

# Audit & Risk Committee

## Open Minutes



Minutes of a meeting of Audit & Risk Committee held in the Council Chambers, 35 Kenrick Street, TE AROHA on Tuesday 10 October 2017 at 10:30am.

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## Present

<b>Chairperson</b>	Sir Dryden Spring	
	Mayor Jan Barnes	Cr Brian Hunter
	Cr Neil Goodger	Cr Ash Tanner

## Also Present

Manaia Te Wiata	Group Manager Business Support	
Danny Anglesey	Finance & Business Services Manager	Items 6.1,6.2,6.3,6.4
Michelle Staines- Hawthorne	Corporate Strategy Manager	Items 6.1,6.2,6.3,6.4,6.5,
Caroline Hubbard	Committee Secretary	
Vicki Oosthoek	Policy Officer	Items 6.2, 6.3,
Ann-Jorun Hunter	Policy Planner	Item 6.1
Fiona Vessey	Group Manager Service Delivery	Items 8.1,8.2
Scott Collinge	Business Operations Manager	Items 8.1,8.2

## In Attendance

Andrew Sloman	Out at 12.26 pm
Ben Halford	Audit NZ
Jared Williams	Audit NZ
Cr Adrienne Wilcock	
Hon John Luxton	

**1 Meeting Opening**

Sir Dryden welcomed everyone and declared the meeting open at 10.30am. Mayor Jan Barnes then informed the meeting of Sir Dryden's resignation as Chair of the Audit & Risk committee which will be effective from 5pm 13 December 2017. Mayor Jan Barnes is recommending Council invite Honourable John Luxton to replace Sir Dryden as Chair of the Audit & Risk committee.

**2 Present**

**3 Apologies**

That the apologies from Councillors J Thomas and J Sainsbury be accepted and leave of absence from the meeting be granted.

**Moved by: Mayor Jan Barnes**  
**Seconded by: Cr Ash Tanner**

**CARRIED**

**4 Notification of Urgent Business**

Pursuant to clause 3.7.5 and 3.7.6 of the Standing Orders NZS 9202:2003 and Section 6A (7) of the Local Government Official Information and Meetings Act 1987, the Chairman to enquire from members whether there are any additional items for consideration which qualify as extraordinary or urgent additional business.

**5 Confirmation of minutes**

**COMMITTEE RESOLUTION**

That the minutes of the meeting of the Ordinary Meeting of Audit & Risk Committee held on Tuesday, 27 June 2017, be confirmed as a true and correct record of the meeting noting the following;

Item 6.1

Mr Mike Cosman will be retained as an independent external auditor for the Health & Safety management system.

**Moved by: D T Spring**  
**Seconded by: Cr Brian L Hunter**

**CARRIED**

That the minutes of the meeting of the Confidential Meeting of Audit & Risk Committee held on Tuesday, 27 June 2017, be confirmed as a true and correct record of the meeting.

**Moved by: D T Spring**  
**Seconded by: Cr Brian L Hunter**

**CARRIED**

## REPORTS

### 6 Executive

#### 6.1 Long Term Plan 2018-28 - Project Update

##### Executive Summary

Council is required to prepare and adopt a Long Term Plan (LTP) under the Local Government Act 2002 (LGA) every three years. This report provides a progress update on the development of the LTP 2018-28.

Comments:

Assumptions – Expect CEO to get another perspective on BERL inflation projections. Note that BERL might be too low this time round as there may be wage/salary pressures from year 3 of the plan, staff costs may rise

Audit NZ agree that a good manager driving the LTP.

Water charges – Profile each major user and understand the break point at which it becomes economically beneficial for each major user to move to alternatives.

##### COMMITTEE RESOLUTION

That:

1. The information be received.
2. The Committee would like the Revenue & Financing Policy to be considered at the next Audit & Risk meeting.
3. Ways to improve Levels of service be investigated.

Moved by: D T Spring  
Seconded by: Mayor Jan E Barnes

**CARRIED**

## 6.2 Long Term Plan 2018-28 - Audit Arrangements Letter and Fees

### Executive Summary

The Audit Arrangements Letter for the 2018-28 Long Term Plan (attached) outlines the:

- terms of the audit engagement;
- approach to the audit;
- areas of particular audit emphasis;
- audit logistics; and
- professional fees.

### Comments

Staff believe it is a standard letter, no surprises.

Ben – Audit arrangements letter standard letter, emphasises good project manager. Financial and infrastructure, assumptions, quality of asset data for decision making.

### COUNCIL RESOLUTION

That:

1. Council receive the audit arrangements letter and fees.

Moved by: D T Spring

Seconded by: Mayor Jan E Barnes

**CARRIED**

## 6.3 Annual Report 2016/17 and Summary

### Executive Summary

The Local Government Act 2002 (LGA) requires Council to adopt its Annual Report and Summary by 31 October each year. Audit New Zealand has completed their audit and we expect to receive an unmodified Audit opinion.

Council's Debenture Trust Deed requires Council to deliver to the Trustees, a completed and signed Reporting Certificate, along with an auditor's assurance report, within four months of the end of the financial year. Audit New Zealand have completed their limited independent assurance engagement in relation to Council's Debenture Trust Deed. We expect the Auditors to provide an independent assurance report with an unqualified conclusion.

Council's Auditor, Ben Halford and Audit and Risk Committee Chair, Sir Dryden Spring, will be in attendance at the Council meeting on 11 October for the adoption of the Annual Report.

This report covers the following items, all of which have been circulated separately:

- a. the Annual Report and Summary 2016/17
- b. the draft Audit Opinions for the Annual Report and Summary 2016/17
- c. the warrant of fitness for the Annual Report and Summary 2016/17
- d. the letter of representation for the Annual Report and Summary 2016/17 and staff review of representations made
- e. the misstatement schedule from the Annual Report final audit
- f. the management report on the Annual Report 2016/17
- g. the Chief Executive's Reporting Certificate for the Debenture Trust Deed
- h. the Auditor's Independent Assurance Report for the Debenture Trust Deed, Audit advise this won't be available until 11 October
- i. the letter of representation for the Debenture Trust Deed and staff review of representations made
- j. the Certificate of Solvency 2016/17

### Comments

#### Annual Report and Summary

Payments gone up to suppliers – gone up 8%. Could expect to see wage increases in pools, libraries and will come up in KVS. Real increase in costs from year to year.

Net debt – with deposits net debt actually reduces to 18%. Need to show/explain this .

Need to consider including bank term deposits of less than one year in "Cash or cash equivalents" when calculating 'net debt'

#### LGFA guarantee –

Is the statement correct "*that local government legislation would enable local authorities to levy a rate to recover sufficient funds to meet any debt obligations if further funds were required*". Audit NZ satisfied with the wording.

Draft Audit opinion – standard opinions,

Management report from Audit NZ –

Audit commented Revaluation in roading, change in values was looked at closely.

Customer relationship management – classification around service requests, need to get coding correct at the beginning. Major assets being capitalised, need to make

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sure costs being capitalised do meet the purpose.

Warrant of Fitness

2.5.3, Are all items of property, plant and equipment typically verified on a regular basis? No includes laptops, small items of equipment. Applies only to a very small percentage of items, less than 0.5% of assets in the category. Question needs to be reworded to ensure that it is answered with greater clarity.

10.5 – could be written that complies apart from item below – Council involved in as non-compliance item.

Representation letter – Good letter, move Council sign the letter.

Misstatement schedule

Audit NZ noted that much smaller list than normally has to deal with. Getting internal consistency all have been adjusted in the accounts.

Debenture Trust Deed – certificate of solvency – Danny to sign.

Congratulations to Danny, Larnia and staff on their successful completion of the Annual accounts on time and to a high standard.

## COMMITTEE RESOLUTION

That:

1. The following documents be received:
  - a. the Annual Report and Summary 2016/17
  - b. the draft Audit Opinions for the Annual Report and Summary 2016/17
  - c. the warrant of fitness for the Annual Report and Summary 2016/17
  - d. the letter of representation for the Annual Report and Summary 2016/17 and staff review of representations made
  - e. the misstatement schedule from the Annual Report final audit
  - f. the management report on the Annual Report
  - g. the Chief Executive's Reporting Certificate for the Debenture Trust Deed
  - h. the Auditor's Independent Assurance Report for the Debenture Trust Deed 2016/17
  - i. the letter of representation for the Debenture Trust Deed 2016/17 and staff review of representations made
  - j. the Certificate of Solvency 2016/17
2. Section 13 of the Warrant Of Fitness be completed and the Mayor and Chief Executive Officer sign the letters of representation for the Debenture Trust Deed 2016/17 and the Annual Report and Summary 2016/17.

Moved by: D T Spring  
Seconded by: Cr Ash B Tanner

**CARRIED**



## 6.4 Legislative Compliance Framework

### Executive Summary

The Audit and Risk Committee requested that staff develop a legislative compliance 'warrant of fitness' (WOF) for its review on an annual basis. A draft WOF was reported to the Committees February meeting for discussion, the Committee resolved that the framework should be adopted and completed annually by staff alongside the Annual Report.

The finalised legislative compliance WOF has been circulated separately.

Framework – approach very good.

Committee adopt framework,

### COMMITTEE RESOLUTION

That:

1. That the information be received; and
2. That Council adopt the legislative compliance 'warrant of fitness' framework.

Moved by: D T Spring

Seconded by: Cr Neil C Goodger

**CARRIED**

## 6.5 Delegations - Committee, Financial, Warranted and Statutory

### Executive Summary

Under the Local Government Act 2002, Council may delegate its statutory powers and its functions to Council Officers.

This report seeks feedback from the Committee on the delegations structure, circulated separately.

### Comments

All changes good and format good.

What constraints are placed on Hauraki District Council officers (health & alcohol) to ensure that Council has absolute control over how the delegated powers are exercised and when they may be exercised?

Suggest that constraints be included in the Shared Services Agreement.

### COMMITTEE RESOLUTION

#### That:

1. The information be received.
2. The Committee recommend Council adopt the Delegations – Committee, Financial, Warranted and Statutory.

**Moved by: D T Spring**

**Seconded by: Mayor Jan E Barnes**

**CARRIED**

## **6.6 Audit and Risk Committee - Self Evaluation 2017**

### **Executive Summary**

Each year as part of its work programme the Audit and Risk Committee completes a self-evaluation of its performance during the calendar year. This report provides information on the outcome of the self-evaluation and a report from the Committee Chair, Sir Dryden Spring. The results of the evaluation will be discussed at the Committee meeting.

Not completed. To be carried over to next meeting.

### **Recommendation**

#### **That:**

- 1. The report and summary from the Committee Chair regarding the outcome of the self-evaluation be received.**

## 6.7 Update of Quality Internal Audits Completed to August 2017

### Executive Summary

As part of ISO 9001:2008 internal audits are scheduled throughout the year and allocated to our 18 internal auditors.

The Unit Managers have considered the “key risk areas” for their units which provide the basis for our internal audit schedule for 2017.

This calendar year 37 audits have been allocated to the 16 auditors. This doesn't include the 15 cash handling audits that are done by 2 auditors from the Finance and Business Services Team.

From May to August 2017 staff have completed 9 audits. The audits prior to May were reported at the last Audit & Risk Committee meeting.

From the completed audits there was 1 area of concern and 24 opportunities for improvement which have been recorded as corrective actions in the quality system and allocated to staff to complete.

### COMMITTEE RESOLUTION

That:

1. The information be noted

Moved by: D T Spring  
Seconded by: Mayor Jan E Barnes

**CARRIED**

## 7 Business Support

### 7.1 Risk Policy Review

#### Executive Summary

The Audit and Risk Committee has been reviewing risk management in the organisation.

The Risk Policy is identified as a pivotal document to reflect Council's approach to risk. This will then flow through to the Risk Framework, Risk Management Plan and Risk Action Plan.

A revised draft policy has been prepared following the guidelines of an Enterprise Risk Management framework.

It is recommended that a workshop is held to ensure that the revised policy appropriately reflects Council's attitude to risk.

#### Comments

Quite a change from existing policy. Trying to reflect councils view on risk.

Worked through in very systematic way

Need statement referring to Public health issue in the supply of potable water

Roading should be included in risk appetite and risk tolerances.

The Committee considers the Risk Policy and Risk Management Framework to be a very good approach to improving the effectiveness of Risk Management.

#### COMMITTEE RESOLUTION

##### That:

1. The committee recommend to Council that the Risk policy be adopted.

Moved by: D T Spring

Seconded by: Cr Ash B Tanner

**CARRIED**

## 8 Service Delivery

### 8.1 Specific Project Risk Management Review

#### Executive Summary

This report is to inform the Audit and Risk Committee the status of the top three council projects as identified by the Executive team which are the:

- Matamata-Piako Civic and Memorial Centre (MPC&MC) (under construction) - \$6.9 million
- Mt Misery Reservoir (under construction) - \$3.6 million
- Te Aroha - Matamata cycle trail (concept) - \$4.8 million

The report includes the highest risks of each project. More detailed risk registers have been compiled and these can be made available to the committee if required.

#### COMMITTEE RESOLUTION

That:

1. The information be noted.

Moved by: D T Spring

Seconded by: Mayor Jan E Barnes

**CARRIED**

## 8.2 Progress on Review of E.coli Detection in Water Supplies and Havelock North Enquiry

### Executive Summary

This report is to update the Audit and Risk Committee on work in progress on the recommendations in the Review of E.coli Detection in Water Supplies during 2016, and report by CH2M Beca on an initial self-assessment against the main findings from the Report on Havelock North Drinking Water Enquiry: Stage 1.

#### Review of E.coli Detection in Water Supplies During 2016

The E.coli report has twenty three recommendations that have been considered, prioritised and is now work in progress. A colour coded system is being used to indicate progress on the work to date (numbers in brackets from last update).

**Green** (Completed): 9 [2] have been completed, of which 6 were identified as high priority. Most related to incident management, sampling and reticulation.

**Red** (Not Started): 3 [5] have not yet begun as they are dependent on other recommendations or are low priority. They will be reviewed as part of the program of works but are expected to be completed by December 2017.

**Blue** (Started): 8 [11] recommendations are underway. Most are high priority actions related to implementing reticulation procedures and updating the Water Safety Plans (WSP's). Timeframes for completion range from end of October to December 2017.

**Orange** (Ongoing): 3 [5] recommendations have been started and span more than a financial year. They relate to staff competency, training and installing ultraviolet disinfection to the Te Aroha West water supply.

The recommendations are continuing to be worked upon with an expected completion of most actions by December 2017. It is surmised that more actions will be added upon completion of the Havelock North Inquiry: Stage 2.

#### Report on Havelock North Drinking Water Enquiry: Stage 1

The process of self-assessment against the Havelock North Drinking Water Enquiry reviewed over 100 aspects across 11 key categories, and uses a colour coding system to indicate the level of confidence:

**Green:** 45 aspects exhibit a high level of confidence in current processes, procedures and practices to mitigate against a Havelock North type of event.

**Amber:** 27 aspects are subject to ongoing works or further investigations.

**Red:** 16 aspects reflect low confidence levels and are identified priorities for investigation.

**White:** 23 aspects have not been previously been considered and yet to be assessed.

The next stage of the process is to develop an action plan around the prioritised items, assign action owners and timeframes for delivery.

Comments;

Focused on finishing Beca report.

Sampling and testing – problems highly likely to be in this area, person related.

Sampling and testing, and the correct Handling of samples is fundamental to ensuring a safe supply of water. This should not be considered to be of "Low Priority". It should be escalated in priority and fixed without delay.

**COMMITTEE RESOLUTION**

**That:**

- 1. Council focus on finishing compliance with Beca report and sampling and testing needs to be of a high priority.**

**Moved by: D T Spring**

**Seconded by: Cr Ash B Tanner**

**CARRIED**



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9 Urgent Additional Business

1.11 pm

The Chairperson thanked Members for their attendance and attention to business and declared the meeting closed.

CONFIRMED AS A TRUE AND CORRECT RECORD  
AT A MEETING OF AUDIT & RISK COMMITTEE  
HELD ON

**DATE:** 12 December 2017

**CHAIRPERSON:**.....

D T Spring