

Notice of Meeting:

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

Date: Tuesday 27 November 2018
Time: 1.00pm
Meeting Room: Committee Room 1,
Venue: Municipal Building, Garden Place, Hamilton

Richard Briggs
Chief Executive

Audit & Risk Committee OPEN AGENDA

Membership

Chairperson: External appointee - Keiran Horne

Membership: External appointee – Bruce Robertson
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

21 November 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

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1 Apologies

2 Confirmation of Agenda

The Committee to confirm the agenda.

3 Declaration of Interest

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

4 Public Forum

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:** 27 November 2018
Author: Rebecca Watson **Authoriser:** Becca Brooke
Position: Committee Advisor **Position:** Governance Team Leader
Report Name: Confirmation of Audit and Risk Committee Open Minutes - 18 September 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 18 September 2018 as a true and correct record.

Attachments

Attachment 1 - Audit and Risk Committee Meeting Open Minutes - 18 September 2018

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 Tuesday 18 September 2018 at 9.30am.

PRESENT

Chairperson: Paul Connell

Membership: Keiran Horne
Mayor Andrew King
Cr Garry Mallett
Cr Dave Macpherson
Cr Paula Southgate

In Attendance: Cr Ryan Hamilton
Richard Briggs – Chief Executive
David Bryant – General Manager Corporate
Lance Vervoot – General Manager Community
Tracey Musty – Financial Controller
Sean Hickey – General Manager Strategy and Communications
Jen Baird – General Manager City Growth
Eeva-Liisa Wright – General Manager City Infrastructure
Russell Hynd – Finance Manager
Mike Lamb – Chief Information Officer
Andre Chatfield – Risk and Insurance Manager
Dan Finn – People, Safety and Wellness Manager
Karin Barclay – Safety Engagement Lead
Andrew McFadyen – Health and Safety Assurance Lead
Nigel Ward – Communications Advisor
Pieter Bronkhurst – Chief Technology Officer
Sharon Cresswell – PWC
Aaron Steele - PWC
Drew Parker – PWC
Leon Pieterse – Audit NZ
Jared Williams – Audit NZ

Governance Advisor: Rebecca Watson

1. **Apologies**

Resolved: (Mr Connell/Cr Southgate)

That the apologies for absence from Cr Pascoe, from Mayor King and Cr Macpherson for lateness, from Cr Southgate for early departure and from Cr Mallett for leave for part of the meeting are accepted.

2. **Confirmation of Agenda**

Resolved: (Mr Connell/Cr Southgate)

That the Audit and Risk Committee confirm the agenda.

3. **Declarations of Interest**

No members of the Committee declared a Conflict of Interest.

4. **Public Forum**

There were no public forum speakers.

5. **Confirmation of Audit and Risk Committee Meeting Minutes - Open - 14 June 2018**

Resolved: (Crs Southgate/Mallett)

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.

6. **Risk Management Report**

The Risk and Insurance Manager took the report as read and responded to questions from Committee Members regarding changes to the report since the last Audit and Risk Committee meeting in June 2018. It was noted that at the end of 2018, Hamilton City Council will have 34 business continuity plans in place across the organisation.

Discussion was held regarding the council's readiness for civil defence and emergency management, and how to mitigate the risks associated with loss of key personnel in this area. Committee Members also asked questions concerning ways of ensuring that asset management plans were being completed.

Staff action: *The Risk and Insurance Manager was asked to check what was in place regarding succession planning and documentation around civil defence and emergency management.*

Resolved: (Ms Horne/Cr Mallett)

That the Audit and Risk Committee receives the report.

7. Safety and Wellness Report

The People Safety and Wellness Manager introduced the report and provided a summary of the findings. He highlighted the positive changes to the key performance indicators and explained that the current safety system was being updated to enable staff to report easily and in a timely manner. The Committee Members were given an overview of the current wellness campaign in the organisation.

An update was also provided on the health and safety representative training and the process for cascading key safety and wellness messages into the organisation.

Resolved: (Mr Connell/Cr Mallett)

That the Audit and Risk Committee receives the report.

Cr Southgate retired from the meeting at the conclusion of the above item. She was present when the matter was voted on.

Cr Mallett left the meeting at the conclusion of the above item. He was present when the matter was voted on.

Due to the above Committee Members leaving, the meeting was no longer quorate and adjourned from 10.25am to 11.44am.

Mayor King and Cr Macpherson joined the meeting at 11.44am following the above adjournment.

8. Organisation Improvement Register Report

The Finance Manager took the report as read. It was noted that all items on the improvement register were behind schedule due to staff changes and dates are being revised as needed. It was highlighted that a number of items have been cleared, and the process of sign off for items was discussed.

Committee Members discussed the IS service provider contract and movement to electronic paperless systems.

Resolved: (Mr Connell/Cr Macpherson)

That the Audit and Risk Committee receives the report.

9. Internal Audit Update

Staff from PwC spoke to the report, highlighting the work being done to drive the internal audit functionality within the organisation.

Resolved: (Ms Horne/Cr Macpherson)

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 the draft internal audit charter.

10. Audit NZ Final 2018-28 LTP Management Report

The Finance Manager introduced Leon Pieterse and Jared Williams from Audit NZ. The report was taken as read, and staff from Audit NZ highlighted a number of items in the key messages area of the report.

Committee Members discussed the rates revenue processes.

Resolved: (Mayor King/Mr Connell)

That the Audit and Risk Committee receives the report.

11. Audit NZ Interim Management Report 2017/18

The Finance Manager and staff from Audit NZ spoke to the report. It was identified there were two items noted in the report that required updates (processes at H3 and Found Assets), which had since been actioned.

Committee Members asked questions regarding the timeframes and processes for some of the items that had been raised and not cleared as part of the management report.

Resolved: (Mayor King/Ms Horne)

That the Audit and Risk Committee receives the report.

12. Annual Report 2017/18 and Audit NZ Clearance (Recommendation to Council):

The Chair introduced the item, discussing the process that had been undertaken to date regarding the sign off on the annual report, timetable for sign off and the current status of the report.

Resolved: (Mr Connell/Ms Horne)

That the Audit and Risk Committee:

- a) receives the report; and
- b) recommends to Council the adoption of the 2017/18 Annual Report, subject to review and approval by the Audit and Risk Committee Members, with feedback to be provided to the Chair by 25 September 2018.

13. Audit & Risk Committee Self-review

Chair Paul Connell thanked the Committee and noted that it has been his pleasure and an honour to serve on the Audit and Risk Committee over the past six years.

Resolved: (Cr Macpherson/Ms Horne)

That the Audit and Risk Committee receives the report.

14. Resolution to Exclude the Public

Resolved: (Mr Connell/Mayor King)

Section 48, Local Government Official Information and Meetings Act 1987

The following motion is submitted for consideration:

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

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

General subject of each matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
C1. 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) |

The meeting went into a public excluded session at 12.21pm.

The meeting was declared closed at 2.05pm.

Council Report

Item 6

Committee: Audit & Risk Committee **Date:** 27 November 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 and Insurance Manager, in conjunction with the identified risk owners.
3. Attachment 1 details each material risk and includes a status of identified actions to further mitigate these material risks.
4. A deep dive into Material Risks 1: *H&S - Workers* will be held in the form of a workshop presented by Council's Health and Safety team and guest speakers. There will be several presentations provided to outline the importance and role of governance in keeping people safe, examples of when this may go wrong and key mitigations to better manage risk using the example of safety and design.

Attachments

Attachment 1 - HCC Material Risk Report - November 2018

Material Risks Summary – November 2018

Rank	Risk Description	Inherent Risk Rating <small>Rated before controls are implemented</small>	Residual Risk Rating <small>Rated after controls are implemented</small>
1	H&S – Workers (incl. contracted workers & volunteer workers) Failure to create and maintain a safe environment for staff leading to death or a serious injury incident.	Extreme*  Very High	High** 
2	H&S - Community Failure to create and maintain a safe environment for the community leading to death or a serious injury incident.	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 	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.

** Council takes 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	<i>B</i>	VH	<i>A</i>	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.

- 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 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	<i>B</i>	H	VH	VH
	Unlikely	L	M	M	<i>A</i>	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 – November 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. <p>Note: A deep dive on this material risk will be conducted at this ARC meeting by way of a workshop that will include internal and external subject matter experts (SME).</p>	<ul style="list-style-type: none"> • Part of the governance framework for contractor management is the SHE Contractor Prequalification programme. WLASS have conducted an annual audit and positive findings were shared with all WLASS members. Overall contractor management practices are yet to be looked at in-depth by Council to identify on-going improvements and best practice benefits. • As part of the safety engagement program the Health & Safety Roadmap has been developed to focus on four key areas – best in business, managing risk, safety leadership and strengthening our culture. This will be presented during the deep dive of this material risk. • Council have adopted an auditing and monitoring regime that includes internal and external auditing. Further inspection and observation practices are within business units as part of Safety Representative duties. These are considered business as usual activities to support monitoring. • To enhance the understanding of Council’s 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: (awaiting feedback for approval) <ul style="list-style-type: none"> (1) Working alone in Isolation (2) Hazardous Substances (3) Asbestos Management. 	<p>Dan Finn (People Safety & Wellbeing Manager)</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	People
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	M	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	M

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

- Asset maintenance programmes - AMPS
- 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
- Specific Competency and Training Programmes – Pools, Arborists, City Safe
- City Safe - CCTV cameras (64 Crime prevention, 40+ Transportation and 103 facility cameras)

Residual Risk

		CONSEQUENCE				
		Minor	Moderate	Serious	Major	Catastrophic
LIKELIHOOD	Almost certain	M	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	M

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 – November 2018	Action Owners
<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"> • A new body of works involving Tomkins Wake has been initiated to understand Council liabilities within the public environment and Council assets. Areas of review are tree maintenance and Council facilities utilised by the public. • Focus will be around asset management and safety in design practices to identify an appropriate monitoring regime. • In support of the above the H&S team are currently working on a Contractor Management Current Best Practice (CBP) for the organisation. This will include scheduling project contractor safety audits / inspections that are already conducted by Safety representatives within business units. These provide support to an ongoing assurance programme. • The new body of works discussed above will determine the level and depth of monitoring across Council. 	<p>Dan Finn (People Safety & Wellbeing Manager)</p> <p>Paul Gower (Growth and Assets Manager)</p>

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

Risk Triggers					
<ul style="list-style-type: none"> Inadequate budget allocated for maintenance and renewal of critical assets Incorrect analysis in development of maintenance and renewal requirements Poor or incomplete asset data Failure to identify all critical assets Failure to carry out planned maintenance and renewal of critical asset 					
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 Development Critical asset groups have been identified and management strategies for these assets are documented. Activity Management Plan (AMP) renewals are fully funded over in the 10-Year Plan Budget and critical assets are given a higher priority for renewal. Activity Management Plans were internally and externally reviewed to help identify if budgets are adequate. 					
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 – November 2018	Action Owners
<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 completed and implemented as BAU. Critical assets have been identified and managed as per controls. • PwC are undertaking a review of maintenance planning for critical assets. Expected completion is March 2019 which will support the development of critical asset management strategies. • Action completed for Transportation, Water Supply and Wastewater assets. • Consultants are working with staff to develop high-level liquefaction risk maps using existing and available geotechnical data. This is still ongoing – completion date to be confirmed. 	<p>Paul Gower (Growth and Assets Manager)</p> <p>Maire Porter (City Waters Manager)</p> <p>Bridget Morgan (Water Asset Manager)</p> <p>Robyn Denton (Transportation Manager)</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 – November 2018	Action Owner
<ul style="list-style-type: none"> Visibility and ownership of Business Continuity Plans to be outlined to all SLT members. 	<ul style="list-style-type: none"> Council's BCP programme consists of 26 BCPs and is currently under review with completion set for December 2018. At completion SLT will be briefed by the R&I Manager. A BCP Champions Group framework has been established to improve management and cross organisational awareness when responding to events. 	Andre Chatfield (Risk & Insurance Manager)

<ul style="list-style-type: none">• 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">• All updated BCPs will be located on Council’s intranet site from December 2018. BCPs will be managed by each business unit with support from the Risk Management team.• As the BCPs are currently under review, testing is targeted for the New Year.	
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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	Jen Baird (GM City Growth)	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	Inherent Risk Rating	Extreme 

Existing Controls and Mitigations					
<ul style="list-style-type: none"> Established emergency training program implemented for council staff Co-location Emergency Operations Centre (EOC) in dedicated leading-edge emergency operating centre (GEMO) with built in redundancy Civil Defence Standard Operating Plans and Procedures – full review underway Robust exercise schedule to test preparedness and response functionality Annual external Capability Assessment conducted to determine progress and risks 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	Residual Risk Rating	Very High 

Further Actions Required	Update – November 2018	Action Owners
<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 • National Shake Out Drill provided increased awareness during October. A minor event that took place after the Shake Out Drill highlighted those staff on higher levels within the Municipal building reacted appropriately. • Council has dedicated resources that provide awareness training and advice for staff and the public. • CDEM Group Manager / Controller for Waikato Region has been selected – Julian Snowball appointed mid-October 2018. Previous second in charge for Waikato Region. • Underway within the Waikato Regional Group Emergency Management Office. Specific CDEM procedural guidelines being created to support HCC staff and services. <p>Note: Deep Dive of this material risk is expected in next ARC Meeting (March 2019). New Civil Defence Group Manager to be invited in conjunction with Council Civil Defence Controller.</p>	<p>Kelvin Powell (City Safe Manager, City Civil Defence Controller)</p> <p>Andre Chatfield (Risk & Insurance Manager, City Civil Defence Alternate Controller)</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 – November 2018	Action Owner
<ul style="list-style-type: none"> 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 first phase of reviewing Council's Financial Strategy reporting is complete and was presented to the October 2018 Finance Committee. Unbudgeted / unexpected expense or shifts in the timing of budgeted expense can result in the new debt to revenue ratio limit being breached. Staff are responding to this situation by developing a decision framework and process that is designed to address any breach. Depending on the cause, addressing any breach may require a Council decision. The detail in Council's Financial Strategy reporting will continue to evolve as a result. 	David Bryant (GM Corporate)

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	Catastrophic	Inherent Risk Rating	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 Disaster Recovery Plan (DRP) 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	Catastrophic	Residual Risk Rating	Very High 

Further Actions Required	Update – November 2018	Action Owners
<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"> • All key activities have been identified and part of business as usual (BAU) processes. • The Disaster Recovery Plan (DRP) includes a backup regime and action plans are in place for critical services. • IS have an internal and external monitoring capability in place. Unusual activities are communicated to the CIO and CTO as part of BAU. • Monitoring of unusual network activities has increased and is still considered a BAU process with the 'three lines of defence' approach established and implemented. <p><i>Note:</i> In the September 2018 Audit & Risk Committee meeting the CIO, CTO and PwC provided a deep dive on this risk.</p>	<p>Mike Lamb (Chief Information Officer - CIO)</p> <p>Peiter Bronkhorst (Chief Technical Officer – CTO)</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" modelling 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 A Scenario Management Process for DC Model established, externally peer reviewed and auditable by NZ Audit. New Growth Funding & Analytics Unit has been formally created, with objectives outlined in the Unit's SPT Quarterly analysis of external housing, market drivers is captured in the Hamilton Housing Market & Economy Growth Indicator Report NPS is enacted by legislation. A sub-regional review of land use, demand and supply has now been completed. 					
Residual Likelihood	Unlikely	Residual Consequence Driver Social, Cultural and Environment	Major	Overall Residual Risk Rating	High 

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	M	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	M

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.

20

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.

Council Report

Item 7

Committee: Audit & Risk Committee

Date: 27 November 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 safety and wellness activities and key performance indicators for the period from 1 July 2018 to 31 October 2018.

Staff Recommendation

That the Audit and Risk Committee receives the report.

Attachments

Attachment 1 - Safety and Wellness Audit and Risk Report



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Item 7

Attachment 1

 **Hamilton City Council**
Te kaunihera o Kirikiriroa

Overview

Our safety performance is steady and is slowly improving as our injury management practices are better understood and applied. Working closely with teams across business units as well as providing more visibility through operational reporting, we expect to see a gradual and sustainable improvement in our safety performance as our safety maturity increases.

Looking towards the next six months the Health and Safety Team are focussed on two key initiatives that align to our safety strategy and roadmap. These initiatives are focussed on improving systems enablement and a structured wellness programme to support a safe, healthy and just culture. Specifically, this includes the upgrade to the Health and Safety Incident management system (Vault) and the introduction of WorkWell which will provide a framework that supports Council to develop and implement an effective and sustainable workplace wellbeing programme.

As part of our wider wellness programme and as we approach the Xmas and New Year holiday period, we will also be looking to:

- Encourage people to be SunSmart, preparing ourselves for the summer ahead and ways we can protect ourselves from ultra-violet and heat related illnesses.
- Focus on injury management and rehabilitation. Good injury management enables us to actively support the assessment and rehabilitation of workplace injuries as well as minimising disruption to business units by supporting injured workers to achieve a safe and early return to the workplace
- Welcome back to work – helping workers refocus after Christmas leave

In line with our 'Connected' programme the Health and Safety Team is focussed on developing a high-performance culture that supports good safety practices through the alignment of the key principles that underpin the programme.

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

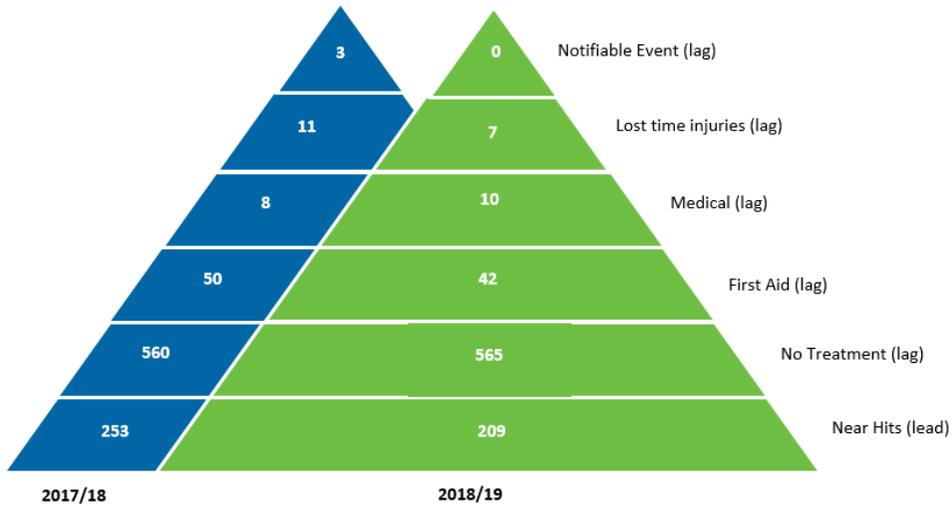


Figure 1: Performance Indicators for events reported 1 July – 30 June 2017/18 and 1 July – 31 Oct 2018/19

Lost Time Injuries By Month

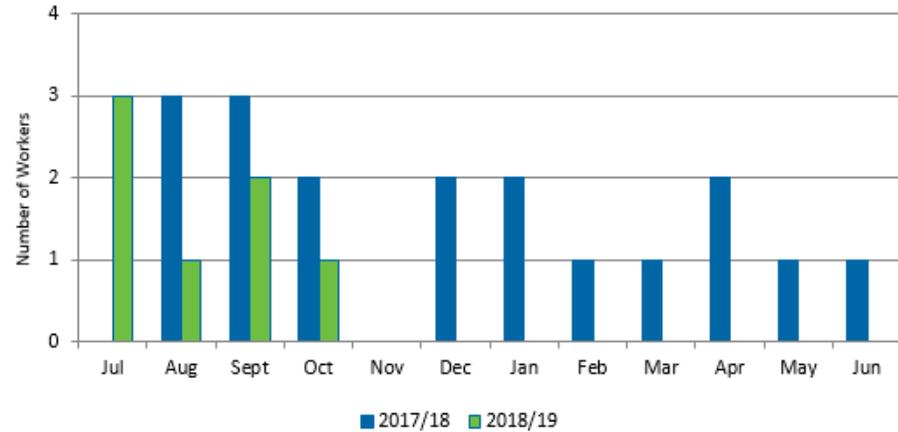


Figure 3: Lost time injuries by month 2017/18 and 2018/19 Year to Date

Total Recordable Injury Frequency Rate

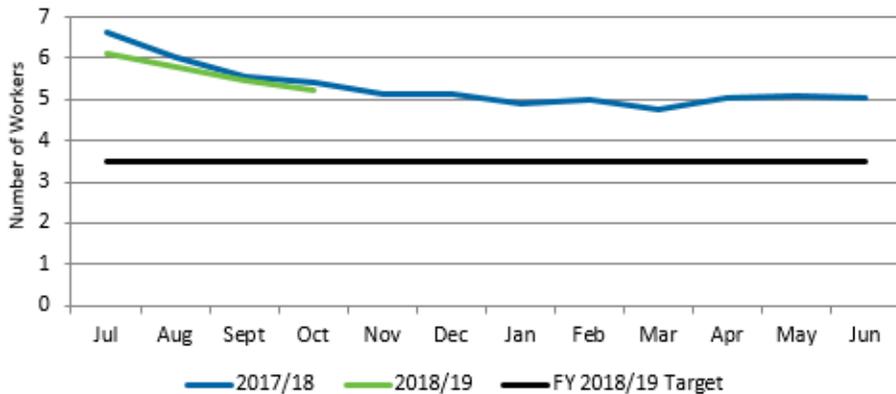


Figure 2: Total recordable injury frequency rate per 200,000 work hours

Lost Time Injury Frequency Rate

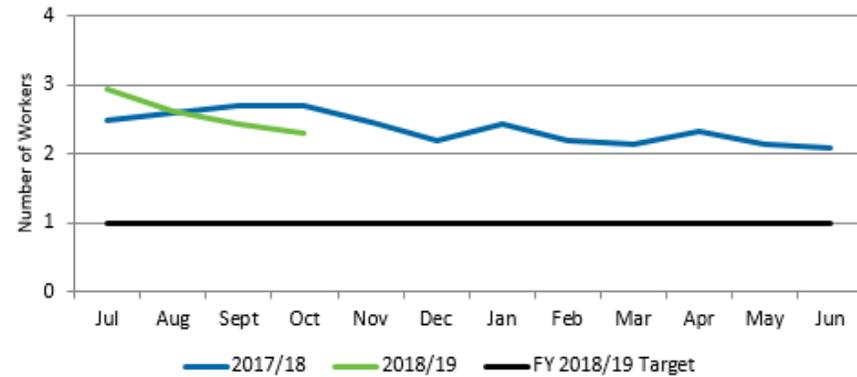


Figure 4: Lost time injury frequency rate per 200,000 work hours

Health and Safety Trends

We are seeing similar types of events taking place across a number of areas that shows a pattern of re-occurrence. This involves driving on the road and dealing with aggressive and/or violent people which have been identified as two of our critical risks. We continue to target these types of incidents through initiatives and promotion to raise awareness, however we are not seeing a sustainable reduction or performance improvement that is needed.

Our key performance metrics are slowly improving but remain mostly static and we are yet to see the required step change in the reduction of lost time and medical treatment injuries. We are purposefully targeting these types of incidents through improved reporting and injury management procedures, which will over time reduce and improve our performance.

Continuing to work with our managers and medical practitioners we are resetting our culture to be more supportive in the management of injuries through alternative duties and return to work programmes.

Notifiable Events

There have been no notifiable events reported to WorkSafe from 1 July to 31 October 2018.

Lost Time Injuries

Between 1 September to 31 October 2018 we recorded three lost time injuries, compared to five for the same period last year.

Our current LTIFR is 2.31 per 200,000 work hours verses our target of 1.0.

Risk	Injury Type	Number of lost time Injuries
Manual Handling	Strains and Sprains	2
Driving	Motor vehicle collision	1

Table 1: Risk associated to lost time injuries.

Medical Treatment and First Aid Injuries

Between 1 September to 31 October 2018 we recorded 7 medical treatment injuries and 9 first aid injuries. Our current TRIFR is 5.24 verses our target of <3.5.

Near Hit Reporting

Between 1 September to 31 October we recorded 107 near hits.

We continue to encourage near hit reporting however we need to encourage and improve the types of corrective actions based on root cause analysis. The benefits of managers having increased visibility of their near hits will:

- Enable pro-active and timely control measures to be implemented
- provide opportunities to increase worker engagement in solving problems
- increase health and safety ownership and worker participation
- provide a valuable opportunity to share learnings through safety conversations.
- Promote a positive and just health and safety culture

To improve near hit reporting we are currently trialling an application (Vault Notify) that enables staff to report near hit events in real time. Staff who are trialling the mobile application have provided positive feedback to date.

The Health and Safety Representatives are also encouraged to be proactive and have health and safety conversations around this topic.

Audits, monitoring and reviews

Between 1 September to 31 October 2018 there were 83 health and safety audits carried out, made up of 20 manager audits and 63 worksite/ contractor audits.

We also carried out 156 safety observations, providing workers and managers with an opportunity to have positive safety conversations as well as addressing any unsafe practices.

We are also carrying out a number of workplace inspections utilising our Health and Safety Representatives who work across groups and business units. Of those workplace inspections carried out a small number of non-compliances have been identified and considered low to medium risk. These inspections are recorded in Vault, with non-compliances assigned to managers to rectify and close out.

In accordance with councils Drug and Alcohol Policy we continue to carry out random testing for those in safety sensitive roles. During this reporting period we have had one positive returned test where the employee is undertaking rehabilitation and one other worker who refused to be tested, who has since resigned. Since the Policy was introduced testing has been carried out in a fair and respectful way which has seen very little disruption both to the business and the individual being tested.

We are currently in the process of reviewing our Health and Safety policy to better align to the new international standard - AS/NZS ISO 45001:2018 and supporting regulations. The draft policy has been socialised with management, staff and unions.

Worker Participation and Engagement

Council operates a committee structure which is made up of senior leadership, operational groups and union partners who meet monthly, quarterly and bi-annual to provide guidance, direction and to share safety insights and learnings focused on effecting positive change in health and safety at all levels.

As we continue to focus on the implementation of our health and safety roadmap, our safety committees are an important part in the way in which we operate our health and safety management systems. Through engagement and continued education trained health and safety representatives working in

conjunction with an established framework provides a direct line of sight to ensure that workers can contribute and actively participate to improve the safety and health of their work environment.

The Team has been working with the Health and Safety Representatives across the Organisation to create more opportunities for participation and provide a line of communication for all workers. We have created standardised visual management boards to support consistent messaging and information on health and safety performance and other initiatives and programmes.



We continue to work with groups and business units to ensure that they have the appropriate number of trained health and safety representatives to support worker participation and engagement.

Waikato Local Authority Shared Services (LASS)

The health and safety team participate in the Waikato LASS Health and Safety working party which is made up of safety representatives from participating councils with the aim of sharing knowledge and information to provide a consistent approach to safety management across local government.

Positively engaging with other local councils as part of the LASS working party forms part of our extended safety committee composition. As an example of a key initiative through this forum HCC provided substantial input into the development of a regional health and safety management framework based on what HCC had developed which could be adopted by other smaller participating councils.

Key Health and Safety Initiatives

Health and Safety Reporting System - Vault

A key project that the team is undertaking is to improve our safety system, Vault through the planned upgrade designed to deliver a refreshed technology platform to improve system engagement and increase ease of reporting. Working with information services a project plan is being developed to introduce the new software in the new year. As part of this upgrade, there will be a number of applications deployed.

Wellness Programme - WorkWell

Council already supports and promotes a number of wellness activities; however, these have historically been delivered in the absence of a structured framework that aligns to our overarching safety strategy. Having looked at a number of frameworks through external providers a decision has been made to partner with Toi Te Ora – Public Health Service to provide a more structured programme of work.

This structured programmed known as WorkWell provides a framework that supports workplaces to develop and implement an effective and sustainable

workplace wellbeing programme. Based on best practice it provides guidance, support and mentoring to achieve recognition and accreditation. This in turn is designed to provide benefit through staff retention and attraction.

Engagement Survey

We have recently undertaken our annual staff engagement survey, which showed that our people remain most satisfied with Health and Safety. The survey results tell us that our people look after themselves and others, their managers take action when issues are identified, and our people have access to the appropriate training to deal with health and safety matters.

The survey asks four specific health and safety questions scored on average 86 percent, which is the same score as the 2017 survey. Three of these four questions were in the organisations top ten highest scoring questions.

Health and Safety | 86%

Item	Perception				2017	NZ Average
	% Positive Perception	% Positive Hesitance	% Negative Hesitance	% Negative Perception		
Workplace health and safety are considered important here	93	5	1		+1	+9
People I work with make sure things are safe for themselves and others	87	10	2		0	--
If I identify a safety issue I know my manager will act on it	87	9	3	2	+2	+5
I have the training I need to deal with health and safety issues	78	14	4	3	-1	-6

Training and Competency

During this reporting period the following courses were provided with small numbers attending. To improve participation and cost efficiencies, as a key initiative the safety team are planning to work with the new Organisational Development Lead to refresh and implement a blended learning approach. This will include e-learning modules and a more condensed classroom learning experience.

COURSES PROVIDED BETWEEN Sept-Oct	NUMBER ATTENDED
Health and Safety Representative Induction	9
Incident Investigation	14
Intercultural Awareness	9

Table 2: Health, Safety and Wellness training completed Sept - Oct 2018

Safety training planned for the next quarter includes Mental Health First Aid, Looking after Yourself, Aging Positively in the Workplace and Health and Safety Representative Training.

Shape a City

Staff wellbeing was at the forefront of the recent shape a city sessions held in November where the opportunity was taken to present our WorkWell initiative and the five strategies to wellbeing, which include; connect, give, take notice, keep learning and be active, that are based on the Mental Health Foundations wellness model.

People, Safety and Wellness update

Andrew McFadyen Health and Safety Assurance Lead has recently left to take up a similar role at South Waikato Regional Council. Having joined the People Safety and Wellness Team in September last year, Andrew's practical thinking and technical expertise contributed to our improved safety performance. A recruitment process is currently underway to find a suitable replacement.

Health and Wellbeing

Bullying and Harassment Monitoring

Council has a zero-tolerance approach to bullying and harassment in the workplace. All allegations are taken seriously. Reporting of alleged bullying and harassment occurrences are captured and categorised by:

- Peer support contact (early intervention)
- Informal reports (investigated internally)
- Formal reports (investigated externally)

	Peer Support	Informal Reports	Formal Reports
Total for period 1 September to 31 October 2018	0	1	0

Table 3: Harassment and Bullying

Employee Assistance Program (EAP)

For the period 1 August – 31 October 2018 there were 54 cases handled through EAP, which is up 11 from the previous reporting period. Most of these cases are through self-referrals and relate to work and non-work stressors and personal relationship issues.

EAP Use	1 May - 31 Jul 2018	1 Aug – 31 Oct 2018
New Cases	28	27
Reopened Cases	3	4
Pre-existing cases seen during period	12	23
Total Cases	43	54
Contact Hours for the Period	83	103
Average Hours per Client	2.2	2

Table 4: EAP Usage * NOTE reporting period set by EAP

Mental Health Awareness

During the month of October Council focused on identifying and managing mental health risks at work as well as promoting a safe and just culture for workers to feel supported and to speak up if they are feeling stressed, overwhelmed, overworked, unsafe or just need to talk. This aligned with the Mental Health Foundations mental health awareness week on the 8-14 October which was also promoted.

Upcoming Wellbeing Events

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

- SunSmart – preparing ourselves for the summer ahead and how we can protect ourselves from the sun and associated risks such as heat related illnesses
- Injury Management and Rehabilitation, near hit and incident/damage reporting
- Welcome back to work – refocusing after Christmas leave

In Summary

Our safety performance is steadily improving, although more time will be needed to demonstrate a significant improvement in the number of incidents resulting in harm. Through continued effort, more safety conversations and management supporting better injury management practices will bring about a sustainable change in performance and our safety culture.

Modernising our safety system and focusing on our WorkWell initiative will form a key part of our programme of work taking us through into the new financial year. Both of these initiatives are designed to improve reporting, lift levels of engagement, provide better user experiences as well as providing an environment which is healthy and supportive.

We are committed to providing greater levels of support for all workers through continued guidance and expertise through the promotion of a more inclusive, safe and just workplace.

Council Report

Item 8

Committee: Audit & Risk Committee **Date:** 27 November 2018
Author: Tracey Musty **Authoriser:** David Bryant
Position: Financial Controller **Position:** General Manager Corporate
Report Name: Organisational Improvement Report

Report Status	<i>Open</i>
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Purpose

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

Staff Recommendation

That the Audit and Risk Committee receives the report.

Background

2. Council's risk management programme provides a record of recommendations from completed internal audits by Pricewaterhouse Coopers and external audits by Audit New Zealand.
3. Actions and recommendations resulting from these audits are recorded and monitored through the Organisational Improvement Programme Register (Attachment 1).
4. The Organisational Improvement Programme Register has the medium and high risk rated items that are in the Audit NZ Final Management report and it includes one outstanding item from the PWC Internal audit.
5. We have included items in the report that management deem closed. These items will be formally removed when the next audit has been completed.

Attachments

Attachment 1 - Organisational Improvement Register October 2018

Organisational Improvement Register as at 31 October 2018

Indicator	Risk identified	Audit recommendation/status	Risk rating	Owner	Target completion date	Action / update
Audit NZ open and outstanding matters - as per Audit Report for the year ended 30 June 2018						
Plant, property and equipment - monthly reconciliations	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.	2018 Council to ensure disposals and addition in the asset management systems are being reconciled to the finance system on a monthly basis.	●	Kat Quinlan	30/06/18	Update: October 2018 Monthly reconciliations, including additions and disposals, between IPS (sub-ledger) and general ledger are being completed and independently reviewed. <i>Previous comment: June 2018</i> The process was finalised in May 2018 and a reconciliation was done in June 2018. For the 2018/19 financial year this will be completed monthly.
Property, plant and equipment – timely capitalisation of vested assets	We recommended that asset managers provide information to the finance team (asset accountant) on a monthly basis to ensure vested assets are capitalised in a timely manner.	2018 Note delays in the capitalisation of vested assets, with a total of \$22.9 million of assets vested during the period uncapitalised during the period. 2017 Issue remains outstanding.	●	Kat Quinlan	30/06/19	Update: October 2018 A Capital WIP Assessment has been completed by PWC as part of the Internal Audit programme. This included focus on the capitalisation of vested assets. The recommendations from this assessment have already been implemented. The recommendation on improving the timeliness of capitalising vested assets is also being implemented and tracked. Improvements to monitoring of performance of the capitalisation system has been developed to better track progress. <i>Previous comment: June 2017</i> In progress and will be addressed in 2017/18 as part of other asset management improvement initiatives.
Property, plant and equipment – work in progress	We recommended that the City Council ensure that completed projects are capitalised in the fixed asset register and are depreciated in a timely manner. We recommended that Project and Asset Managers review the remaining WIP balances on a regular basis to ensure that projects are being capitalised when completed.	2018 Note delays in the capitalisation of work in progress, with a total of \$30.5 million of work in progress identified by management as complete and in use at balance date, but not yet capitalised in the system. 2017 Note delays in the capitalisation of work in progress.	●	Kat Quinlan	30/06/19	Update: October 2018 A Capital WIP Assessment has been completed by PWC as part of the Internal Audit programme. This includes recommendations that are being reviewed and incorporated into work programmes. The Business is currently focussed on clearing the \$30m balance. Capitalisation activity over the last 12 months has cleared a significant amount of older WIP that has been complex and time consuming to process. Improvements have been made to monitoring processes and reports to better track performance of the entire capitalisation system. <i>Previous comment: June 2017</i> There will be improvement in 2017/18 as monthly reconciliation of WIP will be in place, and some long standing one off WIP issues are resolved.

Indicator	Risk identified	Audit recommendation/status	Risk rating	Owner	Target completion date	Action / update
Adding and removing users from network and applications	<p>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.</p> <p>Contractor's access is not being removed from the network and applications.</p>	<p>2018 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.</p> <p>Managers need to be reminded of their responsibilities with regards security.</p> <p>End dates should be entered into the City Council's systems where fixed term engagements or contracts are in place.</p>	●	Mike Lamb	31/03/19	<p>Update: October 2018 Review of the off/onboarding processes are underway. Expected completion date of all system access review March 2019.</p> <p><i>Previous comment: June 2018 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 also restricts access to all applications, including Authority.</i></p>
No Organisational Business Continuity Plan or IT Disaster Recovery Plan	We have noted in prior years that Council has continued to defer the development and testing of an organisational Business Continuity Plan and an IT Disaster Recovery Plan.	<p>2018 No IT disaster recovery plan has been developed or tested.</p> <p>2017 The Risk and Assurance Manager has commenced organisational business impact analyses for development of the organisational Business Continuity Plan. This will then drive development of the IT Disaster Recovery Plan. Improvements have been made to IT infrastructure to mitigate risks related to potential network failures.</p>	●	Mike Lamb	31/03/19	<p>Update: October 2018 The draft Disaster Recovery and Business Continuity Plan are under review and should be completed by March 2019.</p> <p>Ongoing testing of these plans will occur as business as usual.</p> <p><i>Previous comment: June 2018 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. 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. 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. A Business Continuity Plan was developed (29/5/2017) with the Risk and Insurance Manager and covers the critical risk areas for the Council IT infrastructure and services. This is currently under review. 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>

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H3 events - internal controls	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 creditor's masterfile changes.	2018 Council to perform an internal review over revenue and expenditure systems to identify areas where the internal controls can be improved. 2017 H3 now has processes in place where new debtors are approved before being entered into the system. Invoices are still not reviewed before being sent out to the debtor. The creditor masterfile report is still not being run. H3 are working on working out a method of how that report can be generated. They are currently in the process of deciding the parameters that would be required to be run.	●	Irene James	30/06/18	Update: October 2018 The monthly integrity check is now in place as documented and can now be closed. <i>Previous comment: June 2018</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.
Adoption of legislative compliance policy	The legislative compliance policy has been developed, but not yet formally adopted.	2018 Legislative compliance policy should be formally approved and made available to all staff throughout the organisation.	●	Andre Chatfield	1/5/18 31/8/18 20/12/18	Update: October 2018 Compliance policy review and re-write is still being completed. Expected to be finalised end of December 2018. <i>Previous comment: June 2018</i> Compliance wide policy is to be finalised and submitted to BSLT for approval. Draft returned to Risk Manager for final amendments - extension requested.
Review of legislative compliance responsibility	There has been a number of changes in the City's Council organisation structure. We noted that no formal review around the legislative compliance responsibility has taken place since the change.	2018 A draft Compliance Management Policy has been developed which assigns primary responsibility for key areas of legislation. We understand this policy will be approved during the 2018/19 financial year.	●	Andre Chatfield	1/5/18 31/8/18 20/12/18	Update: October 2018 Agreed.
High number of privileged user accounts on the networks	No review and reduction of privileged user accounts has been done, although this is noted in the Fujitsu report as a recommended action.	2018 No review and reduction of privileged user accounts has been done, although this is noted in the Fujitsu report as a recommended action. 2017 Establish a process to review and reduce privileged access and that reports are prepared detailing what the privileged access has been used for during the period.	●	Mike Lamb	31/03/19	Update: October 2018 Working to expected delivery date of March 2019. <i>Previous comment: June 2018</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.
IT risk framework	We understand that the IS Unit risks have been transferred to the new Organisation 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.	2018 IS Unit risks have been transferred to the new Organisational Risk Register format, and 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. 2017 Develop an IT risk framework to identify, assess, monitor and respond to IT risks. This framework should be consistent with the City Council's organisational risk framework.	●	Mike Lamb	30/09/18	Update: October 2018 IT Risk Management process has been implemented and will be reviewed on a quarterly basis. <i>Previous comment: June 2018</i> Residual risk ratings will be reviewed through the current management team review as noted.

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Review and update IT policies and develop policy awareness programme	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.	2018 Council to 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.	●	Mike Lamb	20/12/18	Update: October 2018 Final review of the policy framework completed and received back 6 November 2018. To be published by December 2018. <i>Previous comment: June 2018</i> 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.
Reviews of users and their system access levels	We understand that informal reviews of PSE users are done by the payroll system administrator. Fujitsu have started a review of all network logins. To date, no review of user access levels has been performed in Authority. From our review, we noted that the automated process for removing contractor's access is not operating as intended.	2018 Informal reviews of PSE users are done by the payroll system administrator. 2017 Establish processes to enable 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. Periodically run a report 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. Fujitsu have started a review of all network logins. No review of user access levels has been performed in Authority. Noted that the automated process for removing contractor's access is not operating as intended.	●	Mike Lamb	30/06/19	Update: October 2018 Best practice type access is a role-based system. System and access levels are currently under review with a process to be developed for maintaining access levels. <i>Previous comment: June 2018</i> IS are investigating the introduction of role-based access to Authority as part of the next 2 upgrade projects. The first of these is scheduled (Authority 7.0) for the last quarter of 2018. IS continue to work with Fujitsu to implement system solutions (Azure Active Directory) to provide improved capabilities in user management.
Management of Generic (shared) network login accounts	We understand that Fujitsu are recording the number of generic accounts but a full review and reduction has not yet been performed.	2018 Council to regularly review generic network login accounts and ensures that these accounts are removed when no longer required by the business.	●	Mike Lamb	30/06/18	Update: October 2018 This is a BAU activity going forward. <i>Previous comment: June 2018</i> A full review has been subsequently completed and remaining generic accounts are required by business.
Property, plant and equipment - quality of information	Improve the quality of information in the asset management system by implementing the identified changes in the AECOM report.	2017 We note from our review of the current year road and traffic network revaluations reliability of formation and car park assets were graded as uncertain. We encourage the City Council to continue its focus on improving the quality of its property, plant and equipment information.	●	Paul Gower	30/06/19	<i>Previous comment: June 2017</i> In progress.

Indicator	Risk identified	Audit recommendation/status	Risk rating	Owner	Target completion date	Action / update
Road and traffic network asset revaluations	<p>The City Council's revaluation of its roading and traffic network assets as at 1 July 2016 resulted in a 7% increase in the fair value of these assets. Based on our review of the valuation report we are satisfied that the increase in fair value appears reasonable, and is based on appropriate assumptions.</p> <p>The City Council's revaluation of its roading and traffic network assets as at 1 July 2016 resulted in a 7% increase in the fair value of these assets. Based on our review of the valuation report we are satisfied that the increase in fair value appears reasonable, and is based on appropriate assumptions.</p> <p>While we are satisfied that the revaluation is appropriately reflected within the City Council's general ledger and annual report, we note that the general ledger does not currently reconcile to the asset sub system. In particular, the cumulative gain/loss on revaluation (referred to as "Write up/down" in the sub ledger) differs by \$52.3 million. The differences between the ledger and sub-ledger may result in the gain/loss on disposal of roading and traffic network assets being incorrectly calculated in future periods.</p>	<p>2018 Council has identified the cause of the variance and developed a process to correct the sub-ledger. Due to the volume of adjusting entries required we understand that this was unable to be processed during the 2017/18 year, but is intended to be adjusted during the 2018/19 financial year.</p> <p>2017 Council to review the data integrity of the asset sub system, and where appropriate, ensure that data is corrected within the ledger or sub-ledger to ensure the systems reconcile.</p>	●	Kat Quinlan	20/12/18	<p>Update: October 2018 Agreed. Goal is to have this completed by 20 December 2018 if the outcome of a trial run in the AX test system is successful.</p> <p><i>Previous comment: June 2017</i> <i>We are in agreement that total asset values are correct in our annual report. This related to the timing of revaluation information combined with staffing issues in the finance team over year end. Work is being done on reviewing sub-ledgers to ensure these are reconciled correctly.</i></p>
Operational, parks and gardens, restricted, and infrastructural land valuations	<p>The City Council's land classes (excluding land under roads) were revalued by an independent expert as at 30 June 2017. The City Council last revalued these asset classes as at 30 June 2016.</p> <p>Upon revaluation these asset classes moved in total by 41%, with parks and gardens land increasing by approximately 43%. As this represents a significant increase in fair value over a 12-month period we enquired of management as to the factors driving the increase in value.</p>	<p>2017 Management should review the assumptions applied during the valuation process, as well as the values assigned, and confirm that they are comfortable with these.</p>	●	Kat Quinlan	30/06/19	<p><i>Previous comment: June 2017</i> <i>The audit and year end process has improved knowledge lost through key staff leaving and steps have been taken to rectify.</i></p>

Indicator	Risk identified	Audit recommendation/status	Risk rating	Owner	Target completion date	Action / update
Assets missed from the revaluation	<p>It is a requirement under paragraph 51 of PBE IPSAS 17 Property, plant and equipment that if an item of property, plant and equipment is revalued, the entire class to which that asset belongs shall be revalued.</p> <p>From our review we noted three parcels of land, with a combined cost of approximately \$7 million were excluded from the valuation due to the timing of their purchase and capitalisation. In addition, we note that approximately \$4 million of roading and traffic network assets were also excluded from the valuation, due to the timing of capitalisation of these assets.</p>	<p>2018 Review of the 1 July 2017 Parks and Gardens improvements valuation revealed that not all assets within the class were subject to revaluation.</p> <p>A portion of the assets held for this asset class are held within AX, rather than IPS, and as such, were excluded from the valuation. These assets had a net book value of \$3.6 million at the time of revaluation. It is a requirement under PBE IPSAS 17 that all assets within a class subject to revaluation are revalued.</p> <p>2017 Whilst we are satisfied that the risk of there being a material difference between the carrying value and fair value of these assets is low, we recommend that processes are put in place to ensure that all assets within a class subject to revaluation are valued in accordance with the requirements of PBE IPSAS 17.</p>	●	Kat Quinlan	30/06/19	<p>Update: October 2018 A full review has been undertaken of the AX Parks Asset Register. All assets will be transferred into IPS and the AX Book will be closed. Goal is 30 June 2019 (next revaluation will be 1 July 2019).</p> <p><i>Previous comment: June 2017 Procedures are being reviewed as part of the capitalisation process and any improvements identified are being adopted.</i></p>
Depreciation and amortisation rates	<p>During our review of depreciation and amortisation we noted a number of assets that are currently being depreciated at rates outside of the City Council's policy.</p> <p>In addition, we noted that rates included in the City Council's accounting policy for classes of assets subject to periodic valuation did not fully align with the rates determined by the valuers.</p>	<p>2018 Note that policy rates have been aligned to recent valuation reports.</p> <p>Note instances where property, plant and equipment assets were depreciated outside of policy rates. The majority of new assets capitalised during the period were within policy rates, however, we noted instances where useful lives assigned to new assets were outside of policy. In addition, we continue to note a number of historic assets outside of policy rates and recommend a review is performed over existing asset books, particularly for those closes of assets that are not subject to revaluation.</p> <p>2017 Council should review its accounting policies for depreciation and amortisation of assets. These policies should reflect the expected pattern of consumption of economic benefits or service potential embodied by the asset. The policy should also be consistent with the useful lives noted within valuation reports, and updated for condition assessments performed during the year.</p>	●	Kat Quinlan	30/06/19	<p>Update: October 2018 We have been educating staff on the importance of using the correct policy base lives when capitalising an asset. The focus has been on revalued assets, the next step will be to focus on non-valued books to ensure base lives are within policy ranges.</p> <p><i>Previous comment: June 2017 Depreciation rates have historically been developed into policy based on the estimated useful life of assets. These are based on a range of asset revaluation reports and in conjunction with other local authorities over a reasonable period across all assets. The range reported in the financial statements are consistent with this approach.</i></p> <p><i>Depreciation rates will be reviewed as a normal part of the revaluation process.</i></p>

Indicator	Risk identified	Audit recommendation/status	Risk rating	Owner	Target completion date	Action / update
Disposal of assets not recognised in a timely manner	<p>During our testing of property, plant and equipment we identified that the City Council had received proceeds from the sale of some of its assets but, at the time of our audit, the disposals had not been recognised in the general ledger. The City Council subsequently disposed of two of the assets identified within the system, and correctly reflected the gain/loss on sale of these assets within its financial statements. However, the other assets identified were not disposed of as at 30 June 2017, due to difficulties processing the disposals within the system.</p> <p>Due to the delays in processing the disposal of these assets they were incorrectly included in the valuation report as at 30 June 2017 despite no longer being owned by the City Council. This initially resulted in errors in the level of the valuation movement processed within the City Council's general ledger. We are satisfied these were subsequently corrected within the financial statements.</p>	<p>2018 Instances where assets sold during the period were not disposed of in the system. The City Council subsequently accrued for the disposal of assets which it could identify as being sold during the period (a total of \$2.3 million of assets were subsequently disposed of).</p> <p>2017 Processes to be put in place to ensure that assets that are disposed of and reported in the correct accounting period.</p>	●	Kat Quinlan	31/12/18	<p>Update: October 2018 Agreed. This process will be completed on a quarterly basis.</p> <p><i>Previous comment: June 2017 Staff changes during the year end process impacted on this.</i></p>
Lack of formalised impairment assessment processes	<p>It is a requirement of PBE IPSAS 21 <i>Impairment of non-cash-generating assets</i> to review for indicators of impairment on non-revalued assets at each reporting date. The City Council has completed an informal review of its assets for indicators of impairment, however there is no documented formal process for this. The benefit of a formal review is that it provides Council with increased assurance that assets that are not subject to revaluation are disclosed at approximately their fair value.</p>	<p>2018 Noted improvements in the City Council's impairment processes during the period and note that asset managers were required to consider indicators of impairment as at 30 June 2018. We understand that the City Council is in the process of finalising a management policy which will include guidance on impairment assessments.</p> <p>We noted however, that the enquiries of asset managers during the period did not extend to the City Council's intangible assets. It is a requirement of IPSAS 21 that these assets are also assessed for indicators of impairment at each reporting date.</p> <p>2017 We recommend that a formal impairment review is performed and documented as at balance date each year for all classes of property, plant and equipment, and intangible assets that are not subject to annual revaluations.</p>	●	Kat Quinlan	31/05/19	<p>Update: October 2018 The current Capitalisation Policy has an impairment section; however, the updated policy will have an attachment to help explain the impairment process to non-financial staff.</p> <p><i>Previous comment: June 2017 A review is taking place with any identified improvements being implemented.</i></p>

Indicator	Risk identified	Audit recommendation/status	Risk rating	Owner	Target completion date	Action / update
Intangible asset classification	During our review of intangible assets we noted a number of work in progress projects classified as infrastructural modelling as at 30 June 2016, were then reclassified upon capitalisation in 2016/17 as consents and designations.	2018 There has been no change in the classification of intangible assets within the City Council's fixed asset registers during the period. 2017 Separate asset registers should be maintained for each class of intangible assets. Criteria should be set to clarify initial classification to these asset classes to avoid subsequent reclassification.	●	Kat Quinlan	N/A	Update: October 2018 An intangible logic/rational register has been developed to record the reasoning for classification of intangible assets. This is to help ensure that a consistent logic is applied to similar assets and the classification of intangible assets is standardised. We believe that the process we currently have does not require us to have separate asset registers for each class of intangible assets. <i>Previous comment: June 2017</i> <i>A review is taking place with any identified improvements being implemented.</i>
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. We completed a high level review of certain systems and process 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.	2018 Independent journal review process should be implemented at H3.	●	Irene James	30/09/18	Update: October 2018 This is now in place and can now be closed. Journals are reviewed and posted by a second person. <i>Update: June 2018</i> <i>Agree, we will implement a process to ensure that adequate independent review is undertaken prior to journals being processed.</i> <i>The upgrade has been completed, systems reviewed and the item has been signed off by GM Venues, Tourism and Major Events.</i>
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 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).	2018 Review processes regarding found assets to ensure that they are recognised and valued in a timely manner. Processes to be 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.	●	Kat Quinlan	01/03/19	Update: October 2018 As asset management practices improve the quality of data on Council assets will become more complete. This will mean that assets that were not previously recognised will be identified and capture in the fixed asset register. This will impact the financial information for assets. An assumption regarding found assets will be included in our forecasting assumptions for depreciation in the future. Reforecasting of depreciation will be completed by 1 March 2019 and include an assumption for found assets. <i>Update: June 2018</i> <i>Noted, these recommendations will be adopted.</i>

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Attribute data recorded for historical land	<p>We noted during disposals testing that insufficient information was recorded in the asset register for certain historical land assets, and as a result, the City Council has struggled to match land sales to assets during the period. Information missing from the asset register includes the legal title of the property and the land area.</p> <p>As a result, the City Council has made assumptions about land sales during the period, and corresponding assets in the asset register. In some case, it has been assumed that the entire land area was sold - however, this could not be verified due to the lack of attribute data recorded within the asset register. This creates a risk that the gain/loss on disposal calculated on these assets is incorrect, and creates a risk that the carrying value recorded for these asset classes may be incomplete.</p>	<p>2018</p> <p>Review the attribute data recorded for land, and update asset records to include legal title and land areas.</p>	●	Kat Quinlan	30/06/19	<p>Update: October 2018</p> <p>A business wide project has been initiated to record and manage data on all owned land in IPS - the corporate asset management system. This will improve data quality and confidence in land information for Council.</p>
Self-approval of purchasing card transactions	<p>We tested a sample of expenditure incurred on the City Council's purchasing cards and noted instances where expenditure was incurred on purchasing cards on behalf of a staff member, and the expenditure was subsequently approved by the same staff member.</p> <p>This approval process is not considered one-up and is not consistent with guidance issued by the Office of the Auditor-General which recommends that approval of sensitive expenditure is given by a person senior to the person who will benefit or who might be perceived to benefit from the expenditure.</p> <p>Although in all instances the person approving the expenditure was senior to the purchasing card holder, the expenditure incurred was for the benefit of (or could be perceived to be of the benefit of) the approver, as such, we do not consider the approval one-up.</p> <p>We note however, that the approval processes followed were in line with the City Council's own policies, and we did not identify any specific concerns regarding the nature of expenditure incurred in these instances.</p>	<p>2018</p> <p>Council should review its purchasing cards policy to ensure that guidance is included on approval processes in the above situations, and going forward, recommend that all purchasing cards are subject to independent approval from the persons benefiting, or perceived to be benefiting from the expenditure.</p>	●	Procurement Manager	30/11/18	<p>Update: October 2018</p> <p>Agreed.</p>

Indicator	Risk identified	Audit recommendation/status	Risk rating	Owner	Target completion date	Action / update
PWC Internal Audit outstanding matters						
Strategic Procurement Improvements Strategic Procurement Framework Assessment	Without an "all of Council" procurement strategy Council risks groups undertaking procurements that are not aligned to Council's strategy and value for money may not be achieved.	1.1 Refresh the "all of Council" procurement strategy and ensure that it is regularly updated 1.2 Consider having yearly procurement strategies in place for each major purchasing group.	●	Procurement Manager	31/07/18-31/03/19	Update: October 2018 Work on overall procurement strategy has been delayed due to current throughput of tenders and contracts in the marketplace and staff changes. <i>Previous comment: May 2018</i> <i>Draft of Procurement Strategy for NZTA funded procurement has been completed and is with NZTA for review.</i> <i>Commencing work on wider HCC Procurement Strategy over the next month.</i>
PWC Internal Audit closed matters						
Procurement policy and manual good practice improvements Strategic Procurement Framework Assessment	Council's policy and manual do not support good practice and increase the likelihood/ impact of procurement risks effecting Council.	2.1 Council should update the Procurement Policy and Manual to align with good practice as part of the update programme.	●	Procurement Manager	28/02/18-31/3/18	Update: October 2018 The policy was signed off and the manual was updated in March 2018. This item is now closed. <i>Previous comment: February 2018</i> <i>Policy changes are complete subject to SLT approval and procedure updates are in the final stages of completion.</i>
Outdated procurement templates Strategic Procurement Framework Assessment	Centralised procurement templates require regular updates and may not meet the requirements of all users, resulting in inefficiencies, duplication and variations in practice. Outdated contract templates (e.g. 3910) may increase the risk to Council.	4.1 if the Council wants to continue to use fixed templates, then they should be updated regularly (six monthly) and incorporate feedback from the users or procurement could approve certain group's templates to be used in addition to the standard templates. 4.2 Update the 3910 contract documentation to the 2013 version, once appropriate training has been undertaken.		Procurement Manager	31/12/17-30/04/18	Update: October 2018 The third contract (Design & Build) was completed in April 2018 and is currently in use. This item is now closed. <i>Previous comment: February 2018</i> <i>Two of the three updated contract templates NZ3910 (Standard & Term Maintenance) have been completed and signed off by Tompkins Wake, and currently in use. Third contract (Design & Build) is currently going through legal review and expected to be completed by early April 2018. Training programme commenced 26 February 2018. Once completed this audit item will be submitted for sign off.</i>
Professional Services Panel (PSP) improvements Strategic Procurement Framework Assessment	PSP risks being bypassed if not efficient and Council may not be obtaining the best value for money.	5.1 Implement staff awareness and training on how best to use the Professional Services Panels and simplify the paperwork. 5.2 Make it clear that there is the ability to request multiple panel members to quote for works above a certain value.		Procurement Manager	30/04/18	Update: October 2018 Training was updated and carried out as part of the Introduction to Procurement Package in April 2018. Work is currently under way to renew the PSP and a new contract is expected to be in place in the second quarter of 2019. This item is now closed. <i>Previous comment: February 2018</i> <i>Training programme is underway in conjunction with above audit finding (Outdated procurement templates). This item is expected to be rolled out March 2018.</i>

●	Low (not reported)
●	Medium
●	High

Council Report

Item 9

Committee: Audit & Risk Committee

Date: 27 November 2018

Author: Tracey Musty

Authoriser: David Bryant

Position: Financial Controller

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 regarding progress of Pricewaterhouse Coopers Internal Audit to 16 November 2018.

Staff Recommendation

That the Audit and Risk Committee receives the report.

Discussion

2. Council's internal audit function incorporates activities delivered by PwC and internal Council staff. This report provides an update on progress on both sets of activities.
3. **Hamilton City Council – internally resourced internal audit plan**

As per the Internal Audit Charter presented at the September 2018 Audit and Risk meeting, management has established the following initial work programme for the Council Internal Auditor:

- Vehicle Fleet process and controls
- Expense claims process and controls
- Payroll and bank changes process and controls
- Follow up of Organisation Improvements Register actions, including confirming closure of prior internal audit recommendations.

PwC has continued to support the Council Internal Auditor with the work she is undertaking in these areas.

4. PwC Internal Audit Plan – Progress Summary

5. The following progress has been made on the internal audit engagements included in the 2018/19 Internal Audit Plan:

Engagement	Status
Capital Work In Progress This engagement has been completed and the final report is attached.	
Capital Project Delivery This engagement is progressing with the Project Management Office.	
Asset Maintenance Data Two workshops have been undertaken and initial data provided.	
Asset Management and Operating Expenditure PwC has had planning meetings with management to agree the scope of work.	
Revenue PwC has met with management and had initial scoping discussions with the respective business units that manage the three main revenue sources. The Terms of Reference are being drafted.	
Process Optimisation – Procurement (Q4) No progress to date.	

KEY

	Completed or on track
	Currently behind, expect to get back on track
	Permanently delayed

Financial Considerations

6. The cost of the annual internal audit programme is \$150,000 (GST excl.) and is budgeted.

Attachments

Attachment 1 - Hamilton City Council Capital WIP Assessment - Final Report

Hamilton City Council Capital WIP Assessment Internal Audit Report

FINAL Report
16 November 2018

Confidential

This report is provided solely for Hamilton City Council for the purpose for which the services are provided. Unless required by law you shall not provide this report to any third party, publish it on a website or refer to us or the services without our prior written consent. In no event, regardless of whether consent has been provided, shall we assume any responsibility to any third party to whom our report is disclosed or otherwise made available. No copy, extract or quote from our report may be made available to any other person without our prior written consent to the form and content of the disclosure.





David Byrant
General Manager Corporate
Hamilton City Council
Private Bag 3010
Hamilton 3240

16 November 2018

Dear David

Capital Work In Progress Internal Audit Report

In accordance with our Contract dated 1 July 2017 and the Terms of Reference dated 24 April 2018, we are delighted to report the findings and recommendations arising from our internal audit of capital work in progress at Hamilton City Council.

We would like to extend our appreciation for the assistance provided by staff and management in the completion of this engagement.

Yours faithfully

A handwritten signature in black ink that reads 'Sharon Cresswell'.

Sharon Cresswell
Partner
PricewaterhouseCoopers
Hamilton, New Zealand

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T: +64 (7) 838 3838, F: +64 (7) 839 4178, www.pwc.com/nz*

Executive Summary

Introduction and scope

Asset management is a core function of Hamilton City Council (Council). The capitalisation of Work In Progress (WIP) to recognise the asset both financially and as operational is a key process to ensure that the asset is appropriately depreciated, revalued and maintained. Council's Capitalisation Policy expects new assets to be capitalised within 90 days of the asset being available for use.

Historically Council has not always met this expectation and timely capitalisation is an ongoing issue. The Asset Management Centre of Excellence (AM CoE) undertook a review of the Capital WIP and capitalisation processes using the Kaizen LEAN methodology during 2016 that resulted in improvements to the processes and monitoring of asset capitalisation and WIP.

The objective of this engagement was to:

- evaluate Council's capitalisation process for capital WIP to confirm that the new processes implemented from the AM CoE 2016 review have been embedded and identify any further improvements
- assess the process for capitalisation of vested assets

The scope covered from date the asset was acquired or the project was completed (asset classified as in service in the respective asset management system) until the asset is recorded in the financial asset register. All Council activities with significant assets were covered under this work.

The timeframe covered was from 1 July 2017 – 30 June 2018.

To minimise disruption to the business, the engagement was split into two phases:

Phase One – desktop review of documentation and initial walkthrough – May/June:

- understand the current capitalisation processes through Council supplying us with the documented process information from Promapp and any other process documentation available
- walkthrough the capitalisation process to confirm our understanding
- document the data flows of the asset capitalisation process.

Phase Two –WIP and vested assets – July/August:

- selection of a sample of assets covering each significant Council activity (that have been added within the last year) from all asset classes to walkthrough capitalisation process to identify:
 - WIP that deviates from the expected process
 - inefficiencies and blockages in the actual process
 - potential efficiency improvements
- process understanding and walkthrough of the vested asset capitalisation process
- identification of potential metrics to use to manage WIP going forward.

Background

The asset capitalisation process at Hamilton City Council involves the following:

1. An asset is purchased (e.g. motor vehicle) or physically constructed (e.g. water main)
2. Physically constructed assets (including vested assets) are handed over to Council control (they are usually available for use at this stage)
3. Asset data (as-built plans, asset data for managing individual assets, assets to be disposed of) provided by the contractor(s) for physically constructed assets.
4. Asset data is entered into the respective asset management system (IPS, RAMM, spreadsheet or speciality system)

5. Asset WIP is capitalised in the financial system (AX) through information provided to Finance by the respective business groups (IPS assets have a different process from all other assets).

High level flowcharts of the two processes (IPS assets and Other assets) are included in Appendix IV.

For the year to 30 June 2018, the Council capitalised approximately \$130 million in assets and has been addressing historical reconciliation issues and a back-log of WIP.

Key messages

The current processes have opportunities for efficiency improvements and risk reduction through:

- automation and/or integration
- improved documentation
- clarity of responsibilities.

Improved monitoring and reporting of indicators of delays, with escalation points, would assist with managing the timeliness of the capitalisation process.

We have grouped our findings into three themes – risks, inefficiencies, delays and their impact.

Risks



Data integrity risks exist with the multiple manual entries of data and manipulation of data through multiple excel spreadsheets (as shown in the flowcharts in Appendix IV). Manual data entry is used to load all assets into IPS and the process to clear WIP from the financial system involves 3 or 4 separate spreadsheets along with cut and paste of data within them. Although Finance have automated the spreadsheets as much as possible, the current processes increase the risk of input error. Modern technology such as robotic process automation is an ideal solution to automate these processes, improve efficiency and reduce data integrity risks significantly.

Currently, Finance receives the asset data last and if this doesn't agree to the amount in WIP, it is too late as the asset has already been entered into the respective asset management system. There needs to be a starting point whereby the value of the assets to be capitalised is in agreement, for both the asset management and the financial capitalisation of WIP. Ideally, for physically constructed assets, this would be at the point where the asset data is accepted (i.e. Asset Data Completed field in IPS service contract). There should be no differences between the value of assets at the completion of a project (with the asset available for use) and the balance of WIP in AX.

Responsibilities between groups are unclear which leads to build-up of WIP or duplicated assets. This particularly effects both facilities and vested assets. For example, Facilities are responsible for asset management, but each business unit has the capital expenditure budget and both have capitalised the same asset in the past. Having a Promapp documented process and staff training on that process would assist in outlining respective responsibilities.

Inefficiencies



Council has **skilled employees performing low-value work** and could make significant staff time available by automating manual tasks and eliminating the current issues identified in the asset capitalisation processes.

Duplicate entry of Facilities asset data both into IPS and SPM (the previous asset management system) so that Facilities can use SPM for reporting, as the desired reporting has not been developed in IPS. Utilisation of IPS reporting or from the enterprise reporting system would eliminate the need for SPM. We understand that SPM was retained for the development of the Long Term Plan and its continued use is being addressed by an improvement programme.

Double recognition of Council's upside contributions to developers has led to a significant amount of unreconciled WIP. Changing the buyer created invoice system will remove the need for this reconciliation and reduce the risk of overstatement of vested assets.

Delays

Significant delays can occur between when assets are classed as in service (available for use) and when they are capitalised in the financial system. Council's capitalisation policy states that assets should be capitalised within 90 days of the asset being available for use. Delays in capitalising assets has potential impacts on depreciation and revaluations. These delays are due to:

- **a single combined process** – the asset management data capture process is combined with the financial asset capitalisation process (with asset management taking precedence). Current processes place the financial system clearance of WIP at the end of the capitalisation process leading to long delays in the clearance of WIP in the financial system. Consideration of mechanisms to make the process more efficient and timely should be investigated.
- **considerable manual data entry** - asset management data is manually entered into IPS (Council's main asset management system) creating significant delays in updating the asset management system and increased risk of data entry error. The data is all received from the contractor electronically for assets built by contractors, therefore the ability for Council staff to import the data into IPS electronically should be investigated

The importing of data electronically, would free up resources to perform other higher value tasks.

- **third party delays** - receiving the necessary asset data from the contractor(s) for assets that are built. Our procedures identified delays of up to a year between when an asset was in use and the receipt of all necessary data from the contractor. Mechanisms to enforce the timely receipt of asset data from contractors should be investigated, implemented and enforced.

The 90 day target within the capitalisation policy applies to all asset classes, without consideration of the nature of the assets or how they are acquired. Council could consider having different timeframe targets depending on the asset class. For example, vehicle purchases timeframe for capitalisation could be within the same month of purchase.

Other Findings

Use of Promapp. Council has invested in using Promapp for documenting its processes and procedures which is an excellent tool for doing this. Currently only the Water, Transport, Parks and vested asset capitalisation processes are documented in Promapp and these still require some work to ensure that they are of a consistent standard and accurately reflect the underlying processes. As all the other asset business units use a similar process to Transport for capitalising WIP (financial process), it should be easy to create process documentation for them to follow, to ensure consistency of process, understanding of requirements, templates to be used and clear lines of responsibility.

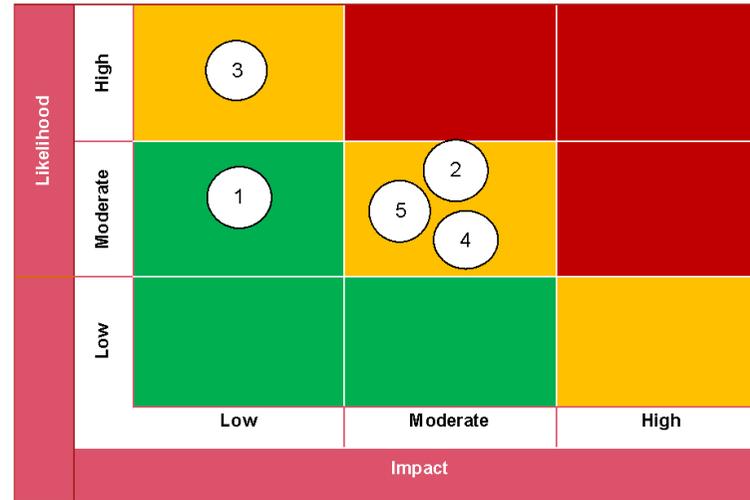
Parks assets are not recognised during the vested assets process, thereby they are not recorded in IPS. They are included as part of the roading asset, thereby overstating the actual value of roading assets, although we understand from management that these assets are not significant.

Findings Index

We set out alongside a mapping of our findings against a risk assessment framework for internal audit.

Our risk ratings are described at Appendix 2 – Risk Assessment Framework. This is a subjective assessment of the findings identified compared against likelihood of occurrence at HCC and the possible impact.

No	Finding	Risk Rating	Page No.
1	Promapp documentation was sufficient for the major asset classes, but needs an overall owner and to be more consistent.	Low	7
2	There are data integrity risks, inefficiencies and significant delays in capitalising some assets into IPS.	Moderate	8
3	There are data integrity risks and inefficiencies in capitalising transport assets. The process to disposal of assets is unclear.	Moderate	9
4	The responsibilities and process for capitalising Facilities assets are unclear between Facilities and the respective business units.	Moderate	10
5	Parks assets are not separately identified and upside contributions can be duplicated during the vested asset capitalisation process.	Moderate	11



Inherent limitations

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

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

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

Appendices

Item 9

Attachment 1

Appendix I: Detailed Findings and Recommendations

Attachment 1

Item 9

Observations	Assessed Priority Rating = Low		Agreed Recommendation	Management Comment
	Impact: Low	Likelihood: Moderate		
1. Promapp documentation				
<p>Observation</p> <p>Promapp is Council's process mapping and documentation tool. We assessed the Promapp documentation for the water, transport, vested asset and overview (generic) capitalisation processes. Our assessment of the Promapp documentation provided was that the standard of documentation was sufficient but varied in consistency (level of detail, missing links, unassigned procedures, Triggers and Inputs and Outputs and Targets not completed, process dependencies not complete).</p> <p>Our walkthroughs identified some differences between the documented process and the actual process followed.</p> <p>All other asset groups outside of water, transport and parks did not use Promapp even though they were aware of it. There is a generic process overview created by the AM CoE which focusses on assets created by projects. This needs to be completed as the links to many documents are not included (e.g. Procedure 10b "to insert approved template when this is final").</p> <p>There should be an organisational (end-to-end) process owner (this can be by Asset System) who has oversight over the process documentation across all business units involved. Presently there is only process owners for each business unit's part of the process. Each business unit should still document and be responsible for their individual part of the process.</p> <p>The person who capitalises assets within a business unit is often not informed of when assets are ready for capitalisation. It should be clear in the procedures that projects should not be signed off as closed until the capitalisation has been completed.</p> <p>Risk / Implication</p> <p>Inconsistency in the process documentation leads to processes not being properly followed. This may lead to poor outcomes.</p> <p>Lack of awareness of using Promapp means that if one group does not update Promapp when they change their part of the process, then those further along the process are unaware of the changes made. This can cause unintended consequences as those further along the process can be detrimentally impacted.</p>			<ol style="list-style-type: none"> 1.1 Ensure that Promapp documentation accurately reflects the underlying processes. 1.2 Implement a Promapp organisational owner with oversight over all business units asset capitalisation processes. 1.3 Ensure that Promapp processes are documented to a consistent standard. 1.4 Implement as part of each business unit's project closure that the asset have to be capitalised before a project can be closed as completed. 	<p>Action owner: Paul Gower - Asset Strategy Team</p> <p>Completion Date: March 2019</p> <p>Comment: Work has begun on refining the documentation of the organisational capitalisation processes. Unique business processes are required to reflect the different service delivery and asset information systems used for creation of assets. The Asset Strategy Team will work with relevant business units to update specific documentation and standardise where required and appropriate.</p>

Observations	Assessed Priority Rating = Moderate		Agreed Recommendation	Management Comment
	Impact: Moderate	Likelihood: Moderate		
2. Significant delays in capitalising IPS assets				
<p> Observation</p> <p>There can be significant delays in receipt of asset data from contractor(s). This is the starting point for asset capitalisation. Council’s capitalisation policy states that an asset should be capitalised in the Financial Accounts within 90 days of the asset being available for use (there is additional guidance to define “available for use” in attachment 1 to the Policy).</p> <p>For example: Service Contract C9410028-108 – Water Main replacement - \$130,017 was in service on 17/2/17, yet the asset data completed date (per IPS service contract information – the date when the asset data was completed and accepted by the project manager) was 22/2/18.</p> <p> The creation and entry of assets in IPS is manually performed across all asset classes with IPS as their asset management system. Manual entry results in significant time involved in data entry and delays – the example above (for 35 assets) was accepted for processing on the 28/2/2018 and finished on 2/5/2018).</p> <p> There is a team of five that is responsible for entering water asset data into IPS and they perform their own self-checking. By either creating an import function or automating this process, staff could be better utilised performing higher value work. Alternatively, resource requirements should be monitored to ensure adequate resourcing to meet the 90 day capitalisation timeline.</p> <p>The examples above demonstrate that the asset management system processes can introduce significant delays to the clearance of WIP in the financial system. The clearance of WIP is more time critical and could be done separately to the loading of asset data into the asset management system.</p> <p> Only recently have the project managers been asked to check AX (Council’s financial system) work in progress amounts against the amounts to be capitalised based on the contractor completed datasheets. This is informal and we have not verified this is occurring (as the process is not a formalised and was described as inconsistent).</p> <p> Three separate excel spreadsheets are used to transfer the asset data between IPS and AX. All of these involve manual processing and manipulation of the data by staff, increasing the risk of data errors. This is low-value work for skilled employees.</p>	<p>2.1 Council should improve/enforce contract provisions to ensure asset data is received in a timely manner from contractors (e.g. 3910:2013 Clause 12.3 – Retention monies)</p> <p>2.2 Define and implement benchmarks (a report that specifies the number of days from the date when the Asset is recorded as In Service in IPS and has not yet have an Asset Data Completed date against an agreed benchmark. Also the report should compare the Asset Data Accepted Date when the Date Assets Completed in Hansen is blank against an agreed benchmark) that highlight delays before they get significant. These should be measured monthly as part of the WIP meetings.</p> <p>2.3 Investigate an import function to transfer asset data received from the contractors into IPS (This process is ideal for Robotic Process Automation).</p> <p>2.4 Formalise the requirement for project managers and other asset groups to reconcile Work in Progress recorded in AX against the asset data received from the contractor(s) before starting the capitalisation process.</p>	<p>Action owner: : Paul Gower - Asset Strategy Team</p> <p>Completion Date: June 2019</p> <p>Comment:</p> <p>The organisation is improving the application of its project management methodology and disciplines. These improvements include ensuring data specifications in contracts through to project coding in the financial system for expenditure. This will allow easier tracking and reconciliation of project information.</p> <p>Capitalisation activity over the last year for city waters has been focussed on clearing WIP balances that related to assets created a few years previous. This has been time consuming and complex to reconcile data that was not of the desired quality. Significant progress has been made in clearing these older WIP projects.</p> <p>While there are still significant delays in capitalisation of some assets, there has been an improvement in timeliness of processing capitalisations where good quality data is being provided with the creation of the asset.</p>		

Observations	Assessed Priority Rating = Moderate		Agreed Recommendation	Management Comment
	Impact: Moderate	Likelihood: Moderate		
<p>Risk / Implication</p> <p>Significant delays in the receipt of asset data puts the whole asset capitalisation process on the backfoot immediately.</p> <p>If the project managers do not check that the amount of WIP in AX is equal to the amount of assets being capitalised, then this flows through the whole capitalisation process and is only picked up when Finance staff reconcile the AX WIP account against the T-WIP account. Any differences create significant time incurred by Finance attempting to reconcile the accounts.</p> <p>Manual processing and manipulation of data in the asset capitalisation process is both inefficient and increases the risk of error.</p>			<p>2.5 Automate the process of transferring asset data between IPS and AX (This process is ideal for Robotic Process Automation).</p> <p>2.6 Separate the financial system WIP capitalisation process from the input of asset data into the asset management system.</p> <p>This can only be done once the project manager has reconciled and confirmed the asset values against the AX WIP values. They have to do this before putting a date against the Asset Data Completed field in IPS.</p>	<p>Staff are focussing on ways to improve the quality of the initial data from contractors to ensure this meets the desired quality and removes the need for follow up.</p> <p>Reporting on WIP that is 'not current' (not just total WIP balance) is also now being reported to Finance committee through the Capital Monitoring Report.</p> <p>Staff are also reviewing how data flows between the financial (currently AX) and asset (IPS) systems can be automated or better integrated so processes are less manual and time consuming.</p>

Observations	Assessed Priority Rating = Moderate		Agreed Recommendation	Management Comment
	Impact: Low	Likelihood: High		
3. Inefficiencies in capitalising Transport assets				
<p>Observation</p> <p>Our walkthroughs covered from RAMM to the financial asset register process. The Infrastructure Alliance team perform a reconciliation of asset costs received from the contractor to AX before the transfer of data to AX. The asset costs are not recorded in RAMM, only in the AX fixed asset register.</p> <p> Four excel spreadsheets are used to transfer the asset data between RAMM and AX. All of these involve manual processing and manipulation of the data by staff, increasing the risk of data errors.</p> <p>The journal upload process for RAMM assets is in two stages and creates an extra suspense account that is not the same as the IPS asset journal process. RAMM asset upload debits the asset and credits a suspense account and the capitalisation journal debits the suspense account and credits the T_WIP account (For IPS, the process is done in one step, debit the asset, credit the T_WIP account).</p> <p> Disposal of assets is not performed by Finance as they are not informed of asset disposals by Transport.</p> <p>Risk / Implication</p> <p>Manual processing and manipulation of data in the asset capitalisation process is both inefficient and increases the risk of error.</p> <p>Asset should be disposed of to ensure that the assets within the asset management system and the financial system are aligned.</p>	<p>3.1 Automate the process of transferring asset data between RAMM and AX (This process is ideal for Robotic Process Automation).</p> <p>3.2 Agree, implement and document the process for disposal of transport assets in the finance system.</p>	<p>Action owner: Tracey Musty</p> <p>Completion Date: June 2019</p> <p>Comment: Staff are reviewing how data flows between the financial (currently AX) and asset (RAMM) systems can be automated or better integrated so processes are less manual and time consuming.</p>		

Observations	Assessed Priority Rating = Moderate		Agreed Recommendation	Management Comment
	Impact: Moderate	Likelihood: Moderate		
4. Facilities asset data improvements				
<p> Observation Both IPS and SPM are manually updated for the assets. SPM is only used for reporting purposes, due to the unavailability of reporting from IPS. We have recommended under 2.3, that an import function is created for IPS.</p> <p>Facilities currently have to manually search in AX for the invoice for the purchased asset. The service contract is created after the purchase, not before. Normally, in line with other asset classes in IPS, the service contract is created first, so that there is a corresponding AX sub-account set up for that asset. This allows for easier reconciliation of the WIP and ensures all costs for the asset(s) are captured.</p> <p> Facilities are not informed by the business units in a timely manner regarding WIP that has been created. They have to manually search through the AX WIP reports for all business units to identify potential WIP that relates to Facilities (there is a Central facilities team responsible for capitalising WIP, not the respective business units that hold the budget). They also have to search for the relevant invoices and/or follow up with the respective business units to get more detail.</p> <p>Risk / Implication Manually duplicating asset data in another asset system just to get reporting is very inefficient use of resources.</p> <p>Inconsistency between different asset class processes within IPS creates issues for the asset owner and Finance.</p> <p>Duplicate assets are created when both Facilities and the respective business unit both capitalise the same asset.</p>	<p>4.1 Create reporting either out of IPS or another Council reporting system to replace the SPM reporting.</p> <p>4.2 Review and refine the end-to-end facilities asset capitalisation process.</p> <p>4.3 Implement a clear process for capitalising facility assets that is communicated and implemented across all groups.</p> <p>4.4 Facilities should have programme management responsibility and reporting over the entire capital expenditure related to facilities to provide oversight, improve communication and visibility between Facilities and the respective business units.</p>	<p>Action owner: Emily Botje Completion Date: June 2019 Comment: A health check on how the IPS asset system has been configured and used has been recently completed. This health check showed the system is functional, but more training was required to improve staff knowledge of the system capabilities. A training development programme is being developed with IPS.</p> <p>Facilities have commenced a business process review of work order management from the conception of a piece of work up to the invoice being paid.</p>		

Observations	Assessed Priority Rating = Moderate		Agreed Recommendation	Management Comment
	Impact: Moderate	Likelihood: Moderate		
5. Vested Assets				
<p>Observation</p> <p>Our walkthroughs of vested assets confirmed that they follow the same process as the Water and Transport asset capitalisation processes for Council projects once they receive the data from City Development.</p> <p>The PG L4 form (Schedule of Engineering values) does not have a separate section for Parks assets and they are currently included as roading assets on the form by the developers. This means that roading assets may be overstated and the relevant parks assets are not identified or recorded in IPS.</p> <p>The value of vested parks assets is not considered to be significant by management (for example, it may be a footpath through a reserve area).</p> <p>Upsize contributions are where Council provides the developer with additional monies to upgrade the required base infrastructure to a higher requirement (e.g. put in larger diameter sewer pipes to cope with growth). How these are being processed currently, is causing differences in WIP that have led to a significant amount of unreconciled WIP.</p> <p>When City Development know the value of the vested assets to be capitalised, they create an invoice to the developer based upon the PG L4 form asset value. The amount of any upsize contribution is manually recorded on the front of the PG L4 form. The PG L4 form asset value includes the value of the upsize contribution, which means Council is invoicing the developer for both the developers contribution to the assets and Council's contribution.</p> <p>This means in the financial system a vested asset WIP amount is created for the value on the PG L4 form and the value of Council payment to the developer is also posted to WIP, therefore duplicating the Council upsize contribution.</p> <p>Risk / Implication</p> <p>Unclear processes have led to significant backlog of vested assets that sit in WIP and the overstatement of WIP, due to the duplication of Council's upsize contribution.</p> <p>Parks vested assets may not be recorded in IPS.</p>	<p>5.1 Parks assets should be separately identified on the PG L4 form and input into IPS.</p> <p>5.2 The schedule of engineering values (PG L4) for the vested assets provided needs to exclude any Council contributions.</p>	<p>Action owner: Tracey Musty</p> <p>Completion Date: March 2019</p> <p>Comment: Historic WIP was cleared as at 30/06/2018 as part of the end of Financial Year.</p> <p>We have eliminated the developer invoice from the vested asset process (as our tax advisors inform us that they are not required).</p> <p>Staff have revised the PG L4 form to include a separate section for Parks assets.</p> <p>Staff are also changing the coding of vested WIP in AX to make it easier to track vesting of new assets and enable better reporting.</p>		



Appendix II: Walkthroughs performed

Activity	Project Reference	Project description	Value (\$)
Water	C9410028-108	Tennyson Rd Water main replacement	\$130,017
Transport	C9310053S	Thin Asphaltic Surfacing	\$2,556,640
Transport	C9310174N	Borman Rd East Extension	\$1,336,826
Aquatics 1	8540-C5210023	Lido Pool tower slide	\$10,700
Aquatics 2	C5220008	Dolphin Pool auto Vac	\$5,910
Facilities	C3249501-007	Install LV6 Tower Block Emergency Lighting	\$2,402
Facilities	C5500058-001	Hamilton Gardens information centre / Construction	\$325,836
Information Services	C4103502	Core Business Application	\$51,746
Information Services	C4109502	Unified Communications	\$573,594
Fleet	C3210259-001	Kubota - Mower	\$35,500
Fleet	C3210244-001	FORD Ranger	\$36,803
Hamilton Gardens	CC500004-002	River Pump Chamber	\$21,162
Hamilton Gardens	HGCONCEPT - 001	Contract Fosters- Concepts & Court	\$631,105
Museum Artwork	C5700009	Maori Wahine / The End Seemed at Hand	\$39,130

Activity	Project Reference	Project description	Value (\$)
Museum Furniture	C570022	Gallery Seating	\$8,950
Parks	C5819508-011	Te Huia Playground	\$149,901
Stadia	8540620 C6200002	Turf Spray	\$82,928
Stadia	8540622 C6220007	Turf Equipment	\$7,385
Stormwater	C9600006-29	Stormwater upgrade Ellicott St	\$24,282
Theatre	C6410001, C6200010, C6220002, C6200009, C6300013	Waikato Stadium	\$948,868
Theatre	8540641 C6410001	Various plant and Equipment	\$405,896
Zoo	8544650 C6500048	Acquisition of Zoo Animals	\$6,713
Zoo	C6500031	Radios	\$7,938

Appendix III: Risk assessment framework

Impact

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

Likelihood

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

Risk Matrix

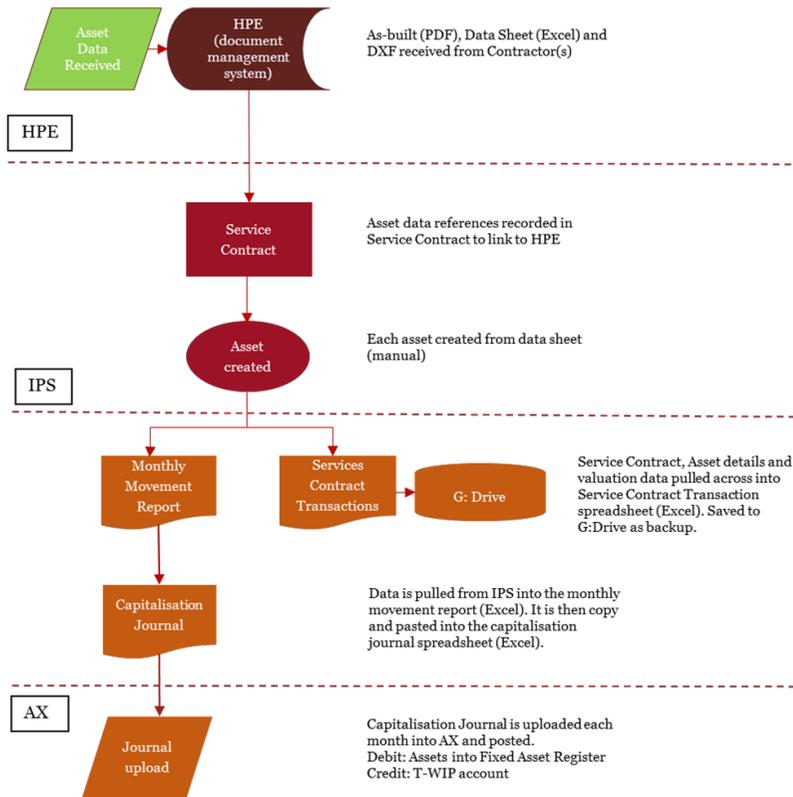
Likelihood	High	Moderate	High	High
	Moderate	Low	Moderate	High
	Low	Low	Low	Moderate
		Low	Moderate	High
		Impact		

Priority Rating

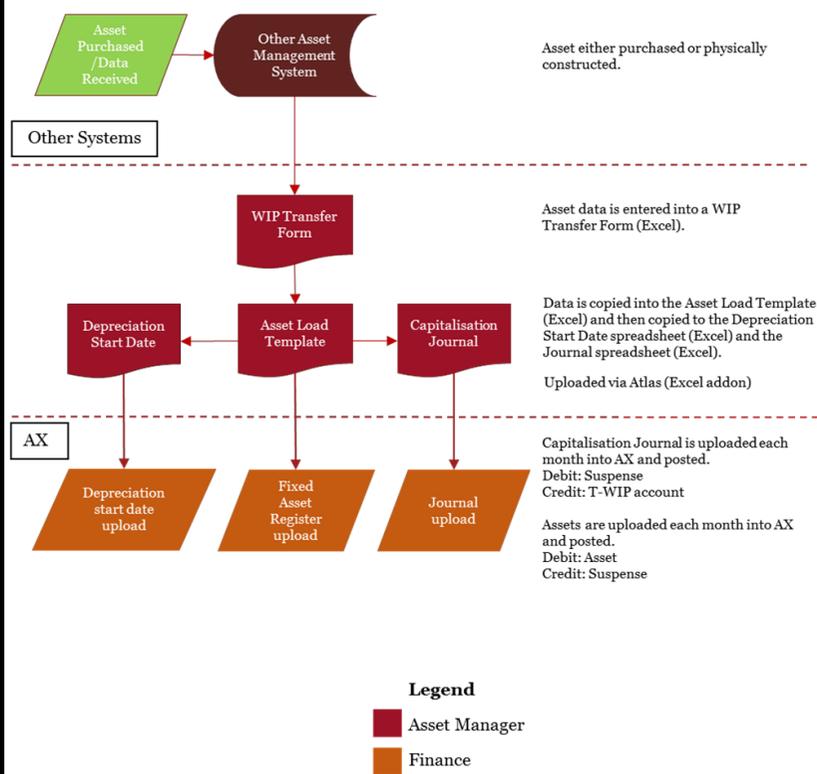
Level	Risk	Consequences of Risk Ratings
H	High	Requires immediate attention
M	Moderate	Requires attention/action underway within 3 months
L	Low	Requires attention/action underway within 6 months

Appendix IV: Capitalisation flowcharts

IPS Asset Capitalisation Process



Other Asset Capitalisation Process



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Council Report

Item 10

Committee: Audit & Risk Committee **Date:** 27 November 2018
Author: Andre Chatfield **Authoriser:** David Bryant
Position: Risk and Insurance Manager **Position:** General Manager Corporate
Report Name: Insurance Report

Report Status	<i>Open</i>
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Purpose

1. To inform the Audit and Risk Committee on Council's 2018/19 insurance renewal programme.

Staff Recommendation

That the Audit and Risk Committee receives the report.

Background

2. Council tenders its insurance programme under the Waikato Local Authority Shared Service (WLASS) company umbrella with Aon New Zealand as the insurance broker.
3. The purpose of this relationship is to leverage the region's collective insurance requirements to deliver economies of scale through reducing brokerage costs and reducing the exposure to market increases in premium costs while also ensuring adequate coverage of risk.
4. Council's insurance period runs from 1 November to 31 October each year.
5. Council uses a 'Probable Maximum Loss' (PML) reinstatement value approach rather than replacement value for all council assets. The benefit for this approach is to ensure our Material Damage, Business Interruption and Infrastructure arrangements provide adequate cover.
6. Council has seventeen insurance policies within its portfolio managed by the Risk and Insurance Manager. Details of these policies including a comparison of premium costs against last year is included as appendix 1 of this report.
7. Council's insurance programme is regarded as a risk management tool used to mitigate financial loss associated with any adverse significant event.
8. Council's Infrastructure insurance programme specifically addresses losses to underground assets such as water supply, waste water, storm water assets and bridges.

Discussion

9. In 2017 there were 330 natural disasters recorded globally and these have resulted in the global insurance market increasing their insurance premiums to recover losses. Events have included wildfires, earthquakes, tsunamis, and major flooding.

10. In New Zealand natural disasters such as the Kaikoura earthquake of November 2016 and several Cyclone events during 2017 and 2018 have also contributed to responses from global insurance markets to lift insurance premiums.
11. Claims reported for the Kaikoura earthquake are estimated at US\$4.5 billion and the cyclones experienced in various parts of New Zealand in 2018 are expected to exceed US\$1.2 billion.
12. Those geographical areas most impacted by recent events are seeing the greatest insurance premium cost increases. Hamilton City is still considered one of the lowest impacted.
13. Council's renewal of its insurance portfolio has resulted in a total premium cost increase of 31%. AON had warned Council that the impact of recent global and national disaster events was going to see an increase in premium costs, but the size of the increase from global insurance markets was unknown until recently.

Financial Considerations

14. For the 2018/19-year Council has budgeted for a 10% increase in insurance premium costs, but as the increase is much higher than expected, there is a budget shortfall of \$387,658.50 Refer appendix 1 for further details.
15. Staff will need to work with AON to estimate the impact of these significant increases on the balance of the 10-Year Plan.

Attachments

Attachment 1 - HCC Insurance Portfolio Premium Costs 2018-2019

Aon Insurance renewal programme

D-2832852

Description	Premium				Budget					
	Premium	Natural Disaster Premium	Fire Service Levy	EQC Premium	1/11/17-1/11/18 Total 2017/18 premiums excl GST	1/11/18-1/11/19 Total 2018/19 premiums excl GST	Difference between 2017/18 and 2018/19	1/7/18 - 31/10/18	1/11/18 - 30/6/19	Total 2018/19
Material damage										
Material damage excluding fire	378,048.43			4,080.00	382,128.43	512,147.01	130,018.58	127,376.14	341,431.34	723,559.77
Material damage fire only	94,555.98		129,362.40		223,918.38	299,246.05	75,327.67	74,639.46	199,497.37	423,415.75
Material damage - excess layer	145,765.91				145,765.91	167,960.00	22,194.09	48,588.64	111,973.33	257,739.24
618,370.32	-	129,362.40	4,080.00	-	751,812.72	979,353.06	227,540.34	250,604.24	652,902.04	1,404,714.76
Infrastructure										
Material damage - infrastructure (includes bridges)	395,397.16				395,397.16	514,016.31	118,619.15	131,799.05	342,677.54	738,074.70
Material damage - infrastructure primary layer	192,756.76				192,756.76	250,583.79	57,827.03	64,252.25	167,055.86	
588,153.92	-	-	-	-	588,153.92	764,600.10	176,446.18	196,051.30	509,733.40	738,074.70
Miscellaneous										
Annual Contract Works	10,045.00		4,240.00		14,285.00	15,240.00	955.00	4,761.67	10,160.00	
Accident and health	1,217.50				1,217.50	1,119.25	(98.25)	405.83	746.17	
Corporate travel	133.35				133.35	1,282.50	1,149.15	44.45	855.00	
Employers liability	1,060.50				1,060.50	1,056.00	(4.50)	353.50	704.00	
Crime policy	13,657.33				13,657.33	25,705.13	12,047.80	4,552.44	17,136.75	
Statutory liability	5,504.50				5,504.50	5,500.00	(4.50)	1,834.83	3,666.67	
Desktop review of insurance value & one site visit	4,400.00				4,400.00	-	(4,400.00)	1,466.67	-	
Boiler explosion	2,428.16				2,428.16	2,431.00	2.84	809.39	1,620.67	
Fine Arts	50,825.00				50,825.00	53,071.00	2,246.00	16,941.67	35,380.67	
Fine Arts Fire Service Levy			42,094.55		42,094.55	42,094.55	-	14,031.52	28,063.03	
Hall Hirers	11,795.00				11,795.00	13,200.00	1,405.00	3,931.67	8,800.00	
101,066.34	-	46,334.55	-	-	147,400.89	160,699.43	13,298.54	49,133.64	107,132.96	
Motor vehicles										
Vertex Commercial motor vehicles	118,076.78		5,381.03		123,457.81	153,412.24	29,954.43	41,152.60	102,274.83	
Business interruption										
Business interruption	35,756.82	23,834.88			59,591.70	69,738.45	10,146.75	19,863.90	46,492.30	
Professional indemnity and public liability										
Professional indemnity	67,005.00				67,005.00	158,900.00	91,895.00	22,335.00	105,933.33	
Public liability	44,685.00				44,685.00	66,500.00	21,815.00	14,895.00	44,333.33	
Total Aon invoices	1,573,114.18	23,834.88	181,077.98	4,080.00	1,782,107.04	2,353,203.28	571,096.24	594,035.68	1,568,802.19	
Aon insurance brokerage fees	36,175.63				36,175.63	36,175.63	-	12,058.54	24,117.09	
Total Waikato Local Authority Shared Services invoices	36,175.63	-	-	-	36,175.63	36,175.63	-	12,058.54	24,117.09	
Total insurance	1,609,289.81	23,834.88	181,077.98	4,080.00	1,818,282.67	2,389,378.91	571,096.24	606,094.22	1,592,919.28	
Budgets (July - June)										
Vehicle insurance					98,959.00	105,000.00				
Insurance					1,544,628.00	1,706,370.00				
Total budgets					1,643,587.00	1,811,370.00	10.2%			
Premium split between financial years										
1 July - 31 October					543,220.81	606,094.22			796,459.64	
1 November - 30 June					1,212,188.45	1,592,919.27				
Total premium					1,755,409.26	2,199,013.49	25.3%		796,459.64	
Favourable/(unfavourable) budget variance					(111,822.26)	(387,643.49)				

Council Report

Item 11

Committee: Audit & Risk Committee **Date:** 27 November 2018
Author: Tracey Musty **Authoriser:** David Bryant
Position: Financial Controller **Position:** General Manager Corporate
Report Name: 2017/18 Fitch Ratings Review

Report Status	<i>Open</i>
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Purpose

1. To inform the Audit and Risk Committee of the 2017/18 Fitch Ratings Review.

Staff Recommendation

That the Audit and Risk Committee receives the report.

Discussion

2. Hamilton City Council uses Fitch Ratings to complete an independent review of how we are managing financially.
3. Fitch Ratings assess Council based on an analysis of published Council reports and plans, national and regional socio-economic data, and information provided by Council staff.
4. Fitch Ratings assign credit ratings as part of their assessment and publish an Annual Rating Report.
5. Credit ratings inform stakeholders of Council's credit worthiness, ability to repay debt, and the likelihood of default.
6. These ratings are taken into consideration by lending facilities to determine the cost of debt being borrowed. A high rating provides confidence to lenders as they perceive a lower risk when lending money. This results in lower interest rates.
7. In this most recent review Council has maintained a long-term AA- rating that places us as a high-quality investment grade organisation. Council has also maintained its short term F1+ rating which indicates a strong capacity to meet our financial commitments.

Attachments

Attachment 1 - Fitch Credit Rating Report 2018

Hamilton City Council

Update

Ratings

Long-Term Local-Currency IDR	AA-
Short-Term Local-Currency IDR	F1+
Senior unsecured	AA-

Outlooks

Long-Term Local-Currency IDR	Stable
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Financial Data

Hamilton City Council

	30 Jun 17	30 Jun 16
Operating revenue (NZDm)	206.7	201.6
Debt (NZDm)	429.3	364.1
Operating balance/operating revenue (%)	31.5	29.9
Debt service/current revenue (%)	36.2	29.5
Debt/current balance (years)	9.1	8.9
Operating balance/interest paid (x)	3.2	2.8
Capital expenditure/total expenditure (%)	28.4	25.5
Surplus (deficit) before debt variation/total revenue (excluding new debt) (%)	5.5	15.4
Current balance/capital expenditure (%)	54.6	59.3

Source: Fitch Ratings, Fitch Solutions

Key Rating Drivers

Strong Institutional Framework: New Zealand's institutional framework for local authorities remains an important positive rating factor for Hamilton City Council. This is demonstrated by the council's transparent reporting and financial disclosure, strong controls and supervision, stable intergovernmental relationships, high own-source revenue via rates, with wide rate-setting power, and limited responsibilities, with health and education being provided by the central government.

Stable Financial Performance: Fitch Ratings expects Hamilton to maintain stable fiscal performance in financial year ended June 2018 (FY18), supported by strong revenue from vested assets and development contributions. Fitch's estimated operating margin of 31.5% for FY17 (FY16: 29.9%) compares favourably against many peers. We believe the council's financial forecasts, as outlined in its Long-Term Plan (LTP), are challenging and depend on key variables, such as new ratepayer growth and rising development contribution revenue.

Sound Economic Performance: Hamilton is a diversified, service-led economy underpinned by significant government activity in science, education and healthcare as well as solid manufacturing, construction, electricity, gas, water and waste services. Estimated local GDP growth was a sound 2.0% for FY18, but underperformed the national rate of 2.7%. Economic expansion remains supported by strong population and employment growth, which have seen Hamilton's unemployment rate fall to 5.3% in FY18, from 6.0% in the previous financial year.

Debt to Stay High: Fitch forecasts a considerable rise in Hamilton's debt due to its NZD290 million participation in the central government's Housing Investment Fund and capital expenditure programme expansion. The council's direct debt/current balance payback ratio was high against that of international peers, reaching 9.1 years by Fitch's calculation in FY17, although it is supported by funding access from the New Zealand Local Government Funding Agency Limited (LGFA) (AA/Stable), adequate creditor protection and general fiscal stability.

Significant Capex: The council forecasts NZD2.0 billion in capex over the LTP period; representing a 138% aggregate increase from the previous LTP. The council says it has curtailed spending and deferred asset renewal over the previous six years to cut debt, but this has left some assets in need of upgrade or maintenance. Furthermore, the council believes additional expenditure is required for infrastructure to meet its expected population growth of 22,600 residents over the next decade.

Rating Sensitivities

Improved Debt Metrics: Positive rating action would require Hamilton to sustain a high current margin exceeding 25% and a direct debt/current balance ratio of below three years. The council's high debt means it would need to demonstrate sustained margin outperformance relative to less leveraged peers.

Debt Payback Deterioration: Hamilton's rating could come under pressure if its operating performance deteriorated significantly and unexpectedly, with its current margin dropping below 12% or its direct debt/current balance ratio rising above 12 years for a sustained period.

Related Research

[Fitch Affirms New Zealand at 'AA'; Outlook Stable \(February 2018\)](#)

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

[Interpreting the Financial Ratios in Local and Regional Government Rating Reports \(October 2015\)](#)

Analysts

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Appendix A

Hamilton City Council

(NZDm)	2013	2014	2015	2016	2017
Taxes	115.1	121.2	127.1	133.5	140.4
Transfers received	3.3	4.6	5.2	5.0	5.8
Fees, fines and other operating revenue	58.1	56.2	61.4	63.1	60.5
Operating revenue	176.5	182.0	193.7	201.6	206.7
Operating expenditure	-121.6	-123.6	-130.7	-141.4	-141.7
Operating balance	54.9	58.4	63.0	60.2	65.0
Financial revenue	1.1	1.3	2.3	2.4	2.1
Interest paid	-23.5	-23.3	-23.6	-21.7	-20.1
Current balance	32.5	36.4	41.7	40.9	47.0
Capital revenue	35.5	60.4	49.7	70.3	53.6
Capital expenditure	-63.5	-64.7	-58.3	-69.0	-86.1
Capital balance	-28.0	-4.3	-8.6	1.3	-32.5
Surplus (deficit) before debt variation	4.5	32.1	33.1	42.2	14.5
New borrowing	64.0	60.8	35.8	6.0	120.6
Debt repayment	-24.0	-90.8	-47.3	-38.4	-55.5
Net debt movement	40.0	-30.0	-11.5	-32.4	65.1
Overall results	44.5	2.1	21.6	9.8	79.6
Debt					
Short-term	110.2	76.0	56.0	73.1	113.2
Long-term	328.0	332.0	340.3	291.0	316.1
Direct debt	438.2	408.0	396.3	364.1	429.3
+ Other Fitch-classified debt - pre-financing	0.7	0.9	1.1	0.9	1.0
Direct risk	438.9	408.9	397.4	365.0	430.3
- Cash, liquid deposits, sinking fund	49.8	43.1	62.3	48.2	103.7
Net direct risk	389.1	365.8	335.1	316.8	326.6
Guarantees and other contingent liabilities	7.1	7.5	7.8	2.4	3.7
Net indirect debt	-	15.1	16.0	25.7	23.9
(public sector entities excluding guaranteed amount)					
Net overall risk	396.2	388.4	358.9	344.9	354.2
Memo for direct debt					
% in foreign currency	0.0	0.0	0.0	0.0	0.0
% issued debt	-	-	-	-	-
% fixed interest rate debt	11.5	9.8	10.1	7.7	6.5

Source: Fitch Ratings, Fitch Solutions, Hamilton

Related Criteria

[International Local and Regional Governments Rating Criteria - Outside the United States \(April 2016\)](#)

Appendix B

Hamilton City Council

	2013	2014	2015	2016	2017
Fiscal performance ratios					
Operating balance/operating revenue (%)	31.1	32.09	32.52	29.86	31.45
Current balance/current revenue ^a (%)	18.3	19.86	21.28	20.05	22.51
Surplus (deficit) before debt variation/total revenue ^a (%)	2.11	13.17	13.47	15.38	5.53
Overall results/total revenue (%)	20.88	0.86	8.79	3.57	30.34
Operating revenue growth (annual % change)	n.a.	3.12	6.43	4.08	2.53
Operating expenditure growth (annual % change)	n.a.	1.64	5.74	8.19	0.21
Current balance growth (annual % change)	n.a.	12	14.56	-1.92	14.91
Debt ratios					
Direct debt growth (annual % change)	n.a.	-6.89	-2.87	-8.13	17.91
Interest paid/operating revenue (%)	13.31	12.8	12.18	10.76	9.72
Operating balance/interest paid (x)	2.3	2.5	2.7	2.8	3.2
Direct debt servicing/current revenue (%)	26.75	62.25	36.17	29.46	36.21
Direct debt servicing/operating balance (%)	86.52	195.38	112.54	99.83	116.31
Direct debt/current revenue (%)	246.73	222.59	202.19	178.48	205.6
Direct risk/current revenue (%)	247.13	223.08	202.76	178.92	206.08
Direct debt/current balance (years)	13.48	11.21	9.5	8.9	9.13
Net overall risk/current revenue (%)	223.09	211.89	183.11	169.07	169.64
Direct risk/current balance (years)	13.5	11.23	9.53	8.92	9.16
Direct debt/GDP (%)	6.24	5.66	5.33	4.7	5.38
Direct debt per capita (local currency)	2,921	2,667	2,524	2,262	2,602
Revenue ratios					
Operating revenue/budget operating revenue (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Tax revenue/operating revenue (%)	65.21	66.59	65.62	66.22	67.92
Modifiable tax revenue/total tax revenue (%)	100	99.17	99.21	99.25	99.22
Current transfers received/operating revenue (%)	1.87	2.53	2.68	2.48	2.81
Operating revenue/total revenue ^a (%)	82.82	74.68	78.84	73.5	78.77
Total revenue ^b per capita (local currency)	1,421	1,593	1,565	1,704	1,590
Expenditure ratios					
Operating expenditure/budget operating expenditure (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Staff expenditure/operating expenditure (%)	44.82	46.28	50.42	45.33	49.82
Current transfer made/operating expenditure (%)	-	1.46	1.68	5.02	2.05
Capital expenditure/budget capital expenditure (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Capital expenditure/total expenditure (%)	27.3	21.4	22.43	25.51	28.38
Capital expenditure/local GDP (%)	0.9	0.9	0.78	0.89	1.08
Total expenditure per capita (local currency)	1,551	1,976	1,655	1,680	1,839
Capital expenditure financing					
Current balance/capital expenditure (%)	51.18	56.26	71.53	59.28	54.59
Capital revenue/capital expenditure (%)	55.91	93.35	85.25	101.88	62.25
Net debt movement/capital expenditure (%)	62.99	-46.37	-19.73	-46.96	75.61

n.a.: Not Available

^a Includes financial revenue

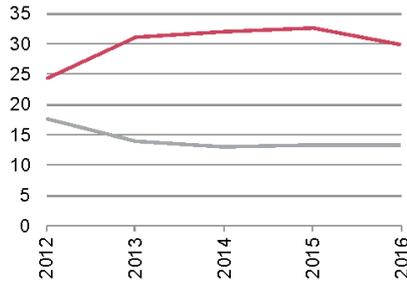
^b Excludes new borrowing

Source: Fitch Ratings, Fitch Solutions, Hamilton

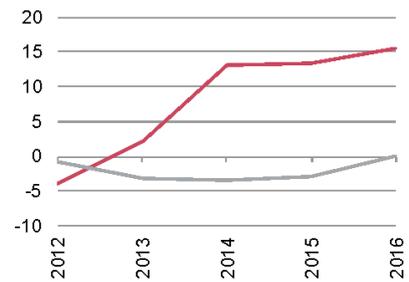
Appendix C
Hamilton City Council

Peer Comparison

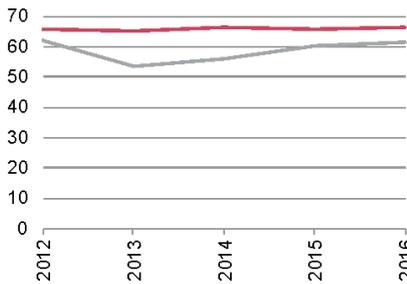
Operating Balance
% Operating Revenue



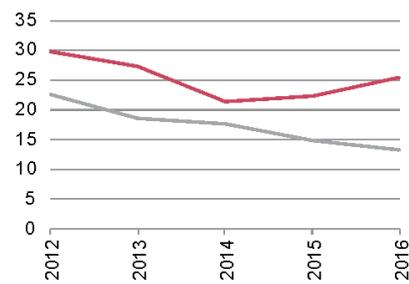
Surplus (Deficit)
% Total Revenue



Taxes
% Operating Revenue



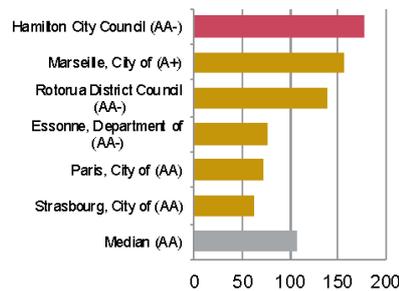
Capital Expenditure
% Total Expenditure



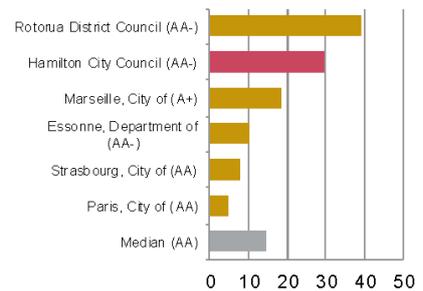
Hamilton City Council

AA-Peer Group Median

Debt
To Current Revenue (%) 2016



Debt Servicing
To Current Revenue (%) 2016



Source: Fitch Ratings, Fitch Solutions

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Council Report

Item 12

Committee: Audit & Risk Committee **Date:** 27 November 2018
Author: Tracey Musty **Authoriser:** David Bryant
Position: Financial Controller **Position:** General Manager Corporate
Report Name: Audit NZ Final Audit Report June 2018

Report Status	<i>Open</i>
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Purpose

1. To inform the Audit and Risk Committee regarding the Hamilton City Council Audit NZ Report for the year ended 30 June 2018.

Staff Recommendation

That the Audit and Risk Committee receives the report.

Attachments

Attachment 1 - Audit NZ Final Management Report June 2018

Attachment 1

Item 12

**Report to the Council
on the audit of**

Hamilton City Council

For the year ended 30 June 2018

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Key messages

We have completed the audit for the year ended 30 June 2018. This report sets out our findings from the audit and draws attention to areas where the City Council is doing well and where we have made recommendations for improvement.

Audit opinion

We issued an unmodified audit opinion dated 11 October 2018.

Matters identified during the audit

The City Council has progressed a number of prior year audit recommendations, with a further 10 matters closed in this report. This takes the total number of prior year audit recommendations closed during the year to 16 (six of which were reported in our interim report).

Our Audit Plan identified the main audit risks and issues we intended to focus on during the audit. These included the City Council's recent sale of its shareholding in Waikato Innovation Park Limited and timeliness of capitalisation of its work in progress and vested assets. We are satisfied that the City Council has appropriately accounted for the sale of its shareholding in Waikato Innovation Park Limited. Consistent with prior years, we continue to identify delays in the capitalisation of work in progress and vested assets, which creates a risk that the depreciation expense recognised by the City Council is understated. Our detailed comments on the matters identified in our Audit Plan are contained in section 3 below.

During the course of the audit we identified areas for improvement in respect of the City Council's asset management processes, as well as the approval processes for transactions incurred on purchasing cards. Our detailed recommendations in these areas are contained in sections 3, 4 and 6 of this report.

We completed a review of the recent rubbish and recycling contract procurement. From this review we found that the City Council retained good quality evidence to support the process and found the documentation demonstrated that good practices had been applied at each stage of the process.

Thank you

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



Leon Pieterse
Appointed Auditor
16 November 2018

1 Recommendations



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

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

1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
Update asset data for land to ensure that the legal title is recorded for all Council owned property	4.1	Necessary
Develop a central register for leases of Council owned properties	4.3	Beneficial
Review purchasing card policy to ensure that approval processes are one-up of the person benefiting from the expenditure	6.1	Necessary

1.2 Status of recommendations

Set out below is a summary of new recommendations and action taken against previous years' recommendations. Appendix 1 sets out the status of previous year's recommendations in detail.

	Priority	Priority			
		Urgent	Necessary	Beneficial	Total
Final audit	New matters	-	2	1	3
	Prior year open matters	2	7	8	17
	Matters that were not followed up during the audit	-	2	-	2
Interim audit	New matters	-	2	-	2
	Prior year open matters	1	9	-	10
	Total open or outstanding matters	3	22	9	34
	Implemented or closed in this report	1	5	4	10

2 Our audit report

2.1 We issued an unmodified audit report



We issued an unmodified audit report on 11 October 2018. This means we were satisfied that the financial statements and statement of service performance present fairly the City Council's activity for the year and its financial position at the end of the year.

In forming our audit opinion, we considered the following matters. Refer to sections 3 and 4 for further detail on these matters.

2.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial. The misstatements that have not been corrected are listed in Appendix 2 along with management's reasons for not adjusting these misstatements. We are satisfied that these misstatements are individually and collectively immaterial.

2.3 Corrected misstatements

We also identified misstatements that were corrected by management. These corrected misstatements had the net effect of decreasing the surplus by \$629,000 and to decrease the associated asset by the same amount compared to the draft financial statements. The corrected misstatements are listed in Appendix 3.

2.4 Group audit



The group comprises:

- Waikato Innovation Growth Limited and its subsidiaries and control entities
- Vibrant Hamilton Trust
- Waikato Regional Airport Limited and its subsidiaries and controlled entities
- Innovation Waikato Limited and its subsidiaries and controlled entities (until liquidation in June 2018)

We have not identified any of the following during our audit for the year ended 30 June 2018:

- Instances where our review of the work of component auditors gave rise to a concern about the quality of that auditor's work;
- Limitations on the group audit; nor
- Fraud or suspected fraud involving group management, component management, employees with significant roles in group-wide controls, or others where the fraud resulted in a material misstatement of the group financial statements.

2.5 Quality and timeliness of information provided for audit



Management is required to provide information for audit relating to the annual report of the City Council. This includes the draft annual report with supporting working papers. We provided a listing of information we required for the final audit to management on 28 June 2018. This included the dates we required the information to be provided to us.

In general the information provided to support the parent financial statements and performance information was of a good quality, and was provided on time.

However, we continued to encounter issues during the audit of property, plant and equipment, with delays in receiving system generated reports that reconciled to the note disclosure for additions and disposals during the period. We did however note a general improvement in the quality of the property, plant and equipment disclosures compared to the prior year.

We also encountered issues during our testing of certain mandatory performance measures, particularly for wastewater. The issues noted in this regard are detailed in Appendix 1 of this report.

The City Council experienced delays in preparing its Group financial statements, partly as a result of technical issues faced by Waikato Innovation Growth Limited following the changes in group structure. This resulted in significant delays in the preparation of the second draft financial statements, and resulted in delays in providing audit clearance.

To avoid similar delays in future we recommend that the City Council discuss with its subsidiaries areas of potential risk in the preparation of the subsidiary financial statements to reduce the risk of delays in the preparation of the Group financial statements.

Further, we note that Waikato Innovation Growth Limited will apply the requirements of NZ IFRS 15 *Revenue from contracts with customers* and NZ IFRS 9 *Financial instruments* for the first time in preparing its 30 June 2019 Group financial statements. This is likely to result in differences in accounting policies between the subsidiary and the City Council and as such may require adjustments in the City Council's consolidated financial statements. We encourage the City Council to discuss the potential impact of these changes with Waikato Innovation Growth Limited early, to reduce the risk of delays in the preparation of the 30 June 2019 Group accounts.

3 Matters raised in the Audit Plan



In our Audit Plan dated 27 February 2018, we identified the following matters as the main audit risks and issues:

3.1 Changes in group structure

Effective 30 November 2017, the City Council sold its investment in Waikato Innovation Park Limited (19.81% shareholding held directly by Hamilton City Council, and 80.19% held indirectly via Innovation Waikato Limited).

We reviewed the sale and purchase documentation, and accounting entries recognised in the City Council's accounts upon disposal and are satisfied that the transactions have been appropriately reflected.

The City Council's 70% indirect shareholding in New Zealand Food Innovation (Waikato) Limited (NZFIW) was not sold as part of the sale of Waikato Innovation Park Limited. Prior to the sale, the City Council's ownership interest was transferred from Waikato Innovation Park Limited to the newly established Waikato Innovation Growth Limited.

Following the sale of Waikato Innovation Park Limited and the establishment of Waikato Innovation Growth Limited the City Council liquidated its 100% owned subsidiary Innovation Waikato Limited.

We are satisfied that the accounting entries recognised in relation to the establishment of Waikato Innovation Growth Limited and liquidation of Innovation Waikato Limited have been appropriately reflected in the City Council's financial statements.

3.2 Timely capitalisation of work in progress and vested assets

Consistent with prior years, the City Council continued to experience delays in regards to the timeliness of the capitalisation of its work in progress and vested assets.

We were advised by management that a total of \$30.5 million of work in progress was complete and in use at year end, that had not yet been capitalised in the City Council's asset management systems. Similarly of the \$44.6 million of vested assets received during the period a total of \$22.9 million had not been capitalised in the City Council's asset management systems at year end.

Although these amounts have been correctly disclosed as additions within the annual report the assets have not been depreciated due to the delay in capitalisation.

To gain assurance that the treatment applied by the City Council did not materially impact the depreciation expense recognised for the period we estimated the potential depreciation understatement. Our estimation is based on average depreciation rates and estimated in use dates and therefore cannot be expected to accurately reflect the depreciation impact as a result of the delayed capitalisation. As such, we did not request management accrue for the estimated depreciation understatement. For further details of the estimated understatement of depreciation refer to Appendix 2.

The amount of uncapitalised work in progress has increased significantly compared to the prior year (as at 30 June 2017 a total of \$10.8 million was assessed as complete and in use by the City Council but not yet capitalised). Given the significant capital work programme planned over the coming 10 year period further increases in the balance of uncapitalised work in progress may result in the material understatement of depreciation expense in future periods.

We continue to recommend that the delays in capitalisation are addressed. For details of our outstanding prior year recommendations please refer to Appendix 1.

3.3 Revaluations and fair value assessments

3.3.1 Revaluation of parks and gardens improvement and solid waste assets

The City Council revalued its parks and gardens improvements assets and solid waste assets as at 1 July 2017. Both valuations were internally prepared, and were independently peer reviewed. We reviewed the scope of the peer review, and the peer reviewers report, and are satisfied that the review performed is appropriate. We are also satisfied that the peer reviewer engaged by the City Council is suitably qualified and experienced.

3.3.2 Fair value assessments

In addition, we reviewed the City Council's assessment of whether there had been a material movement in the fair value of asset classes subject to periodic revaluation.

We are satisfied that the carrying value of these asset classes as at 30 June 2018 does not differ materially from their fair value.

4 Other matters



During the course of our audit work we identified the following areas for improvement in your internal controls and financial reporting processes which we wish to bring to your attention.

4.1 Attribute data recorded for historical land

We noted during disposals testing that insufficient information was recorded in the asset register for certain historical land assets, and as a result, the City Council has struggled to match land sales to assets during the period. Information missing from the asset register includes the legal title of the property and the land area.

As a result, the City Council has made assumptions about land sales during the period, and corresponding assets in the asset register. In some case, it has been assumed that the entire land area was sold - however, this could not be verified due to the lack of attribute data recorded within the asset register. This creates a risk that the gain/loss on disposal calculated on these assets is incorrect, and creates a risk that the carrying value recorded for these asset classes may be incomplete.

Recommendation

We recommend that the City Council review the attribute data recorded for its land, and update asset records to include legal title and land areas going forward.

Management comment

Acknowledged. A business wide project has been initiated to record and manage data on all owned land in IPS - the corporate asset management system. This will improve data quality and confidence in land information for Council.

4.2 Lack of centralised register for leased Council properties

The City Council leases a number of its properties to businesses and community groups across the city. PBE IPSAS 13 *Leases* requires the City Council to disclose the future minimum lease payments expected to be collected in relation to its leased property.

During our review of the operating leases as lessor disclosure, we noted that there were a number of operating leases included in the current year that were not included in the prior year leases listing.

We understand that each business unit is responsible for communicating the operating leases held at year end, and there is no centralised register to track and record operating leases. This creates a risk that the City Council's operating lease disclosures are incomplete or inaccurate at year end.

Recommendation

We recommend that a central register is developed and maintained to record all operating leases held by the City Council. This register should be continually updated throughout the year as leases are entered into or renewed.

Management comment

Council currently maintains three registers of leased property (Strategic Property, Parks and Open Spaces, and Community Development). Council acknowledges the need for a centralised register and options for this are currently being explored by staff.

5 Procurement review – Rubbish and recycling contract



During audit planning we identified the recent Rubbish and Recycling Services procurement as a significant procurement during the year, and as such, we undertook a review of the tender process for the Rubbish and Recycling Services contract. Our review considered the activities undertaken by the City Council throughout the process and how these reflected good practice as set out in the Council's policy and procedures and wider central government guidance.

In particular we considered if there was evidence to support whether:

- a robust process was in place to identify and manage risks from conflict of interest;
- the procurement had been appropriately planned;
- the procurement process had been effectively managed; and
- the evaluation and award process was managed consistently with the principles of accountability, openness, value for money, lawfulness, fairness and integrity.

We found that the City Council had retained good quality evidence to support the process and found the documentation demonstrated that good practices had been applied at each of the above stages of the process.

Procurement good practice

In addition to the City Council's own policy and procedures, there is a range of guidance available to public entities to assist in managing procurement activities. The primary references for good practice in public sector procurement are:

- Government Rules of Sourcing (produced by the Ministry of Business Innovation and Employment, 2015).
- Procurement guidance for public entities (produced by the Office of the Auditor-General, 2008).
- Managing conflicts of interest: Guidance for public entities (produced by the Office of the Auditor-General, 2007).
- Public sector purchases, grants, and gifts: Managing funding arrangements with external parties (produced by the Office of the Auditor-General, 2008).

We have used the policy and good practice guides noted above as the basis for determining the controls and processes we expect to see demonstrated through this procurement.

Findings from our review

5.1 Conflicts of interest

Our expectation is that there is a robust process in place to identify and manage risks from conflicts of interest.

We noted evidence to support the declaration of interests for members of the evaluation panel and other members of the procurement team both from within the organisation and external advisors. Where potential or actual conflicts were identified, management plans were put in place.

Declarations should be completed as soon as a person becomes involved in the procurement. Good practice is to regularly revisit the declaration, particularly once tenderers are known and personnel in a tenderer's proposal are named. We noted there were requests to refresh declarations as the process progressed.

Our review found that all declarations and conflict management plans were reviewed, and demonstrated that the organisation was satisfied that the mitigations were appropriate.

5.2 Justifying the procurement and planning

Our expectation is that the entity applies an approach to the procurement that is appropriate for the size, value, risk and complexity of the contract. For higher value contracts (generally those over \$100,000) this will generally involve open tendering as the preferred method for establishing "value for money".

Our review noted the development of an initial business case for the project; a procurement plan; and more detailed evaluation plan. These documents set out the 2 stage procurement approach developed. The two stages were a Request for Expressions of Interest (REOI) and a Request for Proposal (RFP).

The RFP set out the process to consider specialist providers and alternative tenders and both tender documents set out the evaluation criteria to be applied during the process. These were high level criteria and were used to encapsulate the criteria across the range of services sought and consistent with the other planning documents.

5.3 Managing the procurement process

Our expectation is that the entity manages the procurement process consistent with the principles of accountability, openness, value for money, lawfulness, fairness and integrity set out in the 2008 "Procurement Guidance for Public Entities" published by the Office of the Auditor-General.

In line with good practice, the REOI was advertised on Tenderlink. This enabled open access to the opportunity. The RFP documentation was issued to the shortlisted parties following the completion of the REOI stage.

Communications during the process, both at REOI and RFP were managed with respondents and the Council kept a log of all communications. The Probity Assurance report notes their presence at key meetings with respondents. We note that the Council considered confidentiality of questions and in most instances, answers were provided to all parties as the questions were general. We observed a couple of questions were deemed confidential. The Council acknowledged that they had taken a cautious approach to considering the confidentiality of questions and answers but in these instances, most had actually communicated information provided through other notices and forums and as such the information had been shared more widely anyway.

5.4 Evaluation and Award

Our expectation is that the evaluation and award process is managed consistently with the principles of accountability, openness, value for money, lawfulness, fairness and integrity.

The closing process appears to have been managed well with tenders being received and assessed for compliance. Areas of non-compliance were considered and dealt with appropriately.

Reports at the end of each stage have been prepared which are consistent with the outcome of the evaluation process. Following the selection of the preferred provider, we note that a negotiation plan was prepared. At the time of our audit, the final decision had not been made but we understand that the negotiations have been completed and were to be presented to Council in August.

6 Public sector audit



The City Council is accountable to the Hamilton community and to the public for its use of public resources. Everyone who pays taxes or rates has a right to know that the money is being spent wisely and in the way the City Council said it would be spent.

As such, public sector audits have a broader scope than private sector audits. As part of our audit, we have considered if the City Council has fairly reflected the results of its activities in its financial statements and non-financial information for the year ended 30 June 2018.

We also consider if there is any indication of issues relevant to the audit with:

- compliance with its statutory obligations that are relevant to the annual report;
- the City Council carrying out its activities effectively and efficiently;
- the City Council incurring waste as a result of any act or failure to act by a public entity;
- any sign or appearance of a lack of probity as a result of any act or omission, either by the City Council or by one or more of its members, office holders, or employees; and
- any sign or appearance of a lack of financial prudence as a result of any act or omission by a public entity or by one or more of its members, office holders, or employees.

Our findings in relation to the above matters are as follows:

6.1 Self-approval of purchasing card transactions

We tested a sample of expenditure incurred on the City Council's purchasing cards and noted instances where expenditure was incurred on purchasing cards on behalf of a staff member, and the expenditure was subsequently approved by the same staff member.

This approval process is not considered one-up and is not consistent with guidance issued by the Office of the Auditor-General which recommends that approval of sensitive expenditure is given by a person senior to the person who will benefit or who might be perceived to benefit from the expenditure.

Although in all instances the person approving the expenditure was senior to the purchasing card holder, the expenditure incurred was for the benefit of (or could be perceived to be of the benefit of) the approver, as such, we do not consider the approval one-up.

We note however, that the approval processes followed were in line with the City Council's own policies, and we did not identify any specific concerns regarding the nature of expenditure incurred in these instances.

Recommendation

We recommend that the City Council review its purchasing cards policy to ensure that guidance is included on approval processes in the above situations, and going forward, recommend that all purchasing cards are subject to independent approval from the persons benefiting, or perceived to be benefiting from the expenditure.

Management comment

Agreed

6.2 Rates

Rates are the City Council's primary funding source. Compliance with the Local Government (Rating) Act 2002 in rates setting and collection is critical to ensure that rates are validly set and not at risk of challenge.

We reviewed aspects of the City Council's 2017/18 and 2018/19 rates setting processes and there are no matters to bring to your attention from this review.

6.3 Employee remuneration and severance matters

Employee remuneration and severance payment related matters remain an area of significant public interest.

We reviewed the City Council's employee remuneration and severance payment disclosures (as required by the Local Government Act 2002). We identified errors in these disclosures within the first draft financial statements, for further details refer to Appendix 3. We are satisfied these misstatements were appropriately addressed in the adopted annual report.

6.4 Local Authorities (Members' Interest) Act 1968

The Local Authorities (Members' Interests) Act 1968 controls the making of contracts between councillors and the City Council and prevents councillors from participating in Council matters in which they have a pecuniary interest.

From testing performed throughout the course of the audit we did not identify any breaches of the Local Authorities (Members' Interest) Act requirements.

6.5 Elected members – remuneration and allowances

We reviewed payments to elected members for compliance with the requirements of the Local Government Elected Members' (2017/18) (Certain Local Authorities) Determination. We are satisfied that elected members have been remunerated in accordance with the Determination.

7 Useful publications



Based on our knowledge of the City Council, we have included some publications that the Council and management may find useful.

Description	Where to find it
Client updates	
<p>In March 2018, we hosted a series of client updates. The theme was “Our high performing and accountable public sector”.</p> <p>These included speakers from both Audit New Zealand and external organisations.</p> <p>Relevant sessions for the City Council include:</p> <ul style="list-style-type: none"> • Annual reports and stakeholder expectations; • Procurement and contract management; • Valuing you audit and risk committee; and • Accounting technical update. 	<p>On our website under publications and resources.</p> <p>Link: Client updates</p>
Tax matters	
<p>As the leading provider of audit services to the public sector, we have an extensive knowledge of sector tax issues. These documents provide guidance and information on selected tax matters.</p>	<p>On our website under publications and resources.</p> <p>Link: Tax Matters</p>
Data in the public sector	
<p>The Office of the Auditor-General (OAG) has published a series of articles about how data is being used in the public sector. These cover:</p> <ul style="list-style-type: none"> • functional leadership; • building capability and capacity; • collaboration; and • security. 	<p>On the OAG’s website under publications and resources.</p> <p>Link: Data in the public sector</p>
Audit Committees	
<p>The OAG has released various best practice information on Audit Committees.</p>	<p>On the OAG’s website under “Our Work – Audit Committee Resources”</p> <p>Link: Audit Committee Resources</p>

Appendix 1: Status of previous recommendations

Open recommendations

Recommendation	First raised	Status
Urgent		
Property, plant and equipment – Work in progress		
<p>We recommended that the City Council ensure that completed projects are capitalised in the fixed asset register and are depreciated in a timely manner. We recommended that Project and Asset Managers review the remaining WIP balances on a regular basis to ensure that projects are being capitalised when completed.</p>	2014	<p>We continue to note delays in the capitalisation of work in progress, with a total of \$30.5 million of work in progress identified by management as complete and in use at balance date, but not yet capitalised in the system. For further comments on this year's findings please refer to section 3.2 above.</p> <p>Management comment</p> <p><i>A Capital WIP Assessment has been completed by PWC as part of the Internal Audit programme. This includes recommendations that are being reviewed and incorporated into work programmes. The Business is currently focussed on clearing the \$30 million balance. Capitalisation activity over the last 12 months has cleared a significant amount of older WIP that was complex and time consuming to process. Improvements have been made to monitor processes and reports to better track performance of the entire capitalisation system.</i></p>

Recommendation	First raised	Status
Urgent		
Property, plant and equipment – timely capitalisation of vested assets		
<p>We recommended that asset managers provide information to the finance team on a monthly basis to ensure vested assets are capitalised in a timely manner.</p>	2015	<p>We continue to note delays in the capitalisation of vested assets, with a total of \$22.9 million of assets vested during the period uncapitalised during the period. For further comments on this year’s findings please refer to section 3.2 above.</p> <p>Management comment</p> <p><i>A Capital WIP Assessment has been completed by PWC as part of the Internal Audit programme. This included focus on the capitalisation of vested assets. The recommendations from this assessment have already been implemented.</i></p> <p><i>The recommendations on improving the timeliness of capitalising vested assets is also being implemented and tracked.</i></p> <p><i>Improvements to monitoring performance of the capitalisation system have been developed to better track progress.</i></p>
Necessary		
Review of legislative compliance responsibility		
<p>There has been a number of changes in the City’s Council organisation structure. We noted that no formal review around the legislative compliance responsibility has taken place since the change.</p>	2016	<p>A draft Compliance Management Policy has been developed which assigns primary responsibility for key areas of legislation. We understand this policy will be approved during the 2018/19 financial year.</p> <p>Management comment</p> <p><i>Agreed</i></p>

Recommendation	First raised	Status
Necessary		
Road and traffic network asset revaluations		
<p>We recommend that the City Council review the data integrity of the asset sub system, and where appropriate, ensure that data is corrected within the ledger or sub-ledger to ensure the systems reconcile.</p>	2017	<p>We understand that the City Council has identified the cause of the variance and developed a process to correct the sub-ledger. Due to the volume of adjusting entries required we understand that this was unable to be processed during the 2017/18 year, but is intended to be adjusted during the 2018/19 financial year.</p> <p>Management comment</p> <p><i>Agreed.</i></p> <p><i>Goal is to be completed by 20 December 2018 if the outcome of a trial run in the AX test system is successful.</i></p>
Assets missed from the revaluation		
<p>We recommend that processes are put in place to ensure that all assets within a class subject to revaluation are valued in accordance with the requirements of PBE IPSAS 17.</p>	2017	<p>We noted during our review of the 1 July 2017 Parks and Gardens improvements valuation that not all assets within the class were subject to revaluation.</p> <p>A portion of the assets held for this asset class are held within AX, rather than IPS, and as such, were excluded from the valuation. These assets had a net book value of \$3.6 million at the time of revaluation. It is a requirement under PBE IPSAS 17 that all assets within a class subject to revaluation are revalued.</p> <p>Management comment</p> <p><i>A full review has been undertaken of the AX Parks Asset Register. All assets will be transferred into the IPS PG Book and the AX Book will be closed by 30 June 2019.</i></p>

Recommendation	First raised	Status
Necessary		
Depreciation and amortisation rates		
<p>We recommend that the City Council reviews its accounting policies for depreciation and amortisation of assets. These policies should reflect the expected pattern of consumption of economic benefits or service potential embodied by the asset. The policy should also be consistent with the useful lives noted within valuation reports, and updated for condition assessments performed during the year.</p>	2017	<p>We are pleased to note that policy rates have been aligned to recent valuation reports.</p> <p>However, from testing performed over property, plant and equipment we continued to note instances where assets were depreciated outside of policy rates. The majority of new assets capitalised during the period were within policy rates, however, we noted instances where useful lives assigned to new assets were outside of policy. In addition, we continue to note a number of historic assets outside of policy rates and recommend a review is performed over existing asset books, particularly for those closes of assets that are not subject to revaluation.</p> <p>Management comment</p> <p><i>We have been educating staff on the importance of using the correct policy base lives when capitalising an asset. The focus has been on revalued assets, the next step will be to focus on non-valued books to ensure base lives are within policy ranges.</i></p>
Disposal of assets not recognised in a timely manner		
<p>We recommend that processes are put in place to ensure that assets that are disposed of and reported in the correct accounting period.</p>	2017	<p>We continued to note instances where assets sold during the period were not disposed of in the system. The City Council subsequently accrued for the disposal of assets which it could identify as being sold during the period (a total of \$2.3 million of assets were subsequently disposed of).</p> <p>Management comment</p> <p><i>Agreed. This process will be completed on a quarterly basis.</i></p>

Recommendation	First raised	Status
Necessary		
Lack of formalised impairment assessment processes		
We recommend that a formal impairment review is performed and documented as at balance date each year for all classes of property, plant and equipment, and intangible assets that are not subject to annual revaluations.	2017	<p>We noted improvements in the City Council's impairment processes during the period and note that asset managers were required to consider indicators of impairment as at 30 June 2018. We understand that the City Council is in the process of finalising a management policy which will include guidance on impairment assessments.</p> <p>We noted however, that the enquiries of asset managers during the period did not extend to the City Council's intangible assets. It is a requirement of IPSAS 21 that these assets are also assessed for indicators of impairment at each reporting date.</p> <p>Management comment</p> <p><i>The current Capitalisation Policy has an impairment section; however, the updated policy will have an attachment to help explain the impairment process to non-financial staff.</i></p>
Intangible assets classification		
We recommend that separate asset registers are maintained for each class of intangible assets. Additionally, criteria should be set to clarify initial classification to these asset classes to avoid subsequent reclassification.	2017	<p>There has been no change in the classification of intangible assets within the City Council's fixed asset registers during the period.</p> <p>Management comment</p> <p><i>An intangible logic/rational register has been developed to record the reasoning for classification of intangible assets. This is to help ensure that a consistent logic is applied to similar assets and the classification of intangible assets is standardised.</i></p> <p><i>We believe that the process we currently have does not require us to have separate asset registers for each class of intangible assets.</i></p>

Recommendation	First raised	Status
Beneficial		
Property, plant and equipment – stocktakes not performed		
<p>We recommend that fixed asset stocktakes are completed on a cyclical basis to ensure that assets recorded on the City Council's fixed asset registers remain under Council's control. Any information regarding the condition or state of assets should also be reflected within the fixed asset register following these reviews (that is, impairment or disposal if applicable).</p>	2017	<p>We understand that the City Council is currently considering implementing a fixed asset stocktake on a cyclical basis for those assets which are considered at risk, and are not currently covered by other review procedures (such as inspection during periodic revaluations).</p> <p>Management comment</p> <p><i>Work is being undertaken on the various methodologies for asset validation for different types of assets. This is including the role of asset data validation as part of revaluations as well as more standardised and formal asset stocktakes for some groups of assets.</i></p>
Conflicts of interest policies		
<p>We recommend that additional guidance is included on the differences between pecuniary and non-pecuniary interests, and actual, perceived or potential conflicts of interests as part of upcoming reviews of the Elected Members Code of Conduct and Conflicts of Interest Policy. This will ensure that there is a central point of reference for guidance on these matters.</p>	2017	<p>We note that the Elected Members Code of Conduct was updated in October 2018 and includes guidance on different types of interests (direct financial interest, indirect financial interest, non-financial interest) and also provides guidance on determining whether or not a pecuniary interest exists.</p> <p>The staff Conflicts of Interest Policy was updated in March 2018, however, still does not include guidance on the differences between pecuniary and non-pecuniary interests, and actual, perceived or potential conflicts of interests.</p> <p>Management comment</p> <p><i>The Conflicts of Interest Policy will be updated to include pecuniary and non-pecuniary interests by 30 November 2018.</i></p>

Recommendation	First raised	Status
Beneficial		
Property, plant and equipment – completeness of information in IPS		
<p>We recommended the City Council ensures all the parks, gardens and building assets are added to the IPS system (previously Hansen 8) so information is all maintained and processed within one database.</p>	2015	<p>Certain parks and gardens improvements assets (referred to as PG2) are still recorded in AX, and some duplicates were noted in this asset class by Council between IPS and AX in the parks and gardens asset book.</p> <p>We understand that Council are progressing their review of the PG2 book and intend to transfer assets from this book to IPS, or dispose of assets as appropriate.</p> <p>Management comment</p> <p><i>A full review has been undertaken of the AX Parks Asset Register. All remaining assets will be transferred into IPS PG Book.</i></p> <p><i>Any duplicates will be disposed of as part of the revaluation process.</i></p>
Journals not independently approved		
<p>We recommend that the City Council investigate whether system controls can be implemented to prevent users having the ability to enter and post their own journals.</p>	2017	<p>During our review of journals, we noted that there is no formal manual process to demonstrate review and approval of journals posted to the system.</p> <p>Through our analytics, we identified 24 general ledger journals were prepared and posted by the same user.</p> <p>Management comment</p> <p><i>We do have a formal manual process in place. The Financial Accountant and the Organisational Team Leader review and post</i></p> <p><i>Background: One journals posted in November 2014 (future dated journal) - independent review of journals was still being imbedded.</i></p>

Recommendation	First raised	Status
Beneficial		
		<p><i>20 journals are fixed asset journals that feed in from sub-systems were posted in a period where we had a change in staff. All fixed assets journals are posted by an independent user.</i></p> <p><i>Three journals slipped through our independent review process.</i></p>
Capital expenditure for Groups of Activities		
<p>We recommend that the City Council includes additional disclosure going forward, of its actual versus planned capital expenditure for each Group of Activity. This may include detailing major capital expenditure projects or initiatives. This would help improve transparency by enabling members of the public to see and compare Council's forecast capital expenditure and project timings against actual delivery. As part of this disclosure the City Council should comment on any significant variances between planned and actual expenditure.</p>	2017	<p>During our review of the annual report, we noted that this has not been disclosed at the Group of Activity level, and the only disclosures made are those prescribed within the Funding Impact Statements.</p> <p>Management comment</p> <p><i>A capital expenditure by group of activity statement will be included in future annual reports.</i></p>
Heritage asset classification		
<p>We recommend that a review is performed of the library and heritage asset classes to ensure that assets are classified in the correct asset class.</p>	2017	<p>No review has been performed during the period, due to prioritising other property, plant and equipment improvements.</p> <p>Management comment</p> <p><i>A review of Library data has been undertaken and any errors in classification will be fixed by 20 December 2018.</i></p>

Recommendation	First raised	Status
Beneficial		
Group revaluation timetable not consistent with parent		
<p>We recommend that the City Council ensure that subsidiary entities revaluation timetables are aligned with that of the Group.</p>	2017	<p>There were no revaluations performed by component entities during the current year. We encourage the City Council to discuss future revaluation timetables with Waikato Innovation Growth Limited.</p> <p>Further, we note that Waikato Innovation Growth Limited Group revalues its plant and equipment class of assets, which the City Council does not revalue. The City Council should consider how to treat these revaluation movements in future years to ensure it complies with the requirements of PBE IPSAS 17.</p> <p>Management comment</p> <p><i>Council will communicate with Waikato Innovation Growth Limited to ensure that the subsidiary entity's revaluation timetable for 2018/19 aligns with that of the Group.</i></p> <p><i>Council will ensure the accounting treatment of any subsidiary revaluation movements comply with PBE IPSAS 17.</i></p>
Wastewater – median resolution time for sewerage overflows		
<p>We recommend the City Council perform a quality assurance review of the data extracted from the system, prior to calculating the median resolution time. The classification of services requests should be checked as part of this review.</p> <p>In addition, we recommend that each customer call is given a new service request number in the system, to ensure that all service requests are individually recorded.</p>	2017	<p>From current year testing we noted further issues in the calculation of the median resolution time for sewerage overflows. The following were noted:</p> <ul style="list-style-type: none"> • the initial population did not include any overflows that occurred outside of the pump stations; • the population also included private matters, some service requests where no overflow had occurred; and

Recommendation	First raised	Status
Beneficial		
		<ul style="list-style-type: none"> the population included a few records that did not have a completion/resolution time recorded. <p>We continue to recommend that the population is subject to an appropriate level of quality assurance review before the median resolution time is calculated.</p> <p>Management comment</p> <p><i>Staff have made changes to the coding used in IPS to classify wastewater overflow events which has improved the accuracy of reporting and ensures that private overflow and blockage events are not included in the dataset. Staff have also initiated a regular review of the overflow data in IPS on a monthly basis as a quality assurance step prior to the data being used to calculate the quarterly performance measure results.</i></p>

Matters that have not been followed up during the audit

The following matters have not been followed up during the audit as they relate to recommendations that we are unable to assess progress against until the next revaluation cycle. We will update our findings on these matters as part of future revaluation cycles for these classes of assets.

Recommendation	First raised
Necessary	
Property, plant and equipment – quality of information (Three waters)	
Improve the quality of information in the asset management system by implementing the identified changes in the AECOM revaluation report.	2014
Operational, parks and gardens, restricted and infrastructural land valuations	
Management should review the assumptions applied during the valuation process, as well as the values assigned, and confirm that they are comfortable with these.	2017

Implemented or closed recommendations

Recommendation	First raised	Status
Statement of service performance – interruptions to service measures		
We recommended the City Council implement appropriate processes to ensure that the data within the IPS system (previously Hansen 8) is accurate and evidence made available to place reliance on the system.	2015	This issue has been superseded by the 'wastewater – median resolution time for sewerage overflows' issue above.
Non-taxable hurt and humiliation payments		
Council should review its policy regarding out of court settlements for hurt and humiliation, and consider making a voluntary disclosure to the IRD.	2017	No voluntary disclosure was made by Council; however, from testing performed during the current year no issues were identified in respect of the non-taxable hurt and humiliation payments reviewed during the course of our audit work.

Recommendation	First raised	Status
Work in progress		
We recommend that regular reconciliations between the work in progress report and the general ledger are performed. Any reconciling items should be explained and corrected within the general ledger if required.	2017	The WIP disclosure in the current year is driven from the general ledger, rather than the WIP model – as such, no discrepancies were noted. From testing performed we identified instances where WIP was classified to the wrong class of assets, however these differences were not considered material to the financial statements.
Vested assets		
We continue to recommend that the delays in capitalisation are addressed.	2017	This issue has been closed and combined with the ‘property, plant and equipment – timely capitalisation of vested assets’ issued above.
Work in progress review processes		
We recommend the City Council review its processes to determine if a more time efficient solution can be implemented to monitor the status of work in progress and ensure it is correctly classified at year end.	2017	We did not identify a similar volume of classification issues during our testing of work in progress in the current year. Our recommendations regarding timeliness of capitalisation remain outstanding.
Property, plant and equipment – general note disclosure issues		
We recommend the City Council review its process for preparing the property, plant and equipment note to ensure it is internally consistent and logical going forward.	2017	We did not identify any significant internal inconsistency issues in the property, plant and equipment note disclosure in the current year.
Operating lease as lessor – lack of supporting documentation		
We recommend the City Council maintain appropriate supporting documentation for all rental arrangements, including notices of rent reviews.	2017	No issues were identified from the sample of leases reviewed during the current year.
Water supply – median resolution time for urgent callouts		
We recommend that processes are put in place to ensure that the City Council only reports against those requests where a full loss of water is experienced.	2017	All service requests tested during the current year related to a complete loss of water.

Recommendation	First raised	Status
Changes to retention requirements under the amended Construction Contracts Act		
<p>We recommend the council review current accounting processes and implement changes as necessary to comply with the requirement for keeping proper records of all retention money. This may include considering opening separate accounts for retentions at least for larger construction projects; ensure that processes are put in place to manage requests from contractors to inspect accounting records; review the standard form construction contracts to ensure that the City Council does not contain “prohibited provisions” in respect of the retention money and make amendments as necessary; and consider whether to accept alternative means of security (for example, retention bonds) for remedying of defects instead of cash retentions.</p>	2017	<p>We understand that all construction contracts were updated during the 2018 year, including legal review of retention provisions. Following this review we understand that all new contracts have moved to ‘bond in lieu of retentions’ rather than ‘retentions’.</p>
Completeness of call and service requests		
<p>We recommend that improvements could be made to linkages between the customer calls made and service requests generated so a reconciliation can be performed to give assurance that all calls have been captured for each performance measure.</p>	2016	<p>We understand that the City Council is unable to action this recommendation due to current limitations in its call centre and service request systems.</p> <p>Management are satisfied that adequate training has been provided to staff to ensure calls are being captured and correctly classified.</p>

Appendix 2: Uncorrected misstatements

Current year misstatements	Reference	Statement of comprehensive revenue and expense		Statement of financial position	
		Dr \$000	Cr \$000	Dr \$000	Cr \$000
City Parks/Infrastructure Alliance contract	1	1,716	1,716		
Estimated understatement of depreciation	2	1,235			1,235
Total parent and group		2,951	1,716	-	1,235

Explanation of uncorrected misstatements

- 1 This adjustment relates to revenue arising from the City Parks contract with the Infrastructure Alliance. We believe the amounts are internal in nature and should be reversed in the financial statements, however, the City Council believe the current treatment is in line with the requirements under PBE IPSAS.
- 2 This represents our estimation of the depreciation impact on assets not capitalised in a timely manner in the fixed asset systems as at 30 June 2018. We understand that the City Council estimates a lower depreciation impact, and are satisfied that this depreciation will be subsequently recognised, or addressed as part of future revaluations.

Uncorrected disclosure deficiencies

Detail of disclosure deficiency	Management's explanation for not correcting
Statement of cash flows	
<p>Payments to suppliers have not been separately identified and consolidated in the Group statement of cash flows, and have been incorrectly presented as payments to employees.</p> <p>Cash flows applied to loan repayments are incorrect, as they include dividend payments from Waikato Innovation Park Limited. These payments do not meet the definition of a loan repayment, and should be eliminated in the Group accounts to the extent that they were paid to the City Council and its subsidiaries.</p>	<p>This detail was not available at the time of preparation and is considered immaterial. We will work with our CCOs to ensure this level of detail is provided in future.</p>

Detail of disclosure deficiency	Management's explanation for not correcting
Note 28 – Contingencies	
<p>Paragraph 100(a) of PBE IPSAS 19 <i>Provisions, contingent liabilities and contingent assets</i> requires the disclosure of the estimated financial effect for each class of contingent liabilities. The City Council has not disclosed its estimate of the financial effect of non-compliances with the Holidays Act 2002. The City Council has estimated this impact at \$727,426.</p>	<p>This is a high level assessment and was not able to be accurately estimated at the time of preparation. As such, we have chosen not to disclose this estimate.</p>
Note 29 – Equity	
<p>Revaluation reserves arising from the City Council's 50% share of Waikato Regional Airport Limited should be presented on a class of assets basis, however, have been allocated only against the buildings revaluation reserve within the Group financial statements.</p> <p>As per Waikato Regional Airport Limited's annual report these reserves should be split as follows:</p> <ul style="list-style-type: none"> • land - \$14,117,500; • buildings - \$2,046,000; • fencing - \$116,000; • reticulated systems - \$388,500; • runways, aprons and taxiways - \$6,194,000; and • other paved areas - \$580,500. 	<p>This presentation issue was identified late in the annual report preparation process and is consistent with the prior year's presentation. We intend to review the classification of reserves and make any resulting correction in the next annual report. This inconsistency does not materially impact on our financial position.</p>
Note 29 – Equity	
<p>The Group equity note is internally inconsistent, and differs by \$520,000 to the balance presented on the face of the statement of financial position.</p> <p>Revaluation reserves and restricted and Council created reserves total \$1,859,322,000 as per note 29, however total other reserves as per the statement of financial position are \$1,859,842,000.</p>	<p>This inconsistency has arisen this year and was not identified until late in the annual report preparation process. We intend to review the variance and make any resulting correction in the next annual report. This inconsistency does not materially impact on our financial position.</p>

Appendix 3: Corrected misstatements

Current year misstatements	Reference	Assets	Liabilities	Equity	Financial Performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
		\$000	\$000	\$000	\$000
Depreciation correction	1	(541)			541
Loss on disposal of land under roads	2	(803)			803
Gain on disposal of land under roads	2	715			(715)
Total parent and group		(629)			629

Explanation of corrected misstatements

- 1 During testing of additions we identified a number of assets which had not been depreciated during the period. Following a review an adjustment of \$540,967 was required to catch up depreciation and amortisation on the following asset classes:
 - Computer software
 - Infrastructure modelling
 - Parks and gardens improvements
 - Plant and equipment
 - Finance leases
 - Water treatment plant
- 2 The City Council had not processed a number of land sales during the period due to difficulties identifying the corresponding asset in its asset management systems. The City Council subsequently accrued the disposal of these assets.

Corrected disclosure deficiencies

Detail of disclosure deficiency
Consolidation
<p>The split of total comprehensive revenue and expense attributable to Council and the non-controlling interest was incorrect, and inconsistently stated throughout the draft financial statements.</p> <p>Elimination of \$550,000 of grants from Vibrant Hamilton Trust was incorrectly classified against donations, rather than capital contributions revenue.</p> <p>Leases as lessee arising from Waikato Innovation Growth Limited (group)'s lease of land at Ruakura Road totalling \$417,000 were not initially consolidated into the disclosure in note 11.</p> <p>Revaluation reserves totalling \$14,338,000 arising from the City Council's 50% share of Waikato Regional Airport Limited were incorrectly classified as 'Fair value through other comprehensive revenue and expense reserve'. These were subsequently reclassified to 'Property revaluation reserves'.</p> <p>Key management personnel disclosures were not presented for the group in the first draft.</p>
Statement of cash flows
<p>Cash flows arising from water by meter revenue and NZTA revenue were incorrectly treated in the draft cash flow statement. The following adjustments were recognised:</p> <ul style="list-style-type: none"> • Cash flows from rates revenue were increased by \$513,000 • Cash flows from fees and charges were decreased by \$1,855,000 • Cash flows from subsidies and grants were increased by \$1,342,000
Financial prudence – debt control
<p>The reported result for debt control (as required by the Local Government (Financial Reporting and Prudence) Regulations 2014) was incorrectly stated at 93% in draft one, and was subsequently corrected to 91%.</p>
Other revenue
<p>Capital contributions totalling \$6,640,000 were incorrectly presented as revenue from bequests and donations in the draft one financial statements.</p>
Classification of cash and cash equivalents/term deposits
<p>The City Council's term deposits were incorrectly classified in draft one, with one term deposit totalling \$1 million incorrectly included as cash and cash equivalents. As the original investment term exceeded three months this deposit is required to be presented within other financial assets.</p>
Classification of community loans
<p>The current/non-current split of the City Council's community loans was incorrect in draft one as the full balance was presented as a non-current asset. However, \$18 million of loans relating to Accessible Properties and \$2 million of loans relating to Warehouse Storage are expected to be settled in the coming 12 month period, as such, these were required to be classified as current in the financial statements.</p>

Detail of disclosure deficiency
Classification of investment in Civic Assurance
The City Council's investment in Civic Assurance was classified as an investment in CCOs and similar entities in draft one. As per section 6(4) of the Local Government Act 2002 Civic Assurance (previously known as NZ Local Government Insurance Corporation Limited) is not a CCO. The investment balance was subsequently reclassified as 'other investments'.
Property, plant and equipment
Adjustments made within the property, plant and equipment note for work in progress not yet capitalised were incorrectly classified in the first draft, an adjustment of \$2.8 million was required between water treatment stations and water systems.
Property, plant and equipment – Work in progress
PBE IPSAS 17 <i>Property, plant and equipment</i> paragraph 89(b) requires the disclosure of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction. The City Council's disclosures in the first draft financial statements were incorrect, as the disclosure represented the change in work in progress during the year, rather than the closing work in progress balance as at 30 June 2018.
Property, plant and equipment – Commitments
Capital commitment disclosures were understated in the first draft financial statements by \$3.8 million.
Property, plant and equipment – Significant accounting policy judgements
The first draft financial statements omitted the City Council's significant accounting policy judgements in relation to classification of property.
Property, plant and equipment – Impairment
PBE IPSAS 21 requires disclosure of the amount of impairment losses on revalued assets. Impairment losses were disclosed as a revaluation adjustment in the first draft financial statements, rather than an impairment. PBE IPSAS 21 also requires disclosure of the events and circumstances that led to the recognition of the impairment loss and the nature of the asset impaired – these disclosures were omitted in draft one.
Severance payment disclosures
Severance payment disclosures included in note nine were understated by \$3,000 in draft one. In addition, the draft one disclosure also incorrectly disclosed the number of payments made (instances where a taxable and non-taxable payment were provided to the same employee were incorrectly presented as two separate severance payments in draft one).
Employee remuneration bands
Schedule 10, clause 32A of the Local Government Act 2002 requires the disclosure of employee staffing levels and remuneration. The City Council's disclosures in draft one were incorrect as staff employed in more than one position were counted multiple times by the City Council.

Detail of disclosure deficiency
Employee entitlements
Critical accounting estimate and assumption disclosures in note 25: employee entitlements were not updated from 2016/17 in the first draft financial statements.
Investment property
Note 23: Investment property, incorrectly included reference to valuation of Group investment property as at 30 June 2018 despite there being no investment property held by components as at 30 June 2018.
Operating leases as lessor
Operating leases as lessor were understated by \$1,870,000 in draft one due to the exclusion of the Seddon Park leases, and incorrect rates applied for the FMG Stadium naming rights lease.
Contingencies
Contingencies arising from weathertight homes legal proceedings were understated by \$400,000 in the first draft financial statements.
Contingent liability disclosures relating to Carter Holt Harvey did not reflect the current position of proceedings in the first draft financial statements.
The first draft financial statements did not include disclosure of contingent liabilities arising from Holidays Act 2003 compliance matters.
Trade and other receivables
Receivables from parking debtors of \$1.4 million were incorrectly classified as non-exchange receivables in draft one. However, the City Council classifies parking revenue as an exchange transaction, as such, the presentation of the receivable was required to be reclassified.
Financial instruments
Disclosures relating to valuation techniques with significant non-observable inputs (level 3) were incorrect in the first draft as they did not include amounts recognised in other comprehensive revenue and expense during the period of \$845,000 nor did they include sales of \$2,079,000.
Credit rating disclosures for cash and cash equivalents and term deposits were incorrect in the first draft and did not reflect correctly reflect the split of credit rating by counterparty.
Interest rate risk sensitivity analysis disclosures were omitted for the City Council's derivative financial instruments in draft one.
Interest rate risk sensitivity analysis disclosures for the City Council's secured loans were overstated by \$2,850,000 (parent) in the first draft financial statements.
Accounting policies – Standards issued and not yet effective
The first draft financial statements did not include disclosure of the impact of PBE FRS 48 <i>Service performance reporting</i> . Disclosure of standards issued but not yet effective is required by PBE IPSAS 3 paragraphs 35-36.

Detail of disclosure deficiency
Our financial strategy
Certain prior year and budgeted figures disclosed within the 'Our financial strategy' section were incorrect in the first draft, and did not agree to prior year published annual reports or Long term plans.
Audit fees
Audit fee disclosures were incorrect in draft one, and did not equal amounts paid or payable for services provided by Audit New Zealand during the financial year.

Corrected performance reporting misstatements

Detail of disclosure deficiency
Arts and culture
<p>The reported results for the following measures were initially reported as 'no data' and were corrected to 'zero':</p> <ul style="list-style-type: none"> • The number of people attending events at Founders Theatre • The total number of hire days at Founders Theatre
Parks and green spaces
<p>The reported result for the following measure was inaccurate due to issues identified in the data collection. The report result was subsequently corrected to 'no data':</p> <ul style="list-style-type: none"> • The number of hours of play provided per week by the Council's sports fields during winter.
Transport
<p>The current year and prior year reported result for the change from the previous financial year in the number of deaths and serious injuries on Hamilton's local road network required updating, based on the most up to date information available from the Crash Analysis System.</p>
Community support
<p>The reported result for the value of services leveraged for every \$1 of community grant funding was incorrectly reported as \$14.89 per \$1 in draft one, and was subsequently corrected to \$14.40 per \$1.</p>
Sewerage – compliance with resource consents
<p>The disclosures relating to Council's compliance with its resource consents for discharge from its wastewater system did not include commentary around the significant overflow event that occurred in February 2018 and is still under investigation. Additional disclosure was subsequently added regarding this event.</p>
Sewerage – median response times for sewerage overflows
<p>The result reported for the median response times following when the Council attends to sewerage overflows resulting from a blockage or other fault initially included response times that related to instances where no overflow occurred. The population was subsequently reviewed, following which the reported result was amended to 2.4 hours.</p>
Sewerage – dry weather overflows
<p>The result reported for the number of dry weather sewerage overflows initially included response times that related to instances where no overflow occurred. The population was subsequently reviewed, following which the reported result was amended to 3.03 overflows per 1,000 connections.</p>

Appendix 4: 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 financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency that is immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the City Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>During the audit two non-influential independence mitigations were managed. These have been reported to the Audit and Risk Committee.</p> <p>In addition to the audit we have audited the City Council's 2018-28 10-Year Plan; performed a limited assurance engagement related to the City Council's debenture trust deed; and performed assurance work related to Victoria on the River and Peacocke's procurement. These engagements are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the City Council or its subsidiaries.</p>
Fees	<p>The audit fee for the year is \$220,000, as detailed in our Audit Proposal Letter.</p> <p>Other fees charged in the period are \$251,730, for:</p> <ul style="list-style-type: none"> • Recovery of costs associated with the 2016/17 audit - \$25,000 • Audit of the 2018-28 Long term plan - \$184,500 • Debenture trust deed limited assurance engagement - \$8,000 • Victoria on the River assurance engagement - \$31,430 • Peacocke's procurement - \$2,800.

Area	Key messages
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 or its subsidiaries 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 or its subsidiaries during or since the end of the financial year.</p>

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Attachment 1

Item 12

Resolution to Exclude the Public

Section 48, Local Government Official Information and Meetings Act 1987

The following motion is submitted for consideration:

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

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

General subject of each matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
C1. Confirmation of Audit and Risk Committee Meeting Public Excluded Minutes - 18 September 2018) Good reason to withhold information exists under Section 7 Local Government Official Information and Meetings Act 1987))	Section 48(1)(a)

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

Item C1. to prevent the disclosure or use of official information for improper gain or improper advantage Section 7 (2) (j)