor management is now fully operational across region. • All 12 Monthly external audits on high risk sites have been completed.	David Bryant (General Manager Corporate)

3

Risk Description			Rank
H&S - Community Failure to create and maintain a safe environment for the community leading to death or a serious injury incident.			Rank 2
Risk Owner	David Bryant (GM Corporate)	**Category**	People

Risk Triggers

- Inadequate understanding of the scope of HCC's health and safety responsibilities towards the community
- Poor HCC understanding of the H&S risks within the Community
- Failures in safety-in-design planning for our amenities and services provided to the community
- Human error / inappropriate behaviours
- Crime

Inherent Risk

There is a very strong relationship between the likelihood and severity (consequence) of H&S incidents. The likelihood of minor injuries is much higher than an incident which could result in a death.

(A) Risk of serious injury or death

(B) Risk of other serious harm incidents (as defined in the Health and Safety at Work Act).

Existing Controls and Mitigations

- Health and Safety Management program implemented
- Includes Plans, procedures for work practices/activities for all high risk areas
- Includes Pre-qualification engagement program – contractors
- Audit functions implemented with risk assessment practices embedded within BU's.
- Call Centre feedback and HCC Website capability for community to report hazards. Incl social media monitoring by Communications

Residual Risk

There is a very strong relationship between the likelihood and severity (consequence) of H&S incidents. The likelihood of minor injuries is much higher than an incident which could result in a death.

(A) Risk of serious injury or death

(B) Risk of other serious harm incidents (as defined in the Health and Safety at Work Act).

4

Further Actions Required	Update – September 2017	Action Owner
1. Design and implement an appropriate monitoring approach (audits and reviews by both external parties and leadership inspections) and reporting framework to ensure oversight and focus on resolving actions 2. Enhance understanding of key risk scenarios and commonality of critical controls. 3. Ensure on-going monitoring of effectiveness of critical controls where community is exposed. Yet to be established	• A Central Govt Initiative called Protective Security Requirements (PSR) is being reviewed for consideration by SLT to adopt in support of managing security and safety to HCC's major venues. • The PSR focus is on Governance framework, People, Information and Assets and currently being adopted by Auckland City Council (RFA) – i.e. Eden Park, Mt Smart, and North Harbour Stadium. • Safety and Design are to be factored into development/modifications of infrastructure and public facilities.	David Bryant (General Manager Corporate)

5

Failure of critical assets

Incorrect investment (timing and/or amounts) results in the unexpected failure of critical assets (loss of service levels).

Rank: 3

Risk Owner	Chris Allen (GM City Infrastructure)	Category	Financial

Risk Triggers

- Poor response management and knowledge across HCC
- Poor understanding of requirements to support Hamilton City in an event
- Lack of experience with real life emergency situations
- Turnover of trained staff
- Poor contract management
- Lack of critical equipment and resourcing
- Cross-jurisdictional responsibilities
- Poor critical asset management

Inherent Likelihood		Inherent Consequence Drivers Safety & Wellbeing, Financial, Service Delivery, Compliance Social and Cultural		Inherent Risk Rating	Extreme
	Almost Certain		Catastrophic		🔴

Existing Controls and Mitigations

- Asset Management Centre of Excellence is in place to drive organisational consistency of asset management overseen by the GM City Infrastructure
- AMP renewals with associated governance at SLT levels
- Resilience considerations fed into long term asset planning to extend asset life
- Financial peer reviews of critical assets and supported by Council insurance programme

Residual Likelihood		Residual Consequence Drivers Safety & Wellbeing, Financial, Service Delivery, Compliance Social and Cultural		Residual Risk Rating	Very High
	Unlikely		Catastrophic		🟠

Further Actions Required	Update – September 2017	Action Owner
1. Identify critical assets within AMP providing a critical services 2. Develop asset condition management strategy 3. Increase detailed budget planning from 3 and 10 year to 30 year period 4. Independent reviews across all Asset Management Plans established Feb 2017. 5. Infrastructure performance measures to enable ongoing monitoring should be reported to the ARC.	• Asset Management Plans (AMPs) have been prepared for use in 2018-28 10-Year Plan. These have been based on identifying critical assets for the activity and forecasting required renewals and maintenance for all assets. • Independent review of AMPs has been conducted by external experts. • Improvement programme for asset management is being updated following an external maturity assessment in August and September 2017. • Following the AMP review a critical asset action plan is being developed to provide assurance that critical assets are being monitored.	Chris Allen (General Manager City Infrastructure)

7

Failure of BCP

Failure of, or inadequate Business Continuity Plans (when they are required), result in unacceptable business interruption and disrupted customer service.

Rank: 4

Risk Owner	David Bryant (GM Corporate)	Category	Disaster Recovery/ Business Continuity

Risk Triggers

- Business Continuity Plans are not communicated effectively
- Untested Business Continuity Plans
- Business Continuity Plans haven't contemplated all the scenarios
- Business Continuity Management framework not established, implemented or communicated within organisation
- Business Continuity Plans are untested, inadequate, not communicated effectively, or are not up to date.

Inherent Likelihood	Likely	Inherent Consequence Driver Service Delivery	Serious	Inherent Risk Rating	Very High

Existing Controls and Mitigations

1. Business Continuity Plans in place for all critical activities and business units
2. HCC Crisis Management Guide has been established in support of an integrated response capability.
3. Business Continuity Plans are reviewed quarterly by Risk & Insurance business unit
4. Business Continuity Plans are integrated as part of asset management planning
5. Business Continuity Plans are reviewed on an ad hoc basis by Internal Audit

Residual Likelihood	Unlikely	Residual Consequence Driver Service Delivery	Serious	Overall Residual Risk Rating	Medium

Further Actions Required	Update – September 2017	Action Owner
- Visibility and ownership of Business Continuity Plans to be outlined to all assigned SLT members - Velocity site to be updated with easy access instructions in response to an event. - Business Continuity Plan testing plans extended to Nov 2017 due to priority matters related to LTP	- Integrated approach to incident management has been established outlining emergency, crisis and business continuity for the organisation. The roll out of this framework is still yet to be fully implemented and communicated concurrently. - PSR framework is expected to influence and support this integrated response capability. - Additional works still being	David Bryant (General Manager Corporate)

8

	established to support this framework and expected to be fully implemented Nov 2017 • Business Continuity Plan establishment and implementation across the organisation has been completed. 21 x BCPs in place. • BCP Testing is still planned to be implemented with alignment to improved emergency response plans / contingency plans across the organisation. This level of works is considerable and yet to be initiated. • CIMS Model (Civil Defence) is being adopted to support testing regime.	

9

Inadequate civil defence response	Rank: 5
Failure to respond adequately during a civil defence emergency results in undue harm to members of the community and delays in restoring the city to an operational standard.	

Risk Owner	Blair Bowcott (Special Projects Director)	Category	Disaster Recovery

Risk Triggers

- Poor response management and knowledge across HCC
- Poor understanding of requirements to support Hamilton City in an event
- Lack of experience with real life emergency situations
- Turnover of trained staff
- Poor contract management
- Lack of critical equipment and resourcing
- Cross-jurisdictional responsibilities
- Poor critical asset management

Inherent Likelihood		Inherent Consequence Driver Safety & Wellbeing, Service Delivery, Social, Cultural and Environment		Inherent Risk Rating	Extreme
	Likely		Catastrophic		

Existing Controls and Mitigations

- Regional Group Contract Initiative (RGCI) Approved 05/09/2016 by Council.
- Simulation exercises will be conducted in accordance with Group Contract requirements
- CIMS model of training program to staff to meet civil defence standards
- Dedicated emergency operations centre till Oct 2016 from Regional EOC
- Civil Defence Standard Operating Procedures
- Capability Assessment 2017
- Annual self-assessment of HCC's preparedness for a civil defence emergency
- Audits from the Ministry of Civil Defence and Emergency Management every 3 years

Residual Likelihood		Residual Consequence Driver Safety & Wellbeing, Service Delivery, Social, Cultural and Environment		Residual Risk Rating	Very High
	Unlikely		Catastrophic		

10

Further Actions Required	Update – September 2017	Action Owner
1. Monitoring of SLA in place with WRC and reporting bi-annual progress reports. 2. Review and communicate emergency response procedure to lift civil defence awareness through the organisation 3. Develop succession plan for critical Emergency Management knowledge	• Delivery of contract with GEMO is now bringing significant benefit to both HCC and the people of Hamilton • Capability Assessment conducted Feb 10th has provided a bench mark of 44% without captured improvement data within Council • Civil Defence Work Plan for 2017 by WRC (Group) in place and significant progress against the plan has been accomplished YTD • Establishment of a National Public Alert System still ongoing • HCC has established a Crisis Management framework to support and improve response in non-civil defence events • HCC continues to have significant investment in staff training with 317 staff having completed some type of CDEM training year to date • The CDEM Foundation course is now available as an online course and can be used be used as a refresher or as an alternative to face-to-face training • CDEM leadership continuity enhanced by formal appointment of alternate Local Controller • The construction of the new IL4 Genesis building)which will be the base for delivery of CDEM services) remains on track for a 15 December occupation • Within the last fortnight elected members have received a ¼ report on the progress of CDEM and have also received a briefing on the role and responsibilities of elected members in a CDEM emergency	Blair Bowcott (GM - Special Projects)

11

Financial Strategy Failures

Council's Financial Strategy is not effective in guiding appropriate decision making to meet the financial pressures associated with looking after the assets and amenities of the city whilst investing in growth infrastructure

Rank: 6

Risk Owner	Richard Briggs (CEO)	Category	Financial

Risk Triggers

- Growth
- Promises to community e.g. strategies and plans
- Declining levels of service
- Increasing costs
- Civil defence event
- Poor measurement of financial performance

Inherent Likelihood		Inherent Consequence Drivers		Inherent Risk Rating	Very High
	Likely	Social & Cultural	Serious		

Existing Controls and Mitigations

- To be articulated

Residual Likelihood		Residual Consequence Drivers		Residual Risk Rating	Very High
	Likely		Serious		

Further Actions Required	Update - Sept 2017	Action Owner
• Revise current Financial Strategy to ensure appropriate for Council's present financial challenges.	• The elements of the Financial Strategy have been revised by the Financial Strategy and Revenue Taskforce and approved by Council in August 2017. The Financial Strategy will be finalised as part of the 2018-28 10 Year Plan process.	Richard Briggs (CEO – Council)

12

Cyber attack

Inappropriate access and/or use of Council information or ratepayer data, or inability to operate Council systems due to a cyber-attack resulting in reputational, legal and financial damage and potentially loss of service continuity.

Rank: 7

Risk Owner	David Bryant (GM Corporate)	Category	Technology/ Information/ Data Management

Risk Triggers

- Inadequate IT security environment
- Staff not following IT security procedures [lack of general awareness / culture]
- Targeted and potentially malicious exploitation of security vulnerabilities in operating systems or applications

Inherent Likelihood		Inherent Consequence Driver Information Management/ Information Technology, Service Delivery, Safety & Wellbeing		Inherent Risk Rating	Very High
	Possible		Catastrophic		⬤

Existing Controls and Mitigations

- 3 Lines of Defence implemented (1) Hardware + Systems Controls (2) Process Management (3) technical Experts – architects, technical and operations personnel (i.e. Fujitsu)
- Managed desktop environment implemented conforms with DIAAOG – (Department of Internal Affairs and All of Government) desktop offering and standards
- Data and system backups – daily, weekly, monthly regime aligned to critical services list
- Technical support from key vendors - Microsoft and Fujitsu
- IT Security Management Policies and Procedures
- External and internal security audit and reviews

Residual Likelihood		Residual Consequence Driver Information Management/ Information Technology, Service Delivery		Residual Risk Rating	Very High
	Unlikely		Catastrophic		⬤

13

Further Actions Required	Update – September 2017	Action Owner
• Enhance understanding of key activities where we need back up or manual intervention. • Develop action plans to ensure there is a backup in place for critical activities. • Ensure on-going monitoring of effectiveness of critical controls. • Develop and implement procedures for monitoring unusual network activity.	• PwC have completed a Cyber Security Governance audit in August 2017 and are now engaged in completing a more detailed review of Council's control environment. This audit will be completed in time to report findings to the December Audit and Risk Committee • The Business Services Catalogue (BSC) has been established and includes categorising of all services and now part of BAU • An IS Organisation Critical Services list that supports the BSC has been established and managed by the CTO and reviewed on a quarterly basis • DRP is currently being developed for current environment with Fujitsu and external resource. This will include an Incident Management Plan.	David Bryant (General Manager Corporate)

14

Poor data, analysis and response

Inaccurate data, weak or incorrect analysis leading to inaccurate growth forecasts, financial modelling and untimely responses to trends resulting in inappropriate levels of investment in public assets.

Rank: 8

Risk Owner	Kelvyn Eglinton (GM City Growth)	Category	Strategic

Risk Triggers

- Inadequate modelling and scenario planning
- Inadequate data inputs
- Poor cross-organisational sharing of data
- Inadequate access to analytical skills

Inherent Likelihood		Inherent Consequence Driver Social, Cultural and Environment		Inherent Risk Rating	Very High
	Likely		Major		🟠

Existing Controls and Mitigations

- District plan renewed every 10 years and undergoes a rigorous consultation and appeal process
- Future proof growth modelling around sub-regional plans are reviewed by the Executive Director Special Projects
- Growth forecasts and modelling around developer contributions reviewed by General Manager City Growth
- Quarterly reviews (part of the Hamilton Urban Growth Strategy) to monitor progress against the plan in terms of serviceable land availability. Results of the monitoring are reported through to the Senior Leadership Team for discussion and action
- New Development Contribution model and tool has been established to provide improved data analysis. Hamilton Housing Market & Economy Growth Indicator Report.
- Adopted across the sub- region

Residual Likelihood		Residual Consequence Driver Social, Cultural and Environment		Overall Residual Risk Rating	Medium
	Unlikely		Serious		🟢

Further Actions Required	Update – September 2017	Action Owner
- Establish a process of rigorous modelling and scenario planning - Establish a suite of relevant, trusted data sources	- A review and documented improvements to growth and transport model calculations is established with continual improvement consideration to improve research calibre. - Technical phase reviews are in place and include district growth and sub-region approach. - NPS is enacted by legislation. A	Kelvyn Eglinton (General Manager City Growth)

15

	sub-regional review of land use, demand and supply is underway.	
	• Tracking infill development against 47% growth target.	
	• Quarterly analysis of external housing, market drivers is captured in the Hamilton Housing Market & Economy Growth Indicator Report	
	• Business case for HIF submission confirmed supply and demand analysis and a positive cost benefit analysis	

16

Reputation of Hamilton

Lower than desired reputation of the Hamilton contributes to sub-optimal economic and social outcomes for the city and its community.

National reputation of Hamilton can mean:
- Lack of investment in the city (e.g. Business decides to set up head office in Tauranga rather than Hamilton).
- People don't want to move to Hamilton.
- Hamiltonians don't feel proud of the place they live in.

Rank: 9

Risk Owner	Sean Hickey (GM Strategy & Communications)	Category	Reputation

Risk Triggers
- Low awareness of positive changes in Hamilton City.
- Low awareness of Hamilton's potential role in national growth story.
- Events that result in negative media attention.

Inherent Likelihood	Likely	Inherent Consequence Drivers Social & Cultural	Serious	Inherent Risk Rating	Very High

Existing Controls and Mitigations
- Strategic Alignment to Long Term Plan
- Communications Business Unit expertise and support – early proactive strategy
- Effective community stakeholders/influencers relationships.
- Communications Media Training

Residual Likelihood	Likely	Residual Consequence Drivers	Serious	Residual Risk Rating	Very High

Further Actions Required	Update - September 2017	Action Owner
• Develop a communications strategy which addresses the national perception. It needs to articulate how we want Hamilton to be perceived nationally and a plan for how we go about affecting that.	• GM Strategy & Comms has assigned Communication Advisors to each business unit to support a reactive response. . • Operationally this is working with existing strategies being established and implemented during an incident or event. • Risk Management approach assesses each risk against 5 x elements – Strategy, Financial, Reputation, Service Delivery and H&S per risk. This identifies the level of impact Council is responding to on a consistent basis.	Sean Hickey (General Manager Strategy & Communications)

17

• Develop and communicate the role Hamilton can play as an economic enabler of the "national growth story" and a solution to Auckland housing issues.	• Significant works completed with reference material in Hamilton Housing Market; Growth Indicator report and Welcome to Hamilton City; City of Growth, Opportunity and Innovation booklet. • Successful HIF proposal to central Government has detailed the growth modelling and objectives that supports Hamilton City's reputation. This will continually be an ongoing approach.	Kelvyn Eglinton (General Manager City Growth)
• Develop a Stakeholder relationship strategy and management plan to segment and manage key customers and stakeholders.	• Developers and Consultants Forum (DCF) established with quarterly meetings. • Agendas are set via an industry liaison group and by canvassing senior leadership/ key staff and include significant emerging issues, development trends and updates on key developments. • Hamilton City Economic Video released with positive feedback • Presentations to Government Ministers conducted to highlight Hamilton City	Kelvyn Eglinton (General Manager City Growth)

18

APPENDIX A – RISK RATING

This matrix is used to map the likelihood and consequence levels of a risk and provide a pictorial representation of the relativity of that risk to other risks within a Unit, or Project, and can also be used for mapping key risks across Council.

This matrix also provides an indication of the correlation between risk appetite and risk tolerance levels Senior Leadership Team and Council are prepared to accept relevant to the key service areas discussed throughout this document.

		CONSEQUENCE				
		Minor	Moderate	Serious	Major	Catastrophic
LIKELIHOOD	Almost certain	H	H	VH	E	E
	Likely	M	H	VH	VH	E
	Possible	L	M	H	VH	VH
	Unlikely	L	M	M	H	VH
	Rare	L	L	L	M	H

By using this matrix a decision can be made as to the level of escalation for management acceptance that is required and the frequencies with which accepted risks are to be reviewed.

19

APPENDIX B – ACTION REQUIRED AND REPORTING

The following table details the required actions and reporting for each risk:

	ACTION REQUIRED FOR RISK	RISK REPORTING	
		Organisational Risks	Project Risks
E	**Extreme Risk** – Immediate action required: Risk escalated as appropriate to the Audit & Risk Committee. Action plans and management responsibility specified with scrutiny required. Only the Chief Executive and/or Council/Audit and Risk Committee can accept this level of risk.	ARC (Quarterly) SLT (Monthly)	Council Finance Committee (Six Weekly) Programme Manager (Monthly) Project Sponsor (Monthly)
VH	**Very High Risk** – Senior Leadership Team advised. Action plans and management responsibility specified with periodic scrutiny required. The relevant GM, sponsor, risk manager and programme manager can accept this level of risk.	ARC (Quarterly) SLT (Monthly)	Council Finance Committee (Six Weekly) Programme Manager (Monthly) Project Sponsor (Monthly)
H	**High Risk** – Senior Leadership Team advised. Action plans and management responsibility specified with periodic scrutiny required. The relevant GM, sponsor, risk manager and programme manager can accept this level of risk.	SLT (Monthly)	Council Finance Committee (Six Weekly) Programme Manager (Monthly) Project Sponsor (Monthly)
M	**Medium Risk** – Management responsibility specified. Managed by specific monitoring and procedures. The relevant programme, unit manager or risk manager can accept this level of risk.	Wider Leadership Group (As required)	Program Manager (Monthly)
L	**Low Risk** – Manage by routine procedures. Unlikely to require specific application of resources. The relevant activity manager can accept this level of risk.	Wider Leadership Group (As required)	Program Manager (Monthly)

*Wider Leadership Group is to be interpreted as any staff member with specific business responsibilities, including but not limited to, General Managers, Unit Managers, Team Leaders and Project Managers.

20

APPENDIX C – RISK MATRIX LEGEND

Risk Matrix Legend					
	Description	Reputation	Health and Safety	Service Delivery (Strategy incl)	Financial
5	Catastrophic	• Council suffers severe political and/or reputational damage that cannot easily recover from. • Council suffers severe negative reputational impact, and the Mayor loses confidence in senior management. • Mayor and Chief Executive need to be briefed and regularly updated. • Media interest is sustained for a prolonged period (i.e., over a week) with major criticism levelled at the Council. • Council breaches multiple laws, which leads to legal action by affected stakeholders. • External/independent investigation conducted by law enforcement and/or government agencies.	• Loss of life. • Major health and safety incident involving members of staff and/or members of the public. • The injured party or parties suffer major injuries with long-term effects that leave them permanently affected. • An external authority investigates Council's safety practices and Council is found to be negligent.	• Severe compromise of the strategic objectives and goals of the Council. • Severe on-going impact on service delivery across Council and business units. • Skills shortages severely affect the ability of Council to meet its objectives and goals. • Staff work hours are increased by more than 50% (20 hours per week) for more than 30 days. • Between a 10% or more increase in staff turnover in a six-month period that can be directly attributed to the risk eventuating	• Impact cannot be managed without additional funding from Council. • Impact cannot be managed without significant extra human resources. • Yearly operating costs increase by more than 12%. • One-time financial cost greater than $100,000.
4	Major	• Council suffers significant political and/or reputational damage. • Council suffers reputational damage and loses confidence in senior management. • Mayor and Chief Executive need to be briefed and regularly updated. • Media interest is sustained for up to a week with minor criticism levelled at Council. • Key stakeholders need to be informed and kept up to date with any developments that affect them. • Council breaches the law, which leads to legal action by affected stakeholders. • External/independent investigation conducted by law enforcement and/or government agencies. • Communications and recovery can be managed internally.	• A significant health and safety incident involving multiple members of staff and/or members of the public. • The injured party or parties suffer significant injuries with long-term effects that leave them permanently affected. • WorkSafe investigates Council's safety practices and Council is found to be inadequate.	• Significant compromise of the strategic objectives and goals of Council. • Compromise of the strategic objectives of Hamilton City. • Significant on-going impact on service delivery across one or more business units. • Skills shortages affect the ability of Council to meet its objectives and goals. • Staff work hours are increased by more than 38% (10 – 15 hours per week) for 30 days. • Between a 3% and 10% increase in staff turnover in a six-month period that can be directly attributed to the risk eventuating.	• Impact cannot be managed without re-prioritisation of work programmes. • Impact cannot be managed without extra financial and human resources. • Yearly operating costs increase by 10% to 12%. • One-time financial cost between $50,000 and $100,000.

21

3	Serious	• Council suffers limited political and/or reputation damage. • The Chief Executive and senior management need to be briefed and regularly updated. • Council breaches its compliance obligations. • Media interest is sustained for less than a week with minor criticism levelled at Council. • Key stakeholders need to be informed and kept up to date with any developments that affect them. • External/independent investigation is conducted by law enforcement and/or government agencies. • Most communications and recovery can be managed internally.	• Health and safety incident involving multiple members of staff or one or more members of the public. • The injured party or parties suffer injuries with long-term effects and are not permanently affected. • Council's safety practices are questioned and found to be inadequate.	• Compromise of the strategic objectives and goals of Council. • Moderate impact on service delivery across one or more business units due to prolonged service failure. • Staff work hours are increased by less than 25% (8 – 10 hours per week) for a two to four week period. • Between a 1% and 3% increase in staff turnover in a six-month period that can be directly attributed to the risk eventuating.	• Impact can be managed with some re-planning and modest extra financial or human resources. • Yearly operating costs increase by 7% to 10%. • One-time financial cost of $20,000 to $50,000.
2	Moderate	• Senior management and/or key stakeholders believe that Council's reputation has been damaged. • The Chief Executive needs to be advised and SLT needs to be briefed. • Media interest is short-lived (i.e., a couple of days) and no blame is directed at Council. • Key stakeholders need to be informed. • Communications and recovery can be managed internally.	• Minor health and safety incident involving multiple members of staff or a member of the public. • The injured party or parties suffers minor injuries with only short-term effects and are not permanently affected.	• Minor impact on service delivery across one or more business units due to brief service failure. • Limited effect on the outcomes and/or objectives of more than one business unit. • Staff work hours are increased by less than 15% (6 hours per week) for less than two weeks. • Less than a 1% increase in staff turnover in a six-month period that can be directly attributed to the risk eventuating.	• Impact can be managed within current resources, with some re-planning. • Increase of between 5% and 7% in yearly operating costs. • One time financial cost between $10,000 and $20,000.
1	Minor	• Reputation is not affected. • No media attention. • All communications and recovery can be managed internally.	• No loss or significant threat to health or life. • Council's safety practices are questioned but are found to be appropriate.	• Limited effect on the outcomes and/or objectives of a business unit. • Staff work hours are increased by less than 5% (1 - 2 hours per week) for less than seven days. • No increase in staff turnover as a result of the risk eventuating.	• Impact can be managed within current resources, with no re-planning. • Increase of less than 5% in yearly operating costs. • One time financial cost of less than $10,000.

22

Council Report

Committee:	Audit & Risk Committee	Date:	05 September 2017
Author:	Dan Finn	Authoriser:	David Bryant
Position:	People, Safety & Wellness Manager	Position:	General Manager Corporate

Report Name: Health and Safety Report

Report Status	*Open*

Purpose

1. To inform the Audit and Risk Committee on the Health and Safety activities and key performance indicators for the previous 12 months.

Staff Recommendation

2. That the Audit and Risk Committee receives the report.

Attachments

Attachment 1 - Health and Safety Annual Report

Health and Safety

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

Health and Safety Report

For period 1st August 2016 to 31 July 2017

Hamilton City Council
Te kaunihera o Kirikiriroa

Attachment 1

Item 8

Hamilton City Council
Te kaunihera o Kirikiriroa

1.0 Executive Summary

The People, Safety and Wellness team have recently been merged to improve alignment, business partnering, assurance and lift engagement. Focussing our immediate attention on our Health and Safety Management System, we are developing a suite of best practice principles and guidelines that are designed to support our operational areas in the management of their critical risks. These are aimed at providing a consistent and systematic approach and to provide Council with an assurance that appropriate controls are being identified and implemented to mitigate potential injury.

Our safety performance over the previous 12 months had a 32% reduction in the number of Lost Time Injuries (LTIs) when compared to this time last year and with the change to categorising Medical Treatment Injuries (MTI's) to highlight significant injuries, there was a 43% drop for this same period. Whilst we acknowledge and quietly celebrate this achievement, we know that there is still a significant opportunity to improve our performance through timely reporting and better injury management.

We are continuing to promote targeted training across Council to provide workers with essential information to manage their own safety and keep themselves safe. Regular monitoring and audits also provide information to enable key learnings that can be shared through committee meetings designed to increase and provide a key platform for greater worker participation.

Looking forward, our safety focus and priorities will concentrate on:
1. re-establishing our safety framework to be the best in business
2. systematically managing our critical risks
3. building safety leadership and capability at all levels of business, and
4. providing employees with a safe and just culture supporting worker participation and encourage individuals ownership.

Hamilton City Council
Te kaunihera o Kirikiriroa

2.0 Our Safety Performance

2.1 Summary of Events

Number of Incidents at Council by Type

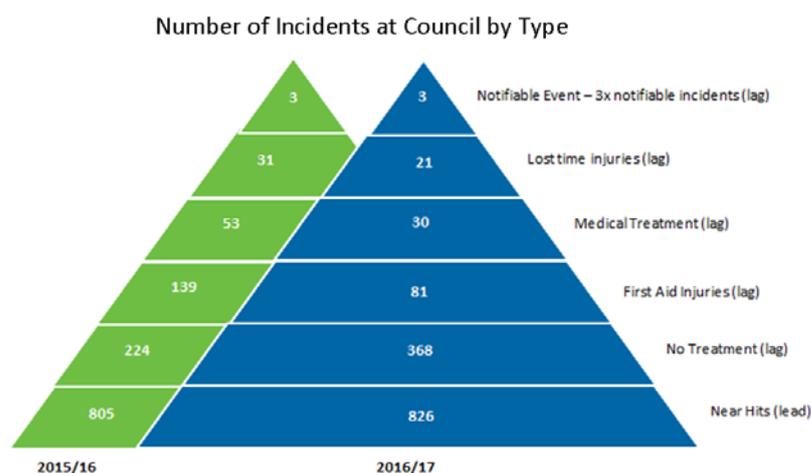| 2015/16	2016/17	
3	3	Notifiable Event – 3x notifiable incidents (lag)
31	21	Lost time injuries (lag)
53	30	Medical Treatment (lag)
139	81	First Aid Injuries (lag)
224	368	No Treatment (lag)
805	826	Near Hits (lead)

Figure 1: Performance Indicators for Incidents 1 August 2016 - 31 July 2017.

2.2 Notifiable Event Notifications

During the last 12 months there were three notifiable events reported to WorkSafe New Zealand:

1. Operator using a truck crane went to pick up a tree stump and heard a loud noise. Operator saw the crane falling towards him. The crane nuts had shorn off the bolts which caused the crane to lift and come off its mountings.

   This notifiable event was internally investigated by the Health and Safety and Risk and Insurance Units, to identify the root cause. The root cause identified for this event was that wrong replacement parts were used by the vehicle service provider. The business unit is now using a new truck and maintenance service and reports are now received by the unit. There are still some ongoing corrective actions yet to be completed.

2. A 20mm gas service line was damaged while excavating a water main trench causing an escape of gas. The gas service was not on the underground services plan.

3. Escape of gas – as above in 2.

As part of ongoing improvements in this area an ICAM Investigation Team of 25 Council employees has been established with all participants trained in the ICAM methodology, which focusses on root cause analysis. This team will be activated when a notifiable event occurs or to be used to assist with other recorded events of a high or potential high risk to workers and Council.

Hamilton City Council
Te kaunihera o Kirikiriroa

2.3 Lost Time Injuries

There has been a total of 21 lost time injuries over the last 12 months compared to 31 for the same period last year, representing a decrease of 10 LTI's or a 32% reduction. Of those 21 LTI's 6 resulted in seven days or more off work. Identification of causal factors will be a key focus in the future to continue to reduce our LTI's through targeted initiatives.
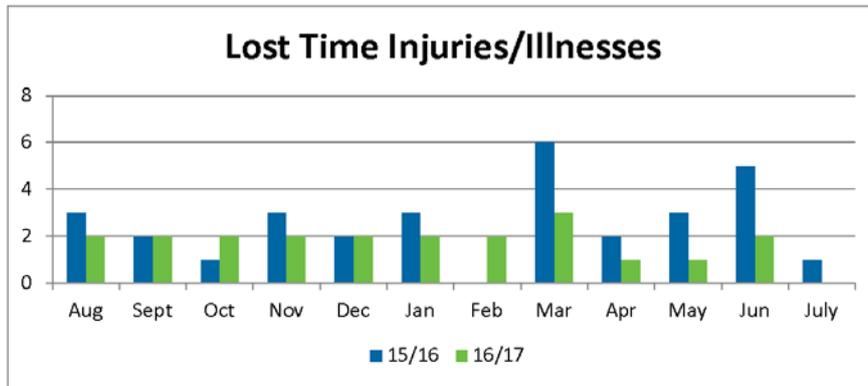

Figure 2: Lost time injuries/illnesses 2015/16 and 2016/17

Our Lost Time Injury Frequency Rate (LTIFR) target of <3.0 for FY2016/17 has not achieved, although we only narrowly missed reaching this by .01, with a result of 3.01. This has been the closest we have come to achieving this benchmark during the past two years.
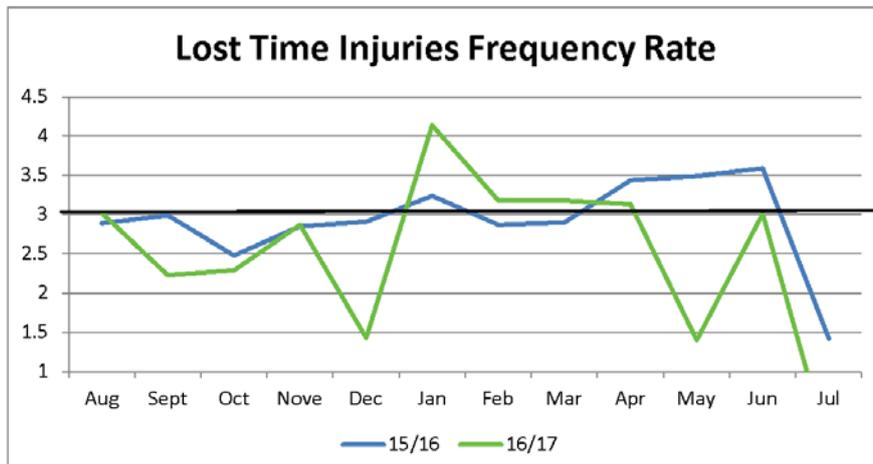
Figure 3: Lost time injuries are injuries/illnesses that have resulted in a whole shift off work. Lost time frequency rates (LTIFR) are a rolling average based on 200,000 hours worked to enable benchmarking against the Business Leaders' Health and Safety Forum

2.4 Total Recordable Injury Frequency Rate (TRIFR)

This is the first year we have measured our Total Recordable Injury Frequency Rate, which is the frequency of medical treatment and lost time injuries/illnesses that occur for every 200,000 hours worked. Our target for 2016/17 was set at <7.5 and we are currently tracking below this benchmark on 5.55.

Attachment 1

Item 8

Total Recordable Injury Frequency Rate

Figure 4: Total recordable injury frequency rate for every 200,000 hours worked 1 August 2016 – 31 July 2017

2.5   Medical and First Aid Treatment

Over the last 12 month period there were 30 medical treatment injuries and 81 first aid treatments.

Medical treatment injuries are those that result in a certain level of treatment (not first aid treatment) given by a physician or other medical provid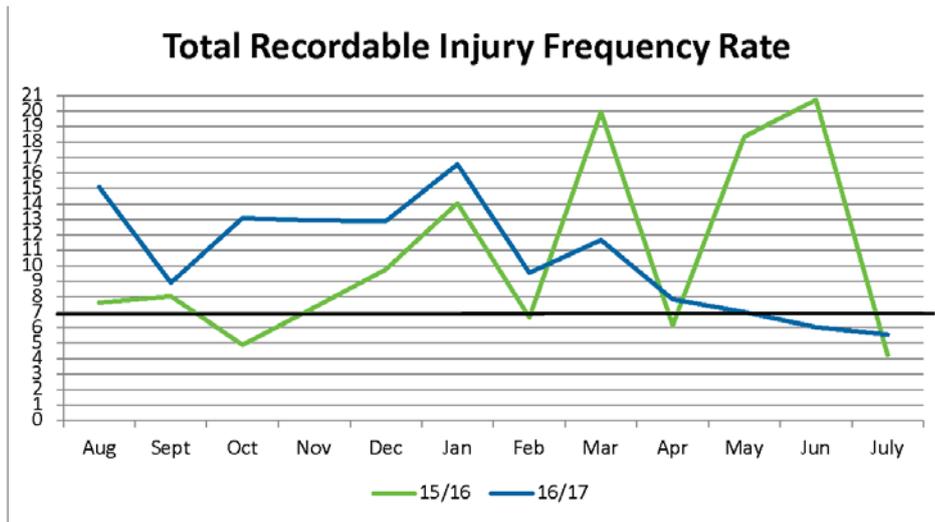er. This year we introduced a split in reporting to enable increased visibility of injuries that were of a more serious/severe nature.

This is an area of improvement for us moving forward to reduce the number of significant injuries/illnesses across Council, also supported by timely reporting, early intervention and good injury management processes.

2.6   Near Hit Reporting

We recorded only 840 near hits over the last 12 months missing our target of >971.

We continue to encourage near hit recording to increase our ability to intervene and to mitigate the possibility of an injury occurring. This indicator provides benefits to:
1. enable pro-active control of risks/hazards before events occur
2. provide shared learnings for engagement to all workers at all levels
3. increase health and safety ownership and reinforces worker participation
4. provide opportunities for improvement and to problem solve to control the risks/hazards
5. contribute to a positive health and safety culture.

2.7   Audits, Monitoring and Reviews

This year we have separated observations from audits as a key performance indicator to allow the increase in safety conversations for managers with workers.

Manager audits during the previous 12 months were 318 and we did not achieve the target of 480 safety audits. We will be keeping the same target of 2 audits per manager per month as a minimum.

The Health and Safety Unit engaged an independent health and safety auditor to undertake audits with a focus on critical risks and implementation of the management system across the following operational sites:
- FMG Stadium and Seddon Park
- Claudelands
- Hamilton Gardens
- Central Library
- Cemetery/Crematorium
- Museum
- City Delivery
- City Parks
- Water Treatment Plant
- Waste Water Treatment Plant

All findings/corrective actions have been entered into Vault and are being monitored by the Health and Safety Advisors to ensure they are implemented. The key themes for improvement highlighted by the findings were:
- Maintenance schedules
- Contractor management
- Systems and processes (e.g. Vault)

The health and safety representative workplace inspections are scheduled each year. Representatives had completed 28 inspections across Council this year, with 28 non-compliances identified. The majority of these related to low-medium risks. All inspections are recorded in Vault, with non-compliances assigned to managers to rectify and close out.

2.8 ACC - Experience Rating (Medical Injuries/Illnesses)

The Experience Rating programme takes into account a business's ACC claims history when calculating the levies over a three-year period. Council is then compared against industry to work out if we get a discount or a loading to our levy.

The information below shows we have had an increase in ACC reported injuries but of those reported during the 2016 covering year, the number of days off work has decreased. The figures below in table 2 are impacted by the number of claims lodged by Council workers that have resulted in medical treatment exceeding $500 per claim or the claimant has received compensation due to being off work for seven days or more (with a cut-off at 365 days).

COVER YEAR ENDING 31 MARCH	TOTAL WORK CLAIMS ACCEPTED	NUMBER OF MEDICAL CLAIMS > $500	ACC DAYS PAID
2014	74	8	544
2015	84	17	213
2016	80	12	401
2017	99	13	265

Table 1: ACC Experience Rating claims data

Item 8

Attachment 1

Attachment 1

Item 8

3.0 Key Activities

3.1 Critical Risks and Current Best Practice

We will be using the Bow-tie workshops held in December to assist in developing a suite of best practice standards and tools to enable operational units to align their practices, which will provide the Senior Leadership Team with an assurance of a consistent approach to managing critical risks. Please refer to appendix 5.1 Organisational Health and Safety Critical Risks.

We have engaged a health and safety technical writer to assist in providing a comprehensive best practice document that can be used by business units across Council for operational areas exposed to our critical risks. These will also assist us in providing targeted training and increasing competency.

3.2 Training

The Health and Safety Unit provided some key basic essentials to Council workers over the past year. There has been a slow uptake of health and safety training across the organisation. There will be a focus on increasing this as part of a wider strategy.

COURSE PROVIDED	NUMBER ATTENDED
Risk Assessment and Hazard Identification	30
Accident/Incident Investigation	21
Fire Warden	6
Manual Handling	15
Health and Safety Representative Training	20
First Aid Training	24
ICAM Investigation	19
Workplace Inspections completed	37

Table 2: Health and Safety basics training offered 1 August 2016 – 31 July 2017

The Senior Leadership Team also participated in an ICAM Governance Training workshop facilitated by Dan Davis of IMPAC. The purpose of this workshop was to provide an understanding of the ICAM methodology and how recommendations are derived from it. For ICAM investigations to be truly effective there must be informed support from a senior level and a willingness to review, accept and implement challenging recommendations.

Health and safety training and forums attended by officers of Council within the last period are set out in the table below:

MEASURED BY	RESULT FOR PERIOD (1 AUGUST 2016 – 31 JULY 2017)
Group Committee Meetings held	22
Business Leaders' Health and Safety Forum attendance (CE)	1
ICAM Governance attended by General Managers	8
Health and Safety Training attended by Elected Members	5

Table 3: Training and forums attended by Council "Officers"

3.3 Waikato Local Authority Shared Services (WLASS)

The first major project completed by the Waikato Local Authority Shared Services Working Party was the development of a contractor health and safety pre-qualification scheme. It recently made the finalist list for the ACC Best Leadership of an Industry Sector or Region Category in the NZ Workplace Health and Safety Awards 2017.

One of the benefits is that contractors only need to apply once to be pre-qualified for all Councils in the group. There are now 21 local authorities using the contractor pre-qualification scheme, which has extended now to the south island. There are currently 88 contractors for Hamilton City Council in the scheme and a total of 961 that are pre-qualified.

Another recent initiative providing significant cost savings to Council was to obtain a provider of occupational health services which would cover pre-employment, exit health assessments, health monitoring and immunisation. The contract was offered to Waikato and Bay of Plenty LASS which now has a master agreement in place.

Current projects underway include:
- Regional Health and Safety Management Framework
- Standardised Key Performance Measures (KPI's) and Personal Performance Measures (PPI's)
- Standard governance and reporting measures.

3.4 Asbestos Liaison Protocol (WorkSafe NZ)

WorkSafe NZ are coordinating a project that will set up regional response groups for enquiries and events on asbestos. The purpose is to support the reduction in occupational and public health risks of exposure, increase incident management processes and create an effective liaison between government agencies to enquiries and events involving asbestos.

It will establish regional networks that will adapt to local needs and processes. The Protocol applies when any of the agencies receives any asbestos-related enquiry or report of an asbestos-related incident or potential incident in the Waikato region.

4.0 Health and Wellbeing

4.1 Occupational Health Monitoring

To ensure we are meeting current legislative requirements we have initiated the first steps in collating data for our health service provider to establish annual health monitoring programmes for all business units.

This will establish a base line moving forward to ensure our workers are healthy and well at work and that any risks they are exposed to are not affecting their current or future health. This will be an annual practice for all units and it will include all workers.

4.2 Drugs and alcohol

Five drug and alcohol tests have been carried out over the previous 12 months, following the occurrence of incidents, or reasonable cause. All workers that returned a positive were given the opportunity to sign onto the voluntary rehabilitation programme.

The revised Drug and Alcohol Policy has just been approved, with 'random testing' of "safety sensitive areas" included into the policy. Through the review process unions and workers have

been consulted on these changes. Communication and training on this new policy will commence shortly.

4.3 Harassment and Bullying monitoring

Reporting of alleged bullying and harassment occurrences at Council are captured and categorised by:

1. Peer support contact (early intervention)
2. Informal reports (investigated internally)
3. Formal reports (investigated externally)

	Peer Support	Informal Report	Formal Report
Totals for period 1 August 16 – 31 July 17	3	2	1

Three peer support reports were received from the peer support network during the last twelve months. This provided opportunity for early intervention methods to be applied. It has been pleasing to see that this group is also being approached by staff about other wellbeing matters affecting our people.

Two people have raised an informal complaint over the previous rolling twelve months. Actions for an informal complaint are most likely to include a facilitated meeting between the parties, where desired outcomes are usually achieved for both parties.

There was one formal complaint during the year all of which were investigated. The case resulted in formal disciplinary action being taken.

Peer Support Report - Nature of Complaint

Legend: Bullying, Harrassment, Conflict, Discrimination, Other
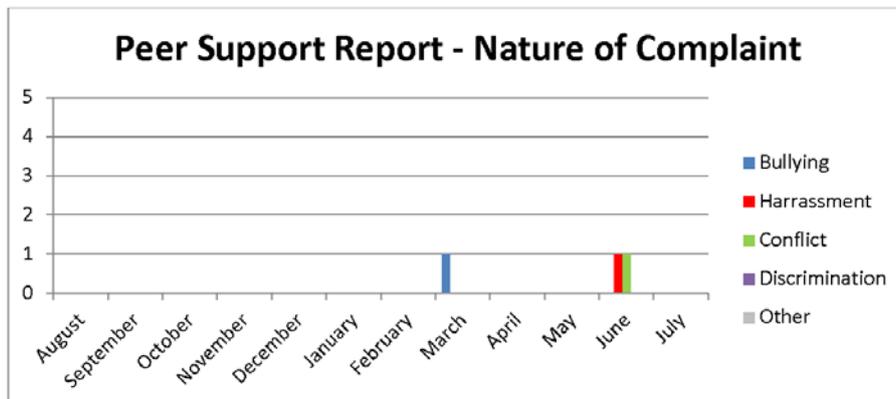
Figure 5: Graph showing types of complaints received of alleged unacceptable behaviours August 2016 to July 2017

4.4 Wellbeing Initiatives

Council offers a range of initiatives that contribute to the wellbeing of workers. These include influenza vaccinations (voluntary), Employees Assistance Programme and participation in national/regional campaigns e.g. Mental Health Awareness Week. During 2016/17 a total of 207 employees chose to receive influenza vaccinations.

We also ran a Winter Wellness campaign through Daily Mail to promote awareness and why it's important to boost the immune system and to minimise time away from work. To support this campaign we distributed bags of fresh fruit (mandarins, apples and oranges) with a booklet of recipes and herbal teas. This was well received across the organisation.

Council also provided annual health checks during the last 12 months and 207 staff took up this opportunity. The following tests were conducted as part of the voluntary health checks:

TEST	TOTAL	ABNORMAL
Lung Function	11	1
Hearing	207	40
Vision	197	7
Blood Pressure	192	7
Body Mass Index (BMI)	192	92
Cholesterol	192	60

NB: These are voluntary health checks and the same staff may not necessarily attend each year's registration for comparison trending data.

5.0 Future Focus

5.1 People, Safety and Wellness

Under the newly created Business Unit of 'People, Safety and Wellness', brought about through the amalgamation of the People and Culture and Health and Safety teams, we are rebuilding our internal capability and re-setting our strategic focus to better align and connect with the requirements of those we support.

Through this collective and under one banner we see real benefit by enabling overarching people and safety strategies to be developed to improve business performance and to position us much more closely with business units.

5.2 Key Priorities

Taking a more structured approach into 2017/18 our key priorities are designed to re-establish the foundations for success and to support the development of our strategic framework, setting us up well for the future with a clear roadmap covering the next 3 to 5 years.

Concentrating on deliverables and outcomes, designed and informed by our business needs, we are developing a safety strategy with the support of SLT that will set out clearly our vision and purpose, our key strategic priorities and performance measures, so we know what success looks like when we get there. We will also be working with other managers and key stakeholders before the strategy is finalised and communicated.

To enable success and to support our safety strategy when we launch, we will also be focussing on the following areas to enable this to occur:
- continue to make improvements to our health and safety management system
- focus on our immediate and short term work programmes to gain momentum
- continue to check in with the business to understand our organisational climate
- focus on improved data sets, meaningful KPI's and reporting
- manage our critical risks and the continue to refine controls and share learnings
- bed-in our new team structure providing clear direction, roles and responsibilities
- participation in the Waikato LASS Health and Safety Working Party initiatives

5.3 Our Strategic Priorities

Looking to the future and building on what we have accomplished and learnt over the last few years, it is important that we make a step change in how we view, manage and develop our approach to safety and wellness at Council.

Item 8

Attachment 1

Underpinning everything we do, we want everybody to think safely, work safely and return home safely every day, so that every person can enjoy the things that matter most to them outside of work. To support this belief, our safety framework will be built on our organisational culture and the behaviours that we all demonstrate each and every day by working smarter, targeting our risks and working together.

Looking forward, our strategic focus will concentrate on worker participation and worker responsibility through:

1. re-establishing our safety framework to be the best in business
2. systematically managing our critical risks
3. building safety leadership and capability at all levels of business, and
4. providing employees with a safe and just culture.

Attachment 1

Item 8

Item 8

Attachment 1

5.0 Appendix

5.1 Organisational Health and Safety Critical Risks

CRITICAL RISK	DESCRIPTION	RESIDUAL RISK RATING
Working in Confined Space	As a result of (working in an enclosed or partly enclosed space that is not intended or designed primarily for human occupancy, including but not limited to manholes, sewer/water pipes, tanks, garden place chamber, valve chambers, tunnels) to inadequate ventilation /airborne contaminants/engulfment relating to risk of serious injury, illness or death	Very High
Driving on the Road	As a result of adverse conditions (e.g. other drivers, driving irresponsibly, wet weather, slippery/icy roads, faulty/unsafe vehicles, fogged up windows, pedestrians, animals, cyclists, mobility scooters, driving wrong direction, speed and reversing, off road) or an acute medical event, or the consumption of drugs, alcohol or medication that may impair driving abilities, could lead to a crash occurring which could result in serious injury or death.	High
Working on or Near Roads	As a result of working on or near roads including (vehicles moving at speed, working at peak hour traffic, poor visibility (weather conditions) pedestrian traffic, road users, vehicle access to/from roadway/work site) there is the potential of being struck by a moving vehicle causing serious injury or death.	High
Working Alone/In Isolation	Where workers are required to work alone/in isolation, (particularly in a remote location) are at risk of being unable to request or receive help following an incident. Lack of assistance may contribute to serious injury/illness or death.	High
Working with Dangerous Animals	As a result of working with/near dangerous animals, there is a potential risk of receiving unprovoked attacks/bites from animals which may result in serious injury/illness or death.	High
Unguarded Machinery	People may come into contact with moving parts, resulting in a risk of entanglement, entrapment, nip/pinch or impact, may result in serious injury or death.	High
Inadequate Risk Assessment	As a result of no/inadequate risk assessments being carried out relating to a task being performed, there is a potential risk of contact or exposure to an uncontrolled hazard, which may result in serious injury/illness or death.	High
Working in or Near Trenches/Open Excavations	As a result of working in or near excavations or open trenches the potential exists for trench collapse/cave-in which creates the risk of engulfment/burial of workers/falls to depths causing serious injury, illness or death.	Moderate

Attachment 1

Item 8

Working at Height/Over Depths	As a result of working at height, on scaffolding, work platforms, ladders etc. or working over depths, there is a risk of falls from height or from ground level causing serious injury or death	**Moderate**
Working with Energy	As a result of energy sources not being isolated, there is the potential of contractor exposure which could result in serious injury/illness or death.	**Moderate**
Critical Incident	A critical or significant event that occurs in the workplace can have traumatic effects on staff wellbeing, creating a risk of mental health related illnesses, such as anxiety, depression, addictions, fatigue, stress, and cognitive impairment or self-harm causing serious injury/illness or death.	**Moderate**
Working Over or Near Water	Working over or near water/waterways creates a risk of drowning; rapidly rising water levels could jeopardise personal safety, resulting in serious injury/illness or drowning.	**Moderate**
Hazardous Substances	As a result of the storage or handling or exposure of hazardous substances Includes (chemicals, paints, poisons, gases, aerosols, powders, fuel, oils, incompatible hazardous substances, biological substances, toxic substances etc.) through inhalation, absorption or allergic reaction, could result in the risk of serious injury/illness or death (including but not limited to burns, asphyxiation, poisoning, death, lung disease, eye injury, skin irritation, etc.)	**Moderate**

5.2   Definitions

Lost Time Injury – work related injury/illness resulting in the next whole shift off work
Lost Time Injury Frequency Rate – frequency rate of lost time injuries/illnesses that occur for every 200,000 hours worked
Near Hit – event, under different circumstances, could have caused an injury or damage
Corrective actions – actions identified to prevent harm/damage and comply with legislation
Observations/Audits – inspections and observations carried out by Council workers in the workplace, whether scheduled or sighted as part of a walk through

Lead Indicators

Leading performance indicators are used to monitor the effectiveness of control systems and give advance warning of any developing weaknesses before problems occur. They can show the condition of our systems before harm, damage or failure occurs and will help us to respond to changing circumstances to avoid unwanted outcomes. Conducting observations and inspections, reviews of near hits and monitoring the implementation of hazard controls will provide management with assurances that the Health and Safety Management System is being effectively implemented.

Lag Indicators

Lagging performance indicators show us what the final outcomes are from our business activities, however, may not provide enough information to guide our actions and ensure success. There is usually delay between information being received and us responding.

Item 8

Attachment 1

Council Report

Committee:	Audit & Risk Committee	**Date:**	05 September 2017
Author:	Tracey Musty	**Authoriser:** David Bryant	
Position:	Financial Controller	**Position:** General Manager Corporate	

Report Name: Audit NZ Interim Management Report 2016/17

Report Status	*Open*

Purpose

1.   To inform the Audit and Risk Committee on the Audit NZ Interim Management Report for 2016/17.

Staff Recommendation

2.   That the Audit and Risk Committee receives the report.

Attachments

Attachment 1 - Final Interim Audit Management Report 2016/17

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Report to the Council on the interim audit of

Hamilton City Council

for the year ended 30 June 2017

Key messages

Summary

We have completed our interim audit of Hamilton City Council (the City Council) for the year ended 30 June 2017. This report sets out our findings from the interim audit and draws your attention to areas identified for improvement.

Our main focus for the interim audit visits during May and June 2017 was to perform a high level review of the City Council's control environment and to evaluate the City Council's key internal control systems for financial and non-financial information. Overall we are satisfied that the control environment is effective and enables us to plan and undertake the most efficient and effective audit approach.

Issues identified during the audit

Our areas of audit focus and the matters identified during the audit vary from year to year. From work completed during our interim audit visits we have identified the following new recommendations and their priority rating:

Section	Recommendation	Priority
1.1	Complete cyclical property, plant and equipment stocktakes	Beneficial
1.2	Update the Elected Members' Code of Conduct and Staff Conflicts of Interest policies to include guidance on the difference between pecuniary and non-pecuniary interests	Beneficial
1.3	Prioritise review of sensitive expenditure policies	Beneficial
2.1	Establish a process to review and reduce privileged user access on the network	Necessary
2.2	Develop an IT risk framework	Necessary
0	Establish password complexity and password change requirements for the payroll/HR system	Necessary
2.4	Prioritise the development of an IT security framework and updating of IT policies	Necessary
2.5	Establish processes for regular review of users and their access levels on the City Council's network and applications	Necessary
2.6	Regularly review generic network login accounts	Necessary
3.1	Review policies regarding out of court settlements for hurt and humiliation	Necessary

There is an explanation of the priority rating system in Appendix 1.

Sector wide – Risk assessments

We have benchmarked the findings from our work around contract management and asset management of the City Council against the Audit New Zealand portfolio of local authorities. Our findings and areas for improvement or consideration are contained within Appendices 3 and 4.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Monitoring of prior year recommendations

We updated our understanding of the City Council's progress against prior year audit recommendations, and are pleased to note that four matters have been closed following our interim audit visits. Our findings on matters followed up on during our interim audit are detailed in Appendix 2.

There are a number of matters that we are unable to comment on at this time — our comments on these outstanding recommendations will be included within our final management report which we are due to issue in September 2017.

Thank you

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

Leon Pieterse
Audit Director
10 July 2017

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Item 9

Attachment 1

Attachment 1

Item 9

Contents

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

1   Assessment of your control environment

We have performed a high level assessment of the City Council's control environment. We have also performed an assessment of controls in place within key financial and non-financial systems.

Our assessment of internal control was performed for the purpose of planning the most effective and efficient audit approach, to enable us express an audit opinion on the City Council's financial statements and performance information. It is not the purpose of our assessment to provide you with assurance on internal control in its own right. As such we provide no assurance that our assessment will necessarily identify and detect all matters in relation to internal control.

When assessing the control environment we considered the overall attitude, awareness, and actions of Council and management in establishing and maintaining effective entity level management procedures and internal controls, as well as ensuring compliance with significant legislative requirements.

When assessing controls in place within key financial and non-financial systems, we considered the policies and processes that are designed to provide reasonable assurance as to the reliability and accuracy of financial and non-financial reporting.

In performing this assessment we considered both the "design effectiveness"[1] and "operational effectiveness"[2] of internal control. Both "design effective" and "operationally effective" internal control is important in minimising the risk of either fraud or misstatement occurring.

The responsibility for the effective design, implementation and maintenance of internal control rests with Council.

In performing this assessment we have identified areas where we believe internal control can be enhanced. These matters are detailed in the following sections of this report.

This is in addition to recommendations we have made in previous years which remain open. The details of these recommendations and progress made in response are included in Appendix 2 of this report.

1.1   Property, plant and equipment - stocktakes not performed

We updated our understanding of the City Council's systems of internal control for property, plant and equipment. From this review we noted that there have been no fixed asset stocktakes performed in recent years. This is a matter of good stewardship and creates a risk around the accuracy of physical assets reflected within the City Council's financial statements as the assets may no longer be in the City Council's possession (whether as a result of theft, damage or other circumstances).

---

[1] The control is effective to either prevent or detect a material error in either the financial statements and/or performance information. The control is "fit for purpose".
[2] The control has operated effectively throughout the period tested.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Attachment 1

Item 9

Recommendation

We recommend that fixed asset stocktakes are completed on a cyclical basis to ensure that assets recorded on the City Council's fixed asset registers remain under Council's control. Any information regarding the condition or state of assets should also be reflected within the fixed asset register following these reviews (that is, impairment or disposal if applicable).

Management comment

Asset registers are updated and data verified at various times including as part of:

- *Revaluation.*
- *Condition assessment programmes.*
- *Staff and contractor observations during maintenance works.*
- *Renewals and new works.*

As part of the Asset Management Information Strategy (currently under development) and the Asset Management Improvement Programme for each activity area, we will consider the inclusion of fixed asset stocktakes.

1.2   Conflicts of interest policies

As a result the recent Local Government elections we increased our focus on the City Council's policies and guidance in relation to conflicts of interest, given the significance of the compliance requirements for Elected Members under the Local Government Members' Interest Act.

The City Council has a variety of policies in place to guide both Elected Members and staff on how to identify, declare, and mitigate conflicts of interest arising. We reviewed the policies in place and note that neither the Elected Members Code of Conduct, nor the Conflicts of Interest Policy currently provide guidance on the differences between pecuniary and non-pecuniary interests and when these may arise. Additionally, we note that the policies do not currently provide examples of circumstance that may led to a perceived, actual or potential conflicts of interest arising.

We understand that Elected Members were briefed on the differences between pecuniary and non-pecuniary interests as part of the induction process following the recent elections.

Recommendation

We recommend that additional guidance is included on the differences between pecuniary and non-pecuniary interests, and actual, perceived or potential conflicts of interests as part of upcoming reviews of the Elected Members Code of Conduct and Conflicts of Interest Policy. This will ensure that there is a central point of reference for guidance on these matters.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Management comment

Agree. We are comfortable that 2.3 of the Conflicts of Interest Policy covers actual or potential conflicts of interest that could arise, but agree that we will need to incorporate pecuniary and non-pecuniary interests into both policies and will ensure that is done. Pecuniary and non-pecuniary interests was incorporated into the induction process for Elected Members.

1.3 Sensitive expenditure policies overdue for review

We updated our understanding of the policies and procedures in place in relation to areas of sensitive expenditure. From this review we noted that the following policies are overdue for review:

- Gifts and Hospitality Policy – was due to be reviewed in October 2012; and

- Hospitality and Entertainment Policy – was due to be reviewed in September 2012.

Recommendation

We recommend that policies are subject to regular review (at least once every three years) to ensure that policy guidance remains appropriate and fit for purpose in the current operating environment.

We recommend that the review of these policies is prioritised.

Management comment

Agree. The Gifts and Hospitality Policy has since been reviewed approved by SLT and is currently being communicated out to the business.

It is expected that Procurement and HR will incorporate the Hospitality and Entertainment Policy into a wider project review of all discretionary spending policies into one policy to ensure consistency.

2 Information Technology control environment

We updated our understanding of the City Council's information technology control environment.

From our current year review the following areas for improvement were noted:

2.1 High number of privileged user accounts on the network

There are over sixty people who have privileged user access across the City Council's network. Currently no reviews are performed, or reports prepared, of what these accounts have been used for. We note that these accounts are mainly for Fujitsu staff.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Item 9

Attachment 1

Attachment 1

Item 9

Recommendation

We recommend that a process is established to review and reduce privileged access and that reports are prepared detailing what the privileged access has been used for during the period.

Management comment

While this has been done in the last six months internal to Fujitsu, the review of security levels are included in the Active directory review and will further guide scheduling and frequency.

2.2   IT Risk framework

The City Council does not have an IT risk framework in place to assess, monitor and respond to IT risks. We understand that project risks are monitored as part of the IT project methodology.

Recommendation

We recommend that an IT risk framework be developed to identify, assess, monitor and respond to IT risks. This framework should be consistent with the City Council's organisational risk framework.

Management comment

IT Risks are in the process of being aligned with the organisation risk framework. The IT risks are being managed as evident in the recent discussion at Audit and Risk Committee on Cyber Security and audit is progress surrounding Cyber Security.

2.3   Payroll/HR system password settings

During our review of the password settings for the City Council's payroll/HR system (PSE) we noted that the system does not currently require staff to change their passwords, nor does it enforce password complexity. The system currently only requires staff to set a password with a minimum of six characters. This is below generally accepted leading practice for password security.

Recommendation

We recommend that passwords for updating data in the payroll/HR system be a minimum of eight characters with complexity and password changes enforced.

Management comment

Agree. HCC needs to review the requirements for implementing complex passwords at this level, and align the PSE password policy with the existing Windows password policy to meet standards.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

2.4 Review and update IT Policies and develop policy awareness programme

The City Council's IT policies were due for review in 2016 but have not yet been reviewed and updated. In addition, we note that there is no overarching IS security framework.

We understand that a cybersecurity governance review is underway and this will drive the development of a new security framework and policies. We note that during the year an online IT induction training course has been developed to assist in training new staff.

Recommendation

We recommend that the City Council prioritise the development of the IT security framework and updating of IT policies. A policy awareness and enforcement programme should be included in the IT security framework.

Additionally, we recommend that the City Council require all staff and contractors to complete the new IT online induction programme.

Management comment

Information Services has just recently procured the MPA IT Policy Management system for implementation. Part of this implementation would cover the review and communication of policies to stakeholders as applicable.

2.5 Reviews of users and their system access levels

We updated our understanding of user access reviews, and note that currently no review is performed over users on the network, in Authority or in PSE (payroll/HR system). From our review of user access we noted that there are a number of redundant users in each of these systems. The lack of review of user access creates a risk that individuals may inappropriately view or alter information in the City Council's systems.

We note that an automated process is in place to advise managers when contractors' access is about to expire, however, note that this process has not operated effectively throughout the period.

Recommendation

We recommend that processes are established for the regular review of users and their access levels on the City Council's network and applications. This will help to ensure that access levels remain appropriate.

We also recommend that periodically a report is run which details users last login date, as this will help to identify if there are any redundant users on the networks so that these users access can be removed.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Attachment 1 (left margin, rotated)

Item 9 (left margin, rotated)

Management comment

Fujitsu has been engaged to review HCC's onboarding and offboarding process, focussing on Active Directory. Security levels and generic logins are included in this review.

2.6 Management of Generic (shared) network login accounts

The City Council does not have procedures in place for reviewing and removing redundant generic (shared) network login accounts.

We browsed the network account list and noted a high number of these types of accounts - many of which no longer appear to be used.

Recommendation

We recommend that the City Council regularly reviews generic network login accounts and ensures that these accounts are removed when no longer required by the business.

Management comment

Fujitsu has been engaged to review HCC's onboarding and offboarding process, focussing on Active Directory. Security levels and generic logins are included in this review.

For details of our prior year recommendations please refer to Appendix 2.

3 Other matters

3.1 Non-taxable hurt and humiliation payments

We note that the City Council has made a payment of $55,000 to a former employee for hurt and humiliation. We understand that the payment has been treated as non-taxable.

Over the last few years, payments for hurt and humiliation have become an area of focus for the IRD, with many public sector entities receiving amended PAYE assessments in relation to these payments.

Payments that are genuinely and entirely for compensation for humiliation, loss of dignity, or injury to feelings are non-taxable. However, payments that in reality relate to lost income, redundancy entitlements or exit inducements are taxable, and subject to PAYE. Simply classifying the payment as hurt and humiliation in the settlement agreement signed by the mediator does not make the payment non-taxable.

In an IRD review or investigation, the employer would need to be able to show that the employee had a genuine personal grievance (as defined), and that the amount paid was reasonable based on the hurt and humiliation suffered by the employee. It should be noted that most of the amounts awarded by the Courts for hurt and humiliation are under $10,000, and only a small percentage are over $15,000.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

In general, it would be very difficult to convince the IRD that any payments over $25,000 were not at least partially taxable. Tax liabilities may also exist in relation to much smaller payments. In cases where there is no evidence of a genuine personal grievance, the IRD could consider the entire payment to be taxable.

Recommendation

Council should review its policy regarding out of court settlements for hurt and humiliation, and consider making a voluntary disclosure to the IRD.

Management comment

Strongly Agree. Council does align out of court settlements for hurt and humiliation with what is being suggested above and is well aware of their obligations with the IRD. However, this was an extreme case with extenuating circumstances in terms of hurt and humiliation, which can be further discussed in confidence. Council also continued to pay the former employee for a period of nine months which was taxable. We do agree that in any other normal circumstances that we would work within those suggested hurt and humiliation parameters.

4   Summary of recommendations

Set out below is a summary of the priority of new recommendations raised during the current year audit as well as the status and priority of prior year audit recommendations. This table does not include matters raised during the audit of the 2015-25 Long Term Plan. Matters raised during the Long Term Plan audit will be reviewed as part of the upcoming 2018-28 Long Term Plan audit.

The detail of these recommendations not already discussed in the body of this report are contained in Appendix 2.

	Priority			
	Urgent	Necessary	Beneficial	Total
New matters	-	7	3	10
Prior year matters still outstanding	-	2	-	2
Prior year matters in progress	1	7	-	8
Prior year matters to be followed up during final audit	3	5	1	9
Total open or outstanding matters	**4**	**21**	**4**	**29**
Cleared matters	-	4	-	4

The matters that we will follow up on during our final audit are as follows:

- **Property plant and equipment**

  o   timeliness of capitalisation of work in progress;

  o   timeliness of capitalisation of vested assets;

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Attachment 1 (left margin, vertical)

Item 9 (left margin, vertical)

- o property, plant and equipment – quality of information; and

- o property, plant and equipment – completeness of information in Hansen 8.

- **Statement of service performance**

  - o statement of service performance – interruptions to service measures;

  - o water supply performance measures;

  - o sewerage performance measures; and

  - o completeness of calls and service requests.

- **Other matters**

  - o Redundancy payment.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Appendix 1: Explanation of priority rating system

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

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

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Item 9

Attachment 1

Attachment 1

Item 9

Appendix 2: Status of recommendations

Outstanding matters

Description	Recommendation	2015/16 findings	Priority	Current status	Year(s) raised	OIPR item/ AMOIP
Adoption of legislative compliance policy						
The City Council has a draft legislative compliance policy in place. At time of or review, this policy has not been formally adopted.	We recommend this policy be formally approved and made available to all staff throughout the organisation.	The policy is due to be formally adopted by 1 December 2016. We will review the policy as part of the 2016/17 audit.	Necessary	As at the date of our interim audit, the policy was yet to be formally adopted. We continue to recommend that the policy is formally approved and made available to all staff throughout the organisation.	2016	339/ N/A

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Item 9

Attachment 1

Description	Recommendation	2015/16 findings	Priority	Current status	Year(s) raised	OIPR item/ AMOIP
Review of legislative compliance responsibility						
There has been a number of changes in the City's Council organisation structure. We noted that no formal review around the legislative compliance responsibility has taken place since the change.	We recommend a review around all the legislation that the City Council must comply with be performed. The responsibility for each of the different legislation should be documented and formally communicated to each of the staff members with responsibility. This will ensure that each staff member understands their areas of responsibility around legislative compliance and can actively monitor the City Council's compliance.	The review will be completed by 1 December 2016. We will review the policy as part of the 2016/17 audit.	Necessary	This review has not yet been completed. We understand that the City Council expects to complete this review by September 2017.	2016	340/ N/A

Audit New Zealand
Mana Arotake Aotearoa

Attachment 1

Item 9

Matters in progress

Description	Recommendation	2015/16 findings	Priority	Current status	Year(s) raised	OIPR item/ AMOIP
Plant, property and equipment – monthly reconciliations						
Due to a change in the City Council's systems in the 2015 year, asset managers can now dispose of and capitalise assets directly in Hansen 8. We noted that monthly reconciliations of disposals and additions were not completed. This increases the risk that in the information in the asset management system (Hansen 8) does not reconcile to the finance system (AX Dynamics).	We recommended the City Council ensures disposals and additions in the asset management systems are being reconciled to the finance system on a monthly basis.	This has been incorporated as part of the AMOIP (Recommendation 3) and will be monitored as part of this programme. Monthly reconciliations have been performed in November 2015, March and May 2016. We expect this to be completed on a regular basis going forward.	Urgent	We note that reconciliations have not been prepared in a timely manner, and have not been subject to independent review. We recommend that these reconciliations are prepared each month and are independently reviewed.	2015 2016	307/Yes

Item 9

Attachment 1

Description	Recommendation	2015/16 findings	Priority	Current status	Year(s) raised	OIPR item/ AMOIP
Adding and removing users from network and applications						
During our testing of the process for adding and removing users' network access, we noted that a staff member who left and then returned as a contractor was not removed and added as per the approved process. As a result, when the contract ceased, the person's access was not removed.	We recommended to ensure security of the City Council information, managers need to advise IT when any users leave the City Council - including staff, contractors and fixed term engagements. Managers need to be reminded of their responsibilities with regards security. End dates should be entered into the City Council's systems where fixed term engagements or contracts are in place.	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.	Necessary	The procedures for adding and removing users is working apart from removal of users from applications, and removal of contractor's access when they leave. End dates are being entered for contractors when they start at council, however there is no process in place for removing their network and application access when they leave. As a result, the automated process for notifying managers when a contractor network access is about to expire is not working effectively.	2015 2016	317

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Attachment 1

Item 9

Description	Recommendation	2015/16 findings	Priority	Current status	Year(s) raised	OIPR item/ AMOIP
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 the City Council prioritises development and testing of Organisational Business Continuity and IT Disaster Recovery plans.	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 City Council. Responsibility for Organisational Business Continuity lies with another area within the City Council.	Necessary	The Risk and Assurance Manager has commenced organisational business impact analyses for development of the organisational Business Continuity plan. This will then drive development of the IT Disaster Recovery plan. Improvements have been made to IT infrastructure to mitigate risks related to potential network failures.	2015 2016	329/ N/A

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Item 9

Description	Recommendation	2015/16 findings	Priority	Current status	Year(s) raised	OIPR item/ AMOIP
Regular patching of the City Council's desktops						
Patching of the City Councils desktop devices is not being completed. This has been raised with Fujitsu and a project is underway to commence patching.	We recommend monthly patching of desktops needs to be reinstated to ensure improved security of the City Council information (Item 331).	Regular patching will be reinstated. This will be tested as part of the 2016/17 IT audit.	Necessary	The Fujitsu Managed Services and Desktop as a Service contracts include patching of servers and end user devices, however no reporting is being produced to confirm that all devices have accepted and updated the latest patches.	2016	331/343 / N/A

Attachment 1

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Attachment 1

Item 9

Description	Recommendation	2015/16 findings	Priority	Current status	Year(s) raised	OIPR item/ AMOIP
Recording of IT assets and their antivirus status						
The monthly Fujitsu report contains inconsistencies in numbers of IT assets owned by the City Council, raising the risk that not all IT devices are being updated with antivirus 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.	We recommend priority should continue to be given to ensuring all the City Council's desktops are recorded, managed and updated with antivirus updates and patches. (Item 330 in the Organisational Improvements Programme Register).	Patching cycles and antivirus updates have been implemented. This will be tested as part of the 2016/17 IT audit.	Necessary	Desktop as a service has been implemented and asset recording is being updated. We understand that this service includes ensuring that Antivirus signature patterns are always up to date, however were unable to sight any report which showed the current status of antivirus signatures across all devices, so we were unable to confirm that updates are being done across all devices.	2016	330/342 / N/A

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Item 9

Attachment 1

Description	Recommendation	2015/16 findings	Priority	Current status	Year(s) raised	OIPR item/ AMOIP
General ledger reconciliations						
In prior years (2012-2015), our review of monthly reconciliations identified the following exceptions: • Reconciliations, including property, plant and equipment, bank, suspense accounts and fixed asset reconciliations were either not prepared, not reviewed, not reviewed in a timely manner, not dated when prepared or reviewed or could not be found.	We recommended reviews of general ledger reconciliations be carried out in a timely manner.	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 also noted the fixed asset reconciliations were only prepared for November 2015 and March 2016 onwards. These reconciliations had not been independently reviewed.	Necessary	We are satisfied that suspense account reconciliations have consistently been prepared and independently reviewed in a timely manner. However, we note that fixed asset reconciliations have not been prepared in a timely manner during the period, and have not been subject to independent review.	2013 2014 2015 2016	319/ N/A

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Attachment 1

Item 9

Description	Recommendation	2015/16 findings	Priority	Current status	Year(s) raised	OIPR item/ AMOIP
Sensitive expenditure policies						
We reviewed a selection of the Council's policies relating to areas which we consider to be sensitive in nature. We found the majority of these policies align with the OAG's Controlling Sensitive Expenditure: Guidelines for Public Entities Good Practice Guide. However, we identified areas in the Gifts and Hospitality policy which could be strengthened.	We recommended the Gifts and hospitality policy could be strengthened by requiring the receipt of gifts, except for inexpensive gifts are openly distributed by suppliers and clients, to be disclosed, to be recorded in a gifts register, and to remain the property of the entity. The policy should also define "infrequent" and "inexpensive" in relation to receiving gifts.	We have noted that the Gifts and Hospitality policy will now be incorporated into a new Gifts, Hospitality and Entertainment Policy. A gift register is also being set up to record these gifts. The policy is not due to be completed until the end of September 2016.	Necessary	The Gifts, Hospitality and Entertainment Policy is still in draft as at the date of the 2017 interim audit (May 2017). A gifts register template has been set up but is not yet being used.	2014 2015	Not recorded / N/A

Item 9

Attachment 1

Description	Recommendation	2015/16 findings	Priority	Current status	Year(s) raised	OIPR item/ AMOIP
H3 events – internal controls						
During the 2015 financial year the City Council systems changed so that all the debtor invoicing, receipting and payments of operating expenditure invoices for Claudeland Events Centre, Waikato Stadium, Hamilton Theatres, Seddon Park and the Grandstand is now being completed by the H3 staff rather than by the City Council's finance team. H3 introduced a new system called Ungerboeck. Information is sent to City Council's finance team to upload into the general ledger. The H3 group have their own separate bank accounts and all their transactions do not flow through the City Council's main bank account.	We recommended that the City Council perform an internal review over revenue and expenditure systems to identify areas where the internal controls can be improved.	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.	Necessary	H3 now has processes in place where new debtors are approved before being entered into the system. Invoices are still not reviewed before being sent out to the debtor. The creditor masterfile report is still not being run. H3 are working on working out a method of how that report can be generated. They are currently in the process of deciding the parameters that would be required to be run. Bank reconciliations are prepared daily and at the end of the month.	2015 2016	315/ N/A

Audit New Zealand
Mana Arotake Aotearoa

Attachment 1

Item 9

Description	Recommendation	2015/16 findings	Priority	Current status	Year(s) raised	OIPR item/ AMOIP
We found during our interim audit, the information from H3 was not being reviewed by the finance team for accuracy. Also, due to small number of staff involved at H3, there are limited controls and segregations of duties in place at the unit. We understand a review was being completed in early July. There are limited controls and segregations of duties risks that exist due to small number of staff involved at H3. With specific focus on the revenue system, we identified revenue invoices were not being independently reviewed, refunds were not authorised prior to payment and new debtors were not checked by independent person.		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.		The reconciliations are now being approved. Daily reconciliation preparer and reviewer audit trail is maintained in the system. Monthly reconciliation reports are printed and signed as evidence of review.		

Audit New Zealand

Mana Arotake Aotearoa

Description	Recommendation	2015/16 findings	Priority	Current status	Year(s) raised	OIPR item/ AMOIP
Focusing on the expenditure system, we noted all new creditors are supposed to be set up and approved by the City Council staff. We found H3 staff have the ability to set up new creditors in the system. A creditor masterfile changes reports is not being run and independently review and bank reconciliations were being prepared but not being independently reviewed. As a result of the above issues we took a substantive approach to auditing the revenue and expenditure for the H3 group.						

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Item 9

Attachment 1

Attachment 1

Item 9

Matters that have been resolved

Recommendation	Outcome
Payroll system	
We recommended that payroll staff should ensure that the variable data report are independently reviewed on a regular basis.	All payroll variable data reports tested as part of our interim audit had been evidenced as being independently reviewed.
Masterfile change made without approval	
We recommend that management ensure that the new supplier forms are approved by the Procurement Manager prior to a change being made in the system. The procurement team should be reminded not to process the change until this approval has been given.	We reviewed a sample of new supplier setups during our interim audit. All new suppliers tested had been appropriately approved by the Procurement Manager.
Creditor masterfile changes report	
We recommend that the creditor masterfile change report should be updated to include the nature of the change so the entire population of this type of changes can be identified and for review purposes.	We tested a sample of creditor masterfile change reports as part of our interim audit and confirmed that all were subject to independent review.
Dynamics AX user profiles	
We recommend improvements are made to the procedures for adding, removing users and managing changes for delegated authorities in Dynamics AX. Supporting documentation should also maintained for changes being made to delegations during the year. Given the amount of change that City Council has undergone recently, a full review of all roles should be performed in Dynamics AX and Authority (Item 328).	A review and correction of user profiles has been done and regular checks of Dynamics user access are being performed.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Appendix 3: Contract management risk assessment

What we did:

- We completed a contract management risk assessment across the Local Government sector. This assessed the inherent risk of an entity as well as the risk from the controls in place.

- Considerations for assessing inherent risk included the number of contracts in place, the total value of those contracts, their criticality, and the types of contracts. Control risk considered what policies and guidance were in place, who was responsible for contract management, and the robustness of any contract management system.

- The combination of these two risk levels provided us with an overall risk level for that entity. We have then plotted these results on the graph above. Each quadrant in this graph represents a different risk level. It allows us to see the risk level positioning of each Local Government entity in relation to the rest of the sector.

- Answers to the risk assessments are based on our understanding of your entity, documents which you have provided us, and results from contract management reviews completed in previous audit years.

Contract Management Risk Ratings 2016

What these results mean for you:

- Hamilton City Council has Medium inherent risk and Medium control risk. This means that your Council has Medium overall contract management risk.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Item 9

Attachment 1

Attachment 1 Item 9

Our risk assessment has shown that your areas for improvement are:

- Ensuring that those responsible for contract management within your organisation are trained and developed in good contract management processes. This may involve putting in place a development or training plan to maintain the currency of their contract management knowledge.

Contract management considerations

Good contract management ensures that resources are efficiently and effectively used. Based on our review of contract management process across the sector, the following ten questions should be priority considerations for every senior Manager and member of a governing body.

Key questions to ask on policy and guidance

1 **Have you got policy, procedures, or guidance covering Contract Management activities?**

Ideally, there should be a single source of policy and guidance. It should cover the use of contract management plans; guidance on what to do when performance obligations and expectations are not being met; requirement to complete contract risk assessments; the process for negotiating and approving contract variations; and the process for the close-out of a contract.

2 **Do you regularly review and update your policy and guidance?**

The Policy should clearly assign an "owner" who has the responsibility to ensure it is regularly reviewed and updated.

Key questions to ask on contract management planning

3 **Do you require contract management plans for all contracts?**

Plans should be appropriate for size, value, and risk of the contract. They should cover appointments for management of the contract, obligations under the contract, reporting requirements, key performance indicators or expectations, monitoring and inspection arrangements, and a risk assessment.

4 **Do you have guidance in relation to scope management of the contract?**

The Policy should cover considerations relating to contingencies, expectations around variations, approaches to penalty clauses, damages, and requirements around budget management.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Key questions to ask on contract management responsibility

5   **Is there an experienced individual or team with responsibility for oversight of contract management activities?**

You should be assured that you have appropriately qualified and experienced staff responsible for contract management activities. There should be a dedicated individual or team responsible for ensuring compliance with policy, providing templates and monitoring activities.

6   **Are you committed to on-going training and development of contract management staff?**

You should be committed to the professional development of your staff to ensure the currency of their contract management knowledge. Ideally, there should be comprehensive training programmes in place with clear evidence of development planning.

Key questions to ask on contract management records

7   **Do you have a contract management system in place?**

Your system should capture all contracts that your organisation has. It should be electronic, linked to the FMIS/payment system, and materially complete. It should provide information on performance throughout the contract, linked to payments throughout the contract, and used to assist contract renewal decisions.

8   **Do you maintain comprehensive filing for contracts and essential records related to it?**

Your records should contain a copy of the original agreement, a record of contract progress claims and payments, monitoring and inspection or meeting records, any relevant correspondence, records of any variations or claims, producer statements, and completion certificates. There should also be appropriate physical security and disaster recovery arrangements in place for the file/information.

Key questions to ask on monitoring of contract management activities

9   **Do you review your contract management activities?**

You should have a comprehensive programme of review in place. Review may be through internal audit. There should be evidence of action in response to review findings/recommendations.

10   **Is there reporting to senior management and governance?**

Reporting should be regular and should cover performance against expectations, actual expenditure against financial forecasts, and risk.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Item 9

Attachment 1

Attachment 1

Item 9

Appendix 4: Asset management risk assessment

What we did:

- We completed an asset management risk assessment across the Local Government sector. This assessed the inherent risk of an entity as well as the risk from the controls in place.

- Considerations for assessing inherent risk included the value of property, plant and equipment, the criticality of assets, the useful life of assets, and any history of unplanned asset failure. Control risk considered what policies and guidance were in place, commitment from senior management in relation to asset management planning and monitoring, and the robustness of any asset management information system.

- The combination of these two risk levels provided us with an overall risk level for that entity. We have then plotted these results on the graph above. Each quadrant in this graph represents a different risk level. It allows us to see the risk level positioning of each Local Government entity in relation to the rest of the sector.

- Answers to the risk assessments are based on our understanding of your entity, documents which you have provided us, and results from asset management reviews completed in previous audit years.

Asset Management Risk Ratings 2016
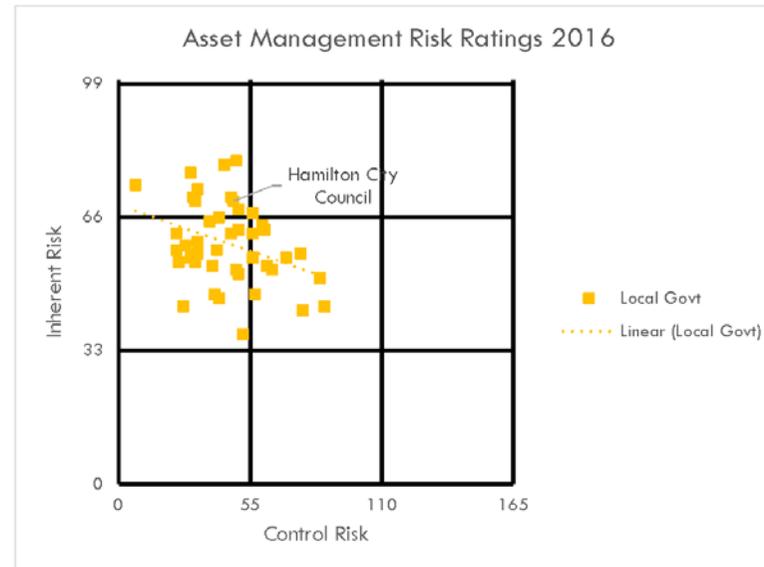
What these results mean for you:

- Hamilton City Council has High inherent risk and Low control risk. This means that your Council has Medium overall asset management risk.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Interim management report on the audit of Hamilton City Council
for the year ended 30 June 2017
Page 31

Our risk assessment has shown that your areas for improvement are:

- Ensuring that the asset management policy and strategy are up to date. This should cover what you are trying to achieve; who is responsible; what you need in order to be successful; the appropriate level of sophistication for your planning; an assessment of whether you are already there or need to improve some things; a clear definition of when plans should be updated, by whom, and who approves them.

- Ensuring that there is a structured approach to assessing and monitoring the condition of assets. This should also be captured in the asset information system and should be up-to-date.

- Ensuring that there are good quality and up-to-date asset management plans in place. The plans should cover all assets, detail their life cycle management strategies and explain how to put these into practice. They should include detailed financial forecasts and budgets.

Asset management considerations

Based on our reviews of asset management processes across the sector, the following ten questions should be priority considerations for every senior Manager and member of a governing body.

As the City Council owns and operates a significant asset base, and your service delivery is highly reliant on assets, you should be considering the following:

Key questions to ask on strategy and policy

1   **Have you got a strategy for the long term sustainability of your assets?**

    This should set out your approach to owning and managing assets in support of service delivery. The levels of service you have committed to should be clear. The strategy should match the work that the assets require to meet these service levels and a funding strategy that ensures that this work is affordable.

2   **Have you set an asset management policy?**

    This should cover what you are trying to achieve; who is responsible; what you need in order to be successful; the appropriate level of sophistication for your planning; an assessment of whether you are already there or need to improve some things; a clear definition of when plans should be updated, by whom, and who approves them.

3   **Do you have good quality up-to-date asset management plans for achieving your strategy?**

    The plans should cover all assets, detail their life cycle management strategies and explain how to put these into practice. They should include detailed financial forecasts and budgets.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Item 9

Attachment 1

Attachment 1

Item 9

Key questions to ask on asset management responsibilities

4   **Does your organisation have appropriate asset management skills and experience?**

You should be assured that you have appropriately qualified and experienced staff responsible for all asset categories. Staff should have access to continuing professional development. You should access external expertise when needed.

Key questions to ask on asset information

5   **Do you know the reliability of your asset information?**

You should have formally assessed the reliability of asset information so that you understand the implications for your planning. With less reliable information you may make less well-informed decisions and face more unplanned work. You should be working to improve the reliability of your data.

6   **Do you have a structured approach to assessing the condition and performance of your assets?**

This information should be up-to-date, reliable, and captured in an asset information system.

7   **Have you defined a clear and comprehensive set of service levels to be delivered or supported by the assets?**

They should be clearly expressed and cover technical standards and levels of performance as well as customer expectations of service delivery.

8   **How well do you forecast future demand for the services that are delivered or supported by your assets?**

Current and future demand for your assets should be clear, including an assessment of alternatives and substitutes that people can choose, as well as changes in demographics and patterns of use.

9   **Do you have a backlog of repairs, maintenance, and asset renewals? and what are you doing about it?**

You should be aware of any deferred work, and have made a well-informed decision to defer it. You should understand the risks and knock-on implications. You should have a strategy of divesting assets that cannot be maintained, or catching up with the backlog for assets you need to keep.

10 **Do you report, and get reports on, achievement of your asset management plan(s)?**

Reporting should cover performance against service levels, delivery of planned work and actual expenditure against financial forecasts.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Council Report

Committee:	Audit & Risk Committee	Date:	05 September 2017
Author:	Tracey Musty	Authoriser:	David Bryant
Position:	Financial Controller	Position:	General Manager Corporate
Report Name:	2016/17 External Audit Update		

Report Status	*Open*

Purpose

1. A verbal update for the 2016/17 Annual Report will be given by Audit New Zealand at the meeting.

Staff Recommendation

2. That the Audit and Risk Committee receives the report.

Discussion

3. Audit New Zealand is still working on the audit of the 2016/17 Annual Report.

4. Significant issues will be discussed at the meeting.

5. Audit New Zealand will be providing a further update that the report is compliant and fairly reflects Council's financial position for the year ended 30 June 2017.

Attachments

Attachment 1 - Audit NZ Memo to Hcc's A&R Committee Sept 2017

Attachment 1   Item 10

Hamilton City Council

Update to the Audit Committee – 5 September 2017 (dated 29 August 2017)

Audit update

We are currently still completing the onsite audit work, and have experienced delays in the completion of this work. The areas of delay primarily relate to revaluation of Council's land, buildings and transportation assets; as well as testing of property, plant and equipment related balances (work in progress, additions, depreciation, vested assets).

As yet we have not been provided with a finalised version of the property, plant and equipment note from which to complete our testing. This means that a significant portion of the audit work we intended to complete during the first week of the audit is still outstanding.

In regards to the valuations we have sought clarification from both Council staff, and Council's valuers, as to the valuation amounts reached. Specifically, we have noted a significant increase in the valuation of Council's land – of which a large portion is subject to restrictions under the Reserves Act 1977. We have also identified errors in the way the valuations have been recorded within Council's systems – Council staff are currently working through resolving these matters.

Due to the time required to discuss and action the above matters, the completion of other aspects of our audit work has also been impacted.

Once we receive the appropriate information from management, we expect our testing and review will take approximately two weeks to complete.

Please note that these delays will have an impact on the time required to complete the audit which impacts on the fee. We may discuss a fee recovery with management.

Please consider the items under "General Discussion" below and update us on anything that we should be aware of in relation to Subsequent Events, Fraud, Related Parties (disclosure) and Legislative Compliance.

Areas of audit emphasis

As described in our Audit Arrangements Letter dated 7 June 2017 our areas of audit focus are:

- Capitalisation of work in progress and vested assets;

- Revaluation and fair value assessments;

  As noted above, we have not yet been able to complete our audit work in respect of property, plant and equipment (which encompasses work in progress and vested assets) or revaluations.

- Housing Infrastructure fund;

  We have not identified any impact on the 30 June 2017 financial statements as a result of ongoing discussions regarding the Housing Infrastructure Fund (HIF). We will maintain a watching brief in this space and will consider the impact of the HIF as part the audit of the 2018-28 Long Term Plan.

Audit NZ Memo to HCC's A&R committee Sept 2017

- Management override of controls

  To date we have not identified any instances of management overriding controls and we will remain alert through the remainder of our audit and will report our findings in our Management Report to Council.

Audit progress

- We are continuing to work through our review of property, plant and equipment (including revaluations) and associated transactions and account balances, including disclosures in the financial statements;

- Discrete aspects of other sections of the financial statement are still under review, including intangible assets, commitments, investment in CCOs, and statement of cash flows;

- Group financial statements have not yet been reviewed (this review will not occur until we have complete our audit work over the parent figures);

- Data accuracy/classification issues were identified during our review of selected water and wastewater performance measures; Council staff are finalising their review of the wastewater accuracy/classification issues – following which we will re-review the reported result;

We will provide a verbal update at the meeting of any more progress made since the date of this memo.

Independence

- We confirm that we have complied with the independence requirements of the Auditor-General which include the requirements of the International Standards of Auditing and, where necessary, have ensured restrictions on audit staff from areas to avoid potential conflicts.

- Two non-influential independence mitigations were managed throughout the interim and final audits:

  o   one related to a staff member's relationship with Montana Catering, the staff member involved was excluded from any testing of expenditure, creditors or contract management;

  o   the second related to a staff member seconded on the audit from Crowe Howarth. Crowe Howarth provided advice to Hamilton City Council during the 2015/16 financial year in respect of Council's investment in Innovation Waikato Limited and Waikato Innovation Park Limited. The staff member was not involved in the preparation of this advice, however, to mitigate against any perceived independence threat was restricted from being involved in any audit work relating to Council's investment in these entities.

Audit NZ Memo to HCC's A&R committee Sept 2017   2

Progress against key deliverables

Detail	Agreed	Actual / *Estimated*
Draft financial statements available to Audit	4 August 2017	4 August 2017
Annual Report available	21 August 2017	Outstanding
Verbal audit clearance	4 September 2017	To be confirmed
Adoption of the Annual Report (and audit opinion issued)	21 September 2017	To be confirmed
Management Report: • Draft	8 September 2017	Two weeks after receiving final draft annual report
• Final	21 September 2017	To be confirmed

General discussion (based on our Engagement Letter)

Subsequent events

Please let us know if you are aware of any circumstances that could impact on, or should be disclosed in, the Annual Report that happened since year end up to the adoption of the Annual Report.

Fraud

- Please let us know if you are aware of any actual or suspected frauds.

- We have requested responses to our standard fraud questionnaires and a specific representation will be included in the letter of representation about your responsibility to ensure systems and controls are in place to mitigate or detect fraud.

Related parties

Please ensure you are comfortable with the Related Party disclosure in the Financial Statements. If not, please inform us.

Legislative compliance

It is the responsibility of the Council to ensure compliance with legislation.

We only look at, and report against, legislative compliance that could impact on our opinion.

Council Report

Committee:	Audit & Risk Committee	Date:	05 September 2017
Author:	Tracey Musty	Authoriser:	David Bryant
Position:	Financial Controller	Position:	General Manager Corporate
Report Name:	2016/17 Internal Audit Update Quarter 4		

Report Status	*Open*

Purpose

1. The purpose of this report is to update the Audit and Risk Committee on PwC's Internal Audit progress for FY16/17 engagements.

Staff Recommendation

2. That the Audit and Risk Committee:

    a) receives the report; and

    b) notes that the 2016/17 internal audit programme has been completed except for one part of the unusual transactions analysis which is due to be completed by 8 September 2017.

Discussion

3. Delivery of the internal audit programme has been completed except for one part of the unusual transactions analysis engagement. A summary of the status of the FY16/17 Internal Audit Plan engagements is detailed below:

1	Q1	Cash handling processes and controls	Complete. Report finalised.
2	Q1	Payroll process and controls	Complete. Report finalised.
3	Q1	Procure to Pay processes and controls	Complete. Report finalised.
4	Q2	Cyber security governance maturity assessment	Complete Report being finalised
5	Q3	Unusual transaction analysis	In progress. First Report finalised – stage 1-3 Stage 4 in progress
6	Q4	Procurement	Completed. Report finalised

4. **Engagements in progress**

    a. **Cyber security – governance maturity assessment**

    - The IS team have a culture where security is considered an important part of their function. There are however parts of the HCC wide IT environment outside the direct control of the IS team, where security governance and security control are less rigorous. This is, in part, because of their focus on delivering services to the community and security is not front of mind.

    - During our assessment we identified that there are a number of security governance activities in place within the IT function, however these could be improved upon and applied at a level that encompasses the whole organisation.

    - Now that we have completed the governance maturity assessment and reported recommendations to management, we are now undertaking the next stage of an overall cyber security assessment with an engagement that will focus on the operational controls and provide an assurance map of how risks are mitigated.

    - The reports from both engagements will be provided at the December Audit and Risk Committee meeting to provide a comprehensive overview of cyber security.

    b. **Unusual transaction analysis: The scope of this engagement is in four parts:**

    - Data analysis performed across specific payroll, procurement and conflict of interest areas has been completed.

    - A high level data maturity assessment to assist management in prioritising the areas of focus to enhance their current data governance framework has been completed.

    - Journal analysis has been completed.

    - Purchase order and vendor analysis is still in progress due to complexity of data requirements.

Financial Considerations

5. This is a regular operating activity funded through the Long Term Plan.

Attachments

Attachment 1 - PWC Internal Audit Report Strategy Procurement Framework Assessment 2016/17

Attachment 2 - PWC Internal Audit Report Usual Transaction Analytics 2016/17

Hamilton City Council Strategic Procurement Framework Assessment Internal Audit Report

25 August 2017

pwc

Executive Summary

Introduction and scope

Procurement is a significant activity within Hamilton City Council ("Council") and the Council is a significant purchaser of goods and services within the Hamilton area. Properly planned and well executed procurement results in improved outcomes and value for money in using ratepayers' funds.

The objectives of this engagement were to consider HCC's procurement framework on an 'all of Council' basis against:
- good practice, with a specific focus on:
  - driving value to HCC
  - protecting and safeguarding HCC interests
- the following guidelines and reports, published by the Controller and Auditor General:
  - "Procurement Guidance for Public Entities" June 2008
  - "Public sector purchases, grants, and gifts: Managing funding arrangements with external parties" June 2008
  - "Managing Conflicts of Interest: Guidance for Public Entities." June 2008
- the following guideline, published by the Ministry of Business, Innovation and Employment (MBIE):
  - "Government Rules of Sourcing"

Our approach included:
- gaining an understanding of the procurement framework through:
  - reading relevant policies and procedure manuals
  - interviewing procurement staff
- performing an assessment against good practice, the Controller and Auditor General and MBIE guidelines
- interviewing a selected number of 'internal customers' to gauge the level of awareness and compliance with the procurement framework, including any challenges they face
- identifying and reporting any suggested improvements
- developing and agreeing 'fit for purpose' recommendations with management.

Key messages

Council's procurement framework includes a procurement policy and a procurement policy and procedures manual. The framework incorporates and includes the principles and most of the good practice processes from the OAG and MBIE guidelines. The procurement framework drives a traditional procurement approach rather than a strategic approach (refer Appendix III).

Council has a 2010 procurement strategy that needs updating to ensure it aligns with Council's current strategic outlook and covers all of Council. We understand that some work in this area is being performed in conjunction with the Waikato Local Authority Shared Services ("LASS") at the moment.

The Council makes good use of the All of Government contracts and syndicated procurements with other councils where there are clear benefits to the Council from utilising them.

Internal Audit Report   Confidential   Page 2 of 14

At an operational level, the use of a gateway review process places pressure on procurement resources and adds extra administrative time into the procurement process. The procurement team should be seen as supporting the groups to undertake procurement with a more strategic focus rather than the perceived compliance focus.

Council groups may be better served through the use of procurement advisors to assist the groups undertaking procurement driving up skilling Council staff in good procurement practices.

Procurement controlled templates can result in duplication of documents and outdated material.

Professional Services Panels (PSP) are viewed positively, but improvements in how they are used and the administrative paperwork will assist in reducing cost and driving better value for money.

The recent increases in the procurement limits is a positive move, as comparatively the previous limits were quite low.

Inherent limitations

Due to the inherent limitations of any internal control structure it is possible that fraud, error, or non-compliance with laws and regulations may occur and not be detected. Hamilton City Council's overall internal control structure, within which the control procedures that we have assessed operate, has not been audited and no opinion is expressed as to its effectiveness.

An internal audit is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed are on a sample basis. Also, an internal audit does not provide all the evidence that would be required to form an audit opinion on the design or operating effectiveness of the controls subject to assessment.

Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

Internal Audit Report   Confidential   Page 3 of 14

Appendices

Appendix I: Detailed Findings and Recommendations

Observations	Assessed Priority Rating = Moderate	Agreed Recommendation	Management Comment
1. Strategic Procurement improvements			
Observation The current overall procurement strategy was created in 2010 and needs to be refreshed. The strategy should be developed on a holistic basis to ensure it aligns with overall Council strategy. The lack of strategic procurement direction at an "all of Council" level means that some larger groups have undertaken their own analysis and obtain external advice on procurement strategy. Strategic procurement should also be applied at an individual procurement level in terms of a greater focus on upfront planning and communication with suppliers (refer to appendix IV). **Risk / Implication** Without an "all of Council" procurement strategy Council risks groups undertaking procurements that are not aligned to Council's strategy and value for money may not be achieved.	1.1 Refresh the "all of Council" procurement strategy and ensure that it is regularly updated 1.2 Consider having yearly procurement strategies in place for each major purchasing group	**Action owner:** Procurement Manager **Completion Date:** July 2018 **Comment:** The Procurement strategy was completed in 2011 and updated in 2014 for NZTA funded aspects of the strategy. The proposed scope is wider than previously covered by the HCC Procurement Strategy. The strategy will be reviewed during the next financial year.

Internal Audit Report   Confidential   Page 5 of 14

Observations	Assessed Priority Rating = Low	Agreed Recommendation	Management Comment
2. Procurement policy and manual good practice improvements			
Observation When comparing the Council policy and manual to good practice, we noted a number of areas where improvements could be made to strengthen the Policy/Manual. These are included in appendix II. A procurement manual update was programmed for this year. **Risk / Implication** Council's policy and manual do not support good practice and increase the likelihood/impact of procurement risks effecting Council.		2.1 Council should update the Procurement Policy and Manual to align with good practice as part of the update programme. Suggestions are contained within appendix II.	**Action owner:** Procurement Manager **Completion Date:** February 2018 **Comment:** The Procurement Policy and Procedures Manual goes through a two yearly review cycle as well as mini reviews of any urgent updates on an as required basis. The major review is being undertaken this year and suggestions will be reviewed and incorporate where appropriate.

Internal Audit Report   Confidential   Page 6 of 14

Observations	Assessed Priority Rating = Low		Agreed Recommendation	Management Comment
3. Operational improvements				
Observation The use of a gateway mechanism to control the procurement process can potentially add an estimated 14 to 35 days onto the procurement process (based on 2-5 days to approve each gateway). This also is relative to the number of procurement advisors (2) and their workload. The gateway mechanism creates an impression that procurement are focussed on compliance, whereas a different approach could yield the same quality control and be more collaborative and more strategic focussed rather than compliance focussed. Our understanding is that the gateway process is a quality assurance methodology used in large State sector high risk projects and while it may be useful to ensure that inexperienced Council staff undertaking procurements are following the correct processes, for staff that are experienced it is seen as an administrative step. **Risk / Implication** The procurement process is inefficient for internal users and external tenderers due to the additional time added. The Council is not seen as a good commercial partner to tender with and tenderers may price this into their tenders.			3.1 Council should review the gateway system to see if it is the most efficient mechanism to control procurement risks. 3.2 Consider what types ($ and risk) of procurement should go through the gateway process. 3.3 Consider having more procurement advisors to work with the groups to guide them through the procurement process is a more appropriate procurement team model.	**Action owner:** Procurement Manager and Financial Controller **Completion Date:** March 2018 **Comment:** A review will be completed to test whether the gateway mechanism is fit for purpose. We will also review the Procurement Specialists and alignment with Groups. This includes looking at what resourcing levels are required to achieve this level of service.

Observations	Assessed Priority Rating = Moderate	Agreed Recommendation	Management Comment
4. Outdated procurement templates			
Observation The templates within the procurement manual don't necessarily align with the needs of the groups. This means that there is duplication of documents between group templates (self-developed) and Procurement templates. The Council manual is still using 3910:2003 which has been superseded by the latest version is 3910:2013 which is now the standard in the construction industry. **Risk / Implication** Centralised procurement templates require regular updates and may not meet the requirements of all users, resulting in inefficiencies, duplication and variations in practice. Outdated contract templates (e.g. 3910) may increase the risk to Council.		**4.1** If the Council wants to continue to use fixed templates, then they should be updated regularly (6 monthly) and incorporate feedback from the users or procurement could approve certain groups templates to be used in addition to the standard templates. **4.2** Update the 3910 contract documentation to the 2013 version, once appropriate training has been undertaken.	**Action owner:** Procurement Manager **Completion Date:** December 2017 **Comment:** The Procurement Policy and Procedures Manual and templates goes through a two yearly review cycle as well as mini reviews of any urgent updates on an as required basis. A major review is being undertaken this year and this includes a review of all NZS3910 standard templates with a view to moving to the current standard. The current NZS3910 standard does not hold significant changes from the modified NZS3910 standard Council currently uses.

| Observations	Assessed Priority Rating = Low	Agreed Recommendation	Management Comment
5. Professional Services Panel (PSP) improvements			
Observation While groups thought the PSP are a useful procurement option. They raised a number of limitations with how they operate that caused them concerns that: • the administrative process that users go through to appoint a panel member to perform work is inefficient for lower value work. • it is hard to ascertain value for money and price tension, especially for large scale works • it drives direct appointments. **Risk / Implication** PSP risks being bypassed if not efficient and Council may not be obtaining the best value for money.		**5.1** Implement staff awareness and training on how best to use the Professional Services Panels and simplify the paperwork **5.2** Make it clear that there is the ability to request multiple panel members to quote for works above a certain value.	**Action owner:** Procurement Manager **Completion Date:** July 2018 **Comment:** The current PSP process allows for offers of service from one or multiple consultants. We are currently developing a staff training package on PSP process and this will be reemphasised during it. A review is also being undertaken on streamlining aspects of the PSP process.

Appendix II: Procurement policy and Manual improvements

| Observations	Management Comments and Agreed Actions
The following improvements are recommended to align the procurement policy and manual with good practice: • More emphasis should be made on the need for proper planning to drive a more strategic approach (Section 7) • Guidance added on any obligations to consult with community/stakeholders (significance and engagement policy) • S17A reviews need to be referred to as requirement to consider because one of the S17A triggers is within 2 years of contract expiry • Reference the Fraud Policy (section 2) • The Council's risk framework should be referred to for further guidance around risk assessments (7.3.2.1) • Guidance on syndicated procurement needs to cover off risks (4.5.10) • Expand guidance on planning for the procurement to be more strategic focussed(section 7) • Guidance on cancelling a tender process (9.4) • Include an overall description of what should be included in an evaluation plan rather than a whole series of prescriptive procedures (10.3) • That individual assessment information is destroyed from the evaluation process (10.3). • Guidance on participant presentations (10.3) • Guidance on asking for clarifications should be expanded (10.3.1.2) • Guidance on debriefings for unsuccessful tenderers (10.4.4)	**Action owner:** Procurement Manager **Completion Date:** February 2018 **Comment:** The Procurement Policy and Procedures Manual goes through a two yearly review cycle as well as mini reviews of any urgent updates on an as required basis. A major review is being undertaken this year and suggestions will be reviewed and incorporate where appropriate.

Appendix III: Procurement approaches

The following diagrams have been sourced from "A guide to mastering procurement" published by NZ government.

Traditional approach to procurement
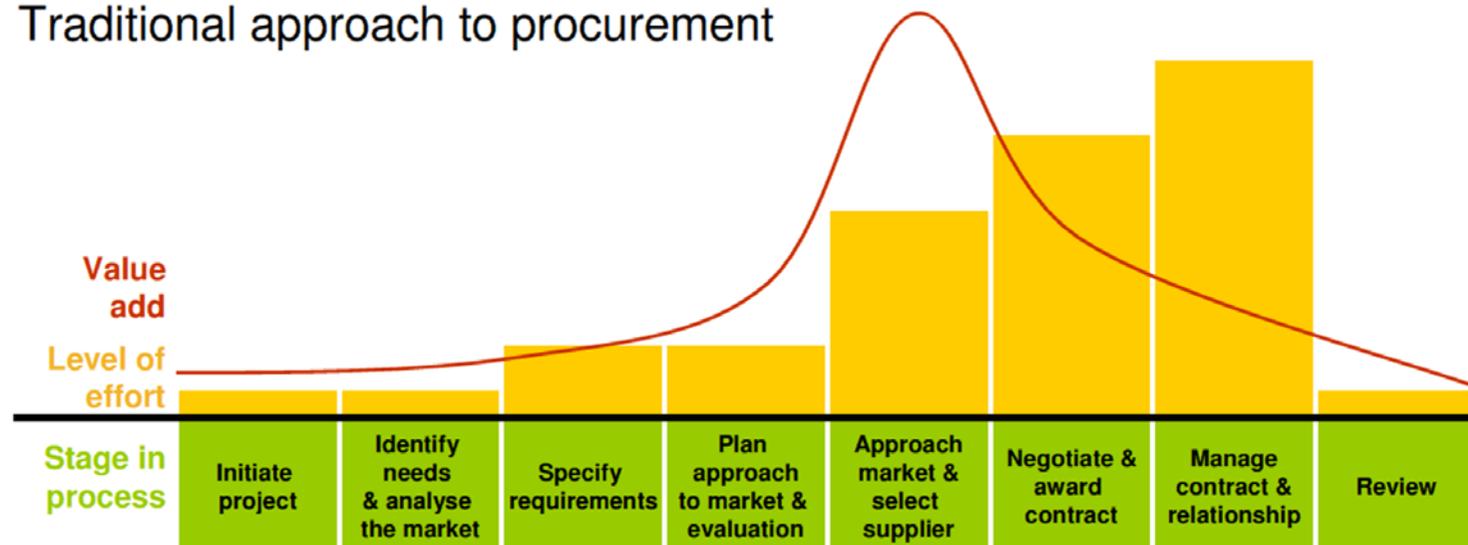
The traditional approach is administrative and focusses on approaching the market, with minimal planning time. Reduced planning time means that more time is spent on sourcing the supplier and managing the contract. Minimal review time leads to more of the same during the next procurement process, with little analysis of opportunities for cost savings or other benefits.

Internal Audit Report   Confidential   Page 11 of 14

Strategic approach to procurement
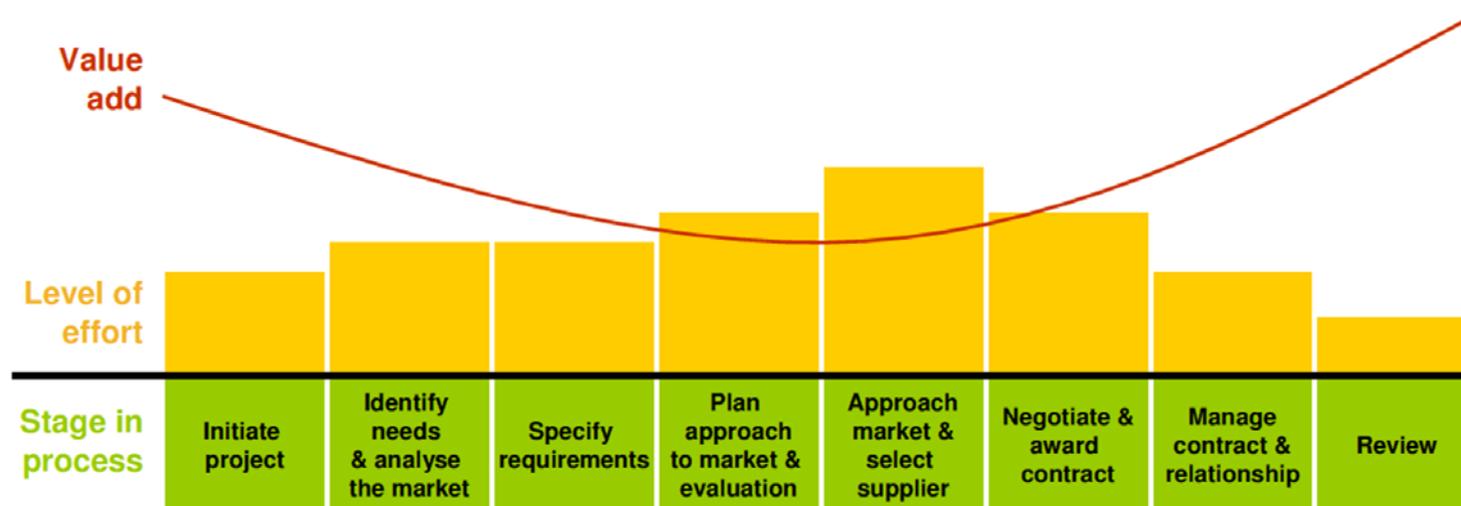
A strategic approach delivers greater value to the procuring organisation. Time taken in the planning stages drive significant value in identifying a procurement approach that will meet the needs. Likewise, a focus on relationship management and review leads to quality in delivery and the identification of cost savings and benefit gains.

Internal Audit Report   Confidential   Page 12 of 14

Appendix IV: Risk assessment framework

Impact

Level	Description
High	A significant weakness which could compromise Management's internal control.
Moderate	An issue which can undermine Management's internal control and should be addressed but with a lower priority than High.
Low	A weakness which does not seriously detract from the system of internal control but which should nevertheless be considered by Management.

Likelihood

Level	Description
High	Risk is likely or almost certain to happen (66-100%)
Moderate	Risk is possible to happen (36- 65%)
Low	Risk is unlikely or rarely will happen (0-35%)

Risk Matrix

Priority Rating

Level	Risk	Consequences of Risk Ratings
H	High	Requires immediate attention
M	Moderate	Requires attention/action underway within 3 months
L	Low	Requires attention/action underway within 6 months

Hamilton City Council Unusual Transaction Analysis Internal Audit Report

25 August 2017

pwc

Executive Summary

Introduction

This executive summary reports the findings from our Unusual Transaction Analysis performed in accordance with our Terms of Reference dated 20 March 2017. It should be noted that a review of this nature is not guaranteed to find all unusual transactions or fraud. However, we regard UTA as an important tool in any fraud risk management programme.

Objective and scope

1. Accounts Payable, Payroll, Employee/Contractor inconsistencies

Our objective is to perform a targeted analysis of your financial management and payroll system data to identify any unusual or suspicious financial transactions that warrant further investigation.

The key application systems from which data was extracted include:

- Financial management systems (Dynamics AX)
- Procurement (Dynamics)
- Expenses (P-card (flexi-purchase))
- Payroll system (PS Enterprise)
- Access control users (Cardex)
- Active Directory users (Windows network)

Key data types that were analysed include:

- Master files (e.g. vendors, employees, contractors, system users)
- Transaction details (e.g. payments, invoices, journals)
- Audit trail details (e.g. changes made, by who, when)

The period covered was 1 July 2016 to 28 February 2017.

2. Business Intelligence Maturity Scan Light

We undertook the Business Intelligence (BI) Maturity Scan questionnaire with you. Five staff members completed the questionnaire. The results were summarised and presented to Management. This BI Maturity scan light will assist you in prioritising the efforts in the BI space.

3. Journal Analysis

We performed some basic tests around manual journals, more from an efficiency perspective than from an unusual transaction perspective.

4. Purchase Order and Vendor Analysis

As a result of the recent incident at Auckland Transport you asked us what the risk is that Hamilton City Council could have a similar incident. One of the responses to this was performing a targeted test set focused on purchase order and vendor analysis. Note that the incident at Auckland Transport was actually not a fraud, but a bribery, so only trend analysis has the potential to identify this type of crime.

Limitations

The scope of our work does not include the follow-up of exceptions identified by our analysis. Council staff will perform the follow-up of exceptions to check for their appropriateness

A list of the specific tests undertaken are included in appendix II.

Internal Audit Report   Confidential   Page 2 of 12

Key messages

The work undertaken is to identify potential anomalies that then require further detailed analysis to verify whether the items identified are valid or require further management attention.

1. Accounts Payable, Payroll, Employee/Contractor inconsistencies

The population included in our analysis included 6,657 creditors (3,566 were active) and 1,193 active employees. There were 2,117 access control cards and 2,111 users on Active Directory.

A number of data quality exceptions were identified in the creditor masterfile that has resulted in the masterfile being updated to ensure completeness and accuracy of data. All of the potential anomalies identified from our analysis are being followed up by management.

Payroll potential anomalies identified have all been verified and explained.

There were a large number of differences between the respective masterfiles covering human resources, information technology (Active Directory) and access control. These differences mainly relate to the fact that there are many more users of the other systems than just employees. This is to be expected as these systems are not only used by employees. The output identified that these masterfiles were in need of updating and the organisation has a project underway to update the Active Directory and Access control masterfiles.

2. Business Intelligence Maturity Scan Light

There is a need for investment to advance better organisational use of data through business intelligence and analytics. Management have recognised this and are working on a roadmap and business case to support the development of this area. As part of our work we have shared next steps with management to progress with achieving this.

Our questionnaire covered six areas of business intelligence (Reporting, Information Access, Quality, People, Process and Organisation) and was completed by four Council departments (Data Services, Growth Funding and Analysis, Finance and Strategy).

Analysis of the results is shown as the gap between the users' assessment of current state and their target state, shown graphically in appendix I.

The largest gap was identified in the reporting area, with users wanting better analysis/modelling techniques, greater reporting functionality and forward looking analytics.

Other areas identified the need for greater information accessibility, better management of masterdata and data quality, more resources to enable better use of data and strategic business intelligence strategy and capability.

3. Journal Analysis

The journal analysis output confirmed that there are a large amount of manual journals with approximately 2,000 per month (15,507 for the eight month period) with a value of approximately $415,000,000 per month ($3,323,885,259 for the eight months). The people processing the journals were all those expected to be processing journals.

Finance are aware of the reason behind the volume of journals and are continuing to assess the need for journals so that they can be reduced. The cause for the volume of journals is mainly due to the non-integration of systems and includes depreciation, purchasing and receipting.

4. Purchase Order and Vendor Analysis

This work is still ongoing due to an initial misunderstanding of what data was required for analysis.

Internal Audit Report   Confidential   Page 3 of 12

Inherent limitations

An internal audit is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed are on a sample basis. Also, an internal audit does not provide all the evidence that would be required to form an audit opinion on the design or operating effectiveness of the controls subject to assessment.

Due to the inherent limitations of any internal control structure it is possible that fraud, error, or non-compliance with laws and regulations may occur and not be detected. Hamilton City Council's overall internal control structure, within which the control procedures that we have assessed operate, has not been audited and no opinion is expressed as to its effectiveness.

Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

Recommendations

As the output of scope items Accounts Payable, Payroll, Employee/Contractor inconsistencies and journal analysis require detailed management follow-up, only the recommendations included are in relation to the Business Intelligence Maturity scan.

Business Intelligence Maturity Scan Light

| Observations	Assessed Priority Rating = Low	Agreed Recommendations	Management Comments
1. Reporting			
Departments that completed the questionnaire were after the following features: • reports with drill-down and filtering functionality • statistical analysis / modelling techniques capability • forward looking analytics based upon historical data		1.1 We recommend starting with organisation-wide areas (typically Finance & HR) to expose a wider audience to regular & visual reporting. This will encourage a shift from the current snap-shot style of reporting towards reporting that is more dynamic and insightful. As a first stage, we recommend focussing on only a small set of reports, which should be a common view of the data receivers. The requirements should be business driven and delivered against in a structured and repeatable fashion using resources from the Data Services Team and the business. Once successful this prototype can be expanded over time. 1.2 Implement regular reviews of the actual use of the individual reports (currently: around 1000) to ensure that old reports are identified and removed from the enterprise reporting platform.	HCC have identified the need to advance the organisation's BI and analytics capability to better support both repeatable enterprise reporting and advanced analytical modelling with the use of historical data. The Information Management Team in partnership with the Growth Team are currently defining the strategic case for investment. This will take the form of a full BI and Analytics Roadmap and an accompanying Business Case.

Observations	Assessed Priority Rating = Low	Agreed Recommendations	Management Comments
2. Information Access			
There is a lack of data accessibility across the organisation. A lack of process documentation causes data to be inaccessible by other departments, creating inefficiencies where the same data is collected by different departments to suit their needs.		2.1 Ensure that the availability of data is clearly documented and understood. This will improve accessibility to data so that data receivers can obtain their information in a modern and user friendly way, so that pre-defined information that combine different data sources can easily be made available as well.	The above exercise (1.) will address the areas of Information Architecture, Data Management and Technology within which the requirement for Data Accessibility will be clearly defined.

Observations	Assessed Priority Rating = Moderate	Agreed Recommendations	Management Comments
3. Quality and Process			
There is no programme across the organisation to ensure that masterdata and data quality are managed appropriately.		3.1 Introduce the role of data subject matter experts (SMEs) within the business, so that it is clear ownership of the data. The data SME will then drive the management of the data to ensure quality.	The above exercise (1.) will address the areas of Governance and Engagement within which the requirement for Data Quality and Process Ownership will be clearly defined.

Observations	Assessed Priority Rating = Low	Agreed Recommendations	Management Comments
4. People			
PwC notes that the practices of rewarding employees for providing valuable insights and empowerment by the business to challenge the current ways of working is only implemented in the growth area. This is lacking in other areas, particularly through the lack of resource available in the Finance department required to achieve this.		4.1 The data SME roles may in some cases be delivered by existing staff in conjunction with their existing roles; and that in other cases it may be necessary to provide a dedicated resource depending on the nature of the business unit and their specific need to improve the way they control, use and share their data.	The above exercise (1.) will address the areas of Delivery Model and Performance within which the requirement to build out the organisational capabilities (skills and resources) and identify the process for iterative development (DevOps) in support of data driven insights will be clearly defined.

Internal Audit Report   Confidential   Page 6 of 12

| Observations	Assessed Priority Rating = Moderate	Agreed Recommendations	Management Comments
5. Organisation			
The strategic vision is not aligned with the business's business intelligence capability.		**5.1** Introduce a mandated approach and programme of work that is aligned with HCC's strategic vision. The purpose of this will be to fund and drive the technology and business change required for HCC's future reporting, BI and analytics capability.	The BI and Analytics Roadmap and accompanying Business Case will clearly define the alignment of business BI capability and the strategic vision of the organisation. Subsequent activities will identify relevant KPIs for this program of work.

* Risk Category is shown in Appendix III.
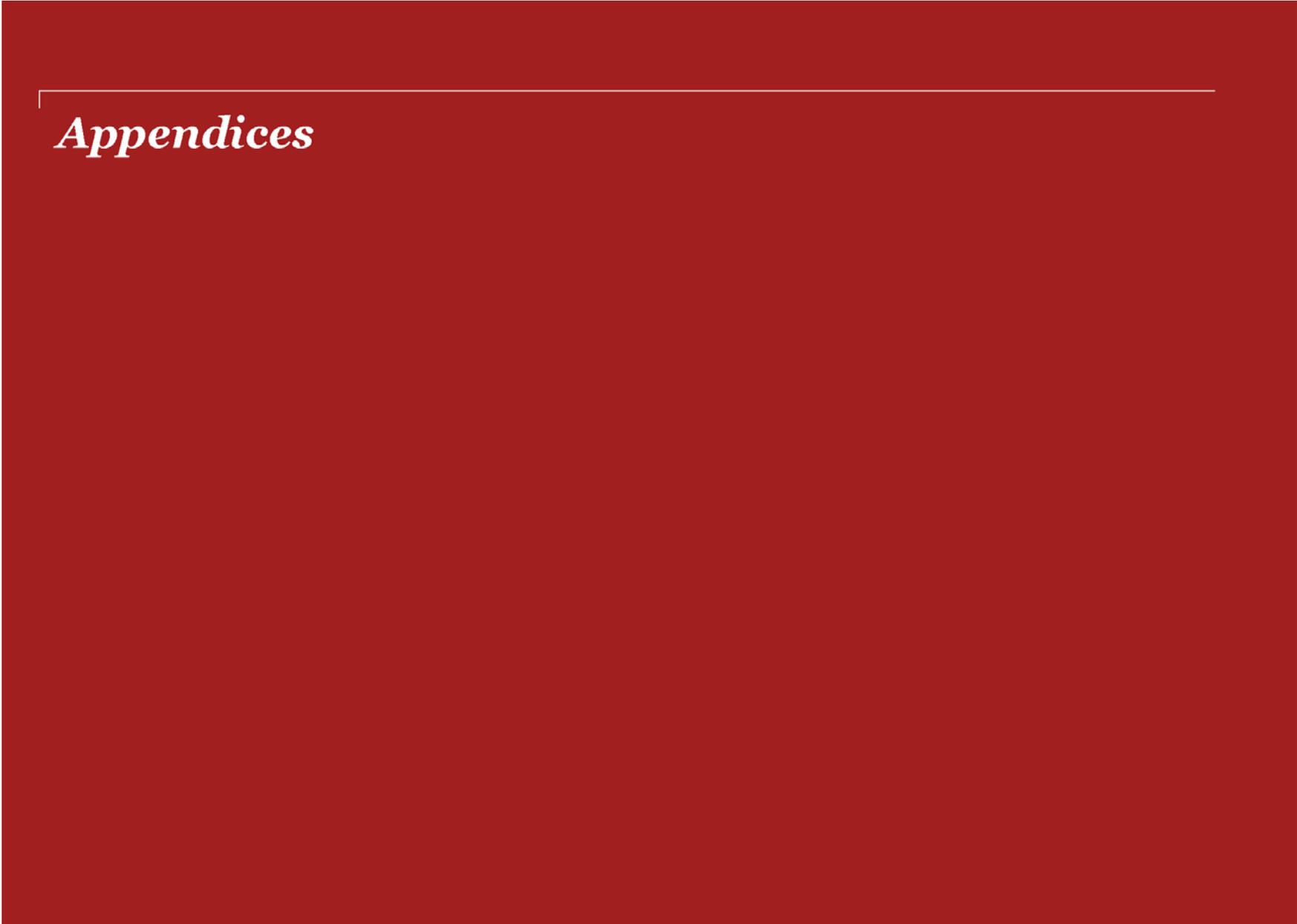
Appendices

Appendix I: BI Maturity Scan Results

The charts below show the current maturity level, the targeted level as rated by each department. PwC then analyses the gap between current maturity level and the targeted level.
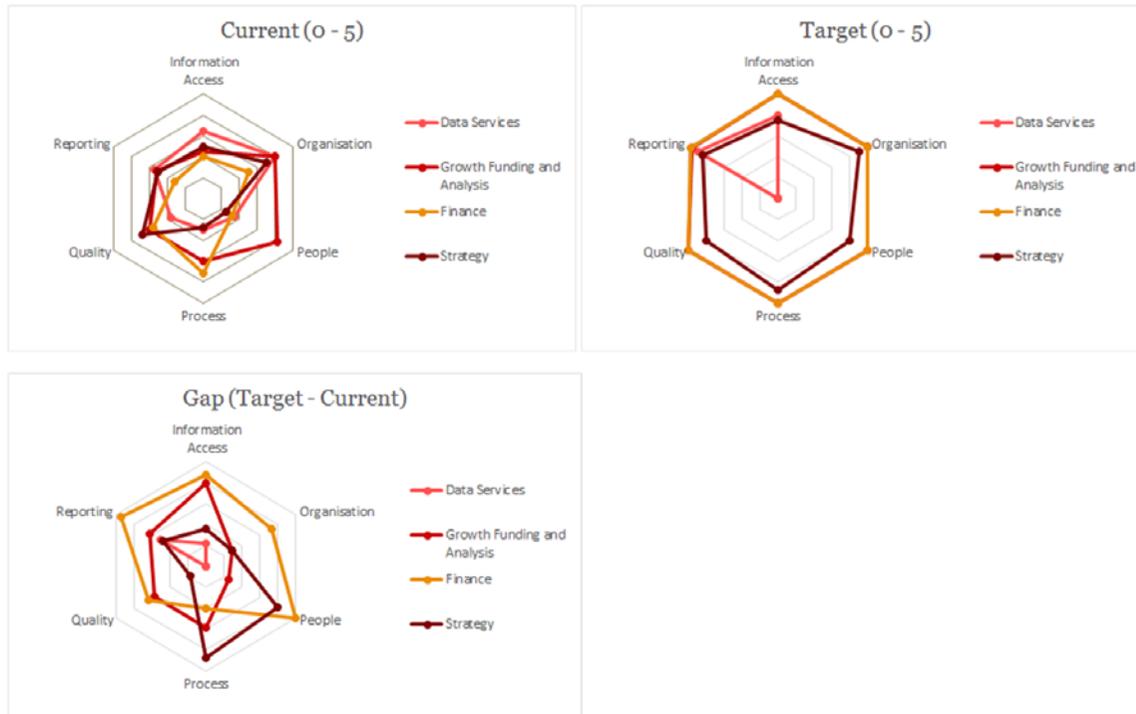
Note: The reason that for Data Service only 3 areas are shown is that the 2 other areas have not been scored.

Appendix II: Test List

The tests seek to identify patterns in the data that should not occur, based on controls and business rules.

Test description (from Scope)
1a) Accounts Payable: 1. Dormant Creditors 2. Creditors without contact details 3. Companies Office – Creditors with non-registered status 4. Creditors Sharing Details 5. Creditors with invalid GST numbers 6. Creditors with multiple bank account changes 7. Creditors sharing employee details (name, address, phone number, bank account(s)) Note: All employees are set up as a creditor as well, so focus should be on creditors that are not flagged as employee 8. Companies Office – Creditors who have an employee as a Director 9. Companies Office – Creditors who have an employee as a Shareholder 10. Duplicate invoices (simple & advanced) 11. Retrospective purchase orders Note: Including number & percentage of retrospective purchase orders for easiness of follow up.
1b) Payroll: 1. Employees with an invalid IRD number 2. Duplicate employees Note: As this happens, focus is on the variety of total individual payments over the months 3. Outliers by grade of the expense claims Note: Including P-cards 4. Payments to leavers
1c) Employee / contractor inconsistencies: 1. Inconsistencies in names between HR (PS Enterprise), Finance (Dynamics AX), Facility Management (Dynamics AX) & IT user accounts (Active Directory)
3) (Manual) Journal Analysis: 1. Rounded amounts 2. Amounts by user 3. In- and output by account
4) Purchase Order and Vendor Analysis 1. Time between creation & approval with users involved (ordered from small to large) 2. Number of purchase order extensions (and the $ amount) by vendor (ordered from large to small) 3. Rapid growth of a vendor over the last 3 years (ordered from large to small) 4. Number of different approvers by vendor (ordered from small to large)

Appendix III: Risk Assessment Framework

Impact

Level	Description
High	A significant weakness which could compromise Management's internal control.
Moderate	An issue which can undermine Management's internal control and should be addressed but with a lower priority than High.
Low	A weakness which does not seriously detract from the system of internal control but which should nevertheless be considered by Management.

Likelihood

Level	Description
High	Risk is likely or almost certain to happen (66-100%)
Moderate	Risk is possible to happen (36- 65%)
Low	Risk is unlikely or rarely will happen (0-35%)

Risk Matrix

Likelihood		Impact		
	High	Moderate	High	High
	Moderate	Low	Moderate	High
	Low	Low	Low	Moderate
		Low	Moderate	High

Risk Category

Level	Risk	Consequences of Risk Ratings
H	High	Requires immediate attention
M	Moderate	Requires attention/action undertaken within 3 months
L	Low	Requires attention/action undertaken within 6 months

Internal Audit Report   Confidential Page   11 of 12

Appendix IV: Important Notice

- This report has been prepared solely for the purposes stated herein and should not be relied upon for any other purpose.

- To the fullest extent permitted by law, PwC accepts no duty of care to any third party in connection with the provision of this Report and/or any related information or explanation (together, the "Information"). Accordingly, regardless of the form of action, whether in contract, tort (including without limitation, negligence) or otherwise, and to the extent permitted by applicable law, PwC accepts no liability of any kind to any third party and disclaims all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information.

- We have not independently verified the accuracy of information provided to us, and have not conducted any form of audit in respect of the Service Providers. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

- The statements expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.

- We reserve the right, but will be under no obligation, to review or amend our report, if any additional information, which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

- This report is issued pursuant to the terms and conditions set out in our engagement letter and the Terms of Business attached thereto

Council Report

Committee: Audit & Risk Committee	**Date:** 05 September 2017
Author: Tracey Musty	**Authoriser:** David Bryant
Position: Financial Controller	**Position:** General Manager Corporate

Report Name: Draft Internal Audit Plan for the 2017/18 Year

Item 12

Report Status	*Open*

Purpose

1. To inform the Audit and Risk Committee on the draft Internal Audit Plan for the 2017/18 year.

Staff Recommendation

2. That the Audit and Risk Committee:

    a) receives the report; and

    b) approves the proposed development of the three year internal audit plan, the 2017/18 internal audit plan and the commencement of the next phase of internal audit work relating to cyber risk.

Discussion

3. Staff commenced an RFP for internal audit services for Council in March 2017. This process concluded in June 2017 and resulted with PwC being reappointed as Council's internal auditors effective 1 July 2017. This appointment is for a three year term with the ability for Council to extend for two further years (at yearly intervals).

4. A significant factor in the assessment of respondents was the ability to maintain a robust internal audit function whilst adding value to Council. The PwC proposal demonstrated how this could be achieved through the use of specialists in innovation forming part of the internal audit team and aligning internal audit with Council's strategy.

5. The first step identified is to bring Council's strategy to the forefront when setting the longer term internal audit plan. In addition it is appropriate to consider other inputs including the updated Material Risk register, existing lines of defence and Council's overarching risk appetite. This will be achieved by PwC leading a strategic planning workshop with SLT.

6. The outcome of this workshop will inform the direction of the three year audit plan. This will then be prioritised to establish the 2017/18 internal audit plan.

7. The draft three year internal audit plan will be brought to the December Audit and Risk Committee meeting for approval.

8. In the interim, Internal Audit activity will continue and be focussed on cyber risks and controls. This engagement will follow on from the Cyber Governance review, which has recently been completed, and test key controls and mitigations in place at an operational level.

Financial Considerations

9.   The total annual cost to complete this work is $150k which is funded through the 2017/18 Annual Plan.

Attachments

There are no attachments for this report.

Item 12

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. Audit and Risk Committee Unconfirmed Minutes - Public Excluded - 13 June 2017	) Good reason to withhold) information exists under) Section 7 Local Government) Official Information and) Meetings Act 1987)	Section 48(1)(a)

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 maintain legal professional privilege	Section 7 (2) (g)