

Audit & Risk Committee

Open Agenda



Notice is hereby given that an ordinary meeting of Audit & Risk Committee will be held on:

Date: Tuesday 6 March 2018
Time: 10.00am
Venue: Council Chambers
35 Kenrick Street
TE AROHA

Membership

Chairperson

John Luxton

Mayor Jan Barnes

Cr Neil Goodger

Cr Brian Hunter

Cr James Sainsbury

Cr Ash Tanner

Cr James Thomas, JP

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ITEM	TABLE OF CONTENTS	PAGE
PROCEDURAL		
1	Meeting Opening	5
2	Present	5
3	Apologies	5
4	Notification of Urgent Business	5
5	Confirmation of minutes	5
CORRESPONDENCE		
REPORTS		
6	Executive	
6.1	Long Term Plan 2018-28 Project Update	7
6.2	Long-Term Plan 2018-28 Content	13
6.3	Annual Report Audit Plan - Year ending 30 June 2018	23
6.4	Six Monthly Report July - December 2017	27
6.5	BDO Internal Audit Plan	35
6.6	BDO Internal Audit - Procurement	39
6.7	Progress on Review of Ecoli Detection in Water	57
6.8	Specific Project Risk Management Review	61
6.9	Policy Review	65
7	Urgent Additional Business	
PUBLIC EXCLUDED		
8	Procedural motion to exclude the public	67
C1	Weathertight Building Claims Update	

1 Meeting Opening

2 Present

3 Apologies

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

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

Minutes, as circulated, of the Ordinary Meeting of Audit & Risk Committee , held on 12 December 2017

Long Term Plan 2018-28 Project Update

Trim No.: 1970537

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.

The LTP is due to be adopted by Council for public consultation at its meeting on 7 March 2018. A separate report to the Committee addresses the proposed content of the LTP.

Recommendation

That:

1. The information be received.
2. The Committee considers whether to provide any feedback to Council.

Content

Background

Council is required to prepare and adopt a LTP under the LGA. The LTP sets out the activities, budgets, financial strategy and key financial policies of the Council for the next 10 years. The LTP 2018-28 must be adopted by Council by 30 June 2018 for implementation from 1 July 2018.

The LTP is a complex document covering all activities of Council, major strategic documents, financial policies, auditing and a large consultation component with the community. Due to its complexity and interrelationships between parts the timeline may be adjusted throughout the project. The dates for the External Audit process, consultation and adoption however cannot be changed.

Table 1 provides a high level overview of progress to date and upcoming milestones. The overall project is considered to be on track.

Table 1 – Project Timeline

Description	When	Progress
Demographic/Growth Assumptions	Feb-May 2017	Completed Council has adopted the median growth projections. Major assumptions were reported to the Committee in June 2017.
Financial Assumptions	Feb-May 2017	Completed A report was presented to the Committee in June 2017. The full list of assumptions used for the LTP, Infrastructure Strategy and Financial Strategy was presented to Committee in October 2017. The Committee requested further work on the inflation assumptions in

Item 6.1

Description	When	Progress
		particular, which will be discussed at the December Committee meeting.
Community Outcomes Review	Apr-Jun 2017	Completed Council approved its new vision and outcomes in April. These have been incorporated into the various activity plans, financial strategy and infrastructure strategy. As part of the preparation of the LTP, Activity and Asset Management Plans have been checked against Council's key strategic and policy documents for strategic fit.
Rates Structure	Apr 2017-Jun 2018	Completed Council has indicated a preference to maintain the current rating structure for the LTP 2018-28.
Activity Plans (including budgets)	Apr-Sep 2017	Completed Activity managers presented their activity plans to Council workshops in May/June 2017. The Activity Plans have been reviewed by Council.
Right Debate (pre-consultation) if required	Apr-Aug 2017	Completed Pre-consultation on Waste minimisation initiatives occurred in June/July with 82 responses received. Council has asked staff to undertake further analysis of options relating to rubbish bag distribution and targeted vs general rates on waste management. This was reported to Council in October 2017. LTP Grants Proposals were called for in September, with a Hearing 18 October. Council resolved to increase the total grant budget to be including in the Draft LTP.
Infrastructure and Financial Strategy	Apr-Oct 2017	Completed The Infrastructure and Financial Strategies have been developed and discuss with Council at a workshop in November 2017. Council approved the strategies for audit purposes in December 2017.
Asset Management Plans	Feb-Oct 2017	Completed The asset management plans have been reviewed and finalised.
Policy Review	Apr-Oct 2017	Completed The Significance and Engagement Policy was adopted 9 August 2017. Council approved the draft

Description	When	Progress
		policies on Development Contributions, Draft Revenue and Financing Policy on 13 December, subject to the audit process. The Draft Policy on Remission and Postponement of Rates was approved for consultation by Council at its November Corporate and Operations Committee meeting.
Council controlled organisation section	Jul-Nov 2017	Completed This has been updated.
Maori participation in decision making	Jul-Oct 2017	Completed This has been updated.
Budgets/ Financials/ Notes	Jul-Dec 2017	Completed First Cut Budgets was discussed with Council in July, including capital works spreadsheet. Second draft budgets were discussed with Council in November with a final draft for inclusion in Draft LTP approved in December 2017.
Document development and QA	Jul-Dec 2017	Completed The LTP and Consultation Document have been graphically designed and a full internal quality checks has been undertaken to ensure accuracy and consistency. An external legal review for legislative compliance was undertaken in January 2018.
Communications Strategy	Jul-Dec 2017	Underway A communications strategy has been developed and is scheduled to be discussed with Councillors at a workshop on 24 February 2018.
External Audit Process	Jan-Jun 2018	Underway The interim audit was undertaken during the week of 4 December. The auditors may have some comments for the Committee on the outcomes of the audit at the 6 March meeting. Final audit of the draft CD commenced on 22 January 2018 The proposed LTP for adoption is scheduled to be made available to the Auditors on 24 May for the final audit opinion to be issued on 27 June 2018.
Special Consultative Procedure	Jan-Jun 2018	To be completed Scheduled for 28 March to 28 April 2018, with Hearing scheduled for 17-

Description	When	Progress
		18 May.
Finalisation/adoption of the LTP and other documents		To be completed Following the Council hearings/ deliberations and decision-making Council staff will update the documents to reflect the decisions, as needed. The LTP is scheduled to be adopted on 27 June 2018.

Audit

In an endeavour to improve Council's internal control and processes, management have requested Audit New Zealand provide a management report to identify where improvements can be made in terms of meeting current best practice. The management report for the Audit of the LTP is not yet available and will be reported to the June Audit and Risk Committee meeting.

Errors identified by the Auditors will be discussed at the meeting.

Risk Management

Risk management involves the identification and assessment, then avoidance, mitigation or elimination of risks.

A risk log is maintained and monitored by the Project Team (Refer attached).

Analysis

Legal and statutory requirements

Council is required to adopt a Long Term Plan under the Local Government Act 2002. The LGA also requires Council to establish and maintain processes to provide opportunities for Maaori to contribute to decision making.

Impact on policy and bylaws

As part of the preparation of the LTP, Activity and Asset Management Plans will be checked against Council's key strategic and policy documents for strategic fit. The preparation of the LTP may lead to the review of some Council policy documents.

Impact on Significance and Engagement Policy

The Long Term Plan is a significant document; consultation will be undertaken with the community.

Communication, consultation and decision making processes

The Long Term Plan is subject to the special consultative process under the LGA. The special consultative process is a structured one month submission process with a hearing for those who have submitted and wish to speak to their submission.

The Long Term Plan project timeline also provides for a 'pre-consultation' process with the community referred to as the Right Debate where Council can ask for feedback on key issues it is considering for the Long Term Plan. Refer *Right Debate* above.

Consent issues

There are no consent issues.

Timeframes

The Long Term Plan must be adopted prior to 1 July 2018.

The following timeline details the key dates for the next steps of the project:

Process	Start	Finish
Audit and Risk Committee to review audited LTP	6 March 2018	6 March 2018
LTP CD approved for consultation (and supporting information)	7 March 2018	7 March 2018
Also to be approved: <ul style="list-style-type: none"> • Full draft LTP • DC Policy • Rates Remission Policies 		
Submissions open	28 March 2018	29 April 2018
LTP hearing	16 May 2018 (17 May if required)	16 May 2018 (17 May if required)
Audit and Risk Committee to review the final audited LTP	26 June 2018	26 June 2018
Council adopt final LTP Rates struck for 2018/19	27 June 2018	27 June 2018
LTP in force	1 July 2018	30 June 2021

Financial Impact

i. Cost

The total budget for the Long Term Plan 2018-28 is \$135,000 (funded \$45,000 per year) and \$90,000 for external audit fees (funded \$30,000 per year). This is broken down to external consultant on specific tasks (i.e. population projections), legal advice/peer review, design and printing, consultation, advertisement and external audit by Audit NZ.

ii. Funding Source

This is funded from existing budgets.

Attachments

Signatories

Author(s)	Ann-Jorun Hunter Policy Planner	
	Niall Baker Acting Senior Policy Planner	

Approved by	Michelle Staines-Hawthorne Corporate Strategy Manager	
	Don McLeod Chief Executive Officer	

Long-Term Plan 2018-28 Content

Trim No.: 1970538

Executive Summary

The purpose of the report is to present the draft Long Term Plan 2018-28 (LTP) and Consultation Document (CD) for the Audit and Risk Committee prior to adoption by Council.

The audit process has been completed, Council's auditor, Ben Halford will be in attendance to discuss the audit process. The draft LTP (supporting information to the CD) and CD are circulated separately to this report.

Council will adopt the draft LTP (as the underlying information), CD and above documents for public consultation on 7 March 2018 with community consultation occurring from 28 March to 29 April 2018.

Recommendation

That:

1. **The information be received; and**
2. **Any feedback on the Long Term plan be provided to Council.**

Content

Background

Long-Term Plans

Under the Local Government Act 2002, Council has to set out its long term plans for the community. The Long Term Plan:

- identifies the key projects to take place over the next 10 years
- provides an overview of each activity Council will carry out and the services Council will provide for the next ten years
- determines how much this will cost and how Council will fund it.

The Long Term Plan must be adopted by 30 June 2018. The project timeline for a Long Term Plan is typically 14-18 months and involves staff across the whole organisation, Councillors and the community.

How the LTP has been presented

The draft LTP consists of information:

- about Council, its structure,
- its financial strategy,
- its infrastructure strategy
- information about the district, population growth and its economy, and community outcomes.
- the activity plans and activity group funding impact statements
- our processes to involve Maori in decision making.
- Significant assumptions that have been made in preparing the plan
- financial statements

- mandatory policies.

The Consultation Document (CD)

The CD provides an overview of the key issues Council is seeking community feedback on. It is intended to be a concise and simple basis for the general reader to gain a reasonable understanding of the Council's direction, how rates, debt, and levels of service might be affected by this, the issues Council is facing, what key projects are proposed, the financial strategy and how to have their say.

Council does not need to publish a draft LTP for consultation. However under section 93C (3)(c) of the Local Government Act 2002 (LGA), the CD must state where members of the public may obtain the above information which may include, for example, providing links or references to the relevant documents on a website maintained by Council.

The CD points readers to the Council's website for more detailed information. The CD will be the tool for engaging with the community during the consultation period and is what Council needs to make as widely available as is reasonably practicable as a basis for consultation. Section 93C(3) expressly prohibits including or attaching the draft LTP to the CD.

The CD was the primary document audited by Audit New Zealand. However, to ensure the CD is correct, Audit New Zealand also reviewed the material that the LTP Consultation Document was based on.

Under section 93G of the LGA 2002 before adopting a consultation document Council must prepare and adopt the information that—

- is relied on by the content of the consultation document; and
- is necessary to enable the Auditor-General to give the reports required
- provides the basis for the preparation or amendment of the long-term plan.

It is largely up to Council to decide what to include, based around the issues that are of interest and importance to our community. However the LGA provides that certain things must be described in a consultation document, such as:

- the main options for addressing each issue identified (including the council's proposal and the likely consequences of proceeding with the proposal);
- other matters of public interest relating to the proposed content of the council's financial and infrastructure strategies;
- any significant changes proposed to the way the council funds its operating and capital expenditure; and
- the direction and scale of changes to rates, debt and levels of service that will result from the proposed content of the long-term plan.
- the impact on rates for different categories of land with various property values.

Council must have regard to its significance and engagement policy in forming its CD. The purpose of the significance and engagement policy is to provide clarity about how and when communities can expect to be engaged in decisions about different matters, depending on the degree of significance the council and its communities attach to those matters. Council needs to apply the significance and engagement policy 'lens' to its approach to the CD.

Infrastructure Strategy

A requirement of the Local Government Act 2002 Amendment Act 2014 is the preparation of a 30 year Infrastructure Strategy. The purpose of the Infrastructure Strategy is to "*identify significant infrastructure issues for the local authority over the period covered by the strategy and to identify*

the principal options for managing those issues and the implications of those options". The Infrastructure Strategy should look beyond the ten year horizon and consider any significant issues that Council might face, such as changes in the quantum and type of infrastructure Council manages and what changes in our environment may require of Council.

Council has considered the condition of its current asset base, as well as future demand and changes in demographics, the economy and the environment and used this as a basis for developing a "most likely scenario" for managing infrastructure into the future.

The draft Infrastructure Strategy outlines a current state and a future state for the significant infrastructure assets of the Council and is required to cover the following assets:

- Water supply
- Sewerage (referred to as Wastewater)
- Stormwater
- Roading

Council has the option of including other assets in the Infrastructure Strategy such as community facilities. The Infrastructure Strategy includes some information on Community Facilities and Property assets.

Staff are of the view that the draft Infrastructure Strategy is compliant with the intent and requirements of the Act. The details of how that is set out below. The purpose of the Strategy is to identify significant infrastructure issues over the period of the Strategy and identify the principal options for managing those issues and the implications of those options.

These requirements are addressed at a broad level through discussion about the 'Key Drivers and Our Response' and more detail on the issues and options is set out under each asset activity.

Council must outline the following in the Infrastructure Strategy:

- How it intends to manage its infrastructure assets, taking into account items various factors such as growth and demand, changes in level of service etc. These items are quite prescriptive and for the purposes of compliance, the strategy covers these for each activity/asset area as well as an overall section which sets out the combined projected operating and capital expenditure of our assets. The significant findings from this assessment are captured in under each asset section.
- The most likely scenario for the management of the Council's assets. This is covered in the Strategy for each asset class (water etc.) along with the major decisions we will need to make over the next 30 years.
- Indicative estimates for capital and operating expenditure. These are included at a summary level for readability under the 'How are we going to get there - Our Response' section, and then in detail under each asset type.
- The significant decisions about capex and include the assumptions on which the scenario is based and then if the assumptions involve a high level of uncertainty more information. This is done both at a high level in the "significant assumptions" section of the LTP for all activities and captured in another level of detail in the asset sections "significant issues and decisions" tables.

Some additional information has been included in the Infrastructure Strategy as it had been presented to Council on 13 December 2017 as a result of feedback from Audit.

Financial Strategy

The Local Government Act 2002 Amendment Act 2010 introduced the requirement for a Financial Strategy. The purpose of the Financial Strategy is to facilitate prudent financial management by councils, providing a guide against which proposals for funding and expenditure can be

considered. The Financial Strategy is intended to facilitate consultation on such proposals by making the effects of proposed expenditure on services, rates, debt and investments transparent.

The purpose of the Financial Strategy is to facilitate:

- prudent financial management by providing a guide to consider proposals for funding and expenditure against; and
- consultation on the proposals for funding and expenditure by making transparent the overall effects of those proposals on services, rates, debt, and investments.

The Financial Strategy must include:

- the factors expected to be significant during the period of the LTP;
- expected changes in population and the use of land, and the capital and operating costs that any changes would require;
- the expected capital expenditure on infrastructure required to maintain current levels of service; and
- other significant factors affecting the local authority's ability to maintain existing levels of service and to meet additional demands for service.

The Financial Strategy must also include some specific statements on:

- the limits on rates, rate increases, and borrowing; and
- the ability to maintain existing levels of service and to meet additional demands within the rates and borrowing limits.

Council must also state:

- its policy on providing security for its borrowing,
- its objectives for holding and managing investments and equity securities,
- quantified targets for returns on investments and equity securities.

It is important to note that the draft Infrastructure Strategy is closely linked to the draft Financial Strategy. Any major changes to the high level direction of the draft Infrastructure Strategy may compromise delivery of the Financial Strategy and should be considered in conjunction with one another.

The overall direction of Council's Financial Strategy is to ensure we can deliver on our vision that Council has set, along with the key actions in the Long Term Plan 2018-28 that are required to achieve these goals.

The proposed key directions of Council's Financial Strategy include to:

- cap rates increases to 4% including inflation (we may need to exceed this limit – refer to the CD for further discussion)
- manage debt levels - We will limit our debt to 150% of our annual revenue
- maintain the current levels of service we currently provide
- We will improve some levels of service to help achieve our vision.

Some changes have been made to the Financial Strategy as a result of feedback from audit and Council, these are in the nature of improvements, rather than any legislative compliance problems with the strategy as it had been presented to Council on 10 December 2014 and do not alter the substantive policy direction set by Council.

Financial Local Government (Financial Reporting and Prudence) Regulations 2014

The purpose of these regulations is to disclose the council's financial performance in relation to various benchmarks to enable the assessment of whether the council is prudently managing its revenues, expenses, assets, liabilities, and general financial dealings. The council is required to

include this statement in its annual report in accordance with the Local Government (Financial Reporting and Prudence) Regulations 2014.

The prescribed charts are included in financial statements section of the LTP. Council is required to report to the community, on our financial performance in the 2018/19 Annual Report by using these graphs. This will be presented to Council for adoption in October 2019.

Balancing the budget

Under section 100 of the LGA 2002 Council must ensure that projected operating revenues are sufficient to cover operating expenses for each year of the plan. In other words, Council must balance the budget. Council may make an exception if it is satisfied that it is prudent after having regard to:

- the estimated expenses of achieving and maintaining desired level of service and the service capacity of assets
- the costs and revenues needed to maintain the capacity and integrity of assets throughout their useful lives
- how these costs will be equitably funded over the life of assets and facilities
- Council's funding and financial policies.

The statement of comprehensive revenue and expense indicates that there will be a surplus in each of the 10 years of the plan.

The main reasons for these surpluses are:

- Assets that are vested to us from developers through the subdivision process, and external revenue received for capital projects.
- Interest earned on reserve funds that we allocate to these reserves to be used for a specified purpose in the future.
- We have used part of the Power New Zealand investment as a source of internal borrowing to activities. Some of the loans will be repaid during the 10 year period. As the loans are internal loans, the repayments are treated as reserve transfers.
- Development contributions which fund capital expenditure are shown in the statement of comprehensive revenue and expense but the capital expenditure is not.

These surpluses are partially offset by our decision:

- Not to fully fund depreciation on some activities.
- To ring-fence the financial performance for some activities i.e. activities that are expected to be self-funding.

The LTP provides that Housing and Rural Halls should be self-funding and for non-funding of depreciation for halls and some other community buildings.

Issues

The outcome of this process will result in new plans for Council to take effect from 1 July 2018.

The LTP is the 'cornerstone' of the Local Government Act 2002 planning process. Once adopted, the LTP will set the direction for Annual Plans and Annual Reports over the next three year cycle. Section 96 of the Local Government Act 2002 (LGA 2002) states that when a council adopts a LTP it is providing a formal and public statement of the council's intentions; but a resolution to adopt a LTP does not constitute a decision to act on any specific matter included within the plan. There are statutory restrictions if Council wants to deviate from the direction established in the adopted LTP.

Item 6.2

Council has worked through a number of strategies and projects over the past year and as a result activity plans and business plans have been developed for the next ten years, with an emphasis on the next three years. These plans provide the basis for the LTP, and a tool for the on-going planning of these activities.

Audit

The draft LTP and CD have worked through a mandatory audit process including 'hot review' (peer review and moderation). Section 94(1) of the LGA 2002 provides the statutory context for the audit. Under this section our LTP must contain a report from the auditor on—

- whether the plan gives effect to the purpose of the Long-Term Plan
- the quality of the information and assumptions underlying the forecast information provided in the plan.

Adjustments have been made through the audit process to improve the transparency, readability and consistency of the documents and ensure they meet legislative requirements and reflect good practice. The audit process reviewed our financial strategy, underlying information, asset and activity management, assumptions, accounting policies, performance measures and Levels of Service, financial prudence and the right debate.

Letter of representation

The letter of representation summarises the position of Council in relation to the audit that has been undertaken on the Consultation Document and supporting information. It states that:

- Council accepts that it is responsible for the preparation of a Consultation Document that provides an effective basis for public participation in decision-making and the matters required to be disclosed as part of the CD under the LGA.
- Forecast information has been properly prepared on the basis of the underlying information and the assumptions adopted that are reasonable and supportable. Forecast assumptions have also been applied across all supporting documents.
- The forecast information and proposed performance measures provide an appropriate framework for measuring the performance of Council.
- Systems and processes exist to provide reasonable assurance as to the integrity and reliability of the forecast information.
- All aspects of the LGA in relation to the Long Term Plan and Consultation Document have been complied with.

At the time of writing, the Letter of representation was not available. Staff will be available at the Committee meeting to discuss compliance with the statements set out in the letter of representation.

Prudency

Financial prudence – Council has considered its debt levels and ability to service debt in compiling the financial forecasts for the Long Term Plan. These are disclosed in our Financial Strategy. Council took treasury advice from Price Waterhouse Cooper on prudent limits for local government organisations of our size. These limits were reviewed by the Audit and Risk Committee in December 2017. The limits set out below are considered to be conservative.

- A limit on a prudent level of debt has been set as follows: Net debt as a percentage of total revenue will not exceed 150%.

- Rates limit discussion – Council has determined limit on rates being 4% for the 10 year period. This is considered to be an appropriate limit in terms of rates affordability for our community. It is also considered to be both prudent and realistic to ensure that desired levels of service are maintained. While the LTP proposes rates will exceed this limit for some years, Council's annual goal will be to keep the rate increases below the limits indicated in the plan. Refer to the CD for further discussion on this issue.

One of the key improvement plan items in the utilities area is to continue improving the asset condition around criticality and performance of assets. Council is reasonably confident that the asset management data is reliable. It uses asset conditions, lifecycle management and growth forecasting to assist in making financial and budgetary decisions. A gap analysis has also been completed for each activity to ensure the improvement plan focuses in the correct area. Council has a committed asset management budget to ensure that projects are delivered.

Revenue and Financing Policy –this sets out our expected revenue sources and our rational for them.

- We have reviewed the overall budget and revenue sources against previous performance in each activity and the proposed fees and charges – on this basis we consider that on this basis the expected revenue sources are reasonable.
- Capital funding – renewals form the major portion of annual capital expenditure. Council fully funds depreciation on assets for essential services and this provides the main source of capital funding. Loan funding is used primarily for new assets or where renewals expenditure exceeds depreciation funds in any one year. Development contributions are also a source of capital funding in accordance with the Development Contributions Policy.

Risks

We have identified the major risks to budgets in the forecasting assumptions set out in the LTP including:

- Borrowing/interest rates
- Revenue from Development contributions
- Major industries
- Return on investments
- Inflation
- Subsidies

Other documents

Other draft policies such as the Rates Remissions Policies, Revenue and Financing Policy and Development Contributions Policy will be consulted upon separately but concurrently.

Analysis

Options considered

Analysis of preferred option

There is no preferred option in respect of any feedback the Committee wishes to provide to Council.

Legal and statutory requirements

There are an array of legislative requirements for the LTP set out in the LGA 2002, the Local Government (Financial Reporting and Prudence) Regulations 2014 and Local Government Rating Act 2002. The legislative requirements have been summarised through the various sections of this report and are not set out further.

Impact on policy and bylaws

The LTP process sets new policy for Council.

Consistency with the Long Term Plan / Annual Plan

This report seeks approval of the LTP for consultation purposes.

Impact on significance policy

The LTP and the proposals within it are significant. The LTP will be subject to a full special consultative process (see timeline below).

Communication, consultation and decision making processes

Under section 93 of the Local Government Act 2002 we are required to produce a consultation document that provides a fair representation of the matters that are proposed for inclusion in the Long Term Plan. We are required to use the special consultative procedure as detailed in section 83 of the Local Government Act 2002 which states that the period of consultation must be not less than one month and we must provide an opportunity for persons to present their views in a manner that enables spoken (or New Zealand sign language) interaction between the person and Council.

A communications/consultation plan will be discussed with Council on 21 February 2018. The proposed communications plan includes a mixture of communication methods, including: print, individual/targeted communications, online, displays and face to face (e.g. market days).

Consent issues

There are no consent issues.

Timeframes

Process	Start	Finish
Audit and Risk Committee to review audited LTP	6 March 2018	6 March 2018
LTP CD approved for consultation (and supporting information)	7 March 2018	7 March 2018
Also to be approved: <ul style="list-style-type: none"> Full draft LTP DC Policy Rates Remission Policies 		
Submissions open	28 March 2018	29 April 2018
LTP hearing	16 May 2018 (17 May if required)	16 May 2018 (17 May if required)
Audit and Risk Committee to review the final audited LTP	26 June 2018	26 June 2018
Council adopt final LTP Rates struck for 2018/19	27 June 2018	27 June 2018
LTP in force	1 July 2018	30 June 2021

Contribution to Community Outcomes

The LTP contributes all community outcomes. The community outcomes are set out in Part 1 of the LTP and the contribution that each activity makes to the outcomes is outlined in the relevant activity plans.

Financial Impact

i. Cost

Preparation of the LTP is provided for within existing budgets. The funding source for all the activities within the plan is set out in the Revenue and Financing Policy.

Attachments

There are no attachments for this report.

Signatories

Author(s)	Niall Baker Acting Senior Policy Planner	
	Ann-Jorun Hunter Policy Planner	

Approved by	Michelle Staines-Hawthorne Corporate Strategy Manager	
	Don McLeod Chief Executive Officer	

Annual Report Audit Plan - Year ending 30 June 2018

Trim No.: 1979814

Executive Summary

This report seeks review and comment from the Committee of the audit proposals and arrangements for the annual audit for the year ending 30 June 2018.

Recommendation

That:

1. **The Committee provide comment to Council on the Annual Report Audit Plan for 2018.**

Content

Background

Section 98 of the Local Government Act 2002 requires Council to prepare and adopt in respect of each financial year an annual report. The annual report contains information regarding the Council's financial and non-financial performance for that year against budgets and specified performance targets. The annual report is required to be audited by independent auditors. The auditors appointed to audit Council by the Auditor General are Audit New Zealand.

Issues

At the time of writing this report Audit New Zealand are still in the process of finalising this year's Audit Plan and will be distributed as soon as it's available. The Audit Plan will outline the proposed approach to the audit, matters of particular interest in the audit approach (both for Council specifically and the local government sector in general), fees and timeline.

Analysis

Options considered

Council has the option of accepting the terms or querying the terms with Audit New Zealand.

Analysis of preferred option

The terms presented by Audit New Zealand are standard for audit processes, if there is an area that the Committee has a particular concern with it is recommended that discussions are initiated with Audit New Zealand to address these.

Legal and statutory requirements

Section 98 of the Local Government Act 2002 requires Council to prepare and adopt an annual report each financial year.

Impact on policy and bylaws

There are no policy or bylaw issues

Consistency with the Long Term Plan / Annual Plan

Funding is allocated in each Long Term Plan/Annual Plan to produce and audit the Annual Report.

Impact on Significance and Engagement Policy

This matter is not considered significant.

Communication, consultation and decision making processes

There are no communication, consultation or decision making issues.

Consent issues

There are no consent issues

Timeframes

Key dates for the Annual Report 2017/18 are as follows:

6 Month Report	Date
Audit and Risk Committee review	6 March 2018
Approved by Council	7 March 2018
Annual Report	
Interim Audit	14 – 18 May 2018
Interim Audit report Audit and Risk Committee review	26 June 2018
Interim Audit report Approved by Council	27 June 2018
Draft Report and Summary to Council	22 August 2018
Final Audit	27 August – 14 September 2018
Audit and Risk Committee review of annual report and summary	9 October 2018
Council adoption of annual report and summary	10 October 2018
Annual report summary published	7 November 2018

Financial Impact

i. Cost

The production of the Annual Report and Summary has a budget of \$15,000 (excluding audit costs) for production of the Annual Report and Summary.

Audit fees have a budget of \$120,000.

ii. Funding Source

The Annual Report cost is provided for within the strategies and plans activity budgets. The Annual Report and audit are funded from general rates.

Audit fees are the subject of a separate report to the Committee.

Attachments

There are no attachments for this report.

Signatories

Author(s)	Sandra Harris Senior Policy Planner	
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Approved by	Michelle Staines-Hawthorne Corporate Strategy Manager	
	Don McLeod Chief Executive Officer	

Six Monthly Report July - December 2017

Trim No.: 1980184

Executive Summary

The Local Government Act 2002 requires Council to adopt its Annual Report and Summary by 31 October each year.

To ensure that there are no unexpected performance or financial matters leading up to this report, a Six Month Report has been prepared to advise of progress and any likely issues that may arise.

Following recommendations from Audit and Risk Committee, staff have again prepared a condensed Six Month Report which highlights financial and non-financial performance for July to December 2017. A copy will be circulated separately.

Recommendation

That:

1. **The Committee provide comment to Council on the Six Month Report July – December 2017.**

Content

Background

The Local Government Act 2002 requires Council to adopt its audited Annual Report and Summary by 31 October each year. The Annual Report and Summary must be published within one month of adoption. The Annual Report and Summary must be audited, and an opinion on the Annual Report and Summary provided to Council and the report's readers.

The Six Month Report provides Council with an opportunity to review the non-financial and financial performance of the organisation. The financial information builds on the monthly financial reports whereby staff endeavour to ensure there are no "surprises" for Council.

Issues

Financial overview

Council's six month financial result to 31 December 2017 is in a surplus situation and we project a surplus of \$2,024,000 at 30 June 2018.

The statement of comprehensive revenue and expense (page 3) shows that expenditure of \$23,168,000 is \$35,000 less than the budget of \$23,203,000, and shows revenue of \$24,701,000 is \$1,149,000 more than budgeted of \$23,552,000.

The final result is a surplus at 31 December 2017 of \$1,533,000 compared to a budgeted surplus of \$349,000.

The revaluation of utilities and property at 1 July 2017 has not been completed in time for this report. Staff plan to report that information to Council in the three quarter report.

The major variances in income and expenditure are tabled at the end of this report. The more significant of those are summarised as follows:

Item 6.4

- Total subsidy income from NZTA for our roading programme is \$453,000 down on the six month budget (with expenses also down \$196,000), however the bulk of the roading work is traditionally completed in the second half of the financial year, and income and expenditure are planned to reach budgeted levels. In addition, NZTA have approved an increased subsidy on the LED street light project, meaning an additional \$169,000 subsidy from the last 2 years will be received in this year, and a further \$211,000 subsidy is possible before the end of the financial year for further LED replacement contract work to be awarded.
- Revenue from fees and charges across all activities was \$585,000 ahead of budget, (with related costs also \$210,000 ahead), due to a number of minor ups and downs.
- Revenue from metered water (which is classified as targeted rates) was \$191,000 lower than budgeted due to one large industrial user developing their own supply.
- Development and financial contributions are \$705,000 higher than budget at the 6 month point, which is due to the completion of significant development in Morrinsville.
- Interest from investments was \$278,000 more than budgeted to date due to the delay in capital spending that has resulted in more cash being available for investment.
- Due to the timing of the weekly and fortnightly wage and salary payments, payments to staff were \$546,000 less than budgeted.
- Finance costs are \$197,000 less than budget and are projected to be lower than budget at 30 June 2018 by approximately \$380,000. We have not raised any new debt this year to date.

Risks

- Income – Other than the drop in metered water revenue discussed above, we are not aware of any significant risks to Council's income streams to year end at this stage.
- Expenditure – We are not aware of any significant risks to Council's expenditure to year end at this stage.

Variances to budget after six months and projected variances to year end

In the table in attachment A, we have identified significant areas where we are under budget, (shown as a negative) or over budget, in terms of our expenditure and revenue at the six month point. There may be seasonal factors that mean more of the budget is spent or received early or later in the financial year. These and other reasons for variances are discussed in attachment A. We have then projected where we will be against budget by the 30 June, taking these seasonal and other factors into account.

At 31 December, our income statement shows a surplus of \$1,533,000. By 30 June, we have projected that our surplus will be approximately \$2,024,000, noting however that we have not projected for any non-cash or accounting type transactions that will affect the bottom line (e.g. loss on the disposal of assets that are renewed, movements in the valuation of interest rate swaps, vested assets, etc.)

Compliance with financial covenants to 31 December 2017

Financial Covenants	31/12/2017	2018	2018
	Actual	Council Limit	LGFA Limit
Net Debt : Total Revenue	11%	<150%	<175%
Net Interest : Total Revenue	1%	<15%	<20%
Net Interest : Annual Rates Income	2%	<20%	<25%
Available Financial Accommodation: External Indebtedness	124%	>110%	>110%

Financial performance benchmarks to 31 December 2017

Financial Performance Benchmarks	31/12/2017
Rates (income) affordability	✓ within limits
Rates (increases) affordability	✓ within limits
Debt affordability	✓ within limits
Balanced budget	✓ benchmark met
Essential services	✓ benchmark met
Debt servicing	✓ benchmark met

Non-financial information

Full details of performance measured to date against our targets are set out in the Six Month Report. A number of these measures can only be measured annually and are not included e.g. the Annual Customer Survey which is undertaken in March each year.

Analysis

Options considered

The preparation of the Six Month Report is a non-statutory process for Council. The Committee may have recommendations to make regarding the content of the report.

Analysis of preferred option

There are no preferred options.

Legal and statutory requirements

Under Section 98 of the Local Government Act 2002, Council is required to prepare and Annual Report and Summary at the close of each financial year.

Impact on policy and bylaws

There are no policy or bylaw issues.

Consistency with the Long Term Plan / Annual Plan

The Annual Report measures our performance against the Long Term Plan 2015-25.

Impact on Significance and Engagement Policy

This issue is not considered significant in terms of Council's Significance and Engagement Policy.

Communication, consultation and decision making processes

Council staff have largely confirmed the Annual Report timeline with Audit New Zealand.

Consent issues

There are no consent issues.

Timeframes

Key dates for the Annual Report 2017/18 are as follows:

6 Month Report	Date
Audit and Risk Committee review	6 March 2018
Approved by Council	7 March 2018
Annual Report	
Interim Audit	14 – 18 May 2018
Interim Audit report Audit and Risk Committee review	26 June 2018
Interim Audit report Approved by Council	27 June 2018
Draft Report and Summary to Council	22 August 2018
Final Audit	27 August – 14 September 2018
Audit and Risk Committee review of annual report and summary	9 October 2018
Council adoption of annual report and summary	10 October 2018
Annual report summary published	7 November 2018

Financial Impact

i. Cost

The production of the Annual Report and Summary has a budget of \$15,000 (excluding audit costs) for production of the Annual Report and Summary.

Audit fees have a budget of \$120,000.

ii. Funding Source

The Annual Report cost is provided for within the strategies and plans activity budgets. The Annual Report and audit are funded from general rates.

Attachments

A. Variances to budget after six months and projected variances to year end 2018.XLSX

Signatories

Author(s)	Sandra Harris Senior Policy Planner	
	Larnia Weir Deputy Finance Manager	

Approved by	Michelle Staines-Hawthorne Corporate Strategy Manager	
	Danny Anglesey Finance & Business Services Manager	
	Manaia Te Wiata Group Manager Business Support	
	Don McLeod Chief Executive Officer	

Variances to the Annual Plan budget to 31 December 2017, and projected variances through to 30 June 2018

In the table below we have identified significant areas where we are under budget, (shown as a negative) or over budget, in terms of our expenditure and revenue at the 6 month point. There may be seasonal factors that mean that more of the budget is spent or received earlier or later in the financial year. These and other reasons for variances are discussed below. Considering these seasonal and other factors we have then projected variances to 30 June 2018. The income statement at 31 December 2017 shows a surplus of \$1,533,000. By 30 June 2018, we project that our surplus will be approximately \$2,024,000 noting however that we have not projected for any non-cash or accounting type transactions that will affect the bottom line (e.g. any provisions that may have to be recognised for vested assets, interest rate swap etc.)

**A positive net result below is a positive
for Council**

Variance explanations	Variances to budget at 6 months			Projected variances to 30 June 2018		
	Expenditure \$	Income \$	Net result \$	Expenditure \$	Income \$	Net result \$
Budgeted income and expenditure from Annual Plan 2017-2018	23,203,000	23,551,500	348,500	46,407,000	47,103,000	696,000
Administration and Support Services: Information Management expenditure is higher by \$76,000 due to the payment of annual software licences earlier in the year. IT recovery is higher due to more usage of internet and photocopying. Asset management costs are higher due to more work being undertaken during this period, which will be offset by a higher recovery. Plant expenditure is under budget due to a less vehicles, fuel prices and maintenance costs. Insurance expenditure will come to charge in the third quarter. Asset management, insurance fees and audit expenditure will result in a projected \$184,000 cost above budget.	-19,000	-181,000	-162,000	184,000	144,000	-40,000
Business unit overall expenditure and income is lower than budgeted. KVS revenue from external work is reduced due to the loss of the Fonterra mowing contract.	-96,000	-329,000	-233,000	-55,000	-65,000	-10,000
Housing and Property Management - Waihou depot operating cost and OYO maintenance costs are higher, which is partially offset by lower building maintenance for staff housing, and elderly pensioner housing (EPH) during this period. EPH income is higher than budget due to increased rents since February 2017.	-26,000	33,000	59,000	39,000	51,000	12,000
Library expenses for the first half is higher due to annual subscription and software licences paid earlier in the year. Library income is lower than budgeted largely due to the Matamata Library relocation and lower borrowing in Te Aroha.	30,000	-10,000	-40,000	0	-15,000	-15,000
Parks and Tracks cost are higher than budgeted. Weather events created safety concerns in Hetana Street and extra tree work was required. Waihou rugby ground re-soiling and reseeded was required prior to the rugby season to provide a safe playing field. We removed old vegetation at Herries Park. Extra maintenance was required on the bike track in Te Aroha following the weather events.	124,000	3,000	-121,000	207,000	2,000	-205,000
Pools and Spa costs are higher than budgeted mainly due to unplanned maintenance at Matamata Port Centre including the replacement of steel framed tables, chlorine tube, valves etc., and chemical costs. Te Aroha Spa cost is higher due to increased admissions and more material purchased during this period, offset by higher income. The Te Aroha Swim pool and Matamata Port centre have had lower admissions to date compared to budget, and Morrinsville pool income is typically higher in the second half of their season.	27,000	3,000	-24,000	59,000	60,000	1,000
Public Amenity costs have increased compared to budget including -for the replacement of seats in the Matamata CBD, street cleaning in the three CBDs were carried out during this period. We have increased the number of rubbish bins with an external contractor being used for cleaning which attracts a higher cost. Public toilet expenditure is higher due to more materials ordered during this period. More electrical and plumbing work required than estimated. Cemeteries costs are higher than budgets as we now use external contractors for digging graves instead KVS. Cemeteries income is lower due to less sale of plots and burials than budgeted.	65,000	-8,000	-73,000	68,000	-4,000	-72,000
Recreation and Culture & Heritage - Savings on the operation costs of the Matamata Memorial Hall during the period, and building maintenance costs have not been required. The Te Aroha Event Centre operating and Firth Tower costs are higher due to unplanned maintenance and more usage partially offset by higher income. Te Aroha Event Centre contribution received \$125,000 at December. The \$11,000 revenue budget from the Matamata Memorial Hall will not be realised in this year.	-14,000	143,000	157,000	15,000	131,000	116,000
Resource consent and Monitoring - Resource consents expenditure is higher due high activity. This cost will be offset to an extent by higher income.	187,000	214,000	27,000	458,000	422,000	-36,000
Building Consent - Building consents expenditure is higher due to high activity. This cost will be offset by higher income.	23,000	114,000	91,000	48,000	296,000	248,000
Roading - Subsidised expenditure is underspent at this time due to timing, with the bulk of the work occurring in the 2nd half of the year. Street cleaning costs will be higher due to district wide mechanical sweeping. NZTA subsidy income is lower than budgeted at this point in line with expenditure. And NZTA have approved an increased subsidy on the LED street light project, meaning an additional \$169,000 subsidy from the last 2 years will be received in this year, and a further \$211,000 subsidy is possible before the end of the financial year for further LED replacement contract work to be awarded.	-196,000	-453,000	-257,000	41,000	380,000	339,000
Rubbish and Recycling - Waste minimisation expenditure will be spent later in year. An underspent increase in the refuse contract price is offset by higher income due to higher volumes and an increase in landfill charges.	23,000	61,000	38,000	70,000	85,000	15,000
Stormwater maintenance has been required during this period.	22,000		-22,000	24,000		-24,000
Wastewater expenditure is higher than budgeted due to more reticulation maintenance required in period. We project that the Reticulation costs will be higher than budget by the end of the year. Treatment plant costs are higher by \$15,000. Tradewaste Income is higher in Morrinsville due to higher activity by industries which is partially negated by lower income in Te Aroha.	46,000	54,000	8,000	12,000	60,000	48,000
Water - Treatment plant expenditure is lower than budget by \$33,000 at the six month point but will increase to the end of the year. There was more reticulation work required during this period ascott Road water main event cost \$70,000 and Snell Road water main issue. Metered water income is lower by \$191,000 due to lower consumption by industries (mainly Open Country heese) which is negated by higher tankered water income by \$134,000.	83,000	-57,000	-140,000	185,000	-194,000	-379,000
Strategies & Plans - Underspent in Economic development which is budgeted \$150,000. LTP and annual report costs are still to come. Costs for Regional policy for Plan Change 1 and Waikato Regional Council involvement are about to start. This budget will be underspent at end of year. District plan costs are underspent to date. These savings are partially negated by various grants that have been uplifted early in the financial year.	-190,000		190,000	-32,000		32,000
Civil Defence -More staff time on Civil Defence calls is negated by an underspend on rural fire as it has been transferred to Central Government.	-59,000	-3,500	55,500	-119,000	-7,000	112,000
Community Leadership - Savings in Election costs - this budget is smoothed over 3 years. Communication and events cost is higher during this period.	24,000	2,000	-22,000	5,000	2,000	-3,000
Animal control cost is higher due to the use of an external contractor. Annual dog registration income is received at the start of the year. The increase in the set registration fee has contributed to this increase.	4,000	142,000	138,000		52,000	52,000
Salary cost is underspent due to timing of weekly and fortnightly salary. Asset Management salary cost will be recovered from other activities.	-535,000		535,000	44,000		-44,000
Asset Management cost is overspent in Parks, Roothing and Stormwater due to more consultant work during this period. Expenditure includes a high level analysis of Water Reticulation, obtaining a building report on Heaton Stadium, and the Hobbiton traffic study etc. Council has approved an additional \$150,000 to be funded from the Community Purpose fund.	230,000		-230,000	100,000		-100,000
Finance costs are lower due to less debt held than budgeted due to the delay in the capital spend.	-197,000		197,000	-380,000		380,000
Interest from Investments is higher due to lower capital spending, resulting in more cash held in investments.		278,000	278,000		355,000	355,000
Development contributions are higher than budgeted - significantly related to Morrinsville developments.		705,000	705,000		550,000	550,000
Other minor ups and downs and variance in internal charges	409,000	439,000	30,000	5,000	1,000	-4,000
Actual at 31 December and Projected at 30 June 2018	23,168,000	24,701,000	1,533,000	47,385,000	49,409,000	2,024,000

BDO Internal Audit Plan

Trim No.: 1978187

Executive Summary

The Audit and Risk Committee considers the BDO internal audit plan annually.

A programme of work has been prepared based on the schedule compiled when BDO was engaged.

The programme can be amended to incorporate any alternative or additional areas that the Audit and Risk Committee may nominate.

Recommendation

That:

1. The BDO Internal audit plan be:

- Property acquisition and disposal
- Desirable items (ie small items of equipment below plant thresh-hold)
- Inventory
- Further advice on internal audits eg internal audit templates

Content

Background

The Audit and Risk Committee undertook a review of the internal audit programme and the risk of fraud in 2014.

It was concluded from the review that it would be desirable to expand the internal audit programme.

When the Committee reviewed the internal audit programme the priority areas for the expansion of the programme were identified. This was based on the following criteria:

- Areas identified by the Office of the Controller and Auditor General that were most subject to fraud
- The assessed robustness of internal controls
- The level of internal auditing undertaken.

The additional audits were commenced in 2015.

There are also a number of other audits that are undertaken within the organisation. This was reviewed by the Audit and Risk Committee in June 2016. The schedule is attached for the information of the Committee.

Item 6.5

The 2018 Internal Quality Audits are also attached for the Committee's information.

Issues

The following table lists the programme of work and status from the schedule prepared in 2015:

Section A	Status
Conduct a sample of the current internal financial; audit practices with internal audit staff and make recommendations on improvements/changes to internal audit processes	Matamata Office Cash Handling audited. Te Aroha Transfer Station audited.
Develop the capabilities of the internal audit team	In progress.
Undertake an assessment of the design and operating effectiveness of processes and controls relating to identified areas	Te Aroha Transfer station – recommendations made from the audit.
That the external provider develops internal audit templates with the FABS team	
Section B	
Asset acquisition and disposal	
Plant (vehicles and significant equipment)	Complete
Property acquisition and disposal	
Desirable items (ie small items of equipment below plant thresh-hold)	
Inventory	
Goods purchased for sale (eg Pools)	
Procurement	
Purchasing	Complete
Contract tender	Complete
Payroll	
All	Complete

The work plan derived from this schedule would be:

- Property acquisition and disposal
- Desirable items (ie small items of equipment below plant thresh-hold)

- Inventory
- Further advice on internal audits eg internal audit templates.

The Audit and Risk Committee may wish to identify other areas of focus.

The previous Audit and Risk Chair had suggested that Management may wish to expand the internal audit work completed by external resources (ie BDO).

It is felt that this may provide better value than using staff resources, especially in high risk areas

Management is considering how this could be achieved from July 2018 within the allocated budgets.

Analysis

Options considered

1. Undertake the work programme as per the original schedule:
 - Property acquisition and disposal
 - Desirable items (ie small items of equipment below plant thresh-hold)
 - Inventory
 - Further advice on internal audits eg internal audit templates.
2. Audit and Risk Committee to determine alternative work programme

Analysis of preferred option

Option 1 is preferred as it will complete the work programme from the original engagement.

It will still be possible to undertake additional audits if the Audit and Risk Committee decides that this appropriate.

Legal and statutory requirements

There are no legal issues.

Impact on policy and bylaws

There is no impact on policy and by-laws.

Timeframes

BDO will prepare the timetable of work once the work programme is finalised.

Financial Impact

i. Cost

We estimate that the programme will cost approximately \$40,000.

ii. Funding Source

The programme will be funded from existing operational budgets.

Attachments

There are no attachments for this report.

Signatories

Author(s)	Manaia Te Wiata Group Manager Business Support	
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Approved by	Manaia Te Wiata Group Manager Business Support	
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BDO Internal Audit - Procurement

Trim No.: 1979651

Executive Summary

BDO has completed an audit of the procurement in the organisation as per the 2017 internal audit plan.

The report is submitted for the consideration of the Audit and Risk Committee

Recommendation

That:

1. The report be received

Content

Background

BDO was appointed as Council's auditor in 2015.

Procurement was identified as one of the areas for review

BDO's audit report is attached.

Issues

The report has 4 findings in the following areas

- Accounts Payable Masterfile Hygiene
- Conflict of interest checks in procurement process
- Procurement memorandum completion
- Reporting of Procurement Audit Outputs

The management response to the findings will be circulated separately before the meeting.

Attachments

- A. MPDC Procurement Audit 2017

Signatories

Author(s)	Manaia Te Wiata	
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Item 6.6

	Group Manager Business Support	
Approved by	Manaia Te Wiata Group Manager Business Support	



DRAFT

MATAMATA-PIAKO DISTRICT COUNCIL

Review of the Procurement Policy, Processes and
Control Environment

Draft Report

February 2018

Item 6.6

Attachment A



TABLE OF CONTENTS

1.	SCOPE AND APPROACH	2
2.	SUMMARY OF FINDINGS	5
3.	CONCLUSION	6
4.	DETAILED FINDINGS	7
5.	INTERNAL AUDIT WORK CONDUCTED	11
	APPENDIX 1 - LIMITATIONS OF LIMITED ASSURANCE AUDIT	12
	APPENDIX 2 - FINDINGS RATING	15

DRAFT

Private and Confidential

Mr J Luxton
Chair - Audit and Risk Committee
Matamata-Piako District Council
PO Box 266,
Te Aroha 3342

14 February 2018

Dear John,

We are pleased to present our report from our internal audit of Matamata-Piako District Council's (the "Council") Procurement Policy, Processes and associated control environment.

In accordance with the Internal Audit Plan for the 2017/18, the Council engaged BDO to undertake a limited assurance audit over the Procurement Processes at Council. This report sets out a summary of the work we have performed, our findings, the conclusion that we reached, and recommendations we have made.

In summary, the main themes and issues arising from this review, based on our testing, were:

- Controls around the Procurement Process appear to be good, with our findings rated Medium or lower; and
- Some minor teething points were noted given that the new Procurement Policy and Manual was introduced in August 2017.

We would like to take this opportunity to acknowledge our appreciation for the assistance and co-operation provided to us by Amy Pollock, Fiona Vessey and other staff at the Council in addressing our information requests and dealing with our queries during the course of the audit. We trust that the independent insights presented in this report are useful, and the recommendations given lead to improvements in the Procurement process.

Yours sincerely
BDO Waikato

Andrew Sloman
National Head - Risk Advisory Services

1. SCOPE AND APPROACH

Our limited assurance internal audit has been performed in accordance with our Terms of Reference dated December 2017. The audit had the following key objectives:

- Consider, document and conduct walkthrough testing of the application of Council's Procurement Policy as approved in August 2017.
- Consider whether selected procurement processes were conducted in accordance with Council Policy
- In conjunction with the above, consider whether the procurement process considered best value for Council; and
- In conjunction with the above, consider whether conflicts of interest were considered, identified and managed.

The work completed by BDO is subject to the limitations set out in Appendix 1.

Our approach involved gaining an understanding of the Council's Procurement Policies and Procedures through reviewing the current framework, interviews with staff, testing internal controls, evaluating internal controls against good practice, identifying process and control weaknesses and reporting these to you.

Key Activities

To complete the objectives of this engagement, we have performed the following activities:

Reviewed	<ul style="list-style-type: none"> • Reviewed the key policies, processes and controls in place for Council Procurement, together with the associated training and audit frameworks implemented by Council to support the policy
Interviewed	<ul style="list-style-type: none"> • Interviewed key personnel involved in the oversight of the Procurement process across Council.
Evaluated	<ul style="list-style-type: none"> • Sample tested the process and evaluated actual practices against those documented.
Reported	<ul style="list-style-type: none"> • Summarised the work completed, reported any issues identified together with our recommendations.

BDO's Reference Points

Interviews

We have used interviews with relevant Council management and staff as a fixed point of reference for conducting our review. The management and staff interviewed included:

Interviewee	Position
Amy Pollock	Procurement and Project Management Officer
Fiona Vessy	Group Manager Service Delivery
Manaia Te Wiata	Group Manager Business Services
And other persons across Council who were impacted by the Policy.	

Good Practice

We benchmarked, as a reference point, the Council's processes and control to other councils and public benefit organisations.

Policy and Procedure Assessment

We reviewed key documents to understand the current policy and procedures surrounding the payroll and human resource activities. These include the following:

Documents Reviewed	Purpose of Document
Procurement Policy as authorised by Council's Audit and Risk Committee at the December 2016 meeting.	Outlines Council's vision, commitment and accountability structure for procurement across the whole of Council.
Procurement Manual Version 10 August 2017	Outlines in detail the Procurement Processes and Procedures for the whole of Council.
Procurement Auditing Plan	Internal plan with associated checklist as used by the Procurement and Project Management Officer
Summary of Internal Audit Procurement Findings	Outlines the summary and rating of findings from Procurement audits conducted by the Procurement and Project Management Officer

The Context of Procurement at MPDC

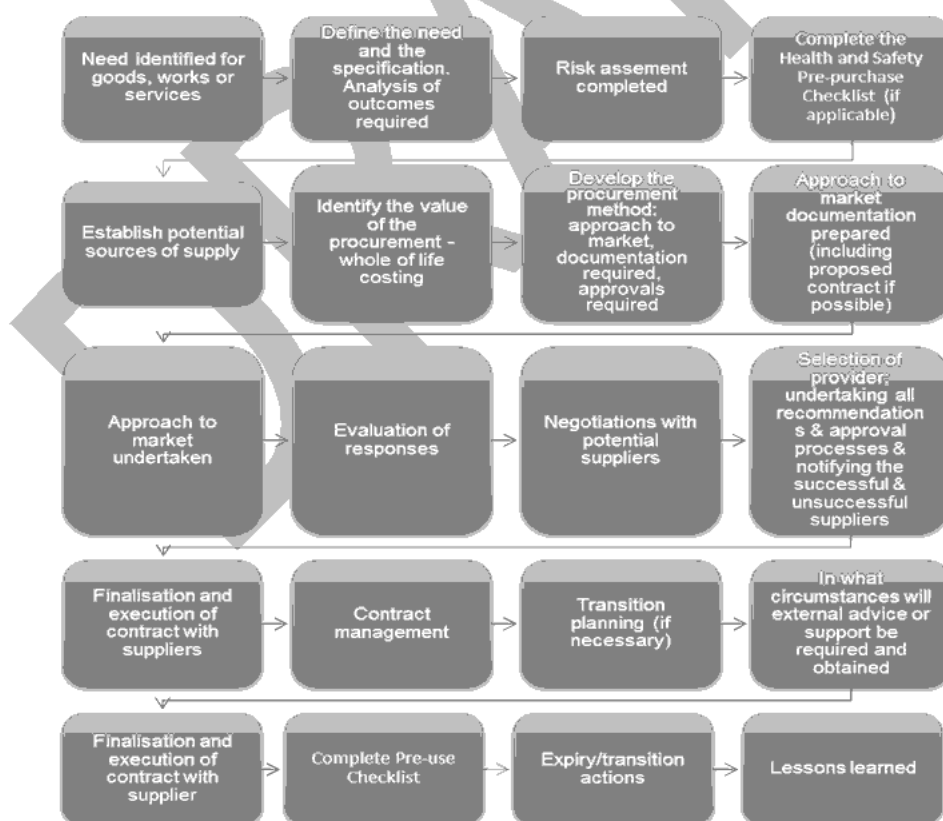
Per Council's Cash Flow Statement in the 2017 Annual Report, payments to suppliers totalled some \$17.197million for the year to 30 June 2017. Council's Accounts Payable Masterfile lists over 4900 supplier accounts. And 95 staff within Council have procurement authority of varying degrees based on role and responsibility.

Council's Procurement Policy and Manual were changed significantly in the period December 2016 to August 2017, with council wide training and associated education programmes conducted in support of same.

Our findings in Sections 2 and 4 are noted by exception and do not comment on the elements of control in place in the oversight and application of the Procurement Policy across Council. Such controls include:

- The appointment of a Procurement and Project Management Officer to provide oversight on the application of the policy across Council;
- A Procurement Audit Programme run by the above Officer providing a level of oversight and accountability of the Procurement Policy across Council;
- Regular analysis and review across Council of spending by department, activity and individual, with independent review; and
- An Instrument of Delegation outlining spending authorities across Council and individuals.

The Procurement Process at Council is summarised below, with controls and documents underpinning each process.



2. SUMMARY OF FINDINGS

REF	TITLE	SUMMARY OF KEY FINDINGS AND RECOMMENDATIONS	RATING
4.1	Accounts Payable Masterfile Hygiene	We noted that several Accounts Payable Masterfile accounts had not been active for over 2 years, and several accounts were unnamed.	Medium
4.2	Conflict of Interest Checks in Procurement Process	We observed no consideration of Conflict of Interest risk as regards our testing of two major procurement arrangements entered into over the past 5 months	Low
4.3	Procurement Memorandum Completion	We noted the Procurement Memo for the Election Services Procurement was signed by the Chief Executive subsequent to the Procurement process	Low
4.4	Reporting of Procurement Audit Outputs	There is an opportunity to further enhance the Procurement Audit and Accountability processes by reporting to the Audit and Risk Committee exceptions and trends noted by the Procurement Officer in her review of the application of the Policy across Council.	Opportunity

3. CONCLUSION

Based on our work performed, as specified in the scope of work in our engagement letter, and except for the findings noted at Section 4, none of which are rated critical, we conclude that nothing has come to our attention that causes us to believe that the Council has not maintained, in all material respects, effective policies and procedures over the areas reviewed by BDO.

This report has been prepared for the Audit and Risk Committee at the Council. We disclaim any assumption of responsibility for any reliance on this report to any persons or uses other than the Audit and Risk Committee, or for any purpose other than that for which it was prepared.

Because of the inherent limitations of risk based compliance systems, it is possible that fraud, error or non-compliance may occur and not be detected. A limited assurance review is not designed to detect all instances of non-compliance as it generally comprises making enquiries, primarily of the responsible party, and applying analytical and other review procedures. The opinion expressed in this report has been formed on the above basis.

We also do not pass judgement on the completeness of risks identified. Other than the provision of assurance services, our firm provides no other services to the Council. We have no other relationship, or interests in the Council.

4. DETAILED FINDINGS

Our findings have been derived from our limited assurance internal audit of the Council's Procurement activity, policies and procedures, in accordance with Section 1 of this report, and of the sample tests performed on key controls associated with these areas.

4.1 Accounts Payable Masterfile Hygiene

Control Rating	
Medium	
<p>Audit Finding:</p> <p>During the course of our work, we interrogated the Accounts Payable Masterfile of Council and noted that, of the 5031 Accounts listed, several had not been used for some time, and the following account numbers, as an example, were unnamed:</p> <p>Account numbers 4989, 5017, 5101, 5132, 4805.</p> <p>There were others which have not been listed.</p>	
<p>Potential Implication:</p> <p>Accounts Payable Masterfile accounts, which have not been used for some time, could be reactivated and used for fraudulent activities such as false invoice posting. Whilst we have sighted no evidence of this in the course of our work, and compensating controls exist, such as independent payment approval, to prevent this, we recommend that the Accounts Payable Masterfile be cleansed of such anomalies.</p>	
<p>Recommendation:</p> <p>We recommend that the Accounts Payable Masterfile be reviewed and cleared of untitled accounts, and those that have been dormant for over 2 years. This review should be conducted by a person independent of invoice posting and payment processing duties.</p>	
<p>Management Comments:</p> <p>Responsible Persons:</p> <p>Anticipated Completion Date:</p>	

4.2 Conflict of Interest Checks in Procurement Process

Control Rating	
Low	
Audit Finding: In our review of the Election Services Procurement Arrangement, we noted that there was no consideration of conflict of interest risks (such as former council employees, directors related to Councillors etc.).	
Potential Implication: Whilst the Procurement Policy and Manual certainly stipulates the consideration of conflict of interest risk during the procurement process, we considered that the provision of Council Electoral Services was of a degree of sensitivity that any conflict of interest risk for this service should have been documented and considered. We have seen evidence through our work at other Councils with a high degree of service outsourcing, that Conflict of Interest risk has a high consequence impact for Councils, particularly in reputation and image impacts. Recommendations: Conflict of Interest should be a mandatory risk consideration for the procurement of services at a minimum.	
Management Comments: Responsible Persons: Anticipated Completion Date:	

4.3 Procurement Memorandum Completion

Control Rating	
Low	
<p>Audit Finding: We noted in our review of the Election Services Procurement process, that the Chief Executive had not signed on a timely basis the Procurement Memorandum, as required under the Procurement Manual for this level of anticipated expenditure.</p>	
<p>Potential Implication: Process had not been followed, in accordance with the manual. The Election Services procurement was one of the first procurement arrangements to be subject to the new process. We found that this occurrence was isolated, and has since been rectified.</p>	
<p>Recommendations: No recommendation other than the observation of the exception, and the process has been reinforced.</p>	
<p>Management Comments:</p> <p>Responsible Persons:</p> <p>Anticipated Completion Date:</p>	

4.4 Reporting of Procurement Audit Outputs

Control Rating	
Opportunity	
Audit Finding: During the course of our work, we noted that the Procurement and Project Management Officer maintains and executes a Procurement Audit Framework.	
Potential Implication: Given that the level of Council Procurement spend is significant, and the Procurement Policy and Manual has only recently been introduced, we believe that it would be useful for management and the Audit and Risk Committee to further monitor the embedding of the policy through the examination of the output of the Procurement audit process in place, and note trends and remedial actions executed.	
Recommendation: The output of the Procurement Audit Process be reported to the Audit and Risk Committee for the next 12 months.	
Management Comments: Responsible Persons: Anticipated Completion Date:	

5. INTERNAL AUDIT WORK CONDUCTED

The following summarises the work that we conducted during our internal audit. The purpose of this summary is to provide an understanding of the areas we covered.

Scope Required	Work Completed	Conclusion
Consider, document and conduct walkthrough testing of the key controls surrounding the management of the Council Procurement	<ul style="list-style-type: none"> Conducted interviews to understand the key processed. Ensured controls are operating as intended and in line with good practice. 	Based on work completed, we have highlighted issues in points 4.1 - 4.4 above
Consider whether selected procurement processes were conducted in accordance with Council Policy –	<ul style="list-style-type: none"> Tested two significant procurement arrangements since the introduction of the Procurement Policy and Manual in August 2017. Ensured controls are operating as intended and in line with the Manual and good practice. Reviewed payments made to suppliers and tested arrangements back to the documented procurement process. 	Based on work completed, we have highlighted issues in points 4.1 - 4.4 above

APPENDIX 1 - LIMITATIONS OF THE AUDIT

This limited assurance audit has been conducted in accordance with New Zealand Audit Standard ISAE 3000. This audit is limited primarily to inquiries of entity personnel, inspection of evidence and observation of, and enquiry about, the operation of the control procedures for a small number of transactions or events. This audit is designed to provide a limited level of assurance in relation to the areas included within the terms of reference. An audit providing a high level of assurance has not been performed.

The engagement was performed on the basis of the following limitations:

- As a result of the inherent limitations of any internal control structure it is possible that errors or irregularities may occur and not be detected. Further, the internal control structure, within which the control procedures that we have reviewed operate, has not been reviewed and no view is expressed as to its effectiveness.
- The engagement is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed are on a sample basis. Also, this engagement does not provide all the evidence that would be required in high level positive assurance audit.
- Any projection of the evaluation of the procedures reviewed for selected processes to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

The matters raised in this report are only those which came to our attention during the course of our limited assurance audit and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, management should not rely on our report to identify all weaknesses that may exist in the systems and procedures reviewed, or potential instances of fraud that may exist. Findings within this report may have been prepared on the basis of management representations and should be read in the context of the scope of our work.

The Council should assess management actions for their full commercial impact before they are implemented. This report has been prepared by BDO Waikato for the purpose of, and with a view to access by the Council. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.

APPENDIX 2 - FINDINGS RATING

To enable Management to set priorities on their action plans we have reported our findings in four categories, namely, critical, high, medium and low based on our assessment of the importance of each finding. Definitions for each category are provided below.

Explanation and Suggested Timeframe for Treatment		No. of Issues Raised
Critical	Severe breakdown in controls exposing the Council to substantial risk, requiring immediate Executive Management and Trust board attention and resolution as soon as practicable.	-
High	Significant breakdown in controls exposing the Council to risk, requiring urgent Executive Management attention and resolution.	-
Medium	Breakdown in controls requiring timely management attention and resolution.	1
Low	Process inefficiencies or non-compliance with policies and procedures of a housekeeping nature.	2

Progress on Review of Ecoli Detection in Water

Trim No.: 1975835

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.

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. The numbers in brackets are what had been completed and reported to the committee in October 2017.

Green (Completed): 15 [11] have been completed, of which 6 were identified as high priority: Most related to incident management, sampling and reticulation.

Red (Not Started): 0 [0] All items have begun and are underway.

Blue (Started): 2 [8] recommendations are underway. One high priority action is substantially complete (Sample tap replacement with 21 out of 30 being installed). The other medium priority action relates to updating the Water Safety Plans, which again has been substantially completed (WSPs submitted to the Drinking Water Assessor (DWA)) with Te Aroha WSP being received in draft format and planned for submitting to DWA by the 22nd of February 2018.

Orange (Ongoing): 4 [3] recommendations have been started and span more than a financial year. They relate to staff competency and training, and transferring Te Aroha West to reticulated supply.

Work continues on the recommendations with an expected completion on the majority by the 30th of June 2018. The Havelock North Inquiry: Stage 2 report has recently been released with presentations being delivered across the country over the coming months. Council are working through the findings of the stage 2 report and it is anticipated that more actions will be required to comply with the findings and potential regulatory changes for Water Supply.

Recommendation

That:

1. The report be received

Content

Background

In 2016, there were six occurrences of Escherichia (E.coli) bacteria detected as part of Council's testing procedures for drinking water supplies. All samples taken had adequate chlorine residual and there was no logical cause for the presence of bacteria. However, the presence of E.coli is a serious matter and in December 2016, the Chief Executive requested an in depth investigation and report by an independent external professional CH2M Beca into the potential causes of E.coli being detected in our system.

In August 2016, the groundwater source supplying drinking water to the residents of Havelock North was contaminated with campylobacter bacterium that caused gastrointestinal illness. Following the incident, Central Government initiated an inquiry into the event, (currently ongoing) and have released a Stage 1 report on the incident. The following is a high level summary of the findings in the Stage 1 report:

- Some 5,500 of Havelock North's residents became ill, 45 of whom were hospitalised. It is possible that the outbreak contributed to three deaths.
- Sheep faeces were the likely source of the campylobacter that caused the outbreak. It is highly likely that contaminated water containing the faeces entered the aquifer from a pond about 90m from the Brookvale Road well 1.
- The Te Mata aquifer from which the water was abstracted is not confined, and had been penetrated by a significant number of disused or uncapped wells. The source is not secure.
- The Regional Council failed to meet its responsibilities to act as guardian of the aquifers under the Heretaunga Plains.
- Hastings District Council did not embrace or implement the high standard of care required of a water supplier. Its failings especially applied to its mid-level managers.
- There was a critical lack of collaboration between the Regional and District Council.
- The Drinking Water Assessors were too hands-off in the applying the Drinking Water Standards for New Zealand (DWSNZ).
- Council's consultant failed to competently assess the security of the wellheads.

As a result of the Havelock North outbreak, the Chief Executive instigated the formation of a new Water and Waste Water unit to address operational and strategic practices, particularly dispersed management and accountability. Tasked with governance oversight in regards to quality control and compliance, the unit is also addressing the need for greater diligence and co-operation with the Health Board and Regional Council, which was a key finding in the Havelock North Inquiry Report.

This report updates the Audit and Risk Committee on progress on the E.coli Report.

Issues

The following tables provide a high level summary of work in progress from the E.coli Report.

Table 1: CH2M Beca Recommendations Progress

High Level Aspect					
	Not Started	Started	On-Going	Completed	Comment
Plans, Policies and Procedures	0	0	1	0	OPUS consultants undertaking review of emergency response plan.
Water Safety Plans	0	1	0	4	Te Aroha WSP received in draft format from Opus. Review by MPDC and

					submission to DWA by the 22 nd of February 2018.
Reticulation	0	0	0	4	New process completed. Staff turnover within the reticulation team means re-training in the process is required. This remains a high risk area for Council.
Staff Competence and Training	0	0	2	1	Implementation of the Licence To Operate (LTO) system is progressing. Incident Management simulation exercise is delayed though recent events in Morrinsville. The instigation of Learning Teams and Route Cause Analysis are covering much of what was expected in the proposed simulations.
Sampling and Testing	0	1	0	4	High priority sample taps installations complete. 21 out of 30 taps have been installed.
Incident Management	0	0	0	4	All actions completed. It is anticipated that further actions and controls around incident management will be required following the Havelock Stage 2 Report findings and the recent events in Morrinsville.
Post Treatment Processes	0	0	1	0	Upgrade of Waihou water supply completed, and Te Aroha West on-going.
Summary Tally	0	2	4	17	

Update of E.coli Detection in Water Supplies Report Actions

The recommendations from the review related to managing and reducing the presence of E.coli in the water supplies, thereby improving compliance with regulations and protecting public health. Work has begun on all the high priority risk actions, with the exception of a few that have dependencies upon completion of other actions.

The report updates of the 7 categories are:

- **Water Safety Plans (WSP's):** OPUS consultants are in the stage of updating the plans. There has been a delay in completion of these plans due to the engineer who was working on the plans leaving OPUS, and additional content needed to be added to the catchment assessment reports (which feed into the WSP's). At all stages the District Health Board has been kept informed and provided guidance for the completion of the assessment. Te Aroha WSP is expected to be completed by the mid-February and submitted to the Drinking Water Assessors by the 22nd of February 2018. The updating of the asset management and Long Term Plan (LTP) budgets have begun, but some budgets are dependent upon the completion of the WSP's.
- **Reticulation:** Identified as a high priority category the review of the policies, procedures and practices has progressed and is 95% complete. Training on the new procedures was due for completion before the 2017 Christmas holiday period. Staff changes in the Reticulation Team in Kaimai Valley Services (KVS) will mean re-briefing and training of new / substitute staff will be required. Following procedures and documenting, test results

remain as high priority areas for the team. Auditing of reticulation procedures and records (especially after major mains breaks and new main installs) is proposed.

- **Staff Competence and Training:** All 3 actions were prioritized as low-medium risks. 2 of the actions are on-going as they relate to the completion of the Licence to Operate (LTO) system. The simulation exercises for gross water pollution are being considered and development proposed as part of the Water and Waste Water restructure.
- **Sampling and Testing:** 3 of the 4 high priority actions have been completed. The other high priority action of replacing and relocation of the sample taps is due for completion in March 2018. As of the writing of the report, 21 taps have been installed. The tap locations were ranked in terms of priority/risk (e.g. poor quality sites, end of line reticulation) and installation completed for all the high priority taps that pose a higher potential risk for sample contamination. An audit of the new sample taps is proposed as part of follow on actions from the Havelock North Stage 2 report.
- **Incident Management:** All actions within this category have been completed. A review of the effectiveness of the completed actions along with any additional requirements identified in the Havelock Stage 2 report will be assessed prior to the 30th of June 2018.
- **Post Treatment Processes:** The Waihou KVS Depot has had UV disinfection units installed and they are now operating. This will add a level of protection against pathogenic microorganisms at the Waihou Depot. Te Aroha West (currently UV treated) is planned to be connected to the main Te Aroha Water Supply (full treatment). An external resource has been engaged to progress this project with urgency.

Of the ten actions identified as a high priority risk of E.coli contamination, 8 have been completed and 2 are on-going or have been started.

Of the 23 actions, all items have been started and it is expected that the remaining 8 actions will be completed by the 30th of June 2018.

Work on the E.coli detection recommendations is progressing well. A holistic organisational approach is being applied to this work. The implications of recent events has resulted in a heightened awareness and urgency to ensure we can confidently say and demonstrate that we are doing all we can to provide the community with safe drinking water.

Attachments

There are no attachments for this report.

Signatories

Author(s)	Scott Collinge Waste Water Operations Manager	
	Armindeep Singh EA to Group Manager Service Delivery	
Approved by	Fiona Vessey Group Manager Service Delivery	

Specific Project Risk Management Review

Trim No.: 1977087

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) (nearing completion) - \$6.9 million
- Mt Misery Reservoir (construction completed) - \$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.

Recommendation

That:

1. The information be received.

Content

Background

Matamata-Piako Civic and Memorial Centre

The Matamata-Piako Civic and Memorial Centre risk register is regularly reviewed and updated. The top two risks continue to be the level of funding and construction timeline.

The level of funding risk remains similar and is being managed within the total approved project budget of \$6,923,787 which is fully committed. In order to keep within the overall approved project budget furniture from the old Matamata Library, Offices and Memorial Hall is to be reused where possible. Council has also prudently made provisions potential project related shortfall. Any such item will be discussed and considered by Council.

The target date for practical completion was the 22nd January 2018 and is now expected in March 2018. The blessing of the new building is scheduled for the 22nd February 2018, and expected to open the third week in March for library, building and customer services. A community celebration day is planned for Saturday 14th April 2018.

The construction risk register is available to the committee if required.

Mt Misery Reservoir

The new reservoir has been in service since mid-December and the access track upgrade has been completed. After discussions with the farm manager, fencing has been installed around the new reservoir.

Spartan Construction will be back onsite late February to start demolishing the old reservoir.

The following work is also required:

1. Installation of additional drainage sump and pipework.

2. Installation of 2 x tanks near summit and supply pipeline for farmer.
3. Final metal install and contouring around new reservoir.
4. Survey and finalisation of land purchase/transfer.
5. Hydro seeding of banks and pasture when weather is suitable.
6. Finalise tree planting layout of bank downhill of new reservoir. Plant trees. Additional fencing to protect trees.

External resource has been engaged to complete the project and contract formalities.

Te Aroha to Matamata Cycleway

There are no changes to the previous report.

Table 1: Top Three Projects Risks and Mitigation

Risk	Mitigation
<u>Matamata-Piako Civic & Memorial Centre:</u> Level of Funding	Council will be kept updated on the budget spend and will consider optional variations that would have longer term benefits, e.g. sustainability initiatives
Construction Timeline	There is a collaborative planned approach to handover which is on track for March 2018. Planning and programming is in place for all remaining fit out and opening activities.
<u>MT Misery:</u> Financial risk of budget blowout	Strong management of potential variations. Monthly financial updates. Design & build contract removes some risk to Principal. Tender price for construction was significantly under the initial funding provided for the project.
Operational Health & Safety	Specific process and procedure plans were compiled and documented. Contractors briefed on operational; hazards and procedures reviewed on a regular basis. Specific Task Analysis will be completed before demolition of the old reservoir begins.
<u>Te Aroha to Matamata Cycleway</u> Level of funding required – to secure MBIE funding. Currently have \$3m in budget and need to obtain rest from external sources like Ministry of Business Innovation and Employment	Design trail to align with MBIE criteria for 'great ride' so that it can qualify to receive funding. eg. break up big straights.
Easement over private land to secure route – Project could halt if land owner does not agree to easement or land purchase as not alternative route	Land owners agreement obtained prior to final commitment from Council to advance project to physical construction. Have now signed up all critical land owners apart from one property owners for which land purchase or easement is desirable.

Attachments

There are no attachments for this report.

Signatories

Author(s)	Armindeep Singh EA to Group Manager Service Delivery	
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Approved by	Fiona Vessey Group Manager Service Delivery	
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Policy Review

Trim No.: 1982730

Executive Summary

Audit and Risk Chair to talk to requirements of a summary of all policies approved by Council.

Recommendation

That:

1. The information be received.

Attachments

There are no attachments for this report.

Signatories

Author(s)	Vicky Oosthoek Corporate Strategy Administration Officer	
Approved by	Michelle Staines-Hawthorne Corporate Strategy Manager	
	Don McLeod Chief Executive Officer	

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

The following motion is submitted for consideration:

That the public be excluded 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 Weathertight Building Claims Update

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)(g) - The withholding of the information is necessary to maintain legal professional privilege. . s7(2)(i) - The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations). .	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.