Audit and Risk Committee
OPEN MINUTES

Minutes of a meeting of the Audit and Risk Committee held in Council Chamber, 401 Grey Street, Hamilton East on Friday 11 August 2017 at 9.11am.

<table>
<thead>
<tr>
<th>Role</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairperson</td>
<td>H Stevens</td>
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<tr>
<td>Deputy Chairperson</td>
<td>Cr J Hennebry</td>
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<tr>
<td>External Member</td>
<td>G Naylor</td>
</tr>
<tr>
<td>Ex-officio</td>
<td>Cr A Livingston</td>
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<tr>
<td>Staff</td>
<td>V Payne – Chief Executive</td>
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<td></td>
<td>M Garrett – Chief Financial Officer</td>
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<td></td>
<td>K Bennett – Manager CE’s Office</td>
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<td>J Becker – Finance Manager</td>
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<td>D Thurlow – Democracy Advisor</td>
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</tbody>
</table>
Apologies
(Agenda Item 1)

The apology from Councillor Vercoe was received.

Confirmation of Agenda
(Agenda Item 2)

The Chair advised that due to a number of items on the agenda involving outside presenters some items were likely to be considered out of the order listed in the agenda.

Cr Livingston moved/G Naylor seconded

AR17/34 RESOLVED
THAT the agenda of the Audit and Risk Subcommittee of 11 August 2017 as circulated be confirmed as the business for the meeting.

The motion was put and carried (AR17/34)

Disclosures of Interest
(Agenda Item 2)

There were no disclosures of interest noted.

SECTION A: (UNDER DELEGATION FOR THE INFORMATION OF COUNCIL)

Matters arising from previous Meeting Minutes
File: 03 02 27 (Agenda Item 4) Doc: 10628038, 10366107 & 10189133

Chief Financial Officer (M Garrett) presented a review of the actions and matters arising from previous Audit and Risk Committee meetings.

In speaking to the report, the Chief Financial Officer advised the Committee that the proposed increase in Audit fees was agreed by the Chair of the Audit and Risk Committee.

G Naylor moved/Cr Hennebry seconded

AR17/35 RESOLVED
1. THAT the report ‘Matters arising from previous meetings minutes’ (Doc # 10628038 dated 2 August 2017) be received for information.

RESOLVED
2. THAT the minutes of the Audit and Risk Committee meeting held on 4 May 2017 be confirmed as a true and correct record (Doc # 10366107).

The motion was put and carried (AR17/35)
Risk Management Activity and Key Projects Update
File: 03 02 27 (Agenda Item 5) Doc: 10820116

The Manager, CE’s Office, (K Bennett) provided an update on the Corporate Risk Register.

Waikato Regional Council Corporate Risk Register
- It was noted that CORP03 is the only risk where there is a high residual risk score. This raised the question as to whether Council is comfortable that there are appropriate mitigation steps in place to reduce the risk. In response, members were advised that all possible mitigation steps have been put in place, however, it was noted that there are inherent risks in any relationships that are outside of the Council’s control.
- Audit New Zealand questioned why the risk for CORP07 had increased. In response, members were advised that this is due to the fact that Council is being asked to do more with less meaning Council must ensure effective planning and prioritisation is in place to mitigate the risk.
- A new timeframe has been put in place for the Civil Defence Emergency Management Business Recovery Plan as a result of staff having to reprioritise workflows following widespread flooding in March and April.

People and Capability Manager (N Ollington) provided an update on the health and safety dashboard and management of annual leave.

Health and Safety
- It was noted that the monthly sick leave average of 6.4 hours per full time equivalent in June 2017 was high. Staff advised that this reflects seasonality and is expected for this time of year.
- A small health and safety team who facilitate the process carry out internal health and safety audits.
- The Committee commended staff on the wellbeing activity summary and were pleased to see that staff were utilising the EAP.

Annual Leave Management
- A member questioned how, in practice, Director approval is required to carry over annual leave balances beyond 6 weeks. It was acknowledged that leave accrues, and as leave balances reach high levels, management have been asked to be proactive to put a plan in place for staff to take their leave.
- David Walker from Audit New Zealand noted that he has observed issues in other organisations where insufficient resources have been put in place that enable staff to use their leave, which can result in a weakening of internal controls.

The Manager, CE’s Office, (K Bennett) provided an update on legislative compliance, policy review schedule, feedback and complaints, the Havelock North drinking water enquiry, and key organisational projects.

Havelock North Drinking Water Enquiry
- In Waikato, 30 representatives of Waikato councils and the Waikato District Health Board met on 31 July 2017 to discuss the Waikato approach to managing drinking water from source to tap, lessons learnt and next steps in light of the Havelock North water contamination.
Key Organisational Projects

Proposed Waikato Regional Plan Change 1 – Waikato and Waipa River Catchments

- In respect to the interviews for the independent Hearings Panel, the Committee was advised that Council would be presented with the list of candidates, which will include a recommendation on the make-up of the Hearings Panel.

Cr Livingston moved/Cr Hennebry seconded

AR17/36

RESOLVED
THAT the report “Risk management activity and key projects update’ (Doc # 10820116 dated 3 August 2017) be received for information.

The motion was put and carried (AR17/36)

Update – Asset Management Performance under Flood Conditions
File: 03 02 27 (Agenda Item 6) Doc: 10757761

Manager, Business and Technical Services (B Peploe) provided an update on:
- The status of the Edgecumbe flood enquiry.
- Performance of Council’s flood protection assets during the March-April flood events.
- Asset management related projects or initiatives in hand as raised at the last Audit and Risk Committee meeting.

Arising from questions, answers and related discussion, the following matters were noted:

Waikato Regional Council – Flood Scheme Performance – March to April 2017
- The Committee commended staff on an excellent report.
- Members felt that it was important to highlight the role that the Waikato Regional Council plays with Mercury Energy in controlling flood situations.

Asset Management Activities in hand/pending

Land Drainage and Flood Infrastructure Funding Strategy

- As part of the review of council’s Revenue and Financing Policy for the 2018 – 2028 Long Term Plan, two targeted reviews associated with the funding of asset management-related activities have been identified:
  - Funding policy for capital costs incurred in order to deliver on environmental performance expectations of flood schemes. The beneficiaries of this work are considered to be broader than those receiving flood protection, but the council’s current funding policies do not recognise this.
  - Review of the funding for land drainage. Currently all drainage services are funded entirely through a targeted rate. Consideration will be given as to whether drainage services should receive a general rate contribution in line with other catchment works.
- Further to these two reviews, work to integrate the Infrastructure Strategy with the Financial Strategy will also be addressed as the Long Term Plan is developed. In particular, the financial affordability/sustainability of increasing costs to effectively maintain the infrastructure network need to be addressed in a cohesive manner across these two key planning documents.
Infrastructure Strategy 2018-2067: Flood Protection and Land Drainage Assets

- The document had identified a number of issues expected to have an impact on infrastructure management over the next 50 years. These include some challenging issues (climate change, ageing assets, natural hazards, growth and development as noted in the report) that may impact on the affordability of the protection being provided. There will be a need for some key decisions to be made in response to these issues.
- Staff advised that in the past asset management plans have been incorporated in zone plans; however, it has been decided that a single regional asset management plan will be developed; this expected to lead to efficiencies and achieve greater consistency across the region.
- Zone Plans set out the strategies, levels of service, objectives and work programmes for the entire zone. Scheme plans relate to the specific schemes that may exist within a zone.
- It was confirmed that the work that AECOM is undertaking to assess the current asset management status against the International Infrastructure Management Manual maturity index will enable consistency in Council’s management response across the schemes. The Committee requested that the report from AECOM be presented to the Audit and Risk Committee.
- It was questioned whether it was appropriate that local landowners determine levels of service. Staff advised that levels of service are determined by the community at the time that the scheme was established. Any changes to service levels are discussed when zone plans are reviewed.
- Discussion centred around the need to undertake a comprehensive ongoing communications campaign to ensure good information about the flood assets and the levels of service the community can expect.
- Members questioned how often the statistical likelihood of various flood levels revised.

G Naylor moved/H Stevens seconded

AR17/37

RESOLVED

That the report ‘Update – Asset Management Performance under Flood Conditions’ (Doc # 10757761 dated 26 July 2017) be received.

The motion was put and carried (AR17/37)

Audit New Zealand Management Report on the Interim Audit for the year ended 30 June 2017

File: 01 14 16A (Agenda Item 7) Doc: 10874944 & 10879646

David Walker and Jared Williams from Audit New Zealand provided the Committee with the Audit New Zealand Management Report on the interim audit of the Waikato Regional Council for the year ended 30 June 2017. In speaking to the report, the following points were highlighted:

- 1.2.2 Formalise IS Change Management – Formal consistent IS change management policies and procedures need to be adopted and all changes need to go through the change process.
- 1.2.3 – Patching and Anti-Virus Improvements – Formalised procedures need to be put in place to ensure that anti-virus updates are still being developed.
Arising from questions, answers and related discussion, the following matters were noted:

- The Chief Financial Officer acknowledged the points raised by Audit New Zealand and noted that management had provided comment.
- Under 4.2, page 60, it was noted that there appears to be an inconsistency regarding the Entertainment Policy in that it states “… approval for entertainment and hospitality expenditure ‘should’ be given before the expenditure is incurred”, however in Audit New Zealand’s comment it states “… approval … ‘must’ be given before expenditure is incurred”. Audit New Zealand undertook to follow up on this discrepancy.
- The review of reconciliations ensures good internal controls are in place and any variances are addressed in a timely manner. With respect to the reconciliations associated with the investment fund not being independently reviewed, the Chief Financial Officer advised that it was considered low risk given that there were adequate internal controls in place such as segregation of duties. The year-end reconciliations prepared by the Manager, Finance have been reviewed by the Chief Financial Officer.
- As a matter of course, the Chair of the Audit and Risk Committee and David Walker from Audit New Zealand met, and as a result, the Chair advised that there were no issues raised.

Cr Hennebry moved/Cr Livingston seconded

AR17/38  RESOLVED
THAT the report ‘Audit New Zealand Management Report on the interim Audit for the year ended 30 June 2017’ (Doc # 10874944 dated 3 August 2017) be received for information.

The motion was put and carried (AR17/38)

Outstanding Matters from Previous Audits
File: 01 14 17A (Agenda Item 8) Doc: 10843299 & 10837014

Chief Financial Officer (M Garrett) provided an update on outstanding matters from previous audits.

Arising from questions, answers and related discussion, the following matters were noted:

- A question was raised around the correlation between the schedule on page 63, Outstanding Matters, and the schedule on page 70, Outstanding Matters to Date. The Committee requested that the schedules be compared to ensure consistency.

H Stevens moved/G Naylor seconded

AR17/39  RESOLVED
THAT the report ‘Outstanding Matters from Previous Audits’ (Doc # 10843299 dated 1 August 2017) be received for information.

The motion was put and carried (AR17/39)

With consent of the meeting, Item 10 was considered at this time.
Policy Review Schedule Update
File: 01 63 01 (Agenda Item 10) Doc: 10777593

Manager, CE’s Office (K Bennett) provided an update on the Waikato Regional Council policies that are due for review/renewal this quarter.

Arising from questions, answers and related discussion, the following matters were noted:
- The Procurement Policy was reported and approved by the Strategy and Policy Committee at its meeting held on 8 August 2017 subject to the following changes:
  1. That, with respect to emergency procurement, the Policy needed more immediacy and consideration for the use of technology.
  2. That the use of the words ‘must’, ‘should’ and ‘will’ be replaced with the word ‘shall’ to align with the Resource Management Act 1991.
  3. That under the heading ‘Additional Clause’, ‘local supply’ the words ‘however Council will not pay a premium for local suppliers over non local suppliers’ be added.

H Stevens moved/Cr Hennebry seconded

AR17/40 RESOLVED
THAT the report ‘Policy Review Schedule Update’ (Doc # 10777593 dated 25 July 2017) be received for information.

The motion was put and carried (AR17/40)

With consent of the meeting, Item 11 was considered at this time.

Annual Tax Update and Audit Feedback
File: 08 13 20 (Agenda Item 11) Doc: 10835065, 10837989 & 10837806

Finance Manager (J Becker) presented, for approval, the annual tax update report prepared by PricewaterhouseCooper for the year to 30 June 2017, together with the findings from the GST compliance review undertaken in June 2017.

Arising from questions, answers and related discussion, the following matters were noted:
- The Committee commended staff on an excellent report.

G Naylor moved/Cr Hennebry seconded

AR17/41 RESOLVED
THAT the report ‘Annual Tax Update and Audit Feedback’ (Doc # 10835065 dated 31 July 2017) be received for information.

The motion was put and carried (AR17/41)

The meeting adjourned at 10.40am and reconvened at 10.50am when, with the consent of the meeting, Item 13 was considered.
2016/17 Annual Report – Accounting Estimates and Judgements – Valuation of Land and Buildings
File: 01 14 16F (Agenda Item 13) Doc: 10836139

Finance Manager (J Becker) presented the remaining accounting estimates and judgements that underpin the financial statements presented in the 2016/17 Annual Report.

G Naylor moved/Cr Hennebry seconded

AR17/42

RESOLVED

RESOLVED
2. THAT the Audit and Risk Committee endorse the results from the Infrastructure Assets revaluation relating to land and buildings as at 31 December 2016 for inclusion in the 2016/17 Annual Report.

The motion was put and carried (AR17/42)

With consent of the meeting, Item 14 was considered at this time.

Infrastructure Asset Revaluation
File: 01 14 16F (Agenda Item 14) Doc: 10500654

Finance Manager (J Becker) presented the result from the recently completed infrastructure asset revaluation, together with the key assumptions that underpin the valuation. In speaking to the report, the Committee was advised that the Chair of the Committee and Graham Naylor were given the opportunity to review the reports and were happy with the results from the infrastructure asset revaluation.

Arising from questions, answers and related discussion, the following matters were noted:
- In respect to 4.2 – Confidence ratings, page 140, Audit New Zealand commended management on the number of ‘As’ and ‘Bs’ in the table. It was noted that this has been a journey, where in the past there were more ‘C’ ratings.

Cr Livingston moved/G Naylor seconded

AR17/43

RESOLVED
1. THAT the report ‘Infrastructure Asset Revaluation’ (Doc # 10500654 dated 24 July 2017) be received.

RESOLVED
2. THAT the Audit and Risk Committee endorse the results from the infrastructure asset revaluation as at 31 December 2016 for inclusion in the 2016/17 Annual Report.

The motion was put and carried (AR17/43)

With consent of the meeting, Item 12 was considered at this time.
2016/17 Annual Report Update
File: 01 14 16A (Agenda Item 12) Doc: 10870075

Chief Financial Officer (M Garrett) provided an update on the audit of the Waikato Regional Council for the year ended 30 June 2017 and outlined the timeframe for audit clearance by Audit New Zealand. In speaking to the report, the Chief Financial Officer advised that the Chair of the Audit and Risk Committee would be present at the Council meeting scheduled on 28 September 2017 to provide assurance to the Council that there are no reasons why Council should not adopt the Annual Report.

H Stevens moved/G Naylor seconded

AR17/44
RESOLVED
1. THAT the report ‘2016/17 Annual Report Update’ (Doc # 10870075 dated 2 August 2017) be received.
RESOLVED
2. THAT the Audit and Risk Committee confirm to the Finance Committee that they are not aware of any material matters which need to be brought to the attention of the Finance Committee with respect to adopting the Annual Report.

The motion was put and carried (AR17/44)

Internal Audit Programme Update
File: 08 02 01 (Agenda Item 9) Doc: 10777105

David Sutton and Cushla Parish from KPMG provided a status update on the internal audit programme.

In speaking to the report, KPMG reported it had completed field work for the Asset Management Review – Flood Protection. The objectives of the review are to:
1. Assess the adequacy and effectiveness of WRC’s framework and associated processes and controls to manage and monitor flood protection assets;
2. Provide recommendations for improvement where opportunities are identified.

In response to a member’s question regarding whether there were any immediate issues to raise, KPMG advised that it was too early to comment.

Arising from questions, answers and related discussion, the following matters were noted:
- A member questioned whether the AECOM asset management maturity review would be used to inform the work being undertaken by KPMG. The Committee were of the view that it would be useful to align the KPMG and AECOM work.

Cr Livingston moved/Cr Hennebry seconded

AR17/45
RESOLVED
THAT the report ‘Internal audit programme update’ (Doc # 10777105 dated 27 July 2017) be received.

The motion was put and carried (AR17/45)
Suspicious Transactions Analysis Action Plan

File: 08 02 01 (Agenda Item 9.1) Doc: 10828024

Chief Financial Officer (M Garrett) provided an update on work completed by staff following the suspicious transaction analysis review completed as part of the internal audit programme including a work programme to address the remaining findings of the review.

Cr Livingston moved/Cr Hennebry seconded

AR17/46

RESOLVED
THAT the report “Suspicious transactions analysis action plan’ (Doc # 10828024 dated 26 July 2017) be received for information.

The motion was put and carried (AR17/46)

SECTION A: (UNDER DELEGATION FOR THE INFORMATION OF COUNCIL)

AR17/47

Resolutions to Exclude the Public

Cr Livingston moved/Cr Hennebry seconded

RESOLVED
THAT in accordance with the provisions of Standing Orders NZS 9202:2003 Incorporating Amendment No 1, Appendix A&B (p40/42) and Section 48 of the Local Government Official Information and Meetings Act 1987, the public be excluded from the following part/s of the meeting:

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

<table>
<thead>
<tr>
<th>Item No.</th>
<th>Item Name and general subject of each matter to be considered</th>
<th>Reason for passing this resolution in relation to each matter</th>
<th>Ground(s) under Section 48(1) for the passing of this resolution</th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td>Public excluded minutes of the Audit and Risk Committee meeting held on 4 May 2017</td>
<td>Good reason(s) to withhold exist(s) under Section 7</td>
<td>Section 48 (1) (a)</td>
</tr>
<tr>
<td>17</td>
<td>Potential Liability Claims</td>
<td>Good reason(s) to withhold exist(s) under Section 7</td>
<td>Section 48 (1) (a)</td>
</tr>
<tr>
<td>18</td>
<td>Ownership/management of assets supplying power to Waikato Regional Council flood protection assets</td>
<td>Good reason(s) to withhold exist(s) under Section 7</td>
<td>Section 48 (1) (a)</td>
</tr>
<tr>
<td>19</td>
<td>Information systems security review status update</td>
<td>Good reason(s) to withhold exist(s) under Section 7</td>
<td>Section 48 (1) (a)</td>
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</table>

This resolution is made in reliance on Section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public are as follows:
<table>
<thead>
<tr>
<th>Item No</th>
<th>Reason/s for withholding official information</th>
<th>Section/s</th>
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<tbody>
<tr>
<td>16, 17, 18</td>
<td>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</td>
<td>S7 (b) (ii)</td>
</tr>
<tr>
<td>19</td>
<td>To avoid prejudice to measures that prevent or mitigate material loss to members of the public</td>
<td>S7(2)(e)</td>
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<tr>
<td>16, 17, 18</td>
<td>To maintain legal professional privilege</td>
<td>S7 (g)</td>
</tr>
<tr>
<td>19</td>
<td>To enable any local authority holding the information to carry on, without prejudice or disadvantage, commercial activities</td>
<td>S7 (h)</td>
</tr>
<tr>
<td>16, 17, 18</td>
<td>Enable the local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)</td>
<td>S7 (i)</td>
</tr>
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*The motion was put and carried (AR17/47)*

Return to Open Meeting at 12.35pm.

Meeting closed at 12.36pm

Doc # 10844756