



AGENDA

Audit and Risk Committee Meeting Tuesday, 16 June 2020

Date Tuesday, 16 June 2020

Time 11am

Location Meeting Room 1
Timaru District Council
King George Place
Timaru

File Reference 1345572

Timaru District Council

Notice is hereby given that a meeting of the Audit and Risk Committee will be held in the Meeting Room 1, Timaru District Council, King George Place, Timaru, on Tuesday 16 June 2020, at 11am.

Audit and Risk Committee Members

Clrs Keiran Horne (Chairperson), Peter Burt (Deputy Chairperson), Nigel Bowen, Allan Booth and Stu Piddington

Quorum – no less than 2 members

Local Authorities (Members' Interests) Act 1968

Subcommittee members are reminded that if you have a pecuniary interest in any item on the agenda, then you must declare this interest and refrain from discussing or voting on this item, and are advised to withdraw from the meeting table.

Donna Cross
Group Manager Commercial and Strategy

Order Of Business

| | | |
|-----------|--|------------|
| 1 | Apologies | 5 |
| 2 | Identification of Items of Urgent Business..... | 5 |
| 3 | Identification of Matters of a Minor Nature | 5 |
| 4 | Declaration of Conflicts of Interest | 5 |
| 5 | Confirmation of Minutes | 6 |
| 5.1 | Minutes of the Audit and Risk Committee Meeting held on 31 March 2020..... | 6 |
| 6 | Reports | 14 |
| 6.1 | Work Programme | 14 |
| 6.2 | Corporate Risk Register | 16 |
| 6.3 | Recommendations from Review of Risk Management Framework - Implementation Plan | 32 |
| 6.4 | Probity Update | 50 |
| 6.5 | Draft Audit and Risk Committee Charter | 53 |
| 6.6 | Health and Safety Update | 62 |
| 6.7 | Draft Internal Audit Plan | 66 |
| 6.8 | Water Infrastructure Asset Revaluation Project | 71 |
| 6.9 | Accounting Policies for 2019/20 Annual Report | 78 |
| 6.10 | Audit NZ Audit Plan 2019/20..... | 92 |
| 7 | Consideration of Urgent Business Items..... | 114 |
| 8 | Consideration of Minor Nature Matters..... | 114 |
| 9 | Exclusion of the Public..... | 115 |
| 10 | Public Excluded Reports..... | 119 |
| 10.1 | Public Excluded Minutes of the Audit and Risk Committee Meeting held on 31 March 2020 | 119 |
| 10.2 | Cyber Security Report..... | 119 |
| 10.3 | Oustanding items raised by audits | 119 |
| 10.4 | Legal update | 119 |
| 10.5 | Insurance renewal | 119 |
| 10.6 | Employee Matters | 119 |
| 10.7 | Committee and Auditor only time (agenda placeholder) | 119 |
| 10.8 | Committe and Chief Executive only time (agenda placeholder) | 119 |
| 11 | Readmittance of the Public..... | 120 |

- 1 Apologies**
- 2 Identification of Items of Urgent Business**
- 3 Identification of Matters of a Minor Nature**
- 4 Declaration of Conflicts of Interest**

5 Confirmation of Minutes

5.1 Minutes of the Audit and Risk Committee Meeting held on 31 March 2020

Author: Jo Doyle, Governance Advisor

Recommendation

That the Minutes of the Audit and Risk Committee Meeting held on 31 March 2020 be confirmed as a true and correct record of that meeting.

Attachments

- 1. Minutes of the Audit and Risk Committee Meeting held on 31 March 2020**



MINUTES

Audit and Risk Committee Meeting Tuesday, 31 March 2020

Ref: 1345572

**Minutes of Timaru District Council
Audit and Risk Committee Meeting
Held via Zoom Video Link
on Tuesday, 31 March 2020 at 11am**

Present: Ms Keiran Horne (Chairperson), Cr Peter Burt (Deputy Chairperson), Mayor Nigel Bowen, Cr Allan Booth, Cr Stu Piddington

In Attendance: Chief Executive (Bede Carran), Chief Information Officer (Justin Bagust), Chief Financial Officer (David Codyre), Director Audit New Zealand (John Mackey), Risk and Assurance Manager (Ernest Bernard), Senior Advisor People and Capability (Hannah Goddard), Governance Advisor (Jo Doyle), Governance Support Officer (Joanne Brownie)

1 Apologies

There were no apologies.

2 Identification of Items of Urgent Business

There were no items of urgent business.

3 Identification of Matters of a Minor Nature

There were no matters of a minor nature.

4 Declaration of Conflicts of Interest

There were no conflicts of interest declared.

5 Confirmation of Minutes

5.1 Minutes of the Audit and Risk Committee Meeting held on 3 December 2019

Committee Resolution 2020/23

Moved: Ms Keiran Horne

Seconded: Mayor Nigel Bowen

That the Minutes of the Audit and Risk Committee Meeting held on 3 December 2019 be confirmed as a true and correct record of that meeting.

Carried

6 Reports

Focus for Today's Meeting

The Chairperson advised that due to the Covid-19 crisis, the reports in the agenda will be taken as read, unless committee members wish to raise any particular issues contained in the reports. Covid-19 issues will be discussed in a workshop immediately following the meeting.

6.1 Authorised Minutes of 2 October 2019

The minutes of 2 October 2019, which were authorised at the conclusion of the triennium by the Chief Executive and Chairperson of the Audit and Risk Committee as a true and correct record, were noted.

6.2 Work Programme

The work programme items not covered in today's shortened meeting will be carried over until the scheduled meeting in June unless an additional meeting is convened if required, in the interim.

The report was noted.

6.3 Health and Safety Update

An update on health and safety activity since the last report to the Audit and Risk Subcommittee in December 2019 was considered.

The report was noted.

6.4 Corporate Risk Register

The Corporate Risk Register was noted and the Chairperson suggested that a separate risk report could be expected as a result of the Covid-19 crisis.

7 Consideration of Urgent Business Items

There were no urgent business items.

8 Consideration of Minor Nature Matters

There were no minor nature matters.

9 Exclusion of the Public

Committee Resolution 2020/24

Moved: Ms Keiran Horne

Seconded: Mayor Nigel Bowen

That the public be excluded from the following parts of the proceedings of this meeting on the grounds under section 48 of the Local Government Official Information and Meetings Act 1987 as follows:

| General subject of each matter to be considered | Reason for passing this resolution in relation to each matter | Plain English Reason |
|--|---|--|
| <p>10.1 - Public Excluded Minutes of the Audit and Risk Committee Meeting held on 3 December 2019</p> | <p>s7(2)(b)(ii) - The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information</p> <p>s7(2)(g) - The withholding of the information is necessary to maintain legal professional privilege</p> <p>s7(2)(i) - The withholding of the information is necessary to enable the Council to carry out, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)</p> | <p>Commercial sensitivity</p> <p>To protect all communications between a legal adviser and clients from being disclosed without the permission of the client.</p> <p>To enable commercial or industrial negotiations</p> |
| <p>10.2 - Authorised Public Excluded Minutes of 2 October 2019</p> | <p>s7(2)(a) - The withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons</p> <p>s7(2)(b)(ii) - The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information</p> <p>s7(2)(c)(i) - The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to</p> | <p>To protect a person's privacy</p> <p>Commercial sensitivity</p> <p>Due to an obligation of confidence and to ensure the information avenue remains open, when it is in the public interest for it to do so</p> <p>Due to an obligation of confidence and to protect the public interest</p> <p>To protect all communications between a legal adviser and clients from being disclosed without the permission of the client.</p> <p>To enable commercial activities</p> <p>To enable commercial or industrial negotiations</p> |

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| | <p>prejudice the supply of similar information, or information from the same source and is in the public interest that such information should continue to be supplied</p> <p>s7(2)(c)(ii) - The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest</p> <p>s7(2)(g) - The withholding of the information is necessary to maintain legal professional privilege</p> <p>s7(2)(h) - The withholding of the information is necessary to enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities</p> <p>s7(2)(i) - The withholding of the information is necessary to enable the Council to carry out, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)</p> | |
| <p>10.3 - Upcoming insurance renewal (to be tabled)</p> | <p>s7(2)(c)(i) - The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source and is in the public interest that such</p> | <p>Due to an obligation of confidence and to ensure the information avenue remains open, when it is in the public interest for it to do so</p> <p>To enable commercial activities</p> |

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| | <p>information should continue to be supplied</p> <p>s7(2)(h) - The withholding of the information is necessary to enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities</p> | |
| 10.4 - Legal update | <p>s7(2)(b)(ii) - The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information</p> <p>s7(2)(g) - The withholding of the information is necessary to maintain legal professional privilege</p> <p>s7(2)(i) - The withholding of the information is necessary to enable the Council to carry out, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)</p> | <p>Commercial sensitivity</p> <p>To protect all communications between a legal adviser and clients from being disclosed without the permission of the client.</p> <p>To enable commercial or industrial negotiations</p> |
| 10.5 - Cyber Security Report | <p>s7(2)(b)(ii) - The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information</p> | <p>Commercial sensitivity</p> |
| 10.6 - Employee Matters | <p>s7(2)(a) - The withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons</p> | <p>To protect a person's privacy</p> |
| 10.7 – Audit NZ - draft management report from 2018/19 Annual Report Audit | <p>s7(2)(h) - The withholding of the information is necessary to enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities</p> | <p>To enable commercial activities</p> |

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| 10.8 - Credit Rating Review | s7(2)(h) - The withholding of the information is necessary to enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities | To enable commercial activities |
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Carried

Committee Resolution 2020/25

Moved: Ms Keiran Horne

Seconded: Cr Peter Burt

That Council moves out of Closed Council into Open Council.

Carried

10 Public Excluded Reports

10.1 Public Excluded Minutes of the Audit and Risk Committee Meeting held on 3 December 2019

10.2 Authorised Public Excluded Minutes of 2 October 2019

10.3 Upcoming insurance renewal (to be tabled)

10.4 Legal update

10.5 Cyber Security Report

10.6 Employee Matters

10.7 Audit NZ - draft management report from 2018/19 Annual Report Audit

10.8 Credit Rating Review

11 Readmittance of the Public

The meeting closed at 11.40am.

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Chairperson

6 Reports

6.1 Work Programme

Author: Donna Cross, Group Manager Commercial and Strategy

Authoriser: Donna Cross, Group Manager Commercial and Strategy

Recommendation

That the report be noted and received.

Purpose of Report

- 1 This report is to update and outline the programme of work (below) for the Committee.
- 2 This will be updated on a 12 month rolling basis and included with every agenda.

| Work Programme | | | | |
|---|----------------|-----|-----|-----------------|
| | Jun | Oct | Dec | Mar |
| <i>Public items</i> | | | | |
| Risk register – top risks (6 monthly) | ✓ | ✓ | ✓ | ✓ |
| COVID-19 risks | ✓ | | | |
| Risk register – all risks (annually) | | ✓ | | |
| Health and safety update (quarterly) | ✓ | ✓ | ✓ | ✓ |
| Tax risk management report (annually) | | | ✓ | |
| Internal audit and assurance programme (annually) | ✓ | | | |
| Audit plan and engagement letters (annually) | ✓ | | | |
| Audit management report (annually) | | | ✓ | |
| Accounting policy review (annually) | ✓ | | | |
| Probity update | ✓ | ✓ | ✓ | ✓ |
| Risk Management Framework Review - Implementation | ✓ | | | |
| Draft Internal Audit Charter | ✓ | | | |
| Asset Revaluation Project | ✓ | | | |
| <i>Public excluded items</i> | | | | |
| Health and safety update (quarterly) | ✓ | ✓ | ✓ | ✓ |
| Legal update (quarterly) | ✓ | ✓ | ✓ | ✓ |
| Cyber Security Report | ✓ | ✓ | ✓ | ✓ |
| Outstanding items raised by audits | ✓ | ✓ | ✓ | ✓ |
| Draft annual report review (annually) | | ✓ | | |
| Review audit representation letters (annually) | | ✓ | | |
| Insurance renewal (annually) | ✓ (endorse) | | | ✓ (strategy) |
| Credit rating review | | | | ✓ |
| Employee matters | ✓ | | | |
| Auditor only time | ✓ | ✓ | ✓ | ✓ |
| CE only time | ✓ | ✓ | ✓ | ✓ |

Attachments

Nil

6.2 Corporate Risk Register

Author: Ernest Bernard, Risk and Assurance Manager

Authoriser: Donna Cross, Group Manager Commercial and Strategy

Recommendation

That the report be received and noted.

Purpose of Report

- 1 This report is to provide an update on the Corporate Risk Register.

Background

- 2 The Corporate Risk Register has been previously populated through discussions between Tier 1, 2 & 3 Managers.
- 3 A workshop is being held with Council and the Audit and Risk Committee members on 16 June to refresh and re-focus the Corporate Risk Register. The risk register will be updated further as part of this. There is also a programme of work in relation to Council's wider Risk Management Framework.
- 4 Also included in this report is a high level view of some of the risks presented by COVID-19 (with further commentary on COVID-19 in the health and safety report).

Attachments

1. **Corporate Risk Register**  
2. **Risk Summary - Covid 19**  

| Register of Corporate Risks | | | | | | | |
|---|--|---|---|------------|-------------|---------------|--|
| Risk Number | Specific Risks Identified | Possible Effects | Mitigation measures currently in place | Likelihood | Consequence | Residual Risk | Areas for development |
| Achievement of the Vision and Community Outcomes | | | | | | | |
| 61 | Failure to deliver capital works programme set out in the Long Term Plan/Annual Plan | Not meeting service levels, not aligning rates funding with project delivery, project complexities and dependencies leading to cost escalation, expected timeframes not being met | Specific accountabilities introduced into Group Manager role and additional resource for new unit manager roles for capital delivery, risk and assurance and business systems improvement to ensure best project management practices are embedded and observed. Finance capability to assist with budgeting and cost management. Building Programme delivery function to improve project planning and project management, risk management function to ensure effective risk management within projects. Dedicated and skilled project manager (with construction experience) in place for Art Gallery strengthening project and | 4 | 4 | High | Lifting organisation wide project management capability (people and systems). Ensure project performance through good project management, risk management and cost management. Robust planning, budgeting and cost management. Review resource requirements within key projects. |

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| | | | <p>Library Roof project. Internal project managers in place for other current capital projects and district plan project. Project control group in place for Pareora pipeline renewal. Appointment of external project manager for external project manager for Theatre Royal/Heritage Centre project imminent through current open procurement process.</p> <p>Better scheduling of project delivery to align with resource availability.</p> <p>Factor in/account for the impact of historical non-delivery and carry forwards</p> <p>Set realistic goals and expectations with Governance</p> <p>Working through projects and project risks with newly elected Councillors to assist with progression of the committed capital projects.</p> <p>Programme Delivery Team actively working with project sponsors and</p> | | | |
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| | | | project teams in relation to acceleration within programmes and projects, introduce agile methodologies, and to reduce barriers to project delivery. Feasibility assessments in relation to programme for 2020/21. | | | | |
| 2 | Ineffective organisation planning and budgeting processes (LTP/Annual Plan/Activity Management Plans/Projects/District Plan) | Difficulties in maintaining levels of service and delivering LTP/Annual work programme, increased costs/financial loss, loss of reputation, community dissatisfaction, staff morale/turnover | <p>Good LTP and Annual Plan expertise and development processes – highly skilled Corporate Planning team. Regular reporting against LTP and Annual Plan, review of capital projects. Monitoring of AMP work improvement plan delivery. Recruiting for Programme Delivery Manager.</p> <p>Review planning, maturity, processes and effectiveness</p> <p>Identify areas for development, and develop programme for improvement</p> <p>Review major understanding and use of these tools, knowledge and ability to deliver</p> | 3 | 2 | High | <p>Develop improved financial systems /processes for LTP and Annual Plan.</p> <p>Deliver capex plan. Project management training and support. Development of improvement programmes yet to be completed</p> <p>See 61 below regarding key LTP projects.</p> |

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| 5 | Physical disasters and pandemics | Inability to deal with a major incident, difficulties in maintaining levels of service, financial loss, injuries/death, damage to property and infrastructure, ineffective emergency management | <p>Lifelines project (being led by Group CDEM), Civil defence and Emergency Management team, ongoing staff training, insurance, physical means (such as fire fighting equipment), specialised and trained technical staff and volunteers, health & safety policy</p> <p>Business Continuity Plans/Disaster Recovery</p> <p>Staff training and back up tutorials</p> <p>Preparedness</p> <p>“Live” test on work from home</p> | 2 | 4 | High | <p>Robust business continuity planning.</p> <p>CD staffing to be reviewed.</p> <p>CD Recovery Plan</p> <p>Recommendations from CD Controller training to be implemented.</p> <p>Work within Canterbury Group to be reviewed.</p> <p>Communication plans/or a Welfare Plan (80%).</p> <p>Resilience planning for people and assets at TDC.</p> <p>STEC as lead welfare centre now well established.</p> <p>Obtaining EPB assessments for STEC and Civic.</p> <p>Review resource requirements (starting to train external volunteers to back up our EOC).</p> |
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| 7 | Climate change | Change in or loss of infrastructure development, economic impacts, increased compliance costs or restrictions on operations [impact on local industries and economy also noted] | Monitoring of inundation projections, overland flow paths, network capacity, rising sea levels and their impact on coastal settlement, communication with Ecan, monitoring zoning | 3 | 4 | High | Activity management plans (AMPs) to continue to be developed to identify how to enhance resilience in networked and community infrastructure Climate change strategy work initiated. Factor into next LTP. Mitigation through District Plan. |
| Financial | | | | | | | |
| 16 | Insufficient and/or ineffective insurance cover | Financial loss, loss of reputation, possible impacts on ability to provide expected levels of service | Use of insurance broker, valuations for insurance purposes, regular reviews of assets insured, participant in LAPP, Local Government Risk Agency being considered, staff training on obligations to insurer to observe terms of the policy. | 2 | 4 | High | Council workshop to strategically review future property/insurance requirements |
| Health and Safety (Customers, public, staff, contractors and elected members) | | | | | | | |

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|----|--|--|---|--------|--------|------|--|
| 20 | Death or serious injury to public, staff, volunteers, contractors or elected members | Injury, Death, legal action, financial loss, reputational damage, major disruption at facilities | <p>Health and Safety policies and procedures, Health and Safety Committee, Health and Safety advisor, external advisors, staff and volunteer training, contractor engagement procedures, risk registers, relevant controls, internal audits and verification</p> <p>Driving and vehicle monitoring policy in place.</p> <p>Site specific risk plans as appropriate.</p> <p>Increased membership of Health and Safety Committee and increased training and task allocation across the wider business.</p> <p>Standard Operating Procedures (SOP's)</p> <p>Improve due diligence and notification of activity – shift culture to have a greater focus on behavior instead of the paper.</p> | 2 3 | 5 4 | High | <p>To review the structure of the current Health and Safety Committee to better align with Act? Done</p> <p>Currently updating the H&S manual to the NZS45001 standard. This includes revitalising policies, procedures, permits to work, standard operating procedures and verification activity.</p> <p>Confirmation of new supplier of vehicle monitoring systems imminent. Manual H&S processes in place in interim.</p> |
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| 21 | Physical attacks against staff | Abuse, Injury, death | Physical security measures, staff training (ongoing), security cameras, panic alarms, office lockdown procedures, regular checks of at risk staff and procedures, debrief in case of near miss. Case by case risk assessment. | 3 | 3 | High | Sites outside of TDC main office still need reviews/upgrades. The key sites outside of the main building have been assessed and security measures implemented. Further site assessments are ongoing. Security cameras and updated processes in place at Timaru Library. |
| 22 | Minor Public injuries at Council facilities | Injury, legal action, financial loss, reputational damage, loss of ACC accreditation | Health and Safety policies and procedures, by-laws, "Pool Safe" policy, staff and volunteer training, contractor engagement procedures, hazard registers, monitoring, signage, external reviews, auditing of facilities, building and facility maintenance programmes, defibrillators, access to specialised services, updated hire agreements | 5 | 2 | High | On site H and S team being implemented at CBAY as a higher risk facility. |

| Service Delivery to the Community | | | | | | | |
|-----------------------------------|--|--|---|---|---|------|--|
| 25 | Failure of water supply systems, including inability to obtain sufficient water or provide safe drinking water | Illnesses, death, loss of reputation, financial loss, difficulties in meeting level of service, Government inquiries | Activity Management Plan, Infrastructure Strategy, Documented procedures, qualified staff, testing programmes, physical security, industry standards, Water Safety Plans, contract specifications, telemetry systems, insurance, public education, monitoring possible water sources, water restrictions, liaison with high water users, Business Continuity Planning, Health and Safety Policy, Bylaws | 2 | 5 | High | |
| 26 | Failure of sewerage systems | Illnesses, death, abatement notices, prosecution, loss of reputation, financial loss, difficulties in meeting level of service, adverse environmental impact | Activity Management Plan, Infrastructure Strategy, Documented procedures, qualified staff, testing and monitoring programmes, physical security, industry standards, contract specifications, telemetry systems, insurance, public education, Business Continuity Planning, Health and Safety Policy, Bylaws | 1 | 5 | High | |

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| 27 | Inadequacy of stormwater systems | Illness, death, abatement notices, prosecution, loss of reputation, financial loss, difficulties in meeting level of service, flooding | Activity Management Plan, Infrastructure Strategy, Documented procedures, qualified staff, testing and monitoring programmes, physical security, industry standards, contract specifications, telemetry systems, insurance, public education, Business Continuity Planning Significant investment through LTP in relation to stormwater systems. | 2 | 4 | High | |
| 32 | Sabotage or vandalism at multiple locations or severe in nature | Death, Injury, Financial loss, loss of services, difficulties in maintaining level of service, loss of reputation | Physical security, surveillance cameras in some locations, physical deterrents/locking of some facilities, staff monitoring, zero tolerance approach, insurance | 2 4 | 4 2 | High | Further security improvements at critical sites. |
| 33 | Power and/or telecommunication failures | Difficulties in maintaining level of service, financial loss | Generators at critical sites, UPS for critical IT equipment, cellphones, landline and wireless networks, engagement with key suppliers | 3 | 3 | High | Generator being added at STEC. Generator in place, instructions on use in place, training conducted with staff at STEC and Welfare team. Looking at diesel storage onsite. Strengthening of |

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| | | | | | | | <p>Civic Building - EOC to IL4.</p> <p>Be active members of Lifelines project. Create business continuity plans to ensure sufficient power generation for at least 5 days.</p> <p>Develop 'capability' list at various sites (where do we have back up)</p> |
| 34 | IT failures (including on line applications used and cyber attacks) | Difficulties in maintaining levels of service, financial loss, loss of data and information, altered or corrupted records, privacy breach, reputational loss | <p>Regular backups and off site storage of backups, passwords, external reviews, IT policies, Business Continuity Plan, discussions with suppliers, regular maintenance of equipment including upgrades, multiple redundancies, latest cyber security suites, firewalls, staff security requirements, staff training and awareness</p> <p>Information breach or loss of data – Information management strategy</p> <p>Cyber security review and actions</p> | 2 | 5 | High | <p>Review business continuity plans. Ongoing maintenance of cyber security measures, including regular updates, patches and training. Ongoing awareness of international trends and threats. Ongoing review of internal compliance measures.</p> |

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| | | | <p>Maturity with cyber security</p> <p>Staff training ongoing</p> | | | | |
| Organisational Capability and Capacity | | | | | | | |
| 37 | Staff mistakes or staff providing incorrect advice | Legal challenge, financial loss, damage to Council reputation | <p>Staff training, Corporate Policies, Delegations, insurance, legal advice sought where appropriate.</p> <p>Peer/management review of outputs and reports.</p> <p>Performance framework, coaching and staff development</p> <p>Assessment, monitor, review, discuss and develop</p> | 3 | 3 | High | <p>Documented procedures in high risk areas. Continuous improvement culture development process at debrief following poor decision making to share learnings and update processes.</p> <p>Quality assurance framework to be developed under Risk and Assurance function.</p> |
| 39 | Loss of institutional knowledge | <p>Failure to meet statutory obligations or key Council accountabilities as set out in performance measures due to the loss of knowledge and know-how from departure of key staff.</p> <p>Reduced engagement could be an affect that increases churn rate of staff.</p> | <p>Documenting processes and systems, mentoring and training and development for all staff, increased substantially the accountability and capability within the finance team</p> | 3 | 3 | High | <p>Documented procedures in high risk areas as a priority. Managers have implemented succession and retention planning activity as required. Completed a Talent Matrix assessment to identify key staff.</p> |

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| 42 | Council buildings deemed to be unusable | Difficulties in meeting levels of service, financial loss, low staff morale | Assessments being undertaken, remediation plans being developed, additional resource engaged, ability to relocate services if needed, remote access availability, budget included within 2018-28 draft LTP for structural work on known Earthquake Prone buildings | 3 | 3 | High | Ongoing strengthening programme to be considered in next LTP. EPB strategy and programme for TDC owned buildings to be finalised, including for IL3 and IL4, EOC buildings. |
| Legislative/Regulatory Compliance | | | | | | | |
| 48 | Failure to comply with Legislation | Prosecution, financial loss, loss of reputation, modified audit opinions, requirement for rectifying legislation | Legal and other specialist advice sought as required, use of SOLGM Legislative Compliance programme, Tax Policies and procedures, qualified staff, staff and elected member training, external reviews | 3 | 3 | High | Activity and Reserve Management Plans (including legislative compliance obligations), Ongoing legislative training, Documentation of critical processes, Use of software such as ComplyWith Development statutory compliance framework under Risk and Assurance |

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| | | | | | | | programme (for implementation across the organisation), subject to approval of business case. |
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| Risk # | Risk Title | Risk Description | Causes | Consequences |
|--------|---|---|---|---|
| 1 | Extension/return to, or changes to alert levels and lockdown | <p>There is risk that:</p> <ul style="list-style-type: none"> The lockdown is extended or re-introduced by central government, through a cycle back to alert 4; or The criteria for operating under lower alert levels are changed to require more stringent remote working environments for extended timeframes; Loss of revenue (e.g. if facilities required to close or restrict capacity). | <ul style="list-style-type: none"> Current social/physical distancing measures become unsuccessful (through either social irresponsibility or change in virus facts/evolution such as timeframes it remains active on surfaces). Border controls are opened too early to enable tourism or BAU to operate. Leading to reinfection/second wave and increases in COVID-19 cases, with potential staff cases. | <p>This would impact Council in a number of ways including:</p> <ul style="list-style-type: none"> This risk would heighten/cause risks #2 & 3. I.e. Delays to capital programme, staff/stakeholder wellbeing. Compromised remote working environment through impacts on IT team and supply-chain infrastructure/resourcing. Broad Council objectives/LTP are not achieved Reputation and regulatory consequences. |
| 2 | Capital programme suffers significant delays | <p>There is a risk that:</p> <ul style="list-style-type: none"> A number of significant and important capital projects are delayed for extended periods. Shovel ready projects funded by central government are delayed or forced to defer. | <ul style="list-style-type: none"> Risks #1 & 3 cause this risk i.e.: Lockdown extensions/changes and Significant impact on staff/stakeholder wellbeing. We are dependent on external providers, and overseas suppliers and supply chains, that ultimately fail or delay in resource delivery Quality of supply materials suffers due to materials being sourced from countries impacted significantly from COVID, such as US and China (supply QA severely impacted). Council fail to effectively manage capital project restarts and shovel-ready projects | <p>This would impact Council in a number of ways, including:</p> <ul style="list-style-type: none"> This could cause/lead to Risks #4 and 5, i.e. delayed regional recovery and Councils effective recovery. <p>Capital project delays cause:</p> <ul style="list-style-type: none"> Increased financial costs Council unable to support contractors and contribute to economic reignition Affects capital maintenance programme and levels of service Reputation and environmental consequences. Crown project funding withdrawal |
| 3 | Significant impact on Staff/Stakeholder health and wellbeing. | <p>There is a risk that:</p> <ul style="list-style-type: none"> Increased adverse impact on staff/stakeholder well being, mental health issues/relationship problems/domestic violence and family ill health/poor wellbeing concerns loss of staff engagement and resignation of competent staff (looking for other jobs) | <ul style="list-style-type: none"> Risks #1, 4, 5 could cause this risk: i.e. extension of lockdown, delayed/extended economic recovery, Council failing to effectively recover. Perception and/or requirement for significant cost reduction within Council, impacting on staff salaries/numbers. Council dependency on Tourism leaving an extended financial shortfall in operational funding. Exacerbation of existing negative economic, social, community and environmental trends (especially on vulnerable/at risk community members - lower income/education success communities/poor health outcomes from pandemic closedown and lack of community/business/social activity during closedown period. | <p>This would impact Council in a number of ways, including:</p> <ul style="list-style-type: none"> Increased dependency on central/local government welfare services/support and increased requirement for funding for community development programmes and/or increased funding sought for continuing community wellbeing/welfare initiatives and social organisations/support services Significant reduction on staff engagement & productive/effective Council operations, with consequences extended broadly to Council objectives/LTP. |

| Risk # | Risk Title | Risk Description | Causes | Consequences |
|--------|---|--|--|---|
| 4 | Delayed/extended economic national & regional recovery | <p>There is a risk that:</p> <ul style="list-style-type: none"> National and regional economic recovery is delayed and extended beyond predictions.. | <ul style="list-style-type: none"> Risks #1 & 5 i.e. extended lockdown and Councils agile/effective recovery (circular relationship) Lack of focus by Central Government on development/coordination of onshore core/essential resource/manufacturing/primary industry jobs, whilst maintaining closed borders for up to 12 months (Treasury Scenario 1) Government maintaining closed borders for up to 12 months (Treasury Scenario 1), leading to lack of tourists and overseas students Exacerbation of existing negative economic, social, community and environmental trends (especially on vulnerable/at risk community members - lower income/education success communities/poor health outcomes from pandemic closedown and lack of community/business/social activity during closedown period. Over-dependency on Tourism spend in Christchurch (Domestic \$1.8Bn/International \$1.2Bn in 2019) leaving up to potential \$2.5Bn shortfall in Christchurch economy/income (with a 10 month border closedown), and related inability to service needs of local population. Over-dependency on overseas student revenue (9.4% of overseas students in 2018), leaving up to a potential \$470m pa shortfall in Christchurch economy/income, and related inability to service needs of local population. | <p>This would impact Council in a number of ways, including:</p> <ul style="list-style-type: none"> This could cause/lead to Risks #2, 3 and 5, i.e. Capital programme delay, Significant wellbeing impact & Councils agile/effective recovery. Breakdown in coordination between government departments and Council, leaving gaps in support services and communication/engagement with vulnerable/at-risk community members |
| 5 | Council fails to be agile and effectively respond/recover | <p>There is a risk that:</p> <ul style="list-style-type: none"> Council fails to effectively and responsibly respond to the pandemic situation, considering its regional leadership role, and longer term consequences. Council decision making fails to adequately consult or seek/inform decisions through planning, strategy and underpinning principles. | <ul style="list-style-type: none"> Risks #1 & 4, i.e. extended lockdown and delayed economic national/regional recovery. Emphasis on short term cost reduction and broad citizen financial relief, without sufficient broader and longer term considerations, such as factoring availability of central government hardship relief, loan ratio requirements or influence based on incomplete advice, Lack of review/re-assessment/re-alignment of performance measures/goals and KPIs in light of post-COVID19 requirements | <p>This would impact Council in a number of ways, including:</p> <ul style="list-style-type: none"> This could cause/lead to Risks #2 & 3. I.e. Capital programm delay and Significant staff/stakeholder wellbeing impacts. Rushed decisions - uneconomic and/or ineffective decisions which have longer-term significant impacts financially economically and socially on Councils operations and Christchurch region. |
| 6 | Impact on existing work programme | <p>There is a risk that:</p> <ul style="list-style-type: none"> Council's existing work programme is impacted by the redirection of resources to address Covid-19 related responses and that existing significant workstreams fall behind in their delivery schedule and dates. | <ul style="list-style-type: none"> Risks #5: Council fails to be agile and effectively respond/recover Council has insufficient resources in some business units to support the increased work load from recalibrating work stream to address Covid-109 implications | <p>This would impact Council in a number of ways, including:</p> <ul style="list-style-type: none"> Jeopardy of delivery within statutory timeframes of key accountability documents such as the Annual Report and the Long term Plan. |

6.3 Recommendations from Review of Risk Management Framework - Implementation Plan

Author: Ernest Bernard, Risk and Assurance Manager
Donna Cross, Group Manager Commercial and Strategy

Authoriser: Donna Cross, Group Manager Commercial and Strategy

Recommendation

That the Committee:

1. Receives and notes the report;
2. Approves the proposed implementation plan attached in relation to the implementation of the recommendations from the review of Timaru District Council's risk management framework;
3. Approves the proposal in paragraph 9.1 relating to Council's engagement on risk and how risk is reported to Council; and
4. Approves the proposal in paragraph 9.2 relating to the level of risk to be included in the corporate risk register that is reported to the Committee.

Purpose of Report

- 1 The purpose of this report is to provide the Audit and Risk Committee an implementation plan to action the recommendations received from the review carried out on Timaru District Council's (TDC's) Risk Management Framework.

Assessment of Significance

- 2 Low.

Discussion

- 3 At the end of 2019 we carried out a review of TDC's Risk Management Framework. This was carried out with the assistance of risk management experts Navigatus Consulting.
- 4 The review identified a number of enhancements for TDC to consider to ensure risk management adds greater value to the organisation, in three main areas:
 - 4.1 Clarification of the scope of risk management activities;
 - 4.2 Enhancement of the risk management process; and
 - 4.3 Refinement of the Risk Management Policy and development of guidelines for risk management.
- 5 The recommendations from that review were approved by the Committee in December 2019. The report is attached for the Committee's reference.
- 6 The Risk and Assurance Manager commenced with TDC in early 2020. The Group Manager Commercial and Strategy is accountable for the implementation of the recommendations from the review, with the Risk and Assurance Manager being responsible.

7 The proposed plan for the implementation of the recommendations from the review is attached.

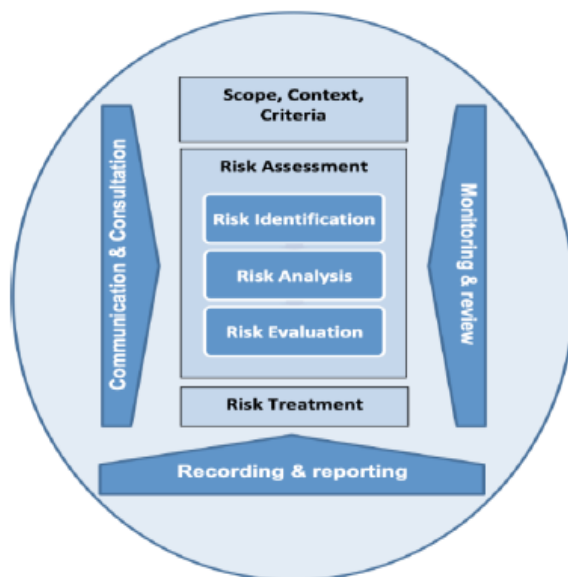
8 There are two items that ought to be considered and endorsed by the Committee on 16 June, namely Council’s engagement on risk and the level of risk that is included in the corporate risk register that is reported to Council.

9 Officers propose:

9.1 Council’s engagement on risk:

- a. Council and the Senior Leadership Team work together to identify and consider key strategic risks. Initially this will occur via a workshop to be held on 16 June, followed by periodic deep dives. Note the initial risk identification is being carried out in conjunction with Council’s review of its strategic outcomes for the purpose of the next Long Term Plan, which is consistent with the review recommendations.
- b. Council considers and provides guidance on Council’s risk appetite or risk tolerance, to help guide operations. Initially this will occur via a workshop to be held on 16 June, and periodically reviewed.
- c. Council endorses the ISO 31000:2018 Risk Management Guidelines, which outlines the risk management process as below, to guide the further development of the TDC risk management framework, policy and supporting guidelines.

ISO 31000:2018 Risk Management Guidelines outlines the risk management process as follows:



d. Council will receive at least quarterly updates on the corporate risk register, following each Audit and Risk Committee Meeting.

9.2 Level of risk to be included in the corporate risk register reported to Council:

- a. The Corporate risk register will focus on top strategic risks. That is risks with a residual risk rating of high or above, that amount to risks to achieving Council’s strategic outcomes. The corporate risk register will include both current and emerging risks.
- b. The corporate risk register will be supplemented by a heat map showing the residual risk profile.

Attachments

1. **Navigatus Consulting - Report for Timaru District Council - Review of Risk Framework**  
2. **Implementation Plan - Recommendations from the Review of Risk Management Framework**
 



Timaru District Council

Review of Risk Management Framework

Prepared for Timaru District Council
by
Navigatus Consulting

25 November 2019

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Quality Control

Prepared by Denise Bovaird

| Revision | Date | Authorised By | |
|--------------------|------------------|---------------|-----------|
| | | Name | Signature |
| Draft for Review | 25 November 2019 | D Bovaird | |
| Final for sign off | 28 November | D Bovaird | |

Table of Contents

1. Executive Summary..... 1

2. Review of risk management 2

3. Observations..... 3

4. Recommendations..... 5

1. Executive Summary

The Timaru District Council (TDC) management have recently initiated a review of TDC's risk management framework as part of their journey for continuous improvement. TDC have requested Navigatus Consulting review TDC's current risk management structures and processes and provide recommendations on enhancements to progress the risk management framework to meet best practice for local government and to ensure it adds value to the process of achieving strategic outcomes.

Navigatus have reviewed documentation that comprises TDC's risk management framework together with Audit and Risk Committee reports and have interviewed a number of senior personnel to establish an understanding of the risk management activities in operation.

From our review it is apparent that TDC's management of risk at a strategic level is still developing. Most formalised risk management activity is centred around a Register of Corporate Risks and involves the Senior Leadership Team (SLT) and Audit and Risk Committee (ARC). The volume of risks included in the Register of Corporate Risks and the detail included does not easily enable prioritisation of risk management activities or a clear focus on TDC's risk profile. Some refinement of the register would enable a more targeted focus on key risks.

A refresh of TDC's risk identification would also enable a refocus on risks to achieving strategic outcomes. Implementing processes to regularly measure, monitor and report on risks and the effective management of risks could make TDC's risk management a more dynamic process that integrates with other business activities and adds value. Navigatus consider there is a lot to be gained from enhancing TDC's risk management process and framework.

Details of the review carried out, key observations and detailed recommendations for enhancements to current risk management activities are outlined in Sections 2 to 4.

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Review of Risk Management Framework

2. Review of risk management

Navigatus Consulting has assessed TDC's current risk management framework and activities through a review of:

- TDC's LTP to understand the context in which risk should operate at TDC
- TDC's Risk Management Policy
- TDC's Register of Corporate Risks and the update on risk included in the papers for the Audit and Risk Subcommittee 2 October 2019 meeting
- A sample of project reports and business cases

A number of personnel were interviewed to understand their role in risk management activities. These included:

CEO, Bede Carran

Donna Cross, GM Commercial and Strategy

David Codrye, CFO

Tracy Tierney, GM Environmental Services

Sharon Taylor, GM Community Services

Ashley Harper, GM Infrastructure

Direct reports to Symon Leggett;

Hannah Goddard-Coles, Senior Human Resources Advisor,

Gillian Fitchat, – Health & Safety Officer

Justin Bagust, CIO

Keiran Horne, Chair Audit and Risk Committee

Our review considered the extent to which the current risk management framework provides TDC with assurance that key risks to achieving its strategic outcomes have been identified and are appropriately managed, how risk management is integrated into all business activities and decision making and whether risk management adds value to the organisation. We also considered the extent to which TDC has implemented best practice risk management processes and principles.

3. Observations

Risk Management Policy

The Risk Management Policy reflects the description of risk management principles and risk management process set out in ISO 31000: 2009 Risk Management guidelines. It also sets out the responsibilities for risk management at various levels of governance and management and outlines the actions and reporting required to respond to a risk based on the assessed severity of the risk. Whilst there are a number of risk management activities in place, with risk assessments and risk treatments considered in activity management plans and project plans it would appear that many of the formal responsibilities in the Risk Management Policy have still to be implemented.

The criteria and scales for assessing the Likelihood and Consequence of risks are set out in Attachments 1 and 2. Some of the descriptions used lack clarity and could benefit from refinement and updating.

A number of personnel considered the Risk Management Policy did not give adequate guidance on how risk management should be operationalised. Usually a risk management policy outlines the objectives, scope and responsibilities for risk management and how it should be integrated into business processes. It may be beneficial for TDC to develop a more streamlined policy and to capture useful information on risk management and how the risk management process operates and is tailored to TDC's needs in a separate risk management guideline.

Register of Corporate Risks

The corporate risk register was compiled in 2015 and is regularly reviewed and updated. It currently includes 62 items.

For each item the register details a risk name, possible effects of the risk should it occur, mitigation measures currently in place, assessment of the likelihood and consequence of the risk occurring and resulting residual risk severity, and areas for development.

The register is periodically reviewed by the SLT and updated to reflect changes that have occurred in any of the areas detailed in the register or in the SLT's understanding of the risk. The updated risk register is then reported to the Audit and Risk Committee.

Compared to other similar organisations TDC's Register of Corporate Risks includes a much larger number of risks. Some of the items are in fact sources and causes of risks rather than an actual risk, and the register also includes a number of items that are more operationally focused than risks to achieving strategic outcomes. For many of the items the real nature of the risk is unclear. This makes it difficult for the SLT to focus on what risks matter most.

There is no indication of how the effectiveness of current mitigation measures are monitored or evidence of implementation plans detailing progress on areas for development. These are essential activities to operationalise risk management. Without this monitoring it is difficult to demonstrate that key risks are being adequately managed.

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Review of Risk Management Framework

From our discussions with members of the SLT it appears that the review of the Register of Corporate Risks does not initiate risk management activities or link to other risk management activities in Council.

To assist in the effective management of risk a risk register needs to:

- Include a description that enables a clear understanding of the risk
- Detail the analysis of the risk including the sources and causes of the risk and the potential consequences should the risk occur
- Identify specific and targeted controls considered appropriate for managing the risks
- Detail mechanisms and indicators to measure and monitor the effectiveness of the controls

The use of a risk map to provide a diagrammatic overview of TDC's risks could also enhance the overall understanding of TDC's risk profile.

Risk management activities

Currently, the main 'formalised' risk management activity is the review of the Register of Corporate Risks by the SLT and the ARC.

It was evident however from our review that risk is considered in various aspects of decision making and management activity. Project plans, business cases and activity management plans include risk assessments and risk treatments although each appears to have its own scales for assessing the level of risk.

Discussions with managers in the areas of Infrastructure, Human Resources, Health and Safety and IT, indicate that considerable management of risk occurs at operational level. However, this work is not driven from or linked with the Register of Corporate Risks.

Risk management activities are not linked or integrated into an overall view of risks so that the level of effort expended on managing risk is proportionate to the exposure to the risk. TDC's risk management process does not include all of the activities outlined in ISO 31000 as would be expected in best practice risk management.

A number of risk management activities could be introduced or enhanced including:

- Identification of new and emerging risks at SLT meetings through regular discussions of 'what has changed lately' that might impact our strategic outcomes or risk profile.
- Routine reporting on the effectiveness of controls to manage risks.
- Implementation plans to ensure 'development areas' identified as necessary to enhance the management of risks are properly planned and implementation monitored.
- Periodic in-depth discussions on key risks at both SLT and ARC to ensure a comprehensive understanding of the most severe risks.
- Discussions on risk appetite and establishing a common understanding on the level of risk TDC must and will not take to achieve strategic outcomes.
- Reporting on the overall risk profile to Council.

4. Recommendations

To be effective and add value the risk management framework needs to ensure risk management is a living process integrated into all aspects of organisational activity. At a governance level Council need to be assured that key risks to achieving strategic outcomes have been identified, are clearly understood and are managed to appropriate levels of exposure. At management level the SLT needs to have a clear understanding of key risks and how they should be managed, oversee monitoring of the effectiveness of activities and controls that manage those risks and have mechanisms in place to identify new and emerging risks.

There are a number of enhancements that TDC can consider to ensure risk management adds greater value to the organisation. The key enhancements include:

- Clarification of the scope of risk management activities
- Enhancement of the risk management process
- Refinement of the Risk Management Policy and development of guidelines for risk management

Details of these enhancements are as follows:

Clarification of scope of risk management

As the governing body of TDC Council has ultimate responsibility for management of risk. Currently Council receive details on risk management only through the ARC minutes. Consideration should be given to Councils engagement on risk and how risk is reported to Council. Ideally Council should provide the leadership and mandate for risk management and ensure the principles as set out in ISO 31000:2018 are followed so that risk management creates and protects value.

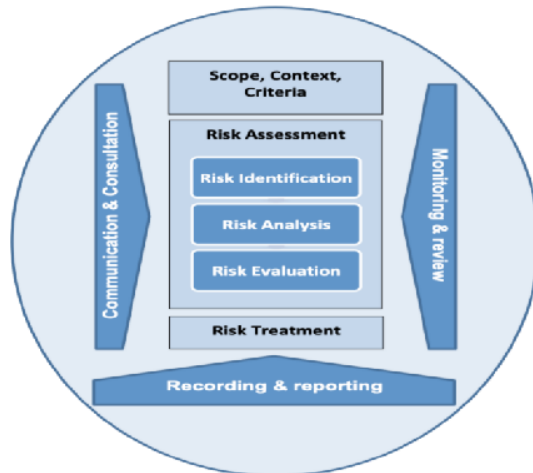
The current Register of Corporate Risks includes a number of risks that other similar organisations would consider 'operational' level risks. Whilst it is important that the SLT and the ARC have assurance that appropriate processes are in place to manage operational risks, their focus should be on the key risks to achieving strategic outcomes. In updating the risk identification (refer below) we recommend the focus be on a more strategic level of risk.

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Review of Risk Management Framework

Enhancement of the risk management process

ISO 31000:2018 Risk Management Guidelines outlines the risk management process as follows:



Navigatus recommends that TDC update and enhance its risk management process to reflect best practices as follows:

- | | |
|---------------------|---|
| Scope and context | Determine the level of risk to be included in the corporate risk identification and the extent to which risk will be reported to Council. |
| Risk identification | <p>It is an appropriate time to refresh the risk identification. We recommend this be a top down process involving senior management with a focus on risks to achieving strategic outcomes. Assistance with this process may enable a better identification of the key risks and fewer risks for the SLT to focus on.</p> <p>Future refreshes of risk identification should be carried out in conjunction with the review of strategic outcomes.</p> <p>The SLT should also establish a mechanism for identifying new and emerging risks e.g. as a regular agenda item at SLT meetings.</p> |
| Risk analysis | Each risk should be properly analysed with the analysis including the sources and causes of the risk and the potential consequences should the risk occur. This will assist with a better understanding of the risk and ensure that risks included in the risk register are risks and not simply causes or sources of risks. A description of the risk can then be developed to ensure a clear understanding of the risk. |

Review of Risk Management Framework

Navigatus

| | |
|-------------------------|--|
| Risk evaluation | <p>The assessment of the consequence and likelihood of each risk enables prioritisation of activities for managing risks and a focus by SLT on what matters most – the most severe risks. The criteria and scales for assessing each risk, as set out in the Risk Management Policy, should be reviewed and updated to ensure they are relevant and easy to use for assessing the risks.</p> <p>TDC should consider whether it wishes to focus on both the inherent (unmanaged) level of risk and residual (managed) level of risk or just residual.</p> <p>The development of a risk map (refer example in Appendix A) would also enable senior management and Council to have a cohesive view of TDC's risk profile.</p> |
| Risk treatment | <p>The Register of Corporate Risks currently lists multiple actions for managing each risk. Many are very generic. Specific and targeted actions for managing each risk should be considered and investigated. In most cases this will result in a few controls rather than a myriad of semi relevant activities. The effectiveness of existing controls should be assessed and where these are considered deficient enhanced controls designed and implemented. Controls that need to be implemented or enhanced should be included on a plan that monitors implementation progress.</p> |
| Monitoring and review | <p>For management to gain assurance that key risks are being adequately managed, the effectiveness of controls needs to be measured and monitored. This is an area of the risk management process that many organisations struggle to do well and yet it is critical to ensure risks are properly managed. Measuring the effectiveness of controls and frequency of measuring them differs from risk to risk and will depend on existing information and monitoring systems. In some cases, the metrics used to measure management of risks are used for other aspects of performance reporting.</p> <p>Establishing this part of the process is an important part of the overall reporting on risk.</p> |
| Recording and reporting | <p>Information from all of the steps outlined above should be recorded in the risk register. Some organisations also find it useful to identify a risk owner who assumes overall responsibility for oversight of the risk.</p> <p>The reporting of risk to the SLT and beyond is a critical part of operationalising risk management. Consideration needs to be given to the frequency of reporting:</p> <ul style="list-style-type: none"> • The risk profile with details and explanations of any changes • The effectiveness of activities to manage risks • The risk register <p>Ideally the reporting on risk should be integrated with other performance reporting.</p> |

7

Navigatus

Review of Risk Management Framework

To ensure an appropriate understanding of key risks, detailed presentations (deep dives) on key risks to the SLT and ARC should occur periodically.

Consultation and Communication

For risk management to be most effective in an organisation a positive risk culture needs to be developed. This can only be achieved when managers and staff understand the key risks to achieving strategic outcomes, the risk management process and the role they play in identifying and managing risk.

The effectiveness of risk management will be enhanced if managers and staff are provided with training that enables them to understand risk management processes better and are kept apprised of risk management processes developed in their area. Consideration should be given to how staff can be upskilled on risk management and how details of the risk management framework as it is developed/ enhanced is shared with management and staff.

Risk Management Policy and Guidelines

We recommend the Risk Management Policy be revised to outline the objectives, scope and responsibilities for risk management and how it should be integrated into business processes. The responsibilities outlined in the current Risk Management Policy should be reviewed to ensure they sit at appropriate levels and are sufficiently specific to ensure a clear understanding of what is required.

Relevant information on risk management frameworks and how the risk management process operates at TDC could be captured in a separate risk management guideline. Details of risk assessment criteria and scales are better included in a guideline document so that the policy does not need to be altered when the scales for assessment are updated.

APPENDIX 1

Example of a risk map showing the residual risk profile



Key - Risk severity



Implementation Plan – Recommendations from the Review of TDC’s Risk Management Framework

| Enhancement | Action | Accountable (A)/Responsible (R) | Timeframe |
|---|--|--|--|
| Clarification of the scope of risk management – determine Council’s engagement on risk and how risk is reported to Council | Discuss and resolve at ARC 16 October 2020 | Group Manager Commercial & Strategy (A) Risk and Assurance Manager (R) | June 2020 (ARC). June 2020 (report to Council). |
| Enhancement of the risk management process – determine the level of risk to be included in the corporate risk identification and the extent to which risk will be reported to Council | Discuss and resolve at ARC 16 October 2020 | Group Manager Commercial & Strategy (A) Risk and Assurance Manager (R) | June 2020 (ARC). June 2020 (report to Council). |
| Enhancement of the risk management process – refresh corporate risk register – including risk identification, analysis, evaluation and treatment | Facilitated workshop with Council, ARC, Senior Leadership Team to identify and assess key strategic risks. | Group Manager Commercial & Strategy (A) Risk and Assurance Manager (R) | June 2020 |
| Enhancement of the risk management process – refresh corporate risk register | Senior Leadership Team and Risk and Assurance Manager to update corporate risk register incorporating Council/ARC workshop outcomes and report back to Council/ARC | Senior Leadership Team (A) Senior Leadership Team, Risk and Assurance Manager (R) | July 2020 |
| Enhancement of the risk management process – monitoring and review | Develop framework to monitor and review key risks | Group Manager Commercial & Strategy (A) Risk and Assurance Manager (R) | By October 2020 (ARC, and report to Council) |
| Enhancement of the risk management process - recording and reporting | Develop framework to update, record and report on key risks, for approval by ARC | Group Manager Commercial & Strategy (A) Risk and Assurance Manager (R) | By October 2020 (ARC, and report to Council) |

| Enhancement | Action | Accountable (A)/Responsible (R) | Timeframe |
|---|---|---|--|
| Enhancement of the risk management process – consultation and communication | Develop and provide internal training programme to build positive risk culture and risk management capability | Group Manager Commercial & Strategy (A) Risk and Assurance Manager (R) Learning and Development Manager (R) | First training sessions to occur by December 2020, then twice yearly |
| Risk management policy and guidelines | Review and revise risk management policy. <ul style="list-style-type: none"> • Revisions to outline the objectives, scope and responsibilities for risk management and how it should be integrated into business processes. • Review responsibilities outlined in the current risk management policy to ensure they sit at appropriate levels and are sufficiently specific to ensure a clear understanding of what is required | Group Manager Commercial & Strategy (A) Risk and Assurance Manager (R) | By October 2020 (ARC/Council) |
| Risk management policy and guidelines | Develop guidelines to support policy <ul style="list-style-type: none"> • Relevant information on risk management frameworks and how the risk management process operates • Details of risk assessment criteria and scales to be included in guideline rather than policy | Group Manager Commercial & Strategy (A) Risk and Assurance Manager (R) | By October 2020 (ARC/Council) |

6.4 Probity Update

Author: Ernest Bernard, Risk and Assurance Manager
Bede Carran, Chief Executive

Authoriser: Bede Carran, Chief Executive

Recommendation

That the report be received and noted.

Purpose of Report

- 1 This report is to note that there have been no incidents of wrong doing brought to the attention of the Chief Executive or other senior executives in Council. It is part of providing assurance to the public that Council staff, contractors and consultants are adhering to high ethical standards and that there are policies, systems, processes and controls in place to prevent fraud, corruption and serious wrongdoing by Council officers, its contractors and consultants.

Assessment of Significance

- 2 This report has low significance under Council's Significance and Engagement Policy notwithstanding it deals with an important issue.

Discussion

- 3 As stewards of community money and assets Council is obligated to ensure it has policies, systems, processes and controls in place to prevent and, if it occurs, detect fraud, corruption or serious wrongdoing. Council's approach to this is covered in a number of places, for example one up authorisation of expenditure, limits on financial delegations and approval processes for contracts. There are a number of mechanisms that provide assurance in regard to preventing, and if it should occur detecting, fraud, corruption or serious wrong doing or any other improper expenditure or conduct. Broadly, in addition to audit and assurance engagements it includes Council's policies (such as Council's Fraud, Corruption and Serious Wrongdoing Policy and Protected Disclosures Policy), processes, systems and controls inherent in Council's operations.
- 4 In respect of audit and assurance engagements some of these are statutory such as the audit of the annual report by Audit New Zealand on behalf of the Auditor General. Others, are specific engagements instructed by Council such as engaging a professional services firm to undertake independent assurance engagement or internal testing around various systems such as Council's creditor control and IT systems. While these various engagements may identify areas for improvement, none have identified systemic issues that would present a material risk of compromise to various Council systems.
- 5 However, constant vigilance, monitoring and review remain important to ensure Council embeds best practice into the culture of the organisation and our policies, systems, processes and controls. Council is looking at programmes of work to embed a culture of high ethical standards accompanied by constantly improving its policies, systems, processes and controls.

- 6 The Council is currently undergoing a process of updating many of its policies. Using policies and procedures together gives employees a well-rounded view of their workplace. They know the type of culture that the organisation is striving for, what behaviour is expected of them and how to achieve both of these.

Some of the key policies in relation to probity that have been or are being updated are:-

- Fraud and Corruption Control for Elected Members Policy
- Code of Conduct
- Elected Members Allowances and Recovery of Expenses
- Elected Members Conferences, Seminars and Travel Policy
- Council Committee Remuneration Policy
- Director Appointment and Remuneration Policy
- Delegations Policy
- Corporate Policies

- 7 The Council has also appointed a Risk and Assurance Manager who will promote and monitor good risk and assurance practices at the Council. The Three Lines of Defence Model will be being drawn on and will be made aware to all staff at Council. It is designed to ensure the effective and transparent management of risk by making accountabilities clear. Each of the three lines has a distinct role in Council's governance and oversight. The Council, its Committees and senior management are the primary stakeholders that are served by the established lines and are in a position to ensure that the three lines of defence are reflected in Council's risk management control processes.

- First line of defence - Council operations and operational management has ownership, responsibility and accountability for directly assessing, controlling and mitigating risks.
- Second line of defence - consists of oversight and support functions such as Risk Management, Compliance, Quality, Finance.
- Third line of defence - Internal Audit, External Audit, regulators and other independent assurance providers who independently challenge both the first and second lines of defence.



Figure 1: The Three Lines of Defence model¹

Attachments

Nil

6.5 Draft Audit and Risk Committee Charter**Author:** Ernest Bernard, Risk and Assurance Manager**Authoriser:** Donna Cross, Group Manager Commercial and Strategy**Recommendation**

To note and provide feedback on the Draft Audit and Risk Committee Charter that is under development.

Purpose of Report

To provide to the Committee and seek feedback on the Draft Audit and Risk Committee Charter that is under development. The Charter expands on the Committee's functions previously established by Council therefore would require Council approval.

Assessment of Significance

This report has low significance under Council's Significance and Engagement Policy notwithstanding it deals with an important issue.

Attachments**1. Draft Audit and Risk Committee Charter**

Audit and Risk Committee Charter

| | |
|--------------------------|-------------------------------------|
| Adopted by | Timaru District Council on XXXXXXXX |
| Relevant Legislation | Local Government Act 2002 |
| TDC Documents Referenced | Code of Conduct |

Objective

The objective of the Audit and Risk Committee (the Committee) is to provide independent, objective assurance and assistance to the Timaru District Council (the Council) on the Council's governance, risk management, health and safety, internal control and compliance frameworks, and its external reporting responsibilities.

Authority

The Timaru District Council, at its meeting on 31 October 2019, the Council considered a report by the Mayor on the establishment of Committees of Council, and the membership of and delegations for those Committees, pursuant to clauses 30, 31 and 32 of Schedule 7 of the Local Government Act 2002 (LGA) and established the Audit and Risk Committee. The Council authorises the Committee, within the scope of its role and responsibilities, to:

- obtain any information it needs from any employee and/or external party (subject to their legal obligation to protect information);
- discuss any matters with the external auditor, or other external parties (subject to confidentiality considerations);
- request the attendance of any employee, including the Chief Executive, the Group Manager Commercial and Strategy, the Group Manager People and Digital, the Chief Financial Officer, and the Risk and Assurance Manager at Committee meetings;
- obtain external legal or other professional advice, as considered necessary to meet its responsibilities, at the Council's expense;
- liaise with external auditors, including review of the audit plan, and review of audit findings;
- review the Accounting Policies, Annual Report, the Audit Report, and be involved in any special audits or discussions with the appointed auditor on technical matters;
- review the internal audit programme and any internal audit findings;
- review Council's insurance programme and make recommendations to Council and/or the Commercial and Strategy Committee in relation to renewals;
- provide oversight of legal risks, claims or proceedings provided (excluding the approval of any legal settlements);
- recommend the Annual Report to the Council for adoption;
- provide oversight of compliance with statutory responsibilities relating to financial responsibilities;
- review risk including technical insurance matters and participation in national risk management practices, health and safety risk management and implementation of risk management processes;

- monitoring of corporate risk assessment and the internal controls instituted; and
- note any strategic risk be referred to the Commercial and Strategy Committee.

The Committee has no decision making powers. The Committee may make recommendations to the Council and/or the Chief Executive as appropriate.

Composition and Tenure

The Committee will consist of six members appointed by the Council. These must include the Mayor, three elected members. The Council will also select two independent members.

Timaru District Council will appoint the chairperson of the Committee.

Members will be appointed for an initial period not exceeding three years that aligns with the triennial elections after which they will be eligible for extension or re-appointment, after a formal review of their performance. External member contracts will be reviewed 6 months after each triennial election with no external member staying on the Committee longer than three trienniums.

Council representatives on the Committee will carry out their duties as outlined in the Charter, recognizing the difference in role of the Committee compared to Councillor community advocate.

The Chief Executive, the Group Manager Commercial & Strategy and the Chief Financial Officer will not be members of the Committee, but may attend meetings as observers as determined by the Chairperson.

The members, taken collectively, will have a broad range of skills and experience relevant to the operations of the Council. At least one independent member of the Committee should have accounting or related financial management experience with an understanding of accounting and auditing standards in a public sector environment.

Role and Responsibilities

The Committee has no executive powers and will conduct itself in accordance with the values and ethics of the Council.

The Committee is directly responsible and accountable to the Council for the exercise of its responsibilities. In carrying out its responsibilities, the Committee must at all times recognise that primary responsibility for management of the Council rests with the Chief Executive.

The responsibilities of the Committee may be revised or expanded in consultation with, or as requested by, the Timaru District Council from time to time.

Risk Management

The Committee's responsibilities are to:

- review whether management has in place a current and comprehensive risk management framework, and associated procedures for effective identification and management of Timaru District Council's financial and business risks, including fraud;
- review the Council's strategic risk register and monitor existing and proposed controls;
- review the effect of the Council's risk management framework on its control environment and insurance arrangements;
- review whether a sound and effective approach has been followed in establishing the Council's business continuity planning arrangements, including whether disaster recovery plans have been tested periodically;
- review the Council's internal controls in relation to preventing fraud and satisfy itself that the Council has appropriate processes and systems in place to capture and effectively investigate fraud-related information and to ensure appropriate action is taken against known perpetrators of fraud;
- periodic in-depth reviews of specific, significant risks;
- monitor emerging risks;
- [providing advice to Council on the oversight of risk management across the Council's CCO's with respect to risks that may have a significant impact on the Council].

Health and Safety

The Committee's responsibilities are to:

- review key risks of the Council in the areas of safety, occupational health and environmental issues.
- review management's approach to maintaining and continual improvement to providing a safe working environment is sound and effective.
- review compliance of relevant laws, regulations and operational policies and standards.
- review the establishment and tracking of measurable workplace health, safety and environment key targets.

Control Framework

The Committee's responsibilities are to:

- review whether management's approach to maintaining an effective internal control framework, including over external parties such as contractors and advisers, is sound and effective;
- review whether management has in place relevant policies and procedures, and that these are periodically reviewed and updated;

- determine whether the appropriate processes are in place to assess, at least once a year, whether policies and procedures are complied with;
- review whether appropriate policies and procedures are in place for the management and exercise of delegations.

External Reporting

The Committee's responsibilities are to:

- review the financial statements and provide advice to the Council, including whether appropriate action has been taken in response to audit recommendations and adjustments;
- satisfy itself that the financial statements are supported by appropriate management sign-off on the statements and on the adequacy of the systems of internal controls;
- review the processes in place designed to ensure that financial information included in the Council's annual report is consistent with the signed financial statements;
- review the application of accounting policies as well as changes to accounting policies and practices, decisions involving significant judgement, estimation or uncertainty;
- review the processes and risk assessment are in place for the development and adoption of the Council's Annual and Long Term Plan;
- satisfy itself that the Council has appropriate mechanisms in place to review and implement, where appropriate, relevant external audit reports and recommendations; and
- satisfy itself that the Council has a performance management framework that is linked to organisational objectives and outcomes.

Legislative Compliance

The Committee's responsibilities are to:

- determine whether management has appropriately considered legal and compliance risks as part of the Council's risk assessment and management arrangements; and
- review the effectiveness of the system for monitoring the Council's compliance with relevant laws, regulations, and associated government policies.

Internal Audit

The Committee's responsibilities are to:

- act as a forum for communication between the Chief Executive, senior management, and internal auditors;

- review the internal audit coverage and annual work plan, ensure that the plan is based on the Council's risk management plan, and recommend approval of the plan on behalf of the Council;
- advise the Mayor and Chief Executive on the adequacy of resources to carry out the internal audit, including completion of the approved internal audit plan;
- oversee the co-ordination of audit programs conducted by the internal auditors and other review functions;
- review all audit reports and provide advice to the Council on significant issues identified in audit reports and action taken on issues raised, including identification and dissemination of good practice;
- monitor management's implementation of the internal auditor's recommendations;
- review the internal audit charter to ensure that appropriate organisational structures, authority, access, and reporting arrangements are in place.

External Audit

The Committee's responsibilities are to:

- act as a forum for communication between the Chief Executive, senior management, and external auditors;
- provide input and feedback on the financial statements and the audit coverage proposed by the external auditor, and provide feedback on the audit services provided;
- review all external plans and reports for planned or completed audits and monitor management's implementation of audit recommendations;
- oversee the co-ordination of audit programs conducted by the external auditors and other review functions: and
- provide advice to the Council and Chief executive on action taken on significant issues raised in relevant external audit reports and good practice guides.
- Review the effectiveness of the Annual and Long Term Plan audit.

Other Matters

The Committee shall oversee any special investigations referred to the Committee by the Council.

The Chief Executive shall be responsible for drawing to the Committee's attention any material matter that relates to the Councils financial position, any material breakdown of internal controls and any material event of fraud, corruption or malpractice.

The Committee shall review the following policies;

- Fraud
- Protected disclosures
- Sensitive expenditure
- Conflict of interest
- Risk management framework
- The Committee shall oversee any other matters referred to it by Council

Governance

Responsibilities of Committee Members

Members of the Committee are expected to:

- contribute the time needed to study and understand the papers provided;
- apply good analytical skills, objectivity, and good judgment; and
- fully discuss issues arising, ask questions that go to the core of the issue, and pursue independent lines of enquiry.

Reporting

The Committee will regularly, but at least once a year, report to the Council on its operation and activities during the year. The report should include:

- a summary of the work the Committee performed to fully discharge its responsibilities during the preceding year;
- a summary of the Council's progress in addressing the findings and recommendations made in internal and external audit reports, and the Auditor-General's reports (if applicable);
- an overall assessment of the Council's risk, control, and compliance framework, including details of any significant emerging risks; and
- details of meetings, including the number of meetings held during the relevant period and the number of meetings each member attended.

The Committee may, at any time, report to the Chief Executive or the Council any other matter it deems of sufficient importance to do so. In addition, at any time an individual Committee member may request a meeting with the Chief Executive or the Council.

Administrative Arrangements

Meetings

The Committee will meet at least four times each year. A special meeting may be held to review the annual report.

The Chairperson is required to call a meeting if requested to do so by the Council, Chief Executive or another Committee member.

A meeting plan, including dates and agenda items, will be agreed by the Committee each year. The meeting plan will cover all of the Committee's responsibilities as detailed in this charter.

Attendance at Meetings and Quorums

A quorum will consist of a majority of Committee members including at least one independent member. Meetings can be held in person, by telephone, or by video conference.

The Risk and Assurance Manager and external audit representatives will be invited to attend each meeting, unless requested not to do so by the Chairperson of the Committee.

The Chief Executive may be invited to attend Committee meetings to participate in specific discussions or provide strategic briefings to the Committee. The Committee may also ask other employees to attend Committee meetings or participate for certain agenda items.

The Committee will meet separately with both the internal and external auditors at least once a year.

Secretariat

The Chief Executive will appoint a person to provide secretariat support to the Committee. The Secretariat will ensure that the agenda for each meeting and supporting papers are circulated, after approval from the Chairperson, at least one week before the meeting, and ensure that the minutes of the meetings are prepared and maintained. Minutes must be approved by the Chairperson and circulated within two weeks of the meeting to each member and Committee observers, as appropriate.

Conflicts of Interest

Once a year, Committee members will provide written declarations to the Mayor, stating they do not have any conflicts of interest that would preclude them from being members of the Committee.

Committee members must declare any conflicts of interest at the start of each meeting or before discussion of the relevant agenda item or topic. Details of any conflicts of interest should be appropriately recorded in the minutes.

Where any member is deemed to have a real, or perceived, conflict of interest at a Committee meeting, it may be appropriate that they are excused from Committee deliberations on the issue where the conflict of interest exists.

Induction

New members will receive relevant information and briefings on their appointment to assist them to meet their Committee responsibilities.

Assessment Arrangements

The Chairperson of the Committee, in consultation with the Mayor, will initiate a review of the performance of the Committee at least once every two years. The review will be conducted on a self-assessment basis (unless otherwise determined by the Mayor) with appropriate input sought from the Chief Executive, the internal and external auditors, management, and any other relevant stakeholders, as determined by the Mayor in discussion with the chairperson of the Committee.

Review of Charter

At least once every 2 years, the Committee will review this charter. This review will include consultation with the Council. Any substantive changes to the charter will be recommended by the Committee and formally approved by the Council.

6.6 Health and Safety Update

Author: Symon Leggett, Group Manager People and Digital

Authoriser: Symon Leggett, Group Manager People and Digital

Recommendation

That the report be received and noted.

Purpose of Report

- 1 This report is to provide an update on health and safety activity since the last report to the Audit and Risk Subcommittee in March 2020.
- 2 The health and safety of staff, contractors and members of the public who use our facilities is a constant focus for the organisation. Continuous improvement is a key theme to ensure we're always striving for a stronger safety culture.

Assessment of Significance

- 3 Very low

Coronavirus

- 4 The Coronavirus, Covid-19 is still top of mind for everyone at the moment and has consumed our Health & Safety (H&S) activity in recent months.
- 5 The Council is following the advice and guidelines issued from the Ministry of Health (MOH) and are applying this to our preparedness and business continuity planning (BCP).
- 6 Our BCP's were updated at the start of the event and continue to be revised as alert levels and guidelines change.
- 7 Organisation wide guidelines are established at each level and communicated to our many teams. These guidelines are then expanded upon to reflect the operational environment at each facility.
- 8 At time of writing we are in Alert Level 2 and our community facilities are once again open the public. Set social distancing measures, size of gatherings, sanitisation protocols and contact tracing are all operating at each site.
- 9 While the planning activity is critical for each Alert Level, our assurance comes from regularly testing that the right activity is occurring at the right time. This has involved assessments from the Risk and Assurance Manager and regular site visits to ensure compliance.
- 10 Regular communication through multiple channels has reinforced our key messages, expectations and protocols, while also assisted in keeping the teams connected while being isolated.
- 11 We previously reported that Council took the early step of expanding the number of people able to work remotely. We were fortunate to conduct live tests prior to the lockdown commenced and work through any teething issues.

- 11.1 Our system functionality ensured that our teams were able to work remotely and at one stage we had over 200 concurrent connections.
- 11.2 The main issues were with hardware that individuals had at home, their internet connections and the physical set up of their workstation.
- 11.3 We provided staff with the ability to take Council hardware home on a case by case basis, including items such as office chairs.
- 12 While working from home was initially a bit of a novelty, we were mindful that people were not operating in their usual space and provided regular information on topics such as planning your work, the importance of taking breaks, ergonomics and setting up your workspace, activity and social connectedness. We followed up this messaging with a number of webinars run by external experts to further assist staff.
- 13 One of the key activities was for Managers and Supervisors to regularly engage with their teams and check in on them. Purposefully requiring each team member to be contacted asking how they were, what was working, what wasn't working and how it could be improved. We also surveyed the teams to ensure this activity was occurring.
- 14 Other items include the now 'normal' expectation of increased signage, sanitisation stations, contact tracing and cough shields.
- 15 As the Council operates an Emergency Management function under the Civil Defence guidelines, we have a team of people working on a district wide response with other agencies. These functions allowed us to redeploy staff who weren't able to work from home and use this resource to meet the community need.

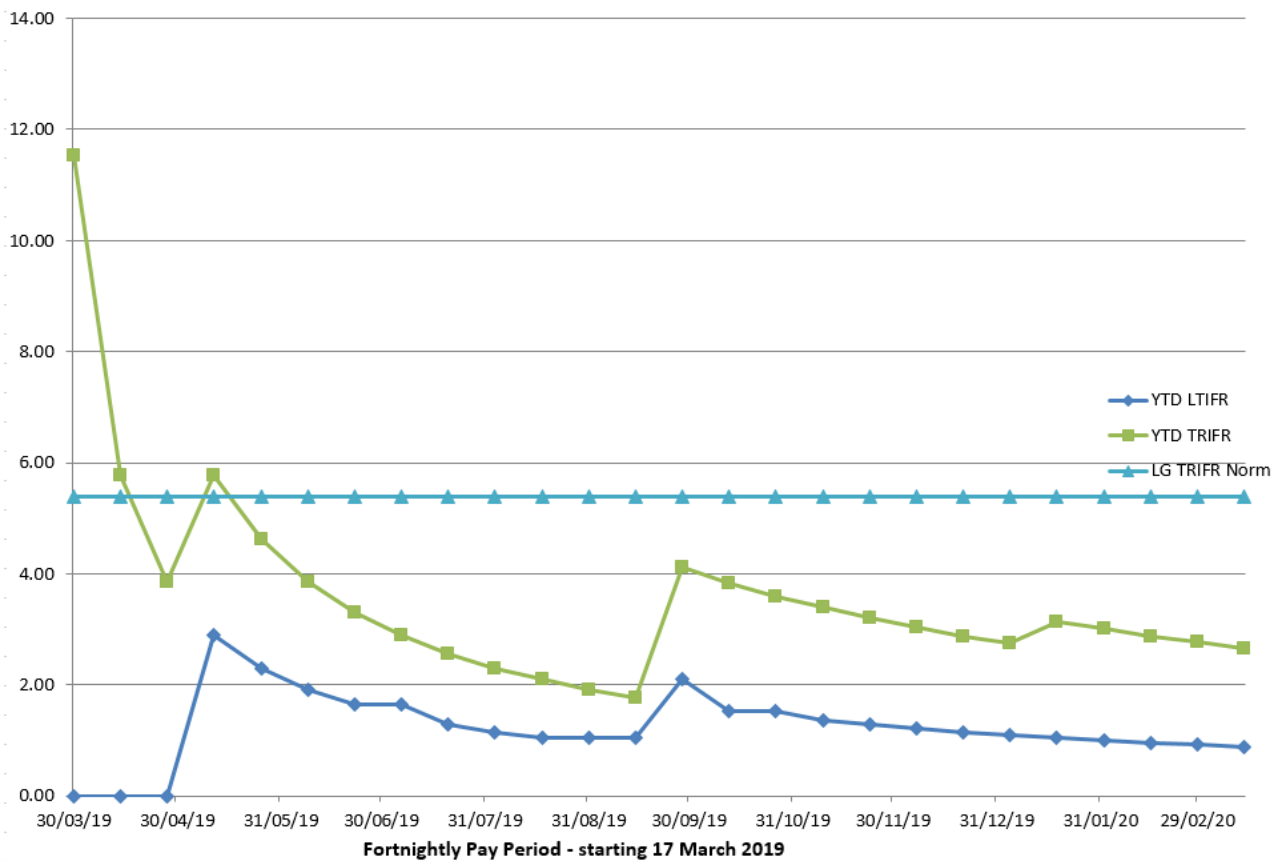
Health and Safety Officer

- 16 We previously reported that our H&S Advisor resigned from her role and finished with the organisation at the start of the lockdown. We've been successful in securing a person into this role, starting on the 8th of June.

Update on Activity

- 17 As our last quarter has been dominated by the Covid-19 response there is minimal business as usual activity to report on.
- 18 However, we have seen a dramatic reduction in the number of incidents and events occurring across all of our facilities, with only three staff incidents occurring during the lockdown period.
- 19 Below is a copy of the injury frequency rates for the full 2019/ 2020 year, April to March. Both the long term injury frequency rate (LTIFR) and total recordable injury frequency rate (TRIFR) are well below the industry norm.

Staff Injury Frequency Rates (YTD)



Health and Safety Statistics

- 20 The table below and attached graphs are based on the data for the reporting year, April 2019 to March 2020.
- 21 This reporting period aligns with our pay periods and provides us with actual hours worked in each fortnight, allowing us to create accurate Incident & Injury Frequency Rates.

| Incident Type | Full Year 2019/ 2020 | Change since last report | Full Year 2018/2019 | Full Year 2017/2018 | Full Year 2016/2017 |
|-------------------|----------------------|--------------------------|---------------------|---------------------|---------------------|
| Incident Only | 40 | 2 | 59 | 43 | 21 |
| First Aid | 16 | 2 | 27 | 23 | 27 |
| Medical Treatment | 4 | 0 | 0 | 4 | 8 |
| Lost Time | 2 | 0 | 1 | 0 | 5 |

Incident Detail

22 The Subcommittee has requested extra detail for incidents resulting in 'lost time' and 'medical treatment'.

22.1 There are no injuries to report in this period.

22.2 There are no notable 'incident only' events to report on in this period.

Conclusion

23 The health and safety of our staff, contractors and customers remains a high priority for the organisation. While there are still many opportunities for improvement, our progress adds to a positive health and safety culture.

Attachments

Nil

6.7 Draft Internal Audit Plan**Author:** Ernest Bernard, Risk and Assurance Manager**Authoriser:** Donna Cross, Group Manager Commercial and Strategy**Recommendation**

To approve the Draft Internal Audit Plan

Purpose of Report

1. To consider and approve the Draft Internal Audit Plan.

Assessment of Significance

2. This report has low significance under Council's Significance and Engagement Policy notwithstanding it deals with an important issue.

Discussion

3. The Risk and Assurance Manager has given consideration to areas of internal audit focus for the next 3 years. These internal audits are carried out to provide assurance across key areas of our business, and to enable us to continue to improve our systems and processes.
4. The scope of these proposed audits, and priorities, will be further refined with the Senior Leadership Team. They will be designed to ensure they do not duplicate previous reviews and audits carried out within the last 3 years. The draft audit programme may change or be added to over time depending on circumstances and priorities.

Attachments

1. Draft Internal Audit Plan

1. Executive Summary

Purpose of the Internal Audit Plan

The purpose of this Internal Audit Plan is to provide the Council and the Audit and Risk Committee with a balanced risk-based approach to gaining assurance over its risk management and internal control environment.

The plan has needed to recognise and account for the significant Council and economic impact from Covid-19. This has forced a refreshed view over risk and control coverage, and the internal audit delivery approach. Reviews now needed to be re-prioritised to ensure internal audit engagement focuses on important and relevant coverage to support Council through recovery. This has resulted in planned coverage for 2020/21 including:

- *Lockdown key controls assurance (continued if applicable);*
- *Operational spend monitoring/management;*
- *Treasury & cashflow management;*
- *IT penetration testing.*

Our engagement approach where appropriate, reviews are delivered through an advisory approach to maximise value whilst maintaining independence. For example, advising on control design and/or evolution rather than strictly compliance. We propose a coverage this year including:

- *LTP programme & compilation;*
- *Procurement framework review; and*

As the Council control environment matures and the organisation manages disruption and returns to a new normal post Covid-19, our aim continues to not solely focus on stewardship, but also leadership and influencing. Accordingly the plan consists of engagements reflecting a need to keep our house in order and manage disruptions. This is reflected in our coverage of key controls within core and inherently high risk activity, combined with a fresh perspective of reviews covering heightened risk activity that is more temporary or outside of normal operation (such as those noted above).

The Internal Audit Plan will also undergo regular review to ensure scheduled reviews and focus remains relevant when considering the fluid pandemic and economic emergency.

Development of the Internal Audit Plan

There is an intention to focus on extending the plan to continue to a three year horizon, maintaining alignment with Councils risk management, and keeping a realistic delivery that provides core and targeted coverage over key risks and controls.

We have utilised available risk registers, senior management engagement, External Consultants knowledge base, methodology and insights from wider NZ Councils, and our experience within TDC to identify and prioritise assurance coverage. This allows internal audit to take a risk and control approach for each engagement at the planning, execution and reporting stages.

The risk assessment and reference to assurance coverage is summarised in Section 2. The resulting plan is detailed in Sections 3.

An outline of the process followed to produce the Internal Audit Plan is included below:

- Consideration of resourcing and the Councils pandemic response/recovery challenges, with a preference toward application over heightened risks and controls.
- Utilised risk identification, treatment and ongoing exposure at Chief Executive, Group Manager and Unit Manager's meetings to identify and evaluate updates and changes to risks and associated mitigations.

Council context

Some key context in considering internal audit coverage and approach:

- New Zealand is responding and recovering from a global pandemic crisis (Covid-19), which will have lasting and profound effects on people, economies and businesses.
- The Council is an organisation with approximately 396 staff disbursed across multiple sites, \$62m operating spend (excluding depreciation) and with \$1B approximately asset base.
- Risk management maturity is ongoing with areas to be brought to a level of better understanding and discipline for capturing, escalating and managing risks.

Internal Audit objective and scope

Internal Audit has a core objective, scope and coverage outlined in its Charter. The Internal Audit Plan maintains alignment with these and will deliver a mix of evaluation, assurance and improvement advice.

Alongside the independent assurance role, a key principle of Internal Audit is to add value by assisting Council achieve its objectives. There are a number of ways in which internal audit seeks to support Council in achieving its objectives/goals and outcomes whilst fulfilling its assurance role.

These include:

- Engaging with the business and stakeholders to provide leadership, advice and foster improvements in controls and control-environment;
- Building capability and platform to develop and deliver nimble focused reviews along with a continuous assurance programme as different forms of key-control assurance;
- Providing capacity to deliver prompt reactive assurance engagements (for example concerning, crises response, matters of probity, fraud or potential conflicts of interest);
- Evaluation and practical relevant advice for risk management improvement, efficiency and economy of resources, and business processes (rather than merely assessment); and
- Continued engagement with the business, post review completion, ensuring visibility, accountability and remediation of issues raised in reports.

2. Assurance Plan Summary

The proposed Internal Audit Plan is presented in summary below, with indication of period scheduled and reference to risk coverage. The Plan will continue to be monitored for potential change to ensure it remains dynamic, and assurance coverage is appropriately prioritised.

The full objective and scope of these engagements along with resourcing, will be confirmed during the review planning stage and agreed with the relevant Review Sponsor.

| # | Review | 20/21 | 21/22 | 22/23 |
|------------------------------------|--|-------|-------|-------|
| Core / cyclic coverage | | | | |
| Key financial risk coverage | | | | |
| 1. | Rates setting, billing, remissions & collection. | ✓ | | |
| 2. | Development Contributions inputs, setting and billing. | | | ✓ |
| 3. | Accounts payable, banking and transaction controls. | ✓ | | |
| 4. | Payroll processing. | | ✓ | |
| 5. | Capital spend/project management: Sample test and review key project controls. | | | ✓ |
| 6. | Operational spend monitoring/management. | ✓ | | |
| 7. | Financial controls: reconciliations, reporting, ledger administration and overhead/internal allocations. | | ✓ | |
| 8. | Probity/sensitive expenditure controls, analysis and sample-test. | | | ✓ |
| 9. | Contract management. | ✓ | | |
| 10. | Procurement. | | | |
| Key business risk coverage | | | | |
| 11. | IT penetration/network security testing | ✓ | | |
| 12. | Health & Safety. | | | |
| 13. | Employee recruitment. | | | |
| 14. | LIMs preparation, billing and issuing. | | | |
| 15. | Fraud prevention/governance. | | | |
| 16. | Licence/consent/registrations: billing, cost-recovery, issuing & compliance. | | | |
| 17. | Alcohol licence - billing, issuing, & compliance | | | |
| 18. | Food licence - billing, issuing, & compliance | | ✓ | |
| 19. | Resource consent – billing & issuing | | ✓ | |
| 20. | Resource consent – enforcement | | | |

| # | Review | 20/21 | 21/22 | 22/23 |
|---------------------|--|-------|-------|-------|
| 21. | Building consent – billing & issuing | | ✓ | |
| 22. | Building consent – enforcement | | | |
| 23. | Animal control - billing, issuing, & enforcement | | ✓ | |
| 24. | Parking - enforcement & collection | | | |
| 25. | Site operational controls, cyclic visit: (Pools, community facilities, service desks, libraries, nurseries, park-sites). | | | ✓ |
| 26. | Subsidiary governance/monitoring and financial service controls. | | | |
| 27. | Resource consent compliance. | | | ✓ |
| 28. | Policy Management | | | ✓ |
| Non-cyclic coverage | | | | |
| 29. | Lockdown key controls assurance (if applicable) | ✓ | ✓ | ✓ |
| 30. | Wastewater systems review | | | |
| 31. | Facilities maintenance and security | | | ✓ |
| 32. | Treasury & cash flow management. | | ✓ | |
| 33. | LTP programme & compilation | ✓ | | |
| 34. | IT software licence management | | | ✓ |
| 35. | Credit management | | | |
| 36. | Procurement framework review | ✓ | | |
| 37. | Asset purchase and disposal (non-construction) | | | |
| 38. | Infrastructure renewals planning and prioritisation | | | |
| 39. | Parks management/operations | | | |
| 40. | Property Lease Management | | | |
| 41. | Drinking water and trade-waste billing | | | |
| 42. | Grant award: application evaluation, payment & performance | | | |
| 43. | Events: booking, billing, management | | | |
| 44. | Privacy / Public Records Act compliance | | | |

6.8 Water Infrastructure Asset Revaluation Project**Author:** David Codyre, Chief Financial Officer**Authoriser:** Donna Cross, Group Manager Commercial and Strategy**Recommendation**

That the Committee note and receive the report.

Purpose of Report

- 1 The purpose of the report is to provide the Committee an overview of the Water Infrastructure asset revaluation project.

Assessment of Significance

- 2 The assessment of significance is low.

Background

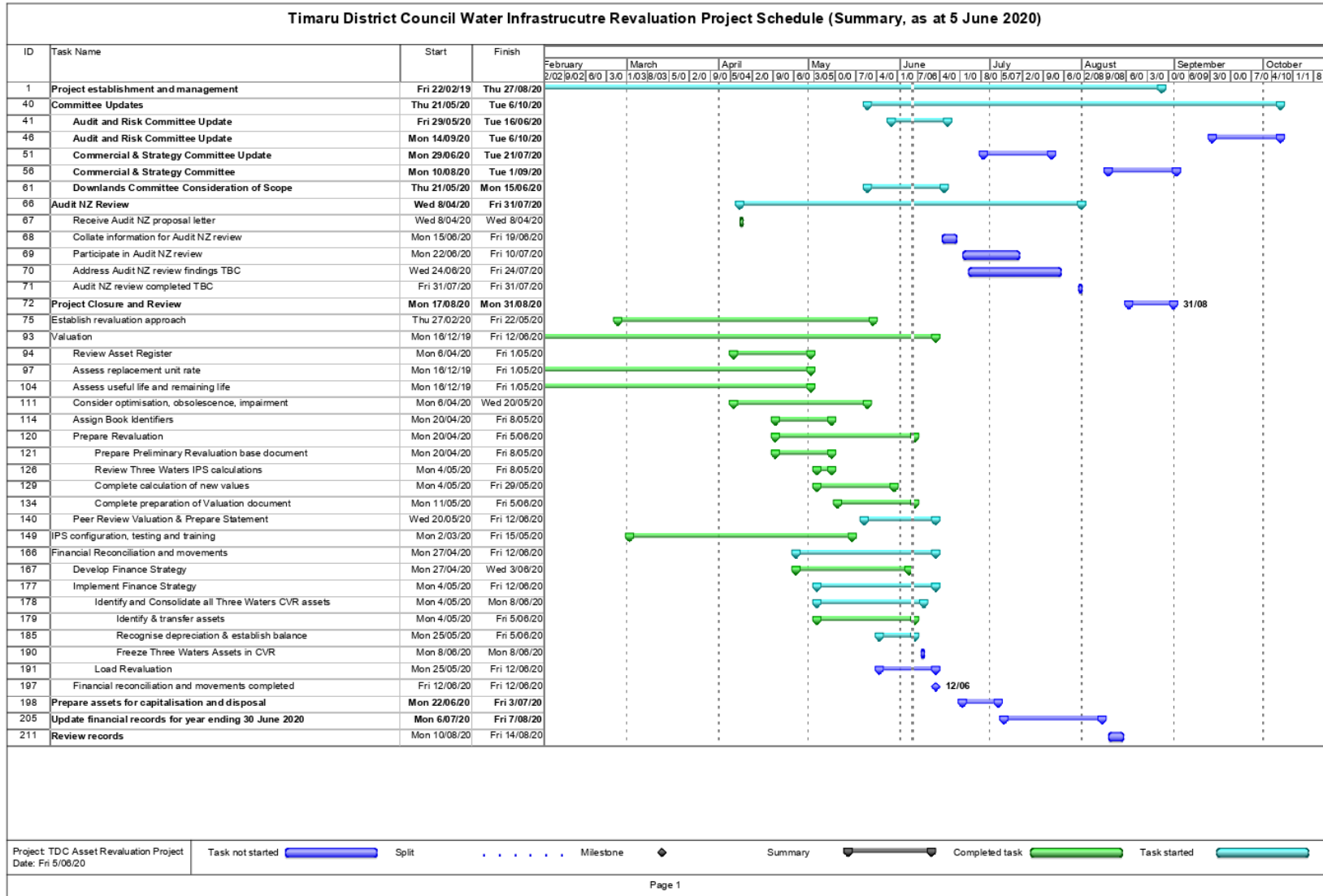
- 3 On 12 February 2020 Council considered a Report on Accounting Policy for Property, Plant and Equipment (the Report) following recommendations from the Audit and Risk Subcommittee (the Subcommittee) on 4 December 2019 that Council adopt fair value as its measurement basis for its infrastructure assets.
- 4 The Subcommittee had received advice that some classes of assets are more appropriately valued using the fair value measurement basis as this results in financial statements being more faithfully representative and providing more relevant information about the effects of transactions, other events, and conditions on the Council's financial position, financial performance, or cash flows. For Council the affected classes of assets are:
 - Land and Buildings
 - Airport Improvements
 - Parks and Pools Plant and Equipment
 - Sewer/Water/Stormwater Infrastructure (3 waters infrastructure)
 - Roads/Bridges/Lighting Infrastructure and Land under Roads
- 5 The Subcommittee were further advised heritage and artworks should continue to be valued at cost as obtaining reliable estimates of fair value is difficult as many of them will be unique. Library books are already revalued annually to fair value.
- 6 Council accepted the Subcommittee's recommendation and delegated transitional decisions regarding funding and timing of the change in accounting policy to the Policy and Development, now Commercial and Strategy, Committee (the Committee). In considering their decision Council was provided with reports from Waughs Infrastructure Management Limited and EY Limited on the asset management and accounting implications of changing to fair value.

- 7 On 26 November 2019 the Committee approved the revaluation of water, wastewater and stormwater (excluding Downlands) Classes of Assets for the financial year ended 30 June 2020 using depreciated replacement cost.
- 8 A report is to be presented to the Downlands Water Scheme Committee on 15 June 2020 recommending revaluation of its water infrastructure assets in line with the approach already taken by all three Councils that are part of that scheme.
- 9 This project is being led by the Chief Financial Officer with the support of an external project manager. The project team also comprises staff from Council's Water Infrastructure unit and Finance. Waughs Infrastructure Management, whom has previously assisted many other Councils with their asset revaluation projects was contracted to provide technical assistance and training to help Council staff carry out the valuation. Brian Smith Advisory, has been also been contracted in a peer review capacity.
- 10 The project has been extended to incorporate the implementation of the IPS Valuation module.
- 11 The water infrastructure team uses rates and lives based on NZ Infrastructure Asset Valuation and Depreciation Guidelines and Council has sought advice from WSP Limited to review the rates and useful lives used and updated as required. In the absence of an active market, standard unit rates are an accepted form of fair value measure for water infrastructure.
- 12 Waughs Asset Management Limited, acted as technical lead and provided guidance and training on how to perform the technical steps involved in the valuation process.
- 13 Brian Smith Advisory was contracted by the Council to carry out an independent peer review of the revaluation completed by Council's infrastructure staff. This peer review has considered both the processes used by staff and the revaluation outputs with findings recorded in a formal Peer Review Statement. Brian Smith is experienced in this type of engagement having previously conducted similar reviews for a number of Councils throughout the country. He has also been engaged by Audit New Zealand in consulting capacity following his employment with them.
- 14 The project is proceeding in accordance with the project management plan and target completion dates are expected to be met (see Attachment 1 Project Schedule). All issues that have arisen and risks that have been identified are being mitigated.
- 15 Council's water infrastructure staff together with Waugh's Asset Management Limited, have completed the tasks required to prepare the Valuation and have received interim feedback on this from Brian Smith Advisory with completion of the Peer Review Statement and signing of the Valuation document imminent at the time of this report's preparation.
- 16 Finance staff have identified all water infrastructure assets in the Authority CVR system and have transferred these to infrastructure codes. This has resulted in some assets previously classified in other General Ledger asset classification codes being moved to Infrastructure. Depreciation for the year has been written back by journal. Pacesetter, Authority support, will freeze the assets in the Authority CVR system so no depreciation will be posted from those assets. The assets in the Authority GL ledger have been reconciled and offset against the figures supplied from IPS. New general ledger codes have been created to be used going forward. These will be updated by journal of information between the IPS system and the Authority general ledger system. Provisional figures indicate an increase of \$200 million in the carrying value of water infrastructure assets.

- 17 Audit NZ will carry out an interim audit on the revaluation from 22 June to 10 July. Attached is a summary of what Audit NZ require. The project team has worked to compile the information as requested. A summary of the initial information requested is attached.
- 18 Project activities to be carried out during July 2020 include preparation of assets for capitalisation and disposal by the water infrastructure team, and drawing on this and the revaluation information to update financial records for the year ending 30 June 2020.
- 19 Council needs to decide on the frequency of valuations carried out going forward. Valuation frequency is not prescribed by *PBE IPSAS 17 Property, Plant and Equipment*, but instead requires that valuations are carried out sufficient frequency to ensure that is no material difference between the carrying value and the fair value of the asset. While asset values for infrastructure are not volatile, the longer the timeframes between valuations the more likelihood of impairment occurring in the asset class.

Attachments

1. **Water Infrastructure Revaluation Project Schedule** [↓](#) 
2. **Audit NZ Interim Audit Asset Revaluation** [↓](#) 



Information we will need:

- Copy of the full revaluation report
- Supporting detailed valuation spreadsheets/calculations
- Completed peer reviewer report

Proposed revelation dates

- 22 June to 10 July

Questions that will be need to be addressed as part of the valuation report or through audit enquire with valuer/s.**Overall control procedures**

- What was the source for the asset listing that was used in the valuation?
- How did the TDC (or peer reviewer) ensure the asset records were complete?
- What controls were used to ensure all assets were valued and recorded?
- What internal controls operated to ensure validity of revaluation data and key assumptions?

Revaluation of PPE

- Were all assets within the class of fixed assets (this includes all the assets of the group within that class) being revalued? If not, why not?
- Were there any limitation of scope or other issues in relation to revaluation of assets?
- We will need to understand the reasons for significant movements/changes in the value
- When was the revaluation physically performed. If it was done prior to balance date, how did you account for transactions between revaluation and balance date

Source data & assumptions

- We will need understanding of the source data used for the valuation and where it came from. I.e. unit rates, quantities, age and condition etc.

- TDC will need to clearly identification of whether there are any significant assumptions used in the valuation, there assumptions and the sensitivity of the valuation to changes in the assumptions.
- How were assets treated that were incomplete at revaluation date
- How management has considered alternative assumptions or outcomes, and why it has rejected them, or how management has otherwise addressed estimation uncertainty in making the revaluation.

Valuation methodology

- TDC will need to clearly documentation of the valuation methodology used to revalue each asset class and that it complies with PBE IPSAS 17 (PBEs).
- Depreciated replacement cost valuations is there accurate information at a component level to enable calculation of depreciated replacement cost (eg, assessment of age and replacement cost)
- Has optimisation been appropriately considered and reasonably applied

Accounting for revaluation movements

- Need to ensure revaluation movements have been correctly accounted for in accordance with: Public benefit entities: In accordance with PBE IPSAS 17, which requires revaluation increments and decrements to be recognised on a class-of-asset basis.
- Ensure that the disclosures in the financial statements related to revaluations are in accordance with PBE IPSAS 17.

Work of experts

For the external expects used (i.e. peer reviewer and Opus for the unit rates) we will need to confirm through a confirmation letter sent to them:

- Confirmation of their objectivity and advice of any other relationships with the TDC.
- Confirmation that the figures from the valuation are suitable for inclusion in the TDC's financial statements, and that these figures represent the valuation of the assets.
- Confirmation that the valuations comply with:
 1. the appropriate International Valuation Standards and any relevant New Zealand Valuation Guidelines; and

2. Public Benefit Entity International Public Sector Accounting Standard 17, Property, Plant and Equipment (PBE IPSAS 17) issued by the External Reporting Board
- Confirmation that the valuation is prepared at a component level sufficient to calculate depreciation for those assets which have separate useful lives.
 1. Confirmation that the expert or firm have the competence and capability to complete this valuation, such as:
 2. professional certification or licensing by, or membership of, an appropriate professional body; and
 3. they have experience in the valuation of the type assets, including the location.
 - A statement that the firm is aware that the auditors will be using your work to evaluate the balances in the financial statements and that you know of no reason why your work should not be used as audit evidence.

6.9 Accounting Policies for 2019/20 Annual Report**Author: David Codyre, Chief Financial Officer****Authoriser: Donna Cross, Group Manager Commercial and Strategy****Recommendation**

That the Committee receive and note the report.

Purpose of Report

- 1 The purpose of this report is to present the draft accounting policies for inclusion in the preparation of the 2019/20 Annual Report for Timaru District Council.

Assessment of Significance

- 2 The assessment of significance is low.

Discussion

- 3 The draft 2019/20 accounting policies with tracked changes are attached.
- 4 The accounting policies are reviewed on an annual basis as part of preparation of the annual report. This year there are proposed changes to the measurement of Council Water Infrastructure which has been updated in the policies, which changes from deemed cost to fair value.
- 5 There are also proposed changes to how the Council accounts for its share in the Downlands Water Scheme, *Interests in other entities PBE IPSAS 34 -38*, which have not yet been included in the attached policies. The 3 Councils (Timaru 82% of the interest, Waimate and Mackenzie with the balance of 18% interest) have retained both legal and accounting advice in relation to the appropriate accounting treatment for the Downlands Water Scheme. We are in receipt of accounting advice and provisional legal advice. The accounting policies will be updated once advice has been finalised and fully considered in relation to the legal status of the Downlands Water Scheme. Officers will be in a position to update and confirm the position with the Committee on 16 June, subject to any comments that Council's external auditors might have.
- 6 The policies have not yet been reviewed by our auditors but discussion has occurred and Council has kept Audit updated on any proposed changes.
- 7 The accounting policies continue to utilise the 2005 Deemed Cost for Property, Plant and Equipment values for certain classes of assets. Council has delegated to the Commercial & Strategy Committee the task of overseeing the transition to fair value for certain classes of assets. Water infrastructure has been revalued from 1 July 2019 requiring additional disclosure.

Relevant Legislation

- 8 The Local Government Act 2002

9 Long Term Plan 2018/28

Attachments

1. 2019/20 draft Accounting Policies

Notes to the Financial Statements

For the year ended 30 June 2020

1. Statement of accounting policies

REPORTING ENTITY

Timaru District Council (the Council) is a territorial local authority governed by the Local Government Act 2002 (LGA) and is domiciled and operates in New Zealand. The relevant legislation governing the Council's operations includes the LGA and the Local Government (Rating) Act 2002.

The group consists of the ultimate parent, Timaru District Council, and its subsidiaries Timaru District Holdings Limited (100% owned), Aoraki Development and Promotions Limited (100% owned), Aorangi Stadium Trust (100% owned) and Downlands Water Supply (82% owned). Timaru District Holdings Limited owns associate companies PrimePort Timaru Limited (50% owned) and Alpine Energy Limited (47.5% owned). All of these entities are incorporated and domiciled in New Zealand.

The primary objective of the Council is to provide infrastructure and public services for the community for social benefit rather than making a financial return. Accordingly, the Council has designated itself and the group as public benefit entities for financial reporting purposes.

The financial statements of the Council and group are for the year ended 30 June 2018. The financial statements were authorised for issue by the Council on 8 October 2019.

BASIS OF PREPARATION

The financial statements have been prepared on the going concern basis, and the accounting policies have been applied consistently throughout the period.

STATEMENT OF COMPLIANCE

The financial statements of the Council and group have been prepared in accordance with the requirements of the LGA: sections 95, 100, 101, 111 and Schedule 10 which include the requirement to comply with Generally Accepted Accounting Practice in New Zealand (NZ GAAP).

The financial statements have been prepared in accordance with Tier 1 Public Benefit Entity Accounting (PBE) Standards. These financial statements comply with PBE standards.

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Revaluation of Council Water Infrastructure

Council reassessed its accounting for Council Water Infrastructure with respect to measurement of a class of property, plant and equipment after initial recognition. Council had previously measured this class of PPE using the cost model whereby, after initial recognition of the asset classified as property, plant and equipment, the asset was carried at cost less accumulated depreciation and accumulated impairment losses.

On 1 July 2019 Council elected to change the method for accounting for Council Water Infrastructure because it believes that the revaluation model provides more relevant information to the users of the financial statements and is more aligned to practices adopted by the industry. In addition available valuation techniques provide more reliable estimates of the Council Water Infrastructure fair value, faithfully representing the Water class of PPE. Council applied the revaluation model prospectively. After

initial recognition, Council Water Infrastructure is measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. For details refer to Note XX.

STANDARDS ISSUED AND NOT YET EFFECTIVE AND NOT EARLY ADOPTED

Standards and amendments, issued but not yet effective that have not been early adopted, and which are relevant to the Council and group are:

Financial Instruments

In January 2017, the XRB issued PBE IFRS 9 *Financial Instruments*. PBE IFRS 9 replaces PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. PBE IFRS 9 is effective for annual periods beginning on or after 1 January 2021, with early application permitted. The main changes under PBE IFRS 9 are:

- New financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost.
- A new impairment model for financial assets based on expected losses, which may result in the earlier recognition of impairment losses.
- Revised hedge accounting requirement to better reflect the management of risks.

The Council plans not to apply this standard and instead early adopt PBE IPSAS 41 in preparing its 30 June 2022 financial statements. The Council and group has not yet assessed the effects of the new standards.

In March 2019, The NZASB issued PBE IPSAS 41 *Financial Instruments*. When applied, this standard supersedes parts of PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. Compared with PBE IPSAS 29, PBE IPSAS 41 introduces a number of changes to the recognition and measurement of financial instruments. The main changes under PBE IPSAS 41 are:

- New financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost.
- A new impairment model for financial assets based on expected losses, which may result in the earlier recognition of impairment losses.
- Revised hedge accounting requirement to better reflect the management of risks.

The Council plans to early adopt this standard in preparing its 30 June 2022 financial statements instead of adopting PBE IFRS 9. The Council and group has not yet assessed the effects of the new standards.

PRESENTATIONAL CURRENCY AND ROUNDING

These financial statements are presented in New Zealand dollars and all rounded to the nearest thousand dollars (\$'000). The functional currency of the Council is New Zealand dollars.

BASIS OF CONSOLIDATION

The consolidated financial statements are prepared by adding together like items of assets, liabilities, equity, revenue, and expenses of entities in the group on a line-by-line basis. All intragroup balances, transactions, revenues, and expenses are eliminated on consolidation.

Subsidiaries

The Council consolidates in the group financial statements all entities where the Council has the capacity to control their financing and operating policies so as to obtain benefits from the activities of the subsidiary. This power exists where the Council controls the majority voting power on the governing body or where such policies have been irreversibly predetermined by

the Council or where the determination of such policies is unable to materially affect the level of potential ownership benefits that arise from the activities of the subsidiary.

The Council's investments in subsidiaries are carried at cost in the Council's parent entity financial statements.

Associates

The group's associate investment is accounted for in the group financial statements using the equity method. An associate is an entity over which the Council or group has significant influence and that is neither a subsidiary nor an interest in a joint venture. The investment in an associate is initially recognised at cost and the carrying amount in the group financial statements is increased or decreased to recognise the group's share of the surplus or deficit of the associate after the date of acquisition. Distributions received from an associate reduce the carrying amount of the investment in the group financial statements.

If the share of deficits of an associate equals or exceeds its interest in the associate, the group discontinues recognising its share of further deficits. After the group's interest is reduced to zero, additional deficits are provided for, and a liability is recognised, only to the extent that the Council has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports surpluses, the group will resume recognising its share of those surpluses only after its share of the surpluses equals the share of deficits not recognised.

Where the group transacts with an associate, surpluses or deficits are eliminated to the extent of the group's interest in the associate.

Dilution gains or losses arising from investments in associates are recognised in the surplus or deficit.

The investment in the associate is carried at cost in the Council's parent entity financial statements.

Joint ventures

A joint venture is a binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control. Joint control is the agreed sharing of control over an activity.

For jointly controlled operations, the Council and group recognises in its financial statements the assets it controls, the liabilities and expenses it incurs, and the share of revenue that it earns from the joint venture

REVENUE RECOGNITION

Revenue is measured at fair value.

The specific accounting policies for significant revenue items are explained below:

Rates Revenue

The following policies for rates have been applied:

- General rates, targeted rates (excluding water-by-meter), and uniform annual general charges are recognised at the start of the financial year to which the rates resolution relates. They are recognised at the amounts due. The Council considers the effect of payment of rates by instalments is not sufficient to require discounting of rates receivables and subsequent recognition of interest revenue.

- Rates arising from late payment penalties are recognised as revenue when rates become overdue.
- Revenue from water-by-meter rates is recognised on an accrual basis based on usage. Unbilled usage, as a result of unread meters at year end, is accrued on an average usage basis.
- Rate remissions are recognised as a reduction of rates revenue when the Council has received an application that satisfies its rates remission policy.
- Rates collected on behalf of Environment Canterbury are not recognised in the financial statements, as the Council is acting as an agent for Environment Canterbury.

Vested Assets

Certain infrastructural assets have been vested to the Council as part of the subdivisional consent process. Such vested assets are recognised as revenue when the significant risks and rewards of ownership have been transferred to the Council and when the obligation to accept the transfer of the assets to the Council has been determined. Vested infrastructural assets have been valued based on the actual quantities of infrastructural components vested and the current "in the ground" cost of providing the identical services.

Other grants, bequests and assets vested in Council, irrespective of the conditions attached to vesting, are recognised as revenue when control over the assets is obtained.

New Zealand Transport Agency roading subsidies

The Council receives funding assistance from the New Zealand Transport Agency, which subsidises part of the costs of maintenance and capital expenditure on the local roading infrastructure. The subsidies are recognised as revenue upon entitlement, as conditions pertaining to eligible expenditure have been fulfilled.

Interest

Interest revenue is recognised using the effective interest method.

Dividends

Dividends are recognised when the shareholders' rights to receive payment have been established.

Agency Revenue

Where revenue is derived by acting as an agent for another party, the revenue that is recognised is the commission or fee on the transaction

BORROWING COSTS

Borrowing costs are recognised as an expense in the period in which they are incurred.

FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of the transaction. Transactions covered by foreign currency forward exchange contracts are measured and reported at the forward rates specified in those contracts.

At balance sheet date foreign monetary assets and liabilities are translated at the closing rate, and exchange variations arising from these transactions are included in the surplus or deficit.

INCOME TAX

The tax expense represents the sum of the tax currently payable and deferred tax.

Current taxation is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using rates that have been enacted at balance sheet date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences. Deferred tax liabilities are generally recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Current tax and deferred tax is recognised against the surplus or deficit, except when it relates to items charged or credited directly to equity or other comprehensive income, in which case the deferred tax is also dealt with in equity or other comprehensive revenue respectively.

LEASES

Leases in which substantially all of the risks and rewards of ownership transfer to the lessee are classified as finance leases. At inception, finance leases are recognised as assets and liabilities on the Statement of Financial Position at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Any additional direct costs of the lessee are added to the amount recognised as an asset. Subsequently assets leased under a finance lease are depreciated as if the assets are owned.

Payments made under operating leases are recognised in the surplus or deficit on a straight-line basis over the term of the lease.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Council invests as part of its day-to-day cash management.

Bank overdrafts are shown with borrowings in current liabilities in the statement of financial position.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

Loans, including loans to community organisations made by Council at below-market interest rates are initially recognised at the present value of their expected cash flows, discounted at the current market rate of return for a similar asset/investment. They are subsequently measured at amortised cost using the effective interest method. The difference between the face value and present value of expected future cash flows of the loan is recognised in the surplus or deficit.

A provision for impairment of receivables is established when there is objective evidence that the Council will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying value and the present value of estimated future cash flows, discounted using the effective interest method.

FINANCIAL INSTRUMENTS

The Council is risk averse, and seeks to minimise exposure arising from its treasury activity.

The Council uses derivative financial instruments to manage its exposure to interest rate risks. In accordance with the Investment Policy and Liability Management Policy, the Council does not hold or issue derivative financial instruments for trading purposes. Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value with the gain or loss on re-measurement to fair value recognised immediately in the surplus or deficit. The fair value of interest rate swaps is the estimated amount that the Council would receive or pay to terminate the swap at balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition.

INVESTMENTS

Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. The classification depends on the purpose for which the investments were acquired.

Term Deposits

Term Deposits are classified as Loans and Receivables and measured at amortised cost.

Investments in debt and quoted equity securities

Investments in debt and quoted equity securities are financial instruments classified as held for trading and are measured at fair value at balance sheet date. Any resultant gains or losses are recognised in the surplus or deficit for the period.

Investment in Subsidiaries

Investment in Subsidiaries are included in the parent entity at cost less any impairment losses.

Community loans

Community loans at subsidised interest rates are fair valued on initial recognition based on the present value of all future cash receipts discounted using the prevailing market rate for similar instruments. The resulting loss on initial recognition is taken to the surplus or deficit. In subsequent periods this loss is amortised back through the surplus or deficit.

Other – Investments (Unquoted equity investments)

Other investments held by the Council are classified as being available-for-sale and are stated at lower of cost and net realisable value, with any resultant gain or loss being recognised directly in equity, except for impairment losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised through the surplus or deficit.

NON CURRENT ASSETS HELD FOR SALE

Non current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is only met when the sale is highly probable and the asset is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non current assets classified as held for sale are measured at the lower of the asset's previous carrying amount and fair value less costs to sell.

Non current assets are not depreciated or amortised while they are classified as held for sale.

PROPERTY, PLANT & EQUIPMENT - VALUATION

Timaru District Council has the following classes of Property, Plant and Equipment

- Operational assets –
 - Council related Land
 - Council Buildings and Building Improvements
 - Airport Improvements
 - Parks and Pools Plant and Equipment
 - Plant and Equipment, including Motor Vehicles
 - Furniture and Office Equipment
 - Library Books
 - Art Works
- Infrastructure assets -
 - Sewer, stormwater, water
 - Roads, bridges and lighting
 - Land under roads

Infrastructure assets are the fixed utility systems owned by the Council.
- Heritage assets
- Restricted assets - Restricted assets are parks and reserves owned by the Council, which provide a benefit or service to the community and cannot be disposed of because of legal or other restrictions.

Council Land

Land, other than airport land, has been stated at its deemed cost, which is fair value as valued by I Fairbrother ANZIV of QV Valuations as at 1 July 2005.

Airport land has been stated at its deemed cost, which is fair value as valued by B Dench ANZIV of QV Valuations as at 1 July 2005.

Acquisitions subsequent to 1 July 2005 are at cost.

Council Buildings and Building improvements

Buildings and Building Improvements, have been stated at their deemed cost, which is fair value as valued by I Fairbrother ANZIV of QV Valuations as at 1 July 2005.

Acquisitions subsequent to 1 July 2005 are at cost.

Airport improvements

Airport improvements, including runway, have been stated at their deemed cost, which is Optimised Depreciated Replacement Cost as valued by B Dench ANZIV of QV Valuations as at 1 July 2005.

Acquisitions subsequent to 1 July 2005 are at cost.

Parks and Pools plant and equipment

Parks and Pools plant and equipment assets, are stated at their deemed cost which is optimised depreciated replacement cost valued as at 1 July 2005 by Maunsell Limited, valuers.

Acquisitions subsequent to 1 July 2005 are at cost.

Plant and Equipment (including motor vehicles)

Plant and Equipment (including motor vehicles) are at cost less provision for depreciation.

Furniture and Office Equipment

Furniture and Office Equipment have been stated at their deemed cost which is the assessed fair value at 1 July 2005 based on the 1 July 1993 indemnity value by Morton & Co Limited, valuers, and acquisitions 1 July 1993 to 1 July 2005 at cost.

Acquisitions subsequent to 1 July 2005 are at cost.

Library books

The Timaru District Library, Temuka Library and Geraldine Library collections have been revalued as at 30 June 2019 at depreciated replacement cost calculated by the District Librarian in accordance with the library collection valuation guidelines prepared by the New Zealand Library Association in May 1992.

The Library collections are revalued on an annual basis.

Art Works

Art Works are stated at their deemed cost which is the assessed fair value at 1 July 2005 based on the 1 April 1992 insurance value by the Art Gallery Director, and acquisitions 1 April 1992 to 1 July 2005 at cost.

Acquisitions subsequent to 1 July 2005 are at cost.

Sewer, Stormwater, Water

Sewer, stormwater and water assets, are stated at their fair value using standard unit rates. The assets were revalued on 1 July 2019 by Council Officers and peer reviewed by Brian Smith. Prior to 1 July 2019, Water Infrastructure assets were stated at their deemed cost which is optimised depreciated replacement cost valued as at 1 July 2005 by Maunsell Limited, valuers.

Acquisition subsequent to 1 July 2019 are measured at their fair value using standard unit rates.

Roads, Bridges and Lighting

Roads, bridges and lighting are stated at their deemed cost which is optimised depreciated replacement cost valued as at 1 July 2005 by Maunsell Limited, valuers.

Acquisitions subsequent to 1 July 2005 are at cost.

Land under Roads

Land under roads has been stated at their deemed cost which is at an average of adjacent "undeveloped land value" valued as at 1 July 2005 by Maunsell Limited.

Acquisitions subsequent to 1 July 2005 are at cost.

Heritage Assets

Significant statues are stated at their deemed cost which is optimised depreciated replacement cost valued as at 1 July 2005 by Maunsell Limited, valuers. Other heritage type assets such as museum exhibits have not been valued.

Acquisitions subsequent to 1 July 2005 are at cost.

PROPERTY, PLANT & EQUIPMENT - DEPRECIATION

Depreciation is provided on a basis that will write off the cost or valuation of the assets, other than land, less their estimated residual values over their estimated useful lives.

Depreciation has been provided at the following rates.

| | |
|---|--|
| Council related Land | Nil |
| Council Buildings and Building improvements | 1-30% Straight Line |
| Airport Improvements | 2-50% Straight Line |
| Parks and pools plant and equipment | 2-33% Diminishing Value |
| Plant and Equipment | 10-50% Diminishing Value |
| Motor Vehicles | 5-25% Diminishing Value |
| Furniture and Office Equipment | 20-50% Diminishing Value |
| Library Collections | 0-12.5% Straight Line (0% permanent retention collection 12.5% current collection) |
| Art Works | Nil |
| Water | 1-33% Straight Line |
| Sewerage | 1-6% Straight Line |
| Stormwater | 1-4% Straight Line |
| Roading | 1-50% Straight Line |
| Bridges | 1-3% Straight Line |
| Lighting | 6-8% Straight Line |
| Land under Road | Nil |
| Heritage assets | 1-7% Straight Line |

CAPITAL WORK IN PROGRESS

Capital works in progress are not depreciated. The total cost of a project is transferred to the relevant asset class on completion and then depreciated.

INTANGIBLE ASSETS

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives. The useful lives and associated amortisation rates of software has been estimated at 3 - 5 years (20% - 33%).

Costs associated with developing or maintaining software programmes are recognised as an expense when incurred.

Purchased carbon credits are recognised at cost on acquisition. They are not amortised, but are instead tested for impairment annually. They are derecognised when they are used to satisfy carbon emission obligations.

IMPAIRMENT

The carrying amount of the non current assets, other than investment property and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the surplus or deficit.

FORESTRY ASSETS

Forestry Assets are valued annually as at 30 June at fair value less estimated point of sale costs. Fair value is determined by the estimated worth of the maturing tree stocks in the Council's forests. The valuation method adopted is based on cash flows on a single rotation basis discounted at a market based pre-tax rate. The changes in fair value of the Forestry Assets are included in the surplus or deficit.

The costs to maintain the forestry assets are included in the surplus or deficit when incurred.

LANDFILL ASSETS

Landfill assets being earthworks, plant and machinery and the estimate of site restoration, are stated at cost less any accumulated depreciation and any accumulated impairment losses. The useful life of the land-fill is considered to be the period of time to the expiring of the resource consent in 2030 or the estimated full date.

INVESTMENT PROPERTY

Investment properties are properties which are held either to earn rental income or for capital appreciation or both. Investment properties are stated at fair value as determined annually by independent valuers with any gain or loss arising from a change in fair value being recognised in the surplus or deficit.

LOANS

Loans are classified as other liabilities and are recognised initially at fair value plus attributable transaction costs. Subsequent to initial recognition, loans are stated at amortised cost with any difference between fair value at acquisition and maturity value being recognised in the surplus or deficit over the period of the borrowings on an effective interest basis.

EMPLOYEE ENTITLEMENTS

Entitlements to salary and wages and annual leave are recognised when they accrue to employees. Provision is made in respect of the Council's liability for annual leave, long service leave, retirement gratuities and sick leave. Council accrued retiring gratuities and accrued long service leave are calculated based on an actuarial valuation using current rates of pay taking into account years of service, years to entitlement and the likelihood staff will reach the point of entitlement. Annual leave entitlements have been calculated on an actual entitlement basis at current rates of pay. Sick leave entitlements are measured as the amount of unused entitlement accumulated at balance sheet date that the Council anticipates employees will use in future periods, in excess of the days that they will be entitled to in each of those periods. Obligations for contributions to Kiwisaver and superannuation schemes are recognised as an expense in the surplus or deficit when incurred. All employer superannuation contributions are made to defined contribution schemes.

PROVISION FOR LANDFILL POST CLOSURE COSTS

A provision for post-closure costs is recognised as a liability when the obligation for post-closure arises.

The provision is measured based on the present value of the future cashflows expected to be incurred, taking into account future events including new legal requirements and known improvements in technology. The provision includes all costs associated with landfill post-closure.

Amounts provided for landfill post-closure are capitalised to the landfill asset where they give rise to future economic benefits to be obtained. Components of the capitalised landfill asset are depreciated over their useful lives.

The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the Council.

EQUITY & RESERVES

Equity is the community's interest in the Council and is measured as the difference between total assets and total liabilities. Public equity is disaggregated and classed into a number of reserves to enable clearer identification of the specified uses that the Council makes of its accumulated surpluses. The components of equity are:

- Retained Earnings
- Restricted reserves
 - Special funds

Restricted reserves are a component of equity generally representing a particular use to which various parts of equity have been assigned. Reserves may be legally restricted or created by the Council.

Restricted Reserves are those reserves subject to specific conditions accepted as binding by the Council and which may not be revised by the Council without reference to the Courts or to a third party. Transfers from these reserves may be made only for certain specified purposes or when certain specified conditions are met.

Also included in restricted reserves are reserves restricted by Council decision. The Council may alter them without reference to any third party or the Courts. Transfers to and from these reserves are at the discretion of the Council.

GOODS & SERVICES TAX

These financial statements have been prepared on a GST exclusive basis with the exception of Accounts Receivable and Accounts Payable, which are stated on a GST inclusive basis. When GST is not recoverable as an input tax then it is recognised as part of the related asset or expense.

The net amount of GST paid to, or received from the Inland Revenue Department (IRD) is included as part of receivables or payables in the Statement of Financial Position.

BUDGET FIGURES

The budget figures are those approved by Council at the beginning of the year after a period of consultation with the public as part of the Annual Plan and Long Term Plan process. The budget figures have been prepared in accordance with generally accepted account practice and are consistent with the accounting policies adopted by the Council for the preparation of the financial statements.

OVERHEAD ALLOCATION

The Council has derived the net cost of services for each significant activity of the Council using the cost allocation system outlined below. This involves the cost of internal service type activities being allocated to the external service type activities. External activities are those which provide a service to the public and internal activities are those which provide support to the external activities.

[Cost allocation policy](#)

Direct costs are charged directly to significant activities. Indirect costs are charged to significant activities based on cost drivers and related activity/usage information.

Criteria for direct and indirect costs

'Direct' costs are those costs directly attributable to a significant activity. 'Indirect' costs are those costs which cannot be identified in an economically feasible manner with a specific significant activity.

Cost drivers for allocation of indirect costs

The costs of internal services not directly charged to activities are allocated based on the services provided. This is allocated based on a historical costing analysis which utilised a number of cost drivers, including staff numbers, area and transaction volumes.

Internal Charges

Are eliminated at the Council level.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing these financial statements, estimates and assumptions have been made concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Note 25 provides information about the estimates and assumptions surrounding the landfill aftercare provision.

Note 17 includes information associated with the valuation of assets and the use of deemed cost.

STATEMENT OF CASHFLOWS

Cash and cash equivalents means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Council invests as part of its day-to-day cash management.

Operating activities include cash received from all revenue sources of the Council, and expenditure payments made for the supply of goods and services. Agency transactions such as collection of regional council rates are not recognised as receipts and payments in the Statement of Cash Flows.

Investing activities are those activities relating to the acquisition and disposal of current and non-current securities, and any non-current assets.

Financing activities are those activities relating to the changes in equity, and debt structure of the Council.

6.10 Audit NZ Audit Plan 2019/20**Author:** David Codyre, Chief Financial Officer**Authoriser:** Donna Cross, Group Manager Commercial and Strategy**Recommendation**

That the report be noted and received.

Purpose of Report

- 1 To provide the committee the Audit Plan for the 2019/20 Annual Report audit.

Assessment of Significance

- 2 The assessment of significance is low.

Background

- 3 Audit New Zealand on behalf of the Auditor General are auditors for Timaru District Council. The audit of the annual report for the year ended 30 June 2020 is due to be completed by 12 October 2020.
- 4 Council is required to adopt an audited annual report within four months of its balance date.
- 5 The draft audit plan was presented to the Subcommittee at the March meeting. John Mackey, Audit Director, spoke to the plan.
- 6 Pages 16-17 provide the proposed audit timetable, impacted by COVID-19.
- 7 The focus areas identified for 2018/19 and the audit logistics are consistent with management expectations and include a focus on the effects of COVID-19 on the control environment and the financial statements.

Relevant Legislation, Council Policy and Plans

- 8 Local Government Act 2002

Financial and Funding Implications

- 9 There is a budget of \$130,000 excluding GST for the cost of the Audit. The proposed 2020 Audit fee is \$128,201 excluding GST.

Conclusion

- 10 Timaru District Council is required to prepare an audited annual report for the year ended 30 June 2020. The audit plan sets out the focus areas, audit process and logistics to enable the annual report and audit to be completed.

Attachments

1. **Audit New Zealand 2020 Audit Plan**

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Audit plan

Timaru District Council

For the year ending 30 June 2020

Audit plan

I am pleased to present our audit plan for the audit of Timaru District Council (the Council) for the year ending 30 June 2020. The purpose of this audit plan is to discuss:

| | |
|------------------------------|----|
| Audit risks and issues | 2 |
| Group audit | 10 |
| Our audit process | 11 |
| Reporting protocols | 15 |
| Audit logistics | 16 |
| Expectations | 18 |

The contents of this plan should provide a good basis for discussion when we meet with you.

We will be happy to elaborate further on the matters raised in this plan.

Our work improves the performance of, and the public’s trust in, the public sector. Our role as your auditor is to give an independent opinion on the financial statements and performance information. We also recommend improvements to the internal controls relevant to the audit.

If there are additional matters that you think we should include, or any matters requiring clarification, please discuss these with me.

Yours sincerely



John Mackey
 Appointed Auditor
 15 May 2020

Audit risks and issues

Focus areas



Based on the planning work and discussions that we have completed to date, we set out in the table below the main audit risks and issues. These will be the main focus areas during the audit.

| Audit risk/issue | Our audit response |
|---|---|
| COVID-19 pandemic | |
| <p>On 11 March 2020, the World Health Organisation declared the outbreak of a coronavirus (COVID-19) pandemic and two weeks later the New Zealand Government declared a State of National Emergency. From this, the country went to Alert Level 4, and lockdown. As a result, economic uncertainties have arisen which are likely to negatively affect the Council’s operations and financial performance.</p> <p>The COVID-19 pandemic will impact how the Council carries out its daily operations, including the way that Council accounts for transactions. The pandemic may also have an impact on the overall control environment.</p> <p>We will need to understand the changes (including to financial processes) that are occurring as a result of COVID-19, and then assess whether any of these changes result in new audit risks or changes to the levels of audit risk that we have previously assessed.</p> | <p>We plan to engage with management and the Audit Committee to understand what has, and could change within the Council’s operations.</p> <p>Control environment</p> <p>Our assessment of the risks of material misstatement, at the financial statement level, requires us to understand the control environment. Therefore, we will need to discuss with you the following areas of the control environment:</p> <ul style="list-style-type: none"> • How the elected members participated in key decisions as a result of COVID-19? • Are there major changes to the operations of the Council and Group? • How are management and the Council addressing risk management in the Council’s responses to the COVID-19 pandemic? • Is management identifying and separately recording any additional COVID-19 pandemic related costs? <p>Financial statements</p> <p>We recognise that there are several financial statement areas that might be affected:</p> <ul style="list-style-type: none"> • Assets where fair value is based on market evidence (eg. revalued assets, investment properties, forestry, derivative financial instruments, etc); • Impairment of investments in subsidiaries; • Impairment of receivables; |

| Audit risk/issue | Our audit response |
|---|--|
| | <ul style="list-style-type: none"> • Increased disclosure of judgements, assumptions and estimates (there is an inherent increase in uncertainty which increases the importance of their disclosure to the reader); and • Onerous contracts. <p>To properly facilitate the process while providing a sound basis for management and Councillors to make decisions, we would expect the Council to prepare a formal assessment of the impact of the COVID-19 pandemic, including the items identified above. We would then review the assessment and follow up with you as necessary.</p> <p>At the time that we issue the audit opinion, we may also need to consider whether there is any impact on the audit opinion.</p> |
| Revaluation model for property, plant and equipment (PPE) | |
| <p>The Council has historically carried its PPE assets at cost less accumulated depreciation and amortisation. In the 2019/20 year, the Council will change its accounting policy for some asset classes, to account for them under the fair value model based on their periodic revaluation. The Council will introduce the valuation model on a cyclical basis in stages with the 3 waters asset classes the first to be revalued this year.</p> <p>Management has started the valuation process with WSP Opus engaged to review the unit rates, general price movements and the review of asset lives. We understand that the WSP Opus role is not that of valuer and its advice will be limited to specified valuation inputs. The revaluation will be carried internally by the Council and peer reviewed by Brian Smith of Brian Smith Advisory Services Limited.</p> <p>As signalled in our prior year report to the Council, there needs to be a high level of confidence in the underlying asset data so that it does not create issues for the valuation. Asset information, contained in both the asset management systems and accounting fixed asset registers, needs to be reviewed and reconciled so there is a consistent source of asset information.</p> | <p>For the asset classes that will be subject to a revaluation, we will:</p> <ul style="list-style-type: none"> • assess the management systems and controls in place to ensure the accuracy and completeness of asset data used in the valuation; • obtain the valuation report, and review the methodology for reasonableness and consistency with generally accepted accounting and valuation practice; • assess the reasonableness of significant assumptions in the valuation and the resulting valuation produced; • evaluate the qualifications, competence, independence, objectivity, and expertise of the external experts used to assist with the valuation; and • confirm that any fair value movements, arising from the valuation, have been appropriately accounted for in the Council's financial statements. <p>Change in accounting policy:</p> <ul style="list-style-type: none"> • We will review the prospective application of the changed accounting policy in the current year and confirm that the disclosure |

| Audit risk/issue | Our audit response |
|--|--|
| <p>We request that the Council keeps us informed of progress with:</p> <ul style="list-style-type: none"> the revaluations; the outcome any advice sort; and the steps being taken to ensure the underlying asset data is accurate, complete and appropriate for valuation purposes. <p>Audit risk:</p> <p>Because the 3 water asset classes are a substantial value in the financial statements, this if the first year the assets have been valued and valuations are subject to use of assumptions and judgements, there is an inherent risk in arriving at the fair value for these assets.</p> | <p>of these matters meets the requirements of generally accepted accounting practice, especially the accounting standard, PBE IPSAS 3: <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>.</p> <p>We will seek to complete our review of the valuation and advice provided in advance of the final audit visit reduce the work required at the final audit. We will liaise with management on this.</p> |
| Downlands Water Scheme – joint standing committee | |
| <p>The Council is a member of the Downlands joint standing committee (the committee) with Waimate and Mackenzie District Councils. The committee oversees the operation of the Downlands Water Scheme. The scheme was established many years ago to provide access to water across the respective districts.</p> <p>The three Councils signed an updated Terms of Reference in 2015. The committee has operated under this agreement since this date. As the largest local authority, and with the majority of the scheme within its jurisdiction, the Council was appointed the Downlands Scheme Manager.</p> <p>The arrangement will need to be reviewed as part of the 2019/20 audit for the following reasons:</p> <ul style="list-style-type: none"> The local body elections resulted in new Council members being appointed so a new joint standing committee will need to be established. This will also be an opportunity for the Council to revisit the existing terms of reference to confirm that they remain appropriate. The introduction of new accounting standards, for investments in associates and joint ventures, will require the respective councils to consider their accounting | <p>We will:</p> <ul style="list-style-type: none"> review the Council’s assessment of the arrangement for the Downlands Water Scheme joint standing committee; review any legal or accounting advice received on the arrangement; and evaluate any updated agreement or terms of references to assess the implication on accounting treatment under the new accounting standards for investments in associates and joint ventures. (Please refer below for detail on the new accounting standards). |

| Audit risk/issue | Our audit response |
|--|--|
| <p>treatments for their interests in the committee.</p> <ul style="list-style-type: none"> Impact of planned capital expenditure on the scheme, including if the committee borrows, and how this is repaid by the committee members. <p>Initial advice received on the Downlands Water Scheme is not conclusive on the accounting treatment of the scheme under the new accounting standard, as the current scheme documentation does not clearly set out respective rights, responsibilities and liabilities, of the individual councils, under the scheme. The three Councils will need to formally clarify the new arrangements or enter into a new agreement.</p> <p>Audit risk:</p> <p>Council's non-compliance with the requirements of the newly adopted accounting standards.</p> | |
| New accounting standards | |
| <p>There are a range of new 'public benefit entity' accounting standards that are effective for the year ending 30 June 2020 and will need to be adopted by Council.</p> <p>The most relevant standards that could impact on Council, include apply the consolidation, the joint venture and related accounting standards:</p> <ul style="list-style-type: none"> PBE IPSAS 36: <i>Investments in Associates and Joint Ventures</i>; PBE IPSAS 37: <i>Joint Arrangements</i>; and PBE IPSAS 38 <i>Disclosure of Interests in Other Entities</i>. <p>The Council needs to perform the transition work required to successfully implement these new standards. This includes:</p> <ul style="list-style-type: none"> preparation of a written impact assessment which identifies changes required; implementation of changes to systems and processes that may be necessary to support the changes in accounting treatment and to prepare the required disclosures; update of the Council's accounting policies; | <p>We will review the Council's assessment of the impact of the new suite of accounting standards and the conclusions reached on the control of the related entities. We envisage that the Council will need to refer to the supporting documentation of the entities being assessed, eg. their constitutions or Trust Deeds.</p> <p>Depending on the outcome of the assessments performed, we will review the accounting treatment for any changes required to ensure that the accounting standards have been appropriately applied in the 2020 financial statements.</p> |

| Audit risk/issue | Our audit response |
|---|--|
| <ul style="list-style-type: none"> • making the adjustments to the financial statements in accordance with the transitional provisions of the new standards, and providing support for these adjustments; • update of the Council’s disclosures in the financial statements; and • keeping relevant parties informed, including the Audit Committee and the audit team. <p>It is important that Council substantially completes its transition work on these new standards before balance date to minimise the risk of disruption to the annual report timetable.</p> <p>Audit risk:</p> <p>Non-compliance with the requirements of the newly adopted accounting standards by the Council.</p> | |
| Capital asset additions and work-in-progress | |
| <p>Accounting for capital projects, that are either completed during the year or in progress at balance date, requires assumptions and judgements to be made that can have a significant effect on the financial statements, including:</p> <ul style="list-style-type: none"> • assessment of the nature of costs to either capitalise them as work in progress, or recognise them as expenses; • identification of asset components and assignment of appropriate useful lives to these components; and • determination of the appropriate date for capitalisation of the asset, transfer of costs from work in progress to asset additions and the commencement of depreciation of the asset. <p>Audit risk:</p> <p>Incorrect classification of costs between capital and operating expenditure.</p> | <p>We will review the accounting for costs incurred on capital projects, including:</p> <ul style="list-style-type: none"> • the correct classification of costs as either capital or operating; • appropriate capitalisation point for completed assets, including transfers from work in progress; • assessment of the reasonableness of depreciation rates and useful lives applied to asset components; and • review of the disclosures within the financial statements. <p>We will obtain an update on the Council’s progress with the implementation of our prior year recommendations, to ensure the consistent reporting of PPE in the financial statements with the information captured in the fixed asset register.</p> |

| Audit risk/issue | Our audit response |
|---|---|
| Rates | |
| <p>Rates are the Council's primary funding source. Compliance with the Local Government (Rating) Act 2002 (LGRA), for rates setting and collection, is critical to ensure that rates are validly set and not at risk of challenge.</p> <p>The Council needs to ensure that it has appropriate processes in place, including seeking legal advice where appropriate, to ensure its rates and rating processes, comply with legislation.</p> <p>Audit risk:</p> <p>The rates setting and collection process does not comply with relevant legislation.</p> | <p>We will again assess the Council's compliance with those key areas of the LGRA that potentially materially impact on the financial statements. This means we will focus on those aspects of the rates setting process that present the highest risk, namely the consistency and completeness of the resolution, and the Funding Impact Statement (FIS). We will review a sample of differentially set and/or targeted rates to assess whether the matters and factors used, are consistent with the LGRA.</p> <p>Our review of compliance with legislation is completed to express our audit opinion. It is not, and should not be seen, as a comprehensive legal review. This is beyond the scope of the audit, and our expertise as auditors. The Council has the ultimate responsibility to ensure that it complies with applicable laws and regulations.</p> |
| The risk of management override of internal controls | |
| <p>There is an inherent risk in every organisation of fraud from management's override of internal controls. Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by override of controls that otherwise appear to be operate effectively. Auditing standards require us to treat this as a risk on every audit.</p> <p>Audit risk:</p> <p>Fraud arising from management override of internal controls.</p> | <p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> • testing the appropriateness of selected journal entries; • review of accounting estimates for indications of bias; • evaluation of any unusual or one-off transactions, including those with related parties; • evaluation of significant transactions that are outside the normal course of business or those that appear to be unusual given our understanding of Council and its environment; and • review of any changes in Council's accounting policies. |

| Audit risk/issue | Our audit response |
|---|---|
| Non-financial performance reporting | |
| <p>Each year we audit the performance information and report as to whether it fairly reflects the achievements measured against the targets and other measures in the Council's Long Term Plan (LTP).</p> <p>The 2018/19 annual report is the first year that the Council will report against the performance targets set out in the 2018-28 LTP.</p> | <p>We will report our findings on the Council's reporting of non-financial performance in the report to the Council (if warranted). We will focus on:</p> <ul style="list-style-type: none"> • the reliability of systems; • the operation of controls including policies, procedures and monitoring; • the appropriateness of the information reported; and • the presentation of the information. |

Please tell us about any additional matters we should consider, or any specific risks that we have not covered. Additional risks may also emerge during the audit. These risks will be factored into our audit response and our reporting to you.

Fraud risk

Misstatements in the financial statements and performance information can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action is intentional or unintentional. In considering fraud risk, two types of intentional misstatements are relevant – misstatements resulting from fraudulent reporting, and misstatements resulting from misappropriation of assets.

The primary responsibility for the prevention and detection of fraud and error rests with the Council, with assistance from management. We will discuss the following questions with you:

- What role does Council play with fraud? How do you monitor management's exercise of its responsibilities?
- Has a robust fraud risk assessment been completed? If so, is the Council satisfied that it had appropriate input into this process?
- How does management provide assurance that appropriate internal controls to address fraud risks are in place and operating?
- What protocols/procedures have been established between the Council and management to keep you informed of instances of fraud, either actual, suspected, or alleged?
- Are you aware of any actual, suspected, or alleged fraud? If so, have the results of management's investigation been reported to Council? Has appropriate action been taken on any lessons learned?

Our responsibility

Our responsibility is to obtain reasonable, but not absolute, assurance that the financial statements and performance information are free from material misstatement resulting from fraud. Our approach to obtain this assurance is to:

- identify fraud risk factors and evaluate areas of potential risk of material misstatement;
- evaluate the effectiveness of internal controls to mitigate the risks;
- perform substantive audit procedures; and
- remain alert for indications of potential fraud in evaluation of audit evidence.

The Auditor-General has published useful information on fraud that can be found at oag.parliament.nz/reports/fraud-reports.

Group audit



Our auditor’s report covers the group as a whole. Our audit approach is developed to ensure we have sufficient information to give an opinion on the group. In designing our group audit approach, we considered the structure of the group and identified the entities which are included in the group financial statements.

Each entity is referred to as a component. We have assessed the risks of material misstatement and have identified our approach for each component. The table below shows the work planned for each significant component.

| Significant component | Work to be performed |
|----------------------------------|---|
| Timaru District Holdings Limited | <p>This will be audited by the same Appointed Auditor using the Audit New Zealand audit team.</p> <p>The specific audit risks to bring to your attention are the impact of the COVID-19 pandemic on the value of its investment properties, and the investments in its associates.</p> <p>The audit work on this component will be a full financial statement and performance report audit.</p> |

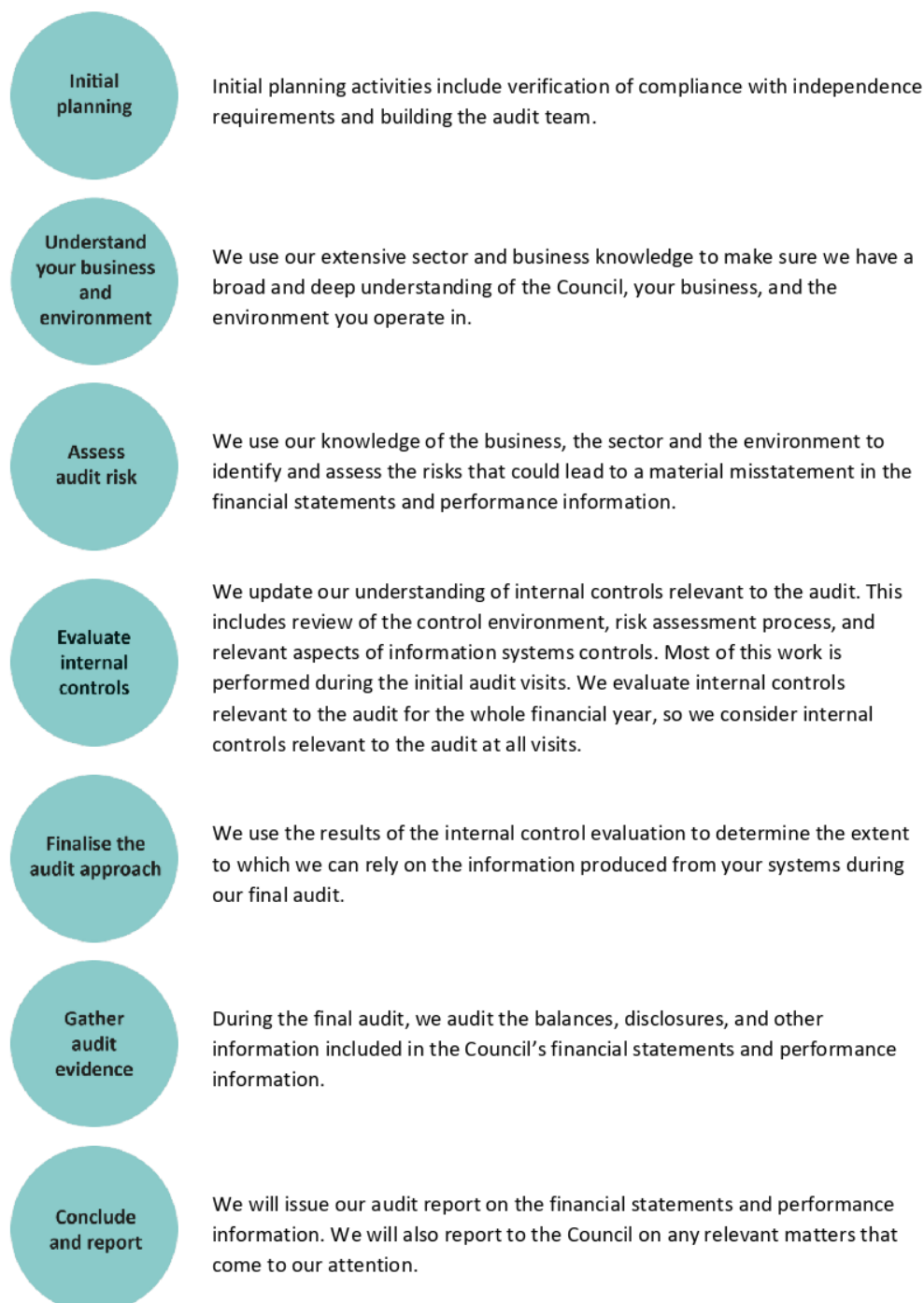
For non-significant components, we will perform analytical procedures at the group level to identify unexpected movements.

We will report any significant internal control deficiencies to the Council and management of the group. This will include any deficiencies identified by the group engagement team or brought to our attention by the component auditor. We will communicate deficiencies related to:

- group-wide internal control; or
- internal controls at each component.

We will also communicate any fraud identified by the group engagement team or brought to our attention by the component auditor.

Our audit process



Enhancing year-end processes

The year-end financial statement close process and the preparation of the annual report requires a large number of resources to be committed to complete it effectively. This diverts the attention of your staff away from the current financial year and focuses them on past events. We want the audit process to run smoothly and we will work with management to achieve this through the earlier performance of audit procedures where this is possible.

Bringing forward audit procedures

Substantive audit procedures are traditionally performed after the year-end. Where possible, we will perform audit procedures earlier in the year. This will be focused on year-to-date transactions for revenue, expenditure, property, plant and equipment testing and the review of the 3 water valuation reports, where this information is available. Completion of these tests earlier in the year should allow for more timely identification and resolution of errors.

We plan to perform this testing during the interim audit and at an agreed pre-final audit date. If we can complete this work earlier in the year, we expect this to take some pressure off the final audit. This requires the Council to have the required information available during these visits so enable us to complete this work.

We will work with management to facilitate provision of the information required at the right time. We will work with management if information is not available as agreed, including any impact on the year-end audit.

Materiality

In performing our audit, we apply the concept of materiality. In the public sector, materiality refers to something that if omitted, misstated, or obscured could reasonably be expected to:

- influence readers' overall understanding of the financial statements and performance information; and
- influence readers in making decisions about the stewardship and allocation of resources, or assessing your performance.

This definition of materiality is broader than the one used in the private sector.

Accounting standards also require the Council and management to consider materiality in preparing the financial statements. IFRS Practice Statement 2, *Making Materiality Judgements*, provides guidance on how to make materiality judgements from a financial statements preparer's perspective. Although this guidance is primarily aimed at for-profit entities, the same principles can be applied by public benefit entities.

Whether information is material is a matter of judgement. We consider the nature and size of each item judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor. Materiality will be lower for some items due to their sensitivity.

Misstatements

Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of your financial statements and performance information. During the audit, we will provide details of any such misstatements, which we identify, to an appropriate level of management.

We will ask for each misstatement to be corrected, other than those that are clearly trivial. Where management does not wish to correct a misstatement, we will seek written representations from representatives of the Council that specify the reasons why the corrections will not be made.

Professional judgement and professional scepticism

Many of the issues that arise in an audit, particularly those involving valuations or assumptions about the future, involve estimates. Estimates are inevitably based on imperfect knowledge or dependent on future events. Many financial statement items involve subjective decisions or a degree of uncertainty. There is an inherent level of uncertainty which cannot be eliminated. These are areas where we must use our experience and skill to reach an opinion on the financial statements and performance information.

The term "opinion" reflects that professional judgement is involved. Our audit report is not a guarantee but rather reflects our professional judgement based on work performed in accordance with established standards.

Auditing standards require us to maintain professional scepticism throughout the audit. Professional scepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. Professional scepticism is fundamentally a mind-set. A sceptical mind-set drives us to adopt a questioning approach when considering information and in forming conclusions.

Exercising professional scepticism means that we will not accept everything we are told at face value. We will ask you and management to provide evidence to support what you tell us. We will also challenge your judgements and assumptions and weigh them against alternative possibilities.

How we consider compliance with laws and regulations

As part of the Auditor-General's mandate, we consider compliance with laws and regulations that directly affect your financial statements or general accountability. Our audit does not cover all of your requirements to comply with laws and regulations.

Our approach involves first assessing the systems and procedures that you have in place to monitor and manage compliance with laws and regulations relevant to the audit. We may also complete our own checklists. In addition, we will ask you about any non-compliance with laws and regulations that you are aware of. We will evaluate the effect of any such non-compliance on our audit.

Wider public sector considerations

A public sector audit also examines whether:

- the Council carries out its activities effectively and efficiently;
- waste is occurring or likely to occur as a result of any act or failure to act by;
- there is any sign or appearance of a lack of probity as a result of any act or omission by the Council or by one or more of its members, office holders, or employees; and
- there is any sign or appearance of a lack of financial prudence as a result of any act or omission by the Council or by one or more of its members, office holders, or employees.

Reporting protocols

Communication with management and the Council



We will meet with management and the Council during the audit. We will maintain proactive discussion of issues as and when they arise to ensure there are “no surprises”.

Reports to Governors



We will provide a draft of all reports, to Council and management, for discussion/clearance purposes. In the interests of timely reporting, we ask management to provide its comments on the draft within ten working days. Once management comments are received, we will finalise the report and provide it to the Council.

We will also follow up on your progress in implementation of our previous recommendations.

As part of our final report to the Council, we set out non-trivial unadjusted misstatements, along with reasons why the adjustments have not been made. As part of our continued focus on improvement of the efficiency of the annual report and audit process, this year we will also report adjusted misstatements in the report to the Council. The adjusted misstatements will be any made to the draft annual report received at the start of the audit.

Audit logistics

Our team



Our engagement team is selected to ensure that we have the right subject matter expertise and sector knowledge. Each member of the audit team has received tailored training to develop their expertise.

Our senior audit team members are:

| | |
|-------------------|------------------------------------|
| John Mackey | Appointed Auditor |
| Scott Tobin | Engagement Quality Review Director |
| Trevor Makanza | Audit Manager |
| Gcinizibele Ntuli | Audit Supervisor |

Timetable



Our proposed timetable is:

| | |
|---|-------------------|
| Interim audit begins | 18 May 2020 |
| Audit and Risk Subcommittee meeting | TBC |
| Draft report to the Council issued | 5 June 2020 |
| Draft financial statements and performance information available for audit (including notes to the financial statements) with actual year-end figures | 4 September 2020 |
| Pre final work | 22 June 2020 |
| Final audit begins | 7 September 2020 |
| Final annual report available, incorporating all the amendments agreed between us | 25 September 2020 |
| Audit and Risk Subcommittee meeting | TBC |

| | |
|------------------------------------|-----------------|
| Verbal audit clearance given | 5 October 2020 |
| Audit opinion issued | 12 October 2020 |
| Draft report to the Council issued | 12 October 2020 |

There is the possibility that due to COVID-19 there may be disruptions that will require changes to the timetable proposed above. Where this arises we will discuss a revised timetable with you.

Expectations



For the audit process to go smoothly for both you and us, there are expectations that each of us need to meet.

Our respective responsibilities are set out in our audit engagement letter.

We expect that:

- you will provide us with access to all relevant records and provide information in a timely manner;
- staff will provide an appropriate level of assistance;
- the draft financial statements and performance information, including all relevant disclosures, will be available in accordance with the agreed timetable;
- management will make available a detailed work paper file supporting the information in the financial statements; and
- the annual report, including both the financial statements and performance information, will be subjected to appropriate levels of quality review before being provided to us.

To help you prepare for the audit, we will liaise with management and provide them with a detailed list of the information we will need for the audit. We have also published information to help explain the audit process:



Health and safety

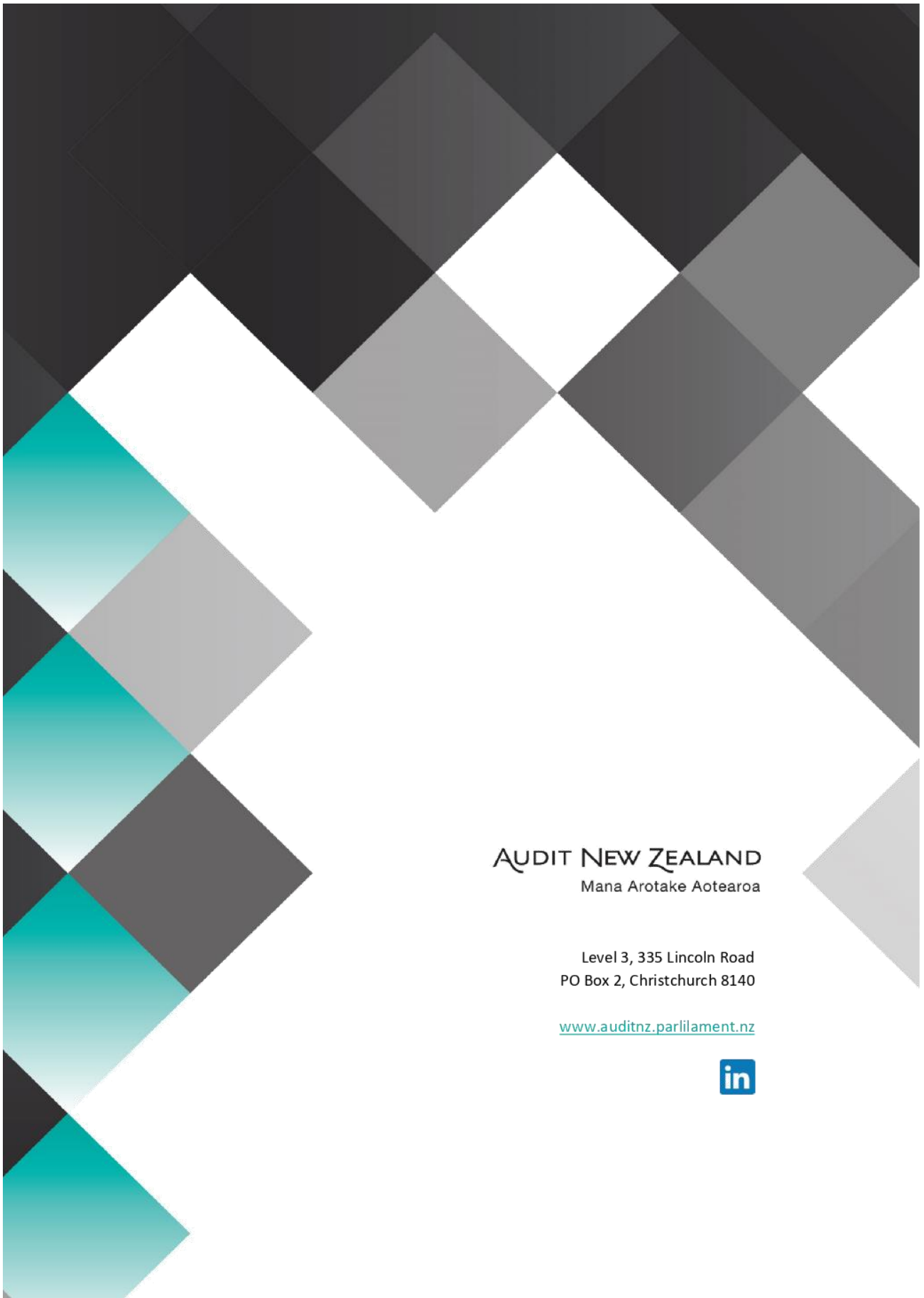


The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff.

Under the Health and Safety at Work Act 2015, we need to make arrangements with management to keep our audit staff safe while they are working at your premises.

We expect you to provide a work environment for our audit staff that minimises or, where possible, eliminates risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment where required.

We also expect management to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advice of emergency evacuation procedures and how to report any health and safety issues.



AUDIT NEW ZEALAND
Mana Arotake Aotearoa

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7 Consideration of Urgent Business Items

8 Consideration of Minor Nature Matters

9 Exclusion of the Public

Recommendation

That the public be excluded from the following parts of the proceedings of this meeting on the grounds under section 48 of the Local Government Official Information and Meetings Act 1987 as follows:

| General subject of each matter to be considered | Reason for passing this resolution in relation to each matter | Plain English Reason |
|--|--|--|
| <p>10.1 - Public Excluded Minutes of the Audit and Risk Committee Meeting held on 31 March 2020</p> | <p>s7(2)(a) - The withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons</p> <p>s7(2)(b)(ii) - The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information</p> <p>s7(2)(c)(i) - The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source and is in the public interest that such information should continue to be supplied</p> <p>s7(2)(c)(ii) - The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely</p> | <p>To protect a person’s privacy</p> <p>Commercial sensitivity</p> <p>Due to an obligation of confidence and to ensure the information avenue remains open, when it is in the public interest for it to do so</p> <p>Due to an obligation of confidence and to protect the public interest</p> <p>To protect all communications between a legal adviser and clients from being disclosed without the permission of the client.</p> <p>To enable commercial activities</p> <p>To enable commercial or industrial negotiations</p> |

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| | <p>otherwise to damage the public interest</p> <p>s7(2)(g) - The withholding of the information is necessary to maintain legal professional privilege</p> <p>s7(2)(h) - The withholding of the information is necessary to enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities</p> <p>s7(2)(i) - The withholding of the information is necessary to enable the Council to carry out, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)</p> | |
| 10.2 - Cyber Security Report | s7(2)(b)(ii) - The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information | Commercial sensitivity |
| 10.3 - Outstanding items raised by audits | s7(2)(h) - The withholding of the information is necessary to enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities | To enable commercial activities |
| 10.4 - Legal update | <p>s7(2)(b)(ii) - The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information</p> <p>s7(2)(g) - The withholding of the information is necessary to maintain legal professional privilege</p> | <p>Commercial sensitivity</p> <p>To protect all communications between a legal adviser and clients from being disclosed without the permission of the client.</p> <p>To enable commercial or industrial negotiations</p> |

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| | s7(2)(i) - The withholding of the information is necessary to enable the Council to carry out, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) | |
| 10.5 - Insurance renewal | s7(2)(b)(ii) - The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information | Commercial sensitivity |
| 10.6 - Employee Matters | s7(2)(a) - The withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons | To protect a person’s privacy |
| 10.7 - Committee and Auditor only time (agenda placeholder) | s7(2)(c)(ii) - The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest s7(2)(h) - The withholding of the information is necessary to enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities | Due to an obligation of confidence and to protect the public interest To enable commercial activities |
| 10.8 - Committe and Chief Executive only time (agenda placeholder) | s7(2)(a) - The withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons s7(2)(h) - The withholding of the information is necessary to enable any local authority holding the information to carry out, without prejudice or | To protect a person’s privacy To enable commercial activities |

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| | disadvantage, commercial activities | |
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10 Public Excluded Reports

10.1 Public Excluded Minutes of the Audit and Risk Committee Meeting held on 31 March 2020

10.2 Cyber Security Report

10.3 Outstanding items raised by audits

10.4 Legal update

10.5 Insurance renewal

10.6 Employee Matters

10.7 Committee and Auditor only time (agenda placeholder)

10.8 Committe and Chief Executive only time (agenda placeholder)

11 Readmittance of the Public