



Notice is given of an Audit and Risk Committee Meeting to be held on:

Date: Tuesday, 9 April 2019

Time: 9.30am

**Location: Council Chambers
Fairlie**

AGENDA

Audit and Risk Committee Meeting

9 April 2019

**Suzette van Aswegen
Chief Executive Officer**

Audit and Risk Committee Membership:

James Leslie (Chair)
Russell Armstrong
Stuart Barwood
Chris Clarke
Paul Hannagan
Anne Munro
Mayor Graham Smith
Bruce Mincham
Mitch Taylor

The purpose of local government:

(1) The purpose of local government is—

- (a) to enable democratic local decision-making and action by, and on behalf of, communities; and
- (b) to meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses.

(2) In this Act, good-quality, in relation to local infrastructure, local public services, and performance of regulatory functions, means infrastructure, services, and performance that are—

- (a) efficient; and
- (b) effective; and
- (c) appropriate to present and anticipated future circumstances.

(Local Government Act 2002)

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- 1 OPENING**
- 2 APOLOGIES**
- 3 DECLARATIONS OF INTEREST**
- 4 VISITORS**

5 REPORTS

5.1 MINUTES OF AUDIT AND RISK COMMITTEE MEETING - 9 OCTOBER 2018

File Reference: PAD

Author: Charlotte Borrell, Committee Administrator

Authoriser: Suzette van Aswegen, Chief Executive Officer

Attachments: 1. Minutes of Audit and Risk Committee Meeting - 9 October 2018

RECOMMENDATION

1. That the minutes of the Audit and Risk Committee Meeting held on Tuesday 9 October 2018 be received and adopted as a true and accurate record of the meeting.



MINUTES

Audit and Risk Committee Meeting

9 October 2018

**MINUTES OF MACKENZIE DISTRICT COUNCIL
AUDIT AND RISK COMMITTEE MEETING
HELD AT THE COUNCIL CHAMBERS, FAIRLIE
ON TUESDAY, 9 OCTOBER 2018 AT 9.30AM**

PRESENT: Cr James Leslie (Chairperson), Cr Russell Armstrong, Cr Stuart Barwood, Cr Paul Hannagan, Cr Anne Munro, Cr Graham Smith (Mayor), Bruce Mincham.

IN ATTENDANCE: Suzette van Aswegen (Chief Executive), Paul Morris (Group Manager Finance), Toni Morrison (Group Manager Projects and Administration), Arlene Goss (Committee Administrator), one member of the media.

1 OPENING

The chairman declared the meeting open.

2 APOLOGIES

An apology was received from Cr Chris Clarke.

3 DECLARATIONS OF INTEREST

There were no declarations of interest.

4 VISITORS

There were no visitors.

5 REPORTS

5.1 MINUTES OF AUDIT AND RISK COMMITTEE MEETING - 3 JULY 2018

The committee asked if the outstanding items from the IANZ building consent accreditation process had been signed off. The chief executive said this was almost done. The Group Manager, Planning and Regulation, was away sick, so would report on this further when she returned to work.

COMMITTEE RESOLUTION AUD/2018/26

Moved: Cr Paul Hannagan

Seconded: Cr Anne Munro

1. That the minutes of the Audit and Risk Committee Meeting held on Tuesday 3 July 2018 be received and adopted as a true and accurate record of the meeting.

CARRIED

5.2 HEALTH AND SAFETY REPORT

Group manager, Projects and Administration, Toni Morrison thanked staff member Jan Spriggs for her work on health and safety. She has recently resigned as health and safety advisor, but will remain working for the council in another role. An organisation review was coming up and this role would be part of that. Council was unlikely to have momentum in the role until someone new was appointed.

The Mayor asked about the difference between work-related stress and occupational overuse syndrome. This was explained by Toni Morrison.

Cr Hannagan highlighted the number of reports of near misses that were vehicle-related. Toni Morrison said this information would be sent to NZTA and the road safety advisor.

Cr Munro asked for an update on the council's risk management framework. The chief executive said further training on risk management was planned for the management team.

The Meeting closed at 9.42am.

The minutes of this meeting were confirmed at the Audit and Risk Committee Meeting held on #

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CHAIRPERSON

5.2 STRATEGIC INTERNAL AUDIT REPORT

File Reference: NA

Author: Tania Hoefsloot, Financial Accountant

Authoriser: Paul Morris, Group Manager Finance

Attachments: 1. Strategic Internal Audit Plan 2018-2019  

STAFF RECOMMENDATIONS

That the information be noted.

BACKGROUND

Many Councils have a formalised internal audit programme and in some cases engage one of the large international accounting firms to conduct the internal audit function. Mackenzie District Council has not done this. At present, Council has no formal, developed internal audit programme in place.

There are no specific statutory or policy requirements in respect of conducting internal audits. However, Council does have a responsibility for appropriate stewardship of resources, the management of risk and the development and effective operation of adequate internal control frameworks and internal audit can play a key role in meeting these responsibilities.

The case for internal audit

Internal audit is recognised as an important part of the control environment and promotes a continuous improvement philosophy. It is therefore recommended that internal audit is something that this Council needs to support, promote and integrate into the culture in the future.

Internal audit provides the following benefits:

- Independent assurance to elected members and senior management that key risks are being managed and the Councils internal controls are operating adequately and effectively.
- Identification of any weaknesses or improvement opportunities in the risk management strategies or internal control environments, with pragmatic and feasible recommendations for improvement.
- Identification of areas where value could be added to Council operations.
- Assistance to develop an environment and culture that recognises the need for risk management, internal controls and probity in all aspects of council operations.

The focus of internal audit is very different to that of an external audit, and both are important. The external auditors are engaged to ensure the financial statements and service performance information fairly reflects the council's activities for the year and its financial position at the end of the year and issue an audit opinion which attests to this. In doing this the external auditors perform a high level assessment of the control environment but this assessment is performed for the purpose of planning and carrying out the most effective and efficient audit approach in order to

enable the expression of the audit opinion on the financial statements and service performance information.

Internal audit is not bound to a focus on attestation of the annual report as with an external audit. It therefore can be focussed on tests of compliance, improvement of the control environment and other means of adding value. The expectation is that this Strategic Internal Audit Plan will introduce the concept, encourage involvement and incorporate the input from various groups within Council. It is envisaged that an annual programme will then be developed based on the Strategic Internal Audit Plan and will focus the work effort appropriately. The progress of the annual programme is dependent on Council priorities, resourcing and the potential size of the block of work to be reviewed.

Suggested approach

Mackenzie District Council has opted not to seek the internal audit services from an external Chartered Accountancy firm but rather to resource the function in-house. To date, ad-hoc review exercises have been carried out as the need has arisen in areas such as GST reviews, resource consent processing, contributions etc. with this work focussed mainly on compliance with standard operating procedures or legislation. But a formalised programme of internal audit work has not been developed to date as there has been limited resource within the Finance team to conduct the work.

Looking forward, the suggested approach is to complete the development of the Strategic Internal Audit Plan in the 2018/2019 financial year so that the framework and foundation has been created.

Once the organisational review has been completed and the new Council structure is in-place, the next step will be to seek input from Senior Management. The aim will be to finalise the key risk areas for internal audit focus and incorporate these into the Strategic Internal Audit Plan. This will provide the direction for internal audit work for the next three to five years.

Accompanying this overview, is the Draft Strategic Internal Audit Plan for the Committee's information. Suggestions are sought from the Committee of the key risk areas that the Committee considers important for internal audit to include in the plan. The key risk areas have been kept blank

in the draft report so as not to pre-empt the Committee's recommendations and any assessment is not influenced.

When all key risk areas have been sought and collated into the Strategic Internal Audit Plan, they will be prioritised. Once finalised, an Annual Internal Audit Programme will be developed based upon this document.

There will be ongoing engagement with the Audit & Risk Subcommittee as the following stages are achieved:

- Finalise a Risk Assessment Policy and Framework
- Final Strategic Internal Audit Plan,
- Completion of the Annual Internal Audit Programme with annual updates, and
- Once a year an Internal Audit Status Update Report accompanied by the resulting Internal Audit Reports on the areas reviewed.

CONCLUSION

Enclosed is the Draft Strategic Internal Audit Plan for the Subcommittee's information.

The purpose of the report is to introduce internal audit and engage the strategic and senior level members of Council, so that the input can be incorporated into the audit programme as appropriate. Staff are seeking the Subcommittee's input on the key risk areas that the Subcommittee would like to see incorporated into the annual internal audit work programme. An Annual Internal Audit programme will be formed from this document.

In future, the internal audit work at the operational level will be conducted by resources in-house. It is proposed that regular engagement with the Audit and Risk Subcommittee will be in the form of progress updates regarding the internal audit programmes along with the Final Internal Audit Reports on areas completed during the year.

SUZETTE VAN ASWEGEN
CHIEF EXECUTIVE OFFICER

Mackenzie District Council**Strategic Internal Audit Plan**

Date: 15th March 2019
To: Paul Morris, Group Manager Finance
Work Done: Tania Hoefsloot
Prepared By: Financial Accountant

Introduction

Mackenzie District Council (MDC) has identified a need to undertake an Internal Audit programme.

An Internal Audit programme has been established to conduct independent reviews and appraisals of its operations and systems of control.

Internal Audit is considered to be advantageous to Local Authorities because Councils are a public organisation who are accountable to the community. Internal Audit is intended to provide objective assurance designed to add value and improve operations. The reviews help to ensure that resources are used efficiently and effectively. It will accomplish this by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, internal control, and governance processes.

Internal audit provides management and the Council with information to:

- achieve the Council's mission and strategic goals;
- meet their responsibilities for oversight and stewardship responsibilities;
- promote improvement in operational efficiency and effectiveness;
- safeguard assets;
- comply with policies, procedures, laws and regulations; and
- ensure accuracy of financial and non-financial reporting.

Scope

The internal audit plan is applicable to all Council operations including all activities, policies, functions, and other organisations under the control of Council. The scope of internal auditing encompasses the examination and evaluation of:

- compliance with policy, procedures, laws, regulations and other authorities;
- the system of internal controls;
- Council's risk management processes;
- specific operations, programs or entities; and
- other special projects and consulting services as requested.

Audits can be driven by various objectives, financial, regulatory, compliance, operational, system, value for money, program result, performance, IT, fraud, etc.

The Audit and Risk Sub-committee, Chief Executive and the Finance Manager have the authority to request an internal audit review. The process to request an audit review still needs to be

Mackenzie District Council**Strategic Internal Audit Plan**

determined, as to whether it must be formally approved or whether it can be requested on an informal basis.

Internal audit can provide both assurance services and advice. However, it is the responsibility of management to decide whether to do something or not to do anything with the results of the internal audit activities. The final responsibility for implementing advice made by internal audit and internal controls remain with management.

It is important that a higher level of management is aware of the recommendations and the proposed response/action to be taken by management. For this reason, the final reports submitted annually to the Audit and Risk Sub-committee incorporate the results and recommendations made by internal audit alongside comments by the manager and an action plan for the implementation of the recommendations. The Audit and Risk Sub-committee has an influential role in the process providing guidance and oversight to ensure that the function cannot easily be overridden.

Frauds, errors and irregularities

Fraudulent activity by any employee is strictly prohibited.

Refer to the Occupational Fraud and Abuse Policy when the discovery of circumstances suggests a reasonable possibility that funds and/or physical assets have or are thought to have been misappropriated.

Management is responsible for establishing and maintaining controls to discourage fraudulent activity. Internal Audit is responsible for examining and evaluating the adequacy and effectiveness of internal controls. Part of the internal audit function is the testing and monitoring of internal controls to ensure controls are not being bypassed. However, internal audit cannot be held solely responsible for the detection and prevention of all errors and irregularities that may occur and audit procedures alone are not designed to guarantee the detection of fraud. Consequently, internal audit is not responsible for any type of fraud program (awareness, prevention, detection, investigation,) but can play an important role in it.

For example: Internal audit has the expertise to provide advice on key internal controls that should be in place but equally internal controls can be bypassed.

Strategic and Annual Internal Audit Planning

It is imperative to obtain senior management's buy-in on the strategic audit plan (long-term plan of 3-5 years).

Based on the available resources internal audit shall then draw a line on that prioritised list to determine what shall be audited during the upcoming year. The proposed audit plan will be submitted to senior management and the audit committee (if applicable) for approval and/or ratification. If circumstances justify, the annual audit plan can be revised during the year in order to reflect changed priorities because of changed risk factors or urgent requests from senior

Mackenzie District Council**Strategic Internal Audit Plan**

management (and audit committee if applicable). The Audit and Risk Sub-committee shall be advised of any updates or deviations from the ratified audit plan.

Identification of the risks was a collaborative process facilitated by Internal Audit, designed to cast a wide net to understand Council's risk profile. Risk identification for the purpose of the strategic audit plan was prepared based upon the contribution from the following sources:

1. A meeting with The Group Manager Finance, Finance Manager and Financial Accountant was held to identify and prioritise areas of focus that resulted in the following listing:
 - Procurement policies and procedures;
 - Finance
 - *Fraud and corruption*
 - *Budgeting/forecasting Accuracy*
 - *Capital allocation review*
 - Accounting
 - *Lease accounting review*
 - Information Technology risk management
 - Business Case Processes
 - Pukaki Airport Board

[Note: The above listing is considered to be a **three to five year** programme.]

2. A discussion with the Chief Executive identified the following three areas for inclusion:
 - Procurement
 - Sensitive Expenditure with particular attention to controls in relation to credit cards including the number of cards issued, accessibility, security of credit transactions and credit limits.
 - Payment authorisation
3. Input from the Audit and Risk Committee was sought in relation to key risk areas which are to be incorporated into the Strategic Audit Plan.
 - protection of assets should add staff health as an asset
 - include the Forestry Committee which holds significant cash, assets and carbon credits
4. The results of any risk assessments made by other parties within Council e.g. risk management has also been sought by internal audit. Councils Risk Assessment is in draft form at the stage of this documents preparation. In the future, it would be valuable to review a copy of Council's Risk Assessment when available.
5. Internal audit will also seek the input from senior management on key risk areas that are present in their respective areas when the organisation review is complete. Their feedback will be sought through interviews rather than participation in a workshop.

Mackenzie District Council**Strategic Internal Audit Plan****Risk assessment methodology**

The previous section identified risk areas that could affect the Council.

The risk assessment evaluates the risks that have been identified above in order to consider the extent to which these areas could impact Council.

The objective of the risk assessment methodology is to enable alignment between internal audit resources, the processes that pose the highest risk to the Council and its ability to achieve its objectives. Based on the results of the risk assessment, all risks will be prioritised to form the foundation of the **annual** internal audit plan.

Council has a draft Risk Assessment Policy which will be used for the purposes of internal audit planning so that risk assessment across Council has a consistent basis. The risk assessment methodology is important determinant of the internal audit plan and therefore an overview of the process is outlined below.

The risk assessment methodology will outline the following components:

- Determine which risks are going to be assessed
- Analyse risk according to impact (Consequence Rating) and probability (Likelihood of Occurrence)
- Evaluate risks to identify high risk activities and determine the priority of internal audit focus

However, refer to the Risk Management Policy 2018 for further details.

Consequence Rating

The extent of the consequences a risk could have on the Council. Impact is determined and evaluated based on the descriptors in the following table.

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	Insignificant	Minor	Moderate	Major	Catastrophic
Score	1	2	3	4	5
Health and safety	Low possibility of minor injury	Minor injury to single person or confined to a localised area	Moderate injury or illness, affecting some people in a localised area	Fatality Some loss of life, serious injury or illness affecting people across the district	More than 3 fatalities or district-wide epidemic
Operational	Rare and insignificant disruption to core infrastructure or business processes	Temporary disruption to core infrastructure and services in localised area	Inability to provide or maintain core infrastructure and services in localised area	Inability to provide or maintain core infrastructure and services across the district	Inability to provide or maintain core infrastructure and services across the district for significant periods of time
Political	Negative feedback from individuals or small group	Loss of confidence in sections of the community	Manageable loss in community confidence	Large loss in community confidence that will take significant time to remedy	Insurmountable loss of community confidence
Financial	Loss to Council or damage to local economy of less than \$50,000	Loss to Council or damage to local economy of \$50,000-\$100,000	Loss to Council or damage to local economy of \$100,000-\$500,000	Loss to Council or damage to local economy of \$500,000-\$2m	\$2m or more of loss to Council or in damage on local economy
Environmental	Small scale pollution or other environmental damage. Localised. No effect	Minimal pollution or other environmental damage. Short term effect	Pollution or other environmental damage. Localised. Medium term effect	Significant arid widespread pollution or other environmental damage. Long term effect	Irreversible pollution or other environmental damage. Long term effect

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Likelihood of Occurrence

The likelihood ratings identify how likely, or often, a particular event is expected to occur. These are shown in the table below. The descriptors are not a mandatory category requirement, but act as a guide to assist in ranking the probability in line with the nature of each risk.

	Frequency	Score
Rare (Very Unlikely)	May only occur in exceptional circumstances	1
Unlikely	Could occur - only very occasionally	2
Possible	Might occur from time to time	3
Likely	Will probably occur often	4
Almost certain	Is expected to occur in almost all circumstances	5

After the likelihood and consequence factors have been determined, the level of risk can be calculated by multiplying the Likelihood of occurrence (Table 2) and Consequence Rating (Table 1) together as depicted in the table below.

	Insignificant	Minor	Moderate	Major	Catastrophic
Rare (Very unlikely)	1	2	3	4	5
Unlikely	2	4	6	8	10
Possible	3	6	9	12	15
Likely	4	8	12	16	20
Almost certain	5	10	15	20	25

Risk Level

■	Low
■	Medium
■	High

To summarise, the risk assessment methodology outlined above prioritises the risk areas identified in the strategic internal audit plan. Ranking the risk areas enables internal audit to focus resources on the highest priority areas for Council, which is then integrated into the annual internal audit plan.

Mackenzie District Council**Strategic Internal Audit Plan**

The end result was that [TBC] potential “high” risk areas were identified.

Manager Sign-off of Risk Assessment and Priority Order for Internal Audits

The purpose of the audit plan is to first, to contribute to the effectiveness of the audit and, second, to contribute to the audit efficiency. This Strategic Internal Audit Plan including the priority order of the key risk areas has been completed and approved as part of initial audit planning.

Reviewed and Approved by _____ **Date**

High-Level Work Schedule

Based on the potential “high” risk areas two key risk areas were identified:

1. The first internal audit review will look at [TBC].
2. The second internal audit review will look at [TBC].

Date	Task	Contact
	1.	
	2.	

Internal Audit Team

At Mackenzie District Council, the internal audit function is confined to one position description. Consequently, the resource availability and capacity to perform the function is limited.

However, ideally, the internal audit process would involve the following roles:

- Finance Manager (Final Sign Off)
- Financial Accountant (Internal audit preparer)
- Finance Assistant (Internal audit assistant)

Audit documentation (work-papers)

Audit documentation needs to be prepared for each review in sufficient detail that will provide a clear understanding of the work performed (including the nature, timing, extent, and results of audit procedures performed), the audit evidence obtained and its source, and the conclusions reached. Audit documentation provides the principal support for the assertions made in the Final Internal Audit Report.

Audit documentation is an essential element of audit quality. Although documentation alone does not guarantee audit quality, the process of preparing sufficient and appropriate documentation contributes to the quality of an audit.

Mackenzie District Council**Strategic Internal Audit Plan**

Audit documentation includes, for example, audit programs, analyses, issues memoranda, summaries of significant findings or issues, letters of confirmation and representation, checklists, abstracts or copies of important documents, correspondence (including e-mail) concerning significant findings or issues, and schedules of the work that was performed. Abstracts or copies of the Council's records (for example, significant and specific contracts and agreements) should be included as part of the audit documentation if they are needed to enable an understanding of the work performed and conclusions reached. The audit documentation for a specific review is to be assembled in an audit file.

The audit documentation will serve a number of other purposes, including:

- Assisting with the planning and performance of the audit,
- Reviewing the previous year's documentation helps to understand the work performed and assists with the planning and performance of the current years review,
- Enables supervision and review of the audit work conducted and the quality of work performed;
- Supports accountability for the work done by documenting the procedures performed, the supporting documentation examined, and the conclusions reached,
- Keeps a record of matters of continuing significance for future internal audits of Council, and
- Assists future internal auditor who reviews a predecessor internal auditor's audit documentation. As the audit file should contain the sufficient documentation that would enable an experienced internal auditor, having no previous connection of the internal audit, to understand:
 - The nature, timing, and extent of auditing procedures performed,
 - The results of the procedures performed and the supporting documentation obtained,
 - The conclusions reached on significant matters, and
 - The records agree or reconcile with the audited information.

Reporting

Internal audit will report periodically to the Chief Executive, senior management and the audit committee.

It is imperative that the proper information needs to be identified, captured and communicated in an adequate format and timeframe to the appropriate individuals.

Structure of the Internal Audit Status Update Report

The contents of the Internal Audit Status Update Report is as follows:

- Executive Summary
- Internal Audit Work Plan Status
- Completed Internal Audit Reviews
- Internal Audit Follow Up
- Recommendations [Carried forward from *Final Internal Audit Report* below]
- Management response [Carried forward from *Final internal Audit Report* below]

Mackenzie District Council**Strategic Internal Audit Plan****Structure of the Final internal Audit Report**

A Final Internal Audit Report will be provided to the Senior Management Team on each area covered by the internal audit.

The structure of the Final Internal Audit Report to be prepared at the completion of each area reviewed will consist of the following parts, as applicable:

- Introduction
- Audit approach
 - Objective and scope of the review
 - Out of scope
- Audit findings summary, and recommendations
 - Key strengths
 - Overall ratings
 - Recommendations including risks and impact
 - Factors to consider
- Conclusion and going forward
- Management response
- Action plan for implementing the recommendations, if applicable

A copy of the Final Internal Audit Report can also be provided to the Audit and Risk Subcommittee, if required.