

Notice of Meeting:

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

Date: Tuesday 18 September 2018
Time: 9.30am
Meeting Room: Committee Room 1
Venue: Municipal Building, Garden Place, Hamilton

Richard Briggs
Chief Executive

Audit & Risk Committee OPEN AGENDA

Membership

Chairperson: External appointee - Paul Connell

Membership: External appointee - Keiran Horne
Mayor Andrew King
Chairperson of the Finance Committee – Cr Garry Mallett
Chairperson of the Growth and Infrastructure Committee – Cr Dave Macpherson
Chairperson of the Community and Services Committee – Cr Paula Southgate
Deputy Chairperson of the Finance Committee - Cr Rob Pascoe

Meeting frequency: As required – no less than four times a year

Quorum: Four members (including one external appointee)

Lee-Ann Jordan
Governance Manager

11 September 2018

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Purpose:

The Audit and Risk Committee is responsible for:

1. Providing objective advice and recommendations to the governing body on the adequacy and functioning of the Council's risk management, control and governance frameworks and processes.
2. Monitoring Council's compliance with legislation.
3. Monitoring the Council's external and internal audit process.
4. Ensuring the independence and effectiveness of Council's Internal Audit processes.
5. Monitoring existing corporate policies and recommending new or amended policies to prevent and prohibit unethical, questionable or illegal activities.
6. Providing a communication link between management, internal auditors/external auditors and Council.
7. Supporting measures to improve management performance and internal controls.
8. Report to Council 6 monthly on key risks.
9. Such other Matters referred to it by Council.

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

1. Engage with Council's external auditors regarding the external audit work programme and agree the proposed terms and arrangements of the external audit.
2. Recommend to Council the terms and arrangements for the external audit programme.
3. Review the effectiveness of the Annual Plan audit and 10 Year Plan audit.
4. Assess management response to audit reports and the extent to which external audit recommendations concerning internal accounting controls and other matters are implemented.

Internal Audit

5. In conjunction with the Chief Executive, agree the scope of the annual internal audit work programme.
6. Monitor the delivery of the internal audit work programme to ensure the effectiveness of the Council's internal control framework.
7. Assess whether Internal Audit's recommendations have been properly implemented by management.
8. Review the annual Internal Audit Plans to ensure appropriate organisational structures, authority, access, independence, resourcing and reporting arrangements are in place.

Other Matters

9. Review the effectiveness of the risk control environment established by management to safeguard Council's financial and non-financial assets, including the adequacy and appropriateness of insurance policies in place and management's actions to mitigate risks and report 6 monthly to Council.
10. Review the effectiveness of the systems for monitoring the Council's compliance legislation, regulation, policy and guidelines (including health and safety).

11. Engage with internal and external auditors on any specific one-off audit assignments.
12. Conduct and monitor special investigations in accordance with Council policy and approved budget or in response to material matters raised by staff or committee members, including engaging expert assistance, on matters within its Terms of Reference.
13. To review the Risk Management Policy and recommend to Council revisions to the policy for adoption.
14. Review and monitor integrity of interim and annual reports and recommend to Council for adoption.
15. Review and monitor business continuity planning.

The Committee is delegated the following recommendatory powers:

- The Committee has no decision-making powers.
- The Committee may make recommendations to the Council and/or the Chief Executive, as appropriate.

Special Notes:

- In fulfilling their role on the committee, members shall be impartial and independent at all times.
- Members are appointed for an initial term of no more than three years that aligns with the triennial elections, after which they may be eligible for extension or reappointment.
- Council appoints two external members of the committee, one of whom shall be Chairman. External members shall have a broad range of skills and experience including accounting or audit experience; the terms of the appointment to be recorded in a contract. External member contracts are to be reviewed and assessed six (6) months after each triennial election.
- The Chief Executive and Internal Auditor are required to attend all meetings but are not members and have no voting rights. Other Council officers may attend the committee meetings, as required.
- The Chairperson shall review the travel and other reimbursed expenses of the Chief Executive and confirm compliance with Council policies. This information will be provided to the Chairperson on a six-monthly basis.
- The Chief Executive and the Principal Advisor shall be responsible for drawing to the committee's immediate attention any material matter that relates to the financial condition of Council, any material breakdown in internal controls, and any material event of fraud or malpractice.
- The chairperson shall present an annual Audit and Risk Self Review to Council summarising the committee's activities during the year and any related significant results and findings.

Oversight of Policies:

Risk Management Policy

ITEM	TABLE OF CONTENTS	PAGE
1	Apologies	5
2	Confirmation of Agenda	5
3	Conflict of Interest	5
4	Public Forum	5
5	Confirmation of Audit and Risk Committee Meeting Minutes - Open - 14 June 2018	6
6	Risk Management Report	13
7	Safety and Wellness Report	35
8	Organisation Improvement Register Report	46
9	Internal Audit Update	49
10	Audit NZ Final 2018-28 LTP Management Report	59
11	Audit NZ Interim Management Report 2017/18	74
12	Annual Report 2017/18 and Audit NZ Clearance <i>(Recommendation to Council)</i>	91
13	Audit & Risk Committee Self-review	92
14	Resolution to Exclude the Public	95

1 Apologies

2 Confirmation of Agenda

The Committee to confirm the agenda.

3 Declaration of Interest

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

4 Public Forum

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

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

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

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

Council Report

Committee: Audit & Risk Committee **Date:** 18 September 2018
Author: Rebecca Watson **Authoriser:** Becca Brooke
Position: Committee Advisor **Position:** Governance Team Leader
Report Name: Confirmation of Audit and Risk Committee Meeting Minutes - Open - 14 June 2018

Report Status	<i>Open</i>
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Staff Recommendation

That the Committee confirm the Open Minutes of the Audit and Risk Committee Meeting held on 14 June 2018 as a true and correct record.

Attachments

Attachment 1 - Audit and Risk Committee Meeting Minutes - Open - 14 June 2018 - Unconfirmed .

Audit & Risk Committee

OPEN MINUTES

Minutes of a meeting of the Audit & Risk Committee held in Committee Room 1, Municipal Building, Garden Place, Hamilton on Thursday 14 June 2018 at 9.30am.

PRESENT

Chairperson: Keiran Horne (Acting)

Membership: Mayor Andrew King
Cr Garry Mallett
Cr Paula Southgate
Cr Rob Pascoe

In Attendance: Richard Briggs – Chief Executive
David Bryant – General Manager, Corporate
Jessica Ashworth – Executive Assistant, Corporate
Sean Murray – General Manager, Venues Tourism and Major Events
Maire Porter – City Waters Manager
Sean Hickey – General Manager, Strategy and Communications
Andre Chatfield – Risk and Insurance Manager
Helen Paki – Business and Planning Manager
Dan Finn – People, Safety and Wellness Manager
Eeva-Liisa Wright – Business Manager, Business Support
Andrew McFayden – Health and Safety Assurance Lead
Paul Gower – Programme Manager – Growth and Assets
Jeff Neems – Communications Advisor
Bridget Morgan – Water Asset Manager
Sarah Seel – Strategic Asset Management Advisor
Jen Baird – General Manager, City Growth
Karin Barclay – Safety Engagement Lead
Russell Hynd – Finance Manager
Stafford Hodgeson – Senior Strategic Policy Analyst
Sharon Cresswell - PWC
Aaron Steele – PWC
Leon Pieterse – Audit Director of Audit NZ
Jared Williams – Audit NZ Manager
Kate Cornege – Tomkins Wake

Governance Staff: Becca Brooke – Governance Team Leader
Rebecca Watson – Committee Advisor

1. Resolution for Keiran Horne to act as Chairperson for this meeting

Resolved: (Crs Pascoe/Mallett)

That the Committee approve Keiran Horne to act as Chair during the 14 June 2018 Audit and Risk Committee meeting in the absence of Paul Connell.

2. Apologies

Resolved: (Crs Mallett/Pascoe)

That the apologies from Chairperson Paul Connell and Cr Macpherson are accepted.

3. Confirmation of Agenda

Resolved: (Crs Mallett/Pascoe)

That the agenda is confirmed.

4. Declarations of Interest

No members of the Council declared a Conflict of Interest.

5. Public Forum

There were no public forum speakers.

6. Confirmation of Audit and Risk Committee Minutes - Open - 8 March 2018

Amendment noted to Item 10 (*Annual Report 2018 Planning Update*), which should state Audit NZ spoke to the item, not PWC as written.

Resolved: (Ms Horne/Cr Mallett)

That the Committee confirm the Open Minutes of the Audit and Risk Committee Meeting held on 8 March 2018 as a true and correct record, noting the amendment to Item 10 (as above).

7. Risk Management Report

The Risk and Insurance Manager spoke initially to the report, and then introduced the Programme Manager – Growth and Assets, who spoke to a presentation on the identification, consequences and mitigations of potential failure of critical assets in Hamilton city area.

Committee Members asked questions regarding the CAMMS Risk Management software platform and how this works operationally, as well the process for updating the Material Risk Register as appropriate.

Resolved: (Crs Mallett/Southgate)
That the Audit and Risk Committee receives the report.

8. Safety and Wellness Report

The People, Safety and Wellness Manager and the Health and Safety Assurance Lead spoke to the report, highlighting that the organisation was on track to achieve the key performance targets set for 2017/18.

Committee Members asked questions around notifiable events, and whether there were trends to be noted in the reporting of these.

Resolved: (Ms Horne/Cr Southgate)
That the Audit and Risk Committee receives the report.

9. Organisational Improvement Report

The Finance Manager spoke to the report, identifying that some changes have been made to the format of the report to improve the readability. He highlighted the items on the report that have been identified as being behind schedule or at risk of falling behind and spoke about the mitigation plans for these.

Committee Members asked questions relating to business intelligence development and the tools and systems being developed and implemented around this.

Resolved: (Ms Horne/Cr Pascoe)
That the Audit and Risk Committee receives the report.

10. Audit and Risk Committee - Terms of Reference Review

Acting Chair Keiran Horne spoke to the item, noting that she had suggested some further minor changes to the Terms of Reference. A handout with the further suggested changes was circulated to Committee Members.

Committee Members asked questions relating to the process to be followed when the Audit and Risk Committee identifies an area of non-compliance.

Resolved: (Ms Horne/Cr Pascoe)

That the Audit and Risk Committee:

- a) receives this report; and
- b) recommends the Chair and Principal Advisor capture the feedback of Committee Members and finalise the Terms of Reference for a recommendation to Council.

11. 2017/18 Internal Audit Update Q3

The Finance Manager introduced Sharon Cresswell and Aaron Steele from PWC. They spoke to the report and answered questions from Committee Members regarding the progress of Cyber Security and Capital Works in Progress internal audit engagements, as well as resourcing for internal audit.

Resolved: (Ms Horne/Cr Mallett)

That the Audit and Risk Committee:

- a) receives the report;
- b) notes that scoping for the 2017/18 Internal Audit Plan engagements has been finalised with management; and
- c) notes that work has commenced on four engagements, as outlined in the staff report.

12. Audit Arrangements 2017/18 Annual Report

The Finance Manager introduced Leon Peitserse and Jared Williams from Audit NZ. They highlighted that the management accounts audit report is due June 2018, prior to having the financial statements finalised. This ensures the report will be completed in a timely manner.

Resolved: (Ms Horne/Cr Mallett)

That the Audit and Risk Committee receives the report, noting a change from 2007 to 2017 on page 5.

13. Audit of the Hamilton City Council Long Term Plan Consultation Document 2018-28

The Finance Manager, along with Leon Pieterse and Jared Williams from Audit NZ spoke to the report. They responded to questions from Committee Members in relation to the accountability over grant payments made for the Waikato Regional Theatre, as well as concerns around the impact of the timeframes for receiving feedback from the Office of the Auditor-General over the issues with the Development Contributions model error on the sign off of the 2018-28 10-Year Plan.

Committee Members also asked questions regarding the potential savings identified in the 10-Year Plan by the Chief Executive over the next 10 years, and how these savings could be delivered operationally.

Resolved: (Ms Horne/Cr Mallett)

That the Audit and Risk Committee receives the report.

14. Resolution to Exclude the Public

Resolved: (Ms Horne/Cr Mallett)

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. Legal Review of Contingent Liabilities) Good reason to withhold) information exists under) Section 7 Local Government) Official Information and) Meetings Act 1987)	Section 48(1)(a)

This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public, as follows:

Item C1. to maintain legal professional privilege Section 7 (2) (g)

The meeting moved into a Public Excluded session at 12.16pm.

The meeting was declared closed at 12.30pm.

Council Report

Item 6

Committee: Audit & Risk Committee **Date:** 18 September 2018
Author: Andre Chatfield **Authoriser:** David Bryant
Position: Risk and Insurance Manager **Position:** General Manager Corporate
Report Name: Risk Management Report

Report Status	<i>Open</i>
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Purpose

1. To inform the Audit and Risk Committee of progress managing Council's material risks.

Staff Recommendation

That the Audit and Risk Committee receives the report.

Discussion

2. Hamilton City Council has eight material risks that are managed by the Risk & Insurance Manager, in conjunction with the identified risk owners.
3. Attachment 1 details each material risk and includes a current status of identified actions to further mitigate these risks.
4. A deep dive into Material Risk 7: Cyber Attack will be held in the Public Excluded segment of this committee meeting due to the sensitive nature of this risk.

Attachments

Attachment 1 - HCC Material Risk Report - 18 Sept 2018 .

Material Risks Summary – August 2018

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

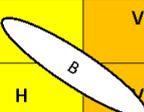
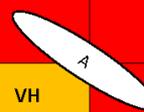
* There is a very strong relationship between the likelihood and severity (consequence) of H&S incidents. The likelihood of minor injuries is much higher than an incident which could result in a death.

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

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

Risk Triggers
<ul style="list-style-type: none"> • H&S roles and responsibilities across the organisation not fully understood or accepted • Poor understanding of the H&S risks within the organisation • H&S management system ineffective or inefficient • Poor safety / organisational culture • Human error / inappropriate behaviours / complacency • Unsafe or poorly maintained equipment

Inherent Risk

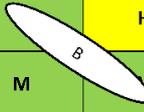
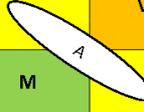
		CONSEQUENCE				
		Minor	Moderate	Serious	Major	Catastrophic
LIKELIHOOD	Almost certain	H		VH		E
	Likely	M	H	VH	VH	E
	Possible	L	M	H	VH	VH
	Unlikely	L	M	M	H	VH
	Rare	L	L	L	M	H

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

-  Risk of serious injury or death
-  Risk of other serious harm incidents (as defined in the Health and Safety at Work Act).

Existing Controls and Mitigations	
<ul style="list-style-type: none"> • Health and Safety Management System – system development phases • Includes plans, procedures for work practices/activities for all high-risk areas • Pre-qualification engagement program – contractors • Organisation engagement survey 	

Residual Risk

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

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

-  Risk of serious injury or death
-  Risk of other serious harm incidents (as defined in the Health and Safety at Work Act).

Further Actions Required	Update – August 2018	Action Owner
<ul style="list-style-type: none"> • Establish a governance framework for the engagement and management of contractors. • Enhance the safety behaviours / culture program (take it to the next level of maturity). • Design and implement an appropriate monitoring approach (audits and reviews by both external parties and leadership inspections) and reporting framework to ensure oversight and focus on resolving actions. • Enhance understanding of key risk scenarios and commonality of critical controls. Ensure on-going monitoring of effectiveness of critical controls. 	<ul style="list-style-type: none"> • The contractor management governance framework is established and implemented through the SHE Contractor Prequalification programme. This is to be audited annually to ensure quality of data capture is maintained at a higher level. • As part of the safety behaviours / culture program a People Safety and Wellness Strategic Plan has been developed to focus H&S activities where it matters most and will make the biggest difference. • More work on the appropriate monitoring approach is required however an improvement in near misses and incident reporting has been identified. • To enhance the understanding of councils critical H&S risks 12 Current Best Practice (CBP) documents are being established and implemented. Three have been completed and distributed across the organisation for review: <ul style="list-style-type: none"> (1) Working alone in Isolation (2) Hazardous Substances (3) Asbestos Management. <p>In support of the 3rd CBP, WorkSafe NZ has established a nationwide Asbestos Protocol with the purpose of responding and supporting councils to manage asbestos incidents. Council is a regional signatory to this protocol.</p>	<p>David Bryant (General Manager Corporate)</p>

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

Risk Triggers
<ul style="list-style-type: none"> Inadequate understanding of the scope of HCC's health and safety responsibilities towards the community Poor HCC understanding of the H&S risks within the Community Failures in safety-in-design planning for our amenities and services provided to the community Human error / inappropriate behaviours Crime

Inherent Risk

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

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

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

Existing Controls and Mitigations	
<ul style="list-style-type: none"> Health and Safety Management program implemented Includes Plans, procedures for work practices/activities for all high-risk areas Includes Pre-qualification engagement program – contractors Audit functions implemented with risk assessment practices embedded within BU's. Call Centre feedback and HCC Website capability for community to report hazards. Incl social media monitoring by Communications 	

Residual Risk

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

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

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

Further Actions Required	Update – August 2018	Action Owner
<ul style="list-style-type: none"> • Design and implement an appropriate monitoring approach (audits and reviews by both external parties and leadership inspections) and reporting framework to ensure oversight and focus on resolving actions. • Enhance understanding of key risk scenarios and commonality of critical controls. • Ensure on-going monitoring of effectiveness of critical controls where community is exposed. 	<ul style="list-style-type: none"> • H&S Assurance Lead is establishing an inspection, audit and review framework to identify risk levels across Council’s facilities. Work is yet to commence with H3, Community and City Infrastructure Groups although the H&S team provide guidance to them including reviewing Safety and Design projects. The H&S team is also establishing a guideline for organisation awareness around Safety and Design requirements. • In support of the above the H&S team are currently working on a Contractor Management Current Best Practice (CBP) and are scheduling project contractor safety audits/inspections to provide support to an ongoing assurance programme. • The Risk and Insurance team are establishing an integrated management framework for Emergencies, Crisis and Business Continuity which assesses likely scenarios, in conjunction with Civil Defence, that Hamilton could experience. This work involves key groups from Community, H3 and City Infrastructure and is on-going. 	<p>David Bryant (General Manager Corporate)</p>

Failure of critical assets Incorrect investment (timing and/or amounts) results in the unexpected failure of critical assets (loss of service levels).			Rank: 3
Risk Owner	Chris Allen (GM City Infrastructure)	Category	Financial

Risk Triggers					
<ul style="list-style-type: none"> Poor response management and knowledge across HCC Poor understanding of requirements to support Hamilton City in an event Lack of experience with real life emergency situations Turnover of trained staff Poor contract management Lack of critical equipment and resourcing Cross-jurisdictional responsibilities Poor critical asset management 					
Inherent Likelihood	Almost Certain	Inherent Consequence Drivers Safety & Wellbeing, Financial, Service Delivery, Compliance Social and Cultural	Catastrophic	Inherent Risk Rating	Extreme 

Existing Controls and Mitigations					
<ul style="list-style-type: none"> Asset Management Centre of Excellence is in place to drive organisational consistency of asset management overseen by the GM City Infrastructure AMP renewals with associated governance at SLT levels Resilience considerations fed into long term asset planning to extend asset life Financial peer reviews of critical assets and supported by Council insurance programme 					
Residual Likelihood	Unlikely	Residual Consequence Drivers Safety & Wellbeing, Financial, Service Delivery, Compliance Social and Cultural	Catastrophic	Residual Risk Rating	Very High 

Further Actions Required	Update – August 2018	Action Owner
<ul style="list-style-type: none"> • Review critical asset framework and identify all critical assets at a component level within the appropriate asset management system i.e. IPS or RAMM. • Ensure there are asset management strategies in place for all critical assets at an appropriate level and detail. • Mapping of critical assets across the city. • Implement the updated 2018/19 asset management improvement programme to continue to lift asset management practises across Council. 	<ul style="list-style-type: none"> • Activity Management Plans have been prepared for use in 2018-28 10-Year Plan and the renewals forecasts has been fully funded. • Current management strategies have been documented for critical assets. • Critical assets (as currently understood) have been mapped for Transportation, Water Supply and Wastewater. • Consultants are working with staff to develop high-level liquefaction risk maps using existing and available geotechnical data. 	<p>Eeva-Liisa Wright (General Manager Infrastructure Operations)</p>

Failure of BCP Failure of, or inadequate Business Continuity Plans (when they are required), result in unacceptable business interruption and disrupted customer service.			Rank: 4
Risk Owner	David Bryant (GM Corporate)	Category	Disaster Recovery/ Business Continuity

Risk Triggers					
<ul style="list-style-type: none"> Business Continuity Plans are not communicated effectively Untested Business Continuity Plans Business Continuity Plans haven't contemplated all the scenarios Business Continuity Management framework not established, implemented or communicated within organisation Business Continuity Plans are untested, inadequate, not communicated effectively, or are not up to date. 					
Inherent Likelihood	Likely	Inherent Consequence Driver Service Delivery	Serious	Inherent Risk Rating	Very High 
Existing Controls and Mitigations					
<ul style="list-style-type: none"> Business Continuity Plans in place for all critical activities and business units HCC Crisis Management Guide has been established in support of an integrated response capability. Business Continuity Plans are reviewed quarterly by Risk & Insurance business unit Business Continuity Plans are integrated as part of asset management planning Business Continuity Plans are reviewed on an ad hoc basis by Internal Audit 					
Residual Likelihood	Unlikely	Residual Consequence Driver Service Delivery	Serious	Overall Residual Risk Rating	Medium 

Further Actions Required	Update – August 2018	Action Owner
<ul style="list-style-type: none"> Visibility and ownership of Business Continuity Plans to be outlined to all SLT members. Council's intranet site to be updated with all BCPs. BCP testing plans to be completed and practiced by applicable activities. 	<ul style="list-style-type: none"> Council's BCP programme is still being reviewed with seven completed and seven being updated / developed. Current BCPs are assigned with detailed review with each GM scheduled to be complete by end of 2018. Work in progress. Work in progress. 	David Bryant (General Manager Corporate)

Inadequate civil defence response Failure to respond adequately during a civil defence emergency results in undue harm to members of the community and delays in restoring the city to an operational standard.			Rank: 5
Risk Owner	Blair Bowcott (Special Projects Director)	Category	Disaster Recovery

Risk Triggers					
<ul style="list-style-type: none"> • Poor response management and knowledge across HCC • Poor understanding of requirements to support Hamilton City in an event • Lack of experience with real life emergency situations • Turnover of trained staff • Poor contract management • Lack of critical equipment and resourcing • Cross-jurisdictional responsibilities • Poor critical asset management 					
Inherent Likelihood	Likely	Inherent Consequence Driver Safety & Wellbeing, Service Delivery, Social, Cultural and Environment	Catastrophic	Inherent Risk Rating	Extreme 

Existing Controls and Mitigations					
<ul style="list-style-type: none"> • Regional Group Contract Initiative (RGCI) implemented by Council. • Simulation exercises will be conducted in accordance with Group Contract requirements • Established emergency training program implemented for council staff • Dedicated and operational emergency operations centre (GEMO) • Civil Defence Standard Operating Plans and Procedures • Annual CDEM Capability Assessments conducted • Audits from the Ministry of Civil Defence and Emergency Management every 3 years 					
Residual Likelihood	Unlikely	Residual Consequence Driver Safety & Wellbeing, Service Delivery, Social, Cultural and Environment	Catastrophic	Residual Risk Rating	Very High 

Further Actions Required	Update – August 2018	Action Owner
<ul style="list-style-type: none"> • Monitoring of Service Level Agreement (SLA) in place with Waikato Regional Council and bi-annual progress reports. • Review and communicate emergency response procedure to lift civil defence awareness through the organisation. • Develop succession plan for critical Emergency Management knowledge. 	<ul style="list-style-type: none"> • Reported quarterly to Council’s Community and Services Committee • The HCC Civil Defence Emergency Management (CDEM) Capability Assessment is an annual assessment and has been completed for 2018 with a score of 56%, compared to 47% for 2017. • Underway within the Waikato Regional Group Emergency Management Office. Specific CDEM procedural guidelines being created to support HCC staff and services. 	<p>Jen Baird (GM – City Growth)</p>

Financial Strategy Failures Implementation of Council’s Financial Strategy is not effective in guiding appropriate decision making to meet the financial pressures associated with maintaining the assets and amenities of the city whilst investing in growth infrastructure			Rank: 6
Risk Owner	Richard Briggs (CE)	Category	Financial

Risk Triggers					
<ul style="list-style-type: none"> • Materially incorrect financial strategy assumptions • Significant unforeseen event 					
Inherent Likelihood	Possible	Inherent Consequence Drivers Safety & Wellbeing, Financial, Service Delivery, Compliance Social and Cultural	Serious	Inherent Risk Rating	High 

Existing Controls and Mitigations					
<ul style="list-style-type: none"> • The Financial Strategy is reviewed three yearly in conjunction with the development of Council’s 10-Year Plan and revised if appropriate. Part of this process includes a review of Council’s Revenue and Financing Policy, Funding Needs Analysis Policy and Rating Policy and making any revisions where appropriate. • The Financial Strategy is reviewed three yearly in conjunction with the development of Council’s Annual Plan and revised if appropriate. • The Financial Strategy is used to guide decision making where significant expenditure is required. Council’s delegated authority limits result in these items being referred to meetings of the Council where details of the expenditure and associated risks are identified and reviewed before decisions are made. • Council’s Monitoring Report is used to provide visibility of Council’s financial performance at each Finance Committee. This enables comparison to Council’s Financial Strategy limits and for any irregularities to be discussed and addressed. • Internal financial reporting is used to provide visibility of Council’s financial performance at each monthly Senior Leadership Team meeting. This enables comparison to Council’s Financial Strategy limits and for any irregularities to be discussed and addressed. 					
Residual Likelihood	Possible	Residual Consequence Drivers Safety & Wellbeing, Financial, Service Delivery, Compliance Social and Cultural	Serious	Residual Risk Rating	High 

Further Actions Required	Update –August 2018	Action Owner
<ul style="list-style-type: none"> • To review Council’s Financial Strategy as part of the 2018-28 10-Year Plan process. • Review Council’s Revenue and Financing Policy, Funding Needs Analysis Policy, and Rating Policy. • A key focus of the new Financial Strategy is to limit Council’s debt to revenue ratio to 230%. A review of the format and content of Financial Strategy reporting to Council is required to ensure transparency and appropriateness of information to inform Council decision making. 	<ul style="list-style-type: none"> • The Financial Strategy measures have been approved by Council as part of approving the 2018-28 10-Year Plan. • These policies have now been finalised and approved by Council as part of approving the 2018-28 10-Year Plan. • A review of Council’s existing Financial Strategy reporting is underway. It is expected that changes will be required to the 10-Year Plan Monitoring Report to align to the new strategy as well as the creation of a Capital Delivery Report. By Council resolution Cllr Mallett and Pascoe will assist staff with finalising the new Financial Strategy reports. Plan is to present these new reports to the October 2018 Finance Committee. 	<p>Richard Briggs (CE – Council)</p>

Cyber attack Inappropriate access and/or use of Council information or ratepayer data, or inability to operate Council systems due to a cyber-attack resulting in reputational, legal and financial damage and potentially loss of service continuity.			Rank: 7
Risk Owner	David Bryant (GM Corporate)	Category	Technology/ Information/ Data Management

Risk Triggers						
<ul style="list-style-type: none"> Inadequate IT security environment Staff not following IT security procedures [lack of general awareness / culture] Targeted and potentially malicious exploitation of security vulnerabilities in operating systems or applications 						
Inherent Likelihood	Possible	Inherent Consequence Driver	Information Management/ Information Technology, Service Delivery, Safety & Wellbeing	Inherent Risk Rating	Catastrophic	Very High 

Existing Controls and Mitigations						
<ul style="list-style-type: none"> 3 Lines of Defence implemented (1) Hardware + Systems Controls (2) Process Management (3) technical Experts – architects, technical and operations personnel (i.e. Fujitsu) Managed desktop environment implemented conforms with DIAAOG – (Department of Internal Affairs and All of Government) desktop offering and standards Data and system backups – daily, weekly, monthly regime aligned to critical services list Technical support from key vendors - Microsoft and Fujitsu IT Security Management Policies and Procedures External and internal security audit and reviews 						
Residual Likelihood	Unlikely	Residual Consequence Driver	Information Management/ Information Technology, Service Delivery	Residual Risk Rating	Catastrophic	Very High 

Further Actions Required	Update – August 2018	Action Owner
<ul style="list-style-type: none"> • Enhance understanding of key activities where we need back up or manual intervention. • Develop action plans to ensure there is a backup in place for critical activities. • Ensure on-going monitoring of effectiveness of critical controls. • Develop and implement procedures for monitoring unusual network activity. 	<ul style="list-style-type: none"> • IS have developed an operational Disaster Recovery Plan (DRP). • The DRP includes a backup regime and action plans are in place for critical services. • PwC Internal Audit have completed an Operational Cyber Assessment. The summary report is included as part of the deep dive discussion being presented later in the agenda. • Monitoring of unusual network activities has increased and is still considered a 'business as usual' process with the 'three lines of defence' approach established and implemented. 	<p>David Bryant (General Manager Corporate)</p>

Poor data, analysis and response Inaccurate data, weak or incorrect analysis leading to inaccurate growth forecasts, financial modelling and untimely responses to trends resulting in inappropriate levels of investment in public assets.			Rank: 8
Risk Owner	Jen Baird (GM City Growth)	Category	Strategic

Risk Triggers					
<ul style="list-style-type: none"> Inadequate modelling and scenario planning Inadequate data inputs Poor cross-organisational sharing of data Inadequate access to analytical skills 					
Inherent Likelihood	Likely	Inherent Consequence Driver Social, Cultural and Environment	Major	Inherent Risk Rating	Very High 

Existing Controls and Mitigations					
<ul style="list-style-type: none"> District plan renewed every 10 years and undergoes a rigorous consultation and appeal process Future proof growth modelling around sub-regional plans are reviewed by the Executive Director Special Projects Growth forecasts and modelling around developer contributions reviewed by General Manager City Growth Quarterly reviews (part of the Hamilton Urban Growth Strategy) to monitor progress against the plan in terms of serviceable land availability. Results of the monitoring are reported through to the Senior Leadership Team for discussion and action Core inputs prepared by external experts "Market Economics" models and reviewed by BERL Council has two dedicated FTE's responsible for data analytics for Growth Group. New Development Contribution model and tool has been established to provide improved data analysis. Hamilton Housing Market & Economy Growth Indicator Report. Adopted across the sub- region New Growth Funding & Analytics Unit has been formally created 					
Residual Likelihood	Unlikely	Residual Consequence Driver Social, Cultural and Environment	Serious	Overall Residual Risk Rating	Medium 

Further Actions Required	Update – August 2018	Action Owner
<ul style="list-style-type: none"> Establish a process of rigorous modelling and scenario planning Establish a suite of relevant, trusted data sources 	<ul style="list-style-type: none"> A review and documented improvements to growth and transport model calculations is established with continual ongoing improvement considerations to improve research calibre. 	Jen Baird (General Manager City Growth)

	<ul style="list-style-type: none"> • NPS is enacted by legislation. A sub-regional review of land use, demand and supply has now been completed. • Year to June 2018 tracking infill development against 56% growth target and 44% for greenfield growth target. • Quarterly analysis of external housing, market drivers is captured in the Hamilton Housing Market & Economy Growth Indicator Report • Significant improvements in data quality, management and processing since new DC and growth model operational. • New Analytics Strategy is currently being drafted to provide analytics guidance for the Growth Group and wider organisation. 	
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APPENDIX A – RISK RATING

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

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

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

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

APPENDIX B – ACTION REQUIRED AND REPORTING

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

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

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

APPENDIX C – RISK MATRIX LEGEND

Risk Matrix Legend					
	Description	Reputation	Health and Safety	Service Delivery (Strategy incl)	Financial
5	Catastrophic	<ul style="list-style-type: none"> Council suffers severe political and/or reputational damage that cannot easily recover from. Council suffers severe negative reputational impact, and the Mayor loses confidence in senior management. Mayor and Chief Executive need to be briefed and regularly updated. Media interest is sustained for a prolonged period (i.e., over a week) with major criticism levelled at the Council. Council breaches multiple laws, which leads to legal action by affected stakeholders. External/independent investigation conducted by law enforcement and/or government agencies. 	<ul style="list-style-type: none"> Loss of life. Major health and safety incident involving members of staff and/or members of the public. The injured party or parties suffer major injuries with long-term effects that leave them permanently affected. An external authority investigates Council's safety practices and Council is found to be negligent. 	<ul style="list-style-type: none"> Severe compromise of the strategic objectives and goals of the Council. Severe on-going impact on service delivery across Council and business units. Skills shortages severely affect the ability of Council to meet its objectives and goals. Staff work hours are increased by more than 50% (20 hours per week) for more than 30 days. Between a 10% or more increase in staff turnover in a six-month period that can be directly attributed to the risk eventuating 	<ul style="list-style-type: none"> Impact cannot be managed without additional funding from Council. Impact cannot be managed without significant extra human resources. Yearly operating costs increase by more than 12%. One-time financial cost greater than \$100,000.
4	Major	<ul style="list-style-type: none"> Council suffers significant political and/or reputational damage. Council suffers reputational damage and loses confidence in senior management. Mayor and Chief Executive need to be briefed and regularly updated. Media interest is sustained for up to a week with minor criticism levelled at Council. Key stakeholders need to be informed and kept up to date with any developments that affect them. Council breaches the law, which leads to legal action by affected stakeholders. External/independent investigation conducted by law enforcement and/or government agencies. Communications and recovery can be managed internally. 	<ul style="list-style-type: none"> A significant health and safety incident involving multiple members of staff and/or members of the public. The injured party or parties suffer significant injuries with long-term effects that leave them permanently affected. WorkSafe investigates Council's safety practices and Council is found to be inadequate. 	<ul style="list-style-type: none"> Significant compromise of the strategic objectives and goals of Council. Compromise of the strategic objectives of Hamilton City. Significant on-going impact on service delivery across one or more business units. Skills shortages affect the ability of Council to meet its objectives and goals. Staff work hours are increased by more than 38% (10 – 15 hours per week) for 30 days. Between a 3% and 10% increase in staff turnover in a six-month period that can be directly attributed to the risk eventuating. 	<ul style="list-style-type: none"> Impact cannot be managed without re-prioritisation of work programmes. Impact cannot be managed without extra financial and human resources. Yearly operating costs increase by 10% to 12%. One-time financial cost between \$50,000 and \$100,000.

3	Serious	<ul style="list-style-type: none"> • Council suffers limited political and/or reputation damage. • The Chief Executive and senior management need to be briefed and regularly updated. • Council breaches its compliance obligations. • Media interest is sustained for less than a week with minor criticism levelled at Council. • Key stakeholders need to be informed and kept up to date with any developments that affect them. • External/independent investigation is conducted by law enforcement and/or government agencies. • Most communications and recovery can be managed internally. 	<ul style="list-style-type: none"> • Health and safety incident involving multiple members of staff or one or more members of the public. • The injured party or parties suffer injuries with long-term effects and are not permanently affected. • Council's safety practices are questioned and found to be inadequate. 	<ul style="list-style-type: none"> • Compromise of the strategic objectives and goals of Council. • Moderate impact on service delivery across one or more business unit's due to prolonged service failure. • Staff work hours are increased by less than 25% (8 – 10 hours per week) for a two to four-week period. • Between a 1% and 3% increase in staff turnover in a six-month period that can be directly attributed to the risk eventuating. 	<ul style="list-style-type: none"> • Impact can be managed with some re-planning and modest extra financial or human resources. • Yearly operating costs increase by 7% to 10%. • One-time financial cost of \$20,000 to \$50,000.
2	Moderate	<ul style="list-style-type: none"> • Senior management and/or key stakeholders believe that Council's reputation has been damaged. • The Chief Executive needs to be advised and SLT needs to be briefed. • Media interest is short-lived (i.e., a couple of days) and no blame is directed at Council. • Key stakeholders need to be informed. • Communications and recovery can be managed internally. 	<ul style="list-style-type: none"> • Minor health and safety incident involving multiple members of staff or a member of the public. • The injured party or parties suffers minor injuries with only short-term effects and are not permanently affected. 	<ul style="list-style-type: none"> • Minor impact on service delivery across one or more business unit's due to brief service failure. • Limited effect on the outcomes and/or objectives of more than one business unit. • Staff work hours are increased by less than 15% (6 hours per week) for less than two weeks. • Less than a 1% increase in staff turnover in a six-month period that can be directly attributed to the risk eventuating. 	<ul style="list-style-type: none"> • Impact can be managed within current resources, with some re-planning. • Increase of between 5% and 7% in yearly operating costs. • One-time financial cost between \$10,000 and \$20,000.
1	Minor	<ul style="list-style-type: none"> • Reputation is not affected. • No media attention. • All communications and recovery can be managed internally. 	<ul style="list-style-type: none"> • No loss or significant threat to health or life. • Council's safety practices are questioned but are found to be appropriate. 	<ul style="list-style-type: none"> • Limited effect on the outcomes and/or objectives of a business unit. • Staff work hours are increased by less than 5% (1 - 2 hours per week) for less than seven days. • No increase in staff turnover because of the risk eventuating. 	<ul style="list-style-type: none"> • Impact can be managed within current resources, with no re-planning. • Increase of less than 5% in yearly operating costs. • One-time financial cost of less than \$10,000.

Attachment 1

Item 6

Council Report

Item 7

Committee: Audit & Risk Committee

Date: 18 September 2018

Author: Dan Finn

Authoriser: David Bryant

Position: People, Safety & Wellness
Manager

Position: General Manager Corporate

Report Name: Safety and Wellness Report

Report Status	<i>Open</i>
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Purpose

1. To inform the Audit and Risk Committee on the safety and wellness activities and key performance indicators for Q4 2017/18.

Staff Recommendation

That the Audit and Risk Committee receives the report.

Attachments

Attachment 1 - Safety and Wellness Report - Quarter 4 2017/18



Contents

Executive Summary

Page 2

Safety Performance

Page 3

Health and Safety Trends

Page 5

Key Health and Safety Initiatives

Page 6

Health and Wellbeing

Page 7

Summary

Page 8

Appendix

Page 9

Executive Summary

Overview

Hamilton City Council's safety performance for year ending 30 June 2018 showed a marked improvement across most of our key performance targets, with the exception of near hit reporting, where the target was not achieved due to a number of facilities being closed for periods of time.

As an organisation focused on continuous improvement we remain committed to providing a safe working environment that is free from harm. In support of our approach to drive continuous improvement we have reset our key safety performance indicators to drive a better reduction in the number of injuries, focussing on early intervention, risk assessments and an improved reporting culture.

Over recent months we have seen an increase in the number of reports from workers suffering from mental health related issues that have required support. There are various support programmes available to workers through the peer support network, Employee Assistance Program (EAP) and counselling, which we continue to promote.

Looking forward, our wellness programme efforts will be focussing on initiatives to encourage people to get out and exercise with spring arriving, mental health and wellbeing in October in support of Mental Health Week and being Sun Smart, preparing ourselves for the summer ahead and ways we can protect ourselves from solar, UV and heat related illnesses.

Safety Performance – Full Year Results 1 July 2017 – 30 June 2018

Attachment 1

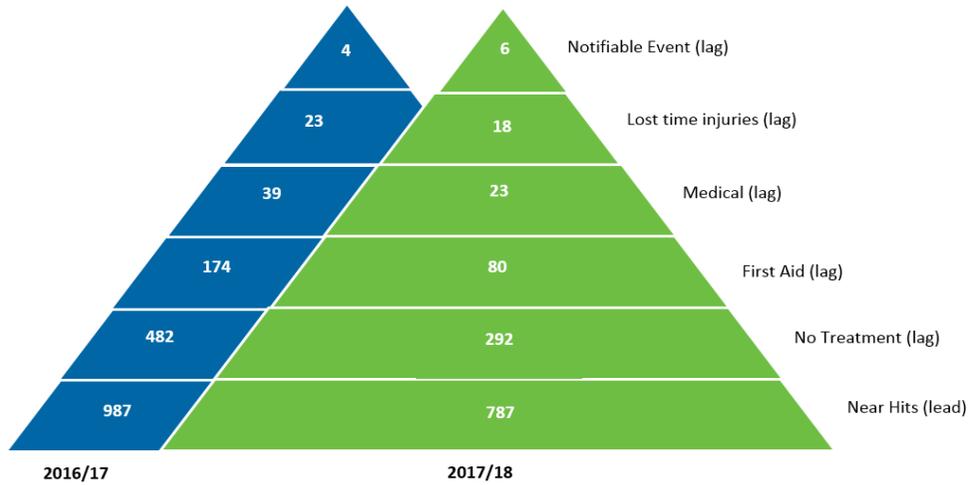


Figure 1: Performance Indicators for events reported in financial year 2017/18

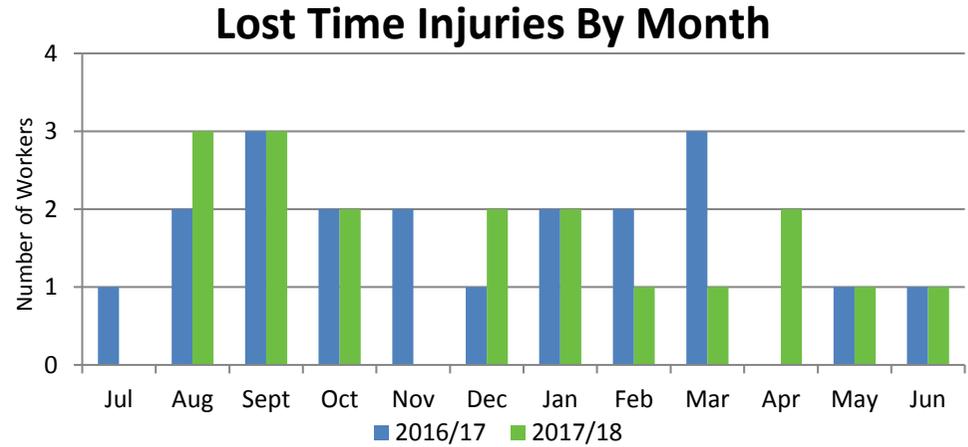


Figure 3: Lost time injuries by month for FY 2017/18

Item 7

Total Recordable Injury Frequency Rate

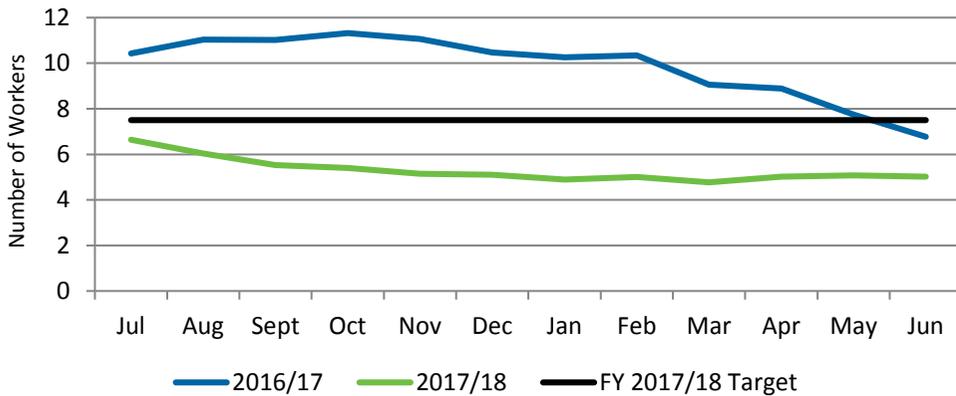


Figure 2: Total recordable injury frequency rate per 200,000 work hours for FY 2017/18

Lost Time Frequency Rate

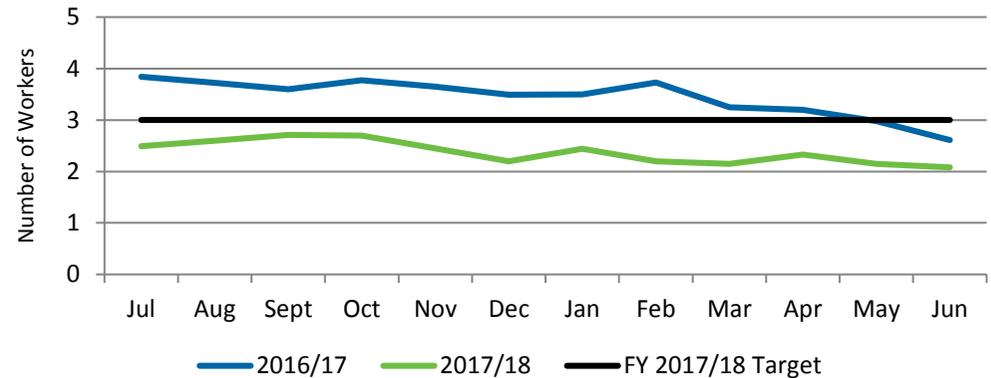


Figure 4: Lost time injury frequency rate per 200,000 work hours for FY 2017/18

Safety Performance – Year to Date 1 July – 31 August 2018/19

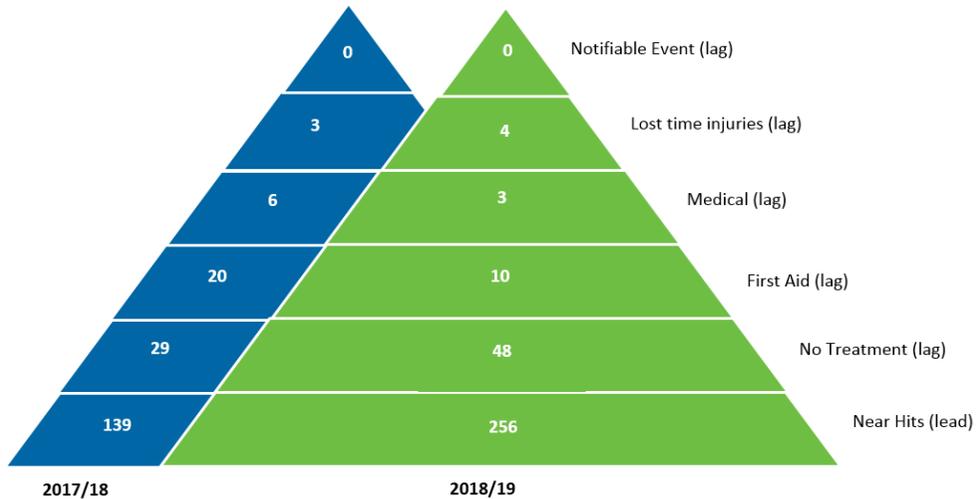


Figure 1: Performance Indicators for events reported 1 July – 31 Aug 2017/18 and 2018/19

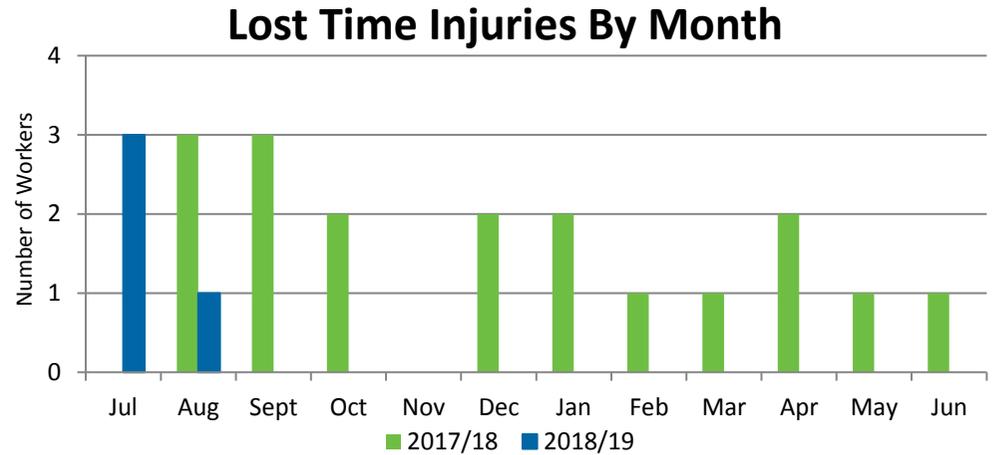


Figure 3: Lost time injuries by month 2017/18 and 2018/19 Year to Date

Total Recordable Injury Frequency Rate

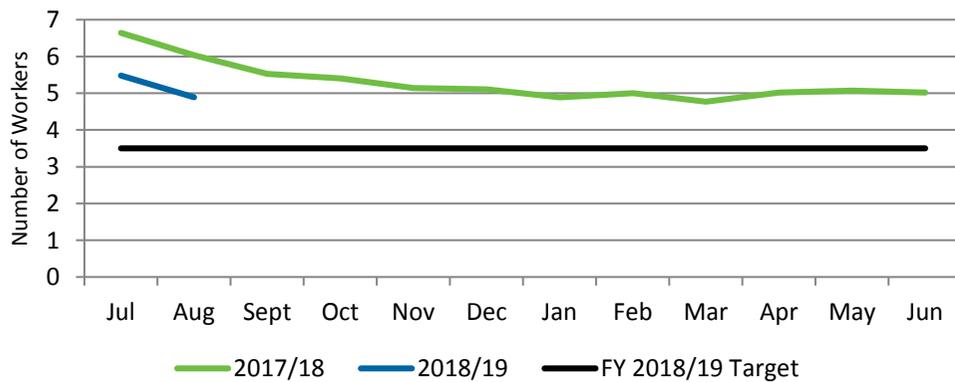


Figure 2: Total recordable injury frequency rate per 200,000 work hours

Lost Time Frequency Rate

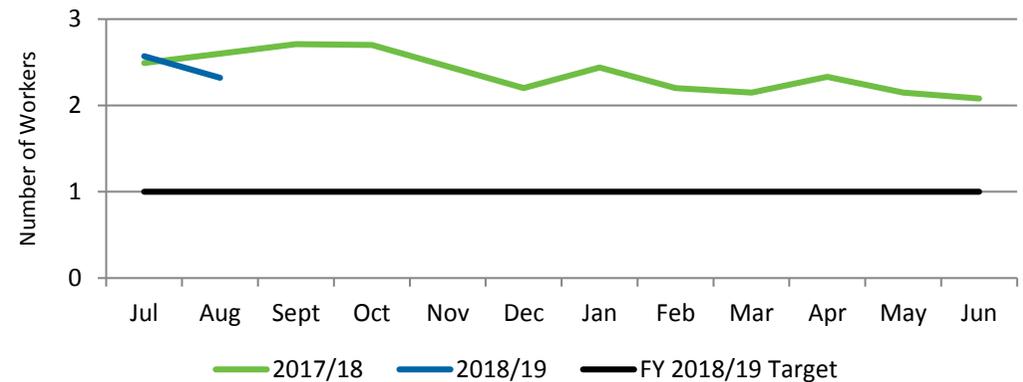


Figure 4: Lost time injury frequency rate per 200,000 work hours

Item 7

Attachment 1

Health and Safety Trends

Several critical risks continue to feature as key causal factors for a high number of events that were reported during this period and includes 'driving on the road' and 'dealing with aggressive and/or violent people', which have previously been targeted through initiatives and campaigns to raise awareness and mitigate re-occurrence.

Sharing key learnings from previous incidents through the encouragement of safety conversations in support of practical and targeted corrective actions will assist operational groups in helping lift our overall safety performance.

Notifiable Events

For the entire FY2017/18 we had 6 notifiable events reported to WorkSafe, which was an increase of two from the previous year. We are being more pro-active in our reporting to Work Safe and gaining more transparency through greater education and Business Unit support. A summary of all notifiable events for FY2017/18 can be found in appendix one.

For the new performance year commencing 1 July and up to 31 August 2018 there were no notifiable events reported to WorkSafe.

Lost Time Injuries

Our Lost Time Injury Frequency Rate (LTIFR) for the entire FY2017/18 was 2.08 which was below our target of <3.0. This means that we had five less employees requiring time off work due to being injured at work.

For the new performance year commencing 1 July and up to 31 August 2018 we recorded four lost time injuries, which is an increase of one for the same period last year.

We have reset our LTIFR target to <1.0 and will concentrate our effort on reducing the number of lost time injuries by at least 50% in the next twelve months. Our current LTIFR for is 2.32 per 200,000 work hours.

To assist in achieving this reduction we have introduced improved processes around our injury management and have increased the involvement of medical

practitioners to actively support rehabilitation in the workplace and/or better return to work practices.

Hazard	Injury Type	Number of Injuries
Manual Handling	Strains and Sprains	2
Slips, Trips and falls	Strains and Sprains	2

Table 1: Breakdown of Hazards associated to lost time injuries.

Medical Treatment and First Aid

Our Total Recordable Injury Frequency Rate (TRIFR) for the entire FY2017/18 was 5.02 which was below the target of <7.5, although the results remain largely static.

For the new performance year commencing 1 July and up to 31 August 2018 we recorded 3 medical treatment injuries and 10 first aid treatments. Our current TRIFR is 4.89 per 200,000 work hours. For the new performance year, we have set the TRIFR at <3.5.

To achieve this target, we will be making further improvements to encourage early reporting of incidents and effective investigations with strong root cause analysis to allow for appropriate corrective actions to be implemented to prevent reoccurrence.

Near Hit Reporting

We did not reach our target of >971 for the FY2017/18 performance year, however this can be attributed to Water World and the Central Library being closed for extended periods time, where operational activities were ceased or significantly reduced. We will continue to encourage quality near hit reporting in FY2018/19, with more focus on education and the types of near hits that could result in significant injury, damage or loss.

Audits, monitoring and reviews

For the new performance year commencing 1 July and up to 31 August 2018 we carried out 59 health and safety audits, made up of 34 manager audits and 25 worksite/ contractor audits.

As an organisation we carried out 389 safety observations, which provide an opportunity to have positive safety conversations and correct unsafe behaviours as they are observed.

To improve safety conversations and enhance safety leadership we have developed a management tool to support safe behavioural observations, focussing on people, resources, leadership, and risk management. Moving away from a traditional compliance culture, underpinned by tick box exercises, the purpose behind this tool is to encourage a genuine safety conversation and show a genuine interest in what our people are doing and how they are working.

Key Health and Safety Initiatives

Vault Mobile Reporting Platform

To improve system engagement and increase ease of reporting we are looking to modernise our safety system. We have been trialling a mobile app to capture and record hazards, risks and incidents that interfaces with our existing Vault platform. If successful this will provide workers with the ability to identify hazards, record observations and improve the way in which we capture and record safety data and information in real time.

Minimum Personal Protective Equipment (PPE) Requirements

Following consistent feedback from workers in relation to PPE requirements, we have engaged with workers across Business Units and have now completed a number of robust risk assessments. Based on this information we have reviewed and amended our stance on long longs, to now include knee length cargo work shorts where site requirements and risk assessments allow. This is also in line with current WorkSafe recommendations regarding a balance of protection from solar UV and worker comfort.

Critical Risk: Working Alone / In Isolation

As part of our safety management framework we are rolling out the next wave of CBP's (Current Best Practice Documents), which includes guidance for Working Alone / In Isolation. We have begun trialling a range of personal safety devices, which includes an app-based solution for mobile phones, providing managers and

workers with a method of communication to stay in touch and to help locate lone workers in real time, including emergency situations. We believe that this solution is an effective way to manage lone worker safety while ensuring that we also meet our duty of care as the employer.

The aim of this trial is to have solutions that are easy to use while providing real time monitoring that allows them to check in safely at set times or once the work has finished.

Injury Management and Rehabilitation

To improve our injury management processes, we have updated our Injury Management and Rehabilitation CBP to reflect best practice. Changes include an improved injury reporting pack for workers to take to their medical provider, highlighting key information to support and enable the worker to rehabilitate and to stay at work though alternative duties.

Good injury management enables us to actively support the assessment and rehabilitation of workplace injuries as well as minimizing disruption to business units by supporting injured workers to achieve a safe and early return to the workplace.

Training and Competency

We continue to provide workers access to appropriate safety and wellness training to ensure they are equipped to deal with health and safety matters as part of their daily activities. New courses released in early 2018, which includes 'Ageing Positively in the Workforce' and 'Intercultural and Disability Awareness', continue to be well supported. Both programmes were designed to help support and promote improving wellness and increased engagement.

During this reporting period there was a substantial uptake of our Bullying and Harassment Training, supported by both workers and managers as part of our continued Speak-Up campaign.

Safety training planned for the next quarter includes Incident Investigation, Hazard Identification and Risk Assessment, as well as a course for new Health and Safety representatives.

COURSE PROVIDED	NUMBER ATTENDED
Health and Safety Representative Induction	4
Health and Safety Representative	6
Mental Health First Aid	10
Workplace Health and Safety	8
Intercultural Awareness	22
Bullying and Harassment Awareness & Prevention	72

Table 2: Health, Safety and Wellness training completed 1 July – 31 August 2018

Health and Wellbeing

Bullying and Harassment Monitoring

Alleged bullying and harassment occurrences are captured and categorised by:

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

	Peer Support	Informal Reports	Formal Reports
Total for period 1 July to 31 August 2018	2	2	1

Table 3: Harassment and Bullying

There have been 2 reports received relating to conflict from the peer support network between 1 July to 31 August 2018. There have been two informal reports and one formal report that have been raised and investigated in relation to conflict during this reporting period.

Employee Assistance Program (EAP)

For the period 1 May – 31 July 2018 there were 43 cases handled through EAP. Most of these cases are through self-referrals and mostly relate to personal relationship issues, work and non-work place stressors.

EAP Use	1 May to 31 July 2018
New Cases	28
Reopened Cases	3
Pre-existing cases seen during period	12
Total Cases	43
Contact Hours for the Period	83
Average Hours per Client	2.2

Table 4: EAP Usage for period 1 May to 31 July 2018 * NOTE reporting period set by EAP

Mental Wellbeing

During July and August, we have seen an increase in the number of workers suffering from mental health related issues that have required support to help them maintain a healthy work environment while they seek help either through our EAP services or through individual medical practitioners. We have been able to provide stay at work programmes for most of these workers allowing them to remain at work while support was provided.

This is an emerging area that requires greater support and guidance so that we can better respond and ensure that the care of the worker is most paramount.

Upcoming Wellbeing Events

Over the next quarter Council will be running wellbeing events promoting the following:

- Get up and move more – aimed at encouraging people to get out and exercise to reenergize the body and mind
- Mental Health and Wellbeing – Identifying and supporting the risks associated with Mental Health and Wellbeing

- Sun Smart – preparing ourselves for the summer ahead and how we can protect ourselves from the sun and associated risks such as heat related illnesses

Looking forward, our wellness program efforts will be focussing on initiatives to encourage people to get out and exercise with spring arriving, mental health and wellbeing in October in support of Mental Health Week and being Sun Smart, as we prepare for the summer ahead.

In Summary

Our safety performance for year ending 30 June 2018 showed a marked improvement across key performance targets where injuries have occurred, however the number of lost time injuries is far too high and needs a consolidated effort, supported by all levels of management, to drive improved reporting and early intervention initiatives.

Focused on continuous improvement, we are looking to modernise our systems to better support mobile workers out in operational areas as well as lifting our safety performance by re-setting key safety performance indicators to drive a better reduction in the number of injuries with a focus on early intervention, risk assessments and an improved reporting culture.

The number of workers experiencing mental health related issues has become more apparent through the promotion of our Speak Up campaign. To ensure that we continue to provide greater support and guidance, work in this area will continue as we develop a more inclusive, safe and just culture.

Appendix One: Previous Notifiable Events for performance year | July 2017 – 30 June 2018

Month	Incident Type	Critical Risk	Incident	Action Taken	Business Unit
March 2018	Notifiable Event	Energy Source	A City Delivery crew were digging a trench to install new w/water connection. They hand dug down and located the services (gas & phone) as per the services drawings. They then carried on excavating with the digger when a tooth of the digger bucket struck another 50mm gas line (which was not identified on the service drawings).	<ul style="list-style-type: none"> • Additional gas services to be updated on service drawings to ensure gas lines identified in the future. • FirstGas providing awareness training to City Delivery staff outlining safe practises for trenching and digging around Gas services. 	City Delivery

January 2018	Notifiable Event	Energy Sources	Worker accidentally hooked overhead low voltage power line which crosses the service road with the post-rammer, that is attached to the tractor. The one power line snapped, live lines were brought down within the Zoo grounds. Cause was due potential stretching of the power line from branches that had been brought down on the line by January storms.	<ul style="list-style-type: none"> Line repaired by Well Energy. Signs placed along Access way to warn of overhead lines. High Visibility markers placed on Power lines to provide greater visibility. Power lines to be relocated so they do not cross service road. 	Hamilton Zoo
December 2017	Notifiable Injury	Not related to a critical risk.	Workers were loading a new manhole cover at the foundry through the truck side door by hand as a two-person lift (75kgs), when lowering lid on to deck one worker still had one finger under the lid resulting in it being crushed causing damage to fingernail leading to minor surgery.	<ul style="list-style-type: none"> Foundry staff to load all manhole covers on to truck by forklift. Refresher training on lifting manhole covers carried out with staff. 	City Delivery
December 2017	Notifiable Illness	Not related to a critical risk.	City Parks worker at Water World walked into the pools saying that he felt light headed and unwell. Lifeguard brought him in to the air-conditioned team leaders office where they became unconscious and had a localized seizure (arms) that lasted about 30 seconds. An ambulance was called, and he was taken to hospital. Cause has been put down to potential heat related illness.	<ul style="list-style-type: none"> New trial PPE clothing (Pants and shirts) that better aid with dealing hot conditions provided. Worker provided with a way to keep water cool while he is carrying out his daily activities outside. Worker temporarily relocated to another role until further health checks completed to ensure no underlying medical reasons that could be contribute to further occurrences. 	City Parks
October 2017	First Aid Injury	Working at Height	During an arena pack out an empty burlap bag used as part of the protection for rigging straps dislodged from the hauling line while a rigging chain was being lowered	<ul style="list-style-type: none"> Staff reminded of the importance to remain focused when lowering or raising equipment from height. 	H3

			to the ground. The bag landed on the head of a person who was feeding the chain into its storage case at the time, leading to a first aid injury. The person was wearing all required PPE at the time including rigging helmet.	<ul style="list-style-type: none"> • New process implemented to eliminate the need for the burlap bag. 	
October 2017	Property Damage	Energy Source	A 20mm gas service line was damaged while excavating a water mains trench causing the escape of gas. The gas service was marked on the underground services plan.	<ul style="list-style-type: none"> • Workers re-trained in using the correct processes when locating underground services. Shovels and hand tools only to be used to reduce the risk of damaging services. 	City Delivery

Council Report

Committee:	Audit & Risk Committee	Date:	18 September 2018
Author:	Russell Hynd	Authoriser:	David Bryant
Position:	Finance Manager	Position:	General Manager Corporate
Report Name:	Organisation Improvement Register Report		

Report Status	<i>Open</i>
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Purpose

- To inform the Audit and Risk Committee on the status of the Council's Organisation Improvement Programme as at 31 August 2018.

Staff Recommendation

That the Audit and Risk Committee receives the report.

Background

- Council's risk management programme provides a record of recommendations from completed internal audits by PricewaterhouseCoopers and external audits by Audit New Zealand.
- Actions and recommendations resulting from these audits are recorded and monitored through the Organisational Improvement Programme Register (refer attachment 1).
- Reporting to the Audit and Risk Committee will be focussed on recommendations classified as medium (amber) to high (red) importance.

Discussion

- There are currently nine open items of which five are classified and reported to have a risk rating of medium. Four items have been excluded from this report as their risk rating is low.
- Since the last reporting period three items have been closed.
- The five remaining items are progressing but are behind schedule. This is largely due to the heavy workload associated with finalising Council's 10-Year Plan.

Attachments

Attachment 1 - Organisational Improvement Register - August 2018 .

Organisational Improvement Register - 31 August 2018

Indicator	Recommendation	Risk rating	Risk category	Owner	Target	Risk overview	Action / Update	Action: Previous Quarter
329 Development and testing of an IT Disaster Recovery Plan.	<p>Rationale / Assumptions / Metadata:</p> <p>Recommendations:</p> <p>Part A: In 2015 it was noted that the Fujitsu datacentre hosting contract included development of new IT Disaster Recovery management systems and processes. It is recommended that these be verified and tested.</p>	●	Information Management / Information Technology	Mike Lamb	31/03/2018	Systems Failure	<p>Development and testing of an IT Disaster Recovery Plan to be completed. A draft plan was created in 2012, last reviewed in 2017. We accept the plan needs updating to reflect the current state of the IS environment, and to reflect our relationships with third party vendors. These vendors provide services under contract, including the ability to recover systems and data in the case of an adverse event.</p> <p>Key suppliers such as Fujitsu and Vocus have provided their Disaster Recovery Plans to HCC, and restore tests have been carried out to ensure recovery of systems across all environments.</p> <p>Our focus remains on ongoing confirmation our vendor partners have the skills, expertise, and physical capability to ensure HCC can operate subsequent to an event. The DRP will be finalised and provided to the Auditors to resolve this matter.</p>	<p>Vendor testing completed. DRP remains a living document with on-going BAU testing of capability.</p> <p>Draft DRP required to be finalised and provided to AuditNZ before submission for closure.</p>
	<p>Part B: Testing of Organisational Business Continuity.</p>	●	Information Management / Information Technology	Mike Lamb	Proposed date 31/12/2018	Systems Failure	<p>A Business Continuity Plan was developed (29/05/2017) with the Risk and Insurance Manager and covers the critical risk areas for the Council IT infrastructure and services. This is aligned to the Councils DRP.</p> <p>The Core IT Services; such as Service Desk, Desktop management, network and security are being delivered through the Fujitsu Managed Services Contract in which the business continuity of these contracted services are a key requirement. Fujitsu has completed a DR/BCP review as recent as April 2018 for Service Desk and June 2018 for GoDaaS; the All of Government Desktop Service.</p>	<p>The DRP is a superseding document to the BCP established in 2017. The DRP is to be finalised and submitted to AuditNZ with recommendation to close.</p>
339 Formal Approval of the Legislative Compliance Policy	<p>Rationale / Assumptions / Metadata:</p> <p>Recommendation:</p> <p>That the policy is formally approved and made available to all staff throughout the organisation.</p>	●	Compliance	Andre Chatfield	31/08/2018	From a compliance perspective this policy is to support compliance management. With the change in transferring to a software platform the policy will require further amendment once the preferred product has been selected and approved.	On hold until review complete of compliance management software.	Council is reviewing compliance management software to improve management across the organisation and the draft policy is now on hold until this has been completed. Policy approvals are now managed through 3LT level.
340 Review of all legislation that the City Council must comply with be performed.	<p>Rationale / Assumptions / Metadata:</p> <p>Recommendation:</p> <p>We recommend a review around all the legislation that the City Council must comply with be performed. The responsibility for each of the different legislation should be documented and formally communicated to each of the staff members with responsibility.</p>	●	Compliance	Andre Chatfield	31/08/2018	Compliance non-conformances across the organisation is to be monitored to avoid non-compliance outcomes from regulatory entities and reputational impacts.	Work to review the two software platforms delayed due to heavy workload associated with finalising Council's 10-Year Plan.	Council is currently reviewing two software platforms to support compliance management across the organisation. Both are currently with the compliance working group for review.

<p>350 - Review and refresh 2010 procurement strategy to support alignment to strategy and value for money</p>	<p>Rationale / Assumptions / Metadata: RECOMMENDATIONS 1.1 Refresh the "all of Council" procurement strategy and ensure that it is regularly updated 1.2 Consider having yearly procurement strategies in place for each major purchasing group. History: The Procurement strategy was completed in 2011 and updated in 2014 for NZTA funded aspects of the strategy. The proposed scope is wider than previously covered by the HCC Procurement Strategy. The strategy will be reviewed during the next financial year.</p>	<p>●</p>	<p>Financials</p>	<p>Scott Copeland</p>	<p>15/07/2018 Proposed date 31/12/2018</p>	<p>Without an "all of Council" procurement strategy Council risks groups undertaking procurements that are not aligned to Council's strategy and value for money may not be achieved.</p>	<p>Work on wider Procurement Strategy has been delayed due to significant tender and contract workload.</p>	<p>Draft of Procurement Strategy for NZTA funded procurement has been completed and is with NZTA for review. Commencing work on wider HCC Procurement Strategy over the next month.</p>
<p>366 Prioritise the development of the IT security framework and updating of IT policies.</p>	<p>Rationale / Assumptions / Metadata: Information Services has just recently procured the MPA IT Policy Management system for implementation. Part of this implementation would cover the review and communication of policies to stakeholders as applicable.</p>	<p>●</p>	<p>Information Management / Information Technology</p>	<p>Mike Lamb</p>	<p>31/08/2018 Proposed date 30/09/2018</p>	<p>The City Council's IT policies were due for review in 2016 but have not yet been reviewed and updated. In addition, we note that there is no overarching IS security framework. We understand that a cybersecurity governance review is underway and this will drive the development of a new security framework and policies. We note that during the year an online IT induction training course has been developed to assist in training new staff.</p>	<p>The Policy Management system is undergoing a final review post the IS Unit review to ensure responsibility alignment with the new structure. The system is ready to be released post the final review and it is anticipated to be in production by end of September.</p>	<p>The system is ready for implementation once presented to 3LT and approved. This has been delayed by workloads due to 10-Year Plan. This will require a programme of work under BAU to align policies across IT systems e.g. user on/off boarding.</p>

Risk Key:

●	Low (not reported)
●	Medium

Target Date Key:

On Target
At Risk

Council Report

Item 9

Committee: Audit & Risk Committee **Date:** 18 September 2018
Author: Russell Hynd **Authoriser:** David Bryant
Position: Finance Manager **Position:** General Manager Corporate
Report Name: Internal Audit Update

Report Status	<i>Open</i>
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Purpose

1. To inform the Audit and Risk Committee on PwC's Internal Audit progress to 31 August 2018.

Staff Recommendation

2. That the Audit and Risk Committee:
 - a) receives the report;
 - b) notes that the Internal Audit planning for the 2018/19 year has been finalised between PwC and management;
 - c) notes that the Cyber Security and Capital Work in Progress engagements have been completed; and
 - d) receives and approves the internal audit charter.

Discussion

3. **2018/19 Internal Audit Plan**
4. Attached is the updated internal audit plan for 2018/19.
5. **Internal Audit Plan – continuing engagements**
6. The following engagements are being delivered on a continuous nature (as and when needed):
 - **Capital Project Delivery**
Hamilton City Council's capital expenditure is forecast to increase from approximately \$102.2 million in the 2017/18 year to more than \$250 million in the 2018/19 year. PwC is assisting the Programme Management Office in a peer review capacity, as they undertake a project to enhance the project delivery processes to manage the forecasted increase.
 - **Hamilton City Council – Internal Resource Support**
Hamilton City Council has appointed it's own internal audit staff member. PwC is providing assistance to develop a programme, provide coaching and quality assurance for the staff member.

7. Internal Audit Plan – Progress

- **Cyber Security**
This engagement has been completed and a final summary report is included in the Cyber Security Deep Dive item of this agenda.
- **Capital Work in Progress**
This engagement has been completed and the draft report is with management.
- **Capital Project Delivery**
This engagement is in the planning stages with management and PwC.
- **Asset Maintenance Data**
PwC and management have been in discussions on the focus of the engagement and the approach. A workshop is being planned for early September to start the fieldwork.
- **Hamilton City Council – Internal Resource Support**
A draft internal audit charter and programme has been prepared. The HCC staff member has been assisting with the financial year end and will be transitioning back into the internal audit role shortly.

8. Internal Audit Charter

9. Attached is a draft internal audit charter for consideration and approval by the Audit and Risk Committee. This internal audit charter will provide the HCC appointed internal audit resource with the authority and responsibilities to undertake their work.

Financial Considerations

10. The cost of the annual internal audit programme is \$150,000 (GST excl.) and is budgeted.
11. Due to the timing of the engagements \$113,724 of the 2017/18 budget for those engagements being completed in 2018/19 was carried forward.

Attachments

Attachment 1 - PwC Draft 2018/19 Internal Audit Plan

Attachment 2 - Draft Hamilton City Council Internal Audit Charter .

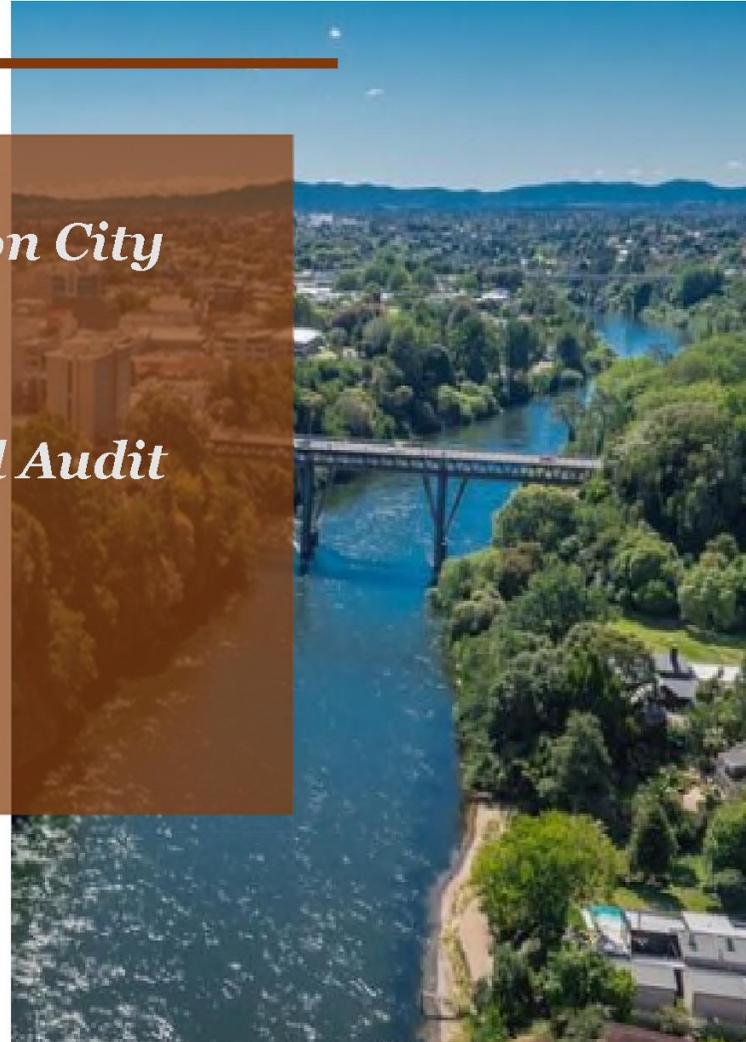


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Hamilton City Council

Internal Audit Plan

August 2018



Internal Audit Plan Updated for 2018/19

Approach

Consistent with our internal audit proposal we took a different approach to developing the internal audit plan in 2017 which covered a three year period. We have now updated the internal audit plan for 2018/19 which is outlined on the next three pages. We continue to focus on value, strategic alignment and innovative delivery with a particular focus on asset management.

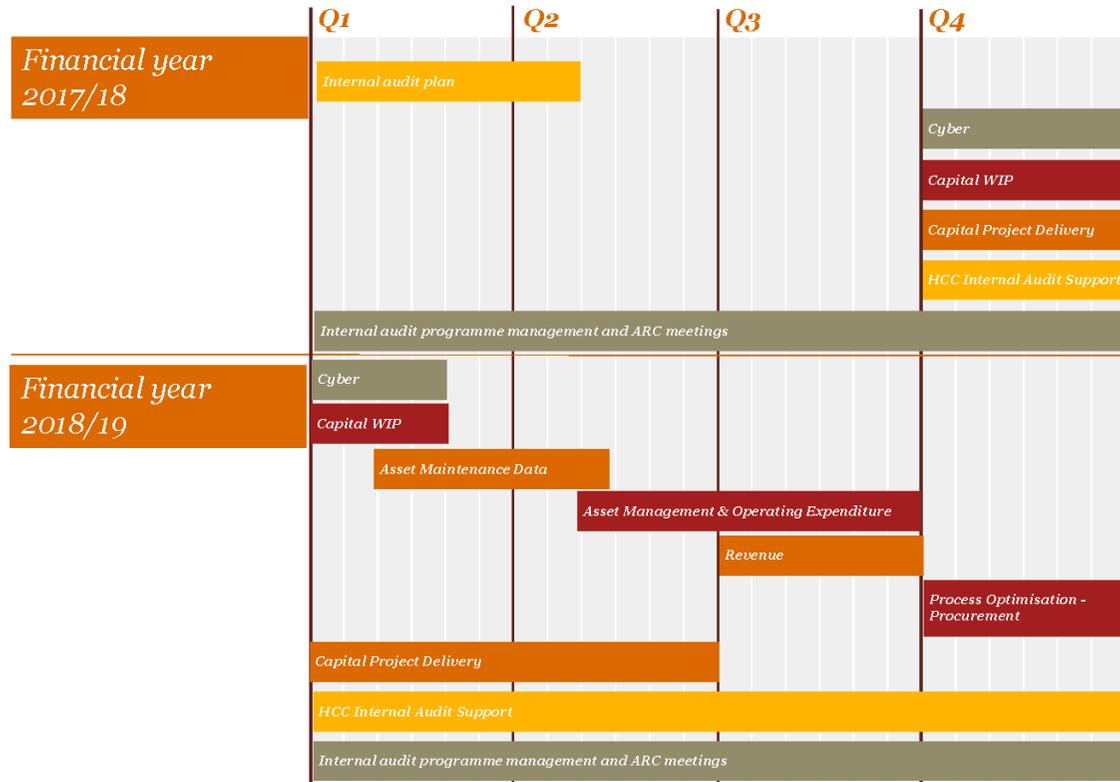
PwC has had discussions with management and considered the impacts of the adoption of the Long Term Plan. An internal audit plan has to be flexible enough to change as circumstances and risks impacting the organisation change. This has resulted in a change in one of the planned 2018/19 engagements from benchmarking to revenue. Hamilton City Council (HCC) revenue to debt ratio is a key measure within the Financial Strategy in order to 'balance the books', and going forward HCC has to ensure that it meets its budgeted revenue to keep the ratio within the 230% limit.

We are finishing the Cyber and Capital Work In Progress (WIP) engagements that were commenced in 2017/18. The Capital Project Delivery engagement is continuing as we provide supporting advice to management as they implement new systems and methods to deliver the increased capital expenditure.

In order to also deliver the value protection side of internal audit, we are working with HCC to build your internal capability with HCC resource to deliver an internal assurance programme, so that less complex processes and areas can be covered in a more cost effective way.

This blend of value protection and value enhancement is a choice which is considered by HCC as part of the overarching Internal Audit Strategy.

Internal Audit Plan Outline



Internal Audit Plan – Summary of engagements

Scope	Link to Material Risks / Strategic Objective	Value*	Estimated Timing
<p>Engagement 1 Capital WIP (Phase 2)</p> <p>This engagement was performed in two phases to minimise disruption to Council staff over year end.</p> <p>The objective is to assess the capitalisation processes to ensure that they are operating as documented and are effective and efficient.</p>	<p>Best in Business Critical Assets Financial Strategy Failures Poor Data, Analysis and Response</p>	VE	Qtr 1
<p>Engagement 2 Asset Maintenance Data</p> <p>The objective of this engagement is to:</p> <ul style="list-style-type: none"> perform a discovery of information flows (timing, nature, dollar amount of asset maintenance expenditure, which system it is recorded in, and how information reaches decision makers) and optimisation analysis on a sample asset to quantify the benefits of process optimisation and improvements to data quality provide recommendations for next steps on how asset maintenance data is captured, analysed and utilised in order to improve the quality of decision-making information provide an indicative quantum of benefit that could be realised through a process optimisation (right spend, at the right time) initiative based on the outcome of a sample asset analysis. <p>The base hypothesis is that improving the information flows of asset maintenance data will deliver a net positive return on investment from optimised asset maintenance investments, leading to better service levels for assets and reduced risk over poor data, analysis and response leading to premature failure of assets. The starting point for this is to workshop and identify the asset areas to focus on.</p>	<p>Best in Business Critical Assets Financial Strategy Failures Poor Data, Analysis and Response</p>	VE	Qtr 1 – Qtr 2
<p>Engagement 3 Asset Management and Operating Expenditure</p> <p>The objective of this engagement is to assess how operating expenditure is factored into asset management decisions. This will cover how the following are considered:</p> <ul style="list-style-type: none"> whole-of-life costs consequential operating expenditure <p>Consideration of the whole-of-life costs during asset design can have significant impacts on on-going operating expenditure and the assets level of service.</p> <p>Asset management plans and the impact of capital works and vested assets on on-going operating expenditure.</p>	<p>Best in Business Critical Assets Financial Strategy Failures Poor Data, Analysis and Response</p>	VE	Qtr 2 – Qtr 3
<p>Engagement 4 Revenue Assurance</p> <p>The objective of this engagement is to assess the processes and controls in place to ensure that revenue is collected. This will involve:</p> <ul style="list-style-type: none"> assessing areas of revenue that are most at risk of leakage or under-delivery based upon forecast for those areas identified above assessing the controls over leakage and forecasting <p>Council's debt to revenue ratio is a critical measure based upon the long term plan. Council will need to collect all the revenue forecast or it risks not keeping within the forecast debt to revenue ratio.</p>	<p>Financial Strategy Failures</p>	VP	Qtr 3

* VE = Value Enhancement, VP = Value Protection in accordance with the PwC internal audit triangle

Internal Audit Plan – Summary of engagements

Scope	Link to Material Risks / Strategic Objective	Value*	Estimated Timing	
Engagement 5 Process Optimisation - Procurement	The objective of this engagement is to assess the efficiencies of the current procurement processes through the use of process visualisation tools.	Best in Business	VP	Qtr 4
Engagement 6 Capital Project Delivery	The objective of this engagement is to assist the current capital project delivery project team through the provision (in a peer review capacity) of: <ul style="list-style-type: none"> • good practice insights • an assurance lens over changes in process and controls • challenging the project team • assessing the likely outcome of the changes • identification of any additional improvements 	Best in Business Financial Strategy Failures	VE	Qtr 1 - Qtr 2
Engagement 7 Hamilton City Council Internal Audit Resource	The objective of this engagement is assist Council with the development of their own internal audit resource through PwC providing: <ul style="list-style-type: none"> • Assistance in developing an internal audit programme • Coaching • Quality Assurance 	Best in Business	VP	Qtr 1 - Qtr 4

* VE = Value Enhancement, VP = Value Protection in accordance with the PwC internal audit triangle

PURPOSE

This Charter sets out the objective, authority, scope and responsibility of internal audit at the Hamilton City Council. Hamilton City Council has a contract with PwC to provide internal audit services and in conjunction with this has appointed an Internal Auditor to cover the routine internal audit work. This internal audit charter covers the responsibilities of the Internal Auditor.

OBJECTIVE

Internal Audit is an independent and objective assurance, consulting and risk advisory activity, which aims to assist management to accomplish their objectives and meet their accountabilities. This is done by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

ACCESS AUTHORISATION

Internal Audit is granted full and complete access to records (manual or electronic), physical property and personnel related to a review. Documents and information given to internal auditors will be handled with the same standard of confidentiality and prudence as that exercised by normally accountable employees.

INDEPENDENCE

Internal Audit will be independent of the activities it audits. This independence is necessary to maintain audit objectivity and integrity. Internal Audit should be given the opportunity to provide input into the development of new key systems and processes. However, designing, installing and operating such systems and processes are not Internal Audit functions. Such activities are generally presumed to impair audit objectivity.

The Internal Auditor has direct access to the General Manager Corporate and maintains line management relationship with the Financial Controller on a day-to-day basis.

The Audit and Risk Committee shall approve the Internal Audit Charter and the Internal Audit Programme.

INTERNAL AUDIT SCOPE

Internal Audit examines and evaluates the adequacy, efficiency and effectiveness of the Council's management control structure, including review of the:

- Reliability, timeliness and integrity of financial and operating information, and the processes used to identify, measure and report such information;
- Systems established to ensure compliance with policies, plans, procedures, laws and regulations;
- Means of safeguarding assets and verifying the existence of these assets;
- Effectiveness and efficiency with which operational, financial and administrative procedures are performed;
- Operational results and whether these are consistent with established objectives and standards; and
- Quality of internal systems, policies and procedures.

Internal Audit will undertake the following in fulfilling its responsibilities:

- Adopt a risk-based audit approach.
- Be proactive and forward thinking in approach.
- Design and execute audit plans that reflect both risk and cost effectiveness.

- Provide reports to management that identify control issues and make practical, cost effective recommendations for improvement.
- Follow up on audit issues to assure that identified problems have been resolved.
- Ensure the effectiveness and quality of the internal auditing effort.

REPORTING

Internal Audit will issue a written report on completion of each audit review. The report will outline audit findings, recommendations, implementation plans.

Prior to issuance of any draft audit report, meetings will be held with relevant management to obtain agreement on the substance and tone of the report. On issuance of the draft audit report the relevant Manager will respond in writing within an agreed timeframe indicating what actions are being taken in support of the recommendations included in the report. A timetable with individual accountabilities will be an integral part of the response.

A final copy of the report, including management responses, will be provided to the relevant Management Team member, the Financial Controller, General Manager Corporate and the Audit and Risk Committee.

The Internal Auditor will submit a report the Audit and Risk Committee outlining activities, outcomes and findings of the Internal Audit function for each Audit and Risk Committee meeting.

FOLLOW UP

The Internal Auditor will routinely follow up on agreed corrective actions based on recommendations made during the preceding year arising from the PwC internal audit engagements, external audit management letter and internal audit engagements undertaken by the Internal Auditor. The Internal Auditor will submit a report to the Audit and Risk Committee outlining any recommendations made that have not been satisfactorily resolved at each Audit and Risk Committee meeting.

RELATIONSHIP WITH THE EXTERNAL AUDITOR

The Council is subject to an independent external audit, which aims to provide an opinion on the fairness of information included in the Council's financial statements. The objectives of Internal Audit are different and focus on the effectiveness of systems and the accuracy of management information rather than offering an opinion on the statutory financial statements. However, there is some overlap of work and therefore Internal Audit will coordinate its activities with External Audit to ensure that optimum audit coverage and effectiveness is obtained at an optimal cost.

Internal Audit will also make Internal Audit staff, and any relevant workpapers or reports, available to the External Auditor on request.

QUALITY ASSURANCE

Internal Audit will comply with the Standards for the Professional Practice of Internal Auditing set out by the Institute of Internal Auditors.

Internal Audit will establish and maintain a quality assurance programme to evaluate the operations of Internal Audit. The purpose of this programme is to provide reasonable assurance that audit work conforms to the Standards for the Professional Practice of Internal Auditing. The quality assurance programme will include training, supervision and reviews to be undertaken by PwC.

RELATIONSHIP WITH PWC

PwC's role is to provide the Internal Auditor with support in conjunction with the Financial Controller:

- to develop the internal audit programme
- coaching and support to provide the Internal Auditor with the necessary skills to be able to perform the internal audits
- quality assurance to ensure that the Internal Audit Professional Standards are maintained.

The Internal Auditor has no reporting line to PwC and PwC has no authority over the Internal Auditor.

Council Report

Item 10

Committee: Audit & Risk Committee **Date:** 18 September 2018
Author: Russell Hynd **Authoriser:** David Bryant
Position: Finance Manager **Position:** General Manager Corporate
Report Name: Audit NZ Final 2018-28 LTP Management Report

Report Status	<i>Open</i>
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Purpose

1. To inform the Audit and Risk Committee on the Audit NZ Final 2018-28 LTP Management Report.

Staff Recommendation

That the Audit and Risk Committee receives the report.

Attachments

Attachment 1 - Hamilton City Council - Final Audit NZ 2018-28 LTP Management Report

Attachment 1

Item 10

Report to the Council on the audit of
Hamilton City Council's
10-Year Plan for the period
1 July 2018 to 30 June 2028

Report to the Council

We have completed the audit of the Hamilton City Council's (the City Council) 10-Year Plan for the period 1 July 2018 to 30 June 2028. This report sets out our findings from the audit and draws attention to our detailed findings, and where appropriate makes recommendations for improvement.

Contents

1	Our audit report.....	4
2	Audit scope and objective.....	5
3	Changes since the consultation document audit.....	5
4	Control environment	5
5	Areas of audit emphasis.....	5
6	Other matters	10
7	Project management	11
8	Looking forward	12
	Appendix 1: Mandatory disclosures.....	13

Key messages

The Local Government Act 2002 requires local authorities to prepare a Long term plan that covers a period of 10 consecutive financial years. The City Council adopted its Long term plan (titled the 10-Year Plan) on 28 June 2018.

We have completed the audit of the City Council's 10-Year Plan and issued an unmodified opinion on 28 June 2018. We included an emphasis of matter paragraph in our audit report to draw the attention of the readers to the uncertainty associated with the amount and timing of the savings proposed over the period of the Plan. We completed sufficient work to gain assurance that, although ambitious, the savings proposed are reasonable.

The adoption of the 10-Year Plan represents the completion of a significant piece of work for the City Council and its staff. The tight timeframe, and the number of changes after consultation, resulted in a lot of pressure for Council, management and staff and we acknowledge the strong project management practices evidenced throughout this process. This also led to significant additional audit work and we have started discussions with management about a recovery of the overruns.

We are satisfied that the 10-Year Plan provides a reasonable basis for long-term, integrated decision making and coordination of the City Council's resources, and provides a reasonable basis for accountability of the Council to the community.

As the 10-Year Plan is a forecast there are inherent uncertainties around future results – actual results are likely to be different from the forecast information because anticipated events frequently do not occur as expected and the variation may be material. We do not express an opinion about whether the forecasts will be achieved and do not express an opinion on the merits of any policy content of the 10-Year Plan.

Looking forward

As a result of the additional capital projects, investment in maintaining levels of service, and rating decisions made by Council following consultation, the City Council's forecast debt to revenue is close to the limit set within the financial strategy.

Whilst the financial forecasts show that debt to revenue limits will not be breached during the period of the plan the City Council will need to ensure that it closely monitors its performance to ensure that any potential breaches are appropriately addressed.

Thank you

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



Leon Pieterse
Audit Director
7 August 2018

1 Our audit report

1.1 We issued an unmodified audit opinion

We issued an unmodified audit opinion on the City Council's 10-Year Plan on 28 June 2018.

This means we are satisfied that the City Council's 10-Year Plan provides a reasonable basis for long-term, integrated decision making and coordination of the Council's resources, and provides a reasonable basis for accountability of the Council to the community.

We found the underlying information and assumptions used to prepare the 10-Year Plan provided a reasonable and supportable basis for the preparation of the plan.

1.2 Emphasis of matter paragraph – assumptions relating to efficiency savings

Without modifying our opinion, we included an emphasis of matter paragraph in the audit report in respect of proposed savings over the period of the plan.

The 10-Year Plan includes \$94.5 million of efficiency savings in total across the 10-year period. We understand that the City Council intends to achieve the proposed savings through efficiencies, headcount management, strategic procurement, smart business practices, innovation and transformation. A key assumption underlying the proposed savings is that levels of service will not be reduced as a result of the savings planned.

We considered the impact of the proposed savings on the financial forecasts and overall financial strategy. We noted that, if the proposed savings are not realised, the City Council would need to increase rates or reduce its capital programme in order to stay within the debt to revenue limit set in the financial strategy whilst maintaining levels of service.

Whilst we are satisfied that the assumptions and disclosures relating to the proposed savings plan (and risks associated with that plan) are reasonable, we consider the proposal ambitious, and note that there is uncertainty regarding the amount and timing of these savings. As such, we included an emphasis of matter paragraph within our audit report to highlight this uncertainty to the readers of the 10-Year Plan.

Management comment

We note your consideration that our savings proposal is ambitious. While we acknowledge that, we have evidence of many of our proposals being successfully achieved elsewhere. We have a high degree of confidence that, with appropriate elected member support for the changes in culture and processes that are needed, these savings can be achieved.

1.3 Unadjusted misstatements

The 10-Year Plan is free from material misstatements, including omissions. During the course of the audit we found certain misstatements which we have discussed with management (except those that are clearly trivial). All misstatements were amended prior to the City Council adopting the 10-Year Plan.

2 Audit scope and objective

The scope of our audit engagement and our respective responsibilities are contained in our audit engagement letter dated 22 November 2017.

3 Changes since the consultation document audit

The 10-Year Plan builds upon underlying information developed as part of the City Council's 10-Year Plan consultation document.

Our planned audit approach for the 10-Year Plan involved reviewing changes made to the underlying information since the consultation document audit stage, and reconfirming the conclusions of work performed during that audit.

Given the number and significance of the changes made by the Council following consultation we had to re-perform audit procedures completed during the audit of the consultation document in order to gain assurance over the financial forecasts and other information underlying the final 10-Year Plan. This level of rework was not envisaged in the audit fee set at the beginning of the audit, and has resulted in significant time cost overruns compared to our proposed audit fee. We will discuss these overruns and subsequent recoveries with management.

4 Control environment

Our approach to the audit was to identify, confirm and assess the City Council's key processes and controls over the underlying information and ultimate production of the 10-Year Plan. The purpose of this assessment was to enable us to plan the most effective and efficient approach to the audit work needed to provide our two audit opinions.

Overall we assessed the control environment for the 10-Year Plan to be effective for audit purposes.

5 Areas of audit emphasis

During the planning stage of the audit, and our review of the content of the 10-Year Plan, we identified the following key risks and issues which were areas of focus during our audit. In this section of the report, we comment on our findings on those matters.

5.1 Timing and funding of growth

During audit planning we identified the timing and funding of growth as a key risk in the preparation of the City Council's 2018-28 10-Year Plan. The city is continuing to experience significant levels of growth, which exceed the growth rate expected under previous long term plans.

The City Council has applied growth projections prepared by the National Institute of Demographic and Economic Analysis (NIDEA) in the development of its 10-Year Plan.

We are satisfied that the growth assumptions applied are reasonable. The City Council has appropriately discussed, within the significant forecasting assumptions section of the 10-Year Plan, the impact of growth on the city, and the sensitivity and risk to the Plan if growth is slower than anticipated.

In order to provide the infrastructure required for a growing city the 10-Year Plan includes a significant programme of capital growth works. In total \$1.2 billion of capital expenditure is budgeted to meet additional demand over the coming 10 years. Included within this total is over \$300 million of capital expenditure in Peacocke. Following consultation Peacocke was confirmed as the city's next big growth area. Capital expenditure in the Peacocke growth cell utilises funding available under the Housing Infrastructure Fund.

We reviewed the accounting treatment in relation to Housing Infrastructure Fund balances in the forecast financial statements and are satisfied the treatment applied is consistent with the requirements under PBE IPSAS.

5.2 Affordability and sustainability of the financial strategy

The City Council's financial strategy as adopted in the 10-Year Plan substantially changed from the draft strategy proposed during the consultation phase with the community.

Following feedback from the community the Council resolved to lower total rates increases over the period of the 10-Year Plan. The Council also resolved to phase out the transition from land value rating to capital rating and phase in a \$500 Uniform Annual General Charge over a three year period. We understand that, as part of these rating decisions, the Council also resolved to utilise debt capacity to minimise rates increases to the community. These changes have resulted in the City Council's "everyday revenue" not covering "everyday costs" until year four of the plan. Previously, in the draft strategy proposed during the consultation phase the City Council expected "everyday revenues" to cover "everyday costs" from year two of the plan.

These rating changes, combined with other forecasting changes between the consultation document stage and final 10-Year Plan resulted in a significant shift in the City Council's debt profile over the period of the plan. As a result, the City Council is projecting to operate close to its debt to revenue limits over the period.

This change in debt profile creates additional risk, and reduces the City Council's ability to respond to risks and opportunities as they arise without breaching the agreed financial strategy limits. We note that as the City Council's financial strategy limit on borrowings is lower than that imposed by its lenders (being 250%) the City Council still has capacity to respond to unplanned events and as such, we consider the strategy limit to be financially prudent.

5.2.1 Rates (increases) affordability limit

The City Council is required to include a quantified limit on rates income and rates increases in its financial strategy in accordance with section 101A of the Local Government Act 2002.

The City Council's quantified limit on rates increases is that "average rate increases to existing ratepayers will not exceed 9.7% in 2019 and then 3.8% from 2020 onwards". The quantified limit includes an inherent assumption regarding the levels of growth expected across the city. This assumption varies year on year.

In our management report on conclusion of the annual audit for the financial year ended 30 June 2017, we noted concerns with the previous quantified limit, as it was unclear in the previous limit that the rates increases was a limit on rates as a whole, rather than a limit applying to individual ratepayers. We are satisfied that the inclusion of the word "average" within the quantified limit addresses these concerns.

We have previously noted that the City Council has struggled to corroborate the actual rates revenue received as a result of growth in rating units. We recommend that going forward the City Council ensure that processes are put in place to quantify the level of actual rates revenue growth to ensure that the City Council can accurately report against this quantified limit in subsequent annual reports.

5.2.2 Rates (income) affordability limit

The City Council also sets a quantified limit on rates income in accordance with the requirements of the Act. The limit has been set at "0.627% of Hamilton's rateable capital value". The financial strategy does not detail the rationale behind this limit, and why a higher or lower limit was not considered when determining the affordability of rates income. We recommend that in future 10-Year Plans the City Council consider detailing the rationale behind the strategy limits.

5.3 Infrastructure strategy

The 2018-48 infrastructure strategy reflects an ongoing focus by the City Council over the last three years to improve its asset management strategy and associated practices. It clearly articulates the issues, risks and overall strategy the City Council is taking in respect of managing its portfolio of infrastructure assets.

The strategy incorporates the elements that we expect to see in a strategic asset management plan and as such includes many aspects of good practice as well as meeting the legislative requirements of section 101B of the Local Government Act 2002.

Section 101B(1) requires the City Council to prepare an infrastructure strategy that covers a minimum of 30 years. However, due to the long term nature of a Council's infrastructure assets, the 30 year period should be regarded as the bare minimum and it is preferable that the Council includes consideration of strategic matters and options that fall beyond the current 30 year term but are known as being of importance in terms of the long term management of its infrastructure.

We recommend that the City Council considers preparing its next infrastructure strategy to cover a timeframe of greater than 30 years.

5.3.1 Alignment of infrastructure strategy and funding impact statements

The City Council's infrastructure strategy follows good practice guidance and includes asset areas in addition to the core infrastructure areas required under the Local Government Act 2002.

However, the additional activity areas included within the infrastructure strategy do not align to any one particular activity within the 10-Year Plan and as such, it is difficult to compare capital and operating costs between the funding impact statements included in the 10-Year Plan and those disclosed in the infrastructure strategy.

We recommend that future iterations of the infrastructure strategy better align with the groups of activities disclosed in the 10-Year Plan.

5.4 Assumptions

We reviewed and assessed the appropriateness of assumptions that the City Council has established as a basis for the development of the 10-Year Plan. In particular, we tested the assumptions on growth, interest rates, inflation, return on investments, depreciation and property, plant and equipment revaluations.

Overall we are satisfied that significant forecasting assumptions are appropriately disclosed and were consistently applied in the final 10-Year Plan. During the course of our audit we noted the following areas for improvement:

5.4.1 Application of inflation assumptions

Consistent with the wider local government sector the City Council has applied inflation indices determined by Business and Economic Research Limited (BERL) in the preparation of its financial forecasts.

There was no centralised or over-arching approach to the application of the inflation assumption which resulted in errors in the initial application of the inflation indices. We

noted a number of balances were inflated at incorrect rates, and a number of projects were not inflation adjusted when project timing was changed.

Whilst we have gained sufficient assurance that inflation has been appropriately applied in the final financial forecasts we recommend that the City Council reviews its processes in relation to the application of inflation to ensure that similar errors are avoided in future 10-Year Plan budgets.

5.4.2 Depreciation model

Depreciation and amortisation expense is forecast from a newly created depreciation model. We reviewed the logic applied within this model and noted that overall, the depreciation and amortisation calculations were reasonable and appropriate.

However, we noted errors within the calculation of depreciation on vested assets within the model. We are satisfied that these errors were subsequently corrected in the final financial forecasts.

We tested a sample of assets within the depreciation model to gain assurance over the depreciation calculations. From this review, we noted a small number of assets with depreciation rates applied that were inconsistent with the City Council's accounting policy rates. We are satisfied that these discrepancies do not result in the material misstatement of forecast depreciation and amortisation. However, we recommend that useful lives within the depreciation model are reviewed to ensure that all lives are consistent with accounting policy rates.

The lives applied within the model should be updated whenever there is a change in the City Council's accounting policy rates.

5.5 Quality of asset related forecasting information

We assessed the asset management control environment as reliable for the purposes of supporting the 10-Year Plan. In reaching this assessment we considered the quality of asset management information and the accuracy, reliability and supportability of the flow of information from asset management planning into the 10-Year Plan.

We note that the City Council continues to progress improvements identified in its asset management improvement plans, and that data reliability for water and wastewater treatment plant assets remains an area for improvement. We are satisfied that the data reliability concerns noted in regards to these assets do not materially affect the reliability of the City Council's financial forecasting, and that improvements continue to be made in respect of the asset data in this area.

5.6 Performance management framework

The City Council has restructured its groups of activities and replaced a number of its existing performance measures in the development of the 10-Year Plan. We understand that a number of “technical” measures were removed from the performance framework in favour of more community focused measures.

We reviewed the revised performance framework and are satisfied it provides an appropriate basis for assessing the performance of the City Council.

6 Other matters

6.1 Development contributions revenue

The City Council has forecast total development contributions revenue of \$313 million over the ten year plan period. This represents a significant increase in development contributions revenue compared to previous Long Term and Annual Plans, and is reflective of the increased growth seen across the city in recent years.

Development contributions revenue was forecasted using the City Council’s development contributions model. The development contributions model was used for the first time in preparing this Long term plan – previous plans (and the 10-Year Plan consultation document) were forecast using the City Council’s development contributions spreadsheets.

As this was the first time the development contributions model was used the City Council engaged BERL to obtain independent assurance over the methodology behind the model, the calculations within the model and the consistency of the model with Council’s development contributions policy.

We obtained confirmation from BERL in relation to the review and evaluation performed and have placed reliance on the work performed by BERL in respect of the development contributions model. We note that BERL concluded in their report that there are no obvious errors or inaccuracies in the development contributions model, that the model is fit for purpose and the results of modelling are accurate based on the external data inputs and general parameters specified by the model.

As BERL’s review did not extend to testing the inputs into the model, we selected a sample of inputs to the model that, in our opinion, were likely to have a material impact on the revenue forecasts.

Our review focused on the inflation assumptions, interest rate assumptions and capital projects input into the model. We reviewed these inputs for consistency with information tested in other areas of the 10-Year Plan audit.

The historical interest rate assumptions input into the model were from a variety of sources, and there was a lack of consistency in the information underlying these assumptions. Some of the interest rates entered into the model were sourced from

previous 10-Year Plans, some reflected the prevailing interest rate assumption in that year, while others reflected the City Council's expected long term interest rate. Whilst we did not note any material difference between the interest rate assumptions applied we recommend that the City Council reviews these inputs going forward to ensure that the source for these rates is consistent in each year, and the rationale for the rates applied is clearly documented.

In addition, we reviewed a sample of historic capital expenditure inputs in the model. From our review we confirmed that the portion of the expenditure noted as being funded by development contributions is consistent between actuals and previous policy rates. However, we noted instances where actual capital expenditure incurred exceeded the amount originally budgeted. We did not specifically confirm whether these overruns were due to cost fluctuations or changes in scope. For capital expenditure works, where there has been a change in scope, we recommend that the City Council perform an assessment to confirm whether these additional costs are recoverable by development contributions.

6.2 Balance sheet

The City Council's prospective statement of comprehensive revenue and expenditure is prepared from information recorded within AX (the City Council's Financial Management Information System). However, we note that the City Council's prospective balance sheet is not generated from AX – the balance sheet is compiled externally within Excel, based on assumptions regarding the opening balance sheet position and expected changes in balance sheet items during the year.

From our review we noted limitations in the balance sheet assumptions applied, which resulted in property, plant and equipment being used as the "balancing figure" within the City Council's balance sheet. Whilst we are satisfied that this balancing figure does not materially impact on the forecast information presented in the prospective balance sheet we recommend that processes for balance sheet budgeting are improved. The City Council should consider if it is possible for the transactions reflected in AX to be automatically reflected in the balance sheet.

7 Project management

The development of the consultation document and 10-Year Plan is a significant and complex project. The City Council developed appropriate project plans to ensure a successful 10-Year Plan project. Overall, there was an appropriate level of commitment throughout the City Council to ensure the success of the project.

We appreciated that management kept us informed of changes, and potential issues, throughout the 10-Year Plan process and were proactive in working with us to ensure that the Council's deadlines could be met.

8 Looking forward

The adoption of the 10-Year Plan represents the completion of a significant piece of planning and forecasting work for the City Council. The plan however is inherently uncertain, and is based on a number of assumptions. Actual results are likely to differ from those forecast in the plan. The adoption of the 10-Year Plan provides a roadmap for operations. However, there are a number of future decision making points where Council may need to make decisions that differ from those proposed in the plan.

Council will need to ensure that any changes proposed to the 10-Year Plan are considered in terms of the City Council's significance and engagement policy. Any proposed changes to the adopted plan that trigger the significance and engagement thresholds will result in an amendment to the 10-Year Plan and would be subject to consultation and audit.

The 10-Year Plan includes a significant increase in capital expenditure compared to the previous plan, and also reinstates previous maintenance and operating budgets. In addition, the plan includes an ambitious savings plan totalling \$94.5 million over the ten year period, and forecasts for limited headroom between projected debt to revenue and the financial strategy limit on debt.

As a result, it is vital that robust monitoring procedures are in place to track performance against budgets and financial strategy limits.

In addition to monitoring of financial performance the City Council also needs to ensure that appropriate monitoring and reporting procedures are in place for non-financial performance measures. As noted in section 5.6 above the City Council has removed a number of performance measures in the current 10-Year Plan. Whilst we are satisfied with management's assessment that these measures are not material from a community perspective we consider these measures important from an operational perspective, and therefore encourage management to continue internal reporting on performance against these technical measures.

Appendix 1: Mandatory disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the 2018-28 10-Year Plan and reporting that opinion to you. This responsibility arises from section 93C(4) of the Local Government Act 2002.</p> <p>The audit of the 10-Year Plan does not relieve management or the Council of their responsibilities.</p> <p>Our audit proposal and audit engagement letter dated 22 November 2017 contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carry out our audit in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (revised): <i>Assurance Engagements Other Than Audits or Reviews of Historical Financial Information</i>, the International Standard on Assurance Engagements 3400: <i>The Examination of Prospective Financial Information</i>, and the Auditor-General's Auditing Standards.</p>
Auditor independence	<p>We confirm that, for the audit of the City Council's 10-Year Plan for the period 1 July 2018 to 30 June 2028, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.</p> <p>In addition to our audit, we have carried out engagements in the areas of the debenture trust deed reporting certificate, assurance work over aspects of decision-making related to the Victoria on the River Precinct, and assurance work over the procurement of professional services consultants for the Housing Infrastructure Fund project in the Peacocke area. The work which we have carried out on these engagements is compatible with those independence requirements.</p>
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the City Council that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the City Council during or since the end of the financial year.</p>
Unresolved disagreements	<p>We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the 10-Year Plan. Management has not sought to influence our views on matters relevant to our audit opinion.</p>

Council Report

Item 11

Committee: Audit & Risk Committee **Date:** 18 September 2018
Author: Russell Hynd **Authoriser:** David Bryant
Position: Finance Manager **Position:** General Manager Corporate
Report Name: Audit NZ Interim Management Report 2017/18

Report Status	<i>Open</i>
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Purpose

1. To inform the Audit and Risk Committee on the Audit NZ Interim Management Report for 2017/18.

Staff Recommendation

That the Audit and Risk Committee receives the report.

Attachments

Attachment 1 - Audit NZ HCC Interim Management Report 2018

Report to Council on the interim audit of
Hamilton City Council
for the year ended 30 June 2018

Key messages

Summary

We have completed our interim audit of Hamilton City Council (the City Council) for the year ended 30 June 2018. This report sets out our findings from the interim audit and draws your attention to areas identified for improvement.

Our main focus for the interim audit visits during May 2018 was to perform a high level review of the City Council's control environment and to evaluate the City Council's key internal control systems for financial and non-financial information. Overall we are satisfied that the control environment is effective and enables us to plan and undertake the most efficient and effective audit approach.

Issues identified during the audit

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

Section	Recommendation	Priority
1.1	Ensure journals posted as H3 are subject to independent review	Necessary
1.2	Review accounting treatment for found assets	Necessary

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

Thank you

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



Leon Pieterse
Appointed Auditor
10 September 2018

Contents

1	Assessment of your control environment	3
2	Summary of recommendations	5
	Appendix 1: Explanation of priority rating system.....	6
	Appendix 2: Status of recommendations.....	7

1 Assessment of your control environment

We have performed a high-level assessment of the control environment. This assessment was performed for the purpose of planning the most effective and efficient audit approach, in order to enable us to express an audit opinion on the Council's financial statements and the non-financial information. We considered the overall attitude, awareness, and actions of the Council and management in establishing and maintaining effective management procedures and internal controls.

In performing this assessment we consider both the "design effectiveness"¹ and "operational effectiveness"² of internal control. The explanation of these terms is outlined below. However, it is not the purpose of our assessment to provide you with assurance on internal control in its own right. As such we provide no assurance that our assessment will necessarily identify and detect all matters in relation to internal control.

In performing this assessment we have identified areas where we believe the control environment can be improved. These matters are later in this report.

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

Internal controls

We reviewed the internal controls in place for your key financial and non-financial information systems, as detailed below. Internal controls are the policies and processes that are designed to provide reasonable assurance as to reliability and accuracy of financial and non-financial reporting, as well as compliance with significant legislative requirements. These internal controls are designed, implemented and maintained by the Council and management. Both "design effective" and "operationally effective" internal control is important to minimise the risk of either fraud or misstatement occurring. The responsibility for the effective design, implementation and maintenance of internal control rests with the governing body.

1.2 Independent review of journals – H3

The City Council's tourism and events unit (H3) operates a Financial Management Information System independent from the City Council, and as such, its internal controls differ from those applied at the City Council.

¹ Control is effective to either prevent or detect a material error in either the financial statements and/or non-financial information. The control is "fit for purpose".

² Control has operated effectively throughout the period tested.

We completed a high level review of certain systems and processes in place at H3 as part of our audit procedures. From this review we noted that journals prepared and posted at H3 are not subject to formal independent review before posting. This differs from the City Council's processes which require all journals to be independently reviewed before being posted to the general ledger. If journals are not independently reviewed prior to posting there is an increased risk that erroneous or fraudulent journals may not be identified.

Recommendation

We recommend that an independent journal review process is implemented at H3.

Management comment

Agree, we will implement a process to ensure that adequate independent review is undertaken prior to journals being processed.

1.3 Treatment of found assets

The City Council records found assets within its asset management systems as they are identified by Council staff or contractors. The City Council's found assets are generally components on its infrastructure network.

When found assets are identified the asset and its attribute data (such as location, length, material etc.) are recorded within the asset management system. However, from discussions with City Council staff we understand that no financial data is recorded against found assets until the next revaluation of that asset class. This creates a risk that both property, plant and equipment and depreciation are understated at year-end.

In addition, we understand that when found assets are subsequently assigned a value the entry is recognised as part of the revaluation movement for that asset class. Found assets should only be recognised as part of the revaluation movement to the extent that the assets were "lost" or written down through a revaluation. If the assets were not written down as part of a previous revaluation, the found asset should be recognised within revenue (to offset the loss previously recognised through profit and loss when the asset was "lost" or expensed).

Recommendation

We recommend that the City Council reviews its processes regarding found assets to ensure that they are recognised and valued in a timely manner. In addition, we recommend that processes are put in place to determine how assets were originally "lost". This will ensure that subsequent accounting treatment of found assets within revenue or revaluation is correct.

Management comment

Noted, these recommendations will be adopted.

2 Summary of recommendations

Set out below is a summary of the priority of new recommendations raised during the current year audit as well as the status and priority of prior year audit recommendations. This table includes recommendations included in the prior year Minor Issues report.

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

	Priority			
	Urgent	Necessary	Beneficial	Total
New matters	-	2	-	2
Prior year matters still outstanding	-	2	-	2
Prior year matters in progress	1	7	0	8
Prior year matters to be followed up during final audit	3	14	12	29
Total open or outstanding matters	4	25	12	41
Cleared matters	-	5	1	6

Appendix 1: Explanation of priority rating system

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

The estimated time for expected resolution will vary depending on the complexity of the issue and the size of the organisation.

We have developed the following ratings for our recommendations:

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

Appendix 2: Status of recommendations

Outstanding matters

Recommendation	Current status	Priority	Management's proposed response	Year(s) raised	OIPR / AMOIP
No Organisational Business Continuity Plan or IT Disaster Recovery Plan					
We recommend that the City Council prioritises development and testing of Organisational Business Continuity and IT Disaster Recovery plans.	No IT disaster recovery plan has been developed or tested.	Necessary	<p><i>A draft plan was created in 2012, last reviewed in 2017. We accept the plan needs updating to reflect the current state of the IS environment, and to reflect our relationships with third party vendors. These vendors provide services under contract, including the ability to recover systems and data in the case of an adverse event.</i></p> <p><i>Key suppliers such as Fujitsu and Vocus have provided their Disaster Recovery Plans to HCC and restore tests have been carried out to ensure recovery of systems across all environments.</i></p>	2015 2016 2017 2018	329/ N/A

Recommendation	Current status	Priority	Management's proposed response	Year(s) raised	OIPR / AMOIP
			<p><i>Our focus remains on ongoing confirmation our vendor partners have the skills, expertise, and physical capability to ensure HCC can operate subsequent to an event. The DRP will be finalised and provided to the Auditors to resolve this matter.</i></p> <p><i>A Business Continuity Plan was developed (29/05/2017) with the Risk and Insurance Manager and covers the critical risk areas for the Council IT infrastructure and services. This is currently under review.</i></p> <p><i>The Core IT Services; such as Service Desk, Desktop management, network and security are being delivered through the Fujitsu Managed Services Contract in which the business continuity of these contracted services are a key requirement. Fujitsu has completed a DR/BCP review as recent as April 2018 for Service Desk and June 2018 for GoDaaS; the All of Government Desktop Service.</i></p>		

Recommendation	Current status	Priority	Management's proposed response	Year(s) raised	OIPR / AMOIP
High number of privileged user accounts on the networks					
We recommend that a process is established to review and reduce privileged access and that reports are prepared detailing what the privileged access has been used for during the period.	No review and reduction of privileged user accounts has been done, although this is noted in the Fujitsu report as a recommended action.	Necessary	<i>The review of accounts has been done, and the accounts providing Fujitsu system access are in the process of being deleted as appropriate. A process to manage this is in review with Fujitsu.</i>	2017 2018	

Matters in progress

Recommendation	Current status	Priority	Management's proposed response	Year(s) raised	OIPR / AMOIP
Plant, property and equipment – monthly reconciliations					
We recommended the City Council ensures disposals and additions in the asset management systems are being reconciled to the finance system on a monthly basis.	High level reconciliations are prepared between IPS (previously Hansen 8), AX Fixed Asset Registers and the GL. However, no reconciliation is performed over additions and disposals between IPS and the GL. We understand that a process for reconciling additions and disposals between IPS and the GL is being developed. The reconciliations performed to date have identified a number of reconciling items, which in the process of being investigated and resolved.	Urgent	<i>The process was finalized in May 2018 and a reconciliation was done in June 2018. For the 2018/19 financial year this will be completed monthly.</i>	2015 2016 2017 2018	307/Yes
Adding and removing users from network and applications					
We recommended to ensure security of the City Council information, managers need to advise IT when any users leave the City Council - including staff, contractors and fixed term engagements.	Staff member's access is being disabled from applications apart from Authority. We note however that whilst this access is not being disabled staff members cannot access Authority as their network access is being disabled.	Necessary	<i>IS are operating to business processes informing the current user base data. Standard BAU procedures to identify and remove obsolete accounts are not yet in place, however ad-hoc reviews and a review of HCC system capabilities has commenced since the audit. Network account disable/delete</i>	2015 2016 2017 2018	317

Recommendation	Current status	Priority	Management's proposed response	Year(s) raised	OIPR / AMOIP
Managers need to be reminded of their responsibilities with regards security. End dates should be entered into the City Council's systems where fixed term engagements or contracts are in place.	Contractor's access is not being removed from the network and applications.		<i>also restricts access to all applications, including Authority.</i>		
H3 – Internal controls					
We recommended that the City Council perform an internal review over revenue and expenditure systems to identify areas where the internal controls can be improved.	We performed a high level review of H3 internal controls. From this review we noted that the system maintains an audit log of changes to creditors, which identifies the change made to the creditor and who made the change. However, there is currently no independent review performed over these changes. We understand that the City Council is in the process of implementing a monthly review of all creditors' masterfile changes.	Necessary	<i>We accept the recommendations. We recognise the significant risk sits with ensuring bank accounts are consistent across systems. We have implemented a monthly process, as part of our internal integrity checks, where changes made against supplier accounts are checked against AX, and also counter reviewed.</i>	2015 2016 2017 2018	315/ N/A

Recommendation	Current status	Priority	Management's proposed response	Year(s) raised	OIPR / AMOIP
Adoption of legislative compliance policy					
We recommend the legislative compliance policy be formally approved and made available to all staff throughout the organisation.	The policy has been developed, but not yet formally adopted.	Necessary	<i>Compliance wide policy is to be finalised and submitted to BSLT for approval. Draft returned to Risk Manager for final amendments.- extension requested.</i>	2016 2017 2018	339/ N/A
IT risk framework					
We recommend that an IT risk framework be developed to identify, assess, monitor and respond to IT risks. This framework should be consistent with the City Council's organisational risk framework.	We understand that the IS Unit risks have been transferred to the new Organisational Risk Register format. We understand these risks are currently being reviewed through a process with the IS Management team, and will then be reviewed by the Unit Manager before being provided to the Organisational Risk Manager.	Necessary	<i>Residual risk ratings will be reviewed through the current management team review as noted.</i>	2017 2018	
Management of Generic (shared) network login accounts					
We recommend that the City Council regularly reviews generic network login accounts and ensures that these accounts are removed when no longer required by the business.	We understand that Fujitsu are recording the number of generic accounts but a full review and reduction has not yet been performed.	Necessary	<i>A full review has been subsequently completed and remaining generic accounts are required by business.</i>	2017 2018	

Recommendation	Current status	Priority	Management's proposed response	Year(s) raised	OIPR / AMOIP
Review and update IT policies and develop policy awareness programme					
<p>We recommend that the City Council prioritise the development of the IT security framework and updating of IT policies. A policy awareness and enforcement programme should be included in the IT security framework.</p> <p>Additionally, we recommend that the City Council require all staff and contractors to complete the new IT online induction programme.</p>	<p>New IT policies have been developed using the MPA policy framework. These are yet to be formally adopted and communicated to all staff and contractors.</p>	Necessary	<p>All policies have been migrated to the MPA system. The adoption of the new system is progressing through Council process and was expected to be in place by July 2018. Due to the IS Unit Review role responsibilities have changed. Policies are being updated to reflect this and the now approved policies are expected to be published by the end of September 2018.</p>	2017 2018	
Reviews of users and their system access levels					
<p>We recommend that processes are established for the regular review of users and their access levels on the City Council's network and applications. This will help to ensure that access levels remain appropriate.</p> <p>We also recommend that periodically a report is run which details users last login date, as this will help to identify if there are any redundant users on the networks so that these users access can be removed.</p>	<p>We understand that informal reviews of PSE users are done by the payroll system administrator.</p> <p>Fujitsu have started a review of all network logins.</p> <p>To date, no review of user access levels has been performed in Authority.</p> <p>From our review, we noted that the automated process for removing contractor's access is not operating as intended.</p>	Necessary	<p>IS are investigating the introduction of role-based access to Authority as part of the next 2 upgrade projects. This first of these is scheduled (Authority 7.0) for the last quarter of 2018.</p> <p>IS continue to work with Fujitsu to implement system solutions (Azure Active Directory) to provide improved capabilities in user management.</p>	2017 2018	

Matters that have been resolved

Recommendation	Outcome
Regular patching of the City Council's desktops	
We recommend monthly patching of desktops needs to be reinstated to ensure improved security of the City Council information.	Patching is now occurring and being reported in the monthly Fujitsu reports.
Recording of IT assets and their antivirus status	
We recommend priority is given to ensuring all the City Council's desktops are recorded, managed and updated with antivirus updates and patches.	Fujitsu now report monthly on the status of councils IT assets and Anti-Virus.
General ledger reconciliations	
We recommended reviews of general ledger reconciliations be carried out in a timely manner.	No issues noted from the sample of reconciliations reviewed.
Payroll/HR system password settings	
We recommend that passwords for updating data in the payroll/HR system be a minimum of eight characters with complexity and password changes enforced.	The City Council has synchronised PSE access with the network login.
Sensitive expenditure – Gifts, Hospitality and Entertainment policy	
<p>We recommended the Gifts and hospitality policy could be strengthened by requiring the receipt of gifts, except for inexpensive gifts are openly distributed by suppliers and clients, to be disclosed, to be recorded in a gifts register, and to remain the property of the entity.</p> <p>The policy should also define “infrequent” and “inexpensive” in relation to receiving gifts.</p>	<p>The Gifts, Hospitality and Entertainment policy was approved by senior management in July 2017.</p> <p>They have implemented a gifts register for all gifts greater than the value of \$50 to be recorded.</p> <p>The policy does not specifically define “infrequent” and “inexpensive” in relation to receiving gifts.</p>

Recommendation	Outcome
Sensitive expenditure policies overdue for review	
<p>We noted that the following policies are overdue for review:</p> <ul style="list-style-type: none"> • Gifts and Hospitality Policy – was due to be reviewed in October 2012; and • Hospitality and Entertainment Policy – was due to be reviewed in September 2012. <p>We recommend that policies are subject to regular review (at least once every three years) to ensure that policy guidance remains appropriate and fit for purpose in the current operating environment.</p> <p>We recommend that the review of these policies is prioritised.</p>	<p>The Gifts and Hospitality policy was approved by Senior Management on the 3 July 2017.</p> <p>A new sensitive expenditure policy has been developed which incorporates Hospitality and Entertainment.</p>

Council Report

Item 12

Committee: Audit & Risk Committee **Date:** 18 September 2018
Author: Russell Hynd **Authoriser:** David Bryant
Position: Finance Manager **Position:** General Manager Corporate
Report Name: Annual Report 2017/18 and Audit NZ Clearance

Report Status	<i>Open</i>
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Purpose

1. To obtain a recommendation from the Audit and Risk Committee that the 2017/18 Annual Report be adopted by Council.

Staff Recommendation (*Recommendation to Council*)

2. That the Audit and Risk Committee:
 - a) receives the report; and
 - b) recommends to Council the adoption of the 2017/18 Annual Report.

Discussion

3. The Annual report is a requirement under the Local Government Act 2002. The report has been prepared and is compliant with all applicable accounting standards.
4. There are no material changes from the draft Annual Report that was reviewed at the August 2018 Audit and Risk Workshop.
5. The final version will be circulated under separate cover once complete.
6. Audit New Zealand will be providing a verbal clearance to the Committee that the report is compliant and fairly reflects Council's financial position for the year ended 30 June 2018.

Attachments

There are no attachments for this report.

Council Report

Committee: Audit & Risk Committee **Date:** 18 September 2018
Author: David Bryant **Authoriser:** David Bryant
Position: General Manager Corporate **Position:** General Manager Corporate
Report Name: Audit & Risk Committee Self-review

Report Status	<i>Open</i>
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Purpose

1. The Chair of the Audit and Risk Committee will use the attached report as the basis for a self-review discussion.

Staff Recommendation

That the Audit and Risk Committee receives the report.

Attachments

Attachment 1 - Audit & Risk Committee Self-review 2018

Committee: Audit and Risk Committee

Date: 7 September 2018

Report name: Committee Self-Review

Author: Paul Connell

Purpose of the Report

This report outlines the work of the HCC Audit and Risk committee. The last self-review was in December 2017.

Meetings

The Audit and Risk Committee met on the following dates:

- 8 March 2018
- 14 June 2018

The Committee also held an informal workshop on 21 August 2018 to review the annual financial statements and performance reporting.

Chair's activities

The Chair held additional meetings with the internal auditors PWC, Audit New Zealand and executives.

The Chair contributed to planning for the PWC Cyber Security review and attended meetings in person and by teleconference.

Council called for a special purpose review of certain matters relating to the proposed Central City Park by Audit New Zealand. The Chair agreed the terms of reference with Audit New Zealand on behalf of Council and monitored completion of the report.

Annual Reporting Process

The Committee oversaw the engagement of the external auditors and the completion of the annual financial statements and made recommendations to Council where required.

The Committee reviewed accounting policies, material estimates and asset impairment where appropriate.

Risk Management

The Committee monitored the top organisational risks and recommended action where required. In addition, the Committee continued to focus on continuous improvement and simplification of the framework.

Organisational Improvement

The Committee received reports from external parties which included recommendations for improvement including:

- Audit New Zealand: Annual audit and controls
- PWC: Internal Audit
- Fitch credit report

The Committee tracked progress with significant recommendations. During the year the reporting process was improved and re-focused.

Other work

The Committee received internal reports including:

- Health and Safety
- Insurance

New Independent Committee member

The Current Chair will retire in October 2018 to provide for rotation of independent members in accordance with good governance practice. Council is in the process of appointing another independent member of the Committee.

Closing

On a personal note I would like to thank Hamilton City for the opportunity to serve Hamilton on this Committee. It has been stimulating and rewarding. I would also like to thank Councillors and management for their support, engagement and hard work.

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 Audit and Risk Committee Meeting Minutes - Public Excluded - 14 June 2018) Good reason to withhold information exists under Section 7 Local Government Official Information and Meetings Act 1987	Section 48(1)(a)
C2. Material Risk 7: Cyber Attack)	

This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public, as follows:

Item C1.	to prevent the disclosure or use of official information for improper gain or improper advantage	Section 7 (2) (j)
Item C2.	to enable Council to carry out commercial activities without disadvantage	Section 7 (2) (h)