

ORDINARY MEETING

OF

AUDIT AND RISK SUBCOMMITTEE

AGENDA

Time: 9.15am
Date: Tuesday, 9 December 2014
Venue: Committee Room 1
Ground Floor, Council Offices
101 Wakefield Street
Wellington

MEMBERSHIP

Mayor Wade-Brown

Peter Harris (External)
Councillor Marsh
Councillor Peck (Chair)
Kevin Simpkins (External)
Councillor Woolf

Have your say!

You can make a short presentation to the Councillors at this meeting. Please let us know by noon the working day before the meeting. You can do this either by phoning 803-8334, emailing public.participation@wcc.govt.nz or writing to Democratic Services, Wellington City Council, PO Box 2199, Wellington, giving your name, phone number and the issue you would like to talk about.

AREA OF FOCUS

Providing objective advice and recommendations regarding the sufficiency, quality and results of assurance on the adequacy and functioning of the council's risk management, control and governance frameworks and processes. It is also responsible for exercising active oversight of all areas of the Council's control and accountability in an integrated and systematic way.

Quorum: 3 members (at least one external member must be present for a quorum to exist).

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1 Meeting Conduct

1.1 Apologies

The Chairperson invites notice from members of apologies, including apologies for lateness and early departure from the meeting, where leave of absence has not previously been granted.

1.2 Conflict of Interest Declarations

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

1.3 Confirmation of Minutes

The minutes of the meeting held on 14 October 2014 will be put to the Audit and Risk Subcommittee for confirmation.

1.4 Public Participation

A maximum of 60 minutes is set aside for public participation at the commencement of any meeting of the Council or committee that is open to the public. Under Standing Order 3.23.3 a written, oral or electronic application to address the meeting setting forth the subject, is required to be lodged with the Chief Executive by 12.00 noon of the working day prior to the meeting concerned, and subsequently approved by the Chairperson.

1.5 Items not on the Agenda

The Chairperson will give notice of items not on the agenda as follows:

Matters Requiring Urgent Attention as Determined by Resolution of the Audit and Risk Subcommittee.

1. The reason why the item is not on the agenda; and
2. The reason why discussion of the item cannot be delayed until a subsequent meeting.

Minor Matters relating to the General Business of the Audit and Risk Subcommittee.

No resolution, decision, or recommendation may be made in respect of the item except to refer it to a subsequent meeting of the Audit and Risk Subcommittee for further discussion.

2. General Business

AUDIT NEW ZEALAND GOVERNING BODY REPORT

Purpose

1. The purpose of this report is to present the Audit New Zealand Report to Council on the 2013/14 audit to the Subcommittee. This report contains audit recommendations from Audit New Zealand related to the 2013/14 audit as well as progress against recommendations made in prior years.

Recommendations

That the Audit and Risk Subcommittee:

1. Receive the information.
2. Note the content of the 2013/14 Report to Council from Audit New Zealand attached.

Background

2. Every year after the completion of the audit of the annual report, Council auditors, Audit New Zealand produce a report to the Council on the audit conducted, and within the report provide a number of recommendations on matters that they believe will strengthen the Council's control environment, or enable greater efficiencies or effectiveness.
3. The report outlines their recommendations and officers response to those recommendations. The progress of implementing these recommendations will be monitored and reported on by Internal Audit.

Discussion

4. The key findings from Audit NZ audit are:
 - An unmodified audit opinion on the Council parent and group's annual report on 27th August 2014
 - The Council's control environment continues to operate effectively
 - No significant issues arose from the review of the Council's compliance with the Local Government Rating Act 2002.
5. The other areas of audit focus included:
 - The potential impairment of the Town Hall
 - That the Council's reporting against the new financial prudence benchmarks are materially correct.
 - Key accounting judgements such as the provision for leaky homes and the revaluation of infrastructural assets.
6. There are seven recommendations on which officers have provided comments, that cover the following areas:
 - Project management methodology
 - Procurement

Item 2.1

- Contract management
- Conflicts of Interest
- Governance
- Risk Management
- Asset Management

7. The report also has an update on the status of previous outstanding recommendations.

Attachments

Attachment 1. Audit New Zealand Management Report June 2014

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Author	Richard Marshall, Manager Financial Accounting
Authoriser	Andy Matthews, Chief Financial Officer

SUPPORTING INFORMATION

Consultation and Engagement

There is no requirement to consult on the issues raised in this paper or report.

Treaty of Waitangi considerations

There are no specific Treaty of Waitangi considerations.

Financial implications

There are no new financial implications arising from this paper.

Policy and legislative implications

There are no new policy or legislative implications arising from this paper.

Risks / legal

There are no new risks or legal implications arising from this paper.

Climate Change impact and considerations

There is no climate change implications arising from this paper.

Communications Plan

No communication plan is required for this paper.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Report to the Council on the audit of the
Wellington City Council and group
for the year ended 30 June 2014

Management report

Key messages

We have completed the audit for the year ended 30 June 2014. This report sets out our findings from the audit and draws attention to areas where Wellington City Council (the City Council's) systems and processes are operating effectively or where we have made recommendations for improvement.

Our key findings are:

- We issued an unmodified audit opinion on the City Council and group's annual report on 27 August 2014.
- The City Council's control environment continues to operate effectively. Our 2014 audit approach took a more structured approach to assessing risks around key aspects of the control environment. We have made some recommendations where we believe the City Council's procedures could be improved or made more consistent. These relate to:
 - Ensuring Management has an overview of the status and risk of key projects that are being undertaken.
 - Improving the consistency of procurement practice and planning/reporting of procurement activity.
 - Considering the use of a centralised contract register to track contract performance, spending and risk across the organisation.
 - Updating policy and further strengthening some practices around managing conflicts of interest.
- No significant issues arose in our review of the Council's compliance with the Local Government Rating Act 2002 (the Rating Act). Note however that our work was performed in the context of the audit, which is focussed on whether the Council's rates revenue and associated balances are materially correct, and was not a comprehensive review of compliance.

Other areas of audit focus included:

- We considered the potential impairment of the Town Hall given its closure to the public during the period. We concluded that as the City Council's course of action to strengthen the building has not yet been decided, there is no basis to make any impairment at this time.
- We are satisfied that the City Council's reporting against the new financial prudence benchmarks is materially correct.

Report to the council on the audit of Wellington City Council
for the year ended 30 June 2014

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- Key accounting judgements considered during the audit, including:
 - The City Council's provision for leaky homes is the most significant accounting estimate in its financial statements. We are satisfied that the provision for leaky homes of \$50.4 million is fairly stated.
 - The City Council's infrastructure assets were revalued during the year. The decrease in the valuations was primarily the result of the work the City Council has undertaken to improve its knowledge of the assets, as a basis for improving its asset management plans and planning. We are satisfied the revaluation has been undertaken appropriately and fairly reflects the value of the assets based on the best information the City Council holds. We are also satisfied that the revaluation has been accounted for in accordance with generally accepted accounting practice.

We also comment on a number of areas of future audit focus, principally the planned changes to the City Council's information systems, upcoming Long Term Plan audit and changes in Council Controlled Organisations.

Thank you

We would like to thank the Council and management for their assistance in completing the audit.



Bede Kearney
Audit Director
24 November 2014

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1 Our audit opinion

1.1 We issued an unmodified audit opinion

We issued an unmodified audit opinion on 27 August 2014. This means that we were satisfied that the financial statements and statement of service performance fairly reflected the City Council's activity for the year and its financial position at the end of the year.

2 The control environment

We performed a high-level review of the management control environment. We considered the overall attitude, awareness, and actions of the City Council and management in establishing and maintaining effective management procedures and internal controls.

In performing this assessment we consider both the "design effectiveness"¹ and "operational effectiveness"² of internal controls. The explanation of these terms is outlined below.

Our assessment is performed for the purpose of planning the most effective and efficient audit approach, to enable us to express an audit opinion on the City Council's financial statements and non-financial information. While we report our findings to the City Council, our review is not designed to provide assurance on internal control in its own right. As such we provide no assurance that our assessment will necessarily identify or detect all matters in relation to internal control.

This year we applied a more detailed and systematic approach to assessing key audit risks within the control environment. This included applying a suite of questions across the following areas:

- Governance.
- Conflicts of interest.
- Risk management.
- Asset management.
- Project management.
- Procurement.
- Contract management.
- Financial sustainability.

This revised approach is being implemented across our client base generally, and is intended to provide us with more detailed and specific analysis. As agreed in the

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

² Control has operated effectively throughout the period tested.

audit arrangements letter, our specialist assurance services team were engaged to complete certain aspects of this work.

Comment in selected areas from our work is included in Appendix 1 below.

2.1 Internal controls

During our audit visits we reviewed and tested the internal controls in place within key financial and non-financial information systems, as detailed below. No significant issues arose from the work we performed.

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

Based on our testing, we found that internal controls in key systems have operated effectively throughout the financial year.

2.2 Other financial processes

We have discussed a small number of areas for improvement with finance staff, who are taking steps to resolve the matters identified. These include:

- improving the quality assurance processes over the preparation of the new financial benchmarks information;
- improving the clarity of the disclosures that explain the City Council's net surplus and capital spending against budget (notes 33-35 to the financial statements);
- improving the management procedures for long outstanding debtors within the building consents team; and
- improving the clarity of expectations within sensitive expenditure guidelines, such as more clearly defining what levels of expenditure are considered "moderate" or "reasonable".

2.3 Compliance with significant legislation

We reviewed the systems and procedures the City Council employs to identify and comply with legislative requirements. No issues arose that need to be drawn to your attention.

2.4 Information technology (IT) general controls review

We updated our assessment of the City Council's IT general controls. This assessment has two parts:

Part 1 is a risk assessment of the entity level controls in place. Our overall risk assessment of entity level controls is low. The controls we considered include management's activities in the areas below. The following risk assessment scale has been used for the entity-level controls:

- *High:* Significant control weaknesses or deficiencies exist, exposing systems and information to a high risk of disruptions or unauthorised actions.
- *Medium:* There is room for improvement in the process or system controls. Systems and information are exposed to risk of disruptions or unauthorised actions.
- *Low:* Most reasonable steps have been taken to minimise the risk of disruptions or unauthorised actions.

Entity-level controls	Risk assessment
Governance and strategic planning	Low
Processes, organisation and relationships	Medium – Due to restructuring during the period with significant staff change, it may take time for new staff to understand their roles and responsibilities. Refer to section 4.4 below.
Assess and manage risks	Low
Monitor and evaluate performance	Low
Monitor and evaluate internal control	Low

Part 2 is an assessment as to the design effectiveness and operation of activity level controls. Consistent with last year, we are satisfied that most activity level controls have remained design and operationally effective.

The areas where processes could be improved are noted in Appendix 2.

2.5 The City Council's response to fraud

The City Council has a comprehensive fraud policy and we observed a good awareness of the risk of fraud during our interactions with management and the Audit and Risk Subcommittee.

An instance of fraud was identified by management during the year. The fraud was able to happen due to staff not following established review procedures for purchase card transactions effectively.

We are satisfied that appropriate action has been taken in response to the fraud. This has included recovery of the amounts taken and advising the Police.

Risk Assurance has reviewed controls in this area and has recommended that controls and practices over the review and monitoring of purchase cards could be further strengthened. The matter has also been reported to the City Council's Audit and Risk Subcommittee.

2.6 Status of previous recommendations

There were six recommendations for improvement carried over from the 2013 audit. The status of each matter is detailed in Appendix 2.

3 Areas of audit focus for 2013/14

3.1 Review of the City Council's rates

As part of our audit, we considered the City Council's compliance with the Local Government Rating Act 2002 (the Rating Act). No significant issues arose from our reviews of the 2013/14 and 2014/15 rating processes.

The purpose of our review was to identify any areas of material risk to the City Council's rates revenue. Our review does not constitute a full compliance review and should not be relied on as such.

Our work was performed in the context of the audit, which is focussed on whether the City Council's rates revenue and associated balances are materially correct. It is the City Council's responsibility to ensure it is compliant with all aspects of the Rating Act.

We identified some issues with the City Council's rates documentation in the 2013/14 year. We discussed these matters with management, who sought independent legal advice. We concluded that the issues raised did not materially impact the validity of the 2013/14 rates (in terms of section 23 of the Rating Act).

No issues arose in our review of the rates for the 2014/15 year.

3.2 Changes to Local Authorities' reporting obligations

We confirmed that the City Council has made all new disclosures that took effect in 2013/14, these included:

- The Local Government Financial Reporting and Prudence Regulations 2014 set financial prudence benchmarks for local authorities to report against. We are satisfied that the City Council's reporting of financial prudence benchmarks is materially correct and compliant with the Regulations.
- The Local Government Act 2002 Amendment Act 2014 was passed on 14 August 2014. We confirmed that new disclosures around the City Council's rating base and insurance of assets were made as required.

3.3 Improving the city's resilience to earthquakes

The City Council's efforts to improve Wellington's resilience to natural disasters are a significant area of risk and public interest. We considered the financial and service performance reporting implications of current initiatives. Two key areas of audit work were:

3.3.1 Valuation of the Wellington Town Hall.

The Wellington Town Hall is below earthquake code and, since October 2013, has been closed to the public. Strengthening work is presently on hold as the City Council

assesses the situation and decides how to proceed. There are a variety of remediation options available with a wide range of potential costs.

Accounting standards require that all assets be assessed for indicators of impairment each year. We considered whether, given the above, the Town Hall and other buildings in the Civic Centre complex should have their values impaired. We concluded that as the City Council's course of action has not yet been decided, there is no basis to make any impairment in the 2013/14 financial statements. A key factor in reaching this conclusion was that the buildings are carried at cost, and have not been revalued.

As this assessment included a high degree of judgement, we sought specific representations from the City Council in the letter of representation.

3.3.2 Service performance information related to earthquake risk mitigation

We considered the annual report provides readers with an appropriate overview of the City Council's earthquake strengthening initiatives. These include measures associated with the assessment of potentially earthquake prone buildings, civil defence preparedness and progress with the strengthening of the City Council's own building portfolio.

While the strengthening of privately owned buildings is outside the City Council's direct control, outcome indicators in the annual report track the number of earthquake prone buildings within the city that have been strengthened or demolished.

3.4 The City Council's leaky homes liability

The City Council's liability for the settlement of claims in relation to leaky homes is \$50.4 million at 30 June 2014. This has reduced from the 2013 provision of \$67.0 million. The reduction in liability is primarily due to the settlement of claims during the period, totalling \$19.5 million.

The majority of the provision relates to claims already reported to and managed by the City Council. The City Council's actuary has calculated that the value of unreported claims is \$5.0 million. There remains a high degree of uncertainty in the overall cost to the City Council of both reported and unreported claims. This is disclosed in the financial statements.

We also note:

- Consistent with the prior year, the City Council has not estimated any additional exposure from the Spencer on Byron case. No commercial claims have been received by the City Council to date.
- The Supreme Court judgement on the Osbourne vs Auckland Council case expanded the definition of "built" under the Weathertight Homes Resolution Services Act 2006 to start from when code compliance certificates are issued. This has not resulted in any significant change to the liability recognised.

3.5 Revaluation of Infrastructure assets

We are satisfied the revaluation has been undertaken appropriately and fairly reflects the value of the assets based on the best information the City Council holds. We are also satisfied that the revaluation of the City Council's infrastructure assets has been accounted for in accordance with generally accepted accounting practice.

During the year the City Council revalued its infrastructure assets (infrastructural land, three waters and roading assets). The change in asset values resulting from the 2014 valuations was a decrease of \$45.2 million. The decrease was primarily within the roading and three waters, amounting to 1.6% of the total value of those classes.

The driver of the decrease was more accurate asset data, which is a result of an ongoing programme of work to improve the City Council's asset management planning. This more than offset the increases from rises in the underlying cost components of the valuation.

The valuation incorporated the correction of some previous inaccuracies and clarification of ownership of some assets. The overall movements and amounts clarified/corrected are not material in the context of the overall valuation.

4 Future Audit Focus

While not significantly impacting the 2013/14 year, some risks and issues have an ongoing audit focus:

4.1 Regional Governance changes

A number of applications for reorganisation of the Wellington region's local authorities are with the Local Government Commission. The Local Government Commission is currently considering these and is expected to issue a draft proposal, which may propose either one or two unitary authorities for the existing region.

4.2 Audit of the City Council's Long Term Plan

The Local Government Act 2002 Amendment Act 2014 made a number of changes to the nature of the consultation processes related to the Long Term Plan. The Office of the Auditor-General is finalising the audit approach and methodology for the audit of the 2015-25 LTP under the revised legislation.

At this time we expect our audit to focus on:

- The consultation document

The Council's Priority Growth Agenda provides a high level plan to improve the City Council's impact on the economic development of the city. Key initiatives to progress the eight key areas of focus identified are expected to be included in the consultation document.

The consultation document is designed to be a flexible, short and relevant document for councils to more easily and appropriately consult with their communities. We will focus on whether the consultation document provides "an effective basis for public participation in local authority decision making

processes" (s93b) and whether the content is supported by adequate underlying information.

- **Infrastructure strategy**

The Infrastructure strategy is another new requirement for the 2014/15 LTP. Management has undertaken significant work to improve the City Council's knowledge of its asset base, and is developing service plans for infrastructure related activities that will provide the activity level base for the LTP. We will consider the City Council's ability to support its decisions and forecasts which underpin its infrastructure strategy. This will include assessing its consistency with the financial strategy and forecasts, and in levels of service.

- **Financial strategy**

The City Council's financial strategy will outline the forecast financial drivers and provide the context for developing and utilising funding tools and service levels. We will consider the consistency of the financial strategy with financial and non-financial information, as well as alignment with the 30 year infrastructure strategy noted above.

4.3 Changes to the Council Controlled Organisations

The Council is making changes to its Council Controlled Organisations (CCOs). These are aimed at improving their cost-effectiveness and the alignment to City Council objectives of activities managed by CCOs. Changes during the 2013/14 year include:

- 1 The Boards of Wellington Waterfront Limited and Wellington Cable Car Limited were replaced on 1 April 2014. City Council officers have been appointed as directors of these companies.
- 2 The contract with Wellington Waterfront Limited to manage the Waterfront project has been terminated and management of the Waterfront project brought in-house from 1 July 2014. The company itself remains as it continues to hold all Waterfront land and assets on trust for the Council. The Council has resolved to exempt WWL under Section 7 of the Local Government Act 2002 from 1 July 2014.
- 3 There is a proposal to create a Wellington Regional Economic Development Agency. This will create a single economic development agency for the greater Wellington region, by combining economic, tourism and major event activities of Wellington City Council and Greater Wellington Regional Council into an existing Council Controlled Organisation.

The proposal has been agreed in principle by the region's Councils and is currently being consulted on.

Further to the above, the governance arrangements for CCOs within the City Council have changed. Depending on the nature of their activities, CCOs report to either the Transport and Urban Design, or Economic Growth and Arts Committee.

We will review the above changes and discuss the implications for and impacts on our group audit arrangements for 2014/15.

4.4 Changes to IT systems

The City Council is seeking to significantly cut the cost of its IT per user, and has commenced the following initiatives to achieve this:

- In 2013, the City Council established the "Odyssey" programme to implement an integrated system across customer relationships and service management, regulatory management, land and property management, asset management, human resources management and financial management. The Greater Wellington Regional Council, Porirua and Upper Hutt cities are also taking part in Odyssey. We have been advised that the City Council expects to select its preferred supplier of new systems in October 2014.
- The City Council is also working with the other local authorities in the Wellington region on shared services, encompassing such things as data storage, a communications network and a single IT help desk.
- A restructuring of the Business Information and Technology department was completed during the year. The focus of the restructuring was to improve efficiency.

We will continue to monitor City Council's progress on these initiatives.

We noted in our summary of IT General Controls, a heightened risk to entity level controls around IT processes, organisation and relationships due to the extent of change. In our testing we did not identify any issues which would affect our reliance on IT systems for audit purposes.

4.5 Changes to the accounting standards framework for public benefit entities (PBEs)

As highlighted in the audit arrangements letter, the City Council is required to move to the new PBE accounting standards framework in preparing its 30 June 2015 financial statements.

We expect entities to be prepared for us to audit the transition as part of next year's audit to ensure that we can efficiently carry out our audit of financial statements prepared using the new accounting standards.

We will audit the updated statement of accounting policies, opening statement of financial position, and restated comparatives under the new standards as an integral part of the 2014/15 audit.

Appendix 1: Control Environment – our audit risk assessment findings

1 Project Management

The City Council has a wide range of projects including; Odyssey, the social housing upgrade, earthquake strengthening works, the eight big ideas, and ongoing infrastructure upgrade, replacement and maintenance.

The City Council operates a decentralised project management structure. This results in some variability in practices across the organisation in relation to each area of good practice noted above. While some projects may have robust processes and governance arrangements, in isolation, there is a risk that differentiated practices result in some risks not being managed consistently across the City Council's portfolio.

We recommend the City Council:

- implements a project management framework that provides a consistent basis for identifying project management risks, and developing responses to those risks, across the City Council;
- develops consistent approaches to project governance and reporting that enable informed decision making and effective oversight of the portfolio; and
- ensures management has an overview of the status and risk of key projects that are being undertaken.

Management comment

Management views the current project governance structure is appropriate and that there are no major problems/issues that need addressing, as demonstrated by the successful transitioning of out-sourced Parking back into an in-house service. The Council has also successfully managed the Road Corridor contract changes and is currently managing Odyssey and the new Convention Centre projects.

Management acknowledges that with an organisation of this size, that there is always room for improvement but believes a de-centralised approach, albeit with the addition of additional staff resource to focus on best practice across the organisation will continue to enhance project governance within Council.

We have recently created a new Project Risk Advisor role who will:

- Provide assistance and advice to Project Sponsors and Managers across the Council.
- Provide mechanisms for monitoring progress and reporting on progress and completion.

- *Provide mechanisms for escalation of risk where required.*
- *Support the on-going development of project management capability across the Council.*

We believe this will improve our project capability and provide an independent mechanism to for a consistent view of project initiation and progress.

2 Procurement and Contract Management

2.1 Procurement

The City Council operates a devolved system, allowing specialist business units to adopt a tailored approach to procurement within the Council's policy parameters. During the year the procurement policy was updated and a review of the procurement strategy commenced. New procedures have been developed for purchases over \$50,000. These measures are aimed at ensuring consistency of practice across the City Council, by increasing the involvement of the centralised procurement team.

The need to reinforce and support business units around the revised procurement policy will be a significant challenge for the procurement team. There is no formal programme of training on conflicts of interest for those undertaking procurement. However, there has been an increase in the use of probity audits for high value and high risk procurements. A recent sample of contract files by internal audit also noted that proper conflict of interest processes had been followed and properly declared.

To further strengthen the City Council's controls, we recommend:

- Organisation-wide procurement training in line with the procurement policy to ensure that basic procurement practice is consistent across the Council, despite business units operating under a devolved system.
- Conflict of interest training for all staff involved in procurement.
- Regular reporting to both governance and senior management. Reporting reflect the appropriate level of detail for each and should focus on the entire portfolio of spend, rather than individual procurements or as a response to issues which have arisen.
- That the Council document an overall procurement plan or strategy. This should be a long term strategy that has been approved at the appropriate management level.

Management comment

The Contracts and Procurement team is reviewing the Council-wide procurement training that it delivers and will ensure that any training programme is in line with the current procurement policy. This programme already includes a session on recognising and managing conflicts of interest, but separate training on this topic will be arranged where necessary. A dashboard style Procurement Reporting framework already exists. The structure of this report will be reviewed once the current contract register review project

is completed in early 2015. An updated draft Procurement Strategy has also been developed and will also be confirmed in early 2015.

2.2 Contract Management

The City Council's contract management policy framework is currently being reviewed to improve procedures.

We noted the following factors which increase the City Council's risk around contract management:

- The City Council uses separate contract registers for each business unit. The contract records each business unit keeps are considered adequate. Historically there appears to have been a reluctance to collate these records into a central register given the number of different business units, and the benefit they perceive from having a tailored approach for their circumstances.

We support a centralised system approach with standardised processes. This decreases the risk of inconsistent practice, and allows easier identification of high risk contracts. Such a system would also allow the City Council to track contract performance, spending, and risk across the whole organisation.

- The City Council's procurement team are undertaking an exercise to scan contract documents into a centralised database with the aim of then reconciling this with existing records. Without a wider programme to raise awareness of this as a business process, supported by training as necessary, there is a risk any benefits will be short term.

Management comment

The exercise to scan contract documents into a centralised database has been completed. A single Council wide Contract Register has been developed as a result of this exercise.

An electronic Contract Management System solution is being sought as part of Project Odyssey, with planned implementation in 2015/16. If a CMS cannot be delivered as part of this project, an alternative, integrated solution will be investigated.

3 Conflicts of Interest

Overall the City Council has effective procedures for the identification and recording of conflicts of interest. However areas where the City Council should consider reviewing and further strengthening its procedures include:

- The City Council's policy and guidance has not been updated for some time. We recommend making sure that all policies and guidance are up to date and reflect current good practice. This should include guidance on what is considered acceptable practice for the acceptance of gifts and hospitality, together with examples to help staff and members interpret policy effectively.
- The Council has processes for Council members and staff to record conflicts of interest declarations. We recommend the City Council reviews the content

of its interest registers and updates them so they are more comprehensive and reflect all aspects of good practice.

- Neither the Council members' nor the staff registers record mitigations or how the conflicts are to be managed. We recommend the registers be extended to clearly document how interests have been judged as giving rise to conflict, and how these will be managed.
- Training for staff on conflicts of interest is generally provided at induction. As induction procedures are devolved to business units we are unsure how consistent and thorough the training is. We recommend the City Council develops a programme/guide for business units to apply at induction. If policy and guidance is updated it also provides an opportunity for targeted refresher training.

Management comment

The Conflict of Interest Policy is being reviewed as part of the wider internal policy review. This will also include the gifts and hospitality policy. A training programme will be implemented once this review is complete.

Council will extend their conflicts of interest register to record how conflicts will be managed and risks mitigated.

4 Governance

The City Council has sound governance and management structures. There is a good range of skills and experience on the Audit and Risk Subcommittee and the subcommittee has an appropriate level of engagement with both internal audit and external audit.

Through our interactions with the Audit and Risk subcommittee and management we continue to observe a strong control culture. Progress on recommendations from prior years' internal audit or our external audit reports is reported through to the Audit and Risk Subcommittee.

Management comment

Comments noted.

5 Risk Management

The City Council has a risk management function within the Risk Assurance team. The City Council's top risks are reported quarterly to the Audit and Risk Subcommittee.

Risks are identified and refreshed through discussion by senior management, then collated by Risk Assurance. Each risk is ranked both before and after mitigating activity, and has an identified business owner. Changes in risk profile are highlighted each quarter. During Audit and Risk Subcommittee meetings we observe a good level of engagement about risks and what mitigations are in place.

During our 2014/15 audit we will follow up the work being undertaken by Risk and Assurance to strengthen risk management procedures, in particular the processes in place to ensure that identified risks are managed effectively at the business unit level.

Management comment

Comments noted.

6 Asset Management

The City Council has been engaged on a major programme of asset management plan improvement over the past three years. This has particularly focused on building data reliability and analysis. Substantial resources have been committed to this effort.

The City Council has analysed the completeness and reliability of all asset data across all asset groups at component level. Information gaps are clearly known and are being actively targeted. There is also a process of redefining service levels for all asset groups. Stormwater has been the pilot of a new, simplified approach.

The improved data resulting from this work impacted on the 2013/14 valuation of infrastructure assets as detailed in 3.5 above. We have not yet reviewed the City Council's development of service plans flowing from this improved data. We will assess this as part of the 2015 LTP (see section 4.2 above).

Management comment

Comments noted.

Appendix 2: Status of previous recommendations

Outstanding matters

Recommendation	Current status	Management's proposed action
<p>Leaky Homes liability – data improvements</p> <p>The City Council's actuaries noted some improvements which could be made to data collection processes. We recommended that the City Council consider these.</p>	<p>Management is working to resolve the actuary's final recommendation. This relates to updating data files to include the limitations of insurance cover.</p>	<p><i>The recommended improvements had previously been reported on in prior year submissions. This will be included in future submissions to the actuary.</i></p>
<p>Building consents – timeliness of processing</p> <p>In 2012/13 we could not find evidence to support some instances where consent applications were put on hold (and the timer used to assess processing times is stopped). We recommended that:</p> <ul style="list-style-type: none"> • the Building Consents team actively monitor the timeliness of processing following receipt of new information from applicants, with a focus on any outliers; and • the City Council make a more conscious effort to retain sufficient information on file, especially in explaining the reasons for keeping the timer stopped in these cases. 	<p>Management has taken a range of steps to improve the timeliness of this process and the quality of the audit trail.</p> <p>The most significant improvement is around management of applications on hold. The timer used to assess processing times now restarts within 48 hours of new information being received by Council. Management are looking at real time tracking software for consents process as part of the new core application project.</p>	<p><i>New processes are now in place. Go-Get Consent Processing is being trailed to improve real time tracking.</i></p>

Recommendation	Current status	Management's proposed action
<p>IT Security Policy</p> <p>Council does not have one overarching IS/IT Security Policy. This potentially allows unauthorised access to systems and/or fraudulent, malicious or unintended transactions to be posted.</p> <p>We recommend that Council develop and implement an IS/IT Security Policy as an overall statement of the importance of security to the organisation.</p>	<p>Password complexity has not yet been implemented as all applications will need to be tested to ensure there are no adverse impacts.</p> <p>Password complexity on high priority systems (not being replaced by project Odyssey) are planned to be in force by 30 June 2015.</p> <p>Implementation on Medium and Low priority systems is planned for 30 June 2016.</p>	<p><i>An overarching IS/IT Security Policy is currently under development within the Business Information & Technology (BIT) group.</i></p> <p><i>This is anticipated to be delivered by the end of January 2015.</i></p> <p><i>Principles, including that for password complexity/security, will form part of this strategy and allow Council wide application.</i></p>
<p>Business Continuity and Disaster Recovery</p> <p>We recommend that Business Continuity Plans be finalised and tested as planned. The results should be documented and communicated to all affected staff so that improvements to procedures can be made.</p> <p>Business Continuity and IT Disaster Recovery plans are now well developed, and tests of these plans are to be carried out this year.</p>	<p>Initial disaster recovery testing was successfully completed. The next phase will be for business units to test the recovery process.</p> <p>This needs to be undertaken over a long weekend to minimise business disruption. The next phase of testing is planned for labour weekend (25–27 October 2014).</p>	<p><i>Business Information & Technology (BIT) are actively working on updating the Disaster Recovery and Business Continuity Plans with Risk Assurance.</i></p> <p><i>These are due for completion by 30 November 2014.</i></p> <p><i>The testing of the recovery process will be undertaken in alignment with these plans and is currently planned for Wellington Anniversary weekend (January 2015).</i></p>

Cleared matters

Recommendation	Outcome
<p>Residents Monitoring Survey</p> <p>The City Council changed its survey methodology in the 2013 year. Some results were markedly different to the results from previous surveys using the earlier methodology.</p> <p>We recommended that the City Council continue to analyse the results. This should include identifying what other reasons may explain a significant drop in satisfaction for some measures, and the more unusual results, especially in measures that are not satisfaction measures (e.g. the significant decline in the percentage of children who walk to and from school daily).</p>	<p>The on-line survey was run again in 2014 with comparable results. No significant issues with the new survey methodology were identified and the results are considered valid.</p> <p>We understand that the City Council has run focus groups, on-line discussion boards and targeted surveys to investigate further why satisfaction results were lower.</p> <p>Management are considering ways to improve general understanding of the role and nature of the City Council and what it does.</p>
<p>Management of generic and powerful user accounts</p> <p>When generic accounts are used they should be restricted to specific use situations and reduced to read only access wherever possible to prevent changes being made without accountability. For powerful users there is a higher risk of malicious or accidental changes having significant impacts on systems. These users should be known and adequately monitored.</p> <p>IT and business application owners should develop a process to document the current generic and powerful accounts within their network domain and various applications. This should include an assessment to determine the extent of their access and whether they are still required.</p>	<p>New procedures have been implemented for the management of generic and powerful user accounts.</p> <p>Where an account has not been utilised for a period of three months it is disabled for a period of one month then deleted.</p>

Appendix 3: Mandatory disclosures

Area	Key messages
Our responsibilities in conducting the audit.	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our audit engagement letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We 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.</p>
Auditor independence	<p>We confirm that, for the audit of the Wellington City Council's financial statements for the year ended 30 June 2014, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.</p> <p>During the year we carried out a review of the revenue and expenditure of the Clifton Terrace car park managed by the City Council on behalf of the New Zealand Transport Agency. Since 30 June 2014 we have commenced a review of the Council's process to select providers for the proposed Wellington Regional ICT Infrastructure Shared Services. Other than this audit and the assignments described above we have no relationship with or interests in the City Council or any of its subsidiaries.</p>
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the Wellington City Council that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the Wellington City Council during or since the end of the financial year.</p>
Unresolved disagreements	<p>We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the financial statements. Management has not sought to influence our views on matters relevant to our audit opinion.</p>

HEALTH AND SAFETY

Purpose

1. This report provides the Subcommittee with an outline of the Council's health and safety management system. This is intended to provide Audit & Risk Subcommittee context, as we prepare to transition from the existing health and safety legislation, Health and Safety in Employment Act 1992 to the proposed Health and Safety at Work Act, due to come into effect October 2015. This report also provides a summary of the Council's health and safety performance for the reporting period ended 31 October 2014.

Recommendation

That the Audit and Risk Subcommittee:

1. Receive the information.

Discussion

Overview of the Council's Health and Safety Management System

2. The Council's health and safety management system provides the framework for how health and safety works across the Council. The system's components align with both AS/NZS 4801: Occupational Health and Safety Management Systems and the ACC Partnership Programme audit standards, both of which are recognised frameworks for health and safety management systems. The system is supported by:
 - The Council's health and safety steering group, which provides leadership, strategic direction and accountability for the whole of the Council. The Chief Executive chairs the steering group.
 - The directorate and business forums, which provide opportunities for employees and managers to raise health and safety issues that affect them, and to contribute ideas for improvement
 - The health, safety and risk information management system (Risk Manager), which records the Council's health and safety-related information, including incidents and investigations; hazards and risks; audits and provides reliable, timely and accurate information
 - The Council's health and safety toolkit which informs and guides our health and safety management responsibilities, processes and practices to keep our staff, contractors and members of the public safe in our workplaces
 - The Council's health, safety and wellness team
 - Health and safety advisors in dedicated fulltime roles in significant hazard areas such as the Parks, Sport and Recreation
 - Trained employee health and safety representatives across our workplace.
3. The health and safety management system and framework is reviewed at least annually through:
 - The results of internal and external health, safety and risk audits and assessments
 - Hazard and risk register management reviews
 - Incident analysis and trends, and findings of investigations

- Council, directorate and business health and safety forums.
4. There are a number of other mechanisms through which health and safety performance is monitored and reported across the Council. These include:
 - A weekly health and safety dashboard to ELT profiling incident type, numbers, timeframe for reporting, investigation status, business unit, party involved and risk profile. This report gets circulated across the business after each meeting.
 - Monthly directorate reports, including a health and safety profile of incidents, frequency rates, health and safety inductions, and drug and alcohol testing results.
 - A quarterly health and safety performance report is presented to the Council's Health and Safety Steering Group profiling lag and lead indicators, which includes incident trends, frequency rates, injury costs, inductions, training, drug and alcohol testing results, health interventions and audit results.
 - Risk Assurance's testing and reporting on internal and external health and safety systems, processes and controls.
 5. Council officers provide a report on Council's health and safety performance to the Audit & Risk Subcommittee. This report provides an overview of particular areas of our health and safety management system and is a 'snap-shot' of the Council's health and safety management system for a specific reporting period.

Current reporting period

6. There is no single reliable measure of health and safety performance. What is required is a 'suite' of measures that provide our organisation information on a range of health and safety activities. This report provides quantitative measures – both lead and lag indicators. Lead indicators are positive performance indicators that measure how well the activities for health and safety within our organisation are performing. Lag indicators, tend to be backward looking indicators, and relate to incident number, type and frequency as they have occurred in our workplace.
7. The 'traffic light' reporting format indicates the level of performance.

Lead Indicators

8. The data below reflects the achievement of our organisation during the last three years. Included are the positive activities undertaken, including: training, inductions, drug and alcohol testing, health related interventions; and audits completed – all of which demonstrate and promote good health and safety knowledge, obligations and practices.

People

Activity	Y/E 30Jun2013	Y/E 30Jun2014	YTD 31Oct2014
H&S Inductions completed	487	529	147
H&S Inductions not completed	9	42	13
First Aid training completed	348	383	142
Non-violent crisis intervention training completed	79	78	46
Incident Causation Analysis Method (ICAM) training completed			10
Safety Observations completed (Tier 2 & 3 Leaders)		31	10
Drug and Alcohol Testing completed	117	132	53
Drug and Alcohol Testing – failed results	7	2	0

Early Intervention Referrals	48	79	26
Workstation Assessments	54	74	10
Health Interventions	63	72	33
Influenza Vaccination Programme	470	468	

- Notes:
 - Health and Safety inductions are mandatory for all employees new to the Council.
 - Non-violent crisis intervention (NCI) training is an international training methodology and delivers knowledge and techniques for our ‘front-facing’ staff to help them recognise and respond safely to customers and public who may be acting in a defensive and/or threatening way. Council have employees who are accredited trainers who deliver this training – across all business units. NCI training is identified as an established mitigation/control in the Council’s hazard/risk register for ‘face-to-face interaction’.
 - ICAM is an internationally recognised investigation model. Only Council employees who are trained ICAM investigators can undertake full health and safety incident investigations. ICAM has a fundamental principle of ‘just culture’ which balances safety and accountability.
 - Early Intervention referrals assist employees experiencing pain and discomfort, the intention to prevent ongoing issues becoming an ACC work related injury claim.

Audits

Audit Type	Y/E 30Jun2013	Y/E 30Jun2014
ACC Annual Partnership Programme	Tertiary	Tertiary
Business Unit H&S Internal Audits completed	100%	100%

- Notes:
 - Council have maintained tertiary accreditation for the past seven years.

Council-wide Hazard & Risk Register

9. The Council-wide Health and Safety Hazard & Risk Register is currently going through the annual review process – to determine if the risks are still relevant, the controls in place are appropriate and the risk assessment is still correct. There are 21 health and safety risk activities identified, all of which, with established mitigation controls have been assessed as ‘low or moderate’. The risk assessment process adheres to the Council’s risk management process. An update will be provided to the Audit & Risk Subcommittee following the review process with the Council’s H&S Steering Group and ELT.

Lag Indicators

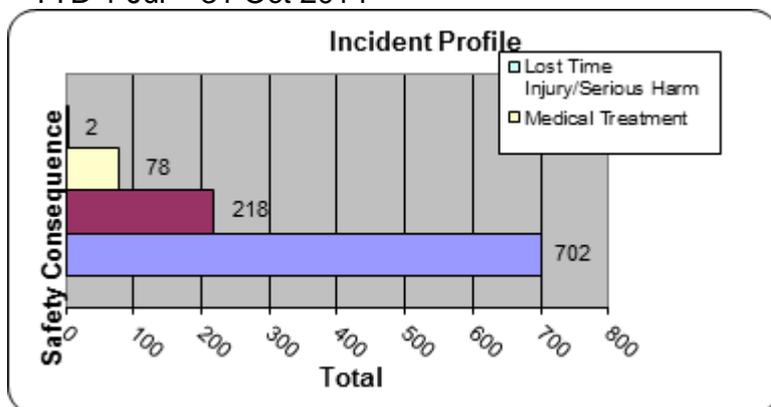
10. The data reported below provides the status of incidents as they have occurred in our workplace over the last three years.

Work-Related Incidents

Report year comparison	Y/E 30Jun2013	Y/E 30Jun2014	^YTD 30 Oct 14
Near Miss (No Injury)	1817	1888	702
FAI ¹	693	675	218
MTI ²	249	239	78
LTI/SH ³	26	16	2
Fatality	*1	**1	0

- Notes:
 - * Contractor engaged through Capacity sustained fatal injuries in construction incident.
 - ** Client at Wellington Regional Aquatic Centre, suffered significant cardiac event in our pool and died on-site.

^ YTD 1 Jul – 31 Oct 2014



Relationship	Near Miss (No Injury)	MTI	FAI	LTI or SH
Staff	137	35	64	2
Public	225	41	151	
Contractor*	339	2	2	
Volunteer	1		1	
Total	702	78	218	2

* Contractor incidents include all security incidents. Total security related incidents = 319

Incident Frequency Rates		Y/E 30Jun2013	YE 30Jun2014	YTD 31Oct2014
For every 1 million hrs worked	TRIFR ⁴	43.7	42.6	42.4
	LTIFR ⁵	4	1.2	2.3
For every 200,000 hrs worked	TRIFR	8.7	8.5	8.5

¹ First Aid Injury
² Medical Treatment Injury
³ Lost Time Injury / Serious Harm
⁴ Total Recordable Injury Frequency Rate
⁵ Lost Time Injury Frequency Rate

Investigations

11. Six incidents in the reporting period ended 31 October 2014 were assessed as requiring full incident investigations, the findings and recommendations of which are reported to the Council's Health and Safety Steering Group. All Council investigations adhere to ICAM principles (investigation causation analysis method) and trained ICAM investigators across our business undertake these investigations.
12. Four investigations have been completed and presented to the Health and Safety Steering Group – refer table below:

Directorate	Incident Type	Relationship	Corrective Actions	Corrective Action Status	Overdue Actions
CAO, Waste Operations	Near Miss	Contractor	4	50% complete	0
COO, Property	Near Miss	Staff/Public	6	70% complete	0
COO, Wellington Regional Aquatic Centre	Incident - Injury	Public	15	93% complete	0
COO, Freyberg Pool *	Incident - Fatality	Public	8	12% complete	0

- Note: * This incident involved a member of the public who collapsed and died in the mens' changing rooms. Council carried out an internal health and safety incident investigation, the findings of which were presented to the Council's Health and Safety Steering Group.

Proposed Health and Safety Legislative Reform

13. The Bill was introduced into Parliament in March 2014. Submissions are currently being heard by Select Committee. It is expected the proposed Health and Safety at Work Act will be in effect by October 2015.
14. One of the most significant changes to the new legislation is the introduction of due diligence obligations on the role of 'officer(s)' within an organisation. Feedback from the Australian jurisdiction suggests that this is one of the most significant and successful features of the new legislative regime, resulting in changing leadership behaviours and delivering better safety outcomes.
15. To prepare the Council for transition from the existing legislation to the new Health and Safety at Work Act, the Council has developed a programme of work to complete over the next next 12-18 months. This programme of work has been endorsed by ELT and the Council's Health and Safety Steering Group, which will act in the role of 'project assurance'.
16. The programme priority activities that the Council will be addressing initially will be to:
 - undertake a gap analysis of our health and safety management system
 - identify and clarify our relationships and responsibilities with our PCBUs (persons conducting business or undertaking)
 - identify and clarify our governance arrangements including roles and responsibilities, i.e. who are officers, what are the positive due diligence obligations and what does it mean in practical terms.
17. Officers will update the Audit & Risk Subcommittee on progress against the milestones in the Council's health and safety project and will brief the subcommittee on the impact and effects of the legislation once it is enacted.

Attachments

Nil

Author	Deborah Hammond, Manager, Health Safety & Wellness
Authoriser	Nicola Brown, Director Human Resources

3. Public Excluded

Resolution to Exclude the Public:

THAT the Audit and Risk Subcommittee :

- (a) Pursuant to the provisions of the Local Government Official Information and Meetings Act 1987, exclude the public from the following part of the proceedings of this meeting namely:

General subject of the matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
3.1 Risk Management - Update	s7(2)(c)(ii) The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to damage the public interest.	s48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.
3.2 Internal Audit - Update	s7(2)(c)(ii) The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to damage the public interest.	s48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.
3.3 Council Debtors Report	s7(2)(c)(ii) The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to damage the public interest.	s48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.

- (b) Permit Audit New Zealand to remain at this meeting after the public has been excluded, because of their specialist knowledge of the matters under discussion.