
Audit & Risk Committee

OPEN MINUTES

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

PRESENT

Members: Paul Connell - Chair Person
Mayor Andrew King
Cr Garry Mallett
Cr Dave Macpherson
Cr Paula Southgate
Cr Rob Pascoe

Attendees: Cr Siggie Henry
Richard Briggs – Chief Executive
David Bryant – General Manager Corporate
Tracey Musty – Financial Controller
Lance Vervoort – General Manager Community
Sean Murray – General Manager Venues Tourism and Major Events
Kelvyn Eglinton – General Manager City Growth
Barnaby Pace - Risk Manager
Andre Chatfield – Risk and Insurance Manager
Mike Lamb – Chief Information Officer
Pieter Bronkhorst - Chief Technology Officer
Leon Pieterse – Audit Director of Audit NZ

Governance Advisors: Lee-Ann Jordan – Governance Manager
Amy Viggers - Committee Advisor

1. Apologies

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

2. Confirmation of Agenda

Resolved: (Crs Mallett/Macpherson)
That the agenda is confirmed.

3. **Declarations of Interest**

No members of the Council declared a Conflict of Interest.

4. **Public Forum**

No members of the public wished to speak.

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

Resolved: (Cr Mallett/Mayor King)

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

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

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

Resolved: (Crs Mallett/Macpherson)

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

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

7. **Organisational Improvement Register Report**

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

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

Resolved: (Crs Pascoe/Southgate)

That the Audit and Risk Committee receives this report.

8. **Risk Management Report**

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

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

Resolved: (Mayor King/Cr Mallett)

That the Audit and Risk Committee

a) receives the report;

- b) noting that the risks are going to be discussed in detail on the 6th of July; and
- c) recommend that the financial risk will be included in the report going forward noted on the register.

9. Health and Safety Report

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

Resolved: (Mayors King/Mallett)

That the Audit and Risk Committee receives the report.

The meeting adjourned (11.16am-11.29)

10. Audit NZ Engagement and Arrangements Letter June 2017

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

Resolved: (Crs Mallett/King)

That the Audit and Risk Committee:

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

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

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

Resolved: (Mayors King/Southgate)

That the Audit and Risk Committee:

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

Cr Macpherson dissenting

12. Resolution to Exclude the Public

Resolved: (Mr Connell/Mayor King)

Section 48, Local Government Official Information and Meetings Act 1987

The following motion is submitted for consideration:

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

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

General subject of each matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
C1. Audit and Risk - Public Excluded Minutes - 14 March 2017) Good reason to withhold information exists under Section 7 Local Government	Section 48(1)(a)
C2. PWC - Internal Audit Update) Official Information and Meetings Act 1987	
C3. Legal Update from Tompkins Wake)	
C4. Overdue Debtor - Review of Account)	

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

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

The meeting went into public excluded session at 12.30pm.

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

The meeting was declared closed at 1.33pm.

Committee: Audit & Risk Committee

Date: 13 June 2017

Report Name: PWC - Internal Audit Update

Author: Tracey Musty

Report Status	<i>This report is taken as a publicly excluded item to enable Council to carry out commercial activities without disadvantage.</i>
Strategy, Policy or Plan context	<i>Internal Audit Plan</i>
Financial status	<i>There is budget allocated. Amount \$150,000 per annum (5 year contract)</i>
Assessment of significance	<i>Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendations is not considered to have a high degree of significance</i>

1. Purpose of the Report

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

3. Discussion

4. Status of internal audit engagements:

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

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

6	Q4	Procurement	In progress. Fieldwork underway.
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6. Engagements in progress:

7. Cyber security: In response to an earlier report on cyber risk presented to the Audit and Risk Committee (attachment 1) a cyber security internal audit was requested as part of the 2017 internal audit plan.

Internal audit coverage of cyber risks will be addressed in two parts:

- An organisational-wide cyber governance assessment to determine whether governance mechanisms in place are effective and fit for purpose. Draft findings for this piece of work have been reported to management highlighting opportunities for improvement.
- An internal audit over the design and operation of cyber security controls. Planning and scoping has commenced.

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

- Data analysis performed across specific payroll, procurement and conflict of interest areas.
- A high level data maturity assessment to assist management in prioritising the areas of focus to enhance their current data governance framework.
- Journal analysis.
- Purchase order and vendor analysis.

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

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

Recommendation from Management

That the Audit and Risk Committee receive the report.

11. Attachments

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

Signatory

Authoriser	David Bryant, General Manager Corporate
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Committee: Audit & Risk Committee **Date:** 23 March 2016
Report Name: Cyber Security Risk Update **Author:** Charles Burns

Report Status	<i>This report is taken as a publicly excluded item to prevent the disclosure or use of official information for improper gain or improper advantage.</i>
Strategy, Policy or Plan context	<Enter Strategy, Policy or Plan>
Financial status	<i>There is/is not budget allocated Amount \$<enter amount></i>
Assessment of significance	<i>Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendations is/is not considered to have a high degree of significance</i>

1. Purpose of the Report

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

3. Executive Summary

4. There has been a significant increase of public reporting of cyber-attacks in the media which has triggered conversation in numerous board rooms and executive level meetings. Hamilton City Council (HCC) is not immune to these threats.
5. HCC uses a layered approach to detection and prevention of cyber-attacks including a number of hardware, software and process based approaches for monitoring and reacting to attacks.
6. HCC's security practices are audited by both Audit NZ and AMP (formerly known as Kaon Technologies) on an annual basis.
7. IS Executive Governance receives reports on the annual security audit and penetration testing as performed by an external security consultant and any cyber-attacks should they occur.
8. Information Services takes a prudent approach given the operational budgets and the perceived risk.
9. Audits have recently been performed in the primary HCC computer network as well as the water treatment and waste water computer networks.
10. Treatments prescribed by these audits to mitigate cyber security risk where accepted by IS Executive Governance are folded into the Information Services programme of work.

Recommendation/s from Management

- a) That the report be received

11. Attachments

12. There are no attachments for this report.

13. Background

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

15. Discussion

16. Cyber Security and security of technology systems are one of the key tasks assigned to the Information Services unit. Information Services follows an approach of prevention, detection, response, verification and reports on the matter to the Information Services Executive Governance Board.
17. Cyber threats were discussed in a previous report and this threat group has not changed.
18. HCC have been making investments in security and will need to continue the investment as the threat continues to grow.
19. Mitigation of cyber intrusions starts with the 4 mitigation steps that prevent 85% of attacks according to the Australian Signals Directorate and are mandatory for all Australian Government Agencies.
20. The 4 steps are application whitelisting, patching operating systems, patching applications and restricting administrative privileges.
21. This forms the very basic components of the cyber security approach at HCC.

22. Cybersecurity Approach

23. HCC manages the security environment with its managed services partner, Fujitsu.
24. The HCC cyber security approach includes proactive measures to reduce the likelihood of attack.
25. This is achieved by maintaining the level of currency to the IT infrastructure and application systems and through the implementation of security specific products and tools.
26. Security is part of Information Services operational responsibilities and has a key focus in monthly operational reporting.
27. HCC undergoes regular annual external security audits as was done in October 2015 by an external security consultant and the results are to be presented to IS Executive Governance.
28. The report is currently being worked through by the Technical & Operations team along with their counterparts at Fujitsu.
29. A separate audit of the water treatment and waste water network has also been completed by an external agency. We are currently awaiting the results of this audit. These results will be presented to IS Executive Governance.

30. Risk Mitigation

31. In the case of a cyber-attack all council servers and databases are backed up nightly.
32. Restores can be effected within a 6 hour timeframe.
33. The restore process is tested across a sample of servers and databases on a monthly basis.

34. Assurance and Reporting

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

Signatory

Authoriser	David Bryant, General Manager Corporate
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