AUDIT AND RISK SUBCOMMITTEE MEETING

Commencing at 11.00am

On

16 APRIL 2015

Meeting Room 1
Timaru District Council
King George Place
Timaru

TIMARU DISTRICT COUNCIL

Notice is hereby given that a meeting of the Audit and Risk Subcommittee will be held in Meeting Room 1, Timaru District Council, 2 King George Place, Timaru on Tuesday 16 April 2015, at 11.00am.

Subcommittee Members:

Mayor, Clr Tierney (Chairman), Clr Brien, Chief Executive, and Group Manager Corporate Services

LOCAL AUTHORITIES (MEMBERS' INTERESTS) ACT 1968

Subcommittee members are reminded that if you have a pecuniary interest in any item on the agenda, then you must declare this interest and refrain from discussing or voting on this item, and are advised to withdraw from the meeting table.

Peter Nixon
CHIEF EXECUTIVE

AUDIT AND RISK SUBCOMMITTEE

16 APRIL 2015

AGENDA

AUDIT AND RISK SUBCOMMITTEE

FOR THE MEETING OF 116 APRIL 2015

Report for Agenda Item No 2

Prepared by   **Tina Rogers**
                 Group Manager Corporate Services

Audit New Zealand Management Report for the Year Ended 30 June 2014 (File F1/1)

_____

Purpose of Report
Attached is the Management Report for the year ended 30 June 2014 which has been completed by Audit New Zealand.

Recommendation

That the report be received and noted.

Report to the Council on the audit of

Timaru District Council

for the year ended 30 June 2014

Management report

Key messages

Introduction

We have completed our audit of Timaru District Council (the District Council) and group for the year ended 30 June 2014. This report incorporates our findings from both our interim and final audit visits and draws attention to areas where the District Council is doing well or where we have made recommendations for improvement. In accordance with established reporting protocols, we have issued separate management reports in respect of our audit of the District Council's subsidiary, Timaru District Holdings Limited.

We have summarised our findings and recommendations in generally the level of importance. The table below records the significant issues and their priority.

Overview

We issued an unmodified audit opinion on the District Council's and group's full annual report on 28 October 2014 and an unmodified audit opinion on the summary annual report on 10 November 2014. It is also pleasing to note that the District Council has or is in the process of addressing some of our prior year's recommendations. We encourage continued progress with these.

The 2014 financial year included new legislative disclosures as part of the Local Government (Financial Reporting and Prudence) Regulations 2014 that applied to the 2014 annual report. Management were well prepared for the required disclosures around core asset information, insurance, and the financial prudence benchmark information and the disclosures within the annual report were appropriate.

Review of internal controls

In general, we found that the District Council has appropriate systems of internal control in place. These systems are operating effectively. This means we were able to place reliance on them for the purpose of our audit.

An issue was raised in relation to purchase orders not being used for expenditure transactions which lead to two expenditure approvals being given by staff when they did not have the authority to do so.

We also noted further recommendations regarding non-financial reporting systems, GST treatment on property transactions, and managing conflicts of interest.

Our review of the District Council's IT general controls highlighted some recommendations that we would also like to bring to your attention. These are discussed in more detail throughout the report.

Future issues

The District Council is preparing its 2015-2025 Consultation Document and Long-Term Plan (LTP). We have commenced our planning for the audit of these two documents with a review of the District Council's self-assessment questionnaire and our submission of the letter of proposal to the Council.

Summary of issues identified during the audit

The following table summarises our recommendations and their implementation priority. There is an explanation of the ranking system in Appendix 1.

Recommendation	Urgent	Necessary	Beneficial	Reference
Internal control recommendations				
• Increase the use of system generated purchase orders rather than manual ordering processes; and		✓		4.2.1
• Review GST treatment of property transactions.		✓		4.2.2
Document approach to mitigating conflicts of interest			✓	4.3.1
A record should be documented around the agreed approach to managing any conflicts amongst the declared interests.				
Information system recommendations				
• Restrict remote access of Civica (vendor for Authority Enterprise Suite);		✓		4.4.1
• Enforce domain administrator's accounts passwords to expire;		✓		4.4.2
• Review list of super users and limit super user's rights;		✓		4.4.3
• Periodic review of access to the computer room;			✓	4.4.4
			✓	4.4.5
• Formally document change management policies and procedures; and				
• Testing of security patches and service packs before deployment.			✓	4.4.6
Non-financial system recommendations				
• Review the criteria for reporting service request response times;		✓		5.1
• Review the processes around recording after hours service requests; and		✓		5.2
• Clarify whether service request response times should include planned (scheduled) works.			✓	5.3

Thank you

We would like to thank the District Council's staff and management who have assisted us in the course of our interim and final audit visits.

[signature]

Julian Tan
Audit Director
9 February 2015

1 Our audit opinion

1.1 We issued an unmodified audit opinion

We issued an unmodified audit opinion on 28 October 2014. This means that we were satisfied that 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.

The financial statements and statement of service performance are free from material misstatements, including omissions.

2 Our areas of focus for the year

We outlined the areas of audit focus for the 2014 audit, in our audit arrangements letter. We comment on the following significant matters noted in our audit. Other areas outlined in the arrangements letter that are not mentioned below are referred to in Appendix 2.

2.1 New financial reporting disclosures

The 2013/2014 financial year included new disclosure requirements as part of the Local Government (Financial Reporting and Prudence) Regulations 2014 and under Schedule 10 of the Local Government Act 2002. These regulations required new or re-presented disclosures around Council's core asset information and insurance as well as the disclosure of financial prudence benchmark information.

We confirmed that all required disclosures were included in the annual report. We noted that management were well prepared for the new disclosures and utilised sector guidance and examples where available. We reviewed the disclosures made within the annual report and considered these were appropriate.

We encourage management to follow any sector guidance or examples where these are produced. For example, the guidance that was produced for the "Rates (increase) affordability benchmark" recommended that where a Council had not adopted rates increase limits prior to including these as part of its 2012-2022 Long Term Plan (LTP), these should not be included in the graph. The District Council included these earlier years within the benchmarks.

2.2 Timaru wastewater treatment plant upgrade

The large infrastructure project for the District Council during the year was the upgrade to the Timaru Wastewater treatment Plant. While completion of the project was expected to occur in the 2013/2014 financial year, unfavourable weather contributed to this being delayed. At balance date the project was still in progress.

From our perspective, we were interested in the upgrade for two reasons. The first being the project management of a significant capital project and the second being the accounting for the costs of the project.

Our assessment of the District Council's project management of the wastewater upgrade is that there is an appropriate control environment and processes in place around the project. These include the identification and management of risks, clear roles and responsibilities, project monitoring (including remediation actions where necessary) and external relationship management. This supports our assessment from our review of the District Council's previous significant project, the Caroline Bay Aquatic Centre that was completed in 2012/2013.

The accounting for the project was somewhat simplified for the 2014 annual report as the project was still in progress at balance date. Accordingly the costs were recognised as work in progress within the property, plant and equipment balance and the assets are not depreciated until completion.

As a result of weather related delays, Council is now expecting the project to be completed and operational in the 2014/2015 financial year. As part of the 2014/2015 audit, we will review the accounting treatment for the sewer plant upgrade, including the capitalisation of the costs into work in progress and recognition of any outstanding contractor claims and retentions.

2.3   Rates

We reviewed the District Council's compliance with aspects of the Local Government (Rating) Act 2002 and followed up on some minor findings from the 2013 rates legislative compliance review. As part of this review we considered the consistency and completeness of the rates resolution and the Funding Impact Statement.

We also note that the District Council obtained a legal review of its rates setting process in advance of setting the 2014/2015 annual rates. This included a review of the content of the rates resolution and the funding impact statement. The review did not identify any significant issues.

In performing this work we stress that complying with legislation remains the District Council's responsibility and our review was completed for the purposes of expressing our audit opinion and is not a comprehensive legal review.

2.4   Risk management

We followed up on previous enquiries into the District Council's risk management processes. Currently, there are risk management processes in place, however these are more of an ad hoc nature and not part of a formal Council-wide risk management framework. We continue to encourage the District Council to develop an overall risk management framework that identifies, assesses and reports all the risk which may impact on the organisation as a whole.

Management comments

The Council has this on their work programme to undertake in the 2015 calendar year.

3 Accounting and annual report issues

3.1 Overview

Overall the annual report and audit process went reasonably smoothly. We outlined the areas of audit focus in our audit arrangements letter and are pleased to report there were no significant new issues arising from our work in these areas.

3.2 Debenture trust deed

The District Council has borrowings secured under a debenture trust deed. We audited the information the District Council included within its reporting certificate and issued an assurance report on the reporting certificate on 28 October 2014.

3.3 Summary annual report

The summary annual report was approved and issued on 10 November 2014. We audited the summary document to confirm that it represented, fairly and consistently, the information regarding the major matters dealt with in the annual report. The summary document was larger in 2014 (28 pages) due to the inclusion of the new prudence benchmark graphs.

Overall we considered the document provides a good summary of the full annual report. However, we believe there is an opportunity to enhance the context of the non-financial performance information within the document. There is good narrative around the highlights within each of Council's activities but the information explaining Council's achievements of its performance measures and targets is light. This is shown as a numerative result, i.e., Council achieved (or nearly achieved) six of its performance targets.

Some further context could be provided by explaining the nature of the performance targets that have or haven't been achieved. For example Council may have achieved eight out of 10 targets but the two that weren't achieved may be the more significant targets that the reader is interested in.

We note that there are new mandatory performance measures that Council will need to measure and report against. As part of preparing for this, we recommend that the District Council review the disclosures of its non-financial performance reporting within the summary annual report.

Management comments

While we are keen to ensure this is a useful document for the public, it is supposed to be a summary linking to the main Annual Report document. It is already 28 pages which in our view is already too large to be classed as a "summary". Looking at some other councils, their summaries are considerably smaller.

However, in saying that there may be opportunities to enhance the reporting around non-financial performance which we will look at over the next year, assuming it does not significantly add to the size of the summary. If it does our preference would be that the reader refer to the full document to get the full picture. The new mandatory performance

measures will not kick in until the 2015/2016 Annual Report year, and are being incorporated as part of the LTP 2015 development.

4   Control environment

At our interim audit visit, we performed an assessment of the District Council's control environment. This assessment was performed to plan the most effective and efficient audit approach, enable us to express an audit opinion on the District Council's financial statements and the non-financial information.

In performing this assessment, we considered both the "design effectiveness"[1] and "operational effectiveness"[2] of internal control. The explanation of these terms is outlined below.

4.1   Internal controls

We reviewed the internal controls in place for your key financial and non-financial information systems. This involved documenting and updating our understanding of the key financial systems, performing walkthroughs and testing of the identified key controls present within those systems. The systems we reviewed included:

- payroll;

- rates;

- expenditure;

- revenue and receipting;

- fixed assets;

- journals;

- general ledger control account reconciliations; and

- sensitive expenditure.

Internal controls are the policies and processes that are designed, implemented and maintained by the governing body and management, to provide reasonable assurance as to the 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.

It is not the purpose of our assessment to provide you with assurance on internal control in its own right. As such, we provide no assurance that our assessment will necessarily identify and detect all matters in relation to internal control.

---

[1] Control is effective to either prevent or detect a material error in either the financial statements and/or non-financial information. The control is "fit for purpose".
[2] Control has operated effectively throughout the period tested.

We did not identify any significant matters for the Council's financial information systems and controls and in general, we found that the District Council has appropriate systems of internal control in place. These systems are operating effectively for us to place reliance on them for the purpose of our audit.

However, in performing this assessment we have identified areas where we believe the control environment can be improved.

4.2 Internal control findings and recommendations

4.2.1 Use of purchase orders

Recommendation

The District Council should initiate an item of expenditure using a purchase order and ensure appropriate approval is given before the good or service is requested.

Findings

Instead of initiating an item of expenditure via a Purchase Requisition (which gets turned into a Purchase Order), staff are placing orders via the phone or through emails. If the expenditure went through the system, it automatically requires persons with the approved delegation limit to approve it. However if there is no corresponding Purchase Order, the Accounts Payable officer manually checks whether the person approving the expenditure for payment has the appropriate delegated authority. This increases the likelihood of error and there have been two instances identified where staff have approved expenditure for amounts that exceed their approved delegation limit.

Management comments

Agreed. A reminder that purchase orders should be used will be issued to all staff involved in the initiation of expenditure.

4.2.2 GST on property transactions

Recommendation

Council review its GST treatment of property transactions.

Findings

During our review, we noted that Council had returned GST on the sale of a residential property, as it had been owned for less than five years, but had not claimed GST on the initial purchase.

A registered person can generally claim a second hand goods input tax credit on property acquired from a non-registered person, provided that the property will be used to make taxable supplies.

The GST refund associated with the purchase is estimated at $19,000. We understand that Council intends to correct this error in its next GST return.

Management comments

The issue noted was a one-off historical transaction and has been corrected. All property transactions are reviewed by an accountant and external advice will be sought where complex transactions involved.

4.3 Risk assessments

As part of our audit planning we considered a number of broader risk areas within the Local Government sector. Examples of these included risk management, conflict of interests, procurement, contract management, project management, asset management, and financial sustainability. We comment on some specific areas below.

4.3.1 Conflict of interests

We reviewed how potential conflict of interests were identified and managed, and make the following recommendation that would strengthen the District Council's processes.

We found that there is no documented record of the agreed approach to managing any conflicts against the declared interests. The interest register should include a documented approach to the declared interest and a clear decision on how the issue should be managed.

Management comments

This will be considered and developed during the 2015 year.

4.3.2 Procurement and contract management

We performed a high level review of the District Council's procurement and contract management processes. This also included reviewing how the Council-wide processes were applied to significant examples of procurement and contract management, being the Timaru wastewater treatment plant upgrade and the Caroline Bay Aquatic Centre (in 2013). These have been the most significant examples of procurement and contract management that the District Council has undertaken in recent years.

From our work performed we noted the following:

- The contracts for these projects were appropriately tendered for and the procurement process was detailed with good supporting documents and controls in place.

- There is strong contract management processes in place including where Council has managed delays with the project.

- There is detailed reporting to Council on a regular basis covering off where the project is at both in terms of cost and any unexpected delays.

Our discussions identified that the District Council's contracts manual is progressively updated. A more comprehensive update to address changes in engineering standards

is scheduled to occur in 2014. We will follow up Council's progress with this as part of the 2014/2015 audit.

4.4 IS systems

We completed a review of the District Council's IT General Controls. The following issues were noted from our review and these were discussed with the IT Manager who provided the responses below:

4.4.1 Remote access of Civica (vendor for Authority Enterprise Suite)

Recommendation

We recommend that management only enable vendor's access to the production system when the need arises and immediately disable when no longer required.

Findings

We have noted that Civica has a 24/7 remote access to the Authority system. We understand that Civica is required to inform the Council's IT team if it will access the system. Although this current practice appears to be working, we wish to highlight the risk of unauthorised access, system changes, and even unplanned outages due to a vendor having on-going access to the Council's production environment.

Management comments

We understand the risks. Civica currently access our system multiple times per day due to ever increasing software bugs with their system, given the time differences and potential communication issues causing delays in getting fixes implemented, it is not currently practical to enforce this. Once/if this access requirement slows down, we will re-look at this issue.

4.4.2 Domain administrator's accounts password is not to set to expire

Recommendation

We recommend that management:

- develop and implement remedial actions to address the control weaknesses noted; and

- also develop and implement policies, guidelines and procedures to prevent such practice.

Findings

We have noted that the domain administrator accounts' passwords were not set to expire. Under Council's password policy, passwords of log on accounts should expire after 30 days. The IT Manager has rectified the issue immediately after our audit.

We wish to highlight this risk since this control weakness increases the risk of unauthorised access to the Council's IS environment. Since domain administrator

accounts are privileged access accounts, IT staff should be a role model of good information security practices.

Management comments

Domain admin passwords are now set to expire after 30 days. This will be checked periodically to ensure compliance.

4.4.3 Super users in Authority

Recommendation

We recommend that management:

- Review the list of super users in the system. Establish a module super user so as to restrict access.

- Limit users with super user rights to one. Backup staff's super user access should only be turned on when required and turned off when no longer needed.

- Ensure one up review of system administration activities and/or regular monitoring of the use of the super user accounts by implementing independent periodic review of activities undertaken using the super user accounts, with evidence of review being retained.

Findings

We have noted the following in relation to the super users of the financial system:

- The list of users with super user access rights are not reviewed regularly to ensure on-going validity of users' access rights.

- There is no segregation of super users' access rights across the different module (e.g. payroll, finance, property and rating) in the system.

Too many super users in the system increase the risk of unauthorised transactions being entered in the system. Finance staff who are also super users and are involved in GL related transactions creates a segregation of duties risk.

Management comment s

We have undertaken a review of super user access and removed all bar four senior IT users, which we are satisfied is acceptable to us. Other ex super users have had access restricted to the parts of Authority they used in BAU. We will include reviewing the authority super users group when we do our periodic reviews of our AD domain admin accounts.

4.4.4 Periodic review of access activities in the computer room

Recommendation

Management should consider undertaking a periodic review of access activities in the computer room, including a periodic review of who has been granted access to the server room.

Findings

We have noted from our review there are controls in place that governs the requesting and granting of access to the computer room. Key cards have been implemented and request for access is requires approval from IT Manager.

Management comments

A periodic review will now take place.

4.4.5 Formally documented change management policy and procedures

Recommendation

A formally documented change management policy and process that is the right fit for the size of the organisation, should be developed that will underpin existing practices. This should be communicated and agreed across relevant stakeholders in the organisation.

Findings

We noted that there is currently no formally documented change management policy and procedures in place for changes and enhancements to IS systems, applications and infrastructure. We did note though that there are existing practices that appears to be fit for purpose, given the size of the Council.

The lack of a formally documented change management process increases the risk of inconsistent practices being followed in the change process, possibly resulting in poor outcomes.

Management comments

Looking to up train staff with ITIL practices, but given our size and the fact that we have fit for purpose existing practice in place, this is not a high priority.

4.4.6 Deployment of security patches and service packs

Recommendation

Deployment of security patches and service packs.

Findings

We have noted that security patches and service packs are rolled out without going through testing.

Testing security patches before it is rolled out is a good security practice to minimise the risk of unexpected or undesirable system behaviour.

Management comments

We will add a seven day delay to patch installation for non-critical patches to enable peer feedback on quality of patch releases, before installing them ourselves.

4.5 Compliance with significant legislation

The District Council is responsible for ensuring that it has appropriate systems, policies, and procedures to comply with all relevant legislative, regulatory, and contractual requirements that apply to the activities and functions of the District Council. Such systems, policies, and procedures should be documented.

We reviewed the systems and procedures that the District Council employs to identify and comply with legislative requirements that could have a significant effect on the financial statements. We draw your attention to the following issues arising from review.

5 Service performance information and associated systems and controls

We reviewed the control environment at the overall Council level reporting and the individual activity level for reporting service performance information within the statement of service performance (SSP) sections of the District Council's annual report.

The District Council has implemented a regular service performance reporting regime which includes half yearly service performance results against all of its performance measures. This provides an opportunity for corrective action to be taken by managers if the District Council is not meeting its target. This also provides the opportunity for an independent review of the measurement, methodology, and the results themselves.

In general, we found that there are effective systems and internal controls in place to collect, record, analyse and report data to enable reporting against the performance measures.

In our review of selected key measures, we noted the following to bring to your attention.

5.1 Response times of service requests

A new contract with contractor City Care Limited came into force on 1 July 2013 and at the same time the Customer Request Management (CRM) module of Authority was implemented. The CRM module records service request information such as when the District Council has received a service request from the public, when the contractor received the request, and the contractor's response time. These service requests are also integrated with the contractors Customer Event Manager (CEM) and the District Councils' utilities asset system, Hansen. Work orders are generated and responded to by the contractor. In our review, we found that the records in these systems were consistent.

It is important that the service requests are classified correctly in the CRM because it will affect whether the response times of the District Council have been met in the report generated to analyse the results. This includes the accuracy of the priority of the response times (urgent or non-urgent), the asset affected (e.g. water, sewer or stormwater), and whether the request relates to an urban or rural area. We did not note any issues of classification from the service requests we reviewed.

We noted the following for the District Council to consider:

5.2 Reporting of planned and unplanned service requests

Recommendation

The District Council review and confirm whether the service request performance result should include responses by the contractor to both planned (scheduled) or unplanned works.

Findings

The District Council has a report that can show the summarised results of the service request response times every month and the individual service requests behind the calculation. When we reviewed the listing of individual service requests, we noticed that it included planned (i.e. scheduled service) and unplanned works. Responding to planned outages may not be as urgent as unplanned customer requests and including these results may distort the reported figure. Alternatively it could be argued that the contractor should respond to planned service requests in accordance with the timeframes within the maintenance contract.

We note that the new "Non-Financial Performance Measures Rules 2013" only requires reporting on the complaints (service requests) from the public. This will apply to the District Council's 2016 annual report.

Management comments

Service request response times to "Urgent" and "Non Urgent" works will be reported separately.

5.3   Calculation of service request response times

Recommendation

The District Council review the calculation of service request response times.

Findings

The results in the District Council's report against the service requests is based on the time the contractor (City Care Limited) has received and responded to the request.

However, we would have expected that the service request response times are calculated from when the District Council receives the request from the public. This is noted as the "initiated" time in the report. We noted instances where the "initiated" time and the contractor's acknowledgement of the request differed significantly. This means that the service request response time is noted as met when it may not have been.

Management comments

This is currently under review. The response times are calculated from the initiated time, however due to the after hours service not entering directly to the Council's CRM system the initiated times can be incorrect.

5.4   Review the processes around recording after hours service requests

Recommendation

The District Council review the processes around after hours service requests.

Findings

The District Council contracts with TAS on providing after-hour services. This includes recording the service requests from the public and any additional comments of the request. We understand that TAS does not have access to the CRM system and the District Council staff will retrospectively update the CRM the following morning.

We noted an instance where the service request was "initiated" (the District Council received a public request) a day earlier than the time recorded as to when the contractor received and responded to the request. Based on the "initiated" time, we would have expected that the response time was not met. However, the system reported that the response time of one hour was recorded as being met because it was within the timeframe that the contractor has acknowledged the request and when it was responded to. It was unclear from the work order information on whether the response time was met as it also showed the job started and closed on the same time and date.

We recommend that the TAS staff captures all the required information for reporting the response times. This may include consideration of whether TAS should have access to enter the information directly into the CRM.

Management comments

As noted above, this is being reviewed.

6   Issues identified in the audit arrangements letter (AAL)

The AAL included a number of sector issues relevant to all Local Authorities. Where we have not commented on these in the main body of this report, we have included comments in Appendix 2.

7   Future issues

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

As highlighted in the audit arrangements letter, Council will need to transition to a new public benefit entity (PBE) accounting standards framework that will take effect for the year ending 30 June 2015. Comparative information will need to be restated. This new accounting standards framework will also to apply to Council's 2015-2025 LTP.

The new framework introduces a Tier structure. There are also separate standards applicable to "for-profit" entities and Council's subsidiaries reported under these new standards for the year ended 30 June 2014 year due to an earlier commencement date for these standards.

We do not expect significant changes as a result of the new standards. However, Council will need to assess where standards may have a recognition or disclosure impact. Management will also need to consider the impact of any differences between the standards adopted by the group entities and those by Council. We outline some guidance for management to consider in preparation for the transition:

- decide the reporting tier of the Council and entities in the group;

- become familiar with the new standards and assess and record the differences that have a recognition, measurement, presentation or disclosure effect on the Council's and group's financial statements. If the Council and group lacks the resources or capability to do this, they should seek help;

- prepare a statement of accounting policies that complies with the new standards;

- prepare an opening statement of financial position, as at 1 July 2013, and restate comparatives for the year ended 30 June 2014, including disclosures, which comply with the new standards. Supporting documents for adjustments arising on transition need to be retained;

- assess whether any changes to systems will be needed to comply with the new standards;

- considering group reporting implications arising from accounting policy differences between the PBE group and the for-profit subsidiaries; and

- monitor and apply any guidance from lead agencies on the transition.

We will audit the updated statement of accounting policies, opening statement of financial position, and restated comparatives, under the new standards, when we audit the first financial statements prepared under the new standards. We will discuss further, with the Council, the timing of this transition audit and our expectations.

8   Status of previous recommendations

The status of each recommendation from the prior year's audit is summarised in the table below. Further detail of the status of each item is included in Appendix 3.

Summary of action taken against previous years' recommendations:

Number of recommendations from last year's audits	Current status
2	Matters that have been resolved
4	Progress is being made, but not yet fully resolved
2	No progress has been made
3	No progress has been made as Council considers the issue to be of low risk and has accepted the associated risk

9   Mandatory disclosures

The mandatory disclosures for this audit are shown in Appendix 4.

Appendix 1: Explanation of priority ranking system

We have developed rankings for our recommended improvements:

Urgent Major improvements required	**Needs to be addressed _urgently_** 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 Improvements are necessary	**Address at the earliest reasonable opportunity, _generally within 6 months_** These recommendations relate to deficiencies that need to be addressed to meet expected standards of good practice. These include any control weakness that could undermine the system of internal control or create operational inefficiency.
Beneficial Some improvement required	**Address, _generally within 6 to 12 months_** These recommendations relate to deficiencies that result in the District 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.

Appendix 2: Issues identified in the Audit Arrangements Letter

Areas of interest	Results from our audit response
Funding impact statements (FIS)	
We will consider the extent to which the District Council's activities are on track against the 2012-2022 LTP. We will assess the reasonableness and completeness of the variance analysis and explanations in the annual report. We will also consider the implications and impact, of any significant variations from the LTP's planned performance, on the financial strategy.	Council's activities are not significantly different from those set out in its LTP. Financial variances are explained in the FIS and are considered reasonable.
Asset management plans (AMPs)	
We will assess and review the District Council's progress in relation to the development and maintenance of its AMPs.	We have briefly discussed this with management and understand they are aware of any changes and requirements that may be mandatory in the next LTP. AMPs are being reviewed and updated as part of the Long-Term Plan preparation.
Affordability and sustainability	
We will review whether there are any issues around the District Council's ability to pay for services and what approach the District Council is taking.	We noted no issues around the District Council's ability to pay for its services. Council is in a strong financial position as at 30 June 2014 with a recorded surplus of $11.1 million.
Property, plant and equipment – impairment assessment	
We will review the District Council's assessment of whether there are any indicators of impairment, and the resulting accounting treatment if applicable.	No impairment indicators were identified as part of our work, or from discussions with management during the audit. Earthquake prone building assessments are still being carried out and we will assess the impact of these on the carrying value of the District Council's building assets once this is complete.
Shared services	
We will discuss with you any proposals for shared services and any other alternative forms of service delivery. Our objective will be to gain an understanding of the proposals and their potential impact on the District Council and its services and activities.	We understand Timaru District Council is working with the Waimate and Mackenzie District Councils on roading collaborations. Ashburton District Council has also recently joined this group. Timaru already undertakes work for Waimate and Mackenzie for health and liquor licencing.

Areas of interest	Results from our audit response
	Timaru is also involved in region wide initiatives such as policy forum.

Possible LTP amendments

We will remain alert for possible amendments throughout the year. We will maintain contact with management and discuss potential amendments as they arise. We also plan to review the District Council's 2014/2015 annual plan, to ensure we understand the nature and extent of any changes being proposed. As part of this review we will assess the annual plan's compliance with legislative requirements.	Other than the sell-down of PrimePort Timaru Limited (held via Timaru District Holdings Limited), there were no other LTP amendments identified throughout the audit or by the Council. The PrimePort sell-down was treated as an LTP amendment and we audited and reported on this amendment.

Council's governance role over Council Controlled Organisations (CCOs)

We will consider whether the District Council has appropriate arrangements in place for effectively fulfilling its oversight responsibilities relating to CCOs including establishing the rationale for their investment in their CCOs and the monitoring of the CCOs' performance. We will also establish whether statutory timeframes for preparing 2013/2014 SOIs have been met for all CCOs.	There were No issues noted from our work performed on CCO audits and discussions with client.

Funding arrangements and procurement

The District Council has developed the first part of the new procurement policy which covers Land and Transport, and has been considering what to include in its policy, looking at other Councils' policies as a benchmark. The District Council will review the policy being developed against the OAG's good practice guide. We will follow up on whether the District Council has updated its policies and guidance in line with both the OAG publications. We may also review whether procurement practices reflect Council policy and good practice.	Council are currently in the process of working together with other Councils in the Canterbury region to form a procurement policy that could be used between them.

Elected members – remuneration and allowance

We will assess the District Council's compliance with the requirement to disclose the remuneration of each member of the local authority in the annual report against the relevant Local Government Elected Members Determination and any amendment to that Determination.	We ensured compliance with remuneration disclosure requirements in the annual report and noted no issues in relation to this.

Appendix 3: Status of previous recommendations

Cleared matters

Recommendation	Outcome
Reconciling suspense accounts	
Transactions posted to suspense accounts should be reconciled, cleared promptly, and independently reviewed. This is important as suspense accounts can be used as a tool to perpetrate fraud if not regularly monitored, reconciled and cleared. Also, there may be items in suspense accounts that should be included in the income statement. If not cleared regularly, this could impact on the integrity of the monthly financial reporting and monitoring.	Confirmed that all suspense accounts are now being reconciled and independently checked in a timely manner.
Group investments	
TDHL's board had deferred obtaining a full valuation of PrimePort until 2014 at the earliest due to the recent reduced scale of PrimePort's container operations. These valuations will be used to track the value of the investments for TDHL to report against its SOI measures and to allow the District Council or TDHL to determine if they should continue to hold or sell those investments.	A valuation of PrimePort was essentially completed during the sell down of shares from TDHL to Port of Tauranga. This was audited as part of the TDHL audit and Council are satisfied that the numbers used are the most current valuation of the entity.

Progress is being made, but not yet fully resolved

Recommendation	Current status	Priority	Management's proposed action
Disclosure of interests in the interests register			
Councillors should disclosure all their interests in the interests register, even if there is only a remote possibility that the District Council will transact with the entity.	We note a slight improvement in the number of interests disclosed compared to the prior year but still encourage Council to keep their register regularly updated.	**Beneficial**	*Elected Members to be reminded of their responsibilities.*
Risk management system			
Council should consider the development of a risk management framework and supporting processes. Such a policy should address the reporting mechanism expected to be	At present the risk management processes are ad hoc, with staff being aware of legislative changes. There is no overall framework which identifies, assesses and reports all the	**Beneficial**	*Work is planned on this area for the 2015 calendar year.*

Recommendation	Current status	Priority	Management's proposed action
put in place.	risk which may impact on the organisation as a whole. There is a Councillor taking particular interest in this subject at the moment and Council is planning to work on this in the near future.		
Procurement policy update			
The District Council has developed the first part of the new procurement policy which covers Land and Transport, and has been considering what to include in its policy, looking at other Councils' policies as a benchmark.	A group of Finance Managers within the Canterbury Regional are looking at working together to complete a combined document in this area. Selwyn DC has recently completed a review and Timaru DC was going to have a look at this to see what they could take from it.	**Beneficial**	TDC has engaged consultants to review procurement strategy and will then review the policy.
Disclosure of interests in the interests register			
Councillors should disclosure all their interests in the interests register, even if there is only a remote possibility that the District Council will transact with the entity.	We noted a slight improvement in the number of interests disclosed compared to the prior year but still encourage Council to keep their register regularly updated.	**Beneficial**	Elected Members to be reminded of their responsibilities.
Independent review of payroll master files			
The District Council should introduce procedures requiring the independent review of changes to payroll master files.	Council are currently in the process of implementing this as part of their fortnightly payroll process. The report will be independently reviewed by the Finance Manager.	**Necessary**	Currently being actioned.

No progress has been made

Recommendation	Current Status	Priority	Management's proposed action
Building audits			
The District Council should perform a sample review from the spreadsheet back to supporting documentation to provide assurance that reported performance is accurate. The District Council should appoint staff member to be responsible for performing the building audits on a regular basis.	We could not sight the Public Buildings register, because the staff member was away at the time of our audit visit. Based on discussions with staff, an independent review of the register has not occurred. Currently all building inspectors are being trained on how to do an audit. A new policy (scheduled before year end) is to add a procedure in the annual building WOF checklist to complete an audit if the building has a specified system and will be part of the building consent process.	**Necessary**	*Staff are looking at this issue.*
Water audits			
After implementing the monthly audit review on a minimum of 5% of all service requests for Water Supply, Stormwater and Sewer networks attended to by its contractor City Care Limited in 2011 it appears Council had stopped doing the audits in 2013/2014.	We understand that the District Council intends to reinstate its audit regime of its contractor's performance. We will follow up progress at our final audit.	**Necessary**	*Audit regime is being reinstated.*

Matters where management has accepted the associated risks

The following matters are items that have been raised with the District Council previously. Management considers these to be of low risk and accordingly has accepted the associated risks. We will not carry these issues forward in future reports, however encourage the District Council to continue to consider these issues as opportunities to further enhance its control environment.

Recommendation	Outcome
Cost allocation review	
Council should review their cost allocation model on an annual basis to ensure that it is still relevant to their entity. Distortions in the cost allocation model will affect the quality of the information used in decision making.	Council is not planning to review their cost allocation model in the near future due to there being no consistent benchmark set for how councils should be allocating their overheads. It is the Council's responsibility to revisit this recommendation on a periodic basis and consider its relevance in light of any benchmarking developments for all councils.
PPE disposal forms	
When an asset is either disposed of or written off, the District Council's procedures require the unit manager to complete a standard form and send this to the finance staff. We noted that this form is not always completed. Instead notification can be sent by email or be advised verbally.	Council generally has a small amount of disposals each year and these would always go through either the Manager of Corporate Services, the Finance Manager or the Management Accountant. Management is comfortable with how the process is working at the moment and does not plan to formally enforce the disposal forms. It is the Council's responsibility to monitor the ongoing need or otherwise of using asset disposal forms in line with any changes to its risk assessment of the current practice.
Variance explanations in the annual report	
Provide additional information in the variance explanations provided for significant movement between actual and planned financial performance.	Council is satisfied with the level of information in the variance explanations and we noted a similar level of disclosure to the prior year. It is the Council's responsibility to monitor the cost/benefit of additional information at each reporting date.

Appendix 4: 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. The audit of the financial statements does not relieve management or the Council of their responsibilities. 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 District 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. Other than the audit, we have not provided any engagements for the District Council during the year ended 30 June 2014. In addition, we have no relationships with, or interests in, the District Council.
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 District Council that is significant to the audit. We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the 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.

AUDIT AND RISK SUBCOMMITTEE

FOR THE MEETING OF 16 APRIL 2015

Report for Agenda Item No 3

Prepared by   Sharon Matson
Group Manager Community Services

Health and Safety Reform Bill

_____

Purpose of Report
The purpose of this report is to highlight changes to the Health and Safety in Employment Act 1992. These changes will create a new Act to be known as the Health and Safety at Work Act. The new reforms are expected to pass into law by mid to end 2015 and will come into force in late 2015, or early 2016.

Background
The Health and Safety Reform Bill reforms New Zealand's workplace health and safety system, following the work of the Independent Taskforce on Workplace Health and Safety and the Royal Commission on the Pike River Mine Tragedy. The Bill is part of Working Safer, a major package of change to the health and safety system that has already resulted in the establishment of WorkSafe New Zealand.

Cabinet agreed that the new Act should be based on the Australian Model Work Health and Safety Act, with necessary modifications to take the New Zealand context into account.

The Bill takes into account public feedback received on the exposure draft Bill released for consultation in October 2013 and also consultation with WorkSafe New Zealand and other government agencies.

The Bill is made up of the following six parts:

Part 1   Outlines the preliminary provision of the new Act – its purpose, commencement, application, definitions and key principles.

Part 2   Outlines the duty framework of the new Act. Specifically, Part 2 imposes a primary duty on a person conducting a business undertaking (PCBU), to ensure, so far as is reasonably practicable, the health and safety of the PCBU's works and other people associated with the work carried out by the PCBU. It imposes a positive due diligence duty on the Officers of the PCBU, to ensure that PCBU complies with its health and safety duties. Duties are also placed on workers and other people in workplaces. It also outlines graduated offence categories and penalties for breaches of the duties.

Part 3   Creates duties which provide for better levels of participation by workers in matters of health and safety, and helps workers to have the knowledge and ability to keep them and their colleagues safe.

Part 4   Establishes an effective enforcement regime with a wider range of enforcement tools for the regulator and the Courts.

Part 5   Provides a regime for the effective sharing of information among participants in the health and safety system, and requires the development of a Health and Safety at Work strategy.

Part 6   Makes amendments to the WorkSafe New Zealand Act 2013, Hazardous Substances and New Organisms Act 1996, Accident Corporation Act 2001, Employment Relations Act 2000 and other Acts to ensure a consistent and robust health and safety regulatory system.

Updated penalties
There will be a new tiered liability regime and overall, a significant increase in the maximum penalty levels over the current law to sanction and deter duty holders from breaching their workplace health and safety duties.

Category 1 Reckless conduct:
Applies to a person who has a health and safety duty and, without reasonable excuse, engages in conduct that exposes an individual to a risk of death or serious injury or illness, and is reckless as to the risk. The maximum penalty for an individual PCBU or officer is $600,000 (or $300,000 for an individual who is a worker or other person) or five years'' imprisonment, or both, and for a body corporate is $3 million.

Category 2 Failure exposing to serious risk:
Applies to a person who fails to comply with their health and safety duty, and the failure exposes an individual to a risk of death or serious injury or illness. The maximum fine for an individual PCBU or officer is $300,000 (or $150,000 for an individual who is a worker or other person) and for a body corporate is $1,500,000.

Category 3 Failure:
Applies to a person who fails to comply with their health and safety duty. The maximum fine for an individual PCBU or officer is $100,000 (or $50,000 for an individual who is a worker or other person) and for a body corporate is $500,000.

This compares to current New Zealand law, where the offence broadly equivalent to Category 1 carries a maximum fine of $500,000 and 2 years' imprisonment or both, while conduct that would contravene Category 2 or 3 would carry a maximum fine of $250,000.

Identification of relevant legislation, Council policy and plans
- Council Policies
- Health and Safety at Work Act
- Health and Safety in Employment Act 1992
- Hazardous Substance and New Organisms Act 1996
- Accident Compensation Act 2001
- Health and Safety in Employment Regulations 1995
- Amusement Devices Regulations 1978 (made under the Machinery Act 1950)
- Geothermal Energy Regulations 1961 (made under the Geothermal Energy Act 1953)

Funding Implications
No funding implications have been identified.

Conclusion

As a small to medium sized enterprise, there is likely to be some limited change to our duties, because of the more direct influence we already have on the health and safety of our workforce. We have a well established Health and Safety Committee which currently has 10 members, 2 of which are management representatives. We have dedicated hours set aside for our Health and Safety representative Gary Foster who is very experienced. Timaru District Council has achieved ACC Tertiary status for our Health and Safety processes, and we are audited by ACC every second year, to ensure we are still achieving this high standard.

The reform Bill has clarified that while Directors have a responsibility as PCBU's, members elected to local authorities and community boards are exempt.

The Bill will require us to have increased focus on reporting and ensuring quality Health and Safety processes and procedures are in place for all contractors working for us, or being caused to undertake work on our behalf.

While many proposed changes still require a degree of clarity, we remain confident that we are focused and committed to understanding, preparing and monitoring the necessary changes to our Health and Safety processes and procedures.

Recommendation

That the report be received and noted.

AUDIT AND RISK SUBCOMMITTEE

FOR THE MEETING OF 16 APRIL 2015

Report for Agenda Item No 4

Prepared by   **Tina Rogers**
                    Group Manager Corporate Services

**Risk Policy** (File F1/37/3)

_____

Purpose of Report
To present the proposed Risk Management Policy for approval and recommendation to the Policy and Development Committee.

Background
Council has prioritized the development and implementation of a new organization-wide risk management framework. Elements of risk management have been used at Timaru District Council in the past, but have not been brought together in a single policy document.

The Joint Australian New Zealand International Standard AS/NZ ISO 31000:2009 *Risk Management – Principles and guidelines* ("ISO 31000") has been used to prepare this policy. Other council risk management frameworks have been reviewed.

ISO 31000 identifies the following components of, and relationships within, a risk management framework.
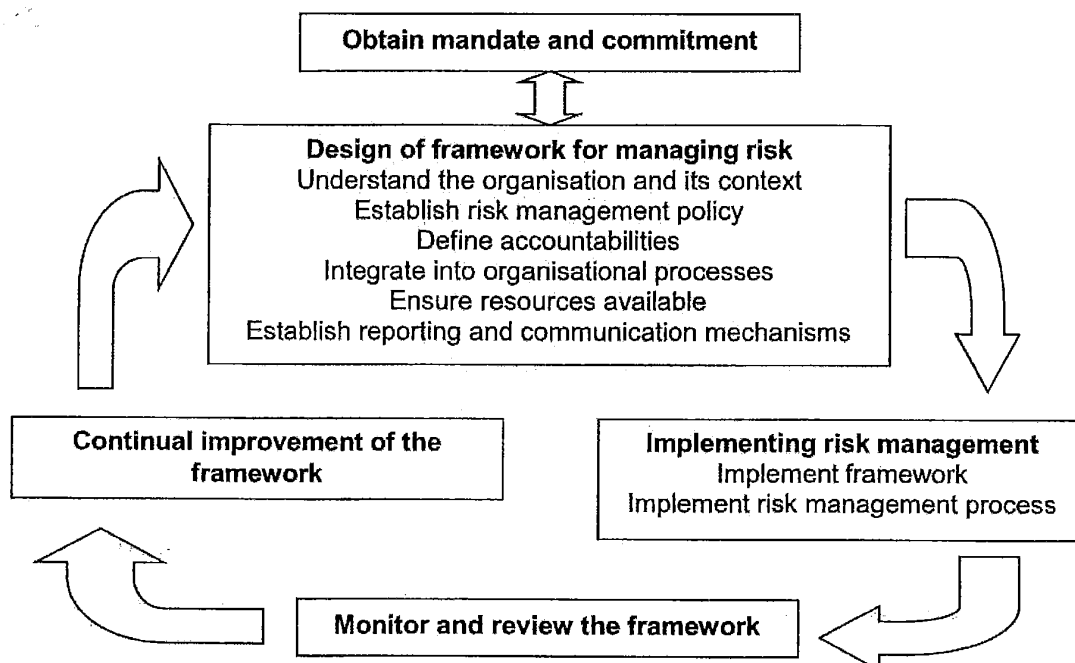
ISO 31000 further identifies a structure for the risk management process within the framework.
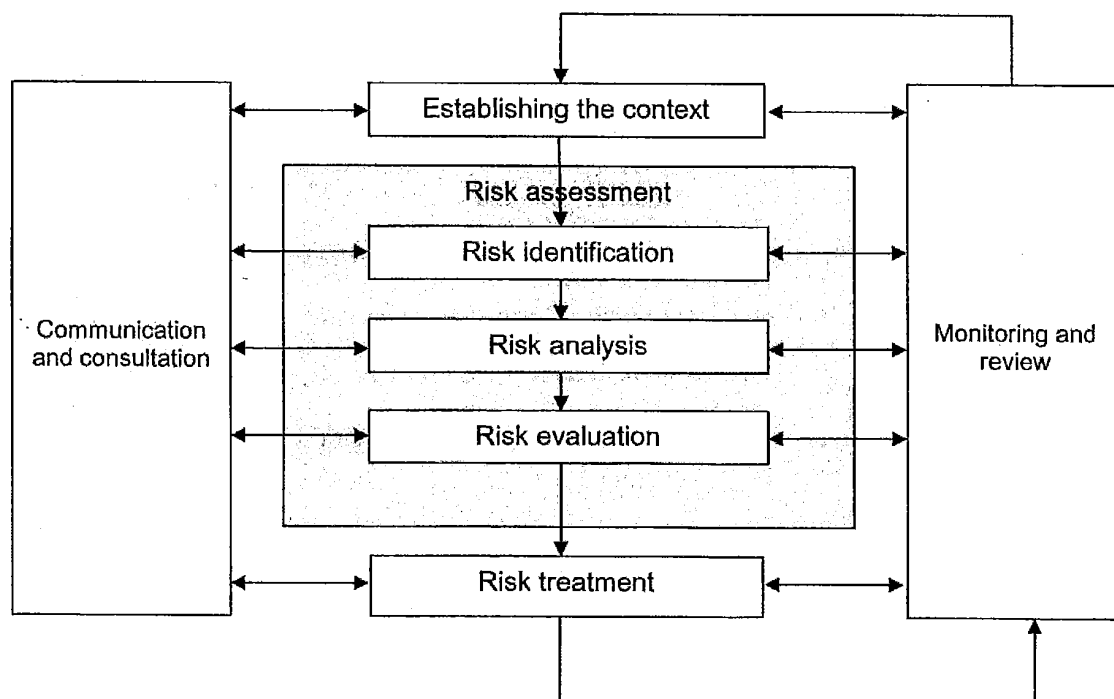
The draft policy attached in Appendix A has been prepared as a single point of reference for the majority of the risk framework. This framework is intended as a starting point which will drive further work. This includes:
-       Development of a Corporate Risk register
-       Development of reporting for management and the Audit and Risk Committee
-       Further development of unit risk management registers as currently recorded in Activity Management Plans
-       Incorporation of Risk Management into the Council's report template
-       Consideration of further risk mitigation measures

It is intended that the Corporate Risk Register be presented to the Audit and Risk Subcommittee at the next meeting.

Options
The Audit and Risk Subcommittee can make changes as necessary and then forward to the Policy and Development Committee for approval.

Identification of Relevant Legislation, Council Policy and Plans
Not Applicable.

Assessment of Significance
This matter is not deemed significant under the Council's Significance Policy.

Consultation
Consultation has occurred within the Council's management team. Further internal consultation will occur in preparation of the Corporate Risk Register.

Other Considerations
There are no other considerations relevant to this matter.

Funding Implications

There are no funding implications with adopting this report.

Conclusion

The development of the Risk Management Policy is a starting point to enhance risk management in the organization. The policy will be progressively implemented across all Council activities.

Recommendation

That the Subcommittee considers the draft policy and makes changes as necessary and a recommendation to the Policy and Development Committee.

Risk Management

Approved by:	
Date Approved:	
Keywords:	*Include keywords as covered by policy*

1.0 Purpose

Policy Objectives

To provide a consistent process to enhance efficient operations, effective processes and successful strategies that increase the likelihood of achieving the best outcomes for the district and the Council by:

- Ensuring risk-based information is available to support good decision-making
- Providing assurance that risks are being appropriately addressed and managed, and
- Ensuring compliance with applicable legislation and regulation.

2.0 Background

Principles

The Council's approach to risk management is consistent with the Joint Australian New Zealand International Standard Risk Management – Principles and Guidelines (AS/NZS ISO 31000:2009). That Standard provides the following principles of risk management:

- Risk management creates and protects value
- Risk management is an integral part of all organisational process
- Risk management is a part of decision making
- Risk management explicitly addresses uncertainty
- Risk management is systematic, structured and timely
- Risk management is based on the best available information
- Risk management is tailored
- Risk management takes human and cultural factors into account
- Risk management is transparent and inclusive
- Risk management is dynamic, iterative and responsive to change
- Risk management facilitates continual improvement of the organisation

Objectives
Risks are defined in relation to relevant objectives.

At the highest level, Council's objectives are expressed through its Vision of:
• Fantastic sustainable lifestyle second to none
• Thriving and innovative economy where opportunities abound
• Strong and enviable reputation and identity
• Inspiring, people-focused leadership

In addition, the Council's Community Outcomes are:
• High quality infrastructure to meet community and business needs
• Smart, diversified economic success and growth supported and enabled
• Communities that are safe, vibrant and growing
• People enjoying a high quality of life
• A strong identity forged and promoted
• A valued, healthy and accessible environment

Risks
Risks can be positive or negative.

Risks can also be 'risks to Council' or 'risks to the district'.
Positive risks, or opportunity risks, should be embraced, in a cost-effective manner, to the extent that they help Council or the district to meet its objectives.
Negative risks should be managed in a cost-effective manner so that they do not detract from Council or the district meeting its objectives.
In tabular form these concepts can be shown as follows:

	Negative risk	Positive risk
District risks	3 Understanding risks for the district and assessing Council's role in managing those risks	4 Understanding opportunities for the district and assessing Council's role in developing those opportunities
Council risks	1 Understanding and managing risks for Council and its immediate stakeholders	2 Understanding and exploiting opportunities for Council

Council's initial approach will be to focus on quadrant 1 while remaining aware of the responsibilities and possibilities under quadrants 2, 3 and 4.

Council is establishing a comprehensive formal risk management framework that principally focuses on quadrant 1 risks. This approach will be reviewed in time.

3.0 Key Definitions

- **Control** is a process, policy, device, practice or other action that reduces the likelihood of a risk event occurring or reduces the potential consequence of that risk event before the risk event occurs.

- **Council** means the entity know as the Timaru District Council and includes the governing body and the organisation.

- **Governing body** means the mayor and councillors.

- **Mitigation** is a process, policy, device, practice or other action that is intended to reduce the consequence of a risk event after the risk event has occurred.

- **Organisation** means the operations, processes and staff of Timaru District Council led by the Chief Executive.

- **Residual risk** is the risk remaining after risk treatment. (AS/NZS ISO 31000/2009)

- **Risk** is the effect of uncertainty on objectives. (AS/NZS ISO 31000/2009)

- **Committee responsible for risk** means the Audit and Risk Subcommittee, or a subsequent Committee of Council established with similar roles, responsibilities and powers.

- **Risk event** is an occurrence or a change in a particular set of circumstances that gives rise to, or modifies, a risk.

- **Risk management** is the coordinated activities to direct and control an organisation with regard to risk. (AS/NZS ISO 31000/2009)

- **Risk management framework** is the combined suite of tools and processes, including this policy and supporting procedures, by which Council manages risk.

- **Risk management plan** is a schedule that records risks and the controls, mitigations, risk treatments, and accountabilities associated with those risks.

- **Risk register** is the same as a 'risk management plan'.

- **Risk treatment** is the process to modify risk. (AS/NZS ISO 31000/2009)

4.0 Policy

Commitment to risk management
Council recognises that early and systematic identification, analysis and assessment of risks and the development of plans for controlling and mitigating risk are necessary to achieve its desired objectives.

As such, Council is committed to identifying, analysing, assessing and appropriately managing the risks to its objectives.

Risk management is the responsibility of everyone.

Council encourages intelligent and informed risk-taking and risk-acceptance in pursuit of its objectives.

It is the Policy of Timaru District Council to ensure that risks that it is exposed to are either avoided or if it is not possible to avoid those risks controlled to an acceptable level.

Identification of risks
All staff members are empowered, and expected, to identify and communicate risks. Identified risks will be recorded in a risk management plan.

Where, for whatever reason, direct reporting lines are not able to be used to communicate identified risks, alternative methods will be made available. These will include, but not be restricted to, direct notification to Group Managers or the Chief Executive.

Analysis of risks
Risks will be analysed to determine potential causes, the likelihood of occurrence, and the potential consequences if they do occur.

The causes, likelihood and consequence will be recorded in a risk management plan.

In accordance with the principle that risk management is tailored, the analysis of risks will reflect the relevant objectives of the Council, organisation, group, unit or project.

For the high-level 'corporate risk management plan:

• The likelihood of a risk event occurring will be assessed in accordance with the Likelihood Table included as Attachment 1.
• The potential consequences if a risk event occurs will be assessed in accordance with the Consequence Table included as Attachment 2.
• The assessments of the likelihood of a risk event occurring and the potential subsequent consequences will be considered together in accordance with the Risk Matrix included as Attachment 3.

The analysis of risks at subsidiary levels will be undertaken in a manner consistent with the above but may be tailored to suit the relevant circumstances.

Evaluation of risks
Analysed risks will be evaluated against criteria to determine whether a risk is tolerable in its current state or whether further action is required.

The evaluation of risks will consider established risk tolerances for such risks, as well as any risk-specific factors.

In the first instance the evaluation of risk will include reference to the Risk Response table included as Attachment 4.

Treatment of risks

Where residual risk is considered to be too high, risk treatments will be applied to reduce the residual risk to an acceptable level.

In considering risk treatments consideration will be given to both the costs and effort involved in the treatment and the potential benefit from the risk reduction.

Risk treatment can involve:

Avoiding a risk by deciding not to start or continue with the activity that gives rise to the risk.

- Taking or increasing risk in order to pursue an opportunity
- Removing the risk source
- Changing the likelihood of the risk occurring
- Changing the consequence if the risk occurs
- Sharing the risk with anther party or parties, or
- Retraining the risk by informed decision.

Recording of risks

Risks, controls and mitigations will be recorded in a risk management plan.

A high level organisation-wide 'corporate risk management plan' will be maintained to record and report on risks of Council-wide significance.

Subsidiary risk management plans will be prepared as appropriate throughout the organisation. These may include, but will not be limited to:

- Group risk management plans
- Activity risk management plans (within Activity Management Plans)
- Asset risk management plans (if appropriate to be separate from Activity Management Plans)
- Specialists risk management plans (for example, health and safety)
- Project risk management plans, and
- Any other risk management plan relevant to helping Council achieve its objectives.

Reporting of risks

Identified risks, and the associated controls, mitigations and accountabilities, will be reported in accordance with the Risk Response table included as Attachment 4.

Risk management plans will be reported regularly to both the Management Team and the Committee responsible for risk.

Accountability for risks

Specific accountability for each risk, control and mitigation will be identified and recorded in a risk management plan.

Roles and responsibilities

Assigning specific responsibilities to specific roles provides clarity and strengthens the overall risk management framework.

Governance	Responsibility
Council	To be assured that a risk management framework is in place and that risks are being appropriately managed.
Committee responsible for risk	Subject to the governing body's delegated authority, the Committee responsible for risk has responsibility to: • Review the risk management framework • Consider matters related to the quality assurance and internal controls in the organisation including by enquiry and monitoring of risk matters • Advise the governing body on matters of risk and provide objective advice and recommendations for the governing body's consideration

Management	Responsibility
Chief Executive	Approve the risk management framework and recommend it to the Committee responsible for risk. Lead and promote a risk aware culture across the organisation. Implement the risk management framework across the organisation.
Management Team	Endorse the risk management framework and champion it to the organisation. Monitor effective implementation of the risk management framework across the organisation. Receive and consider risk management plans on a quarterly basis Receive and consider other risk-related reports on an as-required basis. Provide direction on risk tolerance at a general and risk-specific level. Periodically review the risk management framework to ensure it remains appropriate.
Group Managers	'Own' risks relevant to, or arising from, their groups. Lead and promote a risk aware culture within their groups.
Group Manager Corporate Services	Develop and maintain the risk management framework. Facilitate the population and ongoing review of the high level 'corporate risk management plan'. Manage the interface between subsidiary risk management plans and the high level 'corporate risk management plan'.

	Advise on potential risk treatments for identified risk.
	Consider and, where necessary, challenge the risks, controls, mitigations and accountabilities included (or not included) in risk management plans across the organisation.
	Support unit managers to implement the risk management framework in their divisions and teams.
	Lead the integration of risk management principles into other Council decision-making processes.
Unit Managers	Develop, populate and manage the risk management plan for their unit in accordance with the risk management framework.
	'Own' risks relevant to or arising from, their teams.
	Lead and promote a risk aware culture within their units.
Staff and Contractors	Provide support in identifying risk.
	As appropriate, 'own' risks, controls or mitigations.

Relevant Delegations
The Chief Executive or his/her nominee has delegated authority for the implementation of this policy.

References and Relevant Legislation
Joint Australian New Zealand International Risk Management – Principles and Guidelines (AS/NZS ISO 31000:2009).

Attachments: 1   Likelihood Table
                 2   Consequence Table
                 3   Risk Matrix
                 4   Risk Response Table

Categories of <u>Likelihood</u>

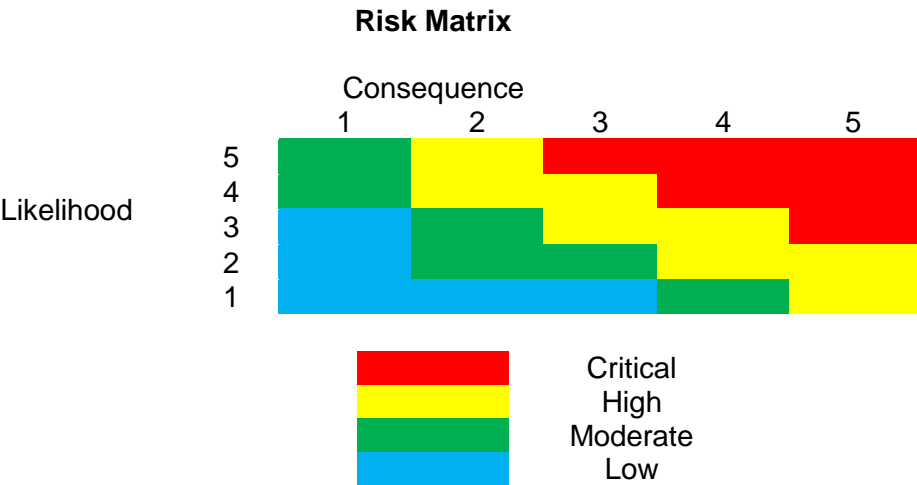|		
Almost certain	5	90% or greater chance of occurring in next 12 months Expected to occur in 9 or next 10 years Certain to occur at least once in next 5 years It would be unusual if this didn't happen
Likely	4	60% to 90% chance of occurring in next 12 months Expected to occur at least once in next 5 years Will occur more often than not
Possible	3	25% to 60% chance of occurring in next 12 months Expected to occur in 4 or next 10 years Likely will occur at least one in next five years (>80% chance) Not likely, but don't be surprised
Unlikely	2	2% to 25% chance of occurring in next 12 months Expected to occur a maximum of once every 5 to 20 years 50% chance of occurring in next 5 years A surprise, but not beyond the bounds of imagination
Rare	1	Up to 2% chance of occurring in next 12 months Could occur once every 50 or more years Less than 10-% chance of occurring in next 5 years Will only occur in exceptional circumstances

Categories and Descriptors of <u>Consequence</u>

	1	2	3	4	5
	Less than minor	Minor	Moderate	Major	Extreme
Achievement of the Vision and Community Outcomes	No impact on the Vision and Community Outcomes	Inconvenience or delay in achieving the Vision and Community Outcomes	Significant difficulty introduced to achievement of the Vision and Community Outcomes Lost opportunity to contribute positively to one or more of the Vision and Community Outcomes	Failure to achieve a specific Community Outcome Lost opportunity to significantly advance a specific Community Outcome	Failure to achieve multiple Community Outcomes Lost opportunity to significantly advance multiple Community Outcomes
Financial	Financial impact of less than $50,000	Financial impact of between $50,000 and $250,000 Financial impact of between 1% and 2% of the Council's total opex	Financial impact of between $250,000 and $1 million Financial impact of between 2% and 5% of the Council's total opex	Financial impact of between $1 million and $5 million Financial impact of between 5% and 10% of the Council's total opex	Financial impact of more than $5 million Financial impact of more than 10% of the Council's total opex
Health and Safety (customers, staff, contractors)	Minor injury, first aid not required	First aid or minor treatment	Medical treatment required	Serious harm, for example broken bones, hospitalisation	Loss of life; multiple serious harms; permanent severe disability
Service delivery to community	Short-term reduction in service delivery which is easily restored and does not compromise the community's health and wellbeing	Reduced service delivery that does not compromise the community's h3ealth and wellbeing	Key service not available to some of the community for ten hours or more Continued service degradation for two days or more	Key service not available to a significant portion of the community for two days or more Continued severe service degradation for one week or more	Key service not available to a large proportion of the community for one week or more Continued severe service degradation for one month or more

	1	2	3	4	5
	Less than minor	Minor	Moderate	Major	Extreme
Organisational capability and capacity	Temporary problem with organisational capability resulting in no impact on external service delivery	Loss of organisational capability in some areas resulting in sub-optimal support to external delivery activities	Organisation unable to function for less than 10 hours Serious reduction in organisational capability for one week or more	Organisation unable to function for more than 10 hours Serious reduction in organisational capability for two weeks or more	Organisation unable to function for more than two days Serious reduction in organisational capability for one month or more
Reputational	Negative feedback from individuals Short-term 'letters to the editor' (or online equivalent) commentary	Short-term loss of confidence among small sections of the community Regional adverse political or media comment for one or two days Sustained 'letters to the editor' (or online equivalent) commentary in usual sources	Short-term and manageable loss of community confidence Regional adverse political or media comment for more than tow days Significant social media commentary or campaign from new sources	Loss of community confidence requiring significant time to remedy National adverse political or media comment for more than two days Regional adverse political or media comment for more than one week Requirement for (televised) public explanation	Insurmountable loss of community confidence National adverse political or media comment for more than one week Requirement for (televised) public apology or defence Adverse comments or questions in Parliament
Legislative / regulatory compliance	One-off minor regulatory or legislative non-compliance with no direct impact on the community's health or wellbeing	One-off minor regulatory or legislative non-compliance with potential impact on the community's health or wellbeing	Complaint to the Ombudsman, Auditor-General or other statutory office Multiple related minor non-compliances due to an underlying systemic issue Significant breach or non-compliance resulting in regulatory scrutiny	Significant breach or non-compliance, or multiple breaches or non-compliances, resulting in regulatory action and/or restrictions on Council activities	Court proceeding or criminal action for breach or non-compliance; potential for imprisonment of elected member or staff Judicial review on a matter of rates or other funding, or on a matter with significant financial impact

Attachment 3

Risk Matrix

Risk Response

Overall risk rating	Action	Reporting
Extreme	Urgent and active management required. Risk treatment plan must be implemented immediately to reduce the risk exposure to an acceptable level. Regular reporting required.	Immediate notification to relevant Group Manager Advise Group Manager Corporate Services to allow tracking of risk.
High	Management attention is required. Risk treatment plan required. Regular reporting required.	Notification to relevant Group Manager. Advise Group Manager Corporate Services to allow tracking of risk.
Moderate	Management responsibility to monitor. Focus on ensuring internal controls are effective and monitoring the ongoing risk.	Included on management-level risk registers Group Manager Corporate Services to review risk registers periodically.
Low	Can be monitored using routine practices. Focus on ensuring internal controls are effective.	Included on management-level risk register. Group Manager Corporate Services to review risk registers periodically.

5.0 Delegations, References and Revision History

5.1 Delegations - *Identify here any delegations related to the policy for it to be operative or required as a result of the policy*

5.2 Related Documents *- Include here reference to any documents related to the policy (e.g. operating guidelines, procedures)*

5.3 Revision History *– Summary of the development and review of the policy*

5.1 Delegations

Delegation	Delegations Register Reference
Include summary of delegation	*Include Delegations Register reference*

5.2 References

Title	Document Reference
Identify title of any documents related to the policy	*Include Record Number of Document and what Folder it is included within TRIM (e.g. #12232, F123: Dog Control Policy)*

5.3 Revision History

Revision #	Policy Owner	Date Approved	Approval by	Date of next review	Document Reference
Include Revision Number	*Include Position Title of manager responsible for policy*	*Include Date of approval/adoption of policy*	*Include name of Council, Committee or management team as appropriate who approved/adopted the policy*	*Identify the date of the next proposed review*	*Include Record Number of Document and what Folder it is included within in TRIM (e.g. #12232, F123: Dog Control Policy)*

AUDIT AND RISK SUBCOMMITTEE

FOR THE MEETING OF 16 APRIL 2015

Report for Agenda Item No 6

Prepared by   **Tina Rogers**
                Group Manager Corporate Services

Exclusion of the Public

_____

Recommendation

That the Subcommittee resolves to exclude the public on the grounds contained in Section 48(1) of the Local Government Official Information and Meetings Act:

Confirmation of Minutes
Section 7(2)(h)   The withholding of the information is necessary to enable the Council to carry out, without prejudice or disadvantage, commercial activities.