

Notice of Meeting:

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

Date: Wednesday 18 March 2015
Time: 2.30pm
Meeting Room: Council Chambers
Venue: Municipal Building, Garden Place, Hamilton

Richard Briggs
Chief Executive

Audit & Risk Committee OPEN AGENDA

Membership

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

Quorum: Three Members (including one external appointee)

Meeting Frequency: Quarterly

Mary Birch
Democracy Team Leader

11 March 2015
Telephone: 07 838 6772
Mary.Birch@hcc.govt.nz
www.hamilton.govt.nz

Terms of Reference:

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

Special Notes:

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

Power to act:

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

Power to recommend:

This Committee may make recommendations:

- To Council.
- To the Chief Executive.

ITEM	TABLE OF CONTENTS	PAGE
1	Apologies	4
2	Confirmation of Agenda	4
3	Conflict of Interest	4
4	Public Forum	4
5	Minutes of the Audit and Risk Committee - Open - 5 December 2014	5
6	Recommended dates for reports to be presented to Audit and Risk Committee	16
7	Organisational Risk Report	18
8	Organisational Improvements Work Programme Status as at March 2015	28
9	Annual Report 2015-Planning update	42
10	Fitch Annual Rating Report	46
11	2015 Quarter 3 Update from PWC	60
12	Resolution to Exclude the Public	64

1 Apologies

2 Confirmation of Agenda

The Committee to confirm the agenda.

3 Declaration of Interest

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

4 Public Forum

Not required.

Committee: Audit & Risk Committee

Date: 18 March 2015

Report Name: Minutes of the Audit and Risk
Committee - Open - 5
December 2014

Author: Mary Birch

Status	<i>Open</i>
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Recommendation

That the Report be received.

1. Attachments

- Attachment 1 - Audit and Risk Committee - Open Minutes - 5 December 2014

Audit & Risk Committee

OPEN MINUTES

Minutes of a meeting of the Audit & Risk Committee held in Committee Room 1, 1st Floor,, Municipal Building, Garden Place, Hamilton on Friday 5 December 2014 at 11.00am.

PRESENT

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

In Attendance:	Chief Financial Officer, General Manager Performance, General Manager Organisational Development, Unit Manager - Accounting, Solutions Delivery Manager, Risk Manager, Waters Manager, Crisis Manager, Senior Strategic Policy Analyst, Strategic Policy Analyst, Financial Accountant, Treasury Accountant, Communication Unit Manager.
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Leon Pieterse (Audit NZ)
 Naude Kotze (Audit NZ)
 Andrew Holmes (PwC)
 Sharon Cresswell (PwC)
 Emma Jones (PwC)

Committee Advisors:	Mrs M Birch
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1. Apologies

Resolved: (Mr Connell/O'Leary)

That the apologies for lateness from Her Worship the Mayor Hardaker, who was engaged on Civic Duties, be received and accepted.

Audit & Risk Committee 5 DECEMBER 2014 - OPEN

2. Confirmation of Agenda

Resolved: (Cr Pascoe/Mr Steele)

The Committee to confirm the agenda.

3. Declarations of Interest

No members of the Council declared a Conflict of Interest.

4. Public Forum

Not required.

5. Minutes of the Audit and Risk Committee - Open - dated 17 September 2014

Resolved: (Mr Connell/CrO'Leary)

That the open minutes of the Audit & Risk Committee of 17 September 2014, be adopted as a true and correct record, noting that in paragraphs two and three of Item 10 "PwC" is to be replaced by "Audit NZ".

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

Resolved: (Cr Pascoe/Mr Steele)

That the report be received.

Audit & Risk Committee 5 DECEMBER 2014 - OPEN

7. Organisational Risk Report

The Risk Manager introduced this report. He updated Committee Members, highlighting points from his report and responding to questions concerning the following:

- **Risk and Audit Model** - Investigation work had been undertaken on the creation of a model to align with the Risk Management Framework with the Internal Audit recommendations. This would ensure that resources were allocated where required.
- **Business Continuity Management Project** – This was nearing completion, with only one item remaining outstanding.
- **Organisational Risks** - There had been a significant number of risks being closed and archived. All risks were reviewed by General Managers on a six weekly cycle.

Risk Management Policy

The Chair explained that there was an opportunity to make the scope of the policy more strategic and outward focussed. The Chair agreed to work with management and send Members a revised draft for their feedback.

Resolved: (Mr Connell/Cr Pascoe)

That:

- a) The report be received.
- b) The Audit and Risk Committee refer the Draft Council Risk Management Policy to management and the Chair for further review before consideration by the Strategy and Policy Committee in February 2015, noting that committee members will be provided an opportunity to contribute to this review.

Audit & Risk Committee 5 DECEMBER 2014 - OPEN

8. Organisational Improvements Work Programme Status as at November 2014

The Treasury Accountant introduced this report. The following points were highlighted:

- 34 new items had been added to the work programmes since the last Audit and Risk Committee Meeting.
- The new items related to the three reports that had been presented to the Committee on 17 September 2014, namely QEC Progress Report, Audit NZ 2014 interim Audit and PwC's Internal Audit Review on Bullying and Harassment.
- 213 items had been addressed and closed as at 5 December 2014.
- The Fraud Policy was currently with the Senior Leadership Team for signoff.

It was noted that the Project Management Review was still outstanding and that shortly, all the items contained in the Audit NZ 2011 management Letter would be cleared.

Staff were thanked for their excellent work in dealing with these points and clearing so many items.

Resolved: (Cr O'Leary/Mr Steele)

That the report be received.

Audit & Risk Committee 5 DECEMBER 2014 - OPEN

9. Insurance Report

The General Manager Performance and the Crisis Manager introduced Mr Sam Ketley of AON NZ. The report was taken as read, though the following aspects of the report were discussed:

- **Underground Infrastructure Insurance** – This was currently purchased up to 40% of the asset value, with the remaining 60% being covered by Central Government (with an overall sum insured limit of \$120,000,000).
- **Declared Emergencies** - If a Civil Defence Emergency was not declared or the assets were deemed non essential, the Government might not provide the 60% coverage.
- **Level of Claim** - The majority of the claims were likely to be at the lower level and consequently it was economically more effective to provide cover for these events than relying on the current assurance of 40% with no guarantee of additional funding from Central Government.
- **Christchurch** - Considerable lessons had been learned on potential losses from the Christchurch earthquakes.
- **Waikato Collective** - Working in a collective with other Waikato councils gave Hamilton City Council (HCC) advantages in its buying power.
- **Natural Risks** - Seismic activity was low for this region as there were no known major fault lines in the immediate vicinity of Hamilton.
- **Loss Estimates** - HCC and the other large Councils in the Waikato Corrective were working closely with AON and their specialist adviser Tonkin and Taylor to ensure that the loss estimates would be as accurate as possible.
- **Valuations** - Through the Local Authority Shared Services (LASS), councils were at the early stages of looking at both insurance and financial valuations in a more combined and collective manner.
- **Employment Liability** - Although HCC worked with a considerable number of volunteers, the majority of their injuries would be covered by ACC.

It was requested that the Insurance Costs Table, included at paragraph 24 of the report (Item 9 – Insurance Report Audit and Risk Committee Meeting of 5 December 2014) should be further developed and circulated to the Members, including a description of the cover, what the premium was and a comparative between this year and previous years.

Resolved: (Messrs Connell/Steele)

- a) That the report be received.
- b) Management will provide the Audit and Risk Committee Members with an annualized Schedule of Covers and Premiums.

Her Worship the Mayor Hardaker joined the meeting during the above Item (11.30am) and was present when the matter was voted on.

10. Hamilton City Council Fleet

The Chair explained that this report had been requested as a consequence of the alleged fraud in the Dunedin City Council Citifleet Department. The Committee wanted to have assurance that no similar fraudulent behaviour was possible in respect of HCC's vehicle fleet.

The General Manager Performance explained that the Committee could be reassured, noting the following:

- **Dunedin Fraud** - The alleged fraud in Dunedin had been uncovered as a result of the insurance schedules; staff in conjunction with AON undertook a regular audit of the fleet.
- **Management of Fleet** - The Management of the HCC fleet was with an external fleet provider, Cardlink System Ltd trading as Fleetsmart. Fleetsmart provided monthly management reports which included purchases, usage, sales, servicing and mileage.
- **Visibility of Process** - There had been many staff changes in this department, which had resulted in wider visibility of the process and fresh eyes on the systems; no issues had been raised.
- **Sales** - All vehicles were sold through Turners Auction and reported to Fleetsmart.
- **Value** - Although the management of the fleet was through an external provider, HCC received good value on the service as the contract had been negotiated through LASS.
- **Review** - In conjunction with Fleetsmart and HCC Risk and Emergency Management Team, a review of the management of HCC's fleet would be undertaken by the Property Unit in early 2015.

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

That the report be received.

Audit & Risk Committee 5 DECEMBER 2014 - OPEN

11. 10-Year Plan (LTP) Audit Arrangements Letter

The Chief Financial Officer welcomed Leon Pieterse and Naude Kotze of Audit NZ. He explained that as part of the Long Term Plan a requirement under the Local Government Act 2002 (“the Act”), was that the process had to be audited. This report provided the details of the audit proposals.

Mr Pieterse advised that the arrangements letter had been drafted in accordance with the new terms of the Act, which now required that, in addition to the final Long Term Plan, the Consultation Document also had to be audited. Confirmation was given that Audit NZ was confident that the audit would be delivered on time, despite the fact some of the details relating to fees and the timetable were still being finalised.

Resolved: (Mr Steele/Cr Pascoe)

That:

- a) The report be received.
- b) The Audit and Risk Committee recommends to Council that the Mayor and Chief Executive sign the Audit Proposal and Arrangements letter on Council’s behalf.
- c) The Chief Financial Officer negotiates the audit fee and timetable with Audit New Zealand.

12. 2014 Final Audit New Zealand Management Report

The Chief Financial Officer introduced the report and explained that the Audit Letter reflected input from management. The following points were discussed:

- **Public Benefit Entities Accounts Standards** – A change in the financial reporting for Public Benefit Entities was required. The Council Controlled Organisations (“CCOs”) did not all have the same standards of accounting; management was aware of the new standards required and that for some CCOs, staff may be required to provide additional assistance.
- **CCOs** – A review would be carried out to ensure that the organisations aligned with the purpose of local government. Management would undertake a review and report to the CCO Subcommittee.
- **Fraud and Corruption Policy** - The discrepancy relating to the PwC recommendations in respect of the Transparency Assessment of the Fraud and Corruption Policy was assumed to be as a result of some of the matters having been resolved. If this was not the case, the Chief Financial Officer would advise the Committee accordingly.

Both the Chair and Her Worship the Mayor Hardaker commented that staff had now actioned almost everything; the organisation had moved from compliance to a systems based approach.

Resolved: (Messrs Connell/Steele)

That the report be received.

13. Audit NZ Quality Audit on the IS Programme of Work

The General Manager Organisational Development and the Solutions Delivery Manager introduced the report. The Committee noted that:

- The majority of the majority of the IT programme of work had been carried out.
- The next step was increasing maturity and focussing on continuous improvement.
- Prior to this audit, there was no visibility from Governance. A high level of comfort was derived from the fact that the auditors were independent and had expert knowledge of the technical aspects.

The Committee congratulated the team on the implementation and winning an award at the Association of Local Government Information Management (ALGIM) awards.

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

That the report be received.

14. 2015 Quarter 2 Update from PwC

The Chair welcomed Andrew Holmes, Sharon Cresswell and Emma Jones from PwC. The PwC updated the Committee on the 2015 Quarter 2 Internal Audit Programme:

- Project 2 - Municipal Building Accounts Receivable was largely completed and nothing critical had been noted.
- Project 1 - Governance Reporting – The terms of Reference were currently being finalised. Input from Her Worship the Mayor Hardaker and Councillors O'Leary and Pascoe would be sought.
- Project 3 - Follow up on Prior Internal Audit Recommendations regarding which to target; this would be agreed with management and the fieldwork planned accordingly. It was confirmed that the full processes needed to be carried out, though the scoping was would be protracted.

Resolved: (Mr Connell/Cr O'Leary)

That the report be received

Audit & Risk Committee 5 DECEMBER 2014 - OPEN

15. Audit and Risk Committee Self Review 2014

The Chair introduced the Item. He tabled a checklist for audit committees that had been prepared by PwC internationally. The Chair had conducted interviews with each member of the Committee and the Chief Executive, during which their feedback was sought; the checklist, the performance of the Committee as a whole, the contribution of the individual being interviewed, the performance of the Chairman and any recommendations for improvement were reviewed.

The Chair explained that there were no issues with the processes; that fundamentally the Committee was on target. However, he noted that there had been no induction programme for new members of the Committee. For this he took responsibility and apologised.

Resolved: (Messrs Connell/Steele)

That the report be received.

16. Resolution to Exclude the Public

Resolved: (Mr Connell/Cr Pascoe)

Section 48, Local Government Official Information and Meetings Act 1987

The following motion is submitted for consideration:

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

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

General subject of each matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
C1. Minutes of the Audit and Risk Committee Meeting - Closed - 17 September 2014) Good reason to withhold) information exists under) Section 7 Local Government	Section 48(1)(a)
C2. PwC - Internal Audit Status Report) Official Information and) Meetings Act 1987)	

Audit & Risk Committee 5 DECEMBER 2014 - OPEN

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 protect the privacy of natural persons	Section 7 (2) (a)
Item C2.	to enable Council to carry out commercial activities without disadvantage	Section 7 (2) (h)

The Meeting moved into Public Excluded session (12.20pm to 1.20pm)

The Meeting was declared closed at 1.20pm

Committee: Audit & Risk Committee

Date: 18 March 2015

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

Author: Kay Lindsay

Status	<i>Open</i>
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Recommendation

That the Report be received.

1. Attachments

2. Attachment 1 - Recommended dates for reports to be presented to Audit and Risk Committee 2015

3. Purpose of the report

4. This Report provides detail of recommended dates of reports to the Audit and Risk Committee for 2015.

Signatory

Authoriser	Paul Conder, Chief Financial Officer
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Audit and Risk Committee Reports - 2015

D-1358919

		Audit and Risk Committee Meetings				Informal Audit and Risk Committee	Non-Audit and Risk Committee Meetings	
		18/03/15	17/06/15	16/09/15	03/12/15	Late August TBA	Council Workshop	Council
Presenters	Notes						?	?
Standard Reports								
Organisation Improvement Programme	Finance Group							
Risk and Opportunities Report	Finance Group							
Risk Management Report	Risk and Emergency Management Unit							
Weathertight Buildings Report	Building Unit							
Fitch Report	Finance Group							
Legal Review (Contingent Liabilities) - Public Excluded	Tompkins Wake							
Audit and Risk Committee Self Review	Chairperson							
Annual Report Related								
Annual Report Planning Update	Finance Group							
Review of Assumptions, Impairment test of assets and investments in Associates	Finance Group							
Review of Draft Financial Statements	Finance Group							
Annual Report (recommendation to Council)	Finance Group							
Internal Audit (PricewaterhouseCoopers)								
Draft Internal Audit Plan	PWC							
Internal Audit Update	PWC							
Internal Audit - Reports	PWC							
Risk Workshop	PWC							
External Audit (Audit New Zealand)								
IS Assurance Report		as required						
Audit Engagements Letter/Audit Arrangements Letter	Audit NZ							
Interim Management Report	Audit NZ							
Final Management Report	Audit NZ							
Clearance to Audit and Risk Committee	Audit NZ							
Issue of Audit Opinion	Audit NZ							

Committee: Audit & Risk Committee

Date: 18 March 2015

Report Name: Organisational Risk Report

Author: Barnaby Pace

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

1. Purpose of the Report

- This report is to update progress on embedding the risk management culture and processes into the organisation and report on identified risks using the Organisational Risk Register (ORR) framework.

3. Executive Summary

- The annual risk management maturity assessment shows significant gains with an increase from Level 2 (Initial) to Level 3 (Repeatable).
- The Business Continuity Management Framework has undergone an internal PWC audit.
- Alignment has been made between the internal Quality Management System and the Risk Management Framework as a further step to fully integrating risk management into the organisational processes and procedures .

7. Recommendation from Management

That the Report be received.

8. Attachments

- Attachment 1 - ORR Top Ten March 2015
- Attachment 2 - ORR Other March 2015
- Attachment 3 - Risk management maturity assessment 2014

12. Organisational Risks Update

- There has been little movement in risk scores across the top ten risks over the past reporting period. Risk #46 'As a result of workforce capacity, the current work programme, or any new work programmes, may not be delivered' has moved up from

a 'high' residual risk score to 'very high', resulting from the reassessment of the risk against the current employment market.

14. Emerging Risks

15. Emerging risks are identified by the Risk Manager through information provided from the Unit Risk Registers as well as events and changes to legislation which indicates a potential risk to HCC.
16. The emerging risks are reported to the Risk Forum by the Risk Manager for evaluation and an initial risk rating may be made for reporting purposes, but this may be subject to change when knowledge gaps are filled and the full potential of the risk is realized.
17. Once enough detail behind emerging is known, they will be-evaluated by the Risk Forum for escalation to the Organisational Risk Register (ORR) or assigned to Unit Risk Registers as appropriate.
18. The identified emerging themes and key risks that are currently being reviewed are:
 - A Supreme Court decision that concludes that there is a duty of care owed by councils to make sure that building comply with the building code. That duty is owed not only to residential landowners but also to commercial landowners. The court has decided that the cost of fixing up buildings that do not comply with the building code is a cost that should be spread across the community rather than be borne by a single building owner. HCC has received its first claim form a Hamilton School. Further investigation is being undertaken as to whether this risk is included in leaky building risk (#34) or be presented as a separate risk due to potential differing rating.
 - Due to extended dry weather water demand is high. An emerging risk has been identified through a business case presented to the Finance Committee regarding an interim solution for water extraction capability to meet the demands of the community. This emerging risk is linked to Organisation Risk (#8) regarding low river water intake.

19. Risk Management Maturity Assessment

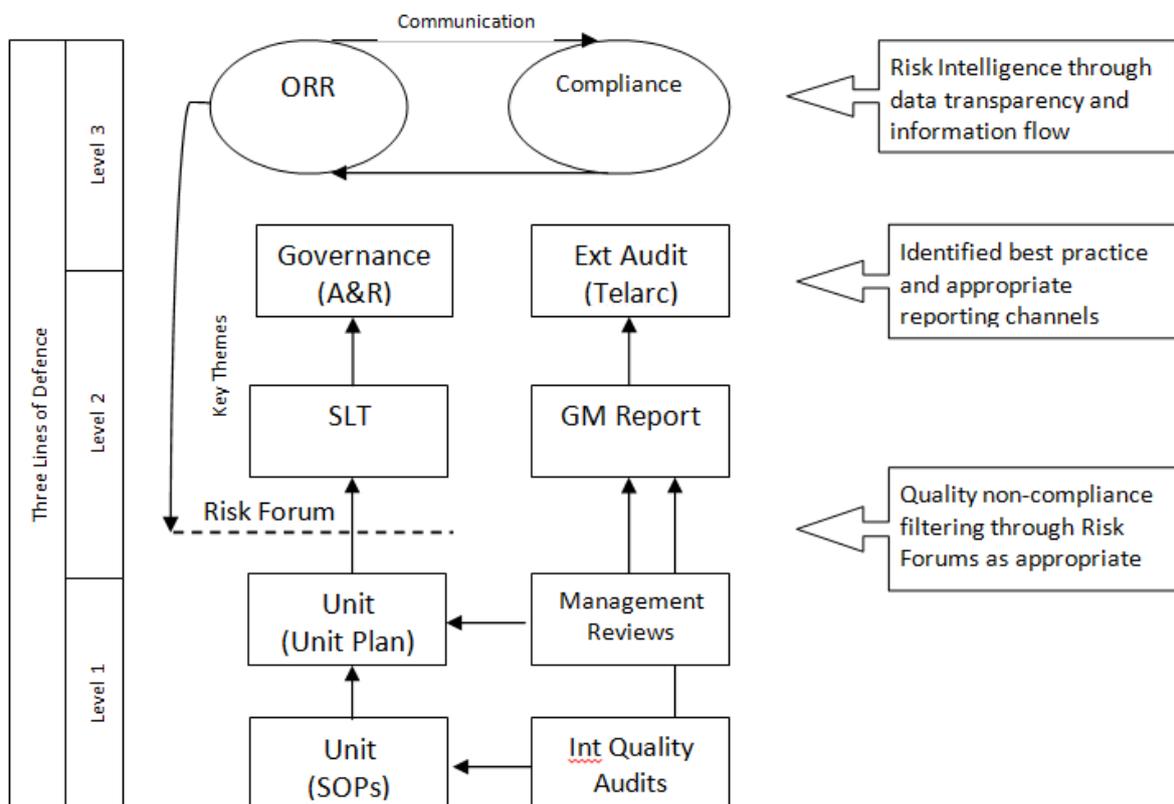
20. Hamilton City Council's (HCC) Risk Management Framework has undergone its second annual Maturity Self-Assessment. HCC uses the PWC Risk Management Maturity Self-Assessment Model to ensure consistency with internal audits.
21. Scoring is conducted across five levels of maturity (Ad Hoc, Initial, Repeatable, Managed, and Excellence) against eight fields (Framework, Commitment, Ownership, Processes, Communication and Training, Measurement, HR Support, and Oversight). Scoring was conducted using a qualitative analysis across a three point rating scale (Yes, No, Partly).
22. On completion, some results venture in the level 4 category, but the distinction is that HCC's overall risk maturity level has been identified as 'Repeatable' or Level 3. PWC have defined Level 3 as "a proactive approach driven by practical guidance and integrated measures".
23. This result shows a level increase on the previous years Risk Management Maturity Level, from Level 2 (Initial) to Level 3 (Repeatable) with good progress being made towards Level 4. (Attachment 3).

24. Alignment of Internal Quality System to the Risk Management Framework

25. Alignment as been made between the HCC Quality Management System and the Risk Management Framework as a further step to move HCC towards full integration of risk management in to internal processes and procedures.
26. This further builds on the alignment of the Project Management and Health and Safety frameworks to the Risk Management Framework and the three lines of defence model.
27. The Three lines of defence model is a best practice framework that is a tool for the measurement of assurance against three predetermined levels. Level One is management

oversight (KPI's and Policies), Level Two is external expertise (Consultants and external peer review), and Level Three which is audit. Processes and procedures are measured against this criterion to determine levels of assurance / robustness.

Figure 1. Quality Systems and Risk Management Framework Integration Model



28. Council Risk Management Policy

29. Following the previous Audit and Risk Committee meeting (November 2014), the revised Draft Council Risk Management Policy was presented to the Strategy and Policy Committee. The Policy has now been adopted and the outstanding audit recommendation relating to the policy’s revision has been signaled for sign off.

30. Business Continuity Management Update

- 31. PWC has recently undertaken an audit of the Business Continuity Management Framework.
- 32. The draft audit report has identified four recommendations for improvement.
 - No formal mechanism exists to identify potential gaps and interdependences across the individual organisational units BCP plans. (Medium Risk)
 - An enterprise BCP Maturity Framework has not yet been implemented. (Medium Risk)
 - General Mangers do not have formal BCP objectives/KPI’s. (Low Risk)
 - Formal training and documented BCP guidance have not yet been prepared. (Low Risk)
- 33. Management supports the recommendations and will put in place initiatives to address these improvement suggestions.

34. Next Steps for Risk Management

- 35. Investigation has begun into the enhancement of the current Unit Risk register to incorporate automated risk calculation and report functionality.

Signatory

Authoriser	Blair Bowcott, General Manager Performance Group
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Appendix One

HCC Risk Management Report for Audit & Risk Committee		Hamilton City Council Te kaunihera o Kirikiriroa				
Top 10 Active Risks						
Risk ID	Risk Name	Initial Risk Rating	Existing Controls	Mitigation Strategy	Residual Risk Rating	Risk Owner
34	Due to the increase in 'leaky buildings' liability claims, the budget provision within the 10 Year Plan may be exceeded	Very High	<ul style="list-style-type: none"> Independent external Quantity Surveyor engaged to assess claim quantum. e.g. overall costs including damages (not named on the report as this document is made available to the media) Independent SME's engaged by HCC to assess potential liability to HCC (HCC target and engage building surveyors that are specialised in leaky buildings) Solicitors engaged by HCC to assess party's financial position as part of pre-judication settlement negotiations Claim monitoring and cost estimates (where possible) against 10-year plan budget Regular reporting to Council, F&M and A&R committees 	<ul style="list-style-type: none"> Proactive approach employed by early engagement with party's to facilitate dispute resolution (dependent on claim - large and complex disputes are handled by HCC engaged solicitors) Internal communication by formal report to Council, F&M and A&R committees and memo to GM City Environments and CFO Engagement of consultant to advise on building risk profile. (monitors building risk and provide information on statistics, costs and trends across other local authorities to construct a forecasting tool by which HCC can report and guide budget against). 	Very High	GM City Environments
46	As a result of workforce capacity, the current work programme, or any new work programmes, may not be delivered.	Very High	<ul style="list-style-type: none"> Business Case Process Opportunities & Risk Register Project Governance Group's (PGG's) Organisational Planning Organisational reporting Overarching PGGs - Work in Progress 	<ul style="list-style-type: none"> Wellbeing Project (to be developed) Development of SLT prioritising framework Project Governance Group's (PGG's) Leaders Briefs & Workshops Expanding business cases to include supporting unit/stakeholders sign-off Aligning business to outcomes/goals and organisational priorities Key mega process identification 	Very High	GM Organisational Development
18	As a result of commercially sensitive information being made available to external parties, HCC could expose itself to financial, reputational and legal risk as well as damage to stakeholder relationships	Very High	<ul style="list-style-type: none"> Compliance with The Privacy Act, LGOIMA and LGA Passwords protection on PC's Security systems processes and audits Availability and protocol for document disposal and shredding Confidentiality clause in public excluded meetings Verbal updates preferred in certain situations rather than circulating written material Code of Conduct 	<ul style="list-style-type: none"> external legal advice and taken on a case-by-case basis Continuing briefing of confidentiality and privacy issues to staff and elected members Staff Engagement Plan 	High	GM Customer Relationships
21	HCC's Business Continuity Plans may not be robust enough to ensure the continued provision of key council services following an unplanned event	Very High	<ul style="list-style-type: none"> Emergency response plans for high risk areas (e.g. City Waters and IS) are tested regularly and kept up to date 	<ul style="list-style-type: none"> Crisis Management team created with specific responsibility for BCP Business interruption insurance cover held by HCC 	High	GM Performance
22	As a result of CDEM training relying on scenarios only and the lack of exposure to real emergencies, HCC may be unable to deliver its CD and EM statutory obligations.	Very High	<ul style="list-style-type: none"> Significant increased resources invested in the Waikato Civil Defence Group 2014/15 Business plan HCC representation at all key Emergency Management meetings Regular reporting to Council on CDEM Initiatives Section 64 of the CDEM Act 2002 	<ul style="list-style-type: none"> Emergency Management stock take audit which identifies areas of focus and drivers 14/15 work plan The role out of a regional wide integrated training framework 35% increase in CDEM capability assessment (65%) 78% score in HCC EOC assessment 	High	GM Performance
24	The failure of wastewater infrastructure could lead to pollution of waterways and result in a public health impact and regulatory action	Very High	<ul style="list-style-type: none"> Development manual (technical specifications) guiding new build Online monitoring of system performance Active inspection and preventative maintenance Service delivery contract with City Delivery Water network model to determine investment decisions Renewals (pumps, pipes etc) Equipment Upgrades (eg pump station storage) Specialist Capital investment (Eg discharge lagoons, storm water containment) External Peer Review of Plant operations 	<ul style="list-style-type: none"> Emergency response management plan Dry weather overflow response manual 	High	GM City Infrastructure
40	Due to natural soil conditions, erosion and weather events unpredictable land movements and slips may occur	Very High	<ul style="list-style-type: none"> Additional signage and barriers in place to ensure public safety Pathway closure Regular monitoring in place by HCC and BBO (Engineering consultants) External Legal advice employed as required Information is available to the public via HCC website and article in July City News Media Relations Executive assigned to the Project Team Tree removal as necessary 	<ul style="list-style-type: none"> BBO undertaking bridge abutment investigations Tonkin and Taylor undertaking further soil testing to ascertain costs for remediation options Ongoing consultation with asset owners (Tainui, Vector and Kiwi Rail) Storm water investigations and remediation underway 	High	GM Community
1	Due to an unexpected sustained IT system outage, HCC may be unable to process transactions and return affect our service to customers	Very High	<ul style="list-style-type: none"> Redundancy in telecommunication networks ITIL Incident, Problem, Release & Change Management (including weekly Change Advisor Board, approvals/sessions) Regular meetings with internal & external stakeholders Regular & comprehensive scheduled audit programme looking at infrastructure security and process Executive Governance oversight and reporting to Council 	<ul style="list-style-type: none"> Organisational BCP – ongoing development Use of off-site data centre Data save & secure storage outside of the CBD 	Medium	GM Organisational Development
12	As a result of non-compliance to Health and Safety legislation serious injury or death may occur which could result in prosecution.	Very High	<ul style="list-style-type: none"> HCC Safety and Wellbeing Policy Safety and Wellbeing Code of Practice Injury Prevention and Management Hazard Management Training and Information Critical Risk Management 4 ly reports to SLT Near Hit Reporting Internal and External Auditing and Reviews Active Worker Participation Safety and Wellbeing Leadership Group Safety and Wellbeing Formal Meetings with Unions 	<ul style="list-style-type: none"> Victim and Staff Support Workplace and Family Support Communications Plan Internal/External Investigations Safety and Wellbeing Management System Reviewed and Updated 	Medium	GM Organisational Development
38	Because the Risk Management Framework has only been operational since May 2012, the process may not be robust or understood to adequately escalate risks and issues	Very High	<ul style="list-style-type: none"> Permanent, dedicated full time resource allocated to deploy risk management framework and embed within the organisation A risk section has been added to business plans to further identify risk at a unit level 6 weekly reporting to SLT and quarterly reporting to A&R Committee Internal/external audit review Risk now forms part of the key project report and Health and Safety Management 	<ul style="list-style-type: none"> Establishment of a Crisis Management team with a wide brief to understand our risk parameters and profile Risks identified at unit level are reported the 'risk forum' discussion group on a quarterly basis for consideration to add to organisational risk register Emerging risks are identified and reported by the Risk Manager PWC acknowledgement in October 2013 audit of a robust framework with recommendations of future enhancements 	Medium	GM Performance

Appendix Two

HCC Risk Management Summary Report - Other Risks as Information 				
Risk ID	Risk Name	Initial Risk Rating	Residual Risk Rating	Risk Owner
Organisation Wide				
13	As a result of skill shortages and competition, the ability to attract and retain specialist staff may occur, which would lead to an increase in organisational costs and decreased productivity and innovation.	High	Medium	GM Organisational Development
City Infrastructure				
08	As a result of low river levels for water intake, insufficient storage capacity or in the event of a natural disaster and/or sustained systems failure, it might lead to limited availability and quality of water	High	Medium	GM City Infrastructure
23	As a result of flooding, pollution, pump station overflows and increased discharges through city growth and 3rd parties, the storm water system system might not meet city requirements of quality and quantity under it's resource consent for discharge.	High	Medium	GM City Infrastructure
20	As a result of natural erosion and degradation of the river banks and bed and/or unforeseen damage to the bridges and their footings, it could lead to unexpected and sustained closures	Low	Low	GM - City Infrastructure
Community				
25	Due to potential increases in rates, lower development contributions and general financial instability, it could result in a potential impact on services and HCC may be unable to achieve the strategic goal of "People love living here"	High	Medium	GM Community
Finance				
06	An economic downturn impacts on Council's ability to deliver their financial strategy within LTP	High	Medium	CFO
42	Because invoices are raised by individual departments using the Velocity template, information may not be transferred to Authority which could result in unpaid debts	Medium	Medium	CFO
07	As a result of poor processes, HCC could result in a downgraded credit rating	Medium	Low	CFO
33	In the event of potentially inadequate controls, it could result in manipulation, loss or fraud to the organisation	Medium	Low	CFO
Organisational Development				
45	As a result of staff not reporting cases of bullying and harassment through the available channels and in a timely manner may create a culture of bullying and harassment.	High	Low	GM Organisational Development
Performance				
10	As a result of business cases and associated reports lacking rigor, this could lead to misinformed decision making and overspend	High	Medium	GM Performance
37	As a result of an inadequate legislative compliance process, HCC could fail to comply with reforms and changes signalled by Government	High	Medium	GM Performance
39	In the event of inadequate project governance/management, project and cost overruns may occur which could result in reputational damage	high	Medium	GM Performance

Risk Management Maturity Assessment – Executive Summary December 2014

Introduction

The Risk Management Maturity model gauges the current level of maturity the Council holds with its management of organisational risk. This is the second maturity assessment to be undertaken 19 months after the initial benchmark was taken.

Metrics

Hamilton City Council has opted to use the Price Waterhouse Cooper (PWC) model for measuring the maturity of the organisation's risk management framework. The measure covers five levels of maturity (ad hoc, Initial, Repeatable, Managed, and Excellence) across eight fields (Framework, Commitment, Ownership, Process, Communication and Training, Measurement, HR support, and Oversight). Scoring was conducted using a qualitative analysis across a three point rating scale (Yes, No, Partly).

The PWC risk management maturity model is deemed to be current best practice and aligns the maturity assessment process with that used by our internal auditors.

Maturity Levels

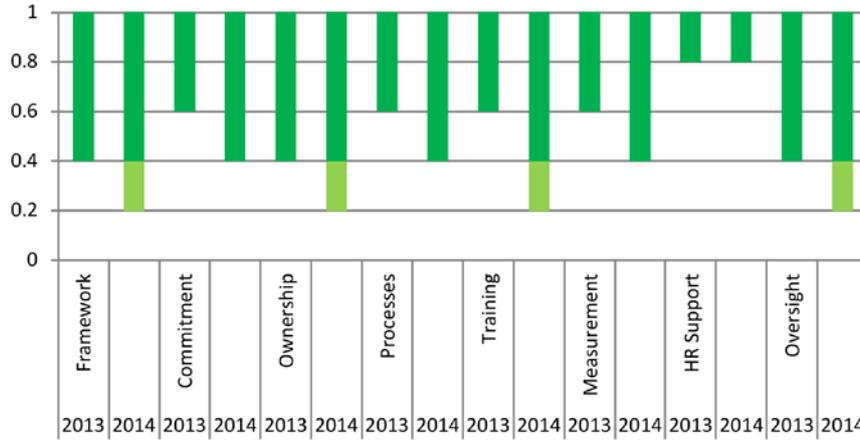
Level of Maturity	Framework	Commitment	Ownership	Processes	Training	Measurement	HR Support	Oversight
Ad Hoc	No structured approach	Risk management seen as unnecessary	No interest in using risk management	No tracking of risk management	No formal risk management training	No risk assessment performed	No HR support	No standard reporting
Initial	Policy/processes defined	Rule based approach	Partially defined roles	Risk management champion drives implementation	Risk management materials circulated	One-off requirements announced	New staff trained	Monitored by exception
Repeatable	Practical guidelines provided	Proactive approach	Clearly defined roles	Managers drive implementation	Coordinated training provided	Repeat measurements reported	Risk management integrate into all training	Business units monitor own risks
Managed	Managers confirm compliance	Risk management embedded	Centre of excellence model	Business units drive implementation	Business units drive tailored training	Risk measured consistently	Risk management ability impacts hire/promote decisions	Single view of risk across the organisation
Excellence	Risk management central to decision making	Risk management used for strategic advantage	Managers pursue risk unconsciously	Board and CEO drive risk agenda	Training focuses on best practice	Risk-adjusted performance measures used	Risk management seamlessly integrated in to HR	Business driven with key risk indicators

Key
Yes
Partly
No

Summary

In all cases, except HR support, HCC is operating at a Repeatable (level 3) maturity level, one level higher than the previous assessment (Initial, level 2), with identified progress on the areas of Framework, Ownership, Training and Oversight all of which are at level 4 (Managed). This places HCC's overall risk maturity level at Repeatable or level 3, with excellent progression being made into level 4.

The identified areas for growth from the initial maturity model, training and staff commitment to risk management have both progressed well.



Note: HR Support score is reflective of the current organisational framework and reference needs to be given to the score achieved within the Commitment and Training fields.

Recommendations and Actions for Further Improvement

- Increase staff awareness of the framework and its application.
- Continue to build the risk culture and its integration into business as usual.
- Develop a mechanism to ensure implementation and updating of risk treatment strategies.

Committee: Audit & Risk Committee **Date:** 18 March 2015
Report Name: Organisational Improvements Work Programme Status as at March 2015 **Author:** David Leong

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

1. Purpose of the Report

- This report provides an update on the status of Council's Organisational Improvements Work Programme as at March 2015, responding to recommendations made by Audit New Zealand (external audit), PWC (internal audit), QEC and Deloitte.

3. Executive Summary

- At the last Audit & Risk (A & R) Committee meeting on 5 December 2015 there were 27 items remaining open on the organisational improvements work programme.
- There have been 15 new items added to the organisational improvements work programme since the last A & R Committee meeting. These new items relate to the two reports presented at the previous A & R Committee meeting (Audit NZ 2014 Final Management Letter and Audit NZ Project Management Review on IS Programme of Work).
- Management has 'closed out' 19 items since the last A & R Committee meeting, which leaves a balance of 23 Items remaining open at March 2015. Most of the Issues in respect of PWC's transparency assessment and event management review have been addressed as result of SLT signing off the revised Fraud and Corruption Policy, and the implementation of the new event management system i.e. Ungerboeck.
- Overall, 91% or 231 items out of the total 254 items on the organisational improvements work programme have been addressed and closed as at 5 March 2015. The table in **note 15 below** provides a summary analysis of the organisation improvement work programme by report type.
- The expected timeframe for completing the remaining 23 items at 5 March 2015 is summarised in the table shown in **note 20 below**. It is expected that 16 of these items or 70% will be closed within the next six months to September 2015.
- Attachment 1** provides a more detailed commentary and status of the 42 items on the work programme.

10. Recommendation from Management

That the Report be received.

11. Attachments

12. Attachment 1 - Organisational Improvements Work Programme Detail March 2015

13. Key Issue

14. The table below provides a summary analysis of the Organisational Improvements Work Programme classified by report type since inception:

By Report	Number of items remaining open at Dec14	New items added since Dec14	Number of items closed Dec14 to Mar15	Number of items remaining open at Nov14	Number of items closed since inception to Mar15	Total Number of items raised	% of items addressed & closed at Mar15
Staff identified	0			0	-5	5	100%
Audit NZ LTP	0			0	-7	7	100%
Audit NZ V8 Report	0			0	-20	20	100%
Deloitte review	1			1	-13	14	93%
Audit NZ 2011 Management Letter	2			2	-35	37	95%
Ring Road Project Review (PWC)	1			1	-5	6	83%
Transparency Assessment (PWC)	5		-4	1	-7	8	88%
Health & Safety Review (PWC)	0			0	-6	6	100%
Event Management Review (PWC)	5		-3	2	-5	7	71%
QEC Audit Assessment	0			0	-39	39	100%
Business Case Review (PWC)	0			0	-10	10	100%
Assessment of Procurement & Contract Processes (PWC)	0			0	-3	3	100%
Assessment of Risk Management Framework (PWC)	0			0	-8	8	100%
Audit NZ 2013 Management Letter	3			3	-15	18	83%
Management Policy Framework (PWC)	2		-2	0	-3	3	100%
Development Contributions Processes & Controls (PWC)	2			2	-4	6	67%
Project Management Framework (PWC)	4			4	-4	8	50%
Workplace Bullying & Harassment (PWC)	0			0	-3	3	100%
Audit NZ Interim 2014	1			1	-5	6	83%
QEC Progress Review Report	1			1	-24	25	96%
Audit NZ 2014 Final Management Letter	0	11	-6	5	-6	11	55%
Audit NZ-Project Mgt Review on IS Programme of Work	0	4	-4	0	-4	4	100%
Total	27	15	-19	23	-231	254	91%

15. At the last Audit & Risk (A & R) Committee meeting on 5 December 2015, there were 27 items remaining open.

16. A total of 15 new items have been added to the work programme since the last A & R meeting. This relates to:
- 11 items from Audit NZ 2014 final management letter
 - 4 items from Audit NZ Project Management Review on IS Programme of work
17. A total of 19 items have been closed out since last A & R meeting. This includes the:
- 4 items of the transparency assessment (88% closed)
 - 3 items of the event management review (71% closed)
 - 2 items of the management policy review (100% closed)
 - 6 items of Audit NZ 2014 final audit management letter (55% closed)
 - 4 items of Audit NZ project management review on IS programme of work (100% closed)
18. At the time of writing this report, 23 items on the organisational improvement programme remain open.
19. The table below provides a summary of remaining open items at 5 March 2015 and the estimated completion dates:

By Report	Date report issued	Remaining open items at Mar15	Apr-15	May-15	Jun-15	Jul-15	Sep-15	Dec-15	Mar-16	Jun-16	2025
Deloitte review	28/02/12	1	1								
Audit NZ 2011 Management Letter	09/12/11	2	1							1	
Ring Road Project Review (PWC)	26/12/12	1	1								
Transparency Assessment (PWC)	23/11/13	1	1								
Event Management Review (PWC)	10/06/13	2						2			
Audit NZ 2013 Management Letter	13/11/13	3	1		1		1				
Development Contributions Processes & Controls (PWC)	03/03/14	2				2					
Project Management Framework (PWC)	20/05/14	4	1						3		
Audit NZ Interim 2014	09/09/14	1		1							
QEC Progress Review Report	04/09/14	1				1					
Audit NZ 2014 Final Management Letter	19/11/14	5	3		1						1
Total		23	9	1	2	3	1	2	3	1	1

20. Management expects to have 70% or 16 of 23 the remaining open items closed out over the next six months to September 2015
21. Refer to **Attachment 1** for a detailed commentary and the status of the 42 items on the work programme since the last A & R meeting.

Signatory

Authoriser	Paul Conder, Chief Financial Officer
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Key:	Comments:
 in progress or open at 6 March 2015	This schedule provides a status of open items or new items since the last Audit and Risk meeting on 5 Dec 2014 as at 6 Mar 2015
 closed since last Audit & Risk meeting on 5 Dec 2015	
 open or new item since last Audit & Risk meeting on 5 Dec 2015	

No.	Current Status	Issue	Source / Service Provider Comment	Source	Reference	Closure Comment (Comments highlighted in red were updated in Mar 2015) (Comments in black were made prior Dec 2014)	Owner	Date closed	Estimated completion date	Audit sign off of closure
Business Process Change - Financial:										
32		Key Financial Controls	Identify, based on recommendations from reports, the key financial controls that should be implemented or improved	Deloitte Review 28 Feb 12	Process & Documentation	The Finance Group has focused on driving for continuous improvement across all areas. The new finance system project (i.e. Microsoft AX) with the objective of driving improvements to processes and reporting went live on 1 July 2014. A new chart of accounts and standardised reports have been implemented. PWC has carried out review of internal controls of the new AX system- report as yet to be issued.	Chief Financial Officer	New Financial System Microsoft AX implemented 1 July 2014	Awaiting PWC report on internal controls April 2015	
43		Property, plant and equipment and intangible assets	Procedures for capturing and processing information are not adequate. Systems not integrated. Large number of adjusting entries between FA register and GL due to late capitalisation. Many issues with auditing Property, Plant & Equipment - lack of supporting documentation for additions, disposals and movements. As the Asset Accountant is the only person that has complete knowledge of processes, other resources and back up needs to be considered.	Audit NZ 2011 mgmt letter 9 Dec 11	5.2 9.1	A number of improvements are underway across fixed assets. These reviews include the asset management plan processes, the implementation of the new finance system (Microsoft AX), Hansen 8 asset system upgrade and fixed assets policy. The CFO has closely monitored the capitalisation of Work in Progress (WIP) and provided regular updates to SLT- this has had a major impact on reducing WIP levels at year end for 2013 & 2014. Microsoft AX Fixed Asset module successfully went live on 1 July 2014. Audit NZ did not raise any critical issues it respect to the 2013/14 audit.	Chief Financial Officer	Significant improvement of Capitalisation of WIP at June 2013 & 2014	On-going follow-up is required for WIP, Hansen 8 asset system upgrade project will continue for the next 2 years (June 2016)	
Business Process Change - Non-financial:										
56		Business Continuity Plan and IT Disaster Recovery Plan	Plan deferred since 2002.	Audit NZ 2011 mgmt letter 9 Dec 11	4	All plans within project scope have been created and the framework has been audited by PWC. The framework has been endorsed with 4 recommendations linked to ongoing maturity and future review of plans. The project will be formally closed off and reported to Management in March.	Crisis Manager/ GM Performance	Phase 2 of 3 completed in November 2014.	Apr-15	
Governance and Internal Audit:										
89		Cash flow forecasting	The automated modelling tool to manage forecasting of cash flow requirements is not reviewed following changes.	PWC Internal Audit Ring Road Project Review 20 Dec12	Finding #6, Page 23	Management have agreed the automated modelling tool is reviewed in detail by an independent person in the Finance team following changes to the model. A new process has been recently established whereby the Corporate Projects Accountant will have responsibility for ensuring a standardised methodology is applied to all budgets models associated with large key projects. Outputs of these budget models will be subject you structure per review process within the Finance Unit	Chief Financial Officer		Apr-15	
90		Pre-employment screening	We recommend: Strengthen the current pre-employment screening procedures.	PWC Internal Audit Transparency Report 23 Nov13	Finding #1, Page 7	The revised recruitment and selection management policy has been drafted and is to be circulated for approval to the Senior Leadership team in mid March 2015, formal approval at SLT Ops 23 March and will close out then. The policy outlines the necessary screening procedures.	People & Capability Manager		Apr-15	
92		Staff Awareness	We recommend: Implement a fraud and corruption awareness training programme.	PWC Internal Audit Transparency Report 23 Nov13	Finding #3, Page 10	Staff will be informed through the regular People and Capability newsletter of their obligations with fraud and corruption. There is also a fraud and corruption policy being signed off at the SLT 15 December 2014 Ops meeting. This aligns with the Protected Disclosure management policy.	People & Capability Manager	Dec-14		
93		Sound Ethical Behaviour	We recommend: Management and Council to ensure that the appropriate tone is expressed and promulgated throughout HCC.	PWC Internal Audit Transparency Report 23 Nov13	Finding #4, Page 11	The fraud and corruption policy has been signed off and approved by SLT 15 December 2014. This policy provides clear guidelines on the organisations response when fraudulent or corrupt activities occur or are suspected. The policy is available to all staff through the staff intranet.	People & Capability Manager	Dec-14		
94		Line Manager Accountability	We recommend: Deliver training to Line Managers on their fraud responsibilities.	PWC Internal Audit Transparency Report 23 Nov13	Finding #5, Page 13	Staff have been informed of the new Fraud and Corruption policy through the staff daily mail online newsletter and through the People and Capability monthly newsletter that is sent to all managers.	People & Capability Manager	Dec-14		
95		Fraud and Corruption and detection framework	We recommend: Include additional controls in the Fraud Control Framework.	PWC Internal Audit Transparency Report 23 Nov13	Finding #6, Page 14	Management initiated a six month work programme to significantly improve the effectiveness of ten key management policies (including the Fraud and Corruption Council Policy). An updated Fraud Policy was approved in December 2014.	Chief Financial Officer	Dec-14		

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 closed since last Audit & Risk meeting on 5 Dec 2015	
 open or new item since last Audit & Risk meeting on 5 Dec 2015	

No.	Current Status	Issue	Source / Service Provider Comment	Source	Reference	Closure Comment (Comments highlighted in red were updated in Mar 2015) (Comments in black were made prior Dec 2014)	Owner	Date closed	Estimated completion date	Audit sign off of closure
104		Event Management	There is limited use and integration of EBMS with core HCC finance systems.	PWC Internal Audit Event Management Review 10 Jun 13	Finding #1, Page 6	The design & development for an automated interface to provide financial summary information from EBMS to HCC Finance Systems (via the Operational Data Store) is underway. The interface design, development, testing and implementation is being undertaken with input from key IS & finance team members & is due to be completed in time for financial project go-live on 1 October 2014 (delayed due to other finance/IS operational priorities). In addition to this the information requires from HCC systems to flow back into EBMS is being addressed and the solutions will also be in place for the financial project go-live on 1 October. This is part of the Event Facilities Unit Event Processes & Systems Review project. On-track for estimated completion date. The go live of the EBMS financial system will now take a phased approach, starting 1st October with event based revenue and expenditure. Complete cutover of the processing and reporting of all financial transactions and data to be completed before the end of the 1st qtr. of 2015. At the end of each month, transactional data is downloaded from Microsoft Dynamix and then uploaded into Ungerboeck. The net result is downloaded from Ungerboeck and then uploaded in Microsoft Dynamix. The data is reconciled at both ends as part of the month end process. Since "go live" on 1 November 2014, the transactional data from HCC's Dynamix has greatly reduced, and is now almost limited to internal re-charges and cost allocations. All financial reporting for H3 (previously Event Facilities Unit) is done on-screen in Ungerboeck	GM Events & Economic Development	Mar-15		
105		Event Management	There are a lack of controls in place to protect the integrity of event reports and manual outputs prepared.	PWC Internal Audit Event Management Review 10 Jun 13	Finding #2, Page 10	Full Solution: As part of the Event Facilities Unit Event Processes & Systems Review project, financial processes and internal audit processes are being developed which will adhere to the HCC financial control environment policies and will mitigate this risk. On-track for estimated completion date. Before the Ungerboeck "go live" on 1 November 2014, a rigorous audit was completed by Sherry Zhang, supervised by Jade Collins from PWC. Ungerboeck is now an end to end system that integrates event management with financial processes and reporting. Risks around controls and integrity of data have been mitigated because all event information is captured and contained within Ungerboeck, and reports are presented on-screen in Ungerboeck.	GM Events & Economic Development	Mar-15		
106		Event Management	There is a lack of formal review of event planning to ensure that appropriate services are provided to clients.	PWC Internal Audit Event Management Review 10 Jun 13	Finding #3, Page 12	In addition to the above interim-solution, the Event Facilities Unit Event Processes & Systems Review project will produce an internal event audit process designed to track event requests, client sign-off and delivery of equipment and services. Estimated completion date should be aligned with the other risks in this area being Dec-14 As part of the EBMS and Business Process Project a Quality Audit Framework and System is being developed. The Project Control Group (PCG) have deferred this to start later in 2015. As well as moving to an end to end system in Ungerboeck, Promapp has also been implemented. Promapp is a Business Process Management software, that is cloud based, and stores H3's standardised business processes online. All of H3's processes, from expressions of interest to raising final invoices post event are collated in Promapp, and reviewed bi-annually by a team of Subject Matter Experts (SME's). Each SME is responsible for the processes for an area of the business. Each process is agreed upon by the "Board" of SME's and reviewed objectively by other users in "Promapp Boot Camp". Each client has a dedicated Account Rep (sales person) and an Event Manager. Clients sign a Venue Hire Agreement which includes initial requirements, and work closely with the Event Manager for all additional requirements. Before an event each client is required to sign an Event Order Confirmation (EOC), which outlines all of their event requirements and charges. Any additional requirements in the days leading up to the event require the signing of a revised EOC, and variations on the day (as is the nature of the industry), require a signed Variation Order. Event Managers confirm that all charges are correct in Ungerboeck, these are peer reviewed, and then reviewed again by a Finance Assistant.	GM Events & Economic Development		Dec-15	
109		Event Management	Delegations of authority to enter in to event contracts do not accommodate EFU business requirements and there are limited controls to ensure that contractual terms agreed are appropriate.	PWC Internal Audit Event Management Review 10 Jun 13	Finding #6, Page 16	Business processes are under review as a part of the wider Event Facilities Unit Event Processes & Systems Review project. We have revised the delegation process to base contract approval for venue hire and event management services on standard/rack price (per price book). We also implemented Director level approval for all variations or additions to general contractual terms. There is a Venue Hire Agreement (VHA) Coversheet which is required to be signed off by a person with the correct delegated authority (as per the HCC Financial Delegation Officers Policy), prior to a VHA being sent to the client.	GM Events & Economic Development	Mar-15		

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No.	Current Status	Issue	Source / Service Provider Comment	Source	Reference	Closure Comment (Comments highlighted in red were updated in Mar 2015) (Comments in black were made prior Dec 2014)	Owner	Date closed	Estimated completion date	Audit sign off of closure
110	 	Event Management	There is no formalised and independent review performed to ensure operational event management procedures are followed.	PWC Internal Audit Event Management Review 10 Jun 13	Finding #7, Page 17	As part of the Event Facilities Unit Event Processes & Systems Review project, an internal event audit process will be developed to track event requests, client sign-off and delivery of equipment and services. It is anticipated that the processes developed will be able to be audited by external/independent sources. On-track for estimated completion date. As part of the EBMS and Business Process Project a Quality Audit Framework and System is being developed. The Project Control Group (PCG) have deferred this to start later in 2015. As well as moving to an end to end system in Ungerboeck, Promapp has also been implemented. Promapp is a Business Process Management software, that is cloud based, and stores H3's standardised business processes online. All of H3's processes, from expressions of interest to raising final invoices post event are collated in Promapp, and reviewed bi-annually by a team of Subject Matter Experts (SME's). Each SME is responsible for the processes for an area of the business. Each process is agreed upon by the "Board" of SME's and reviewed objectively by other users in "Promapp Boot Camp".	GM Events & Economic Development		Dec-15	
172	 	Asset management planning	Audit NZ has noted that Council is making good progress with asset management plan in preparation of the next Long Term Plan, with target completion date of April 2014.	Audit NZ 2013 Mgt Letter 13 Nov 13 (Trim D-1160990)	3.1	The co-ordinated asset management programme (16 AMP's) will deliver for April 2014 key financial information on the costs of providing assets based on current levels of service. Finalised AMP documents will not be completed until Council has made prioritisation decisions as part of the 10 year plan.	Programme Mgr- Growth and Assets		Jun-15	
177	 	Changes to public benefit entity accounting standards.	Plan and prepare in timely manner for transition to the new PBE accounting standards to apply for reporting periods beginning on or after 1 July 2014.	Audit NZ 2013 Mgt Letter 13 Nov 13 (Trim D-1160990)	4.2	Council has commenced reviewing the new PBE standards and will identify the changes for the 2014/15 annual plan. Annual Report disclosures for 2014/15 to be completed by Aug 2015 and reviewed by Audit NZ in Sep 2015.	Chief Financial Officer	Initial work completed for annual plan 2014/15.	Audit NZ sign-off for the year 2014/15 by Sep 2015.	
182	 	Interim audit issues (several matters)	Strengthen controls over PeopleSoft user access, password security for network and application logons. Review GST on Property purchases to ensure correct GST is claimed, ensure General Ledger reconciliations are reviewed in a timely manner, and review and update the fraud and corruption policy.	Audit NZ 2013 Mgt Letter 13 Nov 13 (Trim D-1160990)	Appendix 2	Audit to confirm the action taken by management as apart of the next year's interim audit follow-up. PWC has reviewed the controls of the new AX system and will provide a report to Council in April 2015.	Chief Financial Officer	New Financial System Microsoft AX implemented 1 July 2014	Awaiting PWC report on internal controls April 2015	
189	 	Management policy framework	A formal and compressive Management Policy Framework should be established to capture guidance on key processes, decisions and roles.	PWC Internal Audit Assessment of-Management Policy Framework, 23 Apr 2014, Trim D-1359725	Finding #1, page 6	The management policy framework was presented and signed off by the Senior Leadership Team in December 2014.	Business Improvement Manager	Feb-15		
190	 	Management policy framework	Key steps/ decisions made in the creation/review of management polices are not sufficiently documented.	PWC Internal Audit Assessment of-Management Policy Framework, 23 Apr 2014, Trim D-1359725	Finding #2, page 8	Significant work has been undertaken in this area with all policies now receiving SLT sign off and minuted through the SLT meetings. The management policy framework presented for approval to the SLT on 15th December outlines this new process.	Business Improvement Manager	Feb-15		
193	 	Development Contribution Processes and Controls	Development contribution applicability assessments are not captured and information on development contributions cannot be reported on nor reviewed for authority.	PWC Assessment of Development Contribution Processes and Controls, 3 Mar 2014, Trim D-1359727	Finding #2, page 8	Assessments are captured in a temporary database that can theoretically be linked to Authority for reporting purposes, however a significant amount of work is needed to do this and/or implement a more stable solution. There is a need to set-up a repeatable and well documented process for linking charges calculated by the Development Contributions Model to the charge calculation spreadsheet and the online GIS viewer. This will require a significant amount of work but is on hold due to other priorities. Additional resource will be needed if this is to be completed within reasonable timeframe. As previously reported.	Development Contributions Officer		Jun-15	
196	 	Development Contribution Processes and Controls	Evidence of the compilation of "base charges" by catchment has not been retained.	PWC Assessment of Development Contribution Processes and Controls, 3 Mar 2014, Trim D-1359727	Finding #5, page 16	Assessments are captured in a temporary database that can theoretically be linked to Authority for reporting purposes, however a significant amount of work is needed to do this and/or implement a more stable solution. There is a need to set-up a repeatable and well documented process for linking charges calculated by the Development Contributions Model to the charge calculation spreadsheet and the online GIS viewer. This will require a significant amount of work but is on hold due to other priorities. Additional resource will be needed if this is to be completed within reasonable timeframe. As previously reported.	Development Contributions Officer		Jun-15	

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 closed since last Audit & Risk meeting on 5 Dec 2015	
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No.	Current Status	Issue	Source / Service Provider Comment	Source	Reference	Closure Comment (Comments highlighted in red were updated in Mar 2015) (Comments in black were made prior Dec 2014)	Owner	Date closed	Estimated completion date	Audit sign off of closure
198	 	Project Management Framework	No project portfolio management framework is in place.	PWC Project Mgt Framework assessment 20 May 2014, Trim D-1419095	Finding #1 page 6	A portfolio approach to significant projects identified by SLT is planned. This will see PMO continue with an "enabling the business" approach and include overarching reporting. The PMO is actively working with the Business Improvement unit & Strategy & Research in relation to business activity reporting (10yr plan, annual plan, business plan, project reporting). a) The HCC SLT have approved the 3 recommendations made 20/2/15 relating to a Project Portfolio Management Framework (PPMF) (refer to artefact 9): 1) A Project Portfolio Management framework (PPMF) is to be established and managed by the PMO 2) Investment into a reporting tool which will support the PPMF (72K) 3) bi-monthly SLT meetings to discuss & re-prioritise projects	PMO Manager		first quarter 2016	
199	 	Project Management Framework	Maturity of PM practices requires improvement.	PWC Project Mgt Framework assessment 20 May 2014, Trim D-1419095	Finding #2 page 7	GMs are actively promoting project management training. PMO coordinating a monthly community of practice meeting and monthly project management newsletter. All new staff with project related roles are inducted into HCC project management processes through PMO. Stage Gate implementation is to be reflected in PM Policy and the necessary changes will be made following PMO information gathering and assessment of stage gate implementation by other units and organisations (Air NZ, Genesis, WDC, current IS stage gate approach etc.). a) A single project lifecycle is now documented in the HCC Project Management Policy document (refer to artefact 10) b) Project Management Community of Practice (PM CoP) in place and in invitees calendars. Newsletter produced post-PM COP and circulated allowing those that couldn't attend to still benefit from CoP. (refer to artefacts 2-7) c) PM training continues to be delivered with good feedback. d) A Governance training pilot was delivered 24 Feb 2015 with great feedback (refer to artefacts 15-19) Trainer will look to make some small modifications and survey results collated and assessed before next 4hr training session is rolled out - Likely April May e) Buddy being provided through the PMO and expectation is that as confidence and experience is developed Buddying opportunities will be able to be lead by PM CoP attendees who have also completed the PM training.	PMO Manager		first quarter 2016	
201	 	Project Management Framework	The PMO does not have oversight of all HCC programmes/projects.	PWC Project Mgt Framework assessment 20 May 2014, Trim D-1419095	Finding #4 page 11	No change is planned for the current structure or resourcing of the PMO. Additional tools to enable wider capture of project reporting is currently being investigated in conjunction with IS, S&R, Finance and Business Improvement units. Focus for PMO remain on reporting Key projects in the interim. As indicated above with reporting functionality and process being progressed with consideration for and in conjunction with BI. a) Great progress made towards this finding with further work required for: - Visibility of all projects and ability to report at a high level to the executive eg where projects are in the pipeline (how many in business case, execution etc), number behind schedule, number behind budget. - tiered approach to reporting - Alignment to strategy - ensuring the right projects are being selected - programmatic approach to how IS PMO, Finance Committee & PMO align. Work is underway regarding collaboration between the PMO and HCC group key business stakeholders. - resourcing requirements of the PMO to meet its responsibilities will become clearer as the framework scope is defined and the support services review is finalised.	PMO Manager		first quarter 2016	
205	 	Project Management Framework	Sub-optimal PM systems and tools.	PWC Project Mgt Framework assessment 20 May 2014, Trim D-1419095	Finding #8 page 13	Activity being addressed in conjunction with Business Improvement unit with funding being sought through the LTP. Current indications are that no funding will be available for tool or system purchase. Consideration of what IS could prepare internally is being explored in conjunction with BI. a) As per #198. The HCC SLT have mandated the 3 recommendations made 20/2/15 relating to a Project Portfolio Management Framework of which the project management reporting tool is relevant for finding # 8.	PMO Manager		first quarter 2016	
214	 	Management policy.	Council can strengthen the Koha and Donation policy and the Gift and Hospitality policy.	Audit NZ 2014 Interim Mgt Letter, 9 Sep 2014, D-1556973	4.1, page 8	The review of these polycys have commenced and will be completed by the end of May 2015.	Procurement Manager/ Unit Manager Accounting		May-15	

Key:	Comments:
 in progress or open at 6 March 2015	This schedule provides a status of open items or new items since the last Audit and Risk meeting on 5 Dec 2014 as at 6 Mar 2015
 closed since last Audit & Risk meeting on 5 Dec 2015	
 open or new item since last Audit & Risk meeting on 5 Dec 2015	

No.	Current Status	Issue	Source / Service Provider Comment	Source	Reference	Closure Comment (Comments highlighted in red were updated in Mar 2015) (Comments in black were made prior Dec 2014)	Owner	Date closed	Estimated completion date	Audit sign off of closure
237	 	Hazards associated with perceived workplace bullying and stress.	Conclusions from independent investigation reports are to be trended and assessed to identify areas for improvement within Council.	QEC Progress Review Report 4 Sep 2014 Trim D-1558685	34.3, page 22	As these reports are made available we will trend and assess the areas of improvement.	People & Capability Manager		Jul-15	
240	 	Group consolidation	Discuss accounting treatment issues early with IWL to ensure Council receive manner and the group consolidation are in line with IPSAS	Audit NZ 2014 Final Mgt Report 19 Nov 2014 (Trim D-1628444)	3..1, page 7	Council Finance has commenced discussion with IWL on the accounting disclosure requirements.	Unit Accounting Manager		Apr-15	
241	 	Procurement (purchasing and contract management).	Council to ensure all contract information is updated in the system and this system is used to generate contract registers that were regularly monitor.	Audit NZ 2014 Final Mgt Report 19 Nov 2014 (Trim D-1628444)	3.4, page9	The implementation of the AX Dynamics system has seen a significant improvement in the tools Council uses to record contract payments and manage Approved Contract Sums. These are recorded within the contracts module of AX Dynamics. This enables a full history of payments made on any contracts and key financial data to be recorded within the AX dynamics system. This is a significant improvement on previous excel based systems and ensure all payments made are automatically updated against the contract. This enables the easy preparation of the annual accounts for capital commitments and a view of payments and retentions against all contracts.	Procurement Manager	New Financial System Microsoft AX implemented 1 July 2014		
242	 	Project management	Continue to make improvements to project management. The PMO Manager is currently working through approaches aimed at strengthening the PM framework without imposing unnecessary impact on the organisation and is seeking input from other organisations. Any final approach will be further tested with PWC before implementation.	Audit NZ 2014 Final Mgt Report 19 Nov 2014 (Trim D-1628444)	3.6, page 10	Project related tools and templates continue to be updated and refined. Community of Practice (COP) is widening as more people are attending HCC PM training. COP providing a peer review group for testing templates and initiatives. Discussion with PWC on actions taken to date has reinforced approach remains appropriate and considered.	PMO Manager	Closed 01/02/2015		
243	 	Property, plant and equipment	Improve the quality of information in the asset management system by implementing the identified changes in the AECOM report	Audit NZ 2014 Final Mgt Report 19 Nov 2014 (Trim D-1628444)	3.8, page 10	On-going continuous improvements are being made to asset information where there are resources available to do so. Through the 2015-25 10 year plan, funding and resource allocation has been requested to enable the significant items to be addressed.	Waters Manager		progressively over the next 10 years- this will be prioritised based on the risk to Council.	
244	 	Work in progress	Capitalise completed projects in the fixed asset register on a more timely basis to ensure assets are correctly depreciated.	Audit NZ 2014 Final Mgt Report 19 Nov 2014 (Trim D-1628444)	3.9, page 11	There is now a process in Hanson (newly implemented) to monitor the timeline of asset data flowing from project manager to capitalisation. Currently working through system issues (ability to run WIP reports) with the provider of the accounting system AX that are looking to be resolved by 15 March 2015. Once these issues have been resolved we will then be able to fully utilise the resources we have to capitalise WIP. We have accrued related depreciation throughout the year to ensure there is not a large variance.	Unit Accounting Manager		Jun-15	
245	 	Payroll system	Ensure the payroll materfile change reports record all payroll changes including bank account changes	Audit NZ 2014 Final Mgt Report 19 Nov 2014 (Trim D-1628444)	3.11, page 12	There is a audit report which is run weekly showing all the masterfile changes including bank account numbers. The report is checked by both the payroll staff each week.	Revenue Manager	Nov-14		
246	 	Water and wastewater performance measures	Put controls in place to ensure that information entered into Hansen 8 for water and wastewater measures are correct.	Audit NZ 2014 Final Mgt Report 19 Nov 2014 (Trim D-1628444)	3.12, page 13	Changes to business processes on how data is entered have been implemented. Quality reviews are in place.	Water Manager	Dec-14		
247	 	Transportation performance measures	Ensure independent audits of Downer Ltd include a review of the Downer's performance information management systems.	Audit NZ 2014 Final Mgt Report 19 Nov 2014 (Trim D-1628444)	3.13, page 13	An independent audit of the Infrastructure Alliance (Downer) was initiated in October 2014. A draft report has been provided and this is available on TRM D-1656275. This report will be finalised in April 2015	City Transportation Manager		Apr-15	

Key:	Comments:
 in progress or open at 6 March 2015	This schedule provides a status of open items or new items since the last Audit and Risk meeting on 5 Dec 2014 as at 6 Mar 2015
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No.	Current Status	Issue	Source / Service Provider Comment	Source	Reference	Closure Comment (Comments highlighted in red were updated in Mar 2015) (Comments in black were made prior Dec 2014)	Owner	Date closed	Estimated completion date	Audit sign off of closure
248		Council Controlled Organisations	Council to review if the functions and activities of the various CCO's fit the purpose of local government as intended in section 10(1)(b) of the Local Government Act 2002.	Audit NZ 2014 Final Mgt Report 19 Nov 2014 (Trim D-1628444)	3.14, page 13	Management will prepare a report for the CCO Subcommittee meeting that will be held on 22 April 2015.	Chief Financial Officer		Apr-15	
249		Management Policy	Update the fraud and corruption policy in line with previous years recommendation	Audit NZ 2014 Final Mgt Report 19 Nov 2014 (Trim D-1628444)	Appendix 2	Policy updated and approved by SLT in December 2014	Chief Financial Officer	Closed Dec 2014		
250		Risk management	Strengthen the current Risk Management procedures by incorporating the requirement of and references to risk management templates, risk management plans and risk registers.	Audit NZ 2014 Final Mgt Report 19 Nov 2014 (Trim D-1628444)	Appendix 2	Council and Risk management policies are in place with the framework, risk register and RM sop's routinely audited with no outstanding recommendations. Training/reference material and templates are available to all staff via a dedicated page on velocity along with periodic training workshops throughout the year.	Crisis Manager	Feb-15		
251		IS Programme of Work	Consider developing a standard induction for non-IT staff that participate in IT projects as sponsor or project control group member. Include information about what supporting information to expect when changes are recommended be made to the project (particularly scope changes).	Audit NZ-Project Mgt Review on IS Programme of Work 24 Nov 2014 (Trim D-1630123 and D-1629357)	R12	IS has been working with the Programme Management Office and has developed training material for staff who participate in governance roles on projects. A pilot training day was held in February. These can now be routinely used as part of project mobilisation.	Solutions Delivery Manager	Feb-15		
252		IS Programme of Work	Enhance the project management focus on benefits realisation- at the business stage (benefits identification), planning stage (benefits realisation measurement framework) and post-implementation (benefits realisation measurement and reporting). Consider the expected timing of benefits realisation and schedule a post- implementation review to include a review of the achievement of benefits for Phase 1 of the Assets Project, Phases 1 and 2 of the HR/Payroll project and the Finance project.	Audit NZ-Project Mgt Review on IS Programme of Work 24 Nov 2014 (Trim D-1630123 and D-1629357)	R13	Business cases now contain specific benefits that are reviewed over the project lifecycle. First post implementation review completed for Finance Project, benefits are now under management of the project sponsor. PIRs will be scheduled to be completed for Assets and HRIS Projects for Q4 2015	Solutions Delivery Manager	Feb-15		
253		IS Programme of Work	Consider including a formal requirement to review the lessons learned register in any new planning process, and consider documenting this in Project Initiation Document.	Audit NZ-Project Mgt Review on IS Programme of Work 24 Nov 2014 (Trim D-1630123 and D-1629357)	R14	PID document now include section that identifies items from the Lessons Learnt register that the project team deem relevant to the project. Project teams routinely review Lessons Learnt register during project initiation.	Solutions Delivery Manager	Feb-15		
254		IS Programme of Work	Consider the extent of the formal project management processes to apply to currency upgrade projects. As a minimum consider developing a template for a short form business case to provide the rationale and key expectations for the project.	Audit NZ-Project Mgt Review on IS Programme of Work 24 Nov 2014 (Trim D-1630123 and D-1629357)	R15	Small Project Specification template has been developed and is being applied to small upgrades, including currency projects.	Solutions Delivery Manager	Feb-15		

Committee: Audit & Risk Committee **Date:** 18 March 2015
Report Name: Annual Report 2015-Planning update **Author:** Raniel Prasad

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

1. Purpose of the Report

- The purpose of this report is to provide an update to the Audit and Risk Committee on the 2015 Annual Report Planning.

2. Executive Summary

- Council has started planning for the 2015 Annual Report preparation. An area of key focus this year is the introduction of Public Benefit Entity (PBE) Accounting Standards. Under the New Zealand Accounting Standards Framework, local government sector are public benefit entities (PBEs) and have to transition to PBE Accounting Standards for periods beginning on or after 1 July 2014. Hamilton City Council is classified as a public sector PBE for financial reporting purposes and therefore the financial statements need to be prepared in accordance with PBE Accounting Standards. Council has undertaken an the gap analysis between the standards.
- In preparing the financial information for the Long Term Plan Council has taken into account the new standards and has been working through the SOLGM Checklist for Long-Term Plan Quality Assurance/Compliance noting the key differences between PBE and IFRS and what standard applies. The key areas identified so far that are impacted are: *exchange/non-exchange revenue; service concessions; property, plant and equipment.*
- An Annual reporting timetable has been drafted and prepared to ensure timely and quality information for the Audit process. The Audit Arrangements letter has not yet been issued by Audit New Zealand.

6. Recommendation from Management

That the Report be received

7. Attachments

- 8. Attachment 1 - Annual Report Timetable

Signatory

Authoriser	Paul Conder, Chief Financial Officer
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2015 Year end timetable

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
29 June <i>Day -2</i>	30 June <i>Day -1</i> Internal journals posted 5pm Receipt Purchase orders; Revenue - raise invoices in Authority	1 July <i>Day 1</i> 5pm PSP and Contract payments to be processed	2 <i>Day 2</i> 5pm Accounts Payable closes AP/PO; PSP and Contract accruals; Revenue accruals	3 <i>Day 3</i> 5pm Timesheets for week ended 28 June entered into AX	4	5
6 <i>Day 4</i>	7 <i>Day 5</i> NZTA claim lodged (TBC)	8 <i>Day 6</i> 3pm Upload PO accrual 5pm Ledger locked	9 3pm Balance Sheet reconciliations available for review	10 Draft financial reports to GMs	11	12
13 Supplementary NZTA claim lodged/locked (TBC)	14 1pm Finance Committee reports to Democracy for hot review	15	16	17	18	19
20	21	22 5pm Notes, variance analysis & FIS commentary completed (Group accountants)	23 Finance Committee meeting	24	25	26
27 Draft Annual Report to Unit Manager/CFO for review	28	29	30 Draft Vibrant Hamilton financials available for audit	31 Draft Annual Report emailed to Audit NZ	1 August	2
3 August Auditors arrive	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20 Finance Committee meeting	21	22	23

2015 Year end timetable

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
24 August Final Annual Report to Audit NZ	25	26 Informal Audit & Risk Committee meeting (date and time TBC)	27	28 Auditors last day on site	29	30
31 Agenda Audit & Risk meeting	1 September	2	3	4	5	6
7	8 Agenda Council meeting	9	10	11 Verbal audit clearance given (earlier date to be negotiated)	12	13
14	15	16 Audit & Risk Committee meeting A&R sign off annual report and recommend to Council	17	18	19	20
21	22	23 Letter of Representations	24 Audit opinion issued Council meeting to adopt Annual Report	25	26	27

Committee: Audit & Risk Committee

Date: 18 March 2015

Report Name: Fitch Annual Rating Report

Author: Brett Brinkworth

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

1. Purpose of the Report

- To receive the Annual Rating Report prepared by FitchRatings based on the 30 June 2014 financial year.

3. Executive Summary

- FitchRatings have published the Annual Rating Report for Hamilton City Council.
- Council credit ratings have been maintained at AA- (long term) and F1+ (short term).

6. Recommendation from Management

That the Report be received.

7. Attachments

- Attachment 1 - Fitch Credit Rating Report

9. Annual Rating Report

- FitchRatings compile this report based on analysis of published reports and plans, national and regional socio economic data, and information provided by Council staff.
- The Rating Report is a very positive review that acknowledges our improving financial performance.
- Council has maintained a long term AA- rating that places us as a high quality investment grade organization. The short term F1+ rating indicates exceptionally strong capacity to meet our financial commitments.

- 13. FitchRatings have noted that future ratings are sensitive on the downside to adverse movements in Council’s debt position that may result from deterioration in the economic environment, and on the upside to sustained performance of operating margins relative to peers with less debt.

Signatory

Authoriser	Paul Conder, Chief Financial Officer
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Hamilton City Council

Full Rating Report

Ratings

Local Currency

Long-Term IDR	AA-
Short-Term IDR	F1+

Outlook

Long-Term Local-Currency IDR	Stable
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Financial Data

Hamilton City Council

	30 Jun 14	30 Jun 13
Operating revenue (NZDm)	176.1	171.1
Debt (NZDm)	408.0	438.2
Operating balance/operating revenue (%)	34.7	24.1
Debt service/current revenue (%)	10.4	22.5
Debt/current balance (yrs)	10.6	22.9
Operating balance/interest paid (x)	2.7	1.8
Capital expenditure/total expenditure (%)	22.2	29.0
Surplus (deficit) before debt variation/total rev. (exc. new debt) (%)	10.1	-7.8
Current balance/capital expenditure (%)	60.3	27.0

Related Research

[Institutional Framework for New Zealand Subnationals \(May 2014\)](#)

Analysts

John Birch
+61 2 8256 0345
john.birch@fitchratings.com

Fernando Mayorga
+34 93 323 84 00
fernando.mayorga@fitchratings.com

Key Rating Drivers

Strengthening Credit Profile: Hamilton City Council's (Hamilton) ratings reflect the strong institutional framework for local and regional councils in New Zealand, an improved fiscal performance, sound socio-economic profile, and debt levels which, although high relative to highly rated international peers (*see appendix c*), are supported by sound financial flexibility.

Robust Institutional Framework: New Zealand's strong institutional framework for local authorities is an important positive ratings factor; that is demonstrated by its transparent reporting and financial disclosure, strong controls and supervision, a high level of own-source revenues (rates), and limited responsibilities (health and education are provided by the central government).

Improving Fiscal Performance: Fitch Ratings calculated a (cash-flow basis) operating margin of 34.7% in the financial year ending June 2014 (FY14), up from 24.1% in FY13, and well above that of international peers. Hamilton has demonstrated strong financial management, and as a result, Fitch believes financial forecasts as outlined in the long-term plan (LTP) are achievable; current projections are for a strengthening of the operating margin to 37% by FY18.

Sound Economic Performance: Hamilton is a diversified, services-led economy, and GDP increased 3% to NZD7.1bn in FY14. The city also has a large agricultural (mainly dairy) region. Education, research and development play a large role in the local economy, with the city being home to around 40,000 tertiary students. The unemployment rate of 7.7% is above the national figure of 6%, although students are more likely to move in and out of the labour force.

High Debt Levels: Hamilton's debt-to-current revenue ratio is high relative to that of its international peers, but is supported by its financial flexibility and predictable revenues. An improving fiscal performance that targets ongoing surpluses, in addition to a self-imposed net debt limit of NZD440m across the long-term plan (LTP) to 2022, are strengthening debt ratios. Hamilton's payback ratio improved to 10.4 years at FYE14, from 22.5 years at FYE13, and based on the LTP is projected to fall to 8.6 years by FYE18.

Ongoing Capex Requirements: An unanticipated rise in capex requirements, coupled with pressure to remain below the council's self-imposed net debt limit of NZD440m, could result in a capex backlog. However, Fitch believes this risk is small given the council's proactive and more sustainable approach to long-term infrastructure planning, as evident from Hamilton's early adoption of the 30-year infrastructure planning required by legislation from 2015.

Rating Sensitivities

Weak Budgetary Performance: Hamilton's ratings could come under pressure if its budgetary performance were to deteriorate significantly and unexpectedly with operating margins dropping to below 20%. Reduced fiscal flexibility - most likely from a deteriorating economic environment - could result in an adverse development in Hamilton's debt position.

Current Balance Improvement: Positive ratings action could occur if Hamilton is able to meet or exceed its current financial forecasts over the next three years, generate a sustained high current margin in excess of 25%, and have a debt-to-current revenue ratio of below 200%. Hamilton would need to demonstrate a sustained outperformance in its margins relative to less leveraged peers, given its high debt levels.

Rating History

Date	Long-Term Local Currency
13 Dec 13	AA-
1 Nov 13	AA-
14 Nov 12	AA-
18 Nov 11	AA-
15 Jun 11	AA-
9 Jun 10	AA-
31 Jul 09	AA-

Principal Rating Factors

Summary: Strengths and Weaknesses^a

	Institutional framework	Debt and liquidity	Fiscal performance	Management and admin	Economy
Status	Strength	Negative	Strength	Strength	Neutral
Trend	Stable	Stable	Stable	Stable	Positive

^a Relative to its rating category
Source: Fitch

Overall Strengths

- Strong institutional framework
- Improving budgetary performance
- Robust operating margins
- Sound economic environment
- Strong debt and liquidity management

Overall Weaknesses

- High debt levels

Institutional Framework

New Zealand’s institutional framework for local and regional governments (LRGs) is extremely supportive, and has a positive impact for their ratings.

The institutional framework strengths are:

- Substantial disclosure including a full accruals-based balance sheet, income and cash-flow statements. A 10-year rolling long term plan, which sets out revenue, expenditure and debt projections, and from 2015, incorporates a summary of the 30-year infrastructure plan. Both plans are updated every three years.
- Control and supervision by the government. The Minister for Local Government can undertake a range of actions, from initiating a review of a local authority in difficulty up to dismissing the council and appointing a commission to take control of the authority. Financial statements and plans are audited by the Controller and Auditor General whose job is to check how public money is collected and spent.
- Considerable own source revenue from rates, which represent an average of more than 61% of total operating revenue for New Zealand local authorities. Rates, although less dynamic, are less susceptible to the economic cycle.
- Manageable responsibilities. Resource-consuming mandates, such as healthcare and education, are provided by the central government.
- The local authority can charge any assets to secure borrowings, including property rates, via a debenture.

The institutional framework weaknesses are:

- Lack of fiscal equalisation system: There is no scheme where local authorities that are smaller or have weaker economic profiles can receive a benefit. However, this is largely mitigated by the low correlation between revenue and the local socio-economic profile.
- Lack of prudential regulation: There is no prudential regulation scheme that covers areas such as debt and debt servicing levels. However, the government has strengthened the oversight and control of local governments, and from FY14 required all councils to disclose their performance against benchmarks in their annual reports.

- High debt levels relative to peers

Debt, Liquidity and Contingent Liabilities

Debt

Hamilton's total direct debt (*Appendix A*) declined 7% yoy to NZD408m at FYE14, from a delay in the timing of capital expenditure, unplanned asset sales and higher-than-expected development contributions. This follows a moderation in debt growth over the two previous years to FYE13, as a result of greater fiscal constraint. In the four years prior to FYE11, direct debt had grown at a fairly rapid pace expanding to NZD392m from NZD148m. Debt is secured through the debenture trust deed over all rates, with the exception of a small loan secured by property and NZD30m of commercial paper.

Direct debt as a percentage of current revenue was 230% at FYE14 (FYE13: 255%), and this resulted in a payback ratio (direct debt/current balance) of 10.4 years (FYE13: 22.5). These ratios are weaker than some of the council's similarly rated international peers; but the trend is now positive, and the low volatility revenues support weaker debt ratios. Moreover, a strengthening of the current balance, in addition to a self-imposed debt ceiling of NZD440m, should support stronger debt ratios as outlined in the 10-year plan.

Cash-flow interest-rate risk is managed to limits set out in the council's "investment and liability management policy", and Hamilton has adopted a mid-to-high point application within these settings. The council hedges the majority of its floating-rate borrowings and operates to a fixed-rate target range on borrowings of between 50% and 95%. At FYE14, 10% of Hamilton's debt had been issued with fixed-rates but after hedging fixed-rate exposure had been increased to 88% (FYE13: 75%). The council can enter into pre-hedging arrangements for future borrowing requirements to take advantage of current favourable rates. However, the council limits the speculative element of these transactions by restricting their start periods to within 24 months.

Hamilton uses the New Zealand Local Government Funding Agency (LGFA, AA+/Stable) as its primary source of debt funding, and as of end-August 2014, NZD235m (about 55%) of the council's total debt had been raised through the LGFA. Traditionally, the council has relied more heavily on the major New Zealand banks; however, the LGFA provided better pricing and longer debt maturity. Hamilton also has a NZD60m undrawn bank facility that could support liquidity, and act as an emergency funding source. The council also uses internal borrowing (FYE14: NZD8.8m) to offset its working-capital and debt-funding requirements. Hamilton has no exposure to foreign currency and, therefore, has no outstanding foreign-exchange risk. No local councils in New Zealand, except Auckland, can borrow in foreign currency.

Hamilton had NZD861,000 of current and non-current lease liabilities for plant and equipment as of FYE14 (FYE13: NZD677,000). The interest expense associated with the leases is included under interest expense. Fitch has classified the leases as "Other Fitch classified debt" in *Appendix A*, and included in the council's direct-risk position. Fitch also includes employee entitlements of NZD7.1m in 'other Fitch classified debt'.

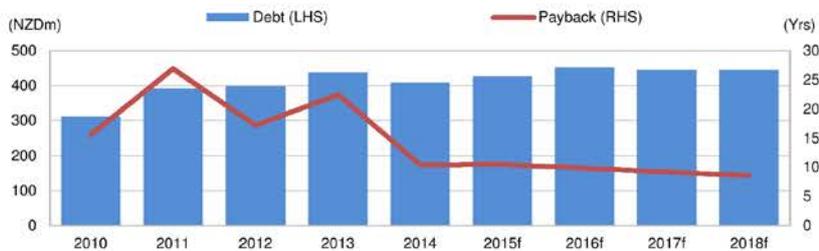
The council's debt projections from FYE15 are included in the table below, and are based upon its 2012-2022 10-year plan and annual plan for FY15. However, as the plan does not include potential asset sales, the absolute level of debt could be lower, and the payback ratio improvement stronger than shown in forecast years to FYE18. In the 2013/2014 annual report, the sale of a number of commercial properties and vacant land has been approved, and the possibility of a lower debt level is highlighted in the annual 2014/2015 plan.

Related Criteria

International Local and Regional Governments
Rating Criteria - Outside the United States
(April 2014)

Figure 1

Debt and Payback



Source: Hamilton City Council

Liquidity

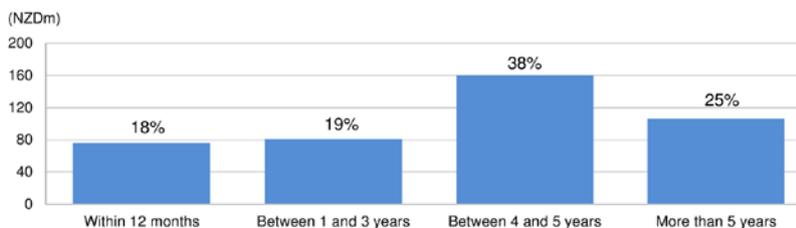
Hamilton's on-balance sheet liquidity has strengthened in recent years through the holding of higher levels of cash, although the council also uses its NZD60m undrawn committed facility to support its targeted liquidity ratios. Cash and cash equivalents declined to NZD43m as of FYE14 (FYE13: NZD57m), and covered 57% of debt maturing within the 12 months. These cash holdings are generally placed in term deposits of up to 90 days maturity among domestic banks with minimum ratings of AA-.

Hamilton targets a liquidity ratio in excess of 110%, and defines the ratio as the amount of committed borrowing facilities to existing external debt. Hamilton's total committed facilities of NZD512m (including undrawn bank facilities) resulted in a liquidity ratio of 125% at FYE14.

The LGFA has been able to provide longer debt maturities, and this has strengthened the maturity profile of Hamilton's debt. Debt maturing within 12 months had declined to 19% of total borrowings at FYE14, down from its peak of 43% in FYE11 (FYE13: 25%).

Figure 2

Hamilton: Maturity Profile of Outstanding Debt At end-August 2014



Source: Hamilton City Council

Contingent Liabilities

Hamilton is one of 30 local authority shareholders and eight local authority guarantors of LGFA, and at FYE14, held uncalled share capital of NZD1.866m. When aggregated with the uncalled capital of the other shareholders, this provides NZD20m of available funds in the event of an imminent default. The council is a guarantor of all LGFA borrowings (along with the other shareholders and guarantors), but its liability is limited to the prior year's rate revenue. A reliable fair value amount is not recognised given Fitch and council's view that an LGFA default on repayments is unlikely.

Hamilton held a 50% equity stake in the Waikato Regional Airport at FYE14 (four other smaller local councils held the remaining 50%), which included NZD4.8m of uncalled capital. The council views this as a strategic investment to support the city's infrastructure, and in FY14, it generated a small loss and did not pay a dividend.

Hamilton also has minority stakes in various companies, which it owns with other New Zealand councils (although these are small and require minimal funding). The council has board representatives on all companies in which it holds a majority stake and must use the cash from any sale to reduce outstanding debt. At FYE14, there were no outstanding loans from council to these companies.

- Fitch has used Hamilton's cash flow for the financial information presented in *Appendix A and B*

Fiscal Performance

Operating Revenue

Hamilton derives considerable financial flexibility from its ability to decide how to deploy most of its operating revenue. On a cash-flow basis, the largest contributor to operating revenue is from rates - 76% in FY14 (59% of total revenue) – and these are planned to increase on average by

3.8% (including inflation) per annum through the remainder of the 2012-2022 long-term plan (LTP).

Population growth will help support higher rate revenue in the future, and the LTP has factored in an expectation of around 5,000 new homes to be built over the 10-year period (10% growth in region). Rate increases and forward estimates of growth are reviewed every three years when a new LTP is produced. The other source of (Fitch defined) operating revenue is derived from fees, rents and charges. The council again has flexibility in setting these, and has targeted higher charges (in addition to cuts to services) to achieve its desired operating surpluses.

Operating Expenditure

Operating expenditure declined by NZD15m (11%) in FY14, and reflects the implementation of operational efficiencies and cuts to services, as initially outlined in the LTP. These have been implemented across various expense segments, and with no further efficiency targets formally identified, Fitch expects future operational expense growth to be in line with the local government cost index of 3.5% per year.

Capital Revenue

Capital revenue grew by NZD12m (33%), and includes the cash received from asset sales, development and other financial contributions, and grant income. Although discussed in the LTP, asset sales (10% of total revenue in FY14) were not been factored into financial forecasts and they enabled Hamilton to reduce its debt balance. Development and other financial contributions were also higher than expected and contributed 7% of total revenue in FY14, on a higher-than-expected level of local development. Grant income has traditionally been a relatively small proportion of the council's total revenue and contributed 5% in FY14.

Despite having higher-than-expected capital revenue in FY14, Hamilton has not budgeted or forecast for a recurrence of this. Levels could surprise on the upside if assets sale proceed or the level of local development remains robust.

Capital Expense

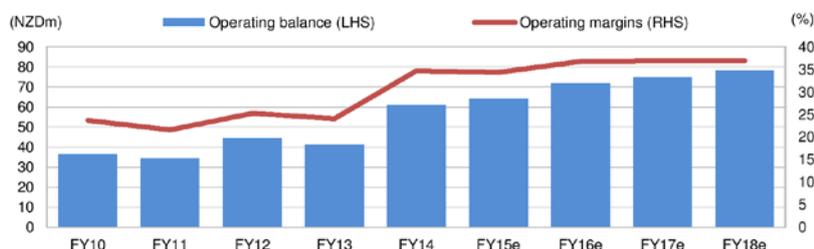
Capital expenditure declined NZD7m to NZD65m in FY14, and was considerably lower than the four-year average to FYE14 of NZD82m. Growth expectations were lowered in the current LTP following the global financial crisis; the council believes economic indicators remain uncertain, yet development activity has increased recently. Capital expenditure is expected to increase in FY15, on the completion of some large committed projects, such as the Hamilton ring road; decline is forecast in subsequent years. The council deferred NZD13m of spending on 33 projects in FY14, the lowest level in five years, and most of these will be completed during FY15.

Mitigating the risk of a build-up in capital projects from lower expenditure levels is the development of a 30-year infrastructure plan. Hamilton was an early adopter of this legislation, which requires councils to think past the 10-year planning process. This has created a more robust framework in which to determine the useful life and depreciation of very long term infrastructure assets.

Budgetary Performance

Hamilton's operating margin (operating balance/operating revenue) increased to 34.7% in FY14 from 24.1% in FY13 because of an 11% decline in operating expenditure as payment terms to suppliers were extended. Nevertheless, on an accruals basis, operating expenditure (excluding depreciation) rose by 2.6% in FY14. Financial flexibility is supported by a highly predictable revenue stream and good cost control, which resulted in an operating margin close to the original planned margin of 34%. Strong financial flexibility and a proven ability to meet financial targets support the achievability of forecasts. Fitch believes Hamilton is capable of strengthening its cash flow operating margin to 37% by FYE18.

Figure 3
Budgetary Performance



Source: Hamilton

A flat interest cost and stronger operating balance doubled the current balance to NZD39.4m, and increased the current margin to 22.2% in FY14 (FY13: 11.3%). The annual budget results in a slightly lower current margin in FY15. However, a reduction in debt from further asset sales or stronger-than-expected development contributions could see the current margin improve in FY15.

A significant negative economic impact to New Zealand would see Hamilton's revenue streams impacted in the short term. In particular, development contributions would be likely to fall on lower private investment. However, lower growth would also reduce operating costs and capex. Hamilton's LTP has focused on conservative estimates of development contributions, increasing fees for services, operational efficiencies, reduced services to community and a scaled back capex programme. Hamilton has not included any proceeds from asset sales in the LTP; however, any asset sale proceeds would be used to repay debt.

Management and Administration

Hamilton is located on the North Island of New Zealand, about 130km south of Auckland. Auckland is the largest urban area in the country with around 1.4 million inhabitants (33% of New Zealand's total population), and Hamilton is New Zealand's fourth-largest city with a population of around 150,000 (3.5% of the total population).

Elected officials include a mayor and 12 city councillors from two wards, all of whom are independent members (i.e. without any party affiliation). Local government elections were held in October 2013 (they are held every three years). The mayor, Julie Hardaker, was re-elected for a second consecutive term with only one sitting councillor running in the election not being returned to the council.

Hamilton, like all councils in New Zealand, is required to produce a 10-year LTP (and from 2015 include in the LTP a summary of the 30-year infrastructure plan) which is audited by the New Zealand Auditor General. The council also publishes an annual plan that outlines the budget for the coming financial year and, historically, Hamilton's actual financial performance has tracked well to the budget.

Hamilton has a Chief Executive Officer appointed by the Mayor, but whose tenure at 5 years is longer than the political cycle. Richard Briggs, who was previously CFO, was appointed CEO in October 2014.

Economy

Hamilton's annual GDP increased by around 3% to NZD7.1bn in FY14 (FY13: NZD6.9bn), and accounts for around 3% of New Zealand's GDP. The city's economy is weighted toward the service sector, and is a key service hub to a large agricultural region – mainly dairy farming. The key GDP contributors are manufacturing (15%), health care and social assistance (11%),

and professional, scientific and technical services (8%). One-fifth of New Zealand's exports were produced in Hamilton and its surrounding regions in 2013 (3.5% from Hamilton directly).

Hamilton's population grew by 1.3% to around 150,000 in 2013, and Hamilton's unemployment rate increased to 7.7% as of end-March 2014 from 7.4% yoy. The unemployment rate is above the national figure of 6%, but includes a significant tertiary component. Education and research and development are important parts of the economy, and the city is home to around 40,000 tertiary students.

Hamilton sets rates based on the city's land value, and operates to a maximum limit for total rates of 1.5% of the city's rateable land value. Required by legislation to update capital rating values at least once every three years, the average capital value for a residential property in Hamilton is currently NZD341,500. This is below the median value for the country, although Auckland and Wellington contain around half of New Zealand's population, and have a higher concentration of more expensive properties. Property land values are used as the basis for calculating general rates, although the council is proposing to change the basis to a capital value; that would then include the value of any buildings or improvements. This would not change the overall amount of rates collected by the council on existing rateable properties, just how rates are apportioned. The percentage of rates collected from each sector would stay the same (residential 65%, commercial 34% and rural 1%). New residential and non-residential building consents – which will create a larger rateable base – rose by a fairly robust 18% and 26%, respectively, in the year to end-March 2014.

Two of New Zealand's largest aircraft manufacturers, Pacific Aerospace Ltd. and Micro Aviation NZ Ltd., which manufactures and exports high-quality microlight aircraft, are located in Hamilton. Also, the Gallagher Group, which makes electric fencing and security systems, and employs over 600 people, is also based in the city.

Appendix A

Figure 4

Hamilton City Council

	2010	2011	2012	2013	2014
Taxes	108.0	112.8	123.6	129.4	134.0
Transfers received	4.7	5.0	4.3	0.0	0.0
Fees, fines and other operating revenue	40.7	41.8	47.9	41.7	42.1
Operating revenue	153.4	159.6	175.8	171.1	176.1
Operating expenditure	-117.1	-125.2	-131.3	-129.8	-115.0
Operating balance	36.3	34.4	44.5	41.3	61.1
Financial revenue	0.6	0.0	1.5	1.0	1.2
Interest paid	-17.0	-19.8	-22.9	-22.8	-22.9
Current balance	19.9	14.6	23.1	19.5	39.4
Capital revenue	25.4	37.2	46.1	36.4	48.7
Capital expenditure	-109.1	-111.3	-80.6	-72.2	-65.3
Capital balance	-83.7	-74.1	-34.5	-35.8	-16.6
Surplus (deficit) before debt variation	-63.8	-59.5	-11.4	-16.3	22.8
New borrowing	84.5	99.9	31.3	64.0	60.8
Debt repayment	-12.3	-18.1	-24.9	-24.0	-90.8
Net debt movement	72.2	81.8	6.4	40.0	-30.0
Overall results	8.4	22.3	-5.0	23.7	-7.2
Debt					
Short-term	82.2	168.4	84.5	110.2	76.0
Long-term	228.7	223.8	313.4	328.0	332.0
Direct debt	310.9	392.2	397.9	438.2	408.0
+ Other Fitch classified debt - pre-financing	9.1	9.6	8.8	7.5	8.0
Direct risk	320.0	401.8	406.7	445.7	416.0
- Cash, liquid deposits, sinking fund	8.9	32.0	26.2	49.8	43.0
Net direct risk	311.1	369.8	380.5	395.9	373.0
Guarantees and other contingent liabilities	5.0	5.3	5.4	7.1	7.5
Net indirect debt (public sector entities exc. gteed amount)	-	-	-	-	-
Net overall risk	316.1	375.1	385.9	403.0	380.5
Memo for direct debt (%)					
In foreign currency	0.0	0.0	0.0	0.0	0.0
Issued debt	-	-	-	-	-
Fixed interest rate debt	14.7	10.4	13.4	11.5	9.8

Source: Issuer and Fitch calculations

Appendix B

Figure 5
Hamilton City Council

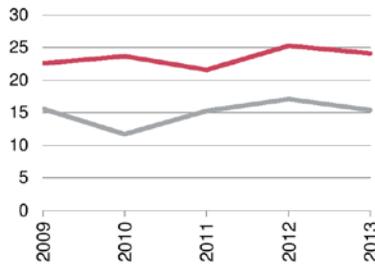
	2010	2011	2012	2013	2014
Fiscal performance ratios					
Operating balance/operating revenue (%)	23.66	21.55	25.31	24.14	34.7
Current balance/current revenue ^a (%)	12.92	9.15	13.03	11.33	22.22
Surplus (deficit) before debt variation/total revenue ^a (%)	-35.56	-30.23	-5.1	-7.82	10.09
Overall results/total revenue (%)	4.68	11.33	-2.24	11.37	-3.19
Operating revenue growth (annual % change)	2.78	4.04	10.15	-2.67	2.92
Operating expenditure growth (annual % change)	1.39	6.92	4.87	-1.14	-11.4
Current balance growth (annual % change)	6.42	-26.63	58.22	-15.58	102.05
Debt ratios					
Direct debt growth (annual % change)	31.29	26.15	1.45	10.13	-6.89
Interest paid/operating revenue (%)	11.08	12.41	13.03	13.33	13
Operating balance/interest paid (x)	2.1	1.7	1.9	1.8	2.7
Direct debt servicing/current revenue (%)	19.03	23.75	26.96	27.19	64.13
Direct debt servicing/operating balance (%)	80.72	110.17	107.42	113.32	186.09
Direct debt/current revenue (%)	201.88	245.74	224.42	254.62	230.12
Direct risk/current revenue (%)	207.79	251.75	229.39	258.98	234.63
Direct debt/current balance (yrs)	15.6	26.9	17.2	22.5	10.4
Net overall risk/current revenue (%)	205.26	235.03	217.65	234.17	214.61
Direct risk/current balance (yrs)	16.1	27.5	17.6	22.9	10.6
Direct debt/GDP (%)	4.94	6.16	5.88	6.37	5.77
Direct debt per capita (local currency)	2,174	2,686	2,688	2,883	2,632
Revenue ratios					
Operating revenue/budget operating revenue (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Tax revenue/operating revenue (%)	70.4	70.68	70.31	75.63	76.09
Modifiable tax revenue/total tax revenue (%)	100	100	100	100	100
Current transfers received/operating revenue (%)	3.06	3.13	2.45	0	0
Operating revenue/total revenue ^b (%)	85.51	81.1	78.69	82.06	77.92
Total revenue ^b per capita (local currency)	1,254	1,348	1,510	1,372	1,458
Expenditure ratios					
Operating expenditure/budget operating expenditure (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Staff expenditure/operating expenditure (%)	45.52	43.05	41.89	42.6	49.48
Current transfer made/operating expenditure (%)	-	-	-	-	-
Capital expenditure/budget capital expenditure (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Capital expenditure/total expenditure (%)	42.7	40.56	31.04	29.02	22.21
Capital expenditure/local GDP (%)	1.73	1.75	1.19	1.05	0.92
Total expenditure per capita (local currency)	1,787	1,880	1,755	1,637	1,897
Capital expenditure financing					
Current balance/capital expenditure (%)	18.24	13.12	28.66	27.01	60.34
Capital revenue/capital expenditure (%)	23.28	33.42	57.2	50.42	74.58
Net debt movement/capital expenditure (%)	66.18	73.5	7.94	55.4	-45.94

n.a.: Not available
^a Includes financial revenue
^b Excluding new borrowing
 Source: Issuer and Fitch calculations

Appendix C
Hamilton City Council

Peer Comparison

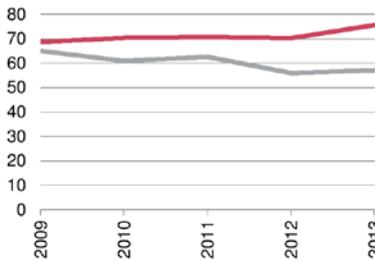
Operating Balance
% Operating Revenue



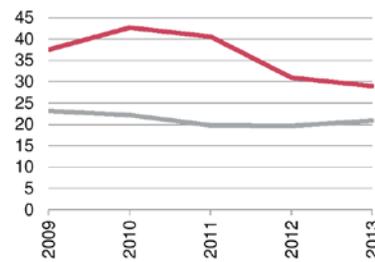
Surplus (Deficit)
% Total Revenue



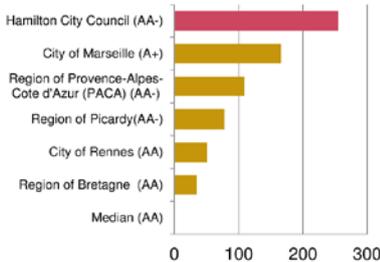
Taxes
% Operating Revenue



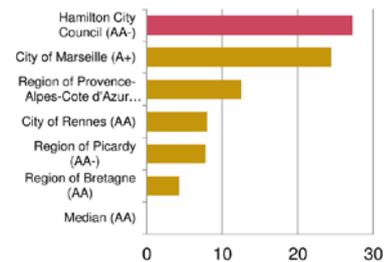
Capital Expenditure
% Total Expenditure



Debt To Current Revenue (%) 2013



Debt Servicing To Current Revenue (%) 2013



— Hamilton City Council

— AA- Peer Group Median

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Committee: Audit & Risk Committee **Date:** 18 March 2015
Report Name: 2015 Quarter 3 Update from PWC **Author:** Paul Conder

Report Status	<i>Open</i>
Strategy, Policy or Plan context	<i>Internal Audit Plan</i>
Financial status	<i>There is budget allocated. Amount \$150,000 per annum (4 year contract)</i>
Assessment of significance	<i>Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendations is not considered to have a high degree of significance</i>

1. Purpose of the Report

- The purpose of this report is to update the Audit and Risk Committee on the PWC Internal Audit programme for Quarter 3 of 2015.

3. Summary

- The PWC Internal Audit update for Quarter 3 of 2015 outlines the status of the Internal Audit Programme. The overall Internal Audit Programme is on schedule.
- PWC have finalised two assessments this quarter.
- Quarter 4 scoping has commenced.

7. Recommendation from Management

That the Report be received.

8. Attachments

- Attachment 1 - Audit and Risk Committee Internal Audit Update - FY 2015 Quarter 3

Signatory

Authoriser	Paul Conder, Chief Financial Officer
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Hamilton City Council

Audit and Risk Committee Internal Audit Update – FY15 Quarter 3

18 March 2015

Attachment 1



1. Status of the 2014–2015 Internal Audit Plan

We set out below a status update report which summarises our progress in performing the internal audit reviews as per the Internal Audit Plan for the year ending 30 June 2015.

Project	Timing	Internal Audit Scope	Progress	Project status
Project 1 Governance reporting	Q2 2014/15	An assessment of the design and operating effectiveness of processes and controls relating to the compilation of reports included in Council Committee Agendas, with a specific focus on processes and controls to ensure information is complete and accurate, and all impacts, including financial, are identified, with clarity over the decision required from Council.		Terms of Reference largely completed. Fieldwork timing in process of being finalised.
Project 2 Municipal Building Accounts Receivable and Online Portal Process and Control Assessment	Q2 2014/15	An assessment of the design and operating effectiveness of key accounts receivable and online portal controls implemented at Municipal Building. The scope of the engagement includes: Part 1 – Accounts Receivable Assessment Part 2 – Online Portal Assessment.		Final report issued.
Project 3 Follow up on Prior Internal Audit Recommendations	Q2 and Q4 2014/15	An assessment of progress to address prior internal audit recommendations.		Fieldwork being finalised.
Project 4 Business continuity planning framework	Q3 2014/15	An assessment of the business continuity management framework against good practice standards and HCC policies and procedures.		Final report issued.
Project 5 Budgetary controls and reporting	Q3 2014/15	An assessment of the design and operating effectiveness of processes and controls relating to the compilation of budgets and budgetary reporting by management to ensure that information is accurate and complete. The scope of this assessment will include automated and manual review controls over the coding of revenue and expenses, correcting misallocations, and system access to this functionality.		Timing dependent on finalisation of the budget module fixes within the AX system.
Project 6 Hamilton Zoo	Q4 2014/15	An assessment of the design and operating effectiveness of processes and controls relating to areas such as management of entrance/membership fee master data, venue hire/event revenue management, cash handling, invoicing and debtor management (to the extent this is performed on site).		Scoping discussion held and Terms of Reference being drafted.
Project 7 Theatre Operations	Q4 2014/15	An assessment, against HCC policy and procedures, of the design and operating effectiveness of processes and controls relating to premise, service and equipment hireage.		Scoping discussion held and Terms of Reference being drafted.

Project	Timing	Internal Audit Scope	Progress	Project status
Project 8 Safety & Wellbeing Management System	Q4 2014/15	A high level/take stock assessment of the design effectiveness of design of controls operated by management within the Safety & Wellbeing Management System to ensure that group health and safety framework requirements are consistently applied and complied with by operating units, and that there is effective recording of information and reporting on high risk hazards, incidents, compliance with health and safety requirements and continuous improvement initiatives.		Scoping discussion scheduled.
	On schedule / Good progress			
	Slightly behind schedule / Average progress			
	Behind schedule / Poor progress			
	Not started			
	Deferred			

2. Completed Engagements

While three projects are in progress, no engagements have been finalised and reported on since the last Audit Committee meeting on 17 September 2014.

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. Confirmation of Minutes - Audit and Risk - Public Excluded - 5 December 2014) Good reason to withhold information exists under Section 7 Local Government	Section 48(1)(a)
C2. PwC - Internal Audit Status Report) Official Information and Meetings Act 1987	

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 protect the privacy of natural persons	Section 7 (2) (a)
Item C2.	to enable Council to carry out commercial activities without disadvantage	Section 7 (2) (h)