



**HOROWHENUA  
DISTRICT  
COUNCIL**

## **AGENDA**

## **MEETING**

# **AUDIT SUBCOMMITTEE 28 OCTOBER 2010**

**NOTICE IS HEREBY GIVEN** that a meeting of the Audit Subcommittee, Horowhenua District Council will be held in the Tararua Room, Horowhenua District Council, 126-148 Oxford Street, Levin, on Thursday, 28 October 2010 commencing at 2.30pm

Members of the Audit Subcommittee are:

His Worship the Mayor, Mr B J Duffy  
Cr B F Judd  
Cr P K Keenan  
Cr A D Rush

Reporting Officer: Mr D G Ward (Chief Executive Officer)  
Meeting Secretary: Mrs K J Corkill

Business will be according to the attached Agenda.

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# AGENDA

28 October 2010

## ORDER OF BUSINESS:

1. Apologies
2. Members' Conflict of Interest  
Members are reminded of their obligation to declare any conflicts of interest they might have in respect of the items on this Agenda.
3. Confirmation of Minutes - Meeting 11 August 2010 (Attached)
4. Adoption of the Annual Report

A copy of the Annual Report will be forwarded to the Audit Subcommittee members prior to the meeting date.

### Recommendation

*THAT the Audit Subcommittee recommends to Council that it adopt the 2010 audited Annual Report.*

**MINUTES OF THE MEETING OF THE HOROWHENUA DISTRICT COUNCIL AUDIT SUBCOMMITTEE HELD IN THE HOROWHENUA ROOM, 126-148 OXFORD STREET, LEVIN, ON WEDNESDAY, 11 AUGUST 2010 AT 4.00 PM**

**PRESENT**

Cr P K Keenan (Chair)  
Cr A D Rush  
His Worship the Mayor, B J Duffy

**IN ATTENDANCE**

Mr D G Ward (Chief Executive Officer)  
Mr D Law (Finance Manager)  
Mrs K J Corkill (Meeting Secretary)

**ALSO IN ATTENDANCE**

Mr P Kennerley (Director, Audit New Zealand)  
Mr M Henderson (Audit Manager, Audit New Zealand)

**APOLOGIES**

An apology was recorded for Cr B F Judd.

**Resolved**

(Rush / Duffy)

*"THAT the apology from Cr Judd be received."*

**Resolved**

(Rush / Mayor Duffy)

*"THAT Cr Keenan assume the Chair in Cr Judd's absence."*

**CONFIRMATION OF MINUTES**

Audit Subcommittee Meeting - 5 May 2010

**Resolved**

(Duffy / Rush)

*"THAT the Minutes of the Audit Subcommittee Meeting held on 5 May 2010 be confirmed as a true and correct record."*

**MATTERS ARISING**

Page 2 - Correction - first bullet point should read "consideration of the Draft Annual "Report" not Plan.

The words "that there had been a good rate collection" to be removed from the last sentence of the paragraph commencing "Mr Kennerley commented ..."

**3. POLICY UPDATE REPORT**

## **Purpose**

To allow the Audit Subcommittee to give consideration to proposed policy changes that were suggested by Audit New Zealand in its Management Report to Council following completion of the 2009 Annual Report.

## **Resolved**

(Duffy / Rush)

*“THAT Report 4273 be received.”*

Mr Ward advised the purpose of the report was to address some of the significant policy issues from the last year's Audit New Zealand Management Report, particularly in relation to Fraud, Credit Card and Sensitive Expenditure policies, which were topical at the moment in some sectors of the media. The adoption of these policies, or policy updates, would be acknowledged in the Audit Report as no longer being outstanding matters.

Messrs Kennerley and Henderson did have some suggestions to make to assist the process.

### Fraud Policy

In relation to Council's current Fraud Policy, Mr Law noted that Audit New Zealand did not deem this to be strong enough. He had perused policies from other TLAs and had included the section on addressing fraud perpetrated by senior managers, the CEO or Councillors. Highlighted (in yellow) in the proposed policy were things that Council did not currently do, but would be included in the updated policy. This would mean:

- managers would need to be aware of any internal controls put in place as part of this policy,
- the policy would need to be rolled out to staff, perhaps down to third tier managers;
- there would also be implications for the Finance Department when it came to an adequate system of internal controls and regular reviews.

Mr Kennerley said these principles were in line with the Auditor General's Guidelines and if staff understood these there would be more upward communication on potential incidences of fraud.

Cr Keenan suggested that any reviews should happen at random times and should not be part of monthly processes.

Mr Ward noted that the new requisition system would make it more difficult for fraud to be committed.

Mr Law expanded on this saying that the new On Line Requisition system which was about to be rolled out, did internal checks to ensure that staff financial delegations were adhered to. It would not allow staff to order something that was not within their delegation and would automatically escalate such an order to the manager, or even the CEO. This provided tighter controls than were in place in the past. No purchases could be made without an order and suppliers had been advised of this - "No order, no pay". However, within this change of system Council was also looking at covering all eventualities such as emergency situations when there was no power, no computers, etc.

Mr Henderson said that back in 2000 the Auditor General had set out the principles that one would expect to see in a Fraud Policy. He had been through and checked this proposed policy against those principles and all of the points were covered. The object was not just to have a policy, but to have a living document and staff should be trained so that they would know how to do fraud risk assessments.

Cr Rush raised the issue about staff and leave, and a cross reference to the HR system. All staff should be encouraged to take at least two weeks consecutive leave per year. Staff declining to take leave had been recognised as one sign that they could be perpetrating fraud and ensuring adequate leave was taken was a good check.

It was suggested that Employment Agreements (or collective agreements) could be tailored to include suitable leave provisions. Also, if there was an area that was susceptible to fraud and there were staff who did not wish to take leave, this could be scrutinized.

Mr Ward said he was comfortable not to have leave cross referenced as Audit always made reference to outstanding leave balances.

Mr Henderson commented that there were a couple of cross references to notifying Audit New Zealand and he would discuss this with David Ward and Doug Law separately.

Mr Kennerley stressed the need for Council to advise Audit New Zealand immediately if a fraud had been committed or even if there was the suspicion of fraud.

It was agreed that this should be included in the policy under Procedure 2.

## **Resolved**

(Rush / Duffy)

*"THAT the Audit Subcommittee adopts the updated Fraud Policy, with the inclusion of the amendment to notify Audit New Zealand immediately of any fraud or suspicion of fraud."*

CARRIED

## Credit Card Policy

Mr Henderson commented that there was conflict between the Credit Card Policy and the Sensitive Expenditure document. Under 2.2, the CEO's credit card was to be approved by the Mayor or Deputy Mayor. There was no similar provision for the Mayor's credit card. He stated that the ideal situation of the "one up approach" could not apply in the case of the Mayor and suggested that the approval should be an independent party such as the Chair of the Audit Subcommittee or the Deputy Mayor.

Cr Keenan noted the process used by a large international organisation that if the Mayor and the CEO or other Council officer(s) were at the same function, they could not sign off on one another's credit card.

The issue of credit card use was also covered in the Sensitive Expenditure Policy.

The use of credit cards was discussed, with the following considered:

- the Mayor not being issued with a credit card, but using his own card and claiming back any expenses;
- the use of personal credit cards and the fact that this could result in interest charges to the card holder before reimbursement, which was not equitable;
- credit cards were an accepted business tool in the 21<sup>st</sup> Century;
- the use of credit cards did not in fact reflect a true level of expenditure, with many expenses being dealt with through invoices;
- practicality was important rather than putting in place other administrative burdens.

The following enhancements were suggested to the proposed policy:

“2. Approvals.

2.3 The Mayor’s credit card expenditure is to be approved by either the Deputy Mayor or the Chair of the Audit Subcommittee.

2.4 Where the card holder is a party of the transaction, he/she will not be permitted to authorise that expenditure.”

**Resolved**

(Rush / Duffy)

*“THAT the Audit Subcommittee adopts the updated Credit Card policy as presented, with the amendments suggested, ie.*

“2. Approvals.

2.3 *The Mayor’s credit card expenditure is to be approved by either the Deputy Mayor or the Chair of the Audit Subcommittee.*

2.4 *Where the card holder is a party to the transaction, he/she will not be permitted to authorise that expenditure.”*

Sensitive Expenditure

Mr Law said he had based the revised Sensitive Expenditure Policy on a policy adopted by another local authority and tailored it to suit Council’s requirements. It followed the guidelines set down by the Auditor General.

Mr Kennerley said he was comfortable with the content of the proposed policy. To ensure ownership of the policy it was important that the job titles in the policy were reflective of those within Council. There were several references to other Council policies, such as the Reimbursement Accommodation and Mileage Policy and Branded Clothing Policy and it was important that these were relevant and the policy titles correct.

Discussion covered the various clauses, with particular reference to clause 6., Issue and operation of Council credit cards, which should be deleted. It was also agreed that in clause 9, ‘Meals and accommodation when travelling - Drinks’ - that this be amended to: “Council will pay for *reasonable and moderate consumption* of beverages (alcoholic or non-alcoholic)” ...with the words, ‘e.g. one glass of wine or non-alcoholic beverage, one can or one small bottle of beer’ to be deleted.

With the current wide use of mobile phones, the requirement to have a reference to phone calls was queried. This was retained in the meantime.

**Resolved**

(Rush / Duffy)

*“THAT the Audit Subcommittee adopts the Sensitive Expenditure Policy with the amendments noted, i.e.*

- *references to job titles and other policies to be those relevant to the Horowhenua District Council;*
- *Clause 6 - Issue and operation of Council credit cards, to be deleted;*

