

I hereby give notice that an ordinary meeting of the Audit and Risk Committee will be held on:

Date: Tuesday, 18 February 2014
Time: 2.00pm
Meeting Room: Council Chambers
Venue: Auckland Town Hall
301-305 Queen Street
Auckland

Audit and Risk Committee

OPEN AGENDA

MEMBERSHIP

Chairperson	Cr Sir John Walker, KNZM, CBE
Deputy Chairperson	Cr Dr Cathy Casey
Members	Cr Cameron Brewer Cr Bill Cashmore Cr Sharon Stewart, QSM Mr Roy Tiffin, FCA Cr Penny Webster
Ex-officio	Mayor Len Brown Deputy Mayor Penny Hulse

(Quorum 4 members)

Mike Giddey
Democracy Advisor

13 February 2014

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TERMS OF REFERENCE

Responsibilities

The Audit and Risk Committee will be responsible for:

- Providing objective advice and recommendations to the Governing Body regarding the sufficiency, quality and results of assurance on the adequacy and functioning of the council's risk management, control and governance frameworks and processes.
- Exercising active oversight of all areas of Auckland Council control and accountability (including Council Controlled Organisations), in an integrated and systematic way, such that the results of risk and assurance reviews and external audits may be incorporated in the priority-setting and strategic planning processes.
- Liaison with Audit NZ and, where necessary, the audit committees of CCOs to ensure robust financial audits and reviews of the Auckland Council group.

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1 Apologies

At the close of the agenda no apologies had been received.

2 Declaration of Interest

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

3 Confirmation of Minutes

That the Audit and Risk Committee:

- a) confirm the ordinary minutes of its meeting, held on Friday, 13 December 2013, including the confidential section, as a true and correct record.

4 Petitions

At the close of the agenda no requests to present petitions had been received.

5 Public Input

Standing Order 3.21 provides for Public Input. Applications to speak must be made to the Committee Secretary, in writing, no later than **two (2)** working days prior to the meeting and must include the subject matter. The meeting Chairperson has the discretion to decline any application that does not meet the requirements of Standing Orders. A maximum of **thirty (30) minutes** is allocated to the period for public input with **five (5)** minutes speaking time for each speaker.

5.1 Grace Haden

Purpose

1. Grace Haden has requested time to speak to the Audit and Risk Committee.

Executive Summary

2. Grace Haden wishes to show how corruption occurs in council.

Recommendation/s

That the Audit and Risk Committee:

- a) receive the presentation from Grace Haden.

6 Local Board Input

Standing Order 3.22 provides for Local Board Input. The Chairperson (or nominee of that Chairperson) is entitled to speak for up to **five (5)** minutes during this time. The Chairperson of the Local Board (or nominee of that Chairperson) shall wherever practical, give **two (2)** days notice of their wish to speak. The meeting Chairperson has the discretion to decline any application that does not meet the requirements of Standing Orders.

This right is in addition to the right under Standing Order 3.9.14 to speak to matters on the agenda.

At the close of the agenda no requests for local board input had been received.

7 Extraordinary Business

Section 46A(7) of the Local Government Official Information and Meetings Act 1987 (as amended) states:

“An item that is not on the agenda for a meeting may be dealt with at that meeting if-

- (a) The local authority by resolution so decides; and
- (b) The presiding member explains at the meeting, at a time when it is open to the public,-
 - (i) The reason why the item is not on the agenda; and
 - (ii) The reason why the discussion of the item cannot be delayed until a subsequent meeting.”

Section 46A(7A) of the Local Government Official Information and Meetings Act 1987 (as amended) states:

“Where an item is not on the agenda for a meeting,-

- (a) That item may be discussed at that meeting if-
 - (i) That item is a minor matter relating to the general business of the local authority; and
 - (ii) the presiding member explains at the beginning of the meeting, at a time when it is open to the public, that the item will be discussed at the meeting; but
- (b) no resolution, decision or recommendation may be made in respect of that item except to refer that item to a subsequent meeting of the local authority for further discussion.”

8 Notices of Motion

At the close of the agenda no requests for notices of motion had been received.

Office of the Auditor-General

File No.: CP2014/01900

Purpose

1. To provide an opportunity for the Auditor-General or her representative to attend the meeting and address the committee.

Executive Summary

2. The Auditor-General or her representative will address the meeting.

Recommendation/s

That the Audit and Risk Committee:

- a) receive the information provided by the Auditor-General or her representative.

Attachments

There are no attachments for this report.

Signatories

Author	Mike Giddey - Democracy Advisor
Authoriser	Grant Taylor - Governance Director

Auditor-General Report on Mangawhai Waste Water Scheme

File No.: CP2014/01518

Purpose

1. To inform the committee of the risks and lessons relevant to Auckland Council arising from the Auditor-General's report on the Mangawhai Community Wastewater Scheme.

Executive Summary

2. The Auditor-General's report on the Mangawhai Community Wastewater scheme has highlighted risks concerning accountability, governance, management, PPP arrangements and audit standards which are relevant to Auckland Council.

Recommendation/s

That the Audit and Risk Committee:

- a) receive the update on the Auditor-General's Report on the Mangawhai Waste Water Scheme.

Discussion

3. In November 2013 the Auditor-General published a report describing how Kaipara District Council (KDC) managed the Mangawhai community wastewater scheme between 1996 and 2012, also covering the role of other agencies including the Office of the Auditor-General itself.
4. The Auditor-General concluded that:
 - KDC failed to attend to its fundamental legal and accountability obligations
 - KDC effectively lost control of a major infrastructure project
 - Some of the work done on behalf of the Auditor-General fell short of the standards that she expected
5. In particular, KDC had problems with governance, management and record-keeping; exercised poor contracting and decision-making; and entered into complicated financial arrangements without fully understanding the detail.
6. Auckland Council Legal department has summarised the key lessons from the report that are relevant to Auckland Council as follows:

Accountability	Governance
<ul style="list-style-type: none"> • Public entities should be meticulous about legality (legal compliance is not optional) • Good record-keeping is the foundation of effective accountability • Workshops can supplement formal council meetings, but not replace them • Contractors need to be tied into public sector 	<ul style="list-style-type: none"> • Elected members need to understand their role and stick to it - maintaining broad view, setting direction and monitoring, rather than detailed operational matters • Common sense is a legitimate governance tool - members of governance bodies should sense-check advice that they receive • Understand what assurance is needed and

<p>accountability mechanisms</p>	<p>where it will be obtained - understanding the role of different auditors and assurance providers</p> <ul style="list-style-type: none"> • Audit committees can provide useful support – the ability to appoint external members can manage gaps in the governing body’s skills and experience
<p>Management PPP Arrangements</p>	
<ul style="list-style-type: none"> • There are limits to contracting out – public entities must still retain the ability to “steer the boat” • It is important for public entities to maintain appropriate financial management capacity and capability and to stick to their sphere of competence • Project governance and management is important 	<ul style="list-style-type: none"> • Do not underestimate what is involved in a PPP arrangement. • Accounting should not drive the decision to enter into a PPP – the focus should be on affordability, not whose books the asset and debt appear on • Transfer of risk is not an end in itself, and is likely to have to be paid for through a risk premium • PPPs are unlikely to succeed fully if the contract is not for "the complete package"

7. Much of the above takes the form of key principles and guidance for decision makers. However the “Accountability” comments include administrative and procedural requirements, such as record keeping and not replacing formal council meetings by workshops.
8. Auckland Council currently uses workshops and briefing sessions as required to support decision making. However, the decisions are then made in publicly-notified meetings with appropriate minute taking. The Quality Policy Advice project has developed guidelines for staff working with elected members in developing policy, and ensure compliance with record-keeping requirements and the Local Government Act.
9. The report states that contractors need to be tied into public sector accountability mechanisms. Council has a legislative requirement to maintain adequate records to provide transparency over the use of public funds. This includes work done by contractors, therefore contracts should tie contractors into these requirements on record-keeping and access to information.
10. Internal Audit will work with Legal to determine if Auckland Council currently has gaps in this area, and if required include more detailed work in our audit plan.
11. Significant progress has been made on contract record-keeping and ensuring appropriate contractual arrangements are in place, with the implementation of Contract Management in SAP. Since 1 July 2013, a contract must be loaded in SAP for all suppliers with spend of greater than \$25k.
12. The “Management” section reinforces the need for good project management. Internal Audit has recently reviewed Project Management at Auckland Council, which is covered in the “Update on Internal Audit Activities” report to this meeting.
13. Risk has also reviewed a current Auckland Council project, Payment Card Security / Data Security Standards Compliance, against the criteria above and did not identify any material gaps.

14. The report also identified weaknesses in some of the audit work carried out by Audit NZ on behalf of the Auditor-General. An independent review of Audit NZ's work found that the auditor:
 - did not have a sufficiently complete understanding of the wastewater project, and did not adequately assess the risk of the project
 - placed too much reliance on management's advice or knowledge rather than independent testing or review
 - did not adequately document audit testing or how conclusions were reached
 - did not adequately assess whether KDC had complied with applicable legislation
15. Internal Audit will consider key organisation risks when developing its 3 year audit plan for 2014/15 onwards.
16. We have developed an updated audit methodology which includes revised audit working papers and documentation standards, which will be mandatory on all audits. This will be introduced through a team training session at the end of February.

Consideration

Local Board Views

17. Consideration of Local Board views was not required for this report.

Maori Impact Statement

18. The report does not have any particular benefits or adverse effects on Maori.

General

19. None.

Implementation Issues

20. None.

Attachments

There are no attachments for this report.

Signatories

Author	Nick Rennie - Internal Audit Manager
Authoriser	Grant Taylor - Governance Director

Selection of Second External Appointee

File No.: CP2014/01411

Purpose

1. To recommend an approach to selecting a second external appointee to the committee.

Executive Summary

2. It is proposed to invite expressions of interest for a second external appointee who should have skills and experience to complement those of Mr Roy Tiffin.

Recommendation/s

That the Audit and Risk Committee:

- a) approve the proposed approach for the selection of a second external appointee.
- b) decide on two members of the committee to join the Governance Director on a selection panel.

Discussion

3. At the last meeting the committee agreed to recommend to the Governing Body that two external members be appointed to the Audit and Risk Committee. Roy Tiffin has been reappointed as one external member, and a selection process is required to identify the second.
4. Expressions of interest for a second member can be requested, supported by direct approaches to known individuals, or to professional bodies including the New Zealand Institute of Chartered Accountants and the Institute of Internal Auditors.
5. Selection of suitable candidates for interview would be based on a set of evaluation criteria, with candidates being assessed and interviewed by a selection panel. It is proposed that the selection panel be the Governance Director and two members of the committee.
6. Evaluation criteria should be based on best practice, such as the Office of the Auditor General's Good Practice Principles for Audit Committees in the Public Sector. This states that audit committee members should have:
 - financial expertise;
 - knowledge of governance, assurance, and risk management best practice;
 - a good knowledge of the sector or industry in which the public entity operates; and
 - other attributes as deemed appropriate (for example, legal or technology experience).
7. The Auditor-General's report on the Mangawhai Wastewater Scheme, covered in a separate report for this meeting, specifically emphasises the importance of audit committee external members in public sector organisations, as a means of increasing the financial, risk, and business decision making capability of the governing body as a whole.
8. In this case it would be appropriate for the second external member to have skills and experience that complement those of Roy Tiffin, the existing appointee. For example, a Chartered Accountant (or similar) with management experience in large private or public sector organisations.

Consideration

Local Board Views

9. Consideration of Local Board views was not required for this report.

Maori Impact Statement

10. The report does not have any particular benefit or adverse effects on Maori.

General

11. None.

Implementation Issues

12. None.

Attachments

There are no attachments for this report.

Signatories

Author	Nick Rennie - Internal Audit Manager
Authoriser	Grant Taylor - Governance Director

Update on Ethics and Integrity Activities

File No.: CP2014/01712

Purpose

1. This report summarises the activities undertaken by the Ethics and Integrity department since the last report to the Audit and Risk Committee in December 2013.

Executive Summary

2. The Ethics and Integrity department consists of the Ethics and Integrity Officer, with some administration assistance in the registration of gifts over the Christmas period.
3. Due to work load and the holiday break no general Ethics and Integrity training was planned for January and February 2014.
4. The activity in the area of Ethics and Integrity remains predominantly reactive and consultative.
5. There is been little new investigation activity since our last report in December but current and historic investigations continue to keep this area busy.
6. A lack of capacity or resource for the ethics and integrity area has potential for both reputational and financial risk to the organisation. However there have been recent discussions to try and address this issue.

Recommendation/s

That the Audit and Risk Committee:

- a) receive the Update on Ethics and Integrity Activities report.

Discussion

7. The table below summaries the activities of the Ethics and Integrity department since the last meeting:

Function	Actions	Key Outcomes
Prevention	<p>Delivery of December Ethics and integrity training which is open to all staff</p> <p>Continuing discussion around policy and process reviews of gifts and inducements, conflict of interest gaps, work place strategies and values workshops.</p>	<p>Increased awareness of expectations and individual staff responsibilities within Auckland Council and wider CCO's</p>
Other	<p>As at 6 February we were informed by police that a previous staff member of ATEED was convicted and sentenced to 40 hours community service and ordered to pay \$4,964 in reparation. This person had been charged with several thefts as a result of a combined investigation by ATEED staff, Ethics and Integrity, and the Security manager.</p>	<p>Increased awareness of expectations and individual staff responsibilities within Auckland Council and wider CCO's</p>

Function	Actions	Key Outcomes
	<p>The Executive Chair of Transparency International NZ (Co-Director Integrity Plus NIS) met with us to explore the opportunities of a closer relationship with Auckland Council as it is believed that this is an area where we could be taking a lead role.</p> <p>There is further information currently been sourced and considered before moving this forward.</p>	<p>Transparency international NZ (www.transparency.org.nz) is an internationally credible organisation actively encouraging transparency and anti-corruption and Auckland Councils' reputation and learning opportunities would be enhanced by any association.</p>
Response	<p>Investigations:</p> <ul style="list-style-type: none"> • Internal Focus – three continuing and one new investigation • External Threats – oversight on three active investigations <p>30 queries have been registered which may not fall into the investigation category but can involve as much if not more time commitment. These can involve advice around Gifts, Conflicts of Interest, Data Access requests and general ethics and integrity queries.</p>	<p>Accountability</p> <p>Current and future risk assessment and mitigation</p> <p>More exposure and understanding for the business of the Ethics and Integrity area.</p> <p>Prevention and understanding of external threats to Auckland Council</p>
Gift Register	<p>296 gifts have been registered over the December and January period to an estimated value of \$16,770.</p> <p>Met and assisted ACPL and Treasury with understanding of their needs around gift policy and register.</p>	<p>Transparent records</p> <p>Increased awareness of the requirements in this area.</p> <p>Provides mitigation in case of scrutiny.</p> <p>Registration detail enables evaluation of possible exposure to staff and council in procurement and decision making processes.</p>
Conflicts of interest	<p>In this period, ten conflict of interest forms have been completed and sent for registration.</p>	<p>Transparent records</p> <p>Mitigation to minimise risk to the staff member, and the business.</p> <p>Data to evaluate possible exposure to staff around procurement practices</p>

Consideration

Local Board Views

8. Local boards have not been consulted because the report deals primarily with internal management issues.

Maori Impact Statement

9. The report does not have any particular benefit or adverse effects on Maori.

General

10. None

Implementation Issues

11. None

Attachments

There are no attachments for this report.

Signatories

Author	Gary Hale – Ethics and Integrity Officer
Authorisers	Alan Brookbanks - Human Resources Director Grant Taylor - Governance Director

Update on Risk Management Activities

File No.: CP2014/01842

Purpose

1. This report summarises the activities undertaken by the Risk Management department since the last report to the Audit and Risk Committee in December 2013.

Executive Summary

2. The Risk Management department continued to implement the Enterprise Risk Management Policy and Framework as per the Enterprise Risk Management Strategic Plan 2012 -17.

Recommendation/s

That the Audit and Risk Committee:

- a) receive the Update on Risk Management Activities report.

Discussion

3. Enterprise Risk Management (ERM) Policy
 - We have conducted a detailed review of the ERM Policy to ensure it is comparable to industry standard. As a result it is proposed that the current policy include detailed accountabilities to clarify responsibilities and to include the “three lines of defence” accountability framework in the policy. The final version of the Policy will be submitted shortly.
4. CCO Review
 - On 13 December 2013, the Audit and Risk Committee had moved that “management be requested to consider how the Audit and Risk Committee should exercise oversight of risk and audit issues in the Council Controlled Organisations (CCO), including whether the CCO Audit and Risk Committees be invited to attend the Auckland Council Audit and Risk Committee to report on significant risks which affect the Group”.

The above is being considered through the CCO Review currently underway by the Treasury, CCO Governance and External Partnerships department and the Risk team will work closely with the Review team to identify current issues and opportunities to improve the management of risk across the Auckland Council family.

5. Organisation-wide Risk Registers
 - Key risks are recorded in the centralised business reporting system (Opal3) as a tactical solution to provide a single point visibility for effective risk management. There is concern that Opal3 does not have the capacity at this stage to hold substantial amount of risk information and developers would need to further develop the system. This issue is being discussed with IS and a report back to the Committee will be provided at a later stage.

6. Operational Risks

- Key operational risks are being identified by each business unit on a monthly basis and are reported to the Executive Leadership Team.

7. Enterprise Risk Management Framework

- The ERM Framework identifies risk categories with relevant risk tolerance limits. To ensure adequate mitigation is in place, specific risk frameworks are being continually developed in high risk/strategic areas to get greater coverage from a risk management perspective. The following are in progress:
 - Programme and Project Risk Framework – ongoing monitoring of NewCore programme risks continues, via a monthly review of the risks with the project team.
 - Liability Risk Framework – to ensure that Council minimizes potential risk exposures around financial liability, through contractual arrangements, health and safety and other regulatory or compliance requirements, the team continues to work with the relevant areas, as and when required. There is a council-wide project being undertaken to have consistency in procurement processes, particularly focusing on acceptable levels of Professional Indemnity and Public Liability insurances.
 - Treasury Risk Framework – quarterly and ad hoc meetings, as appropriate, are held with the Treasurer to review treasury risks, potential non-compliance to policy and emerging risks in the debt markets.
 - Asset Management Planning – providing on-going risk management advice to the project team.
 - Fraud Risk Framework – we continue to work closely with the Ethics and Integrity Officer to minimize fraud risk.

8. Risk Management Workshop

- Workshops are ongoing.

9. CCO Engagement

- CCO engagement is ongoing as part of the risk management strategies. Key focus in the last quarter was on Auckland Council Property Limited (ACPL).

10. Project Risk Management

- Risk Management provides advice and support to the various project teams by ensuring risks are identified, documented and monitored as part of the Programme and Project Risk Framework.
- The Auditor-General recently released recommended criteria against which public sector initiatives can be evaluated. Risk team selected the Payment Card Industry Data Security Standard (PCIDSS) Remediation project as a case study to evaluate the applicable criteria against the project. There were no material gaps identified for this project.
- The projects that Risk Management department is actively involved in are:
 - NewCore
 - Workplace Strategy
 - The Southern Initiative

- Asset Management Planning
- Payment Card Industry Data Security Standards (PCIDSS)
- Waiheke Library
- Lopdell House and Gallery Refurbishment
- Project Connect
- NorSGa (to date not actively advised)
- Quay Street Seawall (to date not actively advised)
- Auckland Harbour Bridge SkyPath (to date not actively advised)
- World Masters Games (2017) – not initiated yet.

Consideration

Local Board Views

11. Local boards have not been consulted because the report primarily deals with internal management issues.

Maori Impact Statement

12. This report does not have any particular benefit or adverse effects on Maori.

General

13. None.

Implementation Issues

14. None.

Attachments

There are no attachments for this report.

Signatories

Author	Aashmita Naikar – Risk Manager
Authorisers	Alan Brookbanks - Human Resources Director Grant Taylor - Governance Director

Exclusion of the Public: Local Government Official Information and Meetings Act 1987

That the Audit and Risk Committee:

- a) exclude the public from the following part(s) of the proceedings of this meeting.

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

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

C1 Update on Internal Audit Activities

Reason for passing this resolution in relation to each matter	Particular interest(s) protected (where applicable)	Ground(s) under section 48(1) for the passing of this resolution
The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.	s7(2)(h) - The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities. In particular, the report contains financial and operational information and details of Internal Audit activity which if released may jeopardise the effective delivery of Internal Audit services.	s48(1)(a) The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.