Waikato
DISTRICT COUNCIL
Te Kaunihera aa Takiwaa o Waikato

Agenda for a meeting of the Audit & Risk Committee of the Waikato District Council to be held in Committee Rooms 1 and 2, District Office, 15 Galileo Street, Ngaruawahia on **WEDNESDAY 23 MARCH 2016** commencing at **1.00pm.**

*Information and recommendations are included in the reports to assist the Board in the decision making process and may not constitute Council's decision or policy until considered by the Board.*

GJ Ion
**CHIEF EXECUTIVE**
Agenda2016/S&F/160323 Audit&Risk OP docx

*Open Meeting*

| | |
|---|---|
| **To** | Audit & Risk Committee |
| **From** | GJ Ion |
| | Chief Executive |
| **Date** | 14 March 2016 |
| **Prepared By** | RJ Gray |
| | Council Support Manager |
| **Chief Executive Approved** | Y |
| **DWS Document Set #** | 1474337 |
| **Report Title** | **Confirmation of Minutes – December 2015** |

1. **Executive Summary**

   To confirm the minutes of a meeting of the Audit & Risk Committee held on Thursday 10 December 2015.

2. **Recommendation**

   **THAT the minutes of a meeting of the Audit & Risk Committee held on Thursday 10 December 2015 be confirmed as a true and correct record of that meeting.**

3 **Attachments**

   Minutes

**MINUTES** of a meeting of the Audit & Risk Committee of the Waikato District Council held in Committee Rooms 1 and 2, District Office, 15 Galileo Street, Ngaruawahia on **10 DECEMBER 2015** commencing at **1.00pm.**

Present                 Ms M Devlin (Chairperson)
                        His Worship the Mayor Mr AM Sanson
                        Cr JC Baddeley
                        Cr J Gibb
                        Cr WD Hayes
                        Cr J Sedgwick


Attending               Mr GJ Ion (Chief Executive)
                        Mr TG Whittaker (General Manager Strategy & Support)
                        Mrs RJ Gray (Council Support Manager)
                        Ms A Diaz (Finance Manager)
                        Mr K Abbott (Organisational Planning & Project Support Team Leader)
                        Mr V Ramduny (Strategy & Planning Manager)
                        Mrs J Whittaker (Quality Management Coordinator)
                        Mrs K Jenkins (Project Management Advisor)
                        Mr A Kuyper (Project Management Advisor)
                        Mr M James (Technical Manager, Waikato District Alliance)
                        Mr K Lockley (Zero Harm Manager)


A&R1512/01              **APOLOGIES AND LEAVE OF ABSENCE**

                        All members were in attendance.

                        It was noted that Mr Kotze and Mr Pieterse (Audit New Zealand) were unable to attend this meeting owing to attendance at another meeting. Mr Pieterse had provided feedback directly to the Chair ahead of the meeting.


A&R1512/02              **CONFIRMATION OF STATUS OF AGENDA ITEMS**

A&R1512/02/1            **Resolved: (Crs Sedgwick/Baddeley)**

                        **THAT the agenda for a meeting of the Audit & Risk Committee held on Thursday 10 December 2015 be confirmed and all items therein be considered in open meeting with the exception of those items detailed at agenda item 8 which shall be discussed with the public excluded;**

                        **AND THAT in Accordance with Standing Order 3.7.2 the order of**

business be changed with agenda item 7.1 *[Strategic Risk Register]* considered as the first item followed by agenda item 6.7 *[Review of Sensitive Expenditure Policy].*

**CARRIED on the voices**

**A&R1512/03**    **DISCLOSURES OF INTEREST**

There were no disclosures of interest.

**A&R1512/04**    **CONFIRMATION OF MINUTES**

**Resolved:  (Crs Baddeley/Sedgwick)**

**THAT the minutes of a meeting of the Audit & Risk Committee held on 29 September 2015 be confirmed as a true and correct record of that meeting.**

**CARRIED on the voices**

**A&R1512/05**    **MATTERS ARISING FROM THE MINUTES**

A&R1512/05/1    Procurement Policy & Manual *[A&R1509/11/2]*

The General Manager Strategy & Support advised that the Executive Team had reviewed the Procurement Strategy that would now go to Council for consideration by the members.

**A&R1512/06**    **REPORTS – For Discussion and Decision**

A&R1512/06/1    Strategic Risk Register Update
Agenda Item: 7.1

The Project Management Advisor took the report as read and noted that she had initiated meetings with stakeholders and over the next six months would establish a project where staff training packages are included and have the stakeholders more involved.  An operational risk register should be established by July 2016.

The Chair summarised the discussion by advising that work was in progress, there was some way to go with plans in action to engage the business and driving the risk reporting culture.  Formal planning of training packages over the next six months is part of the process now.

**Resolved:  (Crs Hayes/Gibb)**

**THAT the report of the General Manager Strategy & Support -** *Strategic Risk Register Update* **- be received.**

**CARRIED on the voices**

A&R1512/06/2     Review of Sensitive Expenditure Policy
Agenda Item:  6.7

The Quality Management Coordinator took the report as read.

The General Manager Strategy & Support advised that the policy was of interest to Audit New Zealand where Audit New Zealand reviewed the current version of the policy as part of this year's audit.  This revised policy will now go to the Remuneration Authority for review and then onto  Council for approval.

**Resolved:  (Crs Baddeley/Sedgwick)**

**THAT the report of the General Manager Strategy & Support –** *Review of Sensitive Expenditure Policy* **- be received;**

**AND THAT the revised policy be referred to Council for approval and the existing policy rescinded.**

**CARRIED on the voices**

A&R1512/06/3     Audit & Risk Committee Key Achievements
Agenda Item: 6.1

The General Manager Strategy & Support advised that the report reflected the presentation provided to Council.

**Resolved:  (Crs Gibb/Hayes)**

**THAT the report of the General Manager Strategy & Support –** *Audit & Risk Committee Key Achievements* **– be received.**

**CARRIED on the voices**

A&R1512/06/4     Health & Safety Management Framework
Agenda Item: 6.2

The Zero Harm Manager took the report as read.

Key highlights from the report were:

- Executive Team was on board with the critical risks across the business.
- There was a good understanding of the risks.
- A number of zero harm workshops had been held with staff.

-        Documentation had been sourced from other organisations and tailor-made to suit the risks across Council business.

The General Manager Strategy & Support confirmed, as evidenced in the report, that a significant amount of work is being carried out currently, and there had recently been training on the new legislation undertaken and coordinated by LASS. Most Councillors attended the training along with the 2nd and 3rd tier managers to get an understanding of what the new legislation means.

He also advised of an initiative to have a zero harm moment on a random monthly basis, by sending an email to all staff advising to spend a moment to think about something meaningful to them from a zero harm perspective.

The Chief Executive advised that some independent site audits had been undertaken last week and a report is currently being prepared for Council. More audits are planned for 2016 to cover a range of the Council activities, eg water treatment plants, offices, libraries, dog pounds and areas in Raglan.

He also advised that independent of those audits, some H&S conversations were being carried out and that the Executive Team had visited the dog pound in Ngaruawahia and discussed with them areas that needed attention.

It was noted that steps had been taken around libraries and offices where staff had been threatened, by providing training on dealing with difficult customers and mental health issues so they are better prepared for these events.

Reports have been provided on near misses and hazards, eg from Alliance and subcontractors. The goal set for staff around near miss reporting is to raise the level of awareness of health and safety. In the New Year, Bware software will be available to help engage staff with zero harm. All Council documentation will be updated for the pending new legislation. Once systems and processes are in place, training will commence. It was noted that a Risk Training Awareness Programme would be held in February 2016 for Councillors that will then cascade down through the business.

It was noted that a culture is starting to evolve driven by team leaders and the Executive and that near misses were being recorded. From a zero harm perspective, over speeds have dramatically reduced. Staff recorded on the list are made aware of any over speed.

Critical risks across the business are of utmost concern and it was good to see an emphasis placed on this area. The challenge is not to lose sight of what the critical risks are. The Roading Alliance is an area of high risk that we need to be aware of and the performance of contractors needs to be monitored carefully.
The Chair summarised the discussion and noted that Worksafe is currently working on producing the regulations to support the new legislation. Council also needed to be aware of these and ensure that the new regulations were incorporated into the Health and Safety Management Framework. Positive comments had been received from the top of the organisation and the challenge now is to ensure that this culture is replicated throughout the

organisation.

**Resolved: (Crs Sedgwick/Gibb)**

**THAT the report of the Human Resource Manager –** *Health & Safety Management Framework* **– be received.**

<u>**CARRIED** on the voices</u>

A&R1512/06/5     <u>Insurance Programme Update 2015</u>
Agenda Item: 6.3

The Finance Manager took the report as read and advised that there were savings expected in terms of premiums across the LASS umbrella, and to expect some movement with motor vehicle cover. She advised that overall a $19,140 premium saving was achieved and funds would be used for other risk insurance items.

**Resolved: (Crs Baddeley/Sedgwick)**

**THAT the report of the General Manager Strategy & Support** *– Insurance Programme Update 2015* **- be received;**

**AND THAT the Committee supports the renewal of Council's insurance programme, as detailed in the report.**

<u>**CARRIED** on the voices</u>

A&R1512/06/6     <u>Insurance Loss Modelling</u>
Agenda Item: 6.4

The General Manager Strategy & Support provided an overview of the report. He advised that as a collective of LASS Councils, this work would improve the quality of the information in the risk assessment programmes. It had been commissioned with other councils to get a better understanding on what the true quantum of risks might be. The report shows the scope of works that Aon is undertaking for Council, with the outcome being a better perspective of our exposures and to continue to refine the programme to mitigate those risks.

He advised that the timing noted in the report due by 10 October 2015 had been extended and that the report had not been provided to date. The General Manager Strategy & Support advised he would confirm the report timing but expected it to be available soon.

It was noted that work like this is important given our changing environment risk profile. It will help Council remain current.

The General Manager Strategy & Support is to circulate the current fees paid to AON.

**Resolved: (Crs Gibb/Hayes)**

**THAT the report of the General Manager Strategy & Support –** *Insurance Loss Modelling* **- be received.**

**CARRIED on the voices**

A&R1512/06/7   Final Audit Management Report for Year End 30 June 2015
Agenda Item: 6.5

The Organisational Planning & Project Support Team Leader took the report as read. He advised that the final audit management reports and interim reports from Audit New Zealand had been received and that a lot of work had taken place against various items. He expected that in the next audit round these would be closed off.

As the Auditors were unable to attend the meeting the Chair read out to the members a note provided by Mr Pieterse that he was comfortable with responses received, and a good summary was provided as discussed with Mr Kotze and the Organisational Planning & Project Support Team Leader. The Chair expressed concern with the apparent lack of traction on some matters and she would like these addressed. The General Manager Strategy & Support advised that there are mitigation measures in place, that time is required and that he is confident that the next time Audit New Zealand review these items they will be removed, eg service request project, of which the benefits are being seen now.

It was acknowledged that further work was required with Council's Asset Valuers to drive the appropriate level of accountability to them with regard to quality.

The Finance Manager advised that her view of the audit process this year was much smoother and there was a very good working relationship with Audit New Zealand that seemed to improve each year.

Following discussion on the procedures for terminating users, the Information Management Manager advised that the issues had been resolved.

The Chair requested an action for the outstanding items to be addressed.

**Resolved:  (Crs Sedgwick/Baddeley)**

**THAT the report of the General Manager Strategy & Support -** *Final Management Report for Year Ended 30 June 2015* **- be received.**

**CARRIED on the voices**

A&R1512/06/8   Cyber Security Review
Agenda Item:  6.6

The General Manager Strategy & Support provided a brief overview advising that a detailed report had since been received and was currently being

reviewed.  Once the report had been responded to, it would be circulated to the next meeting along with the responses.

The Information Management Manager advised that the report was relatively positive however there was a need to focus on policy and procedures.

In response to ensuring that Council requirements had been defined, the Information Management Manager advised that being a Council under LGA and LGOIMA, requirements were different to other organisations. There are no firm standards or guidelines that can be applied therefore staff need to look at the information and handle it appropriately and confidently so that meets Council requirements.

The Chair advised that it was important to focus on the real risks of cyber security issues, eg password control and what actions we take on this.   A key is to define what information Council could not  afford to lose.  She requested that the report be read and reviewed by management and provide responses where actions are necessary.  She did not have complete confidence in the report that was commissioned and would have preferred to have seen the high points of risk identified, as risk must be managed and mitigated.

**Resolved:  (Crs Gibb/Baddeley)**

**THAT the report of the General Manager Strategy & Support – *Cyber Security Review* - be received.**

**CARRIED on the voices**

**A&R1512/07**          **REPORTS – Standing Items**

A&R1512/07/1          Financial Delegations Review
Agenda Item:  7.2

The General Manager Strategy & Support advised that the electronic purchase order implementation was progressing and that the scope had been broadened to include mobility for use offsite.

In terms of other actions delivered on, a lot of training had been carried out, probity audits completed, and the internal audit programme established to continue to ensure processes were being honoured.

The Chair requested more work in the contract management area be completed, that Audit New Zealand continue to be exercised in this area and the need to demonstrate this is under control and that also a software solution may need to be considered.

**Resolved:  (Crs Gibb/Sedgwick)**

**THAT the report of the General Manager Strategy & Support –**

*Financial Delegations Review* **– be received.**

**CARRIED on the voices**

A&R1512/07/2   Roading Alliance Risk Framework
                Agenda Item:  7.3

The Technical Manager, Waikato District Alliance took the report as read and answered questions from the members.

He confirmed that the risk of a non-performance reputation is being encapsulated, and that the building of the team is almost complete.  The forming of the team and the reputation is at the forefront of everything they do.  He advised that responses to service requests had improved relative to the targeted performance measures.  Zero Harm auditing and getting the team integrated with the field crews was going well.

The Technical Manager, Waikato District Alliance, advised there was an impact on traffic services where a  lot of work is required to get to the level of signage required and that the model allows for push and pull with supply partners who do other work as well as signage.

A request was made for appropriate risk related reports to the Principal's Group be provided also to the Audit & Risk Committee.

The Chair noted that from an operational perspective, the service appears to have improved, work had been carried out around financials and target return numbers to ensure financial benefits as well as operational benefits, traction on local suppliers, and support for the concept of having all staff together.

The Chief Executive advised that focus was around:
   i)      Agreeing on overhead margin
   ii)     target cost estimates
   iii)    accommodation
   iv)     to conclude the contract between Council and Downer.

**Resolved:  (Crs Hayes/Baddeley)**

**THAT the report of the General Manager Service Delivery -** *Roading Alliance Risk Framework* **- be received;**

**AND THAT the Committee notes the additional risk identified and included in the Risk Register.**

**CARRIED on the voices**

A&R1512/07/3   Update on Internal Audit & Quality Improvement
                Agenda Item:  7.4

The Organisational Planning & Project Support Team Leader took the report as read.  He highlighted the work in the policy area that had been carried out,

the new audit programme, the business resilience project and a reference group that had been set up. He advised that bylaw reviews are underway, with five being reviewed and that he is comfortable with the programme mitigating key risks to the business.

The Chair summarised the current work undertaken in this area, the rescinded policies have been substantial, but still a significant list to go through combining policies with Franklin and Council. An updated list will be provided to the Executive Team detailing the quantum and the time line.

**Resolved: (Crs Gibb/Sedgwick)**

**THAT the report of the General Manager Strategy & Support -** *Update on Internal Audit and Quality Improvement* **- be received.**

**CARRIED on the voices**

A&R1512/07/4      Zero Harm Dashboard
                              Agenda Item: 7.5

The General Manager Strategy & Support advised that this report needed to be read in conjunction with the Health & Safety Management Framework report in this agenda. A discussion is currently being held with the Zero Harm Manager to ensure all issues are reported on.

The Chair advised that she was pleased to receive the lead and lag indicators and capturing some culture processes in place and agreed that it was work in progress for some time yet.

**Resolved: (Crs Gibb/Baddeley)**

**THAT the report of the Human Resource Manager –** *Zero Harm Dashboard* **– be received.**

**CARRIED on the voices**

A&R1512/07/5      Customer Service Request Review – Project Closure
                              Agenda Item: 7.6

The General Manager Strategy & Support spoke of the closure of this review and advised that a financial recognition had been provided to the staff involved for their efforts in being a really great integrated team that had delivered a great result. Positive feedback had been received and lessons learnt for other projects across the business.

**Resolved: (Crs Hayes/Sedgwick)**

**THAT the report of the General Manager Strategy & Support -***Customer Service Request Review – Project Closure* **- be received.**

**CARRIED on the voices**

A&R1512/07/6    Update – Proposed Local Government Risk Agency
Agenda Item:   7.7

The Organisational Planning & Project Support Team Leader provided a brief overview and highlighted some key issues:

- Investigation on cost sharing arrangement.
- Business case.
- Workshop attendance.
- Self-assessment process.
- Natural hazards.

It was agreed that the Organisational Planning & Project Support Team Leader would keep the committee updated on this item.

**Resolved:  (Crs Sedgwick/Gibb)**

**THAT the report of the General Manager Strategy & Support – *Update – Proposed Local Government Risk Agency* - be received.**

**CARRIED on the voices**

A&R1512/07/7    Future Work Plan
Agenda Item:   7.8

The Chair asked for confirmation from the committee that they were comfortable that the agenda items remained relevant and requested any other suggestions for agenda items for the future meetings.   A suggestion was to include cyber security and project management.

**Resolved:  (Crs Hayes/Gibb**

**THAT the report of the General Manager Strategy and Support – *Audit & Risk Committee Future Work Plan* – be received.**

**CARRIED on the voices**

**A&R1512/08**   **EXCLUSION OF THE PUBLIC**

**Resolved: (Crs Gibb/Baddeley)**

**THAT the public be excluded from the meeting during discussion on the following items of business:**

1   **Confirmation of Public Excluded Minutes dated 29 September 2015**
2   **Conflict of Interest Register – Elected Members, Staff**
3   **Fraud Declaration.**

**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 protected by section 7 of that Act which would be prejudiced by the holding of the relevant part of the proceedings of the meeting in public is as follows:**

**That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information where the withholding of the information is necessary to:**

a.   **Protect members, or officers, or employees of any local authority, or any persons to whom section 2(5) of the Local Government Official Information and Meetings Act 1987 applies, from improper pressure or harassment;**
b.   **Protect the privacy of natural persons, including that of deceased natural persons;**

c.   **Prevent the disclosure or use of official information for improper gain or improper advantage;**

**AND THAT the exclusion of the public from the whole or relevant part of the proceedings of the meeting is necessary to enable the local authority to deliberate in private on its decision or recommendation in any proceedings before the local authority where a right of appeal lies to any Court or Tribunal against the final decision of the local authority in those proceedings;**

**CARRIED on the voices**

*Resolutions A&R1512/09 – A&R1512/12 are contained in the public excluded section of these minutes.*

Having resumed open meeting and there being no further business, the meeting was declared closed at 3.04pm.

Minutes approved and confirmed this                    day of                    2016.

M Devlin
**CHAIRPERSON**
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Waikato
DISTRICT COUNCIL
Te Kaunihera aa Takiwaa o Waikato

*Open Meeting*

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|---|---|
| **To** | Audit & Risk Committee |
| **From** | TG Whittaker |
| | General Manager Strategy & Support |
| **Date** | 8 March 2016 |
| **Prepared by** | M Russo |
| **Chief Executive Approved** | Y |
| **DWS Document Set #** | 1472186 |
| **Report Title** | **Annual Report 2015/16 project update** |

## 1 Executive Summary

The purpose of this report is to provide the Committee with an update from staff on the project scope for the 2015/2016 Annual Report and Summary including key deliverables, milestones and the areas of audit focus.

## 2 Recommendation

**THAT the report of the General Manager Strategy & Support *Annual Report 2015/16 project update* – be received.**

## 3 Background

Section 98 of the Local Government Act 2002 requires Council to prepare and adopt in respect of each financial year an annual report.  The purposes of an annual report are:

- To compare the intended level of performance with the actual level of performance during the relevant financial year, as set out in the Long Term Plan; and
- To promote the local authority's accountability to the community for the decisions made throughout the year.

The annual report must be completed and adopted, within four months after the end of the financial year to which it relates.  The financial year runs from the 1 July to 30 June, therefore the report must be adopted by 30 October each year.

## 4 Objectives and deliverables

Produce an annual report and summary for the 2015/16 financial year that:

1. Complies with legislative and Audit New Zealand requirements.
2. Address matters raised in the Management Report received from Audit New Zealand in respect of the audit of Waikato District Council for the year ended June 2015.
3. Outlines the activities, levels of service delivered and the cost of providing those services.
4. Assesses our efficiency, effectiveness and the cost-effectiveness of our activities.
5. Makes sense and is relevant to all our stakeholders i.e. residents, ratepayers, Councillors and staff.

## 5 Milestones

| Description | Date |
| --- | --- |
| First Interim audit | 2 – 6 May (TBC) |
| Second interim audit (tentative) | 20 – 24 June |
| Annual Report and Summary (words and financials) complete | 26 August |
| Strada – audit sign off | 29 August (TBC) |
| Final audit | 29 August – 16 September |
| Final audit initial reporting | 19-23 September |
| Audit & Risk Committee – verbal clearance | 27 September |
| Strategy & Finance approve Annual Report and Summary to Council for adoption | 27 September |
| Council (extraordinary meeting) adopt Annual Report and Summary | Week of 3 October |

The dates of the two interim audits and the final audit are indicative from Audit New Zealand and are yet to be finalised.

The timeline for the Annual report 2015/16 has been bought forward approximately one week at the end of the process to allow for the Local Government election to be held on 8 October. Staff are aware that it's not ideal for Audit NZ to not provide verbal clearance until the day of the Audit & Risk Committee meeting however they are unable to move the timing of the audit and given the timing of elections, we are unable to hold the meeting at a later date.

## 6 Assessment of the Significance & Engagement Policy and of External Stakeholders

At this stage the purpose of the engagement is inform stakeholders of the progress on key projects reported on in the Annual Report.

| Highest levels of engagement | Inform | Consult | Involve | Collaborate | Empower |
|---|---|---|---|---|---|
| | v | ☐ | ☐ | ☐ | ☐ |
| *Tick the appropriate box/boxes and specify what it involves by providing a brief explanation of the tools which will be used to engage (refer to the project engagement plan if applicable).* | • Website<br>• Social media<br>• Media release | | | | |

The following stakeholders have been/or will be consulted:

| Planned | In Progress | Complete | |
|---|---|---|---|
| x | | | Internal |
| x | | | Community Boards/Community Committees |
| x | | | Households |

## 7 Conclusion

Council is required to adopt an Annual Report and Summary by 30 October each year. The Annual report and Summary will be audited by our auditors, Audit New Zealand prior to adoption.

## 8 Attachments

Areas of audit focus

# Waikato District Council (WDC)

# Audit planning for the year ending 30 June 2016

| Areas of audit focus |
|---|

We have some thoughts about what areas we need to be focusing on as part of our audit. Do these align with the Audit & Risk Committee's views?

Significant areas of audit focus:

- Development contributions (accelerated growth).

- Investments in subsidiaries (Strada Corporation Limited).

- Revaluation of PPE (infrastructure assets).

Other areas of focus:

- Change in payroll system.

- Progress on IS issues.

- Service Performance reporting.

- Procurement and contract management.

- Conflicts of interest.

- Vested assets – former SH1 roading.

| Next steps |
|---|

- Input from others into our risk identification and assessment process:

  o Audit & Risk Committee (A&RC); and

  o Chief Executive and senior management.

- Audit Arrangements Letter (AAL) will be drafted and provided for review and comment to GM Strategy and Support in the first instance.

- Final AAL to be presented to A&RC for the next meeting for consideration.

- Audit Proposal Letter (fees) and Audit Engagements Letter (contract) are still valid.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

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# Waikato District Council (WDC)

## Audit planning for the year ending 30 June 2016

| Audit logistics (provisional) |
|---|

Audit team:

- Leon Pieterse (Director), Naude Kotze (Manager), Kataraina Macown (Supervisor).

Provisional dates (being confirmed with management):

- Interim Audit: May and June 2016.

- Interim Management Report:

draft to management on 4 July 2016; and

finalised by 18 July 2016.

- Final Audit: 29 August 2016 to 16 September 2016.

- Verbal Audit Clearance (subject to?): 27 September 2016 (A&RC meeting).

- Audit Report: 4 October 2016 (Council Meeting).

- Management Report:

draft to management 30 September 2016; and

finalised 14 October 2016.

| Role of the Council |
|---|

From an audit perspective (per our Engagement Letter) regarding the Annual Audit process:

- Prepare the Annual Report to comply with legislation and accounting standards.

- Internal controls to prevent material misstatement through error or fraud.

- Provide us with "ready to audit" information and access to complete our audit.

# Waikato District Council (WDC)

# Audit planning for the year ending 30 June 2016

| Role of Audit New Zealand |
|---|
| • We are responsible for expressing an independent opinion on the financial statements and non-financial performance information prepared by WDC. <br><br> • We assess whether the financial statements and non-financial performance information comply with generally accepted accounting practice and fairly reflect WDC's performance and position. |

| Scope of our annual audit |
|---|
| • The scope of our annual audit includes: <br><br> o the financial statements and non-financial performance information; and <br><br> o WDC's compliance with legislation that we consider to be relevant and material to our audit role. <br><br> • We are also required to maintain awareness for issues of efficiency and effectiveness, waste and a lack of probity or financial prudence. |

| Audit risk |
|---|

# Waikato District Council (WDC)

## Audit planning for the year ending 30 June 2016

- Our audit approach is risk based.

- In the context of a public sector audit, audit risk is wider than simply expressing an incorrect opinion on the financial statements and/or performance reporting.

- Risks include:

  o risks/issues that could impact on the financial statements and/or performance reporting;

  o legislative compliance issues; and

  o issues of efficiency and effectiveness, waste and a lack of probity or financial prudence.

## For your consideration

We will formally request Council's:

- assessment of fraud risk processes;

- monitoring of management's fraud prevention responsibilities;

- view of the culture of honesty and ethical behaviour by management; and

- assessment of the potential for management override of controls for preventing and detecting fraud.

Please remember to inform us if you become aware of any actual or suspected frauds.

## OAG multi-year programme

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

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# Waikato District Council (WDC)[23]

## Audit planning for the year ending 30 June 2016

For your information, the OAG's multi-year focus areas:

- Service delivery (2013/14).

- Governance and Accountability (2014/15).

- Investment and Asset Management (2015/16).

- Information (2016/17).

- Water (2017/18).

**REPORT**
Item Number:

*Open Meeting*

| | |
|---|---|
| **To** | Audit & Risk Committee |
| **From** | TG Whittaker |
| | General Manager Strategy & Support |
| **Date** | 9 March 2016 |
| **Prepared By** | K Jenkins |
| | Project Management Advisor |
| | J Hudson |
| | Database Administrator |
| **Chief Executive Approved** | Y |
| **DWS Document Set #** | 1472829 |
| **Report Title** | **ICT Security Risk Assessment** |

## 1. Executive Summary

Waikato District Council engaged SSS IT Security Specialist to conduct a high level Security Risk Assessment of the ICT business unit for the purpose of:

- identifying information security risks;
- assessing the potential impacts to the council if these risks were realised; and
- providing recommendations for managing the risks.

WDC received the outcomes of the assessment in December 2015. In terms of Councils risk exposure for information, data and operations, and in constraining the council's ability to improve and innovate through the use and integration of ICT in to its business operations, the report detailed the following high level areas as posing potential issues:

a. **Business ownership and direction for ICT**: Unspecified business involvement in governance, management and planning for ICT, including integration into council's general governance, management and planning activities.

b. **Management of service providers, vendors and contractors**: Procurement of service providers, vendors and contractors and terms in contracts, and, Service Level Agreements in terms of information security requirements.

c. **Employee and contractor practices**: Management (including training) of relevant information security practices, record keeping and security roles and responsibilities.

d. **IM practices**: Deficiency in directives in the continuity of support for councils ICT and business operations.

A total of twenty (20) specific risks were identified in the report. Recommendation was made for nine (9) of these risks to be considered for action even in cases where likelihood was deemed to be low. Seven (7) of the nine risks were rated as having major consequences but rare or possible likelihood. Two (2) of the nine have both major consequence and likely occurrence.

WDC has taken in to account the recommendations and given consideration to reasonable timeframes, relative to the risk rating, for the implementation of the detailed controls. The moderate and low risks will be managed through the WDC continuous improvement process (it is considered advantageous to appoint the position of Information Manager to assist with the decision making process related to these recommendations). The two high level risks, R10 and R16 (documented below in Table 1 and 2) will be actioned within a 3 month period.

The following controls are currently under action:

- Implementation of an ICT Strategy
- Disaster Relief Plans
- Business Continuity Plans

**Implementation of an ICT Strategy**

A draft strategy has been created. The strategy will be finalised during **April 2016**.

**Disaster Relief Plans**

IM is currently undertaking a project to refresh the technology used to back up the organisation's data and to implement a disaster recovery capability. This project is largely complete with the new back up technology having been implemented and in production use, and the disaster recovery hardware purchased and configured. The relocation of the disaster recovery hardware to the Tuakau datacentre to provide a geographic separation has been delayed pending the resolution of networking issues between Tuakau and Ngaruawahia. IM has tentatively identified the critical IT infrastructure to be replicated in the Tuakau datacentre, but this work will need to be validated by the Business Continuity Project. As part of the close of the back up and disaster recovery project, disaster relief plans will be documented. This will include processes to provide for periodic testing of the disaster recovery replicas to ensure their consistency in the event of a disaster. It is anticipated that this project will be completed prior to **30 June 2016**.

**Business Continuity Plans**

The Business Resilience Project is currently underway with recent workshops held to capture and prioritise the organisations key business outputs. The next phase of the project is to now capture the relevant processes that are required to ensure that these outputs continue to be delivered. The processes will be captured over the months of March, April and May. Additionally the project is also capturing information on the skills within the business that could be utilised or redistributed during an event.

Another key output of the project is to align business continuity with our Emergency Management Framework, in particular the Coordinated Incident Management System (CIMS). This will ensure that the organisation prepares, trains and operates during an event in the same manner that it would during an emergency. This consistency of approach and language will assist with staff understanding along with ease of escalation if required.

The project is due for completion by **30 June 2016**.

## Table 1

| ID | Risk Description | Recommended Controls | Comment |
|---|---|---|---|
| R10 | Compromise or failure of infrastructure components leads to compromise of council's information or operations. | Formalise business owners for all major information assets and assign primary business owners and identify internal stakeholders for related ICT systems. | The concept of formalised business owners will be considered in consultation with the appointed IM Manager. Recruitment for this position will commence **31/03/ 2016** |
| | | Formalise high level information security requirements through business owners. | |
| | | Improve ICT governance and strategic planning and integrate in to council's general governance processes. | The ICT Strategy is currently in draft form and finalisation will be considered as a priority |
| | | Review and improve Business Continuity Plans. | Business Continuity plans are currently being developed. Plans are due to be completed **30/06/2016**. An appropriate testing and review schedule will be identified as part of this project. |
| | | Undertake periodic testing of Business Continuity Plans. | |
| | | Undertake periodic reviews and testing of Disaster Recovery Plans. | The Disaster Recovery Plans are under development as part of the Backup and Disaster Recovery project, to be completed by **30/06/2016**. An appropriate testing and review schedule will be identified as part of this project in consultation with the appointed IM Manager. |
| | | Undertake periodic point-wise testing of backups. | A process will be introduced that details periodic point wise testing in consultation with the appointed IM Manager |
| | | Improve asset management and monitoring including assets for environment support. | Asset management and monitoring are included in the Business Continuity Plan |

**Table 2**

| ID | Risk Description | Recommended Controls | Comment |
|---|---|---|---|
| R16 | A malicious external party compromises council information or systems by exploiting vulnerabilities in applications or operating systems, leading to unauthorised disclosure, modification or deletion of information and/or impacts to service availability. | Controls for R06 and R13 | These controls will be met through the implementation of the ICT Strategy, Business Continuity Plans and Disaster Recovery plans.<br>Formalised business owners will be considered in consultation with the appointed IM Manager |
| | | Review and improve privileged access methods. | There is a level of risk associated with current practices that the organisation is willing to accept to allow for specific business practice (frontline customer service would likely be impacted should higher levels of security be applied) |
| | | Review and improve access removal following role changes for critical ICT applications. | Existing processes provide for attrition however do not, to a degree cover employee movement within the organisation. A review of existing process will be conducted in consultation with the appointed IM Manager. |
| | | Use, and require vendors to use, secure development practices and vulnerability testing for applications. | This requirement will be included in the ICT Strategy and implemented as a standard through the associated procurement processes. |
| | | Conduct penetration testing of critical internal systems, internal application interfaces and internet-facing systems. | An appropriate testing and review schedule will be identified as part of this project in consultation with the appointed IM Manager. |
| | | Review and improve communications plans for incident response. | The existing ipMonitor processes will be reviewed and monitoring accountability will be confirmed and documented. Note: ipMonitor is an application that allows remote monitoring and consolidated reporting of the status of Council's IT frastructure. |
| | | Review and improve monitoring for security incidents. | |
| | | Review and improve incident response plans. | |
| | | Review and improve patch management process. | Currently WDC cannot guarantee availability of services during patching (availability deemed to be organisational priority). An appropriate review will be conducted and process implemented in consultation with the appointed IM Manager. |
| | | Review and improve change control and release management processes. | Recent review of change control and release management was conducted as part of NZ Audit. Process improvement measures have been captured and will be implemented in consultation with the appointment of a new IM Manager. |

## 2. Recommendation

**THAT the report of the General Manager Strategy & Support –** *Strategic Risk Register Update* **- be received;**

## 3. Attachments

NIL

![Waikato District Council logo - DISTRICT COUNCIL - Te Kaunihera aa Takiwaa o Waikato]

*Open Meeting*

| | |
|---:|:---|
| **To** | Audit & Risk Committee |
| **From** | Tony Whittaker |
| | General Manager Strategy & Support |
| **Date** | 14 March 2016 |
| **Prepared by** | Kevin Lockley |
| | Zero Harm Manager |
| **Chief Executive Approved** | Y |
| **DWS Document Set #** | 1474512 |
| **Report Title** | Zero Harm Update |

# 1   Executive Summary

The purpose of this report is to provide the Audit and Risk Committee with an update on the Council Zero Harm Programme.

Council recognise that compliance is a statutory obligation and is essential; they aspire to achieve best practice in Health and Safety performance and to create a sustainable Zero Harm culture where everyone goes home safe and healthy each day.

# 2   Current State

Council has confidence that the current health and safety programme is in a position of readiness for the impending legislation change on 4 April 2016.  This confidence is substantiated by the evidence that has been collected across all elements of the ACC WSMP audit criteria to date.

Not only does the documentation demonstrate meeting the objectives of the Health and Safety at Work Act 2015, but behaviours across the council organisation also reflect an increased awareness of the legislation and the duties and responsibilities associated within the roles.

There is a visible and active leadership commitment delivered through communication streams and through senior leaders from the Chief Executive down engaging in safety conversations with the work force and encouraging team involvement.

Documents systems and processes have been progressively reviewed and updated with the new legislation at front of mind.

The Health and Safety manual has been reviewed, updated and approved by the Executive Team (ET).

The Health and Safety Strategic Plan has been developed and approved by ET.

Hazard and Risk Registers have been reviewed and updated across the organisation.

Training on the new legislation for customer support team leaders and managers including Safety Action team members is being conducted over a 6 week period.

A Councillor Risk workshop was conducted in February.

An employee focus group workshop for the audits has been carried out.

The Critical Risk Register is currently being converted to the Promapp system for consistency of descriptors.

The Chief Executive carries out site visits and safety conversations on a weekly basis to better understand the risks and treatment methodologies in line with his duty as an officer and due diligence.

## 3    Forward State

WSMP Audit An internal assessment will be carried out on 30 March 2016 by an independent senior ACC accredited auditor (Sherry Johnson) as a gauge to our systems progression.

Application has been forwarded to ACC and an auditor engaged (John Greenland) to carry out the ACC audit on 16 May 2016.

## 4 Conclusion

Near miss reporting across all sectors of the organisation is showing a steady increase and a better understanding of why near miss reporting is crucial to best practice health and safety management.

There have been no serious harm injuries since the last Audit and Risk Committee report. All injuries reported to date are first aid. There has been no lost time injuries reported.

The current WSMP programme remains on target for the audit dates, to meet Council objectives.

Whilst there are encouraging signs of increased awareness and involvement, there is still a significant amount of work to be done, and there needs to be a constant recognition that harm can occur at any time not only across the critical risk spectrum, but from every day business as usual activities.

## 5 Recommendation

**THAT the report of the General Manager Strategy & Support – *Zero Harm Update* – be received.**

## 6 Attachments

*NIL*

**REPORT**
Item Number:

*Open Meeting*

| | |
|---|---|
| **To** | Audit & Risk Committee |
| **From** | TG Whittaker |
| | General Manager Strategy & Support |
| **Date** | 08 March 2016 |
| **Prepared By** | M Baena-Escamilla |
| | Continuous Improvement Analyst |
| **Chief Executive Approved** | Y |
| **DWS Document Set #** | 1472501 |
| **Report Title** | Update on Internal Audit and Quality Improvement |

## 1. Executive Summary

This report outlines work planned and undertaken to ensure quality improvement throughout the business in the past quarter.

## 2. Audit programme

Auditor training was carried out at the end of February, 8 staff completed training and are now certified as Internal Auditors, the total number of Internal Auditors has increased to 24. The Internal Auditor training has been scheduled to be undertaken once a year to ensure the number of Internal Auditors remains stable during the year. As part of the training new Auditors had the opportunity to audit four processes, this allowed them to build the necessary skills while having adequate guidance.

For the period of December to February a total of 11 Audits have been carried out, with one partially complete, however this will be finalized by the end of March. From the 11 audits that have been completed, 18 Non-conformances have been found and 100 recommendations were proposed. Process owners and experts are addressing these non-conformances and making relevant changes to the processes. See attached Internal Audit Status (2015-2016) Activity Report.

Currently a new audit schedule is being created for April-June 2016 that will be conducted by the new Auditors; within this audit schedule processes related to the LTP and Annual Plan will be targeted.

## 3.     Policy

The work programme for reviewing internal and external council policies is progressing as planned; 5 policies have been completed this quarter.

- Cell phone Purchasing Policy
- Staff Involvement in Local Government Elections policy
- Petitions Policy
- Procurement Policy
- Protected Disclosures Policy 2015

Other policies that are being reviewed are:

- Arts policy
- Sensitive Expenditure Policy
- Staff Media Policy
- Social Media Policy
- Records Management Policy
- Internet Use Policy
- Email Use Policy
- System Access Policy

The Improvement Forum meets on a monthly basis to drive our quality management system and encourage process mapping and continuous improvement.  Process champions have been trained to be Promapp trainers, allowing workload distribution when training staff in process creation and writing techniques.

Significant progress against process capture and improvement has been achieved in the past quarter.  The main focus has been to finalise and publish draft processes. Currently we have 764 published processes mapped (74 additional since November), and 142 processes in draft status (99 less than in November).

## 4.     Recommendation

**THAT the report of the General Manager Strategy & Support –** *Update on Internal Audit and Quality Improvement* **- be received.**

## 5.     Attachments

*Internal Audit Status (2015-2016) Activity Report*

**Audit Status @ 08-03-2016**

| Macro process | Processes | Owner and Expert | Auditors | Status | Outcome | | Progress Update |
|---|---|---|---|---|---|---|---|
| | | | | | NC | Rec | |
| **Customer Complaints** | • Resolve Customer Complaints<br>• Manage Vexatious Complainant | Angela Parquist Reece Turner | Teressa Howe Elijah Tamati | Audit was carried out on the 13/01/2016 | 0 | 9 | Owner has responded to the audit, waiting for changes to be done in the process. |
| **Service Request** | • Receive and Enter a Service Request<br>• Action and Complete a Service Request | Sally Clark Sandra Cooper | Pam Osborne Abby Gordon | Audit was carried out on 26/01/2016 | 0 | 3 | Auditors have sent the report to the owners. |
| **Treatment Plants** | • Manage SCADA On-Call System - Treatment Plants<br>• Carry out Daily SCADA System Checks at TP (On-call Operators<br>• Carry out Daily SCADA System Checks (Treatment Plant Supervisor) | Mark Curtis David Kennington | Helen Geddes Madelina Baena-Escamilla | Audit was carried out on the 5/02/2016 | 2 | 4 | Auditors have sent the report to the owners |
| **Community Funding** | • Co-ordinate External Funding for WDC Projects<br>• Manage Creative Communities Scheme (CCS) Funding<br>• Manage Community Board Discretionary Fund | Kurt Abbot Lianne Van Den Bemd | Beryl McAuley Christine Cunningham | Audit was carried out on the 22/02/2016 | 0 | 39 | Auditors have sent the report to the owners |
| **Procurement Management** | • Evaluate Quotations (up to $125,000)<br>• Prepare Contract Documents for Signing and Complete Tender Process | Tony Whittaker Rajendra Java | Debbie Dalbeth | Audit was carried out on 27/11/2015. | 4 | 9 | Auditors have sent the report to the owners |
| **Contract Management** | • Prepare for Contract to Commence (Physical Works)<br>• Manage Contract Administration (physical works)<br>• Carry out Site Inspection | Rajendra Java Josy Cooper | Annetta Purdy Deidre MacDonald | Audit was carried out on the 08/12/2015 | 3 | 5 | Owner has responded to the audit, waiting for changes to be done in the process. |

| Contractor Zero Harm | • Carry out Contractor H&S Induction<br>• Inspect/Audit Contract Health & Safety<br>• Record Contractor's H&S performance | Kevin Lockley Josy Cooper | Sandra Kelly Susan Toogood | First Audit with the zero harm team was carried out in December. | | | Due Staff holidays they will continue with the audit on the third week of March. |
|---|---|---|---|---|---|---|---|
| Front Counter Cash Receipting | • Issuing a manual receipt | Michael Edmonds Kay Warren | Phyllis Hefang | Raglan: 23/10/2015 Tuakau: 6/11/2015 Huntly: 25/11/2015 Ngaruawahia 16 & 17 December 2015 | 0 | 16 | Auditors have sent the report to the owners |
| **Audits carried out at Auditor Training** | | | | | | | |
| Call Centre | • Manage Public Enquiries in Outlook<br>• Archiving Public Enquiries | Cory Cullen Elijah Tamati | Trish Mckinnon | Audit has been done on 24/02/16. | 0 | 4 | Auditors have sent the report to the owners |
| Dog Registrations | • Dog Registrations – new<br>• Dog Registrations - process renewal | Christine Cunningham Pam Osborne | Reece Turner Adam Van Niekerk Givena De Thierry | Audit has been done on 24/02/16. | 2 | 2 | Auditors have sent the report to the owners |
| Manage Policies | • Create New or Review an Existing External Policy | Kurt Abbot Melissa Russo | Sharlene Jenkins Kay Warren | Audit has been done on 24/02/16. | 6 | 7 | Auditors are finishing the report to be sent to the auditees. |
| Cementeries | • Permit and Install Cemetery Memorials | Gordon Bailey Deidre MacDonald | Sarfraz Hapuku Claude Shaw | Audit has been done on 24/02/16. | 1 | 2 | Auditors have sent the report to the owners |
| | | | | **Total** | 18 | 100 | |

**REPORT**
Item Number:

*Open Meeting*

| | |
|---:|:---|
| **To** | Audit & Risk Committee |
| **From** | TG Whittaker |
| | General Manager Strategy & Support |
| **Date** | 8 March 2016 |
| **Prepared By** | M Russo |
| | Corporate Planner |
| **Chief Executive Approved** | Y |
| **DWS Document Set #** | 1472181 |
| **Report Title** | **Update on progress against Final Management Report for Year Ended 30 June 2015** |

## 1.    Executive Summary

The purpose of this report is to provide an update on progress from issues that arose during the last audit undertaken by Audit New Zealand as a part of the Annual Report process.

At the end of each audit, Audit New Zealand provides an Audit Management Report which outlines their findings from various stages in the audit and draws attention to areas where improvement is recommended.  As part of the process, management had the opportunity to respond to Audit New Zealand based on management's understanding of the issues whether they require further action or have already been addressed.

The Final Audit Management Report for Year Ended 30 June 2015 is attached to Appendix 1 of this report.

## 2.    Recommendation

**THAT the report of the General Manager Strategy & Support** *Update on progress against Final Management Report for Year Ended 30 June 2015* **be received.**

## 3.  Summary of Outstanding Matters

The table below provides an update on progress made on issues raised during the last audit.  Of the 22 issues that were raised during the audit process, two were cleared at

the final audit.  Of those 20 remaining issues, 14 have been resolved.  A progress update on the outstanding six issues has been provided in the following paragraph.

|  | Urgent | Necessary | Beneficial | Total |
|---|---|---|---|---|
| Completed | 2 | 12 | - | 14 |
| Not completed | 2 | 4 | - | 6 |
| **Total** | **4** | **16** | **-** | **20** |

### 3.1 Final audit – outstanding matters

The following matters are considered complete and require audit investigation to allow closure.
- Service performance reporting – CRM system (page 15)
- Service performance reporting: restoration of service after burst mains or urgent faults (page 16)
- Revaluation of roading assets (page 19)
- Service performance reporting: control environment (page 19)
- Related party transactions (page 18)
- User access (page 20)
- High number of generic/shared network logins (page 21)
- All devices have virus definition updates and patches applied (page 22)
- Monitoring and reporting on IT service performance (page 23)
- Change management (page 23)
- Review of users who have remote access (page 24)
- Financial forecasting processes (page 25)
- Capital expenditure for groups of activities (page 25)
- Levels of service (page 26)

The following matters are not considered complete and include progress comments
- Procurement and contract management (page 13)
  The Procurement Policy and manual has been reviewed and changes have been approved.  The policy and manual have been published on the intranet for staff viewing.
  A quarterly training programme has been established to increase awareness of the correct process to follow when purchasing good and services required by Council.  To date 81 staff have completed part 1 of the training and 22 staff have completed part 2.
  An internal audit has been undertaken on two procurement processes.  Amendments to the processes are being made due to the findings of the internal audit.
  Consideration of contract management process, including the possible securing of software, will be considered following implementation of the

Electronic Purchase Order (EPO) system. The EPO being implemented does have a contract management module.

- Expenditure – segregation of duties (page 18)
  The pilot group training and testing of EPO has been completed. The final series of testing undertaken by the Finance Team commenced on 8 March 2016. It is expected the software will go live to the pilot group on 21 March 2016.
- Regular restores from backup tape (page 21)
  Testing of the new backup infrastructure has been completed.
- Regular review of user accounts (page 22)
  The process for managing a staff resignation has been reviewed and recorded in Promapp. Disabling the users account and therefore access to our IT systems is managed through this process.
  The review of network login accounts is ongoing.
- Business continuity and IT Disaster recovery planning (page 23)
  Disaster recovery infrastructure has been tested. The hardware is to be stored at Tuakau but is yet to be relocated.

## 4. Key issues arising from 2014/2015

Audit NZ issued an unmodified audit opinion on 12 October 2015. Audit was satisfied that key financial statements and the statement of service provision fairly reflected the Waikato District Council's activity and financial position at the end of the 2014/15 financial year. The table below summarises Audit's recommendations and their priority for the coming year:

| Recommendation | Page | Urgent | Necessary | Beneficial |
|---|---|---|---|---|
| **Revaluation of utility assets**<br>Continue to improve revaluation processes and procedures. | 5 | | √ | |
| **Procurement and contract management**<br>Develop and implement procurement and contract management system that is supported by policies, procedures and guidelines. | 8 | √ | | |
| **Elected members remuneration**<br>Review of the payroll system to ensure elected members are paid the correct amount for each financial year. UPDATE: This has been incorporated into the new Payroll System Project. | 8 | √ | | |

| Recommendation | Page | Urgent | Necessary | Beneficial |
|---|---|---|---|---|
| **Sensitive expenditure** <br><br> Remind staff of the importance of retaining itemised tax invoices to support all expense claims. UPDATE: A message has been posted to Council's internal website (Waisite Blog) to remind staff of this requirement. | 9 | | √ | |
| **Compliance with Treasuring Management Policy** <br><br> Effective control in place to ensure compliance with the policy. The rationale or justification for any intentional departures from policies should be documented and authorised by an appropriate person. UPDATE: All non-compliances are reported to the Strategy & Finance Committee. Council receives the minutes of those meetings. There have been no intentional departures from the policy. | 9 | | √ | |

## 5. Conclusion

Of the 20 issues that were outstanding at the time of the last audit, 14 have been resolved. An update in each of the remaining issues has been included in the report and staff are continuing to work towards resolving these issues.

## 6. Attachments

*Final Audit Management Report for the year end 30 June 2015*

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

Report to the Council on the audit of

**Waikato District Council**

for the year ended 30 June 2015

# Management report

## Key messages

### Summary

We have completed the audit for the year ended 30 June 2015. This report sets out our findings from the audit and draws attention to areas where Waikato District Council (the District Council) is doing well or where we have made recommendations for improvement.

The matters outlined in this report should be read in conjunction with our interim management report dated 17 June 2015.

We issued an unmodified audit opinion on 12 October 2015. This means that we are satisfied that the key financial statements and statement of service provision fairly reflected the District Council's activity for the year and its financial position at the end of the year.

### Issues identified during the audit

The following table summarises our recommendations and their priority:

| Recommendation | Section | Urgent | Necessary | Beneficial |
|---|---|---|---|---|
| **Revaluation of utility assets**<br>Continue to improve revaluation processes and procedures. | 2.1.1 | | ✓ | |
| **Procurement and contract management**<br>Develop and implement a procurement and contract management system that is supported by policies, procedures and guidelines. | 4.1 | ✓ | | |
| **Elected members remuneration**<br>Review of the payroll system to ensure elected members are paid the correct amount for each financial year. | 5.1 | ✓ | | |
| **Sensitive expenditure**<br>Remind staff of the importance of retaining itemised tax invoices to support all expense claims. | 5.2 | | ✓ | |

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AUDIT NEW ZEALAND
Mana Arotake Aotearoa

| Recommendation | Section | Urgent | Necessary | Beneficial |
|---|---|---|---|---|
| **Compliance with Treasury Management policy**<br><br>Effective control in place to ensure compliance with the policy. The rationale or justification for any intentional departures from policies should be documented and authorised by an appropriate person. | 6.1 | | ✓ | |

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

**Status of previous recommendations**

We followed up the matters raised in our previous management reports. The status of these matters was based on our findings at the time of our interim and final audit visits. For the matters outstanding, we understand that a number of these matters have now been addressed since our follow up of the matter during the interim and final audit visits. To clear these matter, we require evidence to verify that the changes made by management are effective and this will be reviewed as part of the 2015/16 audit.

**Thank you**

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

Leon Pieterse
Audit Director
1 December 2015

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

# Contents

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

# 1 Our audit opinion

## 1.1 We issued an unmodified audit opinion

We issued an unmodified audit opinion on 12 October 2015. This means that we were satisfied the financial statements and statement of service performance fairly reflected the District Council's activity for the year and its financial position at the end of the year.

## 1.2 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. We are satisfied that these misstatements are individually and collectively immaterial.

# 2 Key issues arising from the audit

## 2.1 Revaluation of property, plant and equipment

The District Council engaged independent valuers to value land and buildings, infrastructure assets and parks and reserves assets as at 30 June 2015.

The revaluation of water, wastewater, stormwater, solid waste and parks and reserves assets initially resulted in an increase of $4.6 million. We held discussions with the valuer (Beca) to understand the factors that had contributed to the movement in the value of these assets since the previous revaluation performed in June 2014.

We understand the change in value was attributed to a formula error in Beca's calculation of depreciated replacement cost. Once this error was corrected, the financial statements were updated to reflect a $10.9 million revaluation movement for these assets.

As we recommended in our previous management reports, this error highlight the need for the District Council to continue to improve their processes and procedures surrounding revaluations, in particular investigating further when there have been significant movements in value of assets between revaluations.

**Management comment**

*Process improvements continue to be made. Meetings are now held with the Valuer to specifically review major variances, and going forward more work will be done on the scope of valuations to ensure the professional advice received covers all audit considerations and Waikato District Council (WDC) expectations. More accountability is being placed on the Valuer to justify the changes.*

## 2.2 First financial statements prepared using the new public benefit entity (PBE) accounting standards

The District Council was required to prepare the 30 June 2015 financial statements using the new public benefit accounting standards.

We discussed the transition with management, and reviewed relevant workpapers relating to the transition. The District Council determined tier 1 to be the correct reporting tier for the District Council, which we agreed was appropriate.

We reviewed the District Council's annual report, including accounting policies and disclosures, against the new standards.

Overall we found the District Council was adequately prepared for the adoption of the new standards, including acquiring advice from PwC. We identified some additional disclosure changes, required to accounting policies and disclosures. The District Council made all requested changes.

We are satisfied that the annual report materially complies with the new public benefit accounting standards.

## 2.3 Strada Corporation Limited (Strada)

### 2.3.1 Consolidation of Strada

The District Council is classified as a public benefit entity. However, Strada is classified as a for profit entity. Therefore, the accounting framework that applies to Strada differs from the framework the District Council uses.

We obtained an understanding of the processes undertaken by the District Council to ensure the information by Strada is appropriate for the

consolidation of Strada into the District Council's financial statements. We understand the District Council engaged PwC to perform an impact assessment and identified minimal changes were required for the consolidation of Strada into the District Council's group financial statements. We reviewed the assessment provided by PwC and agreed with their findings.

We reviewed the District Council's group financial statements and are satisfied the group financial statements comply with the new public benefit entity accounting standards.

### 2.3.2 Carrying value of investment in Strada

We noted that Strada incurred a loss before tax and the share of their joint venture operations of $656,784. This is a substantial movement against their prior year profit of $1,153,257. This raised concerns the carrying value of the investment in Strada was potentially impaired.

We reviewed the District Council's impairment assessment and held discussions with management to understand the factors used to determine if the investment in Strada was impaired.

Based on the information provided, we are satisfied there is no impairment in the District Council's investment in Strada and the carrying value in Strada in the financial statements is appropriate.

# 3 Risks and issues

Our planning work and discussions with management and Council at the beginning of the audit identified areas of audit emphasis. These were outlined in our audit arrangements letter and our findings in this section of the report.

## 3.1 Statement of service performance reporting

We reviewed the systems, processes and controls the District Council has used to report against its performance measures. We identified the following:

- the District Council had appropriate systems in place to collect, record, analyse and report data to support the performance information reported;

- the District Council had a good quality, overall "story" giving the reader a good indication of the activities and performance of the District Council; and

- the reporting was reliable and accurate and complete against the performance framework as outlined in the 2012/22 Long Term Plan (LTP).

We are satisfied the service performance statements fairly reflected the District Council's service performance achievements measure against the performance targets.

## 3.2 Audit of Debenture Trust Deed

As the District Council's appointed auditor we are also required to issue a report to the trustees of the District Council's Debenture Trust Deed (the Deed). This requirement is included in the District Council's deed dated 12 February 2013.

We have completed our audit of the deed and prepared our report to Trustees Executors Limited. We did not identify any matters that need to be brought to your attention.

## 3.3 Asset management

We assessed and reviewed the District Council's progress in relation to asset management planning and also followed up on the issues raised during our 2015/25 Long Term Plan audit.

We understand the District Council is planning to address these issues in the 2015/16 financial year and we will therefore follow up on progress as part of the 2015/16 audit.

## 3.4 Shared services

We discussed with the District Council any proposals for shared services and any alternative forms of service delivery.

We noted that the District Council, Hamilton City Council and Waipa District Council are considering the formation of a council controlled organisation to manage water

across the Waikato district. We will follow up progress as part of the 2015/16 audit.

# 4 Control environment

We performed a high level review of the control environment for audit purposes. We considered the overall attitude, awareness and actions to Council and management in establishing and maintaining effective management procedures and internal controls. Our assessment of these areas was based on regular discussions with key members of senior management, members of the Council and our accumulated knowledge of the District Council's business.

Our assessment of the control environment (as reported in the interim management report) is that the internal controls and processes could be relied upon for the purposes of our audit.

## 4.1 Procurement and contract management

We followed up on the recommendations we raised in last year's management report and found that minimal progress has been made.

We continue to recommend that the District Council:

- Develop and implement a fully functional contract management system.

- A single wide contract management policy, supported by procedures and guidelines, to be developed and implemented.

- Implement a regular review programme.

- Provide formal training to staff.

Detailed information is provided in Appendix 2 under "Outstanding matters".

**Management comment**

*The priority this year has been the implementation of electronic purchase orders. Roll out to users will commence from February 2016. Contract management will be considered following this.*

*Other progress has been made. A permanent procurement manager has been appointed which will assist with continued and more rapid progress.*

*Other points to note:*

- *A review has been undertaken and changes have been made in the Procurement Policy, the Procurement Manual and the delegated Authority Limits during 2014/15.*

- *Training programmes were held this year to increase the awareness on the policy and procedures to be adopted when purchasing goods and services required by the council. More than 80 staff (as at end of November 2015) have been trained and further programmes are scheduled.*

- *An internal audit programme has been developed which will provide assurance on procurement matters.*

## 5        Our areas of interest for all Local Authorities

Some of our findings have been incorporated in the relevant sections of this report. Our comments on the issues not already addressed elsewhere are as follows:

### 5.1        Elected members remuneration

We reviewed the District Council's compliance with the requirement to disclose the remuneration of each local authority in the annual report, against the relevant Local Government Elected Members Determination.

We found that all payments were within limits set in the Determination. However, we noted that the District Council had made an additional payment to elected members for remuneration relating to the 2013/14 financial year during the 2014/15 financial year. We understand this was due to elected members being underpaid in 2013/14 that was a result of the system used to process elected members remuneration not calculating the correct amount to be paid.

We are satisfied that elected members remuneration, and all additional payments, were within limits set in the Determination applicable to the 2013/14 year.

We recommend the District Council's reviews their payroll system to ensure elected members are paid the correct amount for the appropriate financial year.

### Management comment

*Noted. This has been reviewed as part of the replacement of the payroll system. We too are satisfied elected members have been paid the appropriate amount.*

### 5.2        Sensitive expenditure

Each year as part of our audit we test various items of sensitive expenditure. This year we have tested credit card expenditure and reimbursement of expense claims.

We reviewed the sensitive expenditure policy, gifts and hospitality policy and the reimbursement of expenses policy to good practice guidelines and are satisfied the policies are consistent with those guidelines.

We also tested a sample of transactions from areas of sensitive expenditure incurred during the period and reviewed them for compliance with accepted good practice in the public sector.

We identified one transaction that was not supported by an adequate tax invoice. The District Council's reimbursement of expense claims policy states that expense claims will only be reimbursed when the original tax receipts accompany the expense claim form.

We recommend the District Council remind staff of the importance of retaining itemised tax invoices to support all expense claims claimed to ensure compliance with the policy.

**Management comment**

*Noted. The policy has also been reviewed in the 2015/16 financial year. This review includes an update of the processes.*

# 6 Other matters

## 6.1 Compliance with Treasury Management policy

We identified some instances where the District Council's Treasury Management Policy had not been complied with during the year. We noted the fixed rate maturity thresholds had been exceeded in March 2015.

We understand that management are aware of the breaches and are prepared to accept the risk of non-compliance with the policy.

The District Council should ensure there is an effective control in place to ensure compliance with the policy. The rationale or justification for any intentional departures from policies should be documented and authorised by an appropriate person.

**Management comment**

*All non-compliances are notified to the Strategy and Finance Committee. The policy allows for non-compliance as long as it is resolved within 90 days.*

*A fixed rate maturity profile that is outside the limits, but self corrects within 90-days is not in breach of the Policy. Maintaining a maturity profile beyond 90-days requires specific approval by Council. The March 2015 policy breach has self-corrected by the end of June 2015.*

# 7 Status of previous recommendations

The status of each matter that was outstanding in last year's report to the District Council is summarised in Appendix 2.

Summary of action taken against previous years' recommendations:

| | | Priority | | | |
|---|---|---|---|---|---|
| | | **Urgent** | **Necessary** | **Beneficial** | **Total** |
| **Status** | Cleared - Matters that have been resolved | 1 | 1 | - | 2 |
| | Partially resolved - progress is being made, but not yet fully resolved | - | 10 | - | 10 |
| | Open - No progress made at time of the interim audit | 4 | 6 | - | 8 |
| | **Total** | **5** | **17** | **-** | **22** |

This summary needs to be read in conjunction with the status of recommendations raised in previous years' management reports as detailed at Appendix 2.

# Appendix 1: Explanation of priority rating system

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

We have developed the following priority ratings for our recommended improvements:

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

**AUDIT NEW ZEALAND**
Mana Arotake Aotearoa

# Appendix 2: Status of previous recommendations

## Outstanding matters - matters followed up as part of the final audit

| Recommendation | Status as at 30 June 2015 | Priority | Management's proposed action |
|---|---|---|---|
| **Procurement and contract management** | | | |
| We completed a high level risk assessment over the District Council's procurement and contract management functions. Our review identified some areas where the District Council could improve its control environment around procurement and contract management. We recommended the District Council:<br><br>• Develop and implement a fully functional contract management system that will manage the contracts life cycle, from identification of need through negotiation, agreement, monitoring and completion - including all associated documentation, reporting and monitoring. A contract management system should for example provide functions to control recurring service delivery and periodic billing cycles. It should also enable analysis of overall and categories of spend. | **Open**<br>Refer section 4.1 above for further information.<br>We understand management has subsequently made a number of changes since our final audit visit. We will review these changes as part of the 2015/16 audit. | Urgent | *The priority this year has been the implementation of electronic purchase orders. Roll out to users will commence from February 2016. Contract management will be considered following this.*<br><br>*Other progress has been made. A permanent procurement manager has been appointed which will assist with continued and more rapid progress.*<br><br>*Other points to note:*<br><br>• *A review has been undertaken and changes have been made in the Procurement Policy, the Procurement Manual and the delegated Authority Limits during 2014/15.*<br>• *Training programmes were held this year to increase the awareness on the policy and procedures to be adopted when purchasing goods and services required by the council. More than 80 staff (as at end of November 2015) have been trained and further programmes are scheduled.* |

| Recommendation | Status as at 30 June 2015 | Priority | Management's proposed action |
|---|---|---|---|
| • Develop and implement a single wide contract management policy that is supported by comprehensive procedures, guidelines and standardised templates. The policy should provide guidance on the use of contract management plans, comprehensive guidance on what to do when contract performance obligations and expectations are not being met, dealing with customer complaints, completion or contract risk assessments, process for negotiating and approving contract variations, reference to delegations and processes for close out of a contract. <br><br> • Review, on a regular basis, the procurement activity and contract management. A comprehensive review programme should be in place that covers the entire procurement spent and good evidence of action in response to review findings or recommendations. <br><br> • Provide regular formal training to staff so that they are kept up to date with current contract management processes and practices. | | | • *An internal audit programme has been developed which will provide assurance on procurement matters.* |

| Recommendation | Status as at 30 June 2015 | Priority | Management's proposed action |
|---|---|---|---|
| **Service performance reporting: CRM system** | | | |
| Our review of the CRM system identified the following:<br><br>• there are no controls in place to ensure the correct dates and times have been recorded in the CRM system, that is there is a lack of independent review or other supporting documentation; and<br><br>• the CRM report used by staff to report against only displays the number of complaints. It does not show whether the target has been met. The report is manually checked to each CRM record by the Operations Engineer to determine if the response has been responded to within the appropriate timeframe.<br><br>We recommended the District Council perform the following:<br><br>• ensure reports generated from the CRM system are extracting the right information so staff are able to accurately report results against performance measures; and | **Partially resolved**<br><br>The District Council has made improvements to the CRM system that will help reporting service performance reporting information in 2015/16. We will review these reports as part of the 2015/16 audit.<br><br>There still continues to be no controls in place to ensure the correct dates and times for wastewater overflows has been recorded correctly in the system, i.e. no appropriate supporting documentation. Based on discussions with service delivery staff, the District Council is considering using iPads to record this data so information can be updated in CRM in real time. | Necessary | *Resolved. Completed in early 2015/16.* |

| Recommendation | Status as at 30 June 2015 | Priority | Management's proposed action |
|---|---|---|---|
| • additional supporting documentation is used by staff, that is job summary sheets that record the dates and times the job started and finished. This will allow an independent review to be performed to confirm information has been entered correctly into the CRM system. | | | |
| **Service performance reporting: restoration of service after burst mains or urgent faults** | | | |
| Our testing of the CRM system identified the following:<br><br>• there were a number of instances where the completion data of the job had been entered into the system incorrectly;<br><br>• the CRM report used by the water team to report against only displays the created and targeted dates; it does not provide the completion date to confirm if the measure was responded to within the required timeframe; and<br><br>• all faults (minor and major) were being reported against when the measure only focuses on major faults. | **Partially resolved**<br><br>The District Council has made improvements to the CRM system that will help reporting service performance reporting information in 2015/16. We will review these reports as part of the 2015/16 audit. | Necessary | *The development of iPads for use in the field is nearing implementation. A test version is due to be delivered by December 2015, following internal testing and rollout. This technology means that real time data/time stamping of arrival on site and completion of job will be captured. Where this date/time is manually overridden a system audit is available and these adjustments are able to be reported. For any major disputes with date/time the GPS contained within field vehicles will serve as a means of verification.* |

| Recommendation | Status as at 30 June 2015 | Priority | Management's proposed action |
|---|---|---|---|
| **Revaluation of roading assets** | | | |
| The revaluation of roading initially resulted in a substantial decrease of $59 million with the majority of the decrease in pavement subgrade and pavement subbase. We held discussions with the valuer (Opus International Consultants) to understand the factors that have contributed to the decrease in value since the previous revaluation performed in June 2013. We understand the change in value was attributed to a significant amount of unsealed roads being disabled from the RAMM database therefore these roading assets were excluded from the revaluation.<br><br>Following discussions with management and Opus, these roads were then subsequently revalued and the value of roading assets increased in value of $29.8 million. The financial statements were subsequently updated to reflect the correct roading assets revaluation movements.<br><br>This highlights the need for the District Council to continue to improve their processes and procedures surrounding revaluations, in particular investigating further when there have been significant movements in value of assets between revaluations. | **Partially resolved**<br>Council has made improvements to their processes to understand revaluation movements. However as discussed in section 2.1.1 further improvements can still be made. | Necessary | *Resolved. Process improvements continue to be made. Meetings are now held with the Valuer to specifically review major variances, and going forward more work will be done on the scope of valuations to ensure the professional advice received covers all audit considerations and WDC expectations. More accountability is being placed on the Valuer to justify the changes.* |

## Outstanding matters - matters followed up as part of the interim audit

| Recommendation | Status as at May 2015 | Priority | Management's proposed action |
|---|---|---|---|
| **Expenditure - segregation of duties** | | | |
| The District Council's purchasing system allows staff who have financial delegations to raise and authorise a purchase order and approve the invoice for payment, provided the expenditure is within their delegated authority threshold.<br><br>In our view, the individual who raises and authorises a purchase order should not also be able to approve the invoice for payment. (Ideally there should also be segregation in the receipting of goods and services however, as a minimum, there should be "one up" approval of all expenditure transactions by invoices being approved by a more senior officer than the officer who authorised the order). | **Partially resolved**<br>The District Council is planning to activate the electronic purchase order module included in TechOne. This will be implemented following PwC's review of the District Council's delegations of authority. We will follow up as part of our 2015/16 audit. | Necessary | *Electronic purchase order product training to commence end of November 2016. There has been a scope change to adopt more user friendly interface which has delayed this part of the project. Testing to commence in February 2016.* |
| **Related party transactions** | | | |
| We noted the Interest Declaration Form asks Councillors to declare their and their spouses interests. The form does not ask about interests of elected members' children or dependents. | **Open**<br>This was not followed up as part of our final audit. We will follow up as part of our 2015/16 audit. | Necessary | *Resolved. Will await outcome of the 2015/16 audit.* |

| Recommendation | Status as at May 2015 | Priority | Management's proposed action |
|---|---|---|---|
| PBE IPSAS 20 Related party disclosures states close family members of key management personnel are considered a related party. Close family members define in the accounting standard include spouses, children (both members and spouses) and dependents.<br><br>The District Council should update the Interest Declaration Form to include interests of children and dependents to ensure all related parties are captured under the requirement of PBE IPSAS 20. In order to give effect to the new standard, we also recommended that processes should be in place to determine if transactions with related parties are on an arms-length basis or not. | | | |
| **Service performance reporting: control environment** | | | |
| The District Council implements robust processes to ensure the following issues are addressed:<br><br>• there is no formal quality review process in place (documented and evidenced) to ensure that accurate results are reported in the service performance information;<br><br>• there are limited processes and controls in place to ensure information reported to Council is accurate throughout the year; and | **Partially resolved**<br><br>All performance measures included in the LTP or Annual Plan are included in Interplan. These measures are reported quarterly to the appropriate Council Committee and the Executive Team.<br><br>There is still no formal quality review in place to ensure that accurate results are reported. There are also limited processes and controls in place to ensure information reported to Council is accurate throughout the year. | Necessary | *Currently reviewing our capacity to undertake these particular audits to ensure information reported to Council is accurate throughout the year. No auditing has been carried out to date.* |

| Recommendation | Status as at May 2015 | Priority | Management's proposed action |
|---|---|---|---|
| • the reporting mechanism to Council during the financial year is not directly linked to the District Council's performance framework. | We understand management has implemented a number of processes since our interim audit visit. We will follow up as part of our 2015/16 audit. | | |
| **User access** | | | |
| Our testing of the user termination process found two staff still had access after they had left the District Council. Procedures for terminating users should be improved to ensure all access is terminated as soon as the user has left. This should include third parties and temporary users. | **Partially resolved** The process for removing users who have left has improved. Further improvements are planned as a result of a "lean" review of the process. However, our testing this year identified 13 users who had left this year but had not been disabled. We also identified a high number of users who have not logged into the network over the past five years. We understand management has implemented a number of processes since our interim audit visit. We will follow up as part of our 2015/16 audit. | Necessary | No change – resolved. |

A52J - H61B - aikatoDC15J - 30-06-2015

| Recommendation | Status as at May 2015 | Priority | Management's proposed action |
|---|---|---|---|
| **High number of generic/shared network logins** | | | |
| Our review of the list of network logins identified a high number of generic logins. This raises the risk of unauthorised access or inability to track access back to a particular individual.<br><br>We recommended a review of all network logins should be done and any generic logins that the District Council requires should be reapproved and documented.<br><br>There should also be a formal approval process established for creating any generic logins. | **Open**<br>Our review identified there are more generic accounts than last year. We continue to recommend a review of all network logins should be done and any generic logins that the District Council requires should be re-approved and documented.<br><br>A formal approval process should also be established for creating any generic logins.<br><br>We understand management has implemented a number of processes since our interim audit visit. We will follow up as part of our 2015/16 audit. | Necessary | *The "new user" process has been updated to address generic account requirements.* |
| **Regular restores from backup tape** | | | |
| The District Council performs data restores from disc copy. However, there are no formal regular test restores being performed from backup tapes. This raises the risk that data may not be able to be recovered in a major disaster.<br><br>We recommended formalised regular data restores tests should be performed from backup tapes. | **Partially resolved**<br>A project to replace backup software has commenced. No formal scheduled restores are being performed.<br><br>We understand management has implemented a number of processes since our interim audit visit. We will follow up as part of our 2015/16 audit. | Necessary | *Backups have been migrated across to the new back up infrastructure. Project completion has been pushed out to December 2015 and a restore test will commence prior.* |

| Recommendation | Status as at May 2015 | Priority | Management's proposed action |
|---|---|---|---|
| **All devices have virus definition updates and patches applied** | | | |
| The systems which are used for updating virus definitions and Microsoft patches are recording widely varying numbers of PCs and servers, raising the risk that not all of the District Council's infrastructure is being protected from virus and malware attack.<br><br>We also noted there is no detailed IT asset register to confirm the number of devices owned by the District Council.<br><br>A register of all IT assets should be maintained and regular formal reporting on the status of virus and patch management should be done to confirm the District Council's entire IT infrastructure is protected. | **Partially resolved**<br><br>Improvements to virus management and patch management have been done. However, no regular reporting is in place, and there are discrepancies between the number of devices reported in the various management systems.<br><br>We understand management has implemented a number of processes since our interim audit visit. We will follow up as part of our 2015/16 audit. | Necessary | *Patch and virus management servers have been rebuilt and monthly checks are undertaken by the Helpdesk to ensure the patches and virus updates are being successfully applied across the organisation.* |
| **Regular review of user accounts** | | | |
| There is no formal process to review user accounts at the network level and in the applications systems.<br><br>We recommended a review of users and their access levels be carried out on a regular basis (perhaps annual) to ensure no inappropriate access to systems. | **Partially resolved**<br><br>A review of network login accounts has started, including entering contractor expiry dates, and entering comments beside generic network accounts.<br><br>However our testing noted that there are still a high number of generic accounts and users who have left or not logged in for years.<br><br>We understand management has implemented a number of processes since our interim audit visit. We will follow up as part of our 2015/16 audit. | Necessary | *Review of network accounts ongoing.*<br><br>*Generic accounts addressed as part of "High number of generic/shared network logins" response.*<br><br>*User accounts that have not been logged into addressed as part of "User access".* |

| Recommendation | Status as at May 2015 | Priority | Management's proposed action |
|---|---|---|---|
| **Business continuity and IT Disaster recovery planning** | | | |
| The District Council does not have a Business Plan and IT Disaster Recovery Plan. We recommended the District Council develop and test organisational business continuity plans. This planning should drive the development of an IT Disaster Recovery Plan. Plans should be tested on a regular basis to ensure they are still meeting the organisations objectives for acceptable risk and levels of services to its customers. | **Partially resolved** Work has commenced on identifying critical systems and manual procedures. Finalisation and testing of plans should be completed. We understand management has implemented a number of processes since our interim audit visit. We will follow up as part of our 2015/16 audit. | Necessary | *Backups have been migrated across to the new backup infrastructure. Project completion has been pushed out to December 2015. A restore test will be completed prior to 24 December 2015.* |
| **Monitoring and reporting on IT service performance** | | | |
| The District Council has systems in place for recording problems and incidents, and for monitoring systems. However there is no formal monitoring and reporting on IT service performance and KPIs. We recommended reporting on IT KPIs should be developed, including problem and incident resolutions and system performance. | **Open** This was not followed up as part of our final audit. We will follow up as part of our 2015/16 audit. | Necessary | *KPIs for IM team members have been developed and are included in their performance evaluations. Internal KPIs continue to be developed and published internally. Will await outcome of the 2015/16 audit.* |
| **Change management** | | | |
| We noted that formal change management policies and processes are not in place for IT Infrastructure and software changes. We recommended change management procedures are implemented and all changes are logged and approved before they are made to live systems. | **Open** This was not followed up as part of our final audit. We will follow up as part of our 2015/16 audit. | Necessary | *The existing change management process has been applied to those changes that pose a significant risk. Will await outcome of the 2015/16 audit.* |

A021 - H618\WaikatoDC15J - 30-06-2015

**AUDIT NEW ZEALAND**

Mana Arotake Aotearoa

| Recommendation | Status as at May 2015 | Priority | Management's proposed action |
|---|---|---|---|
| Review of users who have remote access | | | |
| District Council staff are able to access the District Council's systems from their own devices. Formal application is required for this to be set up. However, we noted there have been no reviews of individuals who still have this level of access. This raises the risk that access may have been left open after it should have been removed. We recommended that a review is performed of whom has remote access to the District Council's systems, to ensure it is limited to only approved staff and contractors. | **Open** This was not followed up as part of our final audit. We will follow up as part of our 2015/16 audit. | Necessary | *All previous users who had remote access were removed from the system and were required to reapply for access, if applicable, by 30 July 2015. This process will be undertaken on an annual basis to ensure all remote access users are current and are limited to approved staff and contractors. Will await outcome of the 2015/16 audit.* |

## Outstanding matters - matters raised as part of the LTP audit and not audited as part of the 2014/15 Annual Report

| Recommendation | Current status | Priority | Management's proposed action |
|---|---|---|---|
| **Financial forecasting processes** | | | |
| WDC adheres to good asset management planning practices. However, the AMPs do not provide clear and comprehensive details of the financial forecasting and planning process.<br><br>Going forward, the AMPs are improved to include the aspects mentioned. | **Open**<br>We understand minimal progress has been **made as the District Council will be** addressing issues in 2015/16. We will follow up as part of the 2015/16 audit. | Urgent | *Work is complete. Financial information has always been available, in order to avoid rework.* **Will await outcome of the 2015/16 audit.** |
| **Capital expenditure for groups of activities** | | | |
| According to requirement in Schedule 10(3) of the LGA, 2002, asset models should allow capital expenditure to distinguish between: (a) meeting additional demand for an activity; (b) improving the level of service; and (c) replacing existing assets. The expectation is that the AMPs allocate each project to one of these categories.<br><br>This detail is not contained in the AMPs and we understand that this will not be completed until the LTP is completed. This is not good practice.<br><br>The AMP should include asset management planning information that informs the LTP and not the other way around.<br><br>AMPs can be enhanced to distinguish between the different categories in Schedule 10(3) of the LGA, 2002. | **Open**<br>We understand minimal progress has been made as the District Council will be addressing issues in 2015/16. We will follow up as part of the 2015/16 audit. | Urgent | *Work is complete. This breakdown has always been available, however to avoid rework on physical documents the data was not updated until final adoption. Audit has not reviewed as part of that process. Will await outcome of the 2015/16 audit.* |

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

| Recommendation | Current status | Priority | Management's proposed action |
|---|---|---|---|
| **Assumptions - reliability of data** | | | |
| Assumptions in the AMPs do not include the reliability of data.<br><br>Going forward, we recommend that information on the reliability of data used for assumptions is included in AMPs. | **Open**<br>We understand minimal progress has been made as the District Council will be addressing issues in 2015/16. We will follow up as part of the 2015/16 audit. | Urgent | *Parks and facilities: Over the past year we have collected data on all our parks assets - condition and photo, deleted assets from the data base which are not in the field and added to the data base new and found assets that are in the field and processed all asbuilts that have come across our desks.*<br><br>*With our facilities we have had condition surveys done of our pool facilities, housing for the elderly facilities, head office, libraries, majority of halls, and a start has been made on general property. This will not be completed this year as we do not have enough budget.*<br><br>*Roading: The 2014 AMP included an assessment of the reliability of data used for the June 2014 valuation. This will be updated when the AMP is reviewed. Will await outcome of the 2015/16 audit.* |
| **Levels of service** | | | |
| We noted for Roading that there is currently a transition to the One Network Road Classification (ONRC) framework. This will present a number of challenges for WDC. We found that categorisation of roads using the new criteria is largely complete but there are still some anomalies to be resolved and roads that cross into neighbouring districts need to be consistent along their length. We noted that the Waikato and Franklin District Plans contain | **Open**<br>We understand minimal progress has been made as the District Council will be addressing issues in 2015/16. We will follow up as part of the 2015/16 audit. | Necessary | *Meetings with neighbouring Councils have resolved cross boundary road categorisation issues. Will await outcome of the 2015/16 audit.* |

| Recommendation | Current status | Priority | Management's proposed action |
|---|---|---|---|
| definitions of the road hierarchy and maps. Many stipulations in both plans define standards for access that are based on the hierarchy. We recommended that stipulation that defined standards for access need to be amended to reflect the new ONRC hierarchy. Changes to District Plans require extensive public consultation and can be a lengthy process. | | | |

## Matters that have been resolved

| Recommendation | Outcome |
|---|---|
| **Source data from roading valuations** | |
| For future revaluations, we recommended the District Council work more closely with Opus Consultants so that source data reports include the appropriate information that will allow the District Council to re perform the valuer's calculation to confirm the accuracy of the valuation. It will also enable a better understanding of the various components of the valuation. | **Matter resolved**<br><br>The District Council worked closely with Opus Consultants to ensure the accuracy of the valuation. This was confirmed through our work on the valuation of roading assets. |
| **Follow up on outstanding sundry debtors** | |
| During our review of the District Council's sundry debtor system we noted that the District Council had not been following up on outstanding sundry debtors.<br><br>While we are satisfied there is an appropriate system in place to follow up on outstanding debtors, it is important that the District Council implements this system to ensure outstanding funds are collected.<br><br>We recommended the District Council implements the system for follow up of outstanding debtors to ensure all funds owed to the District Council are collected in a timely manner. | **Matter resolved.**<br><br>An additional resource was put in place to address the backlog. We noted that as at 30 June 2015 receivables >30 days was $551, 000 compared to $1.38 million as at 1 May 2015. |

# Appendix 3: Mandatory disclosures

| Area | Key messages |
|---|---|
| Our responsibilities in conducting the audit | 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 reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001. <br><br> The audit of the financial statements does not relieve management or the Council of their responsibilities. <br><br> Our audit engagement letter contains a detailed explanation of the respective responsibilities of the auditor and the Council. |
| Auditing standards | We carry out our audit in accordance with generally accepted audit standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters. |
| Auditor independence | We confirm that, for the audit of the Waikato District Council's financial statements for the year ended 30 June 2015, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board. <br><br> In addition to this audit, which includes our report on the Other Requirements, we have carried out assignments in the areas of audit of the debenture trust, summary annual report, long term plan amendment, consultation document, long term plan and other assurance services, which are compatible with those independence requirements. Other than these assignments we have no relationship with or interests in the District Council or any of its subsidiaries. |
| Other relationships | 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 Waikato District Council that is significant to the audit. <br><br> We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the Waikato District Council during or since the end of the financial year. |
| Unresolved disagreements | We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the financial statements. Management has not sought to influence our views on matters relevant to our audit opinion. |

**REPORT**

Item Number:

*Open Meeting*

| | |
|---|---|
| **To** | Audit & Risk Committee |
| **From** | TG Whittaker |
| | General Manager Strategy & Support |
| **Date** | 9 March 2016 |
| **Prepared By** | K Jenkins |
| | Project Manager Advisor |
| **Chief Executive Approved** | Y |
| **DWS Document Set #** | 1472849 |
| **Report Title** | **Strategic Risk Register Update** |

## 1. Executive Summary

There has been minimal change to the Strategic Risk Register since the last update. The changes that have been made are:

**R00128 Cyber Security** - *Unauthorised access and or theft of privileged information, malicious code and viruses introduced due to external cyber-attack and or employee behaviour.*

- A new treatment MC00394 related to the development of an ICT Strategy has been added. The treatment stipulates that the management of cyber security is governed by the Strategy. This treatment is under action as the Strategy is currently in draft format. The draft will be finalised April 2016.

**R00057 Asset Management** - *Failure to provide sustained delivery of core services due to poor knowledge of asset condition, poor management of assets and inadequate asset management planning.*

- Treatment MC00129 accountability has been changed from Asset Management Team Leader to Waters Manager to meet current business practices.

**R00155 Community Engagement** - *Community and key stakeholders are disengaged due to a lack of opportunity to engage in decision making.*

- Treatment MC00123 'Develop/Review Community Plan – Arrange Community Meeting to Launch Process' and MC00125 'Initiate Community Plan - Prepare discussion Paper' have been removed. These items are included in the Significance & Engagement Policy (MC00164).

**R00157 Three Waters Study** - *Significant temporary disruption to business and service levels resulting from water study decision.*

- Treatment MC00391 has been added. The treatment demonstrates activity that works towards delivering on the project directives.

In line with work completed by the Zero Harm Team in relation to the identification of critical risks, an operational risk activity area will be created in Promapp specific to the zero harm critical risk register. The identified risks will be added along with associated treatments. This work is due to commence in April 2016.

Risk treatment MC00116 is currently overdue. A Promapp fault prevents the risk being updated. Promapp has been notified and are working on a solution. The treatment has been reviewed and meets the requirement however associated processed are currently under review.

The WDC Risk Coordinator continues engagement meetings with Risk and Treatment Owners across the organisation to maintain activity in the Strategic Risk Register.

Work towards creating training packages to introduce and elevate risk awareness into the organisation at both a strategic and operational level has been postponed due to focus on redevelopment of the WDC Project Management Framework. This body of work has a component of risk identification and management and therefore provides a degree of socialisation to risk management for organisational Project Managers and their teams. Development of risk training will recommence in the new financial year.
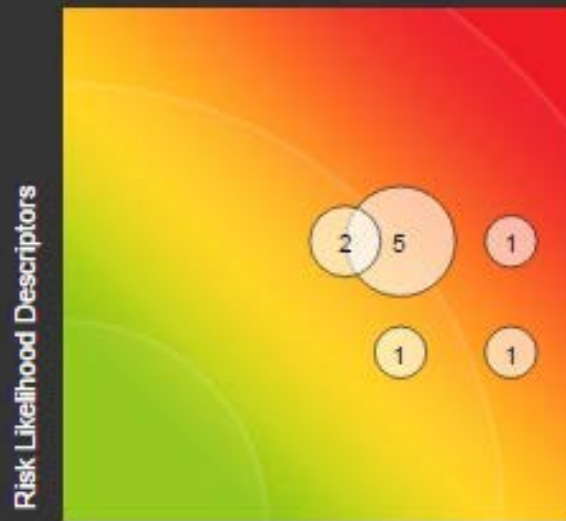
## 2. Recommendation

**THAT the report of the General Manager Strategy & Support –** *Strategic Risk Register Update* **- be received;**
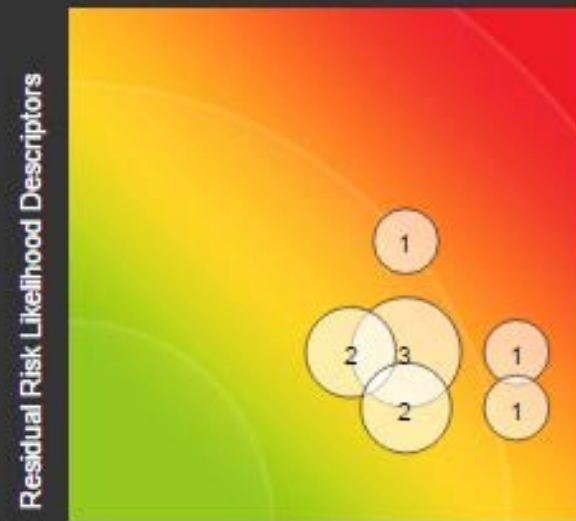
## 3. Attachments

*Strategic Risk Register, Heat Map*

Classification(s): STRATEGIC (A&R Committee)

# Risk Register

**Filter:** Classification(s): STRATEGIC (A&R Committee)

---

| | | | |
|---|---|---|---|
| **RESIDUAL** **12.0** HIGH | **BUSINESS CONTINUITY, ALLIANCE, STRATEGIC (A&R COMMITTEE)** | **TREATMENT MC00380** | **SIGNOFF(S):** **Mike James** |

**RESIDUAL**
**12.0**
HIGH

**INHERENT**
**12.0**

R00158

**BUSINESS CONTINUITY, ALLIANCE, STRATEGIC (A&R COMMITTEE)**

## Roading Alliance (internal)
Significant disruption to business because of poor communication, loss of staff, knowledge transfer or incompatible systems.

**OWNER**    Tim Harty

| | |
|---|---|
| **RISK LIKELIHOOD DESCRIPTORS** | Likely (3) |
| **RISK CONSEQUENCE DESCRIPTORS** | Major (4) |
| **RESIDUAL RISK LIKELIHOOD DESCRIPTORS** | Likely (3) |
| **RESIDUAL RISK CONSEQUENCE DESCRIPTORS** | Major (4) |

**TREATMENT MC00380**

The Roading Alliance Team is actively managing risks and reporting to Alliance leadership and Principals group on a regular basis.

| | |
|---|---|
| **SIGNOFF(S):** | **Mike James** |
| **DUE DATE:** | |
| **FREQUENCY:** | **Once** |

---

**RESIDUAL**
**10.0**
MODERATE

**INHERENT**
**10.0**

R00053

**BUSINESS CONTINUITY, STRATEGIC (A&R COMMITTEE)**

## Business Resilience
Business function is significantly interupted
due to a lack of business continuity planning and organisational resilience.

**OWNER**    Kurt Abbot

| | |
|---|---|
| **RISK LIKELIHOOD DESCRIPTORS** | Possible (2) |
| **RISK CONSEQUENCE DESCRIPTORS** | Catastrophic (5) |
| **RESIDUAL RISK LIKELIHOOD DESCRIPTORS** | Possible (2) |
| **RESIDUAL RISK CONSEQUENCE DESCRIPTORS** | Catastrophic (5) |

**TREATMENT MC00138**

The Business Continuity project is in progress as part of the Our Plan 2015/16 programme of work.

| | |
|---|---|
| **SIGNOFF(S):** | **Kurt Abbot** |
| **DUE DATE:** | **01 Dec 2016** |
| **FREQUENCY:** | **1st day of every 12 months** |

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<table>
<tr><td>
RESIDUAL
**8.0**
MODERATE

INHERENT
**12.0**

R00056
</td></tr>
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**PEOPLE, REPUTATION/ IMAGE, STRATEGIC (A&R COMMITTEE)**

## Zero Harm
Significant harm is caused due to poor or inactive Health and Safety procedures or culture of non-compliance.

**OWNER**    Kevin Lockley

| | |
|---|---|
| **RISK LIKELIHOOD DESCRIPTORS** | Likely (3) |
| **RISK CONSEQUENCE DESCRIPTORS** | Major (4) |
| **RESIDUAL RISK LIKELIHOOD DESCRIPTORS** | Possible (2) |
| **RESIDUAL RISK CONSEQUENCE DESCRIPTORS** | Major (4) |

---

**TREATMENT MC00116**

**Manage Volunteer Workers - Provide information to volunteer group**
Provide relevant information to volunteers to ensure compliance with zero harm initiatives.

**OVERDUE**

| | |
|---|---|
| **SIGNOFF(S):** | Kylie Anderson<br>Kevin Lockley |
| **DUE DATE:** | 01 Feb 2016 |
| **FREQUENCY:** | 1st day of every 3 months |

---

**TREATMENT MC00117**

**Report and Manage Hazards - Risk/Hazard Identified**
Report and Manage Hazards - Risk/Hazard Identified. Report and Manage Hazards - Risk/Hazard Identified.

| | |
|---|---|
| **SIGNOFF(S):** | Kylie Anderson<br>Kevin Lockley |
| **DUE DATE:** | 01 Jul 2016 |
| **FREQUENCY:** | 1st day of every 12 months |

---

**TREATMENT MC00118**

**Report and Investigate a Near Miss Work Incident (Non Injury) - Determine if workplace incident was a near miss**

| | |
|---|---|
| **SIGNOFF(S):** | Vanessa Jenkins |
| **DUE DATE:** | 01 Jul 2016 |
| **FREQUENCY:** | 1st day of every 12 months |

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**TREATMENT MC00120**

**Report and investigate a serious harm accident - Review accident details**

| | |
|---|---|
| **SIGNOFF(S):** | Kevin Lockley<br>Kylie Anderson |
| **DUE DATE:** | 01 Jul 2016 |
| **FREQUENCY:** | 1st day of every 12 months |

---

**TREATMENT MC00159**

**Carry out Contractor H&S Induction - Follow up agreed actions**
An H&S induction is provided to all contract staff.

| | |
|---|---|
| **SIGNOFF(S):** | Kevin Lockley<br>Kylie Anderson |
| **DUE DATE:** | 01 Jul 2016 |
| **FREQUENCY:** | The first Day of every 12 months |

---

**TREATMENT MC00379**

**Inspect/Audit Contract Health & Safety - Carry out Health & Safety Audit as required**
A periodic or adhoc H&S audit is performed.

| | |
|---|---|
| **SIGNOFF(S):** | Kevin Lockley<br>Kylie Anderson |
| **DUE DATE:** | 10 Jun 2016 |
| **FREQUENCY:** | 10th day of every 12 months |

**BUSINESS CONTINUITY, FINANCIAL, STRATEGIC (A&R COMMITTEE)**

| | |
|---|---|
| RESIDUAL **8.0** MODERATE | |

## Asset Management
Failure to provide sustained delivery of core services due to poor knowledge of asset condition, poor management of assets and inadequate asset management planning.

INHERENT **12.0**

R00057

| | |
|---|---|
| **OWNER** | Tim Harty |
| **RISK LIKELIHOOD DESCRIPTORS** | Likely (3) |
| **RISK CONSEQUENCE DESCRIPTORS** | Major (4) |
| **RESIDUAL RISK LIKELIHOOD DESCRIPTORS** | Possible (2) |
| **RESIDUAL RISK CONSEQUENCE DESCRIPTORS** | Major (4) |

---

**TREATMENT MC00129**

**Check (retic) Asset Maintenance Forms - Check asset maintenance form**

| | |
|---|---|
| SIGNOFF(S): | **Martin Mould** **Cynthia Gillespie** |
| DUE DATE: | **01 Sep 2016** |
| FREQUENCY: | **1st day of every 12 months** |

---

**TREATMENT MC00130**

**WDA - Provide asset data for RAMM database - Complete asset data collection forms**

| | |
|---|---|
| SIGNOFF(S): | **Adam Van Niekerk** |
| DUE DATE: | **01 Sep 2016** |
| FREQUENCY: | **1st day of every 12 months** |

---

**TREATMENT MC00161**

**Service Delivery Activity Management Plans (AMPS)**
The purpose of the AMPS is to document the management philosophy of council assets and the provision of associated services.
This long-term planning approach is considered necessary given the large capital and operating expenditure expected, the long lives of the assets and the lead times in planning for upgrades, replacements and the purchase or building of new assets.

| | |
|---|---|
| SIGNOFF(S): | **Elton Parata** **Wayne Furlong** |
| DUE DATE: | **01 Apr 2016** |
| FREQUENCY: | **The first Day of every 12 months** |

---

**TREATMENT MC00162**

**WDC Activity Management Policy - provides statements on how WDC will manage assets and deliver associated services in a cost effective, sustainable, well planned and co-ordinated manner to provide agreed levels of service.**

| | |
|---|---|
| SIGNOFF(S): | **Elton Parata** **Wayne Furlong** |
| DUE DATE: | **01 Sep 2016** |
| FREQUENCY: | **The first Day of every 12 months** |

---

**TREATMENT MC00163**

**The WDC 2015-2045 Infrastructure Strategy documents the management philosophy that is applied to Waikato Districts' infrastructure assets.**

**The strategy covers the following asset types: Water Treatment and supply, Wastewater Treatment and Disposal, Stormwater Drainage, Roads and footpaths.**

| | |
|---|---|
| SIGNOFF(S): | **Martin Mould** |
| DUE DATE: | **01 Nov 2016** |
| FREQUENCY: | **The first Day of every 12 months** |

---

**TREATMENT MC00376**

**WDA - Collect RAMM Data Fields - Load field asset data into RAMM database**

| | |
|---|---|
| SIGNOFF(S): | **Dave Taylor** |
| DUE DATE: | **10 Dec 2016** |
| FREQUENCY: | **10th day of every 12 months** |

**RESIDUAL**
**8.0**
MODERATE

**INHERENT**
**12.0**

R00157

COMPLIANCE/ REGULATORY, REPUTATION/ IMAGE, STRATEGIC (A&R COMMITTEE)

## Three Waters Study
Significant temporary disruption to business and service levels resulting from water study decision.

**OWNER**  Tim Harty

| | |
|---|---|
| **RISK LIKELIHOOD DESCRIPTORS** | Likely (3) |
| **RISK CONSEQUENCE DESCRIPTORS** | Major (4) |
| **RESIDUAL RISK LIKELIHOOD DESCRIPTORS** | Possible (2) |
| **RESIDUAL RISK CONSEQUENCE DESCRIPTORS** | Major (4) |

**TREATMENT MC00391**

**A project group, that meets fortnightly, has been implemented in consultation with the Mayoral Forum to address ongoing project directives and report against Water Study decisions.**

**SIGNOFF(S):** **Martin Mould**

**DUE DATE:** **01 Jan 2017**

**FREQUENCY:** **1st day of every 12 months**

<table>
<tr><td>

**RESIDUAL**
**6.0**
MODERATE

**INHERENT**
**9.0**

R00155

</td><td>

**PEOPLE, POLITICAL, REPUTATION/ IMAGE, STRATEGIC (A&R COMMITTEE)**

## Community Engagement
Community and key stakeholders are disengaged due to a lack of opportunity to engage in decision making.

**OWNER**    Shelley Monrad

**RISK LIKELIHOOD DESCRIPTORS**    Likely (3)

**RISK CONSEQUENCE DESCRIPTORS**    Moderate (3)

**RESIDUAL RISK LIKELIHOOD DESCRIPTORS**    Possible (2)

**RESIDUAL RISK CONSEQUENCE DESCRIPTORS**    Moderate (3)

</td></tr>
</table>

**TREATMENT MC00121**

**Long Term Plan Special Consultative Procedure - Hold Public Meetings**

| SIGNOFF(S): | Melissa Russo Shelley Monrad |
| --- | --- |
| DUE DATE: | 01 Mar 2019 |
| FREQUENCY: | 1st day of every 36 months |

**TREATMENT MC00122**

**Confirm Communtiy LTP Priority Projects - Confirm LTP Priority Project List with Communities**
Communicate decisions around Long Term Plan priority projects.

| SIGNOFF(S): | Melissa Russo Shelley Monrad |
| --- | --- |
| DUE DATE: | 01 Mar 2019 |
| FREQUENCY: | 1st day of every 36 months |

**TREATMENT MC00124**

**Update Communities on confirmed LTP Projects - Report back to Community Boards and Community Committees**
Ensure adequate engagement with community confirming Long Term Plan projects and provide feedback to Community Boards and Community Committees.

| SIGNOFF(S): | Melissa Russo Shelley Monrad |
| --- | --- |
| DUE DATE: | 01 Jun 2016 |
| FREQUENCY: | 1st day of every 3 months |

**TREATMENT MC00164**

**Community engagement strategy:**
This Strategy provides WDC with guidance on its community engagement activities

| SIGNOFF(S): | Melissa Russo Shelley Monrad |
| --- | --- |
| DUE DATE: | 01 Jun 2016 |
| FREQUENCY: | The first Day of every 6 months |

**TREATMENT MC00165**

**Creation of a significance & engagement policy**

The policy oulines how WDC will assess "significance", as required by the LGA amendment bill. A particular issue is the determination of whether an issue is of "high" significance or not in regard to the impact on communities, rather than just on economic impact which is generally the current basis for council decisions.

Environmental, social and cultural well-beings must also form part of a significance determination which should not be overshadowed by financial considerations.

| SIGNOFF(S): | Melissa Russo Shelley Monrad |
| --- | --- |
| DUE DATE: | 01 Jun 2016 |
| FREQUENCY: | The first Day of every 6 months |

**TREATMENT MC00388**

**Review of Significance and Engagement Policy in line with LTP.**

| SIGNOFF(S): | Brian Cathro Shelley Monrad Melissa Russo |
| --- | --- |
| DUE DATE: | 01 Nov 2017 |
| FREQUENCY: | 1st day of every 24 months |

**RESIDUAL**
**6.0**
MODERATE

**INHERENT**
**9.0**

R00051

PEOPLE, POLITICAL, REPUTATION/ IMAGE, STRATEGIC (A&R COMMITTEE)

## Customer Service
Customers are disengaged because of poor customer service.

OWNER    Angela Parquist

| | |
|---|---|
| **RISK LIKELIHOOD DESCRIPTORS** | Likely (3) |
| **RISK CONSEQUENCE DESCRIPTORS** | Moderate (3) |
| **RESIDUAL RISK LIKELIHOOD DESCRIPTORS** | Possible (2) |
| **RESIDUAL RISK CONSEQUENCE DESCRIPTORS** | Moderate (3) |

**TREATMENT MC00166**

**WDC staff undertake Our Customer training modules as part of the "Building our customer driven culture" training**

**TREATMENT MC00377**

**Receive and Enter a Service Request - Receive Request from Customer**

| | |
|---|---|
| SIGNOFF(S): | **Hayleigh Evett** |
| DUE DATE: | **01 Jan 2017** |
| FREQUENCY: | **The first Day of every 12 months** |

| | |
|---|---|
| SIGNOFF(S): | **Alexis Cooper** |
| DUE DATE: | **10 Dec 2016** |
| FREQUENCY: | **10th day of every 12 months** |

| | |
|---|---|
| **RESIDUAL** **5.0** LOW | |
| **INHERENT** **15.0** | |
| R00019 | |

**FINANCIAL, POLITICAL, REPUTATION/ IMAGE, STRATEGIC (A&R COMMITTEE)**

## Economic Development
WDC inhibits economic development due to a lack of business agility, poor planning, untimely investment in infrastructure, and or poor engagement with key stakeholders.

**OWNER**    Clive Morgan

| | |
|---|---|
| **RISK LIKELIHOOD DESCRIPTORS** | Likely (3) |
| **RISK CONSEQUENCE DESCRIPTORS** | Catastrophic (5) |
| **RESIDUAL RISK LIKELIHOOD DESCRIPTORS** | Rare (1) |
| **RESIDUAL RISK CONSEQUENCE DESCRIPTORS** | Catastrophic (5) |

**TREATMENT MC00012**

**Set development contribution levies - Provide Growth Information**

| | |
|---|---|
| SIGNOFF(S): | **Alison Diaz** |
| DUE DATE: | **01 Apr 2016** |
| FREQUENCY: | **The first Day of every 6 months** |

**TREATMENT MC00056**

**Tuakau structure plan project underway, linked to prepare a structure plan process**

| | |
|---|---|
| SIGNOFF(S): | **Vishal Ramduny** |
| DUE DATE: | **01 Sep 2016** |
| FREQUENCY: | **The first Day of every 6 months** |

**TREATMENT MC00057**

**Future proof growth strategy review and engagement**

| | |
|---|---|
| SIGNOFF(S): | **Vishal Ramduny** |
| DUE DATE: | **01 Sep 2016** |
| FREQUENCY: | **The first Day of every 6 months** |

**TREATMENT MC00058**

**Undertake engagement as per Auckland City MOU**

| | |
|---|---|
| SIGNOFF(S): | **Vishal Ramduny** |
| DUE DATE: | **01 Sep 2016** |
| FREQUENCY: | **The first Day of every 6 months** |

**TREATMENT MC00059**

**Waikato Plan reflects the growth aspirations of the Waikato district and provides robust data for better planning and connectivity.**

| | |
|---|---|
| SIGNOFF(S): | **Vishal Ramduny** |
| DUE DATE: | **01 Aug 2016** |
| FREQUENCY: | **The first Day of every 4 months** |

**TREATMENT MC00060**

**Economic development roadmap projects provide support for planning and infrastructure investment.**

| | |
|---|---|
| SIGNOFF(S): | **Clive Morgan** |
| DUE DATE: | **01 Jun 2016** |
| FREQUENCY: | **The first Day of every 6 months** |

**TREATMENT MC00163**

**The WDC 2015-2045 Infrastructure Strategy documents the management philosophy that is applied to Waikato Districts' infrastructure assets.**

**The strategy covers the following asset types: Water Treatment and supply, Wastewater Treatment and Disposal, Stormwater Drainage, Roads and footpaths.**

| | |
|---|---|
| SIGNOFF(S): | **Martin Mould** |
| DUE DATE: | **01 Nov 2016** |
| FREQUENCY: | **The first Day of every 12 months** |

**RESIDUAL**
**4.0**
LOW

**INHERENT**
**8.0**

R00058

FINANCIAL, POLITICAL, STRATEGIC (A&R COMMITTEE)

## Regional/ National Strategic Planning
Our District is significantly impacted and or suffers missed funding opportunities due to poor engagement in Regional and or National strategic planning.

**OWNER** Vishal Ramduny

| | |
|---|---|
| **RISK LIKELIHOOD DESCRIPTORS** | Possible (2) |
| **RISK CONSEQUENCE DESCRIPTORS** | Major (4) |
| **RESIDUAL RISK LIKELIHOOD DESCRIPTORS** | Rare (1) |
| **RESIDUAL RISK CONSEQUENCE DESCRIPTORS** | Major (4) |

**TREATMENT MC00135**

**WDC is a key player in the Waikato Mayoral forum thereby proactively contributing to a single voice for the Waikato region to central government.**

**TREATMENT MC00378**

**Prepare a District Development Strategy - Prepare project brief**
**Project brief was issued 2015. District Development Strategy was adopted October 2015.**

| | |
|---|---|
| **SIGNOFF(S):** | **Vishal Ramduny** |
| **DUE DATE:** | **01 Oct 2016** |
| **FREQUENCY:** | **1st day of every 6 months** |

| | |
|---|---|
| **SIGNOFF(S):** | **David Totman** |
| **DUE DATE:** | **10 Oct 2017** |
| **FREQUENCY:** | **10th day of every 12 months** |

**RESIDUAL**
**4.0**
LOW

**INHERENT**
**12.0**

R00128

BUSINESS CONTINUITY, FINANCIAL, REPUTATION/ IMAGE, TECHNICAL, STRATEGIC (A&R COMMITTEE)

## Cyber Security
Unauthorised access and or theft of privileged information, malicious code and viruses introduced due to external cyber attack and or employee behaviour.

OWNER    Julian Hudson

| RISK LIKELIHOOD DESCRIPTORS | Likely (3) |
|---|---|
| RISK CONSEQUENCE DESCRIPTORS | Major (4) |
| RESIDUAL RISK LIKELIHOOD DESCRIPTORS | Rare (1) |
| RESIDUAL RISK CONSEQUENCE DESCRIPTORS | Major (4) |

**TREATMENT MC00348**

**WDC has an operative network security system ( series of firewalls) to safe guard the connection between Council's internal network and the internet.**

| SIGNOFF(S): | Julian Hudson |
|---|---|
| DUE DATE: | 01 Feb 2017 |
| FREQUENCY: | 1st day of every 12 months |

**TREATMENT MC00349**

**Cyber security is audited annually by Audit NZ. Council's firewall configuration is audited periodically and recommendations implemented as deemed appropriate by the IM manager.**

| SIGNOFF(S): | Julian Hudson |
|---|---|
| DUE DATE: | 01 Feb 2017 |
| FREQUENCY: | 1st day of every 12 months |

**TREATMENT MC00350**

**Cyber security is managed using best practise methodologies by using security measures at various layers of connection.**
**a) Firewalls**
**b) Server**
**c) PC**
**d) User**
**e) Physical**
**f) Wireless access**
**g) WDC website**

| SIGNOFF(S): | Julian Hudson |
|---|---|
| DUE DATE: | 01 Feb 2017 |
| FREQUENCY: | 1st day of every 12 months |

**TREATMENT MC00394**

**Implement ICT Strategy**
**Organisational management of cyber security is governed by strategic processes as documented in the ICT Strategy. The strategy includes directives associated with;**
**- procurement (contractual security requirements)**
**- monitoring & response (Critical ICT applications)**
**- organisational direction/technical advancement (considering alignment to business requirement)**
**- asset management**

| SIGNOFF(S): | Julian Hudson |
|---|---|
| DUE DATE: | 01 Mar 2017 |
| FREQUENCY: | 1st day of every 12 months |

*Open Meeting*

| | |
|---|---|
| **To** | Audit & Risk Committee |
| **From** | TG Whittaker |
| | General Manager Strategy & Support |
| **Date** | 7 March 2016 |
| **Prepared By** | K Abbot |
| | Organisational Planning & Project Support Team Leader |
| **Chief Executive Approved** | Y |
| **DWS Document Set #** | 1471396 |
| **Report Title** | **Update – Proposed Local Government Risk Agency** |

## 1 Executive Summary

The purpose of this report is to update the audit and risk committee on the progress of the formation of a local government risk agency (LGRA). As previously reported to the committee LGNZ have formed an establishment board for LGRA.

The establishment board has been working closely with LGNZ, local authorities, and officials from the Department of Internal Affairs, the Ministry of Civil Defence & Emergency Management and Treasury since its inception. Its primary task is to identify risk management services that would assist councils and locally owned infrastructure.

The Board's initial draft business case is currently underway and is expected to update Councils later this year.

Two appendices are attached to this report. Appendix one outlines the progress and approach of the LGRA. Appendix two contains a presentation from treasury on the possible outcomes of the 60/40 cost sharing arrangement. (note: appendix two is an update only and is in draft form therefore cannot be considered as government policy).

## 2 Recommendation

**THAT the report of the General Manager Strategy & Support –** *Update – Proposed Local Government Risk Agency* **– be received.**

## 3 Attachments

*Appendix one – Local government risk management agency (LGRA) update*

*Appendix two – 60/40 cost sharing arrangement reform update on progress 2016*

# 60/40 Cost Sharing Arrangement Reform – Update on Progress

### February 2016

# Background

- Canterbury earthquakes had a significant impact on council insurance services

- LGNZ commissioned Craig Stobo to undertake a review, findings were:

  - "The 60/40 per cent co-funding arrangement with the Crown for underground infrastructure damage caused by a natural disaster has no basis for its formula, incentivises councils to avoid self-reliant risk management outcomes and creates funding uncertainties for both parties. This needs to change."

  - Some councils are not engaging in systematic risk management processes due, in part, to a difficulty in accessing the necessary skills and expertise.

- Ministers agree to review 60/40 in April 2015. The Treasury, DIA and MCDEM to be responsible for it.

# Nature of the Review

**Principles underlying Crown support**

- Local risks are a local responsibility.

- Financial assistance policies should incentivise effective council risk management.

- Risk mgmt costs should be borne by those who benefit.

- Risk should be mitigated and managed where possible.

- The Crown has a role in supporting welfare of communities post disaster.

**Objective of reform options**

- Balance the role of the Crown in supporting community welfare with the responsibility of councils to manage local risks.

- Incentivise councils to better manage risks.

# 60/40 Parameters - Current

- **Assets covered**: "Essential infrastructure assets" and "other community assets" (where damaged by the failure of flood protection schemes).

- **Thresholds:** 0.002% or 0.0075% of a councils rating base.

- **Cost sharing ratio:** 60%/40% Crown/Local Authority.

- **Access obligations:** Adequate protection through asset and risk management **or** sound financial provision but councils are not monitored against these criteria.

- **Cost of risk sharing:** No cost.

# Assets Covered

## Objective: Clarify & Simplify Coverage

**Potential Changes**

- *Include:*
  - Three waters infrastructure and flood protection assets.
    - Definitions aligned to national engineering standards.
    - Aligns coverage to critical infrastructure.

- *Exclude:*
  - Electrical and gas facilities.
    - Profit making , well-insured.  No rationale for Crown financial assistance.
  - Other community assets where damaged by the failure of flood protection schemes.
    - Most are likely to be insurable and are not 'lifeline utilities'.

- Assets covered irrespective of ownership arrangements.
  - CCO's are included.
  - Rationale is that asset criticality is not linked to institutional form.

# Objective: Move to a more insurance centric with the Crown as an 'insurer of last resort'

## Potential Changes

- Crown takes a much lower share losses from more frequent, less severe events.

    - Preliminary evidence that insurance market for assets exists.
    - Strengthens incentives to manage risk.
    - Aligns costs and benefits.
    - Crown could underwrite 'top-up' insurance cover if the market cannot provide sufficient capacity in high risk regions e.g. Wellington, or in times of disruption e.g. post disaster.

- Crown takes a much greater share of losses from less frequent, more severe events.

    - Recognises Crown role in supporting community welfare post disaster.

- Probable Maximum Loss (PML) is used to define the boundary between the two layers.

# Supporting Regulations

*Draft – not Government policy*

## Objective: Codify reforms & incentivise risk mgmt

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## Potential Changes

- **Enhanced disclosure**: each council required to disclose its PML, and what its risk financing strategy is to meets its PML, in its annual report.

- **Risk management regulations** introduced into the Local Government Act. That is, councils must demonstrate that they are undertaking a robust risk management process in accordance with issued guidelines.

- The proposed **LGRA** would be well placed to assist rural and provincial councils with their PML assessments and/or their risk management process generally.

# Cost and Affordability

**Potential Affordability Issues**

- Potential changes would place additional costs on local authorities. The materiality of these costs is being assessed. If these costs are material there are a number of ways to manage their impact:

  - Phased implementation – incremental changes to cost sharing arrangement made over 2-3 years.

  - Provide $ support directly to councils or to the LGRA.

# Next Steps

- Finalise evidence base to confirm approach.

- Continue to support LGRA Establishment Board process.

- Develop the reform options into a consultation paper with DIA and MCDEM – end of April 2016.

- Public submissions open for 6 – 8 weeks.
- Cabinet consider submissions and makes final decisions.
- Changes implemented over transition period.

# Disclaimer

• Potential changes in this pack are Treasury's view of the options that best achieve the objectives of the review.

•These options need to continue to be tested against the evidence base and other perspectives through the drafting of the consultation paper.

# Local government risk management agency (LGRA)

The LGRA Establishment Board met in early February to consider a draft business case for a Local Government Risk Agency. The business case reflects the findings of a number of reports and the views of local authorities.

The draft business case recommends establishing a LGRA and implementing it in two phases with an initial focus on assets and natural hazards, acknowledging that risk-based asset management will be integrated into the overall enterprise risk management practices of local authorities.

- Phase 1 will focus on closing the identified information and capability gap to bring New Zealand local authorities up to a higher standard for risk management and capability. For this, local authorities need support to gather more information of a consistent quality about their infrastructure and assets, assess their risk management maturity, and identify what needs to be done to close the gap.

- Phase 2 would focus on growing and maintaining a financially sustainable risk management capability.

**Proposed service roadmap – effort, timing, and funding**
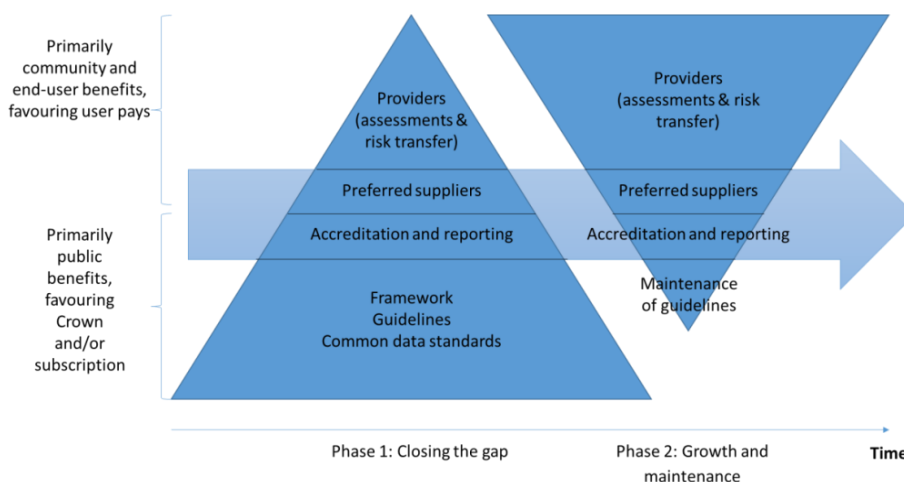


The approach discussed in the business case is consistent with international moves to draw people's attention to preventing new risks, reducing existing risks, and strengthening resilience so communities and nations can recover from disasters more quickly.

A mixture of direct funding (from central government and local government) and indirect funding (in the form of savings from industry) will be required to create a financially sustainable LGRA. The draft business case proposes Crown funding for Phase 1 activities moving to self funding in Phase 2 with Phase 1 beginning in July/August 2016.

**Treasury review of 60/40 cost sharing arrangement**

Treasury will release a discussion document on the 60/40 review in April.

The Establishment Board continue to reinforce the importance of the local government sector being able to consider the LGRA proposal and 60/40 review proposal in tandem.

**REPORT**
Item Number:

| To | Audit & Risk Committee |
|---|---|
| **From** | TG Whittaker |
| | General Manager Strategy & Support |
| **Date** | 8 March 2016 |
| **Prepared By** | K Abbot |
| | OPPS Team Leader |
| **Chief Executive Approved** | Y |
| **DWS Document Set #** | 1472739 |
| **Report Title** | **Project Management Update** |

## 1. Executive Summary

With significant personnel change across the business it was felt that the project management framework was not gaining desired traction. Actions were put in place to investigate the root cause of the reluctance to utilise the framework. This included interviews with staff and assessment of the framework and tools.

The outcome of this investigation resulted in a complete overhaul of the framework to meet the needs and maturity of the organisation. Additionally an audit of project management within the business is planned and will confirm and identify areas of weakness on which to focus.

## 2. Discussion

It is proposed to share in detail with the Audit and Risk Committee the outcomes of the investigation and reasoning for the framework overhaul once the project management audit has been complete.

The process of appointing an independent auditor has commenced with registrations of interest received by council. The audit scope and brief is detailed below.

*The purpose of this audit is to identify improvement opportunities of the framework as measured against best practice project management along with compliance of projects against the framework.*

*It is expected that one outcome of the audit would be a project management maturity model for the business.*

*When considering project management it should be considered as whole of life i.e. from conception of a project through to physical completion or commissioning. Therefore the following aspects would be included:*

- *Planning*
- *Risk management*
- *Stakeholder management*
- *Contract management*
- *Procurement (including tendering process)*
- *Financial management*
- *Governance*

*Skill gaps in project management of staff should also be investigated. In addition, it would be advantageous to determine the level of project management awareness across the organisation including the executive level.*

## 3. Next major milestones

The next milestones in development of project management with WDC:

1. External audit (March/April)
2. Analysis of audit results (April).
3. Roll out of simplified project management guide, tools and framework – includes training (Prior to 30/6/2016)
4. Commence implementation of audit results (May)
5. Framework complete and training available for staff utilisation at start of new financial year (1 July)

## 4. Recommendation

**THAT the report of the General Manager Strategy & Support –** *Project Management Update* **- be received.**

**REPORT**
Item Number:

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*Open Meeting*

| | |
|---:|:---|
| **To** | Audit & Risk Committee |
| **From** | TG Whittaker |
| | General Manager Strategy & Support |
| **Date** | 14 March 2016 |
| **Chief Executive Approved** | Y |
| **DWS Document Set #** | 1474997 |
| **Report Title** | Future Work Plan |

## 1.    Executive Summary

The proposed future Audit committee work plan is as follows:

| Date | Key meeting topic | Standing items for all meetings |
|---|---|---|
| 23 March 2016 | ▪ Risk Management framework<br>▪ Review of CCO Statements of Intent<br>▪ Internal Audit Programme<br>▪ Annual Report Programme | ▪ H&S update on H&S performance against agreed targets, systemic issues identified which can be fed into the risk control framework<br><br>▪ Rolling review of bylaw & policies – schedule to be agreed<br><br>▪ Post project appraisals on key investments.<br><br>▪ Update on progress against Audit management report<br><br>▪ Update on risk management actions, progress on mitigations and direction of travel of risk |
| 28 June 2016 | ▪ Compliance<br>▪ External contracts | |
| 27 September 2016 | ▪ Review of Audit & Risk Committee performance against Terms of Reference<br>▪ Annual Report<br>▪ Insurance review | |
| December 2016 (date to be confirmed) | ▪ H&S Management framework<br>▪ Audit Management Report | |

In addition to the above meeting topics various activities may present themselves for specific attention.

## 2.    Recommendation

**THAT the report of the General Manager Strategy and Support –** *Audit & Risk Committee Future Work Plan* **– be received.**

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*Open Meeting*

| | |
|---|---|
| **To** | Audit & Risk Committee |
| **From** | GJ Ion |
| | Chief Executive |
| **Date** | 11 March 2016 |
| **Prepared By** | RJ Gray |
| | Council Support Manager |
| **Chief Executive Approved** | Y |
| **DWS Document Set #** | 1474325 |
| **Report Title** | **Exclusion of the Public** |

## 1. Executive Summary

To ensure that the public are excluded from the meeting during discussion on Public Excluded items.

## 2. Recommendation

**THAT the report of the Chief Executive –** *Exclusion of the Public* **- be received;**

**AND THAT the public be excluded from the meeting during discussion on the following item of business:**

1. **Confirmation of Minutes – 10 December 2015**
2. **Register of Members and staff Interests**
3. **Fraud Declaration**
4. **Risk Assessment of Council Controlled Organisations' Statement of Intent**
5. **Cash Handling Internal Audit**
6. **Payroll Project Closure**
7. **Committee Time with Audit NZ  - Management Excluded**

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

**That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information where the withholding of the information is necessary to:**

a) **Protect members, or officers, or employees of any local authority, or any persons to whom section 2(5) of the Local Government Official Information and Meetings Act 1987 applies, from improper pressure or harassment;**

b) **Protect the privacy of natural persons, including that of deceased natural persons;**

c) **Prevent the disclosure or use of official information for improper gain or improper advantage;**

**AND THAT the exclusion of the public from the whole or relevant part of the proceedings of the meeting is necessary to enable the local authority to deliberate in private on its decision or recommendation in any proceedings before the local authority where a right-of-appeal lies to any Court or Tribunal against the final decision of the local authority in those proceedings;**

**AND FURTHER THAT Ms Margaret Devlin, Chairperson Audit & Risk Committee, remains in the meeting after the public has been excluded to facilitate the discussion on public excluded items.**