Notice of Meeting:
I hereby give notice that an ordinary Meeting of the Audit and Risk Committee will be held on:

Date: 1 November 2017
Time: 9am
Meeting Room: Council Chamber
Venue: Waikato Regional Council, 401 Grey Street, Hamilton East

VRJ Payne
Chief Executive Officer

Audit and Risk Committee
Open Agenda

Chairperson H Stevens
Deputy Chairperson Cr J Hennebry
Members Cr B Simcock
Cr H Vercoe
External Member G Naylor
Ex officio Cr A Livingston; or
Cr T Mahuta

Quorum 4

Dominique Thurlow
Democracy Advisor

Telephone: 0800 800 401
dominique.thurlow@waikatoregion.govt.nz
Website: www.waikatoregion.govt.nz
Audit and Risk Committee

REPORTING TO: Council

CONSTITUTION: Chair of the Finance Committee,
Deputy Chair of the Finance Committee,
Chair of the Strategy and Policy Committee,
The Council Chair or Deputy Chair (ex-officio with full voting rights),
Two external appointees, one of whom will be the Committee Chair.

QUORUM: Four (4).

MEETING FREQUENCY: Four times per year or as otherwise required.

OBJECTIVE: To promote and enhance the effectiveness of Council’s Audit processes by the
 provision of independent expertise and to strengthen the monitoring of
 Council’s risk, control and compliance framework.

SCOPE OF ACTIVITY:

1. External Audit
   (a) Engage with Council’s external auditors regarding the external audit work programme.
   (b) Recommend to Council the terms and arrangements for the external audit programme.
   (c) Review of effectiveness of the annual audit and 10-year plan audit, to ascertain whether
       emphasis is being placed on areas where the committee, management or auditors believe
       special attention is necessary.
   (d) Review management response to audit reports and the extent to which external audit
       recommendations concerning internal accounting controls and other matters are
       implemented.

2. Internal Audit
   (a) In conjunction with the CE, agree the scope of the annual internal audit work programme.
   (b) Monitor the delivery of the internal audit work programme.
   (c) Assess whether all significant recommendations of the Internal Audit have been properly
       implemented by management.

3. Risk Management
   (a) Review whether management has in place a current and comprehensive risk management
       framework, and associated procedures for effective identification and management of the
       WRC’s financial and business risks, including fraud.
   (b) Review whether a sound and effective approach has been followed in developing strategic
       risk management plans for major projects or undertakings.
   (c) Review the effect of WRC’s risk management framework on its control environment and
       insurance arrangements.
   (d) Review whether a sound and effective approach has been followed in establishing WRC’s
       business continuity planning arrangements, including whether disaster recovery plans have
       been tested periodically.
   (e) Review WRC’s fraud policy and satisfy itself that WRC has appropriate processes and
       systems in place to capture and effectively investigate fraud-related information.
4. Control Framework
   (a) 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.
   (b) Review whether management has in place relevant policies, processes and procedures, and that these are periodically reviewed and updated.
   (c) Review whether appropriate policies and procedures are in place for the management and exercise of delegations.
   (d) Review regular reporting on processes ensuring compliance with key controls e.g. gift register reporting and policy updates.

5. Legislative compliance
   (a) Determine whether management has appropriately considered legal and compliance risks as part of WRC’s risk assessment and management arrangements.
   (b) Review the effectiveness of the system for monitoring WRC’s compliance with relevant laws, regulations and associated government policies.

6. Annual Financial Statements
   (a) Report to the Finance Committee on any matters pertaining to the Committee’s work programme that may impact on the adoption of the Annual Report.

**POWER TO ACT: (UNDER DELEGATION AND FOR THE INFORMATION OF COUNCIL)**

1. Receive and consider external and internal audit reports on financial matters.
2. To receive and consider staff reports on audit, internal control and risk management related matters.

**POWER TO RECOMMEND TO COUNCIL:**

1. To make recommendations to Council on financial, internal control and risk management policies and procedures as appropriate.
2. To recommend approval of the Auditors engagement letter.

**REFERENCE DOCUMENTS:**

1. Audit and Risk Committee Work Plan (Doc#3321066).
1 Apologies

2 Confirmation of Agenda

3 Disclosures of Interest

Any disclosures of interest relating to the business at this meeting

4 Matters arising from previous meetings minutes
(Doc # 11010766, # 10844756, # 10189133)

This report reviews the actions and matters arising from the previous Audit and Risk Committee meetings.

5 Draft NZTA Audit Report – Monitoring Investment Performance
(Doc # 11257106, #1121883)

This report presents the draft New Zealand Transport Authority (NZTA) Audit Report for the Committee’s information and provide assurance that the NZTA Investment in Waikato Regional Council’s Land Transport Programme is being well managed and delivering value for money.

6 Risk Management Activity and Key Projects Update
(Doc # 10944202)

This report presents an update to the Audit and Risk Committee on the risk management activities and key project risks.

7 Policy Review Schedule Update
(Doc # 10942873)

This report provides an update on the Waikato Regional Council policies that are due for review/renewal this quarter.

8 Gift Register Update for Staff and Elected Members
(Doc #11219812)

This report provides a summary of gifts received by Elected Members and staff during the period 1 April 2017 to 30 September 2017.

9 Audit NZ Long Term Plan Letter of Engagement
(Doc #11218327, #11273862)

This report presents the Audit NZ 2018-2028 Long Term Plan (LTP) letter of engagement to the Audit and Risk Committee and provides an update on the project governance structures, quality assurance processes and high level risks associated with the LTP project.
Audit Management Letter for the year ended 30 June 2017

This report presents for the committee the Audit Management Letter covering the results from the audit of the council’s 2016/17 Annual Report.

David Walker and Jared Williams in attendance

Internal audit programme update

This report provides the Audit and Risk Committee a status update on the internal audit programme.

David Sutton and Richard Taylor from KPMG in attendance

Findings of the independent review into Rangitaiki River Scheme

A representative from Bay of Plenty Regional Council will present a verbal summary of the findings of the independent review of the 6 April 2017 Rangitaiki River Scheme breach.

Project review – Tauhei flood control project

This report presents a summary of observations in relation to the reasons why the current estimates for flood protection work on the Tauhei scheme vary markedly from original estimates, which were developed in 2014.

Waikato Regional Council flood protection asset risk management

The purpose of this report is to provide the Committee with an overview of the work areas currently underway to manage the risk associated with the flood protection assets managed by the Waikato Regional Council. This report includes:

a. An overview of the framework of legislation and plans that the Waikato Regional Council flood protection activity operates within;

b. A summary of findings from the report into the Edgecumbe flood event, including an overview of the recommendations made and how they relate to the Waikato Regional Council;

c. An update on the work recently undertaken to assess the Waikato Regional Council assets that protect urban areas;

d. A brief introduction to the involvement of the Waikato Hydro-scheme (operated by Mercury) and Tongariro Hydro-scheme (operated by Genesis) in the management of flooding in the Waikato River; and

e. An update on other asset management projects, including the Waikato Regional Council Infrastructure Strategy 2018 – 2067, and the recently completed asset management review by KPMG.
**Resolutions to Exclude the Public**

Recommended that 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>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 Assessment of flood management liability</td>
<td>Good reason to withhold exists under Section 7.</td>
<td>That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists. Section 48(1)(a)</td>
</tr>
<tr>
<td>17 Public Excluded minutes of the Audit and Risk Committee meeting held on 11 August 2017</td>
<td>Good reason to withhold exists under Section 7.</td>
<td>That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists. Section 48(1)(a)</td>
</tr>
<tr>
<td>18 Potential Liability Claims</td>
<td>Good reason to withhold exists under Section 7.</td>
<td>That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists. Section 48(1)(a)</td>
</tr>
<tr>
<td>19 Information systems security review status update</td>
<td>Good reason to withhold exists under Section 7.</td>
<td>That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists. Section 48(1)(a)</td>
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<tr>
<td>Item No</td>
<td>Interest</td>
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<tr>
<td>16, 17, 18</td>
<td>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 (Schedule 7(2)(b))</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>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 - (i) would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied; or (ii) would be likely otherwise to damage the public interest (Schedule 7(2)(c))</td>
<td></td>
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<tr>
<td>19</td>
<td>Avoid prejudice to measures that prevent or mitigate material loss to members of the public (Schedule 7(2)(e))</td>
<td></td>
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<tr>
<td>16, 17, 18</td>
<td>Maintain legal professional privilege (Schedule 7(2)(g))</td>
<td></td>
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<tr>
<td>19</td>
<td>Enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities (Schedule 7(2)(h))</td>
<td></td>
</tr>
<tr>
<td>16, 17, 18</td>
<td>Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) (Schedule 7(2)(i))</td>
<td></td>
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</tbody>
</table>

**THAT** JAMES MACGILLVRAY of TOMPKINS WAKE be permitted to remain at this meeting, after the public has been excluded, because of their knowledge of **Assessment of flood management liability**. This knowledge, which will be of assistance in relation to the matter to be discussed, is relevant to that matter because he is to provide a legal opinion on these issues.
16  Assessment of flood management liability
    (Doc #11282965 )

17  Public Excluded Minutes of Audit and Risk Committee 11 August 2017
    (Doc # 10845561 )

18  Potential Liability Claims
    (Doc # 10948001 )

19  Information systems security review status update
    (Doc #10942231 )

20  Insurance programme update, including 2017/18 insurance renewal
    (Doc # 11260263 )

Doc #11282416
Report to Audit and Risk Committee

Date: 20 October 2017

Author: Mike Garrett, Chief Financial Officer

Authoriser: Mike Garrett, Chief Financial Officer

Subject: Matters arising from previous meetings minutes

Purpose
1. To review the actions and matters arising from the previous Audit and Risk Committee meetings.

Recommendation:
1. That the report ‘Matters arising from previous meetings minutes’ (Doc # 11010766 dated 20 October 2017) be received.

Matters from previous meeting minutes

<table>
<thead>
<tr>
<th>Meeting Date</th>
<th>Item/issue</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 2 December 2014</td>
<td>[Standing item] Update Audit and Risk Subcommittee regularly on implementation of Asset Management maturity recommendations.</td>
<td>A report on current asset management activities in included in the agenda.</td>
</tr>
<tr>
<td>2 17 March 2016</td>
<td>In respect to the 60/40 Government disaster funding share, the Subcommittee asked that staff advocate that the timing of the new regulations coincide with the next Long Term Plan process.</td>
<td>We are still awaiting release of the proposal document for consultation.</td>
</tr>
</tbody>
</table>
| 4 1 March 2017 | **Health and Safety**
- Provide a report indicating the leave hours for an average employee and the trends compared with other organisations. It could be useful to know if there were staff who never took leave in blocks. | Report on annual leave management, including management of leave balances and leave taken in blocks is included in agenda. |
| 5 4 May 2017 | **Risk Management Update**
- Members requested that the findings of the recent floods that impacted Edgecumbe be provided to the Committee as the learnings may be useful to Council.
- The Audit and Risk Committee sought assurance, given changes in climatic patterns and the fact | Included in the agenda. |
<table>
<thead>
<tr>
<th>Meeting Date</th>
<th>Item/issue</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 May 2017</td>
<td><strong>Internal Audit Programme Update</strong></td>
<td>Included in the agenda.</td>
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<td></td>
<td>Draft Internal Audit Plan 2017/18</td>
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<tr>
<td></td>
<td>- KPMG reminded the committee that a review of operating effectiveness of the health and safety framework in another high risk part of the organisation had been proposed. It was suggested that Integrated Catchment Management Directorate had been identified as a high risk area. Management undertook to discuss this with KPMG.</td>
<td></td>
</tr>
<tr>
<td>11 August 2017</td>
<td><strong>Asset Management Performance under flood conditions</strong></td>
<td>Included in the agenda.</td>
</tr>
<tr>
<td></td>
<td>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.</td>
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<td></td>
<td>Members questioned how often the statistical likelihood of various flood levels revised.</td>
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<td></td>
<td>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.</td>
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</tr>
<tr>
<td>Meeting Date</td>
<td>Item/issue</td>
<td>Status</td>
</tr>
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<tr>
<td>8</td>
<td><strong>Audit NZ Management Report on the Interim Audit for the year ended 30 June 2017</strong>&lt;br&gt;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.</td>
<td>To be actioned.</td>
</tr>
<tr>
<td>9</td>
<td><strong>Outstanding Matters from Previous Audits</strong>&lt;br&gt;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.</td>
<td>This issue arose as the Audit NZ report presented to the last committee was an interim audit report only, which did not include the matters outstanding from previous audits. Staff will ensure that this distinction is made clear for future reports. The Management Report included in this agenda is a final report and hence includes the status of all matters from previous audits.</td>
</tr>
<tr>
<td>10</td>
<td><strong>Tax Compliance</strong>&lt;br&gt;Arising from the Tax Compliance review it was noted that there were two areas for the council to address with respect to the assessment of the time of supply and resulting need to return GST:&lt;br&gt;• Receipt of deposits for resource consent applications&lt;br&gt;• Payment of rates received prior to the annual rates invoice being raised.</td>
<td>Process changes have been implemented to address the two issues identified. A voluntary disclosure on the timing of payment of GST on consent deposits received has also been made to Inland Revenue. The Use of Money interest calculated in respect of this was $8,617.30</td>
</tr>
</tbody>
</table>

**Attachments**<br>Minutes of the Audit and Risk Committee meeting held on 11 August 2017 (DM# 10844756)
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.

Chairperson H Stevens
Deputy Chairperson Cr J Hennebry

External Member G Naylor
Ex-officio Cr A Livingston

Staff V Payne – Chief Executive
M Garrett – Chief Financial Officer
K Bennett – Manager CE’s Office
J Becker – Finance Manager
D Thurlow – Democracy Advisor
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

**RESOLVED**

**AR17/38**

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)

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**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

**RESOLVED**

**AR17/39**

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)

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With consent of the meeting, Item 10 was considered at this time.
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.
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**

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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</tbody>
</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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</thead>
<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>
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<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>
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<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>
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</table>

The motion was put and carried (AR17/47)

Return to Open Meeting at 12.35pm.

Meeting closed at 12.36pm
## Work stream

<table>
<thead>
<tr>
<th>Committee meeting</th>
<th>August 2017</th>
<th>November 2017</th>
<th>March 2018</th>
<th>May 2018</th>
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<tbody>
<tr>
<td>Matters arising from previous meeting minutes</td>
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<tr>
<td>Previous meeting minutes and 2017/18 Workplan</td>
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<td>Staff and Elected Members Gifts and Personal Benefits Register</td>
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<td>Tax Governance Framework</td>
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<td><strong>Risk management Activity Update</strong></td>
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<td>• Activity report, including identification of key project risks</td>
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<td><strong>Legislative Compliance</strong></td>
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<tr>
<td>• Activity report, including status of actions</td>
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<td>• Long Term Plan Project Update</td>
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<td><strong>External Audit (Audit NZ)</strong></td>
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<td>Audit arrangements letter</td>
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<td>Interim management letter</td>
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<td>Final management letter</td>
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<tr>
<td>Outstanding matters from Audit NZ previous audits</td>
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<tr>
<td><strong>Internal audit (KPMG)</strong></td>
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<td>• Approve three year audit plan</td>
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<td>• Internal Audit programme update (KPMG)</td>
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<td>• Activity report, including status of actions</td>
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<td><strong>Legislative Compliance</strong></td>
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<td>• Activity report, including status of actions</td>
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<td><strong>Policy Reviews</strong></td>
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<tr>
<td>Development of review programme to identify policies that fall under committee TOR</td>
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<td>o Treasury Risk Management Policy (June 2018)</td>
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<td>o Sensitive Expenditure (January 2017)</td>
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<td>o Business Continuity Plan (June 2018)</td>
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<td>o Fraud Policy Review (August 2017)</td>
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<td>Policy Review Schedule Update</td>
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<td><strong>Insurance Programme Activity Update</strong></td>
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<tr>
<td>• Activity report, including claims notifications</td>
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<td>• Update on renewals</td>
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<td><strong>Annual Accounts</strong></td>
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<tr>
<td>• Review of accounting policies, key accounting estimates</td>
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<td>•</td>
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<tr>
<td>• Annual Report update</td>
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<tr>
<td><strong>Public Excluded</strong></td>
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<tr>
<td>Potential Liability Claims</td>
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<tr>
<td>Public excluded minutes of previous Audit and Risk Subcommittee meeting (if appl.)</td>
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Report to Audit and Risk Committee

Date: 18 October 2017

Author: Mike Garrett, Chief Financial Officer

Authoriser: Mike Garrett, Chief Financial Officer

Subject: Draft NZTA Audit Report – Monitoring Investment Performance

Section: A (Committee has delegated authority to make decision)

Purpose
1. To present the draft New Zealand Transport Authority (NZTA) Audit Report for the Committee’s information and provide assurance that the NZTA Investment in Waikato Regional Council’s Land Transport Programme is being well managed and delivering value for money.

Executive Summary
2. In August 2017, NZTA carried out an audit of Waikato Regional Council’s land transport programme to ensure its effectiveness and value for money and also sought assurance that the council is appropriately managing risk associated with their investment.

3. The overall conclusion in the audit report was that the council had good processes and financial systems in place and rated the overall “risk assessment” is effective but NZTA noted a minor discrepancy with SuperGold patronage which differed from that reported in Council’s annual achievement return and requested a reconciliation in the SuperGold patronage by 31 August 2017. This has been completed and is noted in Section 4 of the report.

4. Staff have submitted Waikato Regional Council comments and a final report is expected in early November.

Staff Recommendation:

That the report Draft NZTA Audit Report – Monitoring Investment Performance (Doc #11257106 dated 18 October 2017) be received.

Background
5. Under 95(1)(e)(ii) of the Land Transport Management Act 2003, NZTA have carried out an audit of their investment in Waikato Regional Council’s land transport programme to ensure their investment is being well managed and delivering value for money.

6. They have also sought assurance that the council is appropriately managing risk associated with the Agency’s investment and have recommended improvements where appropriate.

7. The audit was conducted between 14 – 17 August 2017.

Issue
8. The Audit report has noted the following in their executive summary:
Council has good processes in place to effectively deliver public transport services in the Waikato region. However, Waikato RC continues to be hampered by a lack of timely information to better manage services.

Council appears to have addressed falling bus patronage in the region (1% drop in 2016/17) by implementing initiatives such as the Waikato University discount scheme. The new services let under PTOM should also have a positive effect.

Council has good financial systems in place to manage its land transport disbursement account and supporting documentation provided a clear audit trail between the general ledger and the claims for funding assistance.

We identified a discrepancy with SuperGold patronage which differed from that reported in Council’s annual achievement return. We recommend that this is investigated further.

Management of the paper based Total Mobility Scheme continues to be labour intensive but effective in ensuring Council is achieving its investment outcomes. The planned implementation of the electronic RideWise system for administering the scheme in 2018 will improve the management of the scheme.

9. NZTA requested a reconciliation in the SuperGold patronage by 31 August 2017. This has been completed and is noted in Section 4 of the report.

10. During the period of the review the council tendered approximately 90% of its contract spend in five units and the audit report notes the procurement files were of high standard and complied with NZTA requirements.

Conclusion
11. The Audit report with Waikato Regional Council commentary has been sent back to NZTA to finalise the report. The final report is expected early November.

12. No significant issues have been raised in the report.

Attachments
NZTA Draft Audit Report – Monitoring Investment Report (Doc #11212883)
NZTA INVESTMENT AUDIT REPORT

Monitoring Investment Performance

This is the report of an investment audit we carried out under section 95(1)(e)(ii) of the Land Transport Management Act 2003.

| Approved Organisation (AO): | Waikato Regional Council |
| Date of investment audit:   | 14-17 August 2017        |
| Programme Value (2015-18 NLTP) – NZTA Investment | $28,551,000 |
| Investment Auditors:        | Glenn McGregor and Tony Pinn |
| Report No:                 | IAGMI-1784               |

OBJECTIVE

The objective of this audit is to provide assurance that the NZ Transport Agency’s (the Transport Agency) investment in Waikato Regional Council’s land transport programme is being well managed and delivering value for money. We also sought assurance that the Council is appropriately managing risk associated with the Transport Agency’s investment. We recommend improvements where appropriate.

EXECUTIVE SUMMARY

Council has good processes in place to effectively deliver public transport services in the Waikato region. However, Waikato RC continues to be hampered by a lack of timely information to better manage services.

Council appears to have addressed falling bus patronage in the region (1% drop in 2016/17) by implementing initiatives such as the Waikato University discount scheme. The new services let under PTOM should also have a positive effect.

Council has good financial systems in place to manage its land transport disbursement account and supporting documentation provided a clear audit trail between the general ledger and the claims for funding assistance.

We identified a discrepancy with SuperGold patronage which differed from that reported in Council’s annual achievement return. We recommend that this is investigated further.

Management of the paper based Total Mobility Scheme continues to be labour intensive but effective in ensuring Council is achieving its investment outcomes. The planned implementation of the electronic RideWise system for administering the scheme in 2018 will improve the management of the scheme.

DISCLAIMER

While every effort has been made to ensure the accuracy of this report, the findings, opinions, and recommendations are based on an examination of a sample only and may not address all issues existing at the time of the audit. The report is made available strictly on the basis that anyone relying on it does so at their own risk, therefore readers are advised to seek advice on specific content.
RISK ASSESSMENT

<table>
<thead>
<tr>
<th>Issue</th>
<th>Risk Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q.1 Previous audit issues</td>
<td>Effective</td>
</tr>
<tr>
<td>Q.2 Financial management</td>
<td>Effective</td>
</tr>
<tr>
<td>Q.3 Procurement</td>
<td>Effective</td>
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<tr>
<td>Q.4 Contract management</td>
<td>Effective</td>
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<tr>
<td>Q.5 Professional services</td>
<td>Effective</td>
</tr>
</tbody>
</table>

* Key to risk assessment – refer appendix B

RECOMMENDATION SUMMARY

That Waikato Regional Council:

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Implementation target date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q.4 Reconciles the discrepancy in SuperGold patronage for 2016/17 between the TIO annual achievement report and its patronage database.</td>
<td>By 31st August 2017</td>
</tr>
</tbody>
</table>
### FINDINGS

**Question 1: What issues if any are outstanding from the previous procedural audit (November 2015)?**

<table>
<thead>
<tr>
<th>Findings</th>
<th>The previous audit undertaken in November 2015 made recommendations relating to compliance with procurement procedures, improving contract monitoring techniques and correcting patronage data errors. These issues have all been addressed.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waikato RC response</td>
<td>Agree</td>
</tr>
</tbody>
</table>

**Question 2: Has the Council good financial systems in place to effectively manage the Transport Agency’s investment in the delivery of its land transport programme?**

| Findings | Claims for financial assistance for the 2015/16 and 2016/17 financial years were reconciled against Council’s general ledger records. We selected a sample of invoices and journals to review across a number of work categories. Transaction testing also included a sample of public transport infrastructure claims from Hamilton City Council. All invoices selected for review, were eligible for financial assistance and appropriately coded to Council’s subsidised accounts. A sample of monthly payments to bus operators was checked and confirmed against the awarded contract price. This test also included deductions for penalties, contract incentive payments, fare revenue deductions, SuperGold transactions and indexation payments. All were consistent with supporting documentation and the Transport Agency’s funding assistance requirements. Overall we found the financial systems and claims processes to be well managed given the numerous subcategories and account codes which make up the claims. We encourage staff to continue to maintain the worksheet providing linkages between the general ledger and the claims for funding assistance for audit purposes. |
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**Question 3:** Has Council acted in accordance with its endorsed Procurement Strategy and NZTA’s procurement procedures requirements?

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<thead>
<tr>
<th>Findings</th>
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<tbody>
<tr>
<td>We examined the procurement processes for the five PTOM units recently let as well as the documentation for several contract variations. Council’s procurement files were of a high standard with key documentation readily available to complete the procurement review aspect of the audit. The five nine year unit contracts covered Hamilton urban (two units) and Hamilton satellite (three units).</td>
<td></td>
<td>The tendering process used for all contracts reviewed complied with the Transport Agency’s approved procurement procedure requirements and with Waikato Regional Council’s Transport Activity Procurement Strategy 2015-18. Contract variations were supported by good explanations and approvals. A total of 74 bids were received from six tenderers. Overall, better prices with improved routes and higher levels of service were achieved.</td>
</tr>
<tr>
<td>Waikato RC response</td>
<td>Agree</td>
<td>*****</td>
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</table>

**Question 4:** Are Council’s public transport contracts managed effectively and are good patronage and revenue collection validation processes in place?

<table>
<thead>
<tr>
<th>Findings</th>
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<tbody>
<tr>
<td>Council has good processes in place to effectively deliver public transport services in the Waikato region. This is supported by the close working relationship Council has with its two largest bus operators. Quarterly audits of the bus operators’ patronage and revenue processes and the bus companies own inspector reports, together with random day checks supports this. A good complaints management process is also in place. However, Waikato RC continues to be hampered by a lack of timely information to better manage the services. This lack of information (which is provided by a third party) particularly relating to when passengers alight from a bus, can restrict planning and day to day management of the network. The implementation of the interim INIT electronic ticketing system in early 2018 should help address this. The Greater Wellington Regional Council (GWRC) is developing a long term electronic ticketing solution for implementation in 2015-18. Waikato RC has the option to adopt this system once implemented and proven by GWRC.</td>
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</table>
Waikato RC is still dependent on information relating to contract performance from ETS (an independent provider). As noted above, the INIT system should improve Council’s ability to validate patronage. The regular malfunction of bus ticketing machinery is also restricting Council’s ability to validate patronage to a high level of accuracy.

Council appears to have addressed falling patronage in the region (1% drop in 2016/17) by implementing initiatives such as the Waikato University discount scheme and has some confidence that the new unit contracts (with improved bus quality and improved routes) when fully implemented will increase current patronage levels.

Waikato RC works closely with the Hamilton City Council to deliver infrastructure improvements.

Council is currently upgrading its street displays through Radiola for customer information that show upgraded real time bus arrival information. A new cell phone app is also about to be launched. These initiatives should support the other improvements Council is initiating to enhance the customer experience.

We examined in-depth the process for receiving and recording fare box revenue from gross public transport contracts. As noted in the previous audit report other Councils allow the transport operators to bank all revenue which is subsequently deducted from the operator’s monthly contract payment. Council has decided to continue with the process whereby all fare revenue is banked daily and checked against its bank statement and posted against individual bus routes. Whilst this system is quite complex, this is set to change to a monthly process when new PTOM contracts commence later this year. We also noted Council has recently commissioned a review by KPMG of all revenue processes. The management of fare box revenue is part of that review.

We obtained Council’s 2016/17 annual achievement return submitted into Transport Investment Online (TIO). From this we verified the following data:

- Patronage boardings
- Passenger kilometres
- Service kilometres
- SuperGold (patronage and revenue)

All were reconciled against the achievement return except for SuperGold patronage which differed by 2665 passengers. Note SuperGold was correctly reported through the Transport Agency’s claim process. Further investigation identified this discrepancy was spread across all months reported. We recommend that this is investigated further to ensure consistency of reporting.
Recommendation
That Council reconciles the discrepancy in SuperGold patronage for 2016/17 between the TIO annual achievement report and its patronage database.

Waikato RC response
A year to date ETS report was generated and reconciled back to the identified discrepancy of 2665 super gold passengers. WRC have since claimed for the discrepancy and the associated monetary value of $5,890 in the July 2017 claim.

Going forward, council will ensure a year to date reconciliation is performed on a quarterly basis between the ETS generated report and the TIO submission, thus ensuring misalignment between the two sources does not reoccur.

Question 5: Does Council have appropriate systems in place for the effective delivery of the Total Mobility and SuperGold Schemes?

Findings
Management of the paper based Total Mobility Scheme continues to be labour intensive but effective in ensuring Council is achieving its investment outcomes. The planned implementation of the electronic RideWise system for administering the scheme in 2018 will give the Waikato RC the ability to more efficiently manage the scheme. The enhanced data capabilities provided through RideWise will also give Council opportunities to better monitor the scheme’s delivery.

The procedure for recording and claiming revenue under the SuperGold scheme was reviewed. A monthly sample of operators ticketing machine reports from 2016/17 was validated and reconciled to Council’s database used for claims to the Transport Agency. From the sample, all services provided under the scheme were eligible and claimed under the correct fare reimbursement rate.

We also confirmed that SuperGold revenue for gross contracts is offset against claims made to the Transport Agency for public transport contract payments.

Waikato RC response
Agree

Question 6: Is the Road Safety Programme being managed effectively and delivering the outcomes as agreed with the Transport Agency?

Findings
Council’s Road Safety team continues to work closely with other Councils in its region and the Transport Agency when developing the
road safety programme each year. Waikato RC has good processes in place to deliver this programme.

Council’s funding of its road safety programme is now split and managed across three areas: promotions, communications and strategy. Our focus on this audit was on road safety promotion. We limited the review to interviewing staff on the programme management including the budget process for 2017/18 (approximately $1 million). A sample of expenditure posted to this activity was also included in our transaction testing (see Question 2).

<table>
<thead>
<tr>
<th>Waikato RC response</th>
<th>Agree</th>
</tr>
</thead>
</table>

Report Number: IAGMI -
APPENDIX A

AUDIT PROGRAMME

1. Previous audit November 2015
2. Final claims for 2015/16 and 2016/17
3. Reconciliation between ledgers supporting final claim and the audited financial statements
4. Transactions (accounts payable)
5. Procurement Procedures
6. Contract Management and Administration
7. Patronage validation
8. Total Mobility Scheme
9. SuperGold Scheme
10. Passenger transport infrastructure – bus centres and shelters
11. Road safety promotion
12. Transport Investment On-line (TIO) Reporting
13. Other issues that may be raised during the audit
14. Close out meeting
### APPENDIX B

#### AUDIT RATING TABLE

<table>
<thead>
<tr>
<th>Rating</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Effective</strong></td>
<td><strong>Investment management</strong> – effective systems, processes and management practices used.  &lt;br&gt;<strong>Compliance</strong> – Transport Agency and legislative requirements met.  &lt;br&gt;<strong>Findings/deficiencies</strong> – opportunities for improvement may be identified for consideration.</td>
</tr>
<tr>
<td><strong>Some improvement needed</strong></td>
<td><strong>Investment management</strong> – acceptable systems, processes and management practices but opportunities for improvement.  &lt;br&gt;<strong>Compliance</strong> – some omissions with Transport Agency requirements.  &lt;br&gt;No known breaches of legislative requirements.  &lt;br&gt;<strong>Findings/deficiencies</strong> - error and omission issues identified which need to be addressed</td>
</tr>
<tr>
<td><strong>Significant improvement needed</strong></td>
<td><strong>Investment management</strong> – systems, processes and management practices require improvement.  &lt;br&gt;<strong>Compliance</strong> – significant breaches of Transport Agency and/or legislative requirements.  &lt;br&gt;<strong>Findings/deficiencies</strong> – issues and/or breaches must be addressed or on-going Transport Agency funding may be at risk.</td>
</tr>
<tr>
<td><strong>Unsatisfactory</strong></td>
<td><strong>Investment management</strong> – inadequate systems, processes and management practices.  &lt;br&gt;<strong>Compliance</strong> – multiple and/or serious breaches of Transport Agency or legislative requirements.  &lt;br&gt;<strong>Findings/deficiencies</strong> – systemic and/or serious issues must be urgently addressed or on-going Transport Agency funding will be at risk.</td>
</tr>
</tbody>
</table>
## APPENDIX C

### PUBLIC TRANSPORT CONTRACTS AUDITED

<table>
<thead>
<tr>
<th>Contract Number</th>
<th>Tenders Received</th>
<th>Date Let</th>
<th>Description</th>
<th>Contractor</th>
<th>Estimate Let Price</th>
<th>Final Cost</th>
<th>Contract Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>PTOM Unit 1</td>
<td>6</td>
<td>July 2016</td>
<td>Hamilton East (western side of Waikato River)</td>
<td>Pavlovich Transport Solutions</td>
<td>$4,862,297</td>
<td>$5,179,000</td>
<td>Ongoing</td>
</tr>
<tr>
<td>PTOM Unit 2</td>
<td>8</td>
<td>July 2016</td>
<td>Hamilton East (largely on eastern side of Waikato River including the Orbiter service)</td>
<td>Go Bus</td>
<td>$8,047,841</td>
<td>$8,047,841</td>
<td>Ongoing</td>
</tr>
<tr>
<td>PTOM Unit 3</td>
<td>5</td>
<td>July 2016</td>
<td>North Waikato</td>
<td>Go Bus</td>
<td>$1,222,018</td>
<td>$1,222,018</td>
<td>Ongoing</td>
</tr>
<tr>
<td>PTOM Unit 4</td>
<td>6</td>
<td>July 2016</td>
<td>East Waikato</td>
<td>Go Bus</td>
<td>$296,021</td>
<td>$341,313</td>
<td>Ongoing</td>
</tr>
<tr>
<td>PTOM Unit 5</td>
<td>6</td>
<td>July 2016</td>
<td>West Waikato</td>
<td>Go Bus</td>
<td>$428,470</td>
<td>$480,003</td>
<td>Ongoing</td>
</tr>
</tbody>
</table>
Investment Audit of Waikato Regional Council

Report Number: IAGMI - 1784

Prepared by: 

Glenn McGregor, Senior Investment Auditor

Reviewed by: 

Tony Pinn, Senior Investment Auditor

Approved by: 

Jenny Fildes, Practice Manager Audit and Assurance
Report to Audit and Risk Committee

Date: 20 October 2017
Author: Sarah Jones, Senior Legal Advisor
Authoriser: Karen Bennett, Manager Chief Executive’s Office
Subject: Risk Management Activity and Key Projects Update
Section: A (Committee has delegated authority to make decision)

Purpose
1. To update the Audit and Risk Committee on risk management activities and key project risks.

Executive Summary
2. The report provides an update on the following:
   - Corporate risks and associated mitigation actions;
   - Health and safety;
   - Annual Leave Balances;
   - Legislative compliance;
   - Feedback and complaints;
   - Office of the Auditor General – Regional Council Progress in Managing Impacts on Freshwater Quality 2017;
   - Block D carpark; and
   - Healthy Rivers/ Wai Ora Project.

Staff Recommendation:
That the report “Risk management activity and key projects update” (Doc# 10944202 dated 20 October 2017) be received.

Risk management activity update

Background
3. Waikato Regional Council’s (WRC) risk management framework is used for risk assessment (risk identification, analysis, evaluation and monitoring) at corporate, directorate and project levels.

4. The Risk Forum and other staff continue to review and update all key organisational risk controls, including those for the new risks. The Risk forum has also been involved in identifying requirements for a risk management software solution and a new training programme for staff.

Corporate risk register
5. As part of the regular risk review process, staff have reviewed WRC’s corporate risk management plans and provided updates where appropriate.

6. Corporate risks are those identified and managed by the Chief Executive and Executive Leadership Team (ELT).
7. These risks:
   - are linked to external influences that affect the effectiveness of council operations;
   - are common to more than one activity;
   - impact on the council’s ability to meet service levels or react to emergencies; and
   - are specific to key projects or critical activities.

8. Mitigation actions
   For the last quarter: three actions have been completed, 21 are on track and there are four new actions. Three actions have been amended to reflect changed timeframes. These changes are reported in greater detail below, with all actions colour coded in the following tables.

9. Changed timeframes
   Three timeframes have been extended for the following reasons:
   - CORP05(1) - all outstanding actions are being managed, the most significant related to sourcing an appropriate provider to support the education and awareness objective around risk management processes. A provider was identified recently and planning has commenced for the pilot and evaluation of the internal training programme by March 2018.
   - CORP07(1) – whilst most of the business planning template has been completed it has been put together using a modular approach through the LTP, i.e. each time an activity lead finishes a part of the LTP process it is translated into their business plan. The completion date is being extended to align with the end of the LTP process. At the end of the LTP process each activity will have a standard business plan with all their LTP information which needs to be updated on an annual basis.
   - CORP09(1) – the timeframe for completion was 31 December 2017. Whilst this is on track for partial completion by that date, with employment of staff in vacant roles and refinement of processes and procedures, the completion date needs to be extended with regards to the setting of security passwords and controls on who can access data due to limitations of the database software. These limitations are currently being addressed with the provider.
<table>
<thead>
<tr>
<th>RISK NO</th>
<th>RISK</th>
<th>CURRENT RISK SCORE</th>
<th>RESIDUAL RISK SCORE</th>
<th>TREND</th>
</tr>
</thead>
<tbody>
<tr>
<td>CORP01</td>
<td>WRC is unable to provide the necessary emergency response internally and externally in the event of natural hazard, pollution or biosecurity events. <strong>Statement:</strong> WRC accepts a medium risk rating with all reasonable controls in place, recognising that the costs of implementing further controls across the region would be prohibitive.</td>
<td>Medium</td>
<td>Medium</td>
<td>↑Constant vigilance required in light of climate change impacts and biosecurity incursion risk.</td>
</tr>
<tr>
<td>CORP02</td>
<td>Non-compliance with legislation resulting in possible reputational damage, judicial reviews of council decisions, appointment of commissioners, Ombudsman enquiries, or legal action. <strong>Statement:</strong> WRC has a low tolerance for risk in regard to its legislative obligations, recognising that as an effective and responsible public body, WRC must endeavour to keep apprised of changing legislation and at all times must meet its legislative obligations. Only temporary, inconsequential breaches will be tolerated.</td>
<td>Medium</td>
<td>Medium</td>
<td>↓The residual risk is currently rated medium. However, the risk is expected to decrease due to better/timely information to ensure WRC is abreast of legislative changes.</td>
</tr>
<tr>
<td>CORP03</td>
<td>Ineffective partnership relationships or stakeholder engagement or public relations leading to an inability to work with others to achieve strategic objectives and loss of confidence in service delivery. <strong>Statement:</strong> WRC accepts a medium risk rating. The organisation has a responsibility to maintain mutually beneficial relationships with partners and stakeholders while recognising there are inherent risks in any relationship that are outside the council’s control.</td>
<td>High</td>
<td>High</td>
<td>↓Risk expected to decrease following implementation of key strategies, however much remains outside WRC control.</td>
</tr>
<tr>
<td>CORP04</td>
<td>Inability to shape a positive organisational culture leading to poor employee engagement, performance and customer service. <strong>Statement:</strong> WRC accepts a low level of risk recognising positive, engaged and capable people are central to the organisation’s ability to meet its strategic objectives.</td>
<td>High</td>
<td>Low</td>
<td>↓Risk decreases as leadership and organisational culture initiatives are implemented.</td>
</tr>
<tr>
<td>CORP05</td>
<td>Injury or illness to staff, contractors or others in the workplace as a result of an unsafe, unhealthy work environment and facilities. <strong>Statement:</strong> WRC is committed to reducing to reasonably practicable levels all identified health and safety risks and meeting all its obligations under health and safety legislation.</td>
<td>High</td>
<td>Medium</td>
<td>↓Risk expected to decrease following the implementation of health and safety initiatives.</td>
</tr>
<tr>
<td>CORP06</td>
<td>Information technology strategy, systems or infrastructure fail or are inadequate, resulting in an inability to deliver key services or to support current and future business needs. <strong>Statement:</strong> WRC accepts a medium risk environment but aspires to a lower risk environment within quality/time/cost parameters appropriate for a local authority.</td>
<td>High</td>
<td>Medium</td>
<td>↓Risk will decrease following the implementation of IT audit findings and BCP requirements.</td>
</tr>
<tr>
<td>CORP07</td>
<td>Ineffective planning processes impact on the Council’s ability to deliver on projects outlined in the LTP. <strong>Statement:</strong> WRC accepts a medium risk environment but aspires to a lower risk environment within quality/time/cost parameters.</td>
<td>High</td>
<td>Medium</td>
<td>↑WRC is being asked to do more with less therefore the council must ensure effective planning and prioritisation</td>
</tr>
<tr>
<td>CORP08</td>
<td>Inadequate management of operational processes may lead to misinformed or inappropriate decision making or overspend (includes funding of third parties). <strong>Statement:</strong> WRC accepts and operates in a low residual risk environment. Council has clear strategic, reporting and operations objectives and a prioritisation process to ensure public money is applied effectively.</td>
<td>High</td>
<td>Low</td>
<td>↓Risk will decrease due to implementation of key organisational strategies and processes</td>
</tr>
<tr>
<td>CORP09</td>
<td>Misuse of data externally or internally unintentionally or through criminal intent could expose WRC to financial, reputational and legal risk as well as damage to stakeholder relationships. <strong>Statement:</strong> WRC accepts that it operates in a medium risk environment but aspires to a lower risk environment within quality/time/cost parameters.</td>
<td>High</td>
<td>Medium</td>
<td>↓Risk will decrease due to implementation of key strategies in place</td>
</tr>
<tr>
<td>CORP10</td>
<td>Failure to deliver on the policies and actions detailed in the Waikato Regional Policy Statement resulting in reputational damage, environmental harm, and costs to the community. <strong>Statement:</strong> WRC has a low tolerance for risk in regard to its resource management role.</td>
<td>High</td>
<td>Medium</td>
<td>New key risk controls are currently managed at directorate level and are being reviewed corporately</td>
</tr>
</tbody>
</table>
10. Corporate risk register – List of mitigation actions

<table>
<thead>
<tr>
<th>No.</th>
<th>Mitigation Actions</th>
<th>Owner</th>
<th>Completion Date</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Marine Organism Pathway Management Plan (Regional Councils)</td>
<td>Patrick Whaley</td>
<td>31/12/2017</td>
<td>On track</td>
</tr>
<tr>
<td>2</td>
<td>National Biosecurity Response Preparedness (including Foot and Mouth Preparedness Programme) WRC are participating in all stages of this work with MPI.</td>
<td>Patrick Whaley</td>
<td>Ongoing</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Inter-Regional Border Incursions Surveillance Programme.</td>
<td>Patrick Whaley/Darion Embling</td>
<td>Ongoing</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Regional Natural Hazards Strategy (Phase 2 – external)</td>
<td>Rick Liefting</td>
<td>30/06/2018</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Emergency Response Framework</td>
<td>Rick Liefting</td>
<td>31/12/2017</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Flood Response Framework</td>
<td>Rick Liefting</td>
<td>Complete</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Create a Funding Policy for Emergency Response</td>
<td>Lee Hazlewood</td>
<td>11/12/2017</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Annual review of Service Level Agreement between WRC and Waikato Civil Defence Emergency Management Group.</td>
<td>Lee Hazlewood</td>
<td>30/10/2017</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>CDEM Section Business Recovery Plan</td>
<td>Lee Hazlewood</td>
<td>25/09/2017</td>
<td></td>
</tr>
</tbody>
</table>

11. CORP01: WRC is unable to provide the necessary emergency response internally and externally in the event of natural hazard, pollution or biosecurity events

<table>
<thead>
<tr>
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<th>Completion Date</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Marine Organism Pathway Management Plan (Regional Councils)</td>
<td>Patrick Whaley</td>
<td>31/12/2017</td>
<td>On track</td>
</tr>
<tr>
<td>2</td>
<td>National Biosecurity Response Preparedness (including Foot and Mouth Preparedness Programme) WRC are participating in all stages of this work with MPI.</td>
<td>Patrick Whaley</td>
<td>Ongoing</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Inter-Regional Border Incursions Surveillance Programme.</td>
<td>Patrick Whaley/Darion Embling</td>
<td>Ongoing</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Regional Natural Hazards Strategy (Phase 2 – external)</td>
<td>Rick Liefting</td>
<td>30/06/2018</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Emergency Response Framework</td>
<td>Rick Liefting</td>
<td>31/12/2017</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Flood Response Framework</td>
<td>Rick Liefting</td>
<td>Complete</td>
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</tr>
<tr>
<td>7</td>
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<td>11/12/2017</td>
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<td>Lee Hazlewood</td>
<td>30/10/2017</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>CDEM Section Business Recovery Plan</td>
<td>Lee Hazlewood</td>
<td>25/09/2017</td>
<td></td>
</tr>
</tbody>
</table>

12. CORP02: Non-compliance with legislation resulting in possible reputational damage, judicial reviews of council decisions, appointment of commissioners, Ombudsman enquiries, or legal action

<table>
<thead>
<tr>
<th>No.</th>
<th>Mitigation Actions</th>
<th>Owner</th>
<th>Completion Date</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Conduct six monthly ComplyWith surveys in all Directorates</td>
<td>Toni Dobson</td>
<td>Ongoing</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Memorandum of Understanding between Resource Use and Integrated Catchment Management Directorates</td>
<td>Greg Ryan</td>
<td>30/8/2017</td>
<td></td>
</tr>
</tbody>
</table>
13. **CORP03**: Ineffective partnership relationships stakeholder engagement or public relations leading to an inability to work with others to achieve strategic objectives and loss of confidence in service delivery

<table>
<thead>
<tr>
<th>No.</th>
<th>Mitigation Actions</th>
<th>Owner</th>
<th>Completion Date</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Implementation of Customer Information Management System</td>
<td>Nicola Chrisp</td>
<td>30/06/2018</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Implementation of Customer Engagement Strategy</td>
<td>Nicola Chrisp</td>
<td>Strategy was completed in March 2017. Implementation is Ongoing</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Implementation of Stakeholder Engagement Strategy</td>
<td>Nicola Chrisp</td>
<td>Strategy will be completed in December 2017 and the implementation is ongoing</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Completion of the Maori Engagement Strategy</td>
<td>Melissa King-Howell</td>
<td>27/3/2018</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>LGNZ Excellence Programme Improvement Plan agreed identifying key areas for improvement, timeframes and responsibilities (quantitative assessment NZ only)</td>
<td>Tracey Powrie</td>
<td>31/3/2018</td>
<td></td>
</tr>
</tbody>
</table>

14. **CORP04**: Inability to shape a positive organisational culture leading to poor employee engagement, performance and customer service

<table>
<thead>
<tr>
<th>No.</th>
<th>Mitigation Actions</th>
<th>Owner</th>
<th>Completion Date</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Implementation of Realising our Potential project to develop and deliver a leadership development programme and organisational culture roadmap.</td>
<td>Nick Ollington</td>
<td>Phase one 30/08/2018</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Implementation of the People Strategy</td>
<td>Nick Ollington</td>
<td>30/06/2018</td>
<td></td>
</tr>
</tbody>
</table>

15. **CORP05**: Injury or illness to staff, contractors or others in the workplace as a result of an unsafe, unhealthy work environment and facilities

<table>
<thead>
<tr>
<th>No.</th>
<th>Mitigation Actions</th>
<th>Owner</th>
<th>Completion Date</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Implementation of Asbestos Report Process Review actions.</td>
<td>Nick Ollington</td>
<td>1/03/2018</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Drive continuous improvement through the implementation and monitoring of the Directorate Specific Action Plans.</td>
<td>Nick Ollington</td>
<td>30/06/2018</td>
<td></td>
</tr>
</tbody>
</table>
16. **CORP06**: Information technology strategy, systems or infrastructure fail or are inadequate, resulting in an inability to deliver key services or to support current and future business needs

<table>
<thead>
<tr>
<th>No.</th>
<th>Mitigation Actions</th>
<th>Owner</th>
<th>Completion Date</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Risk management system requirements and business case approved</td>
<td>Karen Bennett</td>
<td>31/12/2017</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Risk management system implemented and operational</td>
<td>Karen Bennett</td>
<td>30/06/2018</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Strategic Information Systems Plan implementation</td>
<td>John Crane</td>
<td>Ongoing</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Completion of the IT Security Plan (post PwC Security Assessment, March 2016)</td>
<td>John Crane</td>
<td>31/12/2017</td>
<td></td>
</tr>
</tbody>
</table>

17. **CORP07**: Ineffective planning processes impacts on Council’s ability to deliver on projects outlined in the LTP

<table>
<thead>
<tr>
<th>No.</th>
<th>Mitigation Actions</th>
<th>Owner</th>
<th>Completion Date</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Integrated Business Planning and Budgeting (IBP&amp;B) Framework implementation</td>
<td>Nicole Hubbard</td>
<td>30/06/2018</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Project Portfolio Management System implemented and operational.</td>
<td>Tracey Powrie</td>
<td>30/09/2017</td>
<td>Ongoing for progression of the use of the tool</td>
</tr>
</tbody>
</table>

18. **CORP08**: Inadequate management of operational processes may lead to misinformed or inappropriate decision making or overspend (includes funding of third parties)

<table>
<thead>
<tr>
<th>No.</th>
<th>Mitigation Actions</th>
<th>Owner</th>
<th>Completion Date</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Directorates to continue to map and regularly review key Directorate and organisational business processes (Promapp and continuous improvement).</td>
<td>Tracey Powrie</td>
<td>Ongoing</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Enhancement of the project management framework to support decision making i.e. governance, reporting (including financials).</td>
<td>Tracey Powrie</td>
<td>1/12/2018</td>
<td>Ongoing</td>
</tr>
</tbody>
</table>
19. CORP09: Misuse of data externally or internally, unintentionally or through criminal intent could expose WRC to financial, reputational and legal risk as well as damage to stakeholder relationships

<table>
<thead>
<tr>
<th>No.</th>
<th>Mitigation Actions</th>
<th>Owner</th>
<th>Completion Date</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Establish internal centre of excellence around data collection, storage, accessibility, quality assurance and analysis for environmental monitoring.</td>
<td>Tracey May</td>
<td>31/12/2018</td>
<td></td>
</tr>
</tbody>
</table>

20. CORP10: Failure to deliver on the policies and actions detailed in the Waikato Regional Policy Statement resulting in reputational damage, environmental harm, and costs to the community

<table>
<thead>
<tr>
<th>No.</th>
<th>Mitigation Actions</th>
<th>Owner</th>
<th>Completion Date</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A report to Audit and Risk Committee showing progress against the Regional Policy Statement will be updated twice a year.</td>
<td>Annika Lane</td>
<td>Ongoing</td>
<td></td>
</tr>
</tbody>
</table>

Health and safety

Background
21. The health and safety dashboard is reported to council each month. It is designed to enable WRC to exercise due diligence with regard to health and safety governance and provides a general summary of health and safety risk and activities within WRC.

22. Note that the dashboard will continue to be under development until the safety management system has been fully implemented.

Written Report - Dashboard September 2017
23. Notifications to WorkSafe NZ - There were no notifications to WorkSafe in September 2017.

24. Lost Time Injuries (LTI) – There were no LTIs reported for the month of September 2017.

25. Lost time Injuries (YTD) – None YTD.

26. Critical Risks – Review of WRC critical risks continues to progress. The two critical risks under review in September are: vehicle use and contractor activities. The dashboard provides an organisational critical risk table showing the critical risks, the raw (pre control), and residual (post control) risk scoring.

27. There was one event reported against the vehicle use critical risk presented in the dashboard for September. This event resulted in minor damage to both vehicles.

28. In this report the Critical Risk Effectiveness Levels have been amended to align to the five categories contained in WRC’s Risk Management Framework - Excellent, Good (strong), Fair (some strength), Poor (weak), Very Poor (very weak).

29. Although scored as a high risk rather than a critical risk, working alone or in isolation will remain on the dashboard until the new check-in system (call-in procedure) is fully in place. Twenty three devices went ‘live’ on 29 and 30 June and a further 17 were implemented in September 2017.
30. **Pending Events** – There were 2 pending events for September 2017. The pending events in the ‘pending event register’ await allocation by the line manager to the ‘event register’. Unless these events are moved to the event register, they are not captured in the reporting data for the month.

31. **Health and Safety Summary Chart (pyramid)** - There were six reports of injuries not requiring treatment in September; three reports of discomfort attributed to workstations, two events of bruising after being struck by objects, and one after being scratched by branches. One event required medical treatment after a fall, resulting in a laceration to their hand. There was one first aid treatment for bruising to shoulder following contact with a moving door.

32. **Near Miss Events versus All Other Events** – Near-miss reporting has remained reasonably constant. Near-miss reporting provides an opportunity for improvement prior to an event occurring. Investigation of events pending greater than one week has increased slightly from 11.07% in August to 12.5% in September 2017.

33. **Sick Leave Taken** – Sick leave for August resulted in an average of 6.0 hours lost per FTE. This was above the target benchmark of 3.0 to 5.0 hours lost on average per FTE. In September average hours lost per FTE due to sickness reduced to 4.4, within the benchmark range. The rolling average (last 12 months) for September is 5.0 hour lost per FTE, which is within the target benchmark range.

34. **Health and Safety Training FYTD** – A range of organisational health and safety training is available and advertised on the workforce development calendar. Key courses for August, September and November include health and safety contract management training.

35. **Event Corrective Actions (excl. Near Miss Corrective Actions)** – Of the fifteen reported events, seven have had corrective actions assigned and completed. No incidents are overdue for completion.

36. **Near Miss Corrective Actions** – Reviewing near misses and implementing corrective actions provides an opportunity to implement corrective actions prior to an event occurring. It is important to note that some incidents will have more than one corrective action assigned to the event. One of the nine near miss reports has had two corrective actions assigned, of which the one corrective action is completed and one not yet started. No corrective actions are overdue.

37. **Audits FYTD** - See internal/external audits table for details of completed audit recommendations.

**Annual Leave Management**

**Background**

38. WRC annual leave policy provides for up to 6 weeks’ annual leave balance being held, with Director approval required to carry over leave balances beyond this.

39. Regular monitoring of annual leave balances has been in place since August 2016 to ensure balances do not accrue to excessive levels. A reduction to 20 or fewer staff with balances above 280 hours is targeted.
Current State

40. The table below sets out WRC annual leave balances as at 12 October 2017.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>8 Weeks + 320 Hours +</td>
<td>24</td>
<td>21</td>
<td>15</td>
<td>13</td>
<td>19</td>
<td>23</td>
<td>-1 -4%</td>
</tr>
<tr>
<td>7 Weeks + 280 Hours +</td>
<td>41</td>
<td>44</td>
<td>30</td>
<td>31</td>
<td>43</td>
<td>43</td>
<td>+2 +5%</td>
</tr>
</tbody>
</table>

41. There are six employees with annual leave balances in excess of 400 hours.

42. Although the overall numbers of staff holding high leave balances has not been reduced, on average staff leave balances are lower compared to the equivalent period 12 months ago.
   - Average leave balance as at 28 September 2016: 146.59 hours
   - Average leave balance as at 28 September 2017: 139.80 hours

43. Analysis of leave taken in blocks by executive and section managers shows that all managers have taken annual leave since January 2017. There are three section managers who have not taken leave in a block of a week or more. These staff members will be encouraged to take leave.

44. Where an appropriate leave management plan is not able to be agreed, consideration will be given to requiring staff with leave balances of greater than 320 hours to take leave.

Legislative Compliance (ComplyWith)

45. Compliance surveys were sent out to staff for the period 1 April 2017 to 30 September 2017. Reporting timeframes have been extended because of staff involvement in LTP matters and so updates will be provided to the Committee in March 2017. ComplyWith will also be launching improved reporting options in December 2017.

Policy review schedule

46. A separate report entitled Policy Review Schedule Update has been provided to update the committee on the policies that are due for review/renewal this quarter.

Feedback and complaints

47. Analysis of feedback and complaints over the past three months indicates customers’ main complaint is that WRC does not respond to their initial inquiry in a timely way. This issue will be addressed through the Customer Project which is due to be completed by January 2018. One of the aims of the project is to embed the expectation that our staff will respond to a customer’s request within two working days.

48. As at 30 September 2017:
   - 110 complaints remained open:
     - 36 – 0-10 working days
     - 74 – older than two weeks
49. As reported previously, the greatest number of complaints relate to public transport. This should be viewed in the context of volume – approximately 4 million passenger trips a year. As at 30 September, 101 of the 110 open complaints were about public transport.

50. Refer to Appendix 2 for the feedback and complaints report for the period July to September 2017.

Office of Auditor General – Regional Council Progress in Managing Impacts on Freshwater Quality 2017

51. The Audit and Risk Committee has asked for assurance that WRC is managing the region’s natural resources effectively. Aligned to this request, the committee is advised that in late 2017 the Office of the Auditor General (OAG) will start a review of WRC’s progress in managing impacts on freshwater quality. The audit will revisit the recommendations of OAG 2011 report on freshwater management and examine how well the public sector manages water and delivers services that affect or make use of water. WRC is one of four regional councils involved in the review.

52. The OAG 2011 report concluded:

“Based on my detailed audit findings and analysis of scientific monitoring data, I conclude that Waikato Regional Council and Environment Southland are not adequately managing the causes of non-point source discharges in their regions. In both regions, significant intensification of land use (dairy farming) has meant more pressure on freshwater quality. The current regulatory and non-regulatory methods, and how they are being implemented in these regions, are not enough to reduce the known risks of freshwater quality. Both councils are trying to tackle the challenges of non-point source discharges and their cumulative effects, and there are some signs of improvement, but there is still significant work to be done.”

53. The OAG 2011 report also included a number of recommendations that pointed toward the need for a more integrated approach to freshwater management, specifically:

- Collaboration at all levels;
- Sharing knowledge and information;
- A holistic approach to managing freshwater; and
- Strong links between freshwater management planning and using scientific monitoring.

54. The matters above have very much influenced the approach that WRC has taken in the interceding period from 2011 until now.

55. Appendix 3 provides an overview of the matters that the OAG has signalled will form part of their 2017/18 work programme, with the first tranche set to begin soon with staff completing structured self-assessment surveys focusing on four lines of inquiry:

- How well have regional councils developed and adopted clear objectives for freshwater quality?
- Do regional councils know the quality of their freshwater through effective freshwater quality monitoring, analysis, and reporting systems?
- Do regional councils take effective action to manage the impacts on freshwater quality?
- Do regional councils take opportunities to assess and improve their performance towards meeting freshwater quality objectives?

56. Following the self-assessment staff from OAG will be on-site for a week in late November/early December 2017 gathering further evidence and conducting interviews with key staff.

57. The audit will provide the Council with a view of efficiency and effectiveness in regard to freshwater management, with a particular focus on the contribution of data to inform good decision making. Regular updates will be provided to the Committee.
Block D Car Park

58. WRC’s performance was comprehensively and independently assessed in March 2017 as part of the CouncilMARK™ local government excellence programme, resulting in an A rating. One of the areas of improvement noted was that “The Council’s earthquake-prone carpark building must be added to the risk register”.

(Refer to WRC assessment report).

59. In 2016 WRC engaged engineering consultants Holmes Consulting Group (HCG) to assess the seismic risk of WRC buildings at 401 Grey Street. Block D (the carpark for WRC fleet vehicles) was assessed as potentially earthquake prone.

60. Advice from HCG with respect to Block D was:

“With the Waikato Regional Council looking at options for relocation or redevelopment of their primary offices at present, the earthquake prone building status of the building stock should be a significant data set to input into the master planning process and the master planning should inform the planning of strengthening/addressing of earthquake prone buildings. Thus the two plans should be coordinated before finalising priorities for strengthening works, and allocating funding into budgets.”

61. Staff were informed of the status of Block D on 25 November 2016 via the bulletin from the Chief Executive.

62. Under the Building Act 2004 a territorial authority has 5 years (from 1 July 2017) to identify earthquake prone priority buildings (i.e. schools, hospitals, emergency facilities) and 10 years for all other buildings. If a building is assessed as earthquake prone then there are different time frames for the required strengthening work to occur dependent on the seismic risk of the area where the building is located and whether or not the building is a priority building.

63. Block D is not a priority building and is located in Hamilton which is at the very bottom of the medium seismic risk rating. Accordingly if WRC was issued an earthquake prone building notice from Hamilton City Council it would have 25 years to strengthen Block D from the date of the notice. No such notice has been issued.

64. As a business plan was underway for the new accommodation project (sale of 401 Grey Street and move to a leased premises) it was decided to focus on funding the new accommodation rather than progressing to upgrade the Block D carpark.

Key organisational project updates

Proposed Waikato Regional Plan Change 1 - Waikato and Waipa River Catchments (Healthy Rivers / Wai Ora)

65. Proposed Waikato Regional Plan Change 1 Waikato and Waipa River Catchments (PPC1) was publicly notified on 22 October 2016, with the submission period closing on 8 March 2017.

Withdrawn north-east portion

66. On 3 December 2016 Council withdrew part of PPC1 as it applies to the north-east portion of the Waikato River catchment to allow WRC time to undertake consultation with Hauraki Iwi authorities in the area. Consultation and preparation of a Plan change/variation that incorporates feedback from Hauraki Iwi is being finalised for consideration. Staff are working with River Iwi representatives to ensure that a clearly defined and mutually supported process for reaching agreement is in place, a process that meets joint management agreements’ requirements in a manner that is as timely as possible. Post Councillor and Iwi governors workshops Hauraki iwi feedback will be considered by the Te Ropu Hautu Steering Group on 8 November 2017 and will then be forwarded to the Healthy Rivers Wai Ora Committee shortly thereafter.
Submissions management
67. Submissions on PPC1 closed on 8 March 2017. At the time of writing 1023 submissions had been received and summarised with less than 40 awaiting a final quality assurance check. A summary of these submissions is planned to be placed on the WRC website on 30 October 2017. This will be for information only and a call for further submissions will take place in early 2018, in conjunction with a call for further submissions on the re-notified north-east portion.

Decisions on submissions
68. The process by which decisions on PPC1 submissions are made, as well the decisions themselves, may be challenged. The appointment of an independent Hearings Panel, to make recommendations to Council with respect to decisions on submissions, is an important tool for managing risks in this respect.

69. Calls for registrations of interest (ROI) from potential Hearing Commissioners has been made via the Government Electronic Tenders Service (GETS) and a Ministry for the Environment mail out to registered Hearing Commissioners. The ROI closed on 28 April 2017. As agreed by Council resolution, the process for appointment, which includes a Te Roopu Hautu sub-group, has been established to evaluate the responses received and to undertake interviews with potential Independent Hearing Panel members. This process is presently in train. It is anticipated that a recommendation with respect to appointment of Independent Hearing Commissioners will be made to Te Ropu Hautu Steering Group, through to the Healthy Rivers Wai Ora Committee and then to Council in November 2017.

Conclusion
70. This report provides relevant updates on WRC’s risk management activities and key projects.

Appendix 1: Health and safety Dashboard
Appendix 2: Feedback and Complaints Report
Appendix 3: Proposed OAG Performance audits and other work under the Water theme 2017/2018
## Council Health and Safety Indicators – Monthly Dashboard

### Reporting Month: September 2017

#### Lost Time Injuries – September

There were no lost time injuries for the month of September 2017.

#### Organisational Critical Risks – critical risks with a residual score of ‘High’

<table>
<thead>
<tr>
<th>Critical and High Risks (those with a risk score of 10 or higher)</th>
<th>Raw Risk Score</th>
<th>Residual Risk Score</th>
<th>Risk Effectiveness Levels</th>
<th>Insights</th>
<th>Reported incidents</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trailer use</strong> Risk: Multiple injuries/fatality to self and others. Impact: Physical harm, property damage, public liability.</td>
<td>25 - Critical</td>
<td>15 - High</td>
<td>Good (strong)</td>
<td>Fulfils requirements. Controls adequate and in place.</td>
<td></td>
</tr>
<tr>
<td><strong>Vehicle use</strong> Risk: Personal injury – multiple injuries (self and others), fatality, property damage. Impact: Physical harm, property damage.</td>
<td>25 - Critical</td>
<td>15 - High</td>
<td>Excellent</td>
<td>Fulfils requirements. Controls are adequate. Risk under review.</td>
<td>1</td>
</tr>
<tr>
<td><strong>Contractor activities:</strong> Risk: Harm to workers, others, damage to plant and property due to poor contractor management. Impact: Financial, legal, reputation, environmental.</td>
<td>20 – Critical</td>
<td>12 – High</td>
<td>Good (strong)</td>
<td>Fulfils requirements. Further improvement opportunities identified following audit and training. Contract manager training in place (NZQA Unit Standard 17595). Risk under review.</td>
<td></td>
</tr>
<tr>
<td><strong>Working in or over water</strong> Risk: Drowning, physical harm. Impact: Legal, physical harm, reputation.</td>
<td>20 – Critical</td>
<td>15 – High</td>
<td>Good (strong)</td>
<td>Controls adequate. Water Working Policy review is underway, and now included competency assessment.</td>
<td></td>
</tr>
<tr>
<td><strong>Aggressive people/public</strong> Risk: Assault, verbal and physical. Impact: Physical and psychological harm, property damage</td>
<td>20 – Critical</td>
<td>15 – High</td>
<td>Good (strong)</td>
<td>Controls adequate. Staff training in situational safety and tactical communications from February 2016. Will be improved with the implementation of the new security procedures.</td>
<td></td>
</tr>
<tr>
<td><strong>Struck by moving vehicles / equipment</strong> Risk: Harm to workers, others, damage to plant and property due to poor management controls. Impact: Financial, legal, physical harm, reputation, property damage.</td>
<td>20 – Critical</td>
<td>10 – High</td>
<td>Good (strong)</td>
<td>Controls adequate. Reviewed by Governance Group in November 2016.</td>
<td></td>
</tr>
<tr>
<td><strong>Working alone or in isolation while conducting high risk work</strong> Risk: Lack of access to immediate support (two way communication) in the event of an emergency. Impact: Legal, reputation.</td>
<td>15 – High</td>
<td>12 – High</td>
<td>Good (strong)</td>
<td>Controls adequate. Stage two of InReach devices has been rolled out (25, 26 September 2017). Complete gap analysis to ensure all staff adequately covered.</td>
<td></td>
</tr>
</tbody>
</table>

Two risks are currently under review; vehicle use and contractor activities. Risks are reviewed at least annually by the Governance Group in conjunction with the H&S BPs, subject matter experts, and Health and Safety Committee. Risks are also reviewed after a system / process change, or after a critical event.

#### Pending Events – events not captured in the September event report

There were 2 pending events for September. Consequently, these have not been captured in the September report.
Health and Safety Summary

Injuries/Illnesses

<table>
<thead>
<tr>
<th>Category</th>
<th>Body Location</th>
<th>Event Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>No treatment</td>
<td>Sprain/strain Arm / Head</td>
<td>Underway</td>
</tr>
<tr>
<td>No treatment</td>
<td>Gradual process Neck/shoulder discomfort</td>
<td>Underway</td>
</tr>
<tr>
<td>No treatment</td>
<td>Bruising Arm – hit on opening door</td>
<td>Not started</td>
</tr>
<tr>
<td>No treatment</td>
<td>Gradual process Back pain / previous injury</td>
<td>Not started</td>
</tr>
<tr>
<td>No treatment</td>
<td>Abrasion Arm –descending structure</td>
<td>Completed</td>
</tr>
<tr>
<td>Medical</td>
<td>Laceration Hand – fell down stairs</td>
<td>Underway</td>
</tr>
<tr>
<td>First aid</td>
<td>Bruising Shoulder – hit by lift door</td>
<td>Not started</td>
</tr>
</tbody>
</table>

Sick Leave

- Sick leave for August was 6.0, above the target benchmark of 3.0 to 5.0. In September, leave dropped to 4.4, within the benchmark range.
- The rolling average for September is 5.0, within the target benchmark range.
- Sick leave levels exceeding the target benchmark continue to significantly affect the rolling average.

Event Corrective Actions (excl. Near Miss Corrective Actions)

- In September 2017, a total of 15 events (excluding near misses) were reported (refer to red line in previous graph).
- 7 of the 15 events reported have had corrective actions assigned, of which 7 are completed.

Near Miss Summary

- In September 2017, a total of 9 near misses were reported (refer to green line in above graph).
- 1 of the 9 near misses reported have had 2 corrective actions assigned. 1 corrective action is completed and 1 corrective action has not yet started.

Pending Events

- Events pending > 1 week has increased from 11.07% in August 2017 to 12.5% in September 2017.
<table>
<thead>
<tr>
<th>Course</th>
<th>Duration</th>
<th>Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contractor Management (NZQA 17595)</td>
<td>1 Day</td>
<td>11 August, 8 &amp; 11 September, 15 November</td>
</tr>
<tr>
<td>Risk Management</td>
<td>½ Day</td>
<td>TBC</td>
</tr>
<tr>
<td>First Aid Training</td>
<td>1 Day</td>
<td>From August 2017</td>
</tr>
<tr>
<td>Vault training for Managers, Team Leaders and Supervisors</td>
<td>3 hrs</td>
<td>11 September, 13 November, 2018 training to be scheduled</td>
</tr>
<tr>
<td>Vault training for Business Support staff</td>
<td>3 hrs</td>
<td>11 September, 13 November, 2018 training to be scheduled</td>
</tr>
</tbody>
</table>

- A total of 46 people have attended Contractor Management training

### Internal / External Audit

<table>
<thead>
<tr>
<th>Scope</th>
<th>Section/ Auditor</th>
<th>Audit Classification</th>
<th>Date of audit</th>
<th>Total Actions</th>
<th>Completion date</th>
<th>Completed Actions</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal Audits</strong></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>P&amp;F</td>
<td>Contractor management/risk management</td>
<td>December 2016</td>
<td>21</td>
<td>December 2017</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Community and Services</td>
<td>C&amp;S</td>
<td>AS/NZ 4801 - WSMP full audit (table top)</td>
<td>April 2017</td>
<td>4</td>
<td>November 2017</td>
<td>4</td>
<td>All actions completed</td>
</tr>
<tr>
<td>ICM</td>
<td>ICM</td>
<td>Training and supervision</td>
<td>April 2017</td>
<td>17</td>
<td>November 2017</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Resource Use</td>
<td>RUD</td>
<td>Risk management/contractor management</td>
<td>November 2017</td>
<td>Pending audit</td>
<td>2018</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>External audits</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waikato Regional Council</td>
<td>ACC</td>
<td>ACC Workplace Safety Management Practices (WSMP) sections 1 - 10</td>
<td>30 August 16</td>
<td>8</td>
<td>30 August 2017</td>
<td>8</td>
<td>All actions completed</td>
</tr>
<tr>
<td>Science and Strategy</td>
<td>KPMG</td>
<td>Health and safety systems and field work compliance (SaS)</td>
<td>7 February 17</td>
<td>18</td>
<td>7 February 2018</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>People and Capability</td>
<td>KPMG</td>
<td>Health and safety systems and field work compliance (PaC)</td>
<td>7 February 17</td>
<td>19</td>
<td>7 February 2018</td>
<td>17</td>
<td></td>
</tr>
</tbody>
</table>
Appendix 2: Feedback and Complaints
Feedback and Complaints – Audit and Risk Committee Report

(4/11/16 to 30/09/17)

Of the 1265 complaints and compliments logged, 1139 were complaints and 126 were compliments.

Open Complaints

110 Complaints still open:
- 36 0-10 working days
- 74 older than two weeks

101 identified as Public Transport.

By Directorate excluding Public Transport:

By Type

- Conduct - staff or co...
- Cost - general
- Cost - rates
- Other
- Policy, rules, regulat...
- Process
- Service quality

By Directorate - Last three months

- July: 123
- August: 162
- September: 157

By Priorities and Directorates

- Priority Level 1: 41
- Priority Level 2: 34
- Priority Level 3: 15

All Feedback and Complaints to date - By Directorate - Nov 16-Current

- CE Office 57 (6.77%)
- Other 57 (6.77%)
- Community and Service 57 (6.77%)
- Finance Office 57 (6.77%)
- Finance Office - Public Tr. 57 (6.77%)
- Integrated Catchmen... 57 (6.77%)
- CE Office 33 (2.76%)
- Finance Office - Public Tra... 1619 (84.52%)
- Resource Use 81 (10.91%)

Requests and Complaints

- Service Complaint
- Service Compliment

Requests by Directorate

- November 2016: 15
- January 2017: 55
- March 2017: 19
- May 2017: 21
- July 2017: 126
- September 2017: 169
Appendix 3 – Proposed OAG Performance audits and other work under the Water theme 2017/2018

1. Scene-setting report
The purpose of this report is to help the public to better understand how the public sector manages water in New Zealand

2. Drinking water
   a. Security of drinking water supply sources
      A performance audit is proposed on how effectively a selection of regional councils are carrying out their statutory functions to protect sources of human drinking water. This is principally related to meeting obligations under the National Environmental Standard for Human Drinking Water sources (NES).
   b. Optimising demand for an supply of drinking water
      This is related to future security of supply of drinking water and identifying the methods and tools that local authorities use to manage demand and ensure adequacy of drinking water supply now and in the future.

3. Freshwater
   a. Progress on freshwater quality management since 2011
      OAG proposes to complete an audit on the progress made by WRC and others on freshwater quality management since 2011. They intend to examine:
      - WRC response to the recommendations in the 2011 report.
      - Whether the systems that have been put in place, or are planned will result in any significant improvements to freshwater quality.
      - How WRC is implementing the National Policy Statement for Freshwater Management.
      - The costs of improving freshwater quality and how WRC has engaged with its communities about these costs.
      - Compliance with, monitoring of, and enforcement of consent conditions.
      - Other responses to the OAG 2011 recommendations by regional councils, unitary authorities and the Ministry for the Environment.
   b. Spending on clean-up of significant water bodies
      Significant funding to assist in the recovery and improvement of water quality in significant water bodies such as Lake Taupo and the Waikato River. The OAG will audit the Ministry of Environment on how it selects and monitors the performance of the organisations that it funds to improve and recover water quality. This work will be relevant to public entities that administer funding for projects with long-term outcomes.
   c. Managing water: Monitoring its use for irrigation
      OAG will complete a performance audit on water management processes and local authorities’ monitoring of water use by irrigators.

4. Stormwater - management of stormwater networks to reduce the effect of flooding
   OAG will consider how well local authorities understand their flood risk exposure, their capability to address future flood risk, and how they make decisions about what to invest in stormwater network management

5. Marine
   a. How effective are the processes used to consider marine reserve proposals?
      This audit will focus on the Department of Conservation and examine decision-making processes that consider whether to designate marine reserve status for a body of water.
   b. Marine spatial planning for the Hauraki Gulf
      OAG will focus on the Hauraki Gulf Marine Park and specifically on the SeaChange (the Hauraki Gulf Marine Spatial Plan). They wish to examine how SeaChange has tried to balance competing water issues by taking a place-based approach to addressing the pressures on an area of national significance.
Purpose
1. To provide an update on the Waikato Regional Council (WRC) policies that are due for review/renewal this quarter.

Staff Recommendation:
That the report Policy Review Schedule Update (Doc#10942873 dated 20 October 2017) be received.

2. In March 2017 the Audit and Risk subcommittee approved the WRC Policy Schedule.

3. A Policy Review Schedule Update on policies due for review this quarter is outlined in Appendix 1.

Appendix 1 – Policy Review Schedule Update
## Appendix 1 – Policy Review Schedule Update

<table>
<thead>
<tr>
<th>Policy</th>
<th>Review Cycle</th>
<th>Review Date</th>
<th>Person Responsible</th>
<th>Update</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fraud</td>
<td>Two yearly</td>
<td>August 2016</td>
<td>Chief Financial Officer</td>
<td>KPMG has been engaged to assist with the development of a fraud risk register to support a targeted and risk measured approach to managing vulnerabilities. This work will contribute to the review and updating of the Fraud Policy early in 2018.</td>
</tr>
<tr>
<td>Telephone</td>
<td>Annually</td>
<td>August 2017</td>
<td>Manager, Communications and Engagement</td>
<td>This policy has been retired as it will be largely replaced by WRC customer promise, customer services standards and customer service charter.</td>
</tr>
<tr>
<td>Visitor</td>
<td>Annually</td>
<td>August 2017</td>
<td>Manager, Communications and Engagement</td>
<td>This policy has been reviewed and updated. It will be reviewed again in September 2018.</td>
</tr>
<tr>
<td>Employment of ex-Waikato Regional Council staff as consultants and/or contractors policy</td>
<td>Two yearly</td>
<td>August 2017</td>
<td>People and Capability Manager</td>
<td>The policy has been reviewed and updated and a refreshed version is being prepared for publication and release to the organisation during November 2017.</td>
</tr>
<tr>
<td>Protected Disclosures</td>
<td>Two yearly</td>
<td>October 2017</td>
<td>People and Capability Manager</td>
<td>The policy has been reviewed and updated and a refreshed version is being prepared for publication and release to the organisation during November 2017.</td>
</tr>
</tbody>
</table>
Report to Audit and Risk Committee

Date: 11 October 2017

Author: Dominique Thurlow, Democracy Advisor
Bob Hamon, Procurement Officer

Authoriser: Mike Garrett, Chief Financial Officer

Subject: Gift Register Update for Staff and Elected Members

Section: A (Committee has delegated authority to make decision)

Purpose
1. To provide a summary of gifts received by Elected Members and staff during the period 1 April 2017 to 30 September 2017.

Executive Summary
2. To complete the internal audit process it is recommended that the Audit and Risk Subcommittee receive the summary of gifts received by Elected Members and staff for the period 1 April 2017 to 30 September 2017.

Staff Recommendation:
That the report ‘Gift Register Update for Staff and Elected Members’ (Doc # 11219812 dated 11 October 2017) be received for information.

Background
3. At its meeting held on 2 June 2015 the Audit and Risk Subcommittee requested, as part of its internal audit update, that a summary of items listed on the Elected Members and staff Gift Register be reported to the Subcommittee on a six monthly basis.

4. As part of the financial audit process Elected Members were asked to declare whether they have or have not received any gifts. Declarations were received from all Elected Members.

5. Annually, staff with budget responsibility, including Resource Use staff involved with resource consents, or have approved a Purchase Order, are asked whether they have declared all gifts and personal benefits they had received as a result of their work at the Council.

Summary of Gifts Received Elected Members
6. The table in Attachment 1 summarises the gifts received by Elected Members for the period 1 April 2017 to 30 September 2017.

Summary of Gifts Received Staff
7. The table in Attachment 3 summarises the gifts received by staff for the period 1 April 2017 to 30 September 2017.
Conclusion

8. To complete the internal audit process it is recommended that the Audit and Risk Subcommittee receive the summary of gifts received by Elected Members and staff for the period 1 April 2017 to 30 September 2017.

Attachment 1 Summary of gifts received by Elected Members (Doc # 4076281)
Attachment 2 Elected Members Gifts Policy (Doc # 2237035)
Attachment 3 Schedule of Gifts and Personal Benefits received by staff (Doc # 4076281)
## Attachment 1

<table>
<thead>
<tr>
<th>Date Gift Offered</th>
<th>Recipient</th>
<th>Person or organisation offering or providing the gift or hospitality</th>
<th>Details of gift or hospitality received</th>
<th>Estimated Value</th>
<th>Confirm no not in negotiations at time of receipt</th>
<th>Accepted / Declined</th>
<th>Reason for Accepting or Declining</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/04/2017</td>
<td>Alan Livingston</td>
<td>Hamilton City Council</td>
<td>Tickets to the Rugby x2</td>
<td>$200</td>
<td>Not in negotiations</td>
<td>Accepted</td>
<td>Thank you from Hamilton City Council for contribution to Waikato Means Business</td>
</tr>
<tr>
<td>29/04/2017</td>
<td>Alan Livingston</td>
<td>Hamilton City Council</td>
<td>Tickets to the Rugby x2</td>
<td>$200</td>
<td>Not in negotiations</td>
<td>Accepted</td>
<td>Networking opportunity</td>
</tr>
<tr>
<td>26/07/2017</td>
<td>Dal Minogue</td>
<td>Thames Coromandel District Council</td>
<td>4 packs of salmon</td>
<td>$40</td>
<td>Not in negotiations</td>
<td>Accepted</td>
<td>To promote aquaculture in the Coromandel</td>
</tr>
<tr>
<td>26/07/2017</td>
<td>Alan Livingston</td>
<td>Thames Coromandel District Council</td>
<td>4 packs of salmon</td>
<td>$40</td>
<td>Not in negotiations</td>
<td>Accepted</td>
<td>To promote aquaculture in the Coromandel</td>
</tr>
<tr>
<td>3/08/2017</td>
<td>Alan Livingston</td>
<td>Jiangsu Delegation</td>
<td>Book</td>
<td>$80</td>
<td>Not in negotiations</td>
<td>Accepted</td>
<td>Gift for hosting Jiangsu Delegation (book is held in WRC's Library)</td>
</tr>
<tr>
<td>25/08/2017</td>
<td>Alan Livingston</td>
<td>Hamilton City Council</td>
<td>Tickets to the Rugby x2</td>
<td>$200</td>
<td>Not in negotiations</td>
<td>Accepted</td>
<td>Networking opportunity</td>
</tr>
</tbody>
</table>
Attachment 2

Elected Members Gifts Policy

Council seeks to promote the highest standards of ethical conduct amongst its members. Acceptance of gifts, hospitality and/or other personal benefits could be construed by the community as a bribe or perceived as an attempt to influence the recipient.

To ensure that Councillors meet and are seen to be meeting their ethical obligations, the following principles shall apply to the receipt of gifts:

1. Councillors may:
   1.1 Accept any gifts, hospitality or benefits that have an estimated value of less than $100 (including GST) on the condition that acceptance cannot be perceived as a means of influencing a Council decision making process.
   1.2 Take part in working meals and social occasions, in an appropriate manner.

2. Councillors may not:
   2.1 Solicit, demand or request, by any means, gifts, hospitality or benefits by virtue of their position.
   2.2 Accept any gifts, hospitality or benefits that have an estimated value of more than $100 (including GST), without recording the acceptance in the Council’s publicly available ‘Gifts and Invitations Register.
   2.3 Accept any offer of money under any circumstance.
   2.4 In any way, abuse the advantages of their position for personal gain.

Gifts that fall outside the policy are either to be refused, or where they can be, accepted and given to the Council. The Chairperson and Deputy Chairperson of Council can jointly authorise that gifts be accepted where they fall outside this policy and where it is reasonable in their view to do so.
<table>
<thead>
<tr>
<th>Date Offered</th>
<th>Recipient</th>
<th>Directorate</th>
<th>Person or organisation offering or providing the gift or hospitality</th>
<th>Details of gift or hospitality received</th>
<th>Est. Value</th>
<th>Confirm not in negotiations at time of receipt</th>
<th>Accepted/Declined</th>
<th>Reason for Accepting or Declining</th>
</tr>
</thead>
<tbody>
<tr>
<td>4/05/2017</td>
<td>Lois Rowell</td>
<td>FIN</td>
<td>Zuru/Classic Events</td>
<td>Balloon ride</td>
<td>$350</td>
<td>Not in negotiations</td>
<td>Accepted</td>
<td>Part of sponsorship.</td>
</tr>
<tr>
<td>4/05/2017</td>
<td>Bill Vant</td>
<td>SAS</td>
<td>Zuru/Classic Events</td>
<td>Balloon ride</td>
<td>$350</td>
<td>Not in negotiations</td>
<td>Accepted</td>
<td>Part of sponsorship.</td>
</tr>
<tr>
<td>4/05/2017</td>
<td>Vaughan Payne</td>
<td>CE</td>
<td>HCC</td>
<td>Blues v Chiefs</td>
<td>$50</td>
<td>Not in negotiations</td>
<td>Accepted</td>
<td>Complimentary ticket to Zone 2 members</td>
</tr>
<tr>
<td>19/12/2016</td>
<td>Vaughan Payne</td>
<td>CE</td>
<td>Jim Milne</td>
<td>Bottle of wine</td>
<td>$50</td>
<td>Not in negotiations</td>
<td>Accepted</td>
<td>Token of appreciation for client relationship</td>
</tr>
<tr>
<td>16/05/2017</td>
<td>Anna John</td>
<td>ICM</td>
<td>Steve Rowe</td>
<td>2x Chiefs super rugby tickets</td>
<td>$100</td>
<td>Not in negotiations</td>
<td>Accepted</td>
<td>Steve is boss of media works, who is a rugby sponsor. Undertook site visit to Steve’s Whatawhata property and provided advise and information regarding wetland/hillside plantings.</td>
</tr>
<tr>
<td>19/05/2017</td>
<td>Vaughan Payne</td>
<td>CE</td>
<td>Vodafone</td>
<td>Ticket to Vodafone Warriors/Dragons game</td>
<td>$50</td>
<td>Not in negotiations</td>
<td>Accepted</td>
<td>Networking opportunity</td>
</tr>
<tr>
<td>20/06/2017</td>
<td>Vaughan Payne</td>
<td>CE</td>
<td>BECA</td>
<td>Ticket to Chiefs vs Lions</td>
<td>$50</td>
<td>Not in negotiations</td>
<td>Accepted</td>
<td>Networking opportunity</td>
</tr>
<tr>
<td>19/05/2017</td>
<td>Mike Garrett</td>
<td>FIN</td>
<td>HCC</td>
<td>Two tickets to Warriors/Dragons Game</td>
<td>$100</td>
<td>Not in negotiations</td>
<td>Accepted</td>
<td>Networking opportunity.</td>
</tr>
<tr>
<td>1/06/2017</td>
<td>Leisa Hood</td>
<td>FIN</td>
<td>Orbit Travel</td>
<td>Two movie tickets</td>
<td>$30</td>
<td>Not in negotiations</td>
<td>Accepted</td>
<td>Token of appreciation and networking opportunity</td>
</tr>
<tr>
<td>16/06/2017</td>
<td>John Crane</td>
<td>CAS</td>
<td>Vodafone</td>
<td>Ticket to Chiefs vs Lions</td>
<td>$50</td>
<td>Not in negotiations</td>
<td>Accepted</td>
<td>Networking opportunity</td>
</tr>
<tr>
<td>19/06/2017</td>
<td>Bruce Peploe</td>
<td>ICM</td>
<td>ProLab Ltd.</td>
<td>Ticket to Chiefs vs Lions</td>
<td>$50</td>
<td>Not in negotiations</td>
<td>Accepted</td>
<td>Networking opportunity</td>
</tr>
<tr>
<td>20/06/2017</td>
<td>Jo Bromley</td>
<td>SAS</td>
<td>GMD Consultants</td>
<td>Ticket to Chiefs vs Lions</td>
<td>$50</td>
<td>Not in negotiations</td>
<td>Accepted</td>
<td>Networking opportunity</td>
</tr>
</tbody>
</table>
Report to Audit and Risk Committee

Date: 20 October 2017
Author: Nicole Hubbard, Manager, Corporate Planning
Authoriser: Mike Garrett, Chief Financial Officer
Subject: Audit NZ Long Term Plan Letter of Engagement
Section: B (For recommendation to Council)

Purpose
1. To present the Audit NZ 2018-2028 Long Term Plan (LTP) letter of engagement to the Audit and Risk Committee.
2. To provide an update on the project governance structures, quality assurance processes and high level risks associated with the LTP project.

Executive Summary
3. This report outlines the letter of engagement from Audit NZ to review the 2018-2028 LTP and to provide quality assurance over the information and underlying assumptions in the documents.
4. The report also outlines the governance structures established to manage the development of the 2018-2028 LTP, high level risks and our relationship with the audit team.

Staff Recommendation:
1. That the report Audit NZ Long Term Plan Letter of Engagement (Doc #11218327 dated 20 October) be received, and
2. That the audit letter of engagement for the 2018-2028 Long Term Plan be approved.

Background
5. Section 94 of the Local Government Act requires the LTP to contain a report from the Auditor-General on whether the plan gives effect to the purpose of LTPs and the quality of the information and assumptions underlying the plan.
6. As part of the audit process Audit NZ submit a letter of engagement setting out their audit approach, likely areas of audit emphasis and fee’s.
7. Audit NZ will be in attendance to answer any questions the committee may have. If the Committee members would like to make any changes to the letter of engagement, please notify Democracy by 30 October 2017.
8. The proposed audit fee for the 2018-2028 LTP is $84,000 (excluding GST and disbursements).

Issue
9. Under Section 94 of the Local Government Act 2002 Council is require to have its LTP and consultation document audited.
10. Council does not have an option as to whether or not it wishes to have its LTP and consultation document audited, however it may assess the level of fees contained within the letter of engagement.

11. An ongoing relationship has been established with the Audit Manager to confirm timelines and process, and staff will be meeting with Audit on a regular basis to review progress. Staff have also completed the SOLGM health check and the audit self-assessment, both checklist have been developed to assist councils with legislative compliance.

12. The LTP project has been broken into seven work streams, each with a work stream lead who is responsible for ensuring the deliverables are met, and relevant staff assigned to each of the tasks. Each deliverable has a series of key milestones which are included in the Project Management Plan and reported to the project control group (PCG) on a monthly basis.

13. The PCG was established in March 2017 and comprises the Chief Financial Officer, Director Community and Services, Finance Manager, Corporate Planning Manager and LTP project manager. The PCG meets monthly to discuss the project including the project status report, project risk and issues, and other relevant topics. Key risks and slippage in milestones are reported to the Executive Leadership Team on a monthly basis.

14. Monthly internal communications are provided to all staff via our LTP intranet page, to keep staff up to date with the project as well as highlight upcoming work and key deadlines. Directors also receive a monthly update on upcoming work that will require their review.

15. An LTP Strategy Group and LTP Activity Lead Group have been established for the life of the project and meet on an as required basis. The strategy group provides advice on the development of work programmes, templates and discusses ideas, while the activity lead group is a set up to help disseminate information to those who are required to input into the LTP project on a regular basis.

16. The Strategy and Policy committee receive an LTP update each meeting, including an update on the 12 key building blocks of an LTP, the upcoming work programme and any risks or issues that need to be escalated to the committee for consideration.

17. The only high risk currently noted on the project risk register relates to staff being under pressure and unable to meet deadlines. The corporate planning team are supporting staff by providing monthly updates on the Intranet, meeting regularly with activity leads and holding drop in sessions as required. There are currently no high risks noted post mitigation.

Options and analysis
18. Council does not have an option as to whether or not it wishes to have its LTP and consultation document audited, however it may assess the level of fees contained within the letter of engagement.

19. By way of comparison the audit fee for the 2015-2025 LTP was $79,500 (excluding GST and disbursements).

Assessment of Significance
20. Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendations is not considered to have a high degree of significance.

Legislative context
21. Under Section 94 of the Local Government Act 2002 Council is require to have its LTP and consultation document audited.
22. Both the consultation document and LTP must include a report from the auditor. Each reports on:
   a. whether the document achieves its purpose (in the case of a consultation document under section 93B, in the case of the LTP proper under section 93(6))
   b. the quality of the information and assumptions underlying the forecast information provided in the document.

Preferred Option
23. Staff recommend that the committee accept the fee as stated in the Audit letter of engagement.

Policy Considerations
24. To the best of the writer’s knowledge, this decision is not significantly inconsistent with nor is anticipated to have consequences that will be significantly inconsistent with any policy adopted by this local authority or any plan required by the Local Government Act 2002 or any other enactment.

Conclusion
25. Audit NZ has provided council with its letter of engagement to review the 2018-2028 LTP and issue an opinion as to whether the document achieves its purpose and provide assurance on the quality of the information and assumptions underlying the document.

26. Staff will continue to work with the Audit Manager to review information as it is approved by Council.

27. Staff will provide an update to the next audit and risk committee on the project and specifically the assurance steps taken to ensure legislative compliance.

Attachments
Audit NZ Long Term Plan letter of engagement (Doc #11273862)
19 October 2017

Mike Garrett
Chief Financial Officer
Waikato Regional Council
Private Bag 3038
Waikato Mail Centre
Hamilton 3240

Dear Mike

Audit Engagement Letter: Audit of the consultation document and Long-Term Plan for the period commencing 1 July 2018

Please find attached the Audit Engagement Letter for the audit of the consultation document and Long-Term Plan for the period commencing 1 July 2018.

We have attached two copies of the letter. Could you please arrange for Alan Livingston, Chair, to sign both copies – retaining one for your files and returning one copy to us for our records.

If you have any queries, or would like to discuss any other matters, please contact me on 021 222 4050.

Yours sincerely

David Walker
Director

Ends
19 October 2017

Alan Livingston
Chair
Waikato Regional Council
Private Bag 3038
Waikato Mail Centre
Hamilton 3240

Dear Alan

Audit Engagement Letter: Audit of the consultation document and Long-Term Plan for the period commencing 1 July 2018

This audit engagement letter is sent to you on behalf of the Auditor-General who is the auditor of all “public entities”, including Waikato Regional Council (the Regional Council), under section 14 of the Public Audit Act 2001. The Auditor-General has appointed me, David Walker, using the staff and resources of Audit New Zealand, under sections 32 and 33 of the Public Audit Act 2001, to carry out the audit of the Regional Council’s consultation document and Long-Term Plan (LTP).

This letter outlines:

- the terms of the audit engagement and the respective responsibilities of the governing body (the Council) and me as the appointed auditor;
- the audit scope and objectives;
- the approach taken to complete the audit;
- the areas of audit emphasis;
- the audit logistics; and
- the professional fees.

1 Specific responsibilities of the council for preparing the consultation document and the Long-Term Plan

Our audit will be carried out on the basis that the Council acknowledges that it has responsibility for preparing the consultation document and LTP, by applying its own assumptions, in accordance with the Local Government Act 2002 (the Act) (in particular, the requirements of Part 6 and Schedule 10), and in accordance with generally accepted accounting practice in New Zealand. We assume that elected members are familiar with those responsibilities and, where necessary, have obtained advice about them.
For clarity we note the following statutory responsibilities as set out in the Act:

- Section 93 of the Act requires Council to have an LTP at all times, and Part 1 of Schedule 10 governs the content of the LTP.
- Section 111 aligns the financial information with generally accepted accounting practice.
- Section 83 (with reference to section 93A) sets out the special consultative procedures that the Council is required to follow to adopt the consultation document and LTP.
- Section 93C(4) requires an auditor’s report on the consultation document and section 94 requires a separate opinion on the LTP.

Please note that the audit does not relieve the Council of any of its responsibilities.

Other general terms are set out in the relevant sections of this letter and Appendix 1.

2 Our audit scope

The Act requires us to provide two separate reports as follows:

- On the consultation document, a report on:
  - whether the consultation document gives effect to the purpose specified in section 93B; and
  - the quality of the information and assumptions underlying the information in the consultation document.

- On the LTP, a report on:
  - whether the LTP gives effect to the purpose in section 93(6); and
  - the quality of the information and assumptions underlying the forecast information provided in the LTP.

We expect our work to assess the quality of underlying information and assumptions to be a single, continuous process during the entire LTP preparation period.

Our focus for the first limb of each opinion will be to assess whether each document meets its statutory purpose. Given the different purposes of each document, we will assess the answers to different questions for each opinion.

Our focus for the second limb of each opinion will be to obtain evidence about the quality of the information and assumptions underlying the information contained in the consultation document and LTP. How we obtain this information depends on our judgement, including our assessment of the risks of material misstatement of the information and assumptions underlying the information contained in the consultation document and LTP, whether because of fraud or error.
Our audit opinions do not:

- provide a guarantee of absolute accuracy of the information in the relevant document;
- provide a guarantee that the Regional Council has complied with all relevant legal obligations;
- express an opinion on the merits of any policy content; or
- include an opinion on whether the forecasts will be achieved.

3 Our approach to this audit

3.1 The content of the consultation document

The Act emphasises the discretion of the Council to decide what is appropriate to include in the consultation document and the associated consultation process. In deciding what to include in the consultation document, the Council must have regard to its significance and engagement policy, and the importance of other matters to the region and its communities.

We will need to understand how the Council has approached the task of applying its significance and engagement policy, and how it has considered the importance of other matters in deciding what to include in the consultation document. This will help inform our assessment of whether the consultation document achieves its statutory purpose.

3.2 Adopting and auditing the underlying information

Before adopting the consultation document, section 93G of the Act requires the Council to prepare and adopt the information that:

- is relied on by the content of the consultation document,
- is necessary to enable the Auditor-General to issue an audit report under section 93C(4), and
- provides the basis for the preparation of the LTP.

The information to be prepared and adopted needs to be enough to enable the Regional Council to prepare the consultation document.

We consider that local authorities will need to have thought comprehensively about how best to meet the requirements of the Act. Consistent with the guidance of the Society of Local Government Managers' (SOLGM), our view is that core building blocks of an LTP will be needed to support an effective consultation document. This will include, but not be limited to, draft financial and infrastructure strategies and the information that underlies them, including asset management information, assumptions, defined levels of service, funding and financial policies, and a complete set of financial forecasts.

We will work with management to understand the information proposed to be adopted and assess whether it will enable us to issue an audit report under section 93C(4).
In addition, the time frames to consider and adopt the LTP after the consultation process will be tight. From a practical perspective, it will be important that the Regional Council is well advanced with the preparation of the full LTP when it issues the consultation document. Otherwise you may find it difficult to complete the work and adopt the full LTP before the statutory deadline. The same is true for the audit work. The more audit work that is able to be completed at the first stage of the process, the less pressure there will be on you and the audit team at the end of the process.

3.3 Control environment

The Council is responsible for establishing and maintaining accounting and internal control systems (appropriate to the size of the Regional Council), supported by written policies and procedures, designed to prepare the consultation document and LTP, and to provide reasonable quality information and assumptions underlying the information contained in these documents.

Our approach to the audit will be to identify, confirm and assess the Regional Council’s key processes and controls over the underlying information and the production of both the consultation document and the LTP. The purpose of this assessment is to enable us to plan the most effective and efficient approach to the audit work needed to provide our two audit opinions. Our assessment is not for the purpose of expressing an opinion on the effectiveness of the Regional Council’s internal controls.

We will carry out a review of the control environment to help us understand the approach taken to develop the consultation document and LTP, develop expectations of what should be included in the consultation document and LTP, and identify areas of potential audit risk. This will involve discussions with elected representatives and selected staff throughout the Regional Council, review of publicly available information about the Regional Council, updating our knowledge of the Regional Council issues developed during recent years, and a review of Council minutes since the last audit review.

Our review of your self-assessment response (see below), and key controls relating to the underlying information and development of the LTP is useful to our initial assessment of audit risk and so the nature and extent of our overall audit work.

3.4 Project management, reporting deadlines, and audit progress

The development of the consultation document and LTP is a significant and complex project and a comprehensive project plan is required for a successful LTP process. It is also essential that there is commitment throughout the organisation for the project, starting with the elected representatives. The involvement of senior management and elected representatives is important in deciding what to include in the consultation document.

The LTP has complex and inter-related information needs and draws together plans, policies, decisions and information from throughout the Regional Council and its community. We recognise that the Regional Council will be doing its LTP preparation over an extended period. A more efficient and cost effective audit can be achieved when audit work and feedback is provided in “real time” or on an “auditing as you go” basis as the underlying information is developed.
Consequently, we will discuss with you and your staff the Regional Council’s approach to preparing and completing the LTP. We expect that the Regional Council is approaching its preparation on a project basis and recognise that ideally our audit work should “shadow” that project timetable. The success of this “auditing as you go” approach will depend on the Regional Council’s project management of the overall LTP process which should include time for audit work at appropriate points in the process. We have listed key milestones in section 6 and a detailed schedule of deliverables expected in Appendix 3.

3.5 Self-assessment

To assist our audit planning we intend to use a self-assessment process to assist with our risk assessment process. The self-assessment requires you to reflect on your most significant issues and risks, governance of the LTP project, and the systems and processes you have in place (particularly to meet the purposes in the Act for the consultation document and the LTP), asset management, performance management and reporting, and financial management.

We sent a draft version of the self-assessment to Council’s key LTP staff via email on 17 July 2017. We ask for your co-operation in completing this assessment for return to us by 31 October 2017.

The self-assessment is similar to those used with our audit of previous LTPs. The information provided through the self-assessment will be confirmed with you through discussion after its completion.

4 Our particular areas of audit emphasis

4.1 Financial strategy and infrastructure strategy

The Act requires a local authority to prepare two key strategies as part of the LTP — the financial strategy and the infrastructure strategy. The purpose of the financial strategy is to:

- facilitate prudent financial management by the local authority by providing a guide for the local authority to consider proposals for funding and expenditure against; and

- provide a context for consultation on the local authority’s proposals for funding and expenditure by making transparent the overall effects of those proposals on the local authority’s services, rates, debt, and investments.

The purpose of the infrastructure strategy is to:

- identify significant infrastructure issues for the local authority during the period covered by the strategy; and

- identify the principal options for managing those issues and the implications of those options.

The Act expects close alignment between the two strategies and section 101B(5) allows for them to be combined into a single document.
Although the Act clearly sets the minimum requirements for these strategies, it does not define the only things that can be in a strategy. A good strategy should include what is needed to be a good quality strategic planning document. In the case of the infrastructure strategy the principles of ISO55000 should be considered, particularly where the Regional Council is seeking to prepare a best practice strategy.

We have previously commented on where these strategies could be improved and would like to draw your attention to the comments provided by the OAG following the 2015-25 local authority long term plans, which is available from http://www.oag.govt.nz/2015/ltps

Our focus when reviewing both strategies is to assess whether the Regional Council has met the purpose outlined in the Act and presented the strategies in a coherent and easily readable manner. Specifically, we will:

- confirm that the two strategies are appropriately aligned;
- understand the impact of the financial forecasts included in the infrastructure strategy on the prudence of the financial strategy; and
- assess the reasonableness of the prepared forecasts by:
  - understanding how the Regional Council has applied the effect of its assumptions (for example, allowing for changing demographics) and levels of service on expenditure decisions, and outlined the implications of these decisions in the strategies;
  - reviewing the Regional Council's relationship between its renewal capital expenditure and depreciation expenditure forecasts; and
  - checking that the infrastructure strategy is appropriately inflated.

The Regional Council's financial modelling is a significant component of the underlying information that supports both the financial strategy and infrastructure strategy. We will place particular emphasis on the integrity and effectiveness of the financial modelling of all local authorities.

An additional role played by these strategies is to facilitate accountability to the community. It is critical that these strategies are presented in such a way that they are engaging and informative, and support the presentation of issues, options and implications presented in the consultation document.

### 4.2 Assumptions

The quality of the Regional Council's financial forecasts is significantly affected by whether the assumptions on which they are based are defined and reasonable. The Act recognises this by requiring all local authorities to clearly outline all significant forecasting assumptions and risks underlying the financial estimates in the LTP (Schedule 10, clause 17). Prospective Financial Statements (PBE FRS 42) also requires the disclosure of significant assumptions.

We will review the Regional Council's list of significant forecasting assumptions and confirm that they are materially complete. We will also test the application of selected assumptions in the financial forecasts to check they have been reasonably applied. Finally, we will confirm that:
all significant forecasting assumptions disclose the level of uncertainty associated with the assumption; and

- for all significant forecasting assumptions that involve a high level of uncertainty, the uncertainty and an estimate of the potential effects of the uncertainty on the financial forecasts are appropriately disclosed in the LTP.

We consider that the significant forecasting assumptions are crucial to the underlying information for the consultation document and will complete our review during our audit of the consultation document.

### 4.3 Quality of asset-related forecasting information

A significant portion of the Regional Council's operations relates to the management of its infrastructure: flood protection and control works. This activity typically makes up about 13% of operational expenditure and 72% of capital expenditure.

To prepare reasonable quality asset information, the Regional Council needs to have a comprehensive understanding of its critical assets and the cost of adequately maintaining and renewing them. An important consideration is how well the Regional Council understands the condition of its assets and how the assets are performing.

In reviewing the reasonableness of the Regional Council’s asset-related forecasting information, we will:

- assess the Regional Council’s asset management planning systems and processes;
- understand what changes the Regional Council proposes to its forecast levels of service;
- understand the Regional Council’s assessment of the reliability of the asset-related information;
- consider how accurate recently prepared budgets have been;
- ensure Regional Asset and Zone Management Plans are complete, and consistent with decisions in the Long Term Plan; and
- assess how matters such as affordability have been incorporated into the asset-related forecasts prepared.

Depending on what we identify in completing the above, we may have to complete further detailed testing on the Regional Council’s asset-related information.

### 5 Other matters

#### 5.1 Our independence

It is essential that the audit team and Audit New Zealand remain both economically and attitudinally independent of the Regional Council (including being independent of management personnel and the Council). This involves being, and appearing to be, free of any interest that might be regarded, whatever its actual effect, as being incompatible with integrity, objectivity and independence.
5.2 Publication of the consultation document and adopted LTP on the Regional Council’s website

The Regional Council is responsible for the electronic presentation of the consultation document and LTP on its website. This includes ensuring that there are enough security and controls over information on the website to maintain the integrity of the presented data. Please ensure that your project plan allows time for us to examine the final electronic file version of the respective documents, including our audit report, before their inclusion on the website.

We need to do this to ensure consistency with the paper-based documents that have been subject to audit.

6 Audit logistics

6.1 Audit timing

The key dates in the audit timetable are as follows:

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-assessment returned to audit team for consideration</td>
<td>17 November 2017</td>
</tr>
<tr>
<td>Interim visit (key assumptions and other available information)</td>
<td>27 November 2017</td>
</tr>
<tr>
<td>Proposed consultation document available</td>
<td>19 February 2018</td>
</tr>
<tr>
<td>Audit opinion on consultation document required</td>
<td>12 March 2018</td>
</tr>
<tr>
<td>Adoption of the Consultation Document</td>
<td>13 March 2018</td>
</tr>
<tr>
<td>Draft management report on consultation document engagement</td>
<td>29 March 2018</td>
</tr>
<tr>
<td>Finalised management report on consultation document engagement</td>
<td>13 April 2018</td>
</tr>
<tr>
<td>Proposed LTP for adoption available</td>
<td>11 June 2018</td>
</tr>
<tr>
<td>Audit opinion on adopted LTP required</td>
<td>25 June 2018</td>
</tr>
<tr>
<td>Adoption of the LTP</td>
<td>26 June 2018</td>
</tr>
<tr>
<td>Draft management report on LTP engagement</td>
<td>20 July 2018</td>
</tr>
<tr>
<td>Finalised management report on LTP engagement</td>
<td>3 August 2018</td>
</tr>
</tbody>
</table>

Should we encounter any significant problems or delays during the audit, we will inform you immediately.

We have an electronic audit management system. This means that our auditors will complete most their work on their laptops.

Therefore, we would appreciate it if the following could be made available during our audit:

- A suitable workspace for computer use (in keeping with the health and safety requirements discussed in Appendix 1).
- Electronic copies of key documents.
As noted in section 3.4, our audit work needs to be done as you develop your underlying information and prepare your consultation document and LTP, to ensure the timely completion of our audit.

To ensure that we meet agreed deadlines, it is essential that the dates agreed are adhered to.

7 Professional fees

Our audit fee, covering both the consultation document and the LTP for the period commencing 1 July 2018, is $84,000 (excluding GST and disbursements) as outlined in Appendix 2.

The proposed fee is based on the following assumptions:

- Information required to conduct the audit is complete and provided in accordance with the agreed timelines, including the draft consultation document and the full draft financial strategy and draft infrastructure strategy that supports it.

- There will be an appropriate level of assistance from your staff.

- All documentation (consultation document, LTP and all other underlying documentation) provided will be subject to appropriate levels of quality review before submission for audit.

- The consultation document and LTP will include all relevant disclosures.

- We will review, at most, two drafts of each of the consultation document and LTP during our audit.

- We will also review one printer’s proof copy of the consultation document and LTP and one copy of the electronic version of the consultation document and LTP (for publication on your website).

- There are no significant changes in the structure or level of operations of the Regional Council.

- The local authority is preparing forecast financial statements for the “Regional Council parent” only, rather than including consolidated forecast financial statements for the Regional Council and any controlled entities in the adopted LTP.

If the scope and/or amount of work changes significantly (such as a change in direction during the development of the consultation document or between the development of the consultation document and the LTP), we will discuss the issues with you at the time.

If information is not available for the visits as agreed, or the systems and controls the Regional Council uses to prepare the underlying information and assumptions cannot be relied on, we will seek to recover all additional costs incurred as a result. We will endeavour to inform you as soon as possible should such a situation arise.

This fee is exclusive of any subsequent amendments the Council might make to the adopted LTP under section 93D.
We wish to interim bill as work progresses. We propose the following billing arrangements:

<table>
<thead>
<tr>
<th>Month</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 2017</td>
<td>$15,000</td>
</tr>
<tr>
<td>December 2017</td>
<td>$15,000</td>
</tr>
<tr>
<td>February 2018</td>
<td>$20,000</td>
</tr>
<tr>
<td>March 2018</td>
<td>$15,000</td>
</tr>
<tr>
<td>June 2018</td>
<td>$19,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$84,000</strong></td>
</tr>
</tbody>
</table>

8 Personnel

Our personnel involved in the management of the audit are:

- David Walker          Director
- Jo Smaill           Engagement Quality Control Review Director
- Jared Williams       Manager
- Kataraina Macown    Assistant Manager

We have endeavoured to maintain staff continuity as far as possible.

9 Agreement

Please sign and return the attached copy of this letter to indicate that:

- it is in accordance with your understanding of the arrangements for this audit of the consultation document and LTP for the period commencing 1 July 2018; and

- you accept the terms of the engagement set out in this letter that apply specifically to the audit of the consultation document and LTP and supplement the existing audit engagement letter dated 24 November 2016.

If there are any matters requiring further clarification please do not hesitate to contact me.

Yours sincerely

David Walker
Director

cc Vaughan Payne, Chief Executive (by email)
   Mike Garrett, Chief Financial Officer (by email)
I acknowledge that this letter is in accordance with my understanding of the arrangements of the audit engagement. I also acknowledge the terms of the engagement that apply specifically to the audit of the consultation document and LTP, and which supplements the existing audit engagement letter dated 24 November 2016.

Signed: ___________________________  Date: ___________________________

Alan Livingston
Chair
Appendix 1: Terms of the engagement that apply specifically to the audit of the consultation document and LTP

Objectives

The objectives of the audit of the consultation document and LTP are:

- to provide independent opinions on the consultation document (under section 93C(4) of the Act) and on the LTP (under section 94(1) of the Act) about:
  - whether each document gives effect to the relevant statutory purpose; and
  - the quality of the information and assumptions underlying the information included in each document; and

- to report on matters relevant to the Regional Council’s planning systems that come to our attention.

Our audit involves performing procedures that examine, on a test basis, evidence supporting assumptions, amounts and other disclosures in the consultation document and LTP, and evaluating the overall adequacy of the presentation of information.

We also review other information associated with the consultation document and LTP to identify whether there are material inconsistencies with the audited consultation document and LTP.

Provision of a management report to the Council

At a minimum, we will report to the Council at the conclusion of the engagement. The management report communicates matters which come to our attention during the engagement and that we think are relevant to the Council. For example, we will report:

- any weaknesses in the Regional Council’s systems; and
- uncorrected misstatements noted during the audit.

Please note that the Auditor-General may refer to matters that are identified in the audit of consultation documents and LTPs in a report to Parliament if it is in the public interest, in keeping with section 20 of the Public Audit Act 2001.

Materiality

Consistent with the annual audit, the audit engagement for the consultation document and LTP adheres to the principles and concepts of materiality during the 10-year period of the LTP and beyond (where relevant).

Materiality is one of the main factors affecting our judgement on the areas to be tested and the nature and extent of our tests and procedures performed during the audit. In planning and performing the audit, we aim to obtain assurance that the consultation document and LTP, and the information and assumptions underlying the information contained in these documents, do not have material misstatements caused by either fraud or error.
Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence a reader's overall understanding of the forecast financial statements and performance information.

Consequently, if we find material misstatements that are not corrected, we will refer to them in the audit opinion. Our preference is for any material misstatement to be corrected, avoiding the need to refer to misstatements in our opinion.

The standards applied when conducting the audit of the consultation document and adopted LTP

Our audit is carried out in accordance with International Standard on Assurance Engagements (New Zealand) 3000 (Revised): Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. In meeting the requirements of this standard, we took into account particular elements of the Auditor-General's Auditing Standards and International Standard on Assurance Engagements 3400: The Examination of Prospective Financial Information that were consistent with those requirements.

Responsibilities

General responsibilities

The general responsibilities of the Council for preparing and completing the consultation document and LTP are consistent with those for the annual report, as set out in the audit engagement letter dated 24 November 2016 – but noting that the consultation document and LTP include forecast information.

These responsibilities include those set out in Appendices 1 and 2 of that audit engagement letter as detailed below:

- Appendix 1: Respective specific responsibilities of the Council and the Appointed Auditor:
  - Responsibilities for compliance with laws and regulations.
  - Responsibilities to establish and maintain appropriate standards of conduct and personal integrity.

Specific responsibilities

The Council is responsible for:

- maintaining accounting and other records that:
  - correctly record and explain the forecast transactions of the Regional Council;
  - enable the Council to monitor the resources, activities and entities under its control;
  - enable the Regional Council’s forecast financial position to be determined with reasonable accuracy at any time; and
  - enable the Regional Council to prepare forecast financial statements and performance information that comply with legislation; and
• providing us with:
  o access to all information and assumptions relevant to preparing the consultation document and LTP, such as records, documentation and other matters;
  o additional information that we may request from the Regional Council for the purpose of the audit;
  o unrestricted access to Council members and employees that we consider necessary; and
  o written confirmation concerning representations made to us in connection with the audit.

Health and safety of audit staff

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 you to keep our audit staff safe while they are working at your premises. We expect you to provide a safe work environment for our audit staff. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment, where required. We also expect you 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 advising them of emergency evacuation procedures and how to report any health and safety issues.
Appendix 2: Team mix and hours for the audit of the consultation document and LTP for the 10-year period commencing on 1 July 2018

<table>
<thead>
<tr>
<th>Role</th>
<th>Total hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appointed Auditor</td>
<td>70</td>
</tr>
<tr>
<td>Engagement Quality Review Director</td>
<td>18</td>
</tr>
<tr>
<td>Sector Specialists</td>
<td>30</td>
</tr>
<tr>
<td>Audit Manager</td>
<td>110</td>
</tr>
<tr>
<td>Other CA staff</td>
<td>320</td>
</tr>
<tr>
<td>Staff not yet CA qualified</td>
<td>80</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>628</strong></td>
</tr>
</tbody>
</table>

**Fee calculations**

<table>
<thead>
<tr>
<th>Description</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net fee</td>
<td>84,000</td>
</tr>
<tr>
<td>OAG overhead contribution*</td>
<td>NIL</td>
</tr>
<tr>
<td><strong>Total fee (including overhead contribution)</strong></td>
<td><strong>84,000</strong></td>
</tr>
<tr>
<td>GST</td>
<td>12,600</td>
</tr>
<tr>
<td><strong>Audit fee for the LTP for the period commencing 1 July 2018</strong></td>
<td><strong>$96,600</strong></td>
</tr>
</tbody>
</table>

* No OAG overhead is charged in relation to the audit of the LTP.

We will charge disbursements, including travel, on an actual and reasonable basis.
## Appendix 3: Audit’s 2018 LTP information and documentation requirements

<table>
<thead>
<tr>
<th>Information required</th>
<th>Relevance to our audit</th>
<th>Timing considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audit planning phase</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Regional Council’s timetable</td>
<td>So we can understand and assess the Regional Council’s planning processes and plan our workflows.</td>
<td>As soon as possible so we can populate key sign-off dates and deliverables into the audit arrangements letter. We also need this information to plan our resourcing of the audit given the major impact of LTP audits on our organisation.</td>
</tr>
<tr>
<td>Signed audit arrangements letter</td>
<td>To agree expectations, fee and timeframes.</td>
<td>Once timing and deliverables are agreed.</td>
</tr>
<tr>
<td>Description of the Regional Council’s higher level planning processes (from self-assessment plus discussions)</td>
<td>So we can assess the robustness of the Regional Council’s overall LTP preparations processes.</td>
<td>Initial phase of Audit’s engagement with the Regional Council.</td>
</tr>
<tr>
<td>Description of the state of progress in updating the Regional Council’s AMPs and in particular a description of the significant issues/changes that have arisen since 2015</td>
<td>So we can understand the state of the Regional Council’s knowledge about its assets and the robustness of the forecasts that flow from the AMPs.</td>
<td>Initial phase of Audit’s engagement with the Regional Council as the AMPs drive the large and critical service components of the LTP.</td>
</tr>
<tr>
<td>Description of the Regional Council’s processes for preparing its forecasts (including its QA process) for non-asset based activity forecasts</td>
<td>So we can assess the robustness of the Regional Council’s overall financial forecasting processes.</td>
<td>Initial phase of Audit’s engagement with the Regional Council as our audit approach is built on our assessment of the robustness of the Regional Council’s forecasting processes. If they are not sufficiently robust then there will likely be issues for our audit opinion.</td>
</tr>
<tr>
<td>Financial model</td>
<td>We need to understand the functionality and controls in the model which applies the key forecasting assumptions to the raw forecasts from the planning and budgeting and the AMPs.</td>
<td>This could be done at an early stage, potentially even before we commence our work on the consultation document (CD) phase of the audit.</td>
</tr>
<tr>
<td>Information required</td>
<td>Relevance to our audit</td>
<td>Timing considerations</td>
</tr>
<tr>
<td>--------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>CD audit phase</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Underlying assumptions</td>
<td>Key assumptions drive the LTP and are important to our assessment and understanding of the Regional Council's forecasts.</td>
<td>Early advice on the nature (completeness) of assumptions as part of the initial phase of Audit's engagement with the Regional Council. Support for the assumptions actually applied is required as part of our audit of the CD.</td>
</tr>
<tr>
<td>Financial Strategy (FS)</td>
<td>To assess how well the FS communicates the Regional Council's financial strategy in terms of:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The financial position the Regional Council is starting in and what position it is aiming to be in at the end of the LTP period.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The funding approach and implications to achieve the position on key elements of the Regional Council's financial strategy — particularly investments, debt and rates?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• How the Regional Council has taken into account current and future ratepayers when considering the funding of services and asset purchases.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>We also assess the financial prudence (including balanced budget) of the financial strategy.</td>
<td></td>
</tr>
<tr>
<td>Information required</td>
<td>Relevance to our audit</td>
<td>Timing considerations</td>
</tr>
<tr>
<td>----------------------</td>
<td>------------------------</td>
<td>-----------------------</td>
</tr>
</tbody>
</table>
| Infrastructure Strategy (IS) | To assess the IS which provides a long-term perspective on the Regional Councils infrastructure which is:  
• Visionary – tells the story about where the Regional Council is, where it expects to be, and how it intends to get there.  
• Realistic – includes assumptions and disclosures that are relevant and achievable.  
• Relational – creates the right debate and is credible because it connects to financial strategy and other relevant influences. | As with the FS, we expect the IS to be available relatively early in the process as it provides the high level, long-term context for the Regional Council’s infrastructural assets which contribute the majority of the Regional Council’s forecast expenditure and deliver core services to the community. |
| AMPs | The AMPs identify the key issues that drive the Regional Council’s IS and also provide the financial forecasts for the asset based activities. They also provide the underlying information for a large portion of the Regional Council’s financial forecasts.  
Also provides the underlying information on which the 30-year forecasts in the FS are built. | As with the FS, we expect the updated AMPs to be available relatively early in the process.  
We use the information in and from the AMPs to understand the key issues facing the Regional Council and also to assess the proposed levels of service and financial forecasts in both the IS and the LTP. |
| Full financial forecasts | We need these so we can:  
• understand the overall financial context for the CD; and  
• assess the robustness of the financial forecasts in the LTP. | We require the financial model, populated with full financial forecasts, at least three weeks before sign-off on our CD audit. |
<p>| Funding and Financial policies | To assess their alignment with the FS and their prudence. | As with the FS, we expect these to be available relatively early in the process as they provide the framework for the Regional Council’s financial forecasts. |</p>
<table>
<thead>
<tr>
<th>Information required</th>
<th>Relevance to our audit</th>
<th>Timing considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Draft performance framework</td>
<td>We are required to form a view about whether the Regional Council has complied with its performance reporting obligations as set out in the Local Government Act 2002. We assess whether the forecast performance report: • constitutes an adequate performance reporting framework; • provides an adequate basis for presenting fairly, in all material respects, the performance of the Regional Council; and • complies with generally accepted accounting practice. For key performance measures we also assess whether the Regional Council has adequate systems and controls in place to appropriately record and report its performance.</td>
<td>We need a clear understanding of the proposed levels of service (and, in particular, significant proposed changes) in the LTP before we complete our audit of the CD. However, a complete draft performance framework is not required at this stage. It would be helpful, however, to at least have a reasonable understanding of the proposed structure and format of the performance framework at this stage. We will need to have substantially completed our work on the performance framework by the time the Council completes its consideration of submissions.</td>
</tr>
<tr>
<td>Significance and engagement policy</td>
<td>We need to understand how the Council has approached the task of applying its significance and engagement policy, and how it has considered the importance of other matters in deciding what to include in the consultation document. This will help inform our assessment of whether the CD achieves its statutory purpose.</td>
<td>We expect this to be available relatively early in the process as it provides the basis for the Council determining the significant issues it wishes to consult on with its community.</td>
</tr>
<tr>
<td>Draft Consultation Document (CD)</td>
<td>Our audit opinion on the CD provides assurance to the community: • that the CD gives effect to the purpose set out in section 93B; and • on the quality of the information and assumptions underlying the information provided in the consultation document.</td>
<td>At the commencement of our fieldwork we will need a clear understanding of what the Council has identified as the key consultation issues. Where appropriate this should also cover those choices for the community to consider which the Council has identified. We will need a good complete draft CD at least three weeks before we sign off on the CD audit.</td>
</tr>
<tr>
<td>Information required</td>
<td>Relevance to our audit</td>
<td>Timing considerations</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>----------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Final version of (CD)</td>
<td>Our audit opinion on the final version of the CD must be included in the document that goes out for consultation.</td>
<td>The Local Government Act 2002 does not specify that the Council needs to make a formal resolution to adopt the (audited) CD. However, the Council must approve the CD before we can issue our audit opinion.</td>
</tr>
<tr>
<td>LTP audit phase</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Draft LTP (pre-consultation version)</td>
<td>We need to review a complete draft as soon as possible to avoid last minute issues.</td>
<td>While the LTP document is not a pre-requisite for us to complete our CD audit, ideally we would have cleared much of the draft LTP document at the CD audit phase. In June there will be a compressed timeframe within which most local authorities will be finalising their LTPs after their consultation. This will put significant pressure on our staff resources. Therefore we will need to have substantially cleared all aspects of our audit work on the draft LTP document prior to the final, post-consultation, version being prepared.</td>
</tr>
<tr>
<td>A schedule of all changes arising from consultation, along with a description of how and where these have impacted the LTP</td>
<td>So we can follow the changes arising from consultation through the final version of the LTP.</td>
<td>After the Council has confirmed the changes arising from consultation (if any) and management has flowed these changes through the document. We will need at least one week (depending on the extent of changes) between receiving this schedule of changes and the final LTP and our sign off on the LTP audit. As noted above, our audit sign off needs to be before the Council formally adopts the LTP.</td>
</tr>
<tr>
<td>Supporting information for changes and how they have impacted the LTP</td>
<td>So we can assess the reasonableness of the changes.</td>
<td>After the Council has confirmed its changes and management has updated the document to fully reflect the effect of these changes.</td>
</tr>
<tr>
<td>Information required</td>
<td>Relevance to our audit</td>
<td>Timing considerations</td>
</tr>
<tr>
<td>-------------------------</td>
<td>----------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Final version of LTP</td>
<td>So we can issue our audit opinion for inclusion as part of the document.</td>
<td>Our audit opinion is issued after the Council has finalised the content of the LTP document but before the Council formally adopts the LTP.</td>
</tr>
</tbody>
</table>
Report to Audit and Risk Committee

Date: 18 October 2017
Author: Janine Becker, Manager, Finance
Authoriser: Mike Garrett, Chief Financial Officer
Subject: Audit Management Letter for the year ended 30 June 2017
Section: A (Committee has delegated authority to make decision)

Purpose
1. This report presents for the committee the Audit Management Letter covering the results from the audit of the council’s 2016/17 Annual Report.

Executive Summary
2. Audit New Zealand undertook their final audit of the council’s 2016/17 Annual Report over the period 21st August to 8th September 2017.

3. An unmodified audit opinion was issued to the council on 28th September 2017. This means that Audit New Zealand were satisfied that the financial statements and state of service performance presented a fair view of the council’s activity for the year and its financial position at the end of the year.

4. One uncorrected mis-statement in noted in the Management Letter. This relates to the council’s decision to capitalise the costs incurred to date for the procurement of the new public transport electronic ticketing system.

5. The audit management letter, which summarises the key matters covered in the course of the audit, is appended to this report for the committee’s information. These include:
   a. Revaluation of assets
   b. Investment fund
   c. Fraud risk management
   d. Management override

6. Three recommendations have been made by Audit New Zealand with respect to:
   a. Formal approval procedures for the completion of infrastructural capital works
   b. Accounting treatment of Regional Software Holdings
   c. Sensitive expenditure approvals

7. Management’s comments with respect to these recommendations are included in the report.

Staff Recommendation:
That the report “Audit Management Letter for the year ended 30 June 2017” (Doc #11260595 dated 18th October 2017) be received.
Background

8. Audit New Zealand conducted its final audit of the council’s 2016/17 Annual Report over the period 21st August to 8th September 2017. This visit was in addition to an interim audit visit undertaken in April 2017.

9. An unmodified audit opinion was issued to the council on 28th September 2017. This means that Audit New Zealand were satisfied that the financial statements and state of service performance presented a fair view of the council’s activity for the year and its financial position at the end of the year.

10. One uncorrected mis-statement in noted in the Management Letter. This relates to the council’s decision to capitalise the costs incurred to date for the procurement of the new public transport electronic ticketing system.

11. The key business risks and issues identified in the Audit Arrangements Letter, and which the audit sought to particularly address were:
   a. Revaluation of assets
   b. Investment fund
   c. Fraud risk management
   d. Risk of management override

12. The audit report confirmed that the revaluations have been correctly accounted for in the council’s annual report.

13. An issue regarding the internal controls of one of the council’s fund managers was raised. This matter has been discussed with Mercer NZ Ltd, the council’s strategic fund advisor, who have confirmed their view that the issue does not pose a risk for the council but will follow up on the findings as part of their routine Operational Risk Review to be completed later this year.

14. No instances of fraud or concerns with respect to the override of internal controls have been identified through the audit process.

15. Three recommendations have been made by Audit New Zealand with respect to:
   a. Formal approval procedures for the completion of infrastructural capital works
   b. Accounting treatment of Regional Software Holdings
   c. Sensitive expenditure approvals

16. Management’s comments with respect to these recommendations are included in the report.

17. Three matters remain outstanding from previous audits. Staff comments on the current status of these issues is also included in the report:
   a. Detailed asset data on revalued assets
   b. Service performance and associated systems and controls (processing of resource consents within discount regulation timeframes)
   c. Annual leave balances

18. One matter from a previous audit has been resolved this year.

Attachments

Audit New Zealand – Report to the Council on the annual audit of Waikato Regional Council for the year ended 30 June 2017 (doc #11284491)
Report to Audit and Risk Committee

Date: 20 October 2017

Author: Sarah Jones, Senior Legal Advisor

Authoriser: Karen Bennett, Manager Chief Executive’s Office

Subject: Internal audit programme update

Section: A (Committee has delegated authority to make decision)

Purpose
1. To provide the Audit and Risk Committee a status update on the internal audit programme.

Executive Summary
2. This report provides an update on the legislative compliance framework review and regulatory decision making for bond regime internal audits together with a KPMG Audit Activity Update report.

Staff Recommendation:
That the report “Internal audit programme update” (Doc#10942349 dated 20 October 2017) be received.

Status Report Internal Audit Actions
3. A status report on the internal audit actions is outlined in Appendix 1.

KPMG Audit Activity Update Report
4. A summary of internal audit activity for the period August to October 2017 including the draft Asset Management Flood Protection review is attached at Appendix 2.

Attachments
Appendix 1 – Internal audit actions status report
Appendix 2 – KPMG Audit Activity Update Report doc# 17271785
# Appendix 1: Internal audit actions - status report

## A. Legislative compliance framework review

<table>
<thead>
<tr>
<th>Outstanding actions</th>
<th>Status as at 20 October 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  <strong>Formalise and strengthen governance and oversight</strong></td>
<td><strong>Underway</strong> – working with the provider of ComplyWith to develop new reports for Audit and Risk Committee.</td>
</tr>
<tr>
<td>2  <strong>Training needs</strong></td>
<td><strong>Underway</strong></td>
</tr>
<tr>
<td>Perform a training need analysis of key legislations pertaining to the business units.</td>
<td></td>
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<tr>
<td>Develop an on-going training programme to ensure that staff receive legislative compliance training at induction and ongoing refresher sessions as rolled out by WRC’s People and Capability Section’s learning and development program. This learning and development program should ensure training is aligned according to the risk assessment of the legislation i.e. put most effort into biggest areas of risk.</td>
<td>To assist with the development of the training programme and ongoing monitoring and identification of training needs, ComplyWith is developing a customised reporting module, which will enable WRC to assess and report on staff awareness, compliance and development requirements for both policies and legislation.</td>
</tr>
<tr>
<td>Develop a process to ensure that People and Capability Section independently monitor training delivery to ensure that all necessary legislative compliance training is delivered in a timely manner.</td>
<td>As above</td>
</tr>
<tr>
<td>3  <strong>Ongoing controls assessment and attestation of positive assurance validation</strong></td>
<td><strong>Ongoing</strong> – An appropriately qualified staff member has been assigned to validate attestations to high risk legislations.</td>
</tr>
<tr>
<td>Ensure compliance attestations to key/high risk legislations obtained during the 6 monthly ComplyWith audits are independently validated. This independent validation could be performed by the staff member designated to coordinate and monitor compliance activities or alternatively by Internal Audit. These independent validations could then be reflected on the assurance map.</td>
<td></td>
</tr>
<tr>
<td>B.</td>
<td>Regulatory Decision Making for Bond Regime</td>
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<td>----</td>
<td>------------------------------------------</td>
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<tr>
<td>1</td>
<td><strong>Formalise a clear system for the bond process to ensure accountability, consistency in decision making and continuity of process</strong></td>
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<td></td>
<td>Augmentation of existing procedures to provide more guidance on the factors to consider when making recommendations on whether or not to include a bond, and on the preferred form of conditions if a bond is considered appropriate, the type of bond, procedures to assess bonds, the level of documentation required in IRIS and Discover, reporting, auditing and review requirements. This will occur by 30 March 2018.</td>
</tr>
<tr>
<td></td>
<td><strong>Underway</strong></td>
</tr>
<tr>
<td></td>
<td>Updating guidance for staff who monitor consents that include a bond condition. This will occur by 30 March 2018.</td>
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<tr>
<td></td>
<td><strong>Underway</strong></td>
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<tr>
<td></td>
<td>Specific processes to be followed for the large significant bonds will be Promapped to reduce the risk that critical knowledge is lost if turnover of key staff occurs. This will occur by 31 December 2017.</td>
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<tr>
<td></td>
<td><strong>Completed</strong> ProMapping of how to monitor all bonds required via a consent condition has been completed.</td>
</tr>
<tr>
<td>2</td>
<td><strong>Review data capture relating to bonds to enable more transparency and better monitoring</strong></td>
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<td></td>
<td>Undertake a review of the functionality of IRIS to determine if it can be modified to better record and report data relating to bonds. If this is not possible, alternative mechanisms for recording and easy reporting of the data will be identified and implemented. This will occur by 31 December 2017.</td>
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<tr>
<td></td>
<td><strong>Completed in part.</strong> A spreadsheet is currently held that details the required data. Provision for the relevant data fields and producing an overview report in IRIS on bonds held are both tasks that are currently underway.</td>
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<tr>
<td>3</td>
<td><strong>Improve the Peer Review of Bond Decisions</strong></td>
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<td></td>
<td>Review compliance monitoring protocols for those sites that include a bond condition.</td>
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<td></td>
<td><strong>Underway</strong></td>
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<tr>
<td>4</td>
<td><strong>Strengthen controls over the monitoring of consent conditions secured with Bonds</strong></td>
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<td>Updating guidance for staff as per 1 above.</td>
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<td><strong>Underway</strong></td>
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<tr>
<td>5</td>
<td><strong>Clarify Delegated Authority for Bonds</strong></td>
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<td></td>
<td>Implement any necessary changes to procedural delegations once the amended procedural guidance has been completed.</td>
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<td><strong>Underway</strong></td>
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Waikato Regional Council

Audit and Risk Committee Internal Audit update

November 2017

kpmg.com/nz
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1 FY2017/18 Internal Audit Plan  
   1.1 FY 2017/18 Engagement Status  
   1.2 Details of Engagements in Progress  

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   2.2 Waikato LASS Insights session  
   2.3 Fraud Risk Assessment
1 FY2017/18 Internal Audit Plan

We are pleased to provide a summary of our internal audit activity for the period August 2017 to October 2017.

Waikato Regional Council’s (WRC’s) internal audit plan for 2017/18 includes four engagements with two reviews being carried forward from 2016/17.

1.1 FY 2017/18 Engagement Status

Focus for Q1 2017/18 was on the two remaining reviews postponed from 2017, along with the planned IT strategy and governance review and an additional review requested by management to assess the processes and controls for the recovery of costs incurred by RUD when processing resource consents.

A summary of our progress on the internal audit plan is shown below:

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<tr>
<td>FY2016/17 Internal audit plan</td>
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<tr>
<td>5 Business continuity review</td>
<td>Q1</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>6 Asset Management – flood protection</td>
<td>Q1</td>
<td></td>
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<td>5/10/2017</td>
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<tr>
<td>FY2017/18 Internal audit plan</td>
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<tr>
<td>1 IT strategy and governance review</td>
<td>Q1</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>2 Health and Safety – ICM review</td>
<td>Q2</td>
<td></td>
<td></td>
<td>Postponed</td>
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<tr>
<td>3 Stakeholder engagement and communication</td>
<td>Q3</td>
<td></td>
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<tr>
<td>4 Cyber security follow-up review</td>
<td>Q4</td>
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<tr>
<td>Additional reviews</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>5 Recovery of costs within RUD</td>
<td>Q1</td>
<td></td>
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<td>18/09/2017</td>
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</table>

Fieldwork for the Health and Safety review has been postponed at management’s request.
1.2 Details of Engagements in Progress

**Business Continuity Review**

This aim of this review is to confirm whether controls are adequately designed, appropriate, and operating effectively to mitigate key business continuity risks, and to provide recommendations for improvement where opportunities exist.

Fieldwork has completed for this review and findings are being collated for discussion with management week commencing 23 October. A draft report is expected to be with management week commencing 30 October.

**Asset Management Review**

Fieldwork has been completed and a draft report has been provided to management who have accepted the findings and are preparing a plan to work through the recommendations made. Once this plan has been prepared the report will be finalised and we will report back to this committee on those details.

WRC controls were rated as High Risk in five areas, Medium Risk in five areas, and Low Risk in three areas considered as part of this review. Whilst all the requisite elements of an Asset Management System are present the combination of new initiatives not yet fully implemented and weaknesses arising from process areas that are less well developed result in an audit rating of ‘Developing’ for WRC’s Asset Management processes as a whole.

Previous asset management maturity reviews noted WRC’s practices as ‘core’ against the IIMM framework. We agree with this assessment, but note the multiple improvement initiatives currently underway which, once completed and fully implemented, will progress WRC to an ‘intermediate’ maturity rating against that framework. Notable initiatives are the asset data quality improvement, the identification of critical assets, and the implementation of the risk management framework for investment prioritisation. WRC have also identified opportunities for improvement in the delivery of works programmes, and have established a project management office (PMO) to improve the flow of projects from planning to fruition and improve the scoping and tendering of works packages.

With continued progress on current initiatives WRC are on track to meet this increased level of expectation by 2018, but at present there are still a number of works in progress and there are further opportunities to improve the overall framework.

**IT Strategy Review**

The IT strategy review aims to assess processes to define the IT strategy, information architecture and the direction of, and to identify and report on areas and opportunities for improvements in the processes and controls that assist with the delivery of IT.

Fieldwork has commenced and is scheduled to complete week commencing 30 October.

**Recovery of Costs within RUD**

This review aims to assess the adequacy and effectiveness of the processes performed by the RUD relating to the invoicing and collection of revenue associated with the granting of resource consents.

Fieldwork has been completed with the draft report issued on 18 September. Management are currently working through the responses to this report and we expect to have this finalised and included for discussion at this committee’s next meeting.
2 Other Activities

The following activities have occurred or are in planning since the last meeting.

2.1 Fraud Session

To support ongoing awareness and a culture supporting the identification and escalation of any potentially fraudulent activity, KPMG hosted a fraud awareness session on Monday 21 August for middle and senior Managers across the Council and an additional session for the finance team.

The overall objectives of the fraud awareness session were to:

- Generally raise the level of awareness and understanding of fraud-related risks specifically related to WRC; and
- Understand their role and responsibility in relation to managing fraud risks and escalation of potential fraudulent activity, if required.

During the session attendees were asked to respond anonymously to a number of questions.

The responses to those questions implied that whilst participants may have been aware of WRC’s Protected Disclosure Policy or the Fraud Policy the majority had not reviewed these.

Participants indicated that they would prefer to make a protected disclosure by way of a verbal or written report to their immediate manager or nominated party, rather than to an independent 3rd party; and that the preferred method of making a disclosure was by email (57%) or by web portal (21%).

2.2 Waikato LASS Insights session

The Waikato LASS insights session was held Wednesday 6 September 2017 and was attended by a positive number of delegates from the councils within the Waikato Lass. We received positive feedback on the topics presented.

2.3 Fraud Risk Assessment

WRC have requested KPMG to assist in their development of a fraud risk register by way of facilitating a fraud risk assessment workshop to identify fraud and corruption risks. No date has been set for this workshop at this time.
Asset Management Review - Flood Protection

Waikato Regional Council
Internal Audit Report - DRAFT
October 2017
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This report is delivered subject to the agreed written terms of KPMG’s engagement.

This report provides a summary of KPMG’s findings during the course of the work undertaken for Waikato Regional Council under the terms of the engagement letter/contract dated March 2017. The contents of this report do not represent our detailed findings, which will only be contained in our final detailed report. This report should be read in conjunction with our full report.

This report is provided solely for the benefit of the parties identified in the engagement letter/contract and is not to be copied, quoted or referred to in whole or in part without KPMG’s prior written consent. KPMG accepts no responsibility to anyone other than the parties identified in the engagement letter/contract for the information contained in this report.
1. Executive Summary

Background and Objectives

The Waikato Regional Council (WRC) is responsible for the management of multiple flood protection schemes and supporting flood protection infrastructure across the Waikato region. In accordance with WRC’s Internal Audit Plan for FY2017, approved by the WRC Audit and Risk committee, WRC’s flood protections practices have been reviewed.

The objectives of this review were to:

- Assess the adequacy and effectiveness of WRC’s framework and associated processes and control to manage and monitor flood protection assets.
- Provide recommendations for improvement where opportunities have been identified.

Purpose

The purpose of this document is to summarise the key findings and observations following KPMG’s assessment of WRC’s flood protection practices. While onsite, KPMG conducted interviews with eight WRC representatives involved with flood protection and management across the Waikato region. Representatives spoken to include those from:

- Integrated Catchment Management Directorate (ICM);
- Waikou Paiko Catchment Committee;
- Asset Management;
- Hauraki Zone Management;
- Business and Technical Services;
- Technical Services; and
- Finance.

Key supporting documentation relating to WRC flood management practices were also reviewed subsequent to these interviews.

This document presents the key findings and recommendations arising from the review including an assessment of the strengths and weaknesses of the Asset Management System (AMS).

It is to be noted that the review process is a sampling exercise, and whilst every effort is made to be comprehensive in our review the findings represent the priority issues, which represent the greatest value opportunity areas for improved asset management performance.

Key Findings and Recommendations

Key findings and recommendations have been summarised in section 3 of this report. They follow the structure of the International Infrastructure Management Manual (IIMM) and are aligned with the requirements of ISO55001, the international standard for asset management. Risk ratings have been assigned to each area of the IIMM considered as part of this review. These ratings are outlined on page 4.

WRC controls were rated as High Risk in five areas, Medium Risk in five areas and Low Risk in three areas considered as part of this review. Whilst all the requisite elements of an AMS are present the combination of new initiatives not yet fully implemented and weaknesses arising from process areas that are less well developed result in an audit rating of “Developing” for WRC’s asset management (AM) processes as a whole.

Refer to Appendix 1 for the classification of the internal audit ratings.

Flood Protection Asset Management System

Developing

General Comments and Themes

Previous asset management maturity reviews noted WRC’s practices as ‘core’ against the IIMM framework. We agree with this assessment, but note the multiple improvement initiatives currently underway which, once completed and fully implemented, will progress WRC to an ‘intermediate’ maturity rating against this framework. Notable initiatives are the asset data quality improvement, the identification of critical assets, and the implementation of the risk management framework for investment prioritisation. WRC have also identified opportunities for improvement in the delivery of works programmes, and have established a project management office (PMO) to improve the flow of projects from planning to fruition and improve the scoping and tendering of works packages.

With continued progress on current initiatives WRC are on track to meet this increased level of expectation by 2018, but at present there are still a number of works in progress and there are further opportunities to improve the overall framework.

The findings from this review can be grouped into three general themes as summarised overleaf.
1. Executive Summary (Continued)

- Asset management practices have made great advances, however community expectations and the presence and awareness of risk have increased faster:

  WRC have made great strides in their practices and approach to integrated portfolio-wide asset management, the full benefits of which are yet to be realised. However, it has been a turbulent time in infrastructure asset management, arguably none so much as in the area of flood mitigation. As a result of recent notable asset failures and the very real impact of climate change, public awareness of flood risk is significantly heightened. Freshwater quality too has also become a priority issue reflecting an increased environmental consciousness and demand for sustainable management practices. As a result the practices of old are no longer adequate, and WRC should place significant emphasis on the improvement of its systems of management, particularly in the area of risk.

- A time of transition and a work in progress:

  There are three significant change initiatives currently disrupting the business-as-usual approach for the WRC AM function. These are the reorganisation of flood management activities from a siloed zonal to a regional portfolio approach, the integration of ICM objectives including soil conservation, biodiversity, and biosecurity, and the need for more proficient risk management as noted above. These change initiatives require the AM team to rethink and modify their management systems and processes in a fundamental way. As a result there are a number of areas of the asset management system (AMS) that are a work in progress and either noted as draft, misaligned with other areas of the AMS, or awaiting content. WRC should take the opportunity to reflect on the AMS as a whole and re-consider areas of it that are no longer effective.

- To be truly effective Asset Management should employ a range of strategies:

  At present the WRC regional asset management plan (RAMP) takes an essentially asset-centric view of the function of asset management; its primary focus is the flood protection works and the processes that facilitate their sustainment. However, asset management is about the delivery of services and the realisation of outcomes. By putting assets at the centre of asset management, the opportunity to utilise non-asset based solutions is often obscured. Demand is a management lever too - we are often drawn to supply side solutions to infrastructure problems, however the management of demand for asset services presents a significant opportunity for achieving service outcomes and a balance of cost vs risk. Finally, Levels of Service (LoS) need to engage communities and connect up the asset objectives with service delivery. They are the touchpoint for the customer need, and must reflect customer desires in language they can understand; if not asset management will fail to deliver on community expectations.
2. Summary of Review Findings

The below table shows the risk ratings related to all areas considered from the IMM framework as part of this review. Detailed findings and recommendations are detailed in section 3 of this report. Definitions for the risk and audit ratings are included in Appendix 1.

<table>
<thead>
<tr>
<th>#</th>
<th>Description of internal audit findings</th>
<th>Risk Rating</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Standardised Asset Management Process (IIMM Reference: 2.1)</td>
<td>Medium</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>Asset Management Plan and Policy Alignment (IIMM Reference: 2.1)</td>
<td>High</td>
<td>6</td>
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<tr>
<td>3</td>
<td>Demand Management (IIMM Reference: 2.3)</td>
<td>High</td>
<td>7</td>
</tr>
<tr>
<td>4</td>
<td>Levels of Service and Performance Reporting (IIMM Reference: 2.2)</td>
<td>High</td>
<td>8</td>
</tr>
<tr>
<td>5</td>
<td>Asset Data, Condition Assessment, and Risk (IIMM Reference: 2.4, 2.5 &amp; 2.6)</td>
<td>High</td>
<td>9</td>
</tr>
<tr>
<td>6</td>
<td>Capital Investment Decision Making (IIMM Reference: 3.1 &amp; 3.4)</td>
<td>Medium</td>
<td>10</td>
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<tr>
<td>7</td>
<td>Operations and Maintenance Planning and Delivery (IIMM Reference: 3.2 and 3.3)</td>
<td>Low</td>
<td>11</td>
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<tr>
<td>8</td>
<td>Financial and Funding Strategies (IIMM Reference 3.5)</td>
<td>Low</td>
<td>12</td>
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<tr>
<td>9</td>
<td>Asset Management Teams (IIMM Reference: 4.1)</td>
<td>Medium</td>
<td>13</td>
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<tr>
<td>10</td>
<td>Asset Management Plans (IIMM Reference: 4.2)</td>
<td>Medium</td>
<td>14</td>
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<td>11</td>
<td>Information Systems (IIMM Reference: 4.3)</td>
<td>Medium</td>
<td>15</td>
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<td>12</td>
<td>Service Delivery Models (IIMM Reference: 4.4)</td>
<td>Low</td>
<td>16</td>
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<td>13</td>
<td>Quality Assurance and Continuous Improvement (IIMM Reference: 4.5)</td>
<td>High</td>
<td>17</td>
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3. Detailed Findings

Standardised Asset Management Process
IIMM Reference: 2.1

<table>
<thead>
<tr>
<th>FINDING(S) AND IMPACT</th>
<th>RECOMMENDATION(S)</th>
<th>AGREED MANAGEMENT ACTION(S)</th>
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<tbody>
<tr>
<td>WRC’s AM framework is based on the industry standard IIMM approach, and it is clear that much work has been undertaken over the years to improve asset management practices in line with the targets to achieve intermediate maturity by 2018. Notable initiatives are the asset data quality improvement, the identification of critical assets, and the implementation of the risk management framework for investment prioritisation. These initiatives are described in the RAMP, but not yet embedded in asset management processes that inform investment priorities. When fully implemented these aspects of the asset management system (AMS) will be in line with an intermediate maturity grading. Other AM processes are less well developed, including governance, roles and responsibilities, reporting, demand forecasting, levels of service, performance measurement, lifecycle management, business continuity management, and continuous improvement. Furthermore, the integration of the ICM functions with the legacy asset management framework is also presenting some challenges for the design of asset management processes that have not yet been overcome. Details of improvement opportunities in these areas are included in subsequent findings of this report. The AM processes fail to connect the governance and management responsibilities held by WRC with the operational delivery of services provided by the field based teams. There is a risk that investment is misdirected and inefficient, and that organisational understanding of asset liabilities, risk, resilience, and funding requirements is limited.</td>
<td>We recommend WRC:</td>
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<tr>
<td>1. Continue the implementation of the new asset management initiatives to achieve the targeted intermediate asset management maturity level by 2018.</td>
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<td>2. Implement actions to improve the maturity level of asset management processes relating to:</td>
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<tr>
<td>• Governance &amp; reporting</td>
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<tr>
<td>• Level of service &amp; performance measurement</td>
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<tr>
<td>• Demand forecasting</td>
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<tr>
<td>• Lifecycle management</td>
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<tr>
<td>• Business continuity management; and</td>
<td></td>
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<tr>
<td>• Continuous improvement</td>
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<tr>
<td>3. Clarify the relationship of AMS elements and processes within and across departments and committees following changes brought about by the integration of the ICM directorate. Consider publishing a separate AMS document to sit alongside the RAMP, thereby allowing the RAMP to focus on plans and performance.</td>
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<tr>
<td>4. Define and document the responsibilities and accountabilities for each element of the AMS.</td>
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### 3. Detailed Observations and Findings

#### Asset Management Plan and Policy Alignment

**IIMM Reference: 2.1**

**RISK RATING: HIGH**

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<tr>
<th>FINDING(S) AND IMPACT</th>
<th>RECOMMENDATION(S)</th>
<th>AGREED MANAGEMENT ACTION(S)</th>
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At the time of this review many of the key reviewable documents including the RAMP, Infrastructure Strategy, and Zone Management Plans (ZMP) were in production as draft versions and yet to be populated with critical information. The document hierarchy and structure was also undergoing transition from a legacy asset management approach focussed on the sustainment of built infrastructure to an Integrated Catchment Management approach focussed on the delivery of holistic objectives including environmental protection and flood impact mitigation. The transition to an integrated approach is progressive and is thoroughly endorsed throughout the river management sector, however, it also is presenting a challenge to the asset management function and has led to misalignment between elements of the AM policy and the RAMP. An example of this misalignment is provided below:

- An objective of the AM Policy states “Ensure that an integrated catchment management approach is taken to the planning, delivery, operation, renewal and disposal of infrastructure assets”. In certain areas of the RAMP ICM activities have been written out of the document scope (including the LoS), in other areas ICM activities are still referenced. Irrespective of whether ICM appears in the RAMP WRC’s AM policy requires that an integrated catchment approach is taken to the lifecycle management of the assets. Whilst WRC advise that ICM related assets are managed appropriately, it is not possible to verify this by reference to the RAMP documentation.

Also, the alignment of the LoS to guiding documents, such as the Strategic Direction, is at the level of the three themes only (i.e. healthy environment, strong economy, and vibrant community). This results in a superficial linkage. Alignment at the level of the community outcome statements would create more effective LoS.

There is a risk that community objectives will not be effectively realised through the asset investment and management activities of the ICM Directorate. Also, the impetus to realign legacy LoS is hindered by the lack of alignment with the community outcome statements. The opportunity to test alternative intervention strategies, including non-asset solutions, may be missed as a result.

We recommend WRC:

5. Establish a transition plan for integration of the ICM function with the asset management function, including the establishment of parallel asset management workstreams for ICM activities in the areas of asset inventory and data capture (including natural capital and ecosystem services), condition assessment, demand, risk assessment, LoS establishment, and performance measurement,

6. Resolve the areas of misalignment in the AM policy and RAMP either by bringing them together, or by setting out a roadmap in the RAMP for when they will come together.

7. Create clear linkages between the Strategic Direction Community Outcomes and the RAMP LoS, including revision of the RAMP LoS where necessary.

8. Establish performance measures for new or revised LoS and collate baseline data on performance.

9. Finalise key AM documents currently in draft, including the infrastructure strategy, the RAMP, and ZMPs.
3. Detailed Observations and Findings

Demand Management
IIMM Reference: 2.3

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<thead>
<tr>
<th>FINDING(S) AND IMPACT</th>
<th>RECOMMENDATION(S)</th>
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<tr>
<td>Demand for flood protection is considered within the RAMP at both a regional and zone level. Guidance related to the management of key flood protection drivers (e.g. land use and future population change) is provided to a high level, but there is no information provided on specific land use or population drivers within the areas protected by WRC's flood management schemes. In addition, drivers of ICM intervention are not considered by the RAMP.</td>
<td>We recommend:</td>
<td>10. WRC address demand for flood mitigation services at the level of the scheme and discrete sensitive receptors along the flood zone including settlements, roads, rail, wetlands, and other lifeline utilities.</td>
</tr>
<tr>
<td>Technical guidance material relating to demand for flood mitigation services is included within documents such as the “Waikato Regional Council Climate Change Guideline: Integrated Catchment Management, July 2017”. This is a useful addition to the demand analysis for elements of the flood protection schemes, but does not address the full range of demand drivers for flood mitigation. Demand forecasting (section 4.2) and Demand management plan (section 4.3) of the RAMP are the least developed sections of the RAMP.</td>
<td>11. Demand forecasting is undertaken to a core (or better) asset management standard utilising demand drivers including real observed localised climate change trend data, regional level forecast climate change data from the recent WRC Climate Change Guideline document, and current and forecast land use change (including type of agriculture and resilience to flood events) for each area of land protected by the schemes.</td>
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<tr>
<td>WRC may wish to consider demand for flood mitigation services from the perspective of the sensitive receptors along the flood zone, e.g. settlements, state highways, railway lines, wetland reserves etc as well as establishing the change in demand for flood mitigation from climate change and land use based on real data on the annual exceedance probability (AEP) of significant rainfall events vs the actual observed incidence of historic events (i.e. the actual return period of events such as a 1 in 10 yearly rainfall event may have occurred 3 times (say) in the last decade, and the lag time between rainfall event and peak flows may be in flux). This will inform future scheme design and current management priorities to maintain the LoS to the community.</td>
<td>12. The demand section of the RAMP is extended to include demand for the asset services that support the ICM objectives including biodiversity, biohazards, and environmental improvement. Consider how demand for these services is expected to change in time.</td>
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<td>There is a risk that changes in demand have already altered the requirements for the schemes from the original concepts designed and developed. These changes may not be apparent other than when the capacity of the schemes is exceeded, and some damage or loss is incurred.</td>
<td>13. Opportunities to influence the demand for flood mitigation services are identified in the RAMP and further evaluation is undertaken of the potential for flood impact mitigation through non-asset solutions.</td>
<td></td>
</tr>
</tbody>
</table>
3. Detailed Observations and Findings

Levels of Service and Performance Reporting
IIMM Reference: 2.2

<table>
<thead>
<tr>
<th>FINDING(S) AND IMPACT</th>
<th>RECOMMENDATION(S)</th>
<th>AGREED MANAGEMENT ACTION(S)</th>
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<tr>
<td>The levels of service (LoS) section of the RAMP was still under development at the time of this review. Updates to the RAMP post fieldwork have confirmed the levels of achievement against the majority of LoS with the majority of reported measures achieved, and three measures noted as 'tbc’. The LoS for Flood Protection are primarily the mandatory requirements set out by the DIA at December 2013, which relate to the maintenance and repair of the flood protection works in accordance with the local authority’s key standards. WRC’s performance measures are based on design flood levels (DFL) of stopbanks (i.e. an input measure), but do not relate the observed incidence of floods to land under flood protection (i.e. an outcome measure). Both measures are mandatory requirements, and the latter is more relevant to the scheme as a whole as opposed to stopbanks per se. The mandatory LoS do not convey the whole AM situation and would benefit from augmentation with more risk related LoS, particularly with respect to critical assets. Whilst WRC’s target rate of 93% stopbanks maintained above the DFL is excellent evident of active asset renewal, it does not indicate what risk is presented by the deficient 7%, nor does it address risk posed by other asset classes. There are three LoS measures included for ICM activities, however the measures included are all input measure related and do not address actual water quality or soil conservation levels and the change from any given baseline. Measurement of input data only will limit the understanding of the effectiveness of management activities, and may lead to ineffective investment strategies. Scheme level LoS are provided in Appendix B of the RAMP. Whilst it is noted that the most asset intensive schemes are reasonably similarly described, there is considerable variation in the type of LoS and the terminology used between schemes. Whilst the schemes may have different focus on outcome, as opposed to asset, orientation requires that a consistent set of LoS and measures (for outcomes at the very least) should be employed. This will allow clear and consistent reporting and identification of LoS gaps across all responsibility areas.</td>
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<tr>
<td>We recommend WRC:</td>
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<tr>
<td>14. Establish closer LoS links to Strategic Direction Community Outcome statements, in particular economic, community resilience to natural hazards, environmental, and Iwi co-management themes.</td>
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<tr>
<td>15. Consider the use of non-technical measures for all activity areas. An example of such measures is; the number of protected properties, or land area, flooded during a 1 in 10, 50 and 100 year flood event, and / or the impact of flooding to the region each year. This will aid understanding of the value of the schemes by the community.</td>
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<tr>
<td>17. Establish water quality and soil conservation LoS outcome measures to complement the three input measures. Compile baseline data, and report on progress towards WRC’s a healthy environment objective within the RAMP.</td>
<td></td>
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<td>18. Align the terminology and measurement of LoS between schemes and report LoS outcomes for all schemes.</td>
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</table>
3. Detailed Observations and Findings

Asset Data, Condition Assessment, and Risk

IIMM Reference: 2.4, 2.5 & 2.6

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<tr>
<th>FINDING(S) AND IMPACT</th>
<th>RECOMMENDATION(S)</th>
<th>AGREED MANAGEMENT ACTION(S)</th>
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| It is clear that significant improvements have been made in the area of data collection, condition assessment and risk management over the past 5 years. However, it is also important to note that as a result of recent failures there is a heightened awareness and level of expectation in the management of asset risk in the flood management sector. With continued progress on current initiatives WRC are on track to meet this increased level of expectation by 2018, but at present there are still a number of works in progress with respect to data completeness and risk and criticality assessment. Asset data confidence and completeness is reported in the RAMP. None of the five asset categories have achieved the target level of completeness as yet, and three of the five categories have not achieved the level of confidence sought. These gaps have implications for the effectiveness of management decisions taken on the portfolio, and are an area of risk in their own right. Asset data collection has been enhanced recently through the use of the Fulcrum application. There is an intent to extend the use of this application to other areas of field operations. Condition inspection guidelines have been released for stopbanks to aid the standardisation of data collection. Similar guidelines are planned, but not yet in use, for floodgates and pump stations. Methodologies have recently been developed for the assessment of asset criticality and applied to floodgates, pump stations, and stopbanks (erroneously detailed at section 5.3.2 of the RAMP under Land Drainage). The approach is asset-centric, rather than impact-centric. Either, or both, approaches can be employed, however a singular asset-centric approach requires a detailed understanding of every asset to identify the weak link in the chain or single failure point. Given the distributed nature of the flood protection asset portfolio such a knowledge may hard to attain and maintain. The risk management approach is also not yet fully embedded in asset investment decision making, hasn’t yet been validated against historical failure data as a reliable means of determining risk, and doesn’t incorporate ICM related environmental consequences of asset ‘failure’.

Gaps in asset data and the early stage of risk management process implementation may result in asset risk issues not being identified or mitigated effectively.

We recommend WRC:

19. Maintain the current data improvement and risk management improvement initiatives to achieve intermediate AM maturity by the targeted date of 2018.

20. Define the criticality score for different asset classes in a consistent and quantifiable manner (i.e. explain the impact of floodgate and pump station criticality scores of high, medium, and low).

21. Determine what other assets have a critical function in flood impact mitigation, i.e. telemetry, detention dams etc.

22. Overlay an impact-centric view of criticality and direct risk management efforts at areas of highest risk.

23. Integrate ICM risk criteria within the definition of asset failure noting any adverse impacts from asset function.

24. Test and validate the risk assessment process against historical failure information to confirm it is capable of pre-empting failure events.

25. Apply risk assessment results to the investment prioritisation process and update the programme of works for renewal and maintenance.

26. Report on the residual risk and timeframe to mitigate these risk issues for consideration at a governance level.
FINDING(S) AND IMPACT RECOMMENDATION(S) AGREED MANAGEMENT ACTION(S)

Capital works programming is currently undertaken via committee processes involving representatives from Asset Management, Technical Services, and Zone Management. The process followed for asset investment decision making is largely undocumented, although efforts are currently in progress to document capital investment decision making processes. As a result, the criteria for planning capital investment is unclear and appears to be governed by budget rather than need. Major investments, once identified, are consulted on as part of the LTP process, which allows public scrutiny of the proposals. However, the process by which the investment priority was identified is not clear.

The basis of an investment prioritisation framework is presented in chapter 9 of the RAMP which includes catchment prioritisation, infrastructure prioritisation (stopbanks only), and investment prioritisation. However, it is unclear how stringently this framework is applied and how the derived lifecycle management works plans relate to the priority framework. It is noted at section 9.3 that ‘the programming of investments is heavily influenced by many other factors [which are then loosely specified in list format].’

The draft 50 year investment strategy (2018 – 2067) indicates an exceptionally high period of capital expenditure is proposed for the three years from 2018/19 to 2020/21. The rationale for this expenditure is not made clear but, given the early stage of development of the criticality and risk assessment framework and the lack of evidence of any LoS or condition score gap, the need for substantially increased funding at the present time requires more justification.

There is a risk that the asset portfolio may be either over maintained, or equally that deferred maintenance issues are allowed to accumulate and the risk of asset failure is not being effectively mitigated. Works programmes will also be vulnerable to challenge at times of budget constraint and the value proposition of any particular project is unclear.

We recommend WRC:

27. Define and structure the capital investment decision making framework to inform the development of capital works programmes in a transparent manner.

28. Prioritisation be applied to the asset portfolio by site and / or major asset category to identify the investment priority of all locations and assets.

29. The prioritisation results for any given year are maintained as a record of process compliance.

30. Intervention options are considered to mitigate the asset issue or risk. These options should be reviewed on a whole of life cost basis, and the preferred option identified.

31. The portfolio of projects and preferred options be identified and a budget threshold be determined based on need. Where this budget is in excess of available funding consider options to increase funding or defer works (and communicate residual risk to the community). Record the results of this process.
3. Detailed Observations and Findings

Operations and Maintenance Planning and Delivery
IIMM Reference: 3.2 and 3.3

<table>
<thead>
<tr>
<th>FINDING(S) AND IMPACT</th>
<th>RECOMMENDATION(S)</th>
<th>AGREED MANAGEMENT ACTION(S)</th>
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<tr>
<td>There are well established systems for operations and maintenance (O&amp;M) works for the flood protection assets that would appear to work well from a system continuity and reliability perspective. These systems have been developed and refined over a large number of years and appear well suited to the requirements of the portfolio. Periodic maintenance tasks are scheduled and completion rates of tasks are recorded and reported to the catchment liaison committees. It is noted that there are occasions when works are undertaken by field operatives that have not been specified at a central asset management level. Such practices are taken to reflect the good intent of field operatives, however there is a loss of useful asset data when activities are undertaken on an ad-hoc basis in the field that would help inform practices elsewhere, and/or enable better cost control. Tracking and reporting of work undertaken in the field is improving through the use of the Fulcrum application. Further developments are planned for this application that will improve the close out of asset data from field operatives. The RAMP describes O&amp;M works under Chapter 7 – Lifecycle Management. Whilst ICM activities are discussed at section 7.2 the lifecycle programmes of work have not been integrated into the section headings for the other activity areas. There is also limited discussion of operational planning for land drainage assets in the RAMP. Clarification of these arrangements and the roles and responsibilities of landowners, the District Councils, and the Catchment Liaison Committees for the planning and delivery of these works would help ensure there are no grey areas of accountability. Business continuity management (BCM), or major event management, is an area of operations that has been tested recently during the multiple flood events in April 2017. The debrief from these events notes the system performed well in the circumstances, but that resources were stretched and protocols absent in some areas of operation. This is a critical and core competency activity area for WRC.</td>
<td>We recommend WRC: 32. Extend the use of field operative tools to improve data capture around completed tasks, asset failure or defect issues, and cost of operational service delivery. 33. Review the operational planning sections of the RAMP to integrate ICM and Land Drainage activities with Flood Protection and River Management activities. 34. Clarify the roles and responsibilities of landowners, the District Councils, and the Catchment Liaison Committees for the planning and delivery of these works using a RACI (Responsible, Accountable, Consulted, Informed) matrix or similar and include in the RAMP. 35. Consider more formal documentation of BCM processes along with additional training for staff in the management of major events.</td>
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</table>
3. Detailed Observations and Findings

Financial and Funding Strategies
IIMM Reference 3.5

RISK RATING: LOW

Financial and asset information is currently held in separate systems (Oracle and Conquest respectively), limiting integration and visibility between both systems. Low integration between the asset and financial databases increases the risks of discrepancies emerging – ultimately compromising the integrity of data used to inform maintenance investment decision making. We understand that WRC is currently in the early stages of looking for alternative financial and asset systems.

A draft version of the ‘Infrastructure Assets Accounting Policy and Guidelines’ July 2017 was sighted as part of the review. This document sets out procedures for capitalisation, treatment of depreciation, and valuation. Work is being undertaken to understand depreciation rates used within the asset portfolio and improve their accuracy over time. The handling of asset information updates between the asset management and financial systems is discussed and whilst noted as labour intensive, is attended to in a structured manner.

The draft version of the RAMP provided following the review had only placeholder text for the Financial chapter. Whilst it is not possible to comment further on this aspect, we refer to our comments relating to previous sections that discussion should include reference to all activity areas, not solely flood protection works.

The funding of works is via targeted and general rates mechanisms. It is felt by WRC that the allocation of costs versus benefits is becoming increasingly inequitable due to the requirement to integrate wider environmental and biodiversity benefits alongside traditional flood protection objectives that the rates were originally established to provide. A review of funding levels and mechanisms is required once the cost and value of the ICM directorate activities is fully understood. Notwithstanding the need for this review the current funding arrangements appear to be effective in providing for future works requirements.

We recommend WRC:

36. Continue to explore options to replace Oracle and Conquest with systems that enable simpler integration between finance and asset databases.

37. Finalise the draft version of the ‘Infrastructure Assets Accounting Policy and Guidelines’ July 2017 and compliance against the guidelines tested.

38. Finalise the Financials chapter of the RAMP including discussion of all activity areas.

39. Complete a detailed review of future funding options and levels for all ICM activity areas.
### Asset Management Teams

**IIMM Reference: 4.1**

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<th>FINDING(S) AND IMPACT</th>
<th>RECOMMENDATION(S)</th>
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<tr>
<td>The WRC asset management policy (2015) sets out responsibilities for AM for the Flood protection, river management and land drainage infrastructural assets portfolio. Overall responsibility for AM policy and procedures sites with the ICM Director. Implementation of these AM polices and procedures is the responsibility of the Business Services Manager. The Zone Manager is identified as the team member responsible for the development of Zone and AM plans, and the AM Team Leader is responsible for the maintenance of asset data and information support to the Zone Managers, and the infrastructure strategy. The AM team leader has also now assumed responsibility for the AM Plan. This structure represents a reasonable level of commitment to asset management by the organisation. We note however that the AM Team Leader role has been vacant for much of 2017, and understand that filling this vacancy is a priority for WRC. The roles are reasonably defined around a core asset management maturity level team structure. As part of the target to achieve an intermediate asset management maturity level it would be helpful to widen the definition of asset management roles and responsibilities to include key members of the operations team, the projects team, the engineering team, the environmental management team, and the finance team. This will clarify the expectations on other parties and provide a broader perspective on effective management of the asset portfolio. It may also be beneficial to consider more integrated and longer-term relationships with key suppliers of consulting and contract services. Currently the WRC AM team is focused heavily towards data collection, data management, data analysis and reporting of flood protection assets. With the vacant AM Team Leader role filled WRC should consider how best to engage other parts of the business in asset management improvement initiatives, and embed intermediate asset management maturity. In tackling this challenge there is a need for strong leadership to promote the role of AM in the organisation, define the AM value proposition, set effective levels of service, understand and manage demand, gather meaningful and reliable data, embed performance management, integrate environmental management, and provide insightful reporting that guides good decision making.</td>
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</table>

We recommend WRC:

40. Ensure the scope of the Asset Management Team Leader role is adequately scoped and supported to achieve a transition to the targeted intermediate asset management maturity level by 2018.

41. Widen the definition of asset management roles to include key members of the operations, projects, engineering, environmental management, and the finance team.

42. Review key service provider relationships and evaluate opportunities for more integrated and longer-term engagements.
Asset Management Plans
IIMM Reference: 4.2

3. Detailed Observations and Findings

3.1 Finding(s) and Impact

The WRC AMP builds on a legacy of a number of generations of competent and detailed asset management documents. The current version AMP is however a significant change in document focus. Asset management planning has historically been embedded within WRC’s Zone Management Plans (ZMPs). Within these documents asset management information was split up among the various ZMPs and not brought together as a regional portfolio. The change to a single Regional AMP is a positive one and offers an opportunity for standardisation, cost savings, and clearer management and governance of the portfolio.

At the time of the review the RAMP was still in development and included a number of editorial comments, gaps in information and analysis, and areas of scope inconsistency. In its current format the RAMP would not be considered effective, however the framework for the RAMP is appropriate for the type and extent of assets within the WRC flood protection portfolio, and based on our understanding of the work underway, the final version is capable of achieving an ‘Effective’ audit rating.

One area of challenge that does require further effort is the consistency of scope and remit for the RAMP. As part of the initiative to bring together all catchment management activities into one holistic activity area the flood protection asset management plans have taken on elements of the ICM function, including biodiversity, biosecurity, and soil management objectives. The process of integration has not been straightforward and impacts a number of processes and sections of the RAMP. A concerted effort is required to fully integrate ICM and flood protection processes and align all sections of the RAMP. Further details of the specific areas where integration is required are provided throughout this report.

3.2 Recommendation(s)

We recommend WRC:

43. Review the integration issues for successful merging the flood protection and ICM activity areas (plus river management and land drainage activity areas).

44. Finalise the RAMP document and other asset management artefacts including the ZMPs in draft and the 50 year horizon Infrastructure Strategy.
3. Detailed Observations and Findings

Information Systems  
IIMM Reference: 4.3  

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<tr>
<td>The key IT systems used by the AM team are Conquest and Fulcrum. Conquest is the AM team's asset data repository and has been used with limited success for work order management. The system includes all parameter data for the asset portfolio and stores condition assessment data and asset updates following project works. The system is not integrated with other systems, such as the financial system. Fulcrum is a mobile field tool application, which has been configured to support onsite data collection and queries. The lack of integration functionality of the Conquest system is a known weakness that requires WRC AM team members to manually manage and transfer data, and fails to capture valuable data from field staff. There is a higher risk of data inaccuracies as a result, and the process takes valuable staff resources that could otherwise be applied to higher value tasks such as data analysis and reporting. It is noted, that an assessment of the adequacy of the Conquest system is due to commence in the near future. There is anecdotal evidence that the use of the Fulcrum system has increased data collection and entry rates from teams in the field – increasing the overall accuracy and integrity of WRC asset management data whilst also reducing the requirement for discrete asset management inspections.</td>
<td>We recommend WRC: 45. Explore methods for replacing the Oracle and Conquest systems with systems that allow for integration between asset and financial information. (see recommendation #36). 46. Support further field data gathering applications on the Fulcrum (or alternative) system to support quality and completeness goals for asset datasets. 47. Review opportunities to systemise or streamline the update of asset information from project teams through the Conquest system and then on to the Oracle system. Redeploy any recovered resource time into data integration initiatives for the ICM dataset.</td>
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3. Detailed Observations and Findings

Service Delivery Models
IIMM Reference: 4.4

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<td>Physical works are carried out utilising a combination of direct labour (i.e. WRC Operations team) and contracted resources. WRC’s own operations team tend to undertake small scale maintenance and inspection duties whilst larger renewal and asset development works are competitively tendered and delivered by specialist contractors. WRC have identified opportunities for improvement in the delivery of works programmes, and have established the basis of a project management office (PMO) to improve the flow of projects from planning to fruition and improve the scoping and tendering of works packages. This was one of the key drivers for the establishment of a new project management framework (currently in development) and development of a procurement strategy document (published earlier in 2017) incorporating recommendations for achieving good value from tendered works. Whilst there are acknowledged opportunities for improving the cost and quality of service delivery, and there have been some project failures and overruns, the process of delivery is generally to an appropriate standard and with good opportunity taken to reflect on alternative means to engage contractors and designers that will enhance value for money. The level of cost reporting by WRC’s own direct labour appears to be variable with the true cost of works undertaken not being fully understood. This may impact budgeting for future works and presents an area of cost escalation risk for WRC. Analysis of service delivery costs would appear to be undertaken in the Financials Chapter of the RAMP, however this section of the RAMP was not yet complete and so we are unable to comment further on the assessment of value for money undertaken within the RAMP.</td>
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<th>RECOMMENDATION(S)</th>
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<tr>
<td>We recommend WRC:</td>
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<tr>
<td>48. Finalise the implementation of the PMO and roll out the project management framework for major works to provide a level of assurance around project delivery processes.</td>
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<tr>
<td>49. Continue to implement the procurement strategy when scoping, planning and sourcing external contracting services.</td>
</tr>
<tr>
<td>50. Complete the RAMP Chapter 11, Financials, including analysis of maintenance, renewals and new development costs to allow internal benchmarking and better cost estimation for of future physical works.</td>
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| AGREED MANAGEMENT ACTION(S) |
3. Detailed Observations and Findings

Quality Assurance and Continuous Improvement
IIMM Reference: 4.5

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WRC regularly undertake IIMM AM framework reviews. The most recent review was completed in 2014. This review highlighted 16 improvement opportunities. Whilst there have been some excellent successes in past years, at the end of Q2 FY 16/17 achievement against the plan was limited, and may indicate the need for better resourcing or goal management of improvement actions.

Data quality analysis and confidence level evaluations are undertaken for the portfolio, however whilst these are reported in the RAMP as below target the actions, resources, programme, and sense of urgency to address data quality gaps is not evident.

Reviews of the flood protection scheme performance are also undertaken in the wake of large scale events. A recent example of such a review is the March and April 2017 Flood Events: Recommendations and Implementation Plan document which makes a series of recommendations to further improve how WRC manages and responds to significant flood events. The report recommendations were extensive and significant however it was not clear what mechanism WRC have for collating the review results and closing out the feedback.

Effective processes are required to collate, approve, assign and track continuous improvement actions as part of the AM system. A more stringently managed AM improvement plan would satisfy this requirement and ensure progress is made towards the improvement of WRCs assessed AM maturity level.

We do find that there is a culture of continuous improvement and that opportunities for improvement are viewed positively. However, the level of resources and adequacy of the management systems has led to the relatively low level of completion of those improvement opportunities.

We recommend:

51. A formal project structure is placed around the delivery of agreed improvement actions, responsibilities are assigned, along with a timeframe, budget of cost, and expected benefits. Reporting of progress against plan is undertaken to the ICM director.

52. Review the level of resources and management systems to close out improvement actions.
Appendix 1 - Classification of Review Ratings
### Classification of Review Ratings

**RISK RATING**

The risk rating assigned to the findings is determined based on an assessment of the impact of the business and the likelihood of the risk occurring, defined as follows:

<table>
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<tr>
<th>RATING</th>
<th>DEFINITION</th>
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<tbody>
<tr>
<td><strong>HIGH</strong></td>
<td>Matters which are fundamental to the system of internal control. The matters observed can seriously compromise the system of internal control and data integrity and should be addressed as a matter of urgency.</td>
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<tr>
<td><strong>MEDIUM</strong></td>
<td>Matters which are important to the system of internal control and should be addressed as soon as possible.</td>
</tr>
<tr>
<td><strong>LOW</strong></td>
<td>Matters which are unlikely to have a significant impact on the system of internal control, but should be addressed as part of continuous improvement.</td>
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**AUDIT RATING**

Audit ratings have been assigned to assess current processes related to each of the relevant areas of the IIMM framework considered as part of this review. Audit ratings have been assessed as:

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<thead>
<tr>
<th>RATING</th>
<th>DEFINITION</th>
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<tbody>
<tr>
<td><strong>GOOD</strong></td>
<td>The controls are fit for purpose and are being performed in a manner which effectively mitigates the identified risks.</td>
</tr>
<tr>
<td><strong>EFFECTIVE</strong></td>
<td>Despite the fact that some control weaknesses were identified, existing controls within the audited process are considered to be generally adequate, appropriate and effective. They ensure that the audited business processes will achieve their control objectives.</td>
</tr>
<tr>
<td><strong>DEVELOPING</strong></td>
<td>Control weaknesses were identified which, if not appropriately addressed, could in the future result in the audited business processes not achieving their control objectives.</td>
</tr>
<tr>
<td><strong>NOT EFFECTIVE</strong></td>
<td>Existing controls are considered to be inadequate and ineffective to ensure that the audited business processes will achieve their control objectives. Significant improvements are required to improve the adequacy and effectiveness of the control environment.</td>
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</table>
Appendix 2 - Interview Participants
We would like to thank those who participated in the series of interviews completed as part of this review. A list of those who participated in interviews is included below.

<table>
<thead>
<tr>
<th>#</th>
<th>Interview participants</th>
<th>Team / Role</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Clare Crickett</td>
<td>Director Integrated Catchment Management</td>
</tr>
<tr>
<td>2</td>
<td>Robert Hicks</td>
<td>Chair, Waihou Piako Catchment Committee</td>
</tr>
<tr>
<td>3</td>
<td>Gareth Langdon</td>
<td>Asset Management Coordinator</td>
</tr>
<tr>
<td>4</td>
<td>Bruce Peploe</td>
<td>Manager, Business and Technical Services</td>
</tr>
<tr>
<td>5</td>
<td>Karen Botting</td>
<td>Zone Manager, Hauraki</td>
</tr>
<tr>
<td>6</td>
<td>Adrian Stockill</td>
<td>Acting Team Leader Asset Management</td>
</tr>
<tr>
<td>7</td>
<td>Mike Garrett</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>8</td>
<td>Janine Becker</td>
<td>Manager, Finance</td>
</tr>
<tr>
<td>9</td>
<td>Kelly Stokes</td>
<td>Project and Programme Manager, Technical Services</td>
</tr>
</tbody>
</table>
Appendix 3 - Documents Reviewed
The below tables lists all documents reviewed to inform this report.

<table>
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<tr>
<td>1</td>
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<td>2</td>
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<td>3</td>
<td>Overview of state, management and value proposition of New Zealand’s river control, flood protection and drainage scheme – Final Draft</td>
<td>March 2017</td>
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<td>4</td>
<td>Steering Group: Terms of Reference Integrated Catchment Management Hauraki Zone Programme</td>
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<td>5</td>
<td>Asset Attributes Report for North Road Pumpstation</td>
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<td>16</td>
<td>Infrastructure Strategy 2018 – 2067: Flood protection and land drainage assets</td>
<td>July 2017</td>
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The below tables lists all documents reviewed to inform this report.

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<td>Financial Delegation Manual</td>
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<td>18</td>
<td>Infrastructure Assets Accounting Policy and Guidelines (Working Draft)</td>
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<td>19</td>
<td>Asset Management Policy – Flood Protection, river management and land drainage infrastructural assets</td>
<td>2015/01</td>
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<td>20</td>
<td>2017/2018 Programmes Capital Renewal Assets with value exceeding $100,000</td>
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<td>21</td>
<td>Waihou Piako Zone specific Level of Service measures</td>
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<td>Tauhei Flood Protection Works Business Case</td>
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<td>23</td>
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<td>WRC Project Management Framework: An overview</td>
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<td>31</td>
<td>Report to Waihou Piako Catchment Committee May 2017</td>
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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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Report to Audit and Risk Committee

Date: 13 October 2017
Author: Director – Integrated Catchment Management
Authoriser: Director – Integrated Catchment Management
Subject: Findings of the independent review into Rangitaiki River Scheme
Section: A (Committee has delegated authority to make decision)

Purpose
1. A representative from Bay of Plenty Regional Council will present a verbal summary of the findings of the independent review of the 6 April 2017 Rangitāiki River Scheme breach.

Staff Recommendation:
That the report “Findings of the independent review into Rangitāiki River Scheme” (Doc #11232646 dated 13 October 2017) be received.
Report Audit and Risk Committee

Date: 18 October 2017
Author: Matthew Davis – Manager Lower Waikato / Waipa / West Coast Catchments
Authoriser: Clare Crickett – Director Integrated Catchment Management
Subject: Project Review - Tauhei flood control project
Section: A (Committee has delegated authority to make decision)

Purpose
1. This report presents a summary of observations in relation to the reasons why the current estimates for flood protection work on the Tauhei scheme vary markedly from original estimates, which were developed in 2014. The purpose of the report is to highlight to Council how management intend to ensure such risks are mitigated in the future, including informing a review of funding policy and other Council processes.

Executive Summary
2. Waikato Regional Council supported the Tauhei capital project in the 2015-25 Long Term Plan (LTP). Estimated total cost for the project has escalated from $3.7 million in 2015 to $9-14 million in 2017.

3. At the Finance Committee on 19 September 2017, it was brought to the Council’s attention that if the Tauhei project did not proceed, then Council would need to assess how to attribute the $853,000 expenditure to date, as the capital expenditure would not be recoverable through rating (Doc# 11064567). The Finance Committee requested that observations (‘lessons learnt’) be reported to the Audit and Risk Committee to inform a potential funding policy review and other Council process.

4. The principal observations/lessons are to:
   a. Establish a development budget at project inception, with full consideration as to how development costs will be paid in the event the project does not proceed or is deferred
   b. Undertake full project scoping for new works projects and ensure that there is a gating/approval process during typical project development.
   c. Avoid raising in community processes, pricing expectations that are yet to be validated through detailed scoping, investigation and design
   d. Ensure that unit rates and cost estimates are reviewed annually.
   e. Report on a regular and transparent basis on stages of project development and expenditure.

5. Actions are underway to ensure potential surprise elements such as occurred with Tauhei are avoided in the future, while further actions are contemplated as part of the 2018-28 Long Term Plan: ICM is actively:
   a. Improving project management, including project scoping prior to commencing of capital projects and ensuring gating decisions are recorded through a steering committee process (now in place).
   b. Reviewing unit rates and cost estimates, adjusted to market values on an annual basis (underway).
   c. Requesting further resourcing to improve Council’s asset management information (additional focus contemplated in the long term plan).
d. Improving transparency of costs associated with multiyear projects by reporting these separately to governance (additional information to be incorporated into Finance and relevant catchment committee reports going forward).

**Staff Recommendation:**

That the report “Project Review - Tauhei flood control project” (Doc #11262118, dated 18 October 2017) be received.

**Background**

6. The Tauhei flood control project has been contemplated over a number of decades – considered by locals as an incomplete portion of the original wider Mangawara flood control scheme. Waikato Regional Council supported the Tauhei capital project in the 2015-25 Long Term Plan (LTP). Total cost for the project has escalated from a reported estimate of $3.7 million in 2015 to $9-14 million in 2017. At the 2017/18 annual plan, local landowners supported implementation of Phase 1 at a capped estimate of $1.6 million. Over the period 2014-17, some $853,000 has been expended on investigation, design, assessment of environmental effects and consultation. Final design, consenting, consultation and Phase 1 construction cannot be delivered within the $1.6 million as originally proposed.

7. At the Finance Committee on 19 September 2017, it was brought to the Council’s attention that if the Tauhei project did not proceed at this time, then Council would need to assess how to attribute the expenditure to date, as the capital expenditure would not be recoverable through rating (Doc# 11064567). The Finance Committee requested that lessons learnt be reported to the Audit and Risk Committee.

**Issues**

8. Two principles issues are: (1) to present observations with respect to the Tauhei situation in a single report for the record and (2) note what actions are already underway and others that can be progressed going forward so that Council is not exposed to similar situations.

**Analysis**

9. The following observations are summarised below:

a. The original Tauhei cost estimate was underestimated due to:

   i. Failure to factor in adequate unit rate escalations for increasing cost to construct physical works in current operating climate, assuming increases will continue to manifest through the development process.

   ii. Failure to consider potential need for externally sourced material and associated cartage.

   iii. Not fully scoping all project elements in original estimates such as geotechnical surveys, environmental assessments for consenting purposes, full scheme constraints such as tributary behaviour, and additional (potential) infrastructure requirements such as bridge replacements.

   iv. The consent process itself was not fully estimated.

   v. Failure to include full assessment of likely expenses associated with community meetings, requests for on-site visits, and consultation by the community and wider stakeholders, as well as rating classification analysis/preparation.

   vi. Changes in scope throughout the project as community engagement increased, with inadequate attention to reportage of costs impacts of these (see item (c)).

b. Waikato Regional Council provides rough order costs of “new works” capital projects for inclusion in the LTP without certainty around associated costs that full project scoping and investigations would support. Typically this estimate can be in the order of plus or minus 50 per cent and whose accuracy improves as the project develops (see Attachment A). These rough order costs when refined during the detailed investigations and subsequent design phase can be inconsistent with stakeholder
expectations and therefore reduce confidence in Council’s ability to deliver against the LTP project scope and cost.

c. There is an need to more explicitly report assumptions, cost, breakdown of costs and total (multiyear) costs on a regular basis to committees and communities for new works and prominent projects (which historically have been lumped into larger capital budgets and limited to the current financial year so that total and ongoing expenditure is not readily transparent).

d. Appropriate budget should be assigned for project scoping for large capital projects to ensure project lifecycle elements are met before establishing a cost estimate of a capital project that would proceed to final design and construction phase, putting particular emphasis on peer and external review, adequate investigations, and iterations and refinement of design.

e. Future allocation of costs associated with the development process needs to be clear (before it is expended) should the project not proceed.

f. The typical project development lifecycle and Waikato Regional Council project management framework needs to be communicated to committees and communities – and form the basis for reporting.

10. To avoid the risk of being caught again with cost escalations outstripping the community’s appetite for a project to proceed, ICM is putting in place a number of assurances:

a. Ensuring a project development budget is allocated prior to scoping a significant new works project (new initiative).

b. Improving project management, including project scoping prior to commencing capital projects and ensuring all gating decisions are recorded through a steering committee process based on the Waikato Regional Council project management framework (now in place).

c. Reviewing unit rates and cost estimates, adjusted to market values on an annual basis (underway).

d. Requesting further resourcing to improve Council’s asset management system and information, as the information helps inform the initial need and scope for a project (additional focus contemplated in the long term plan).

e. Improving transparency of costs associated with multiyear projects by reporting these separately to governance and in accordance with the Waikato Regional Council (additional information to be incorporated into Finance and relevant catchment committee reports going forward).

**Improvements to address observations from the Tauhei Project**

11. The improvements underway and those contemplated are described in more detail below.

a. **Project scoping prior to commencing capital project.**

12. Establish a development budget at project inception, with full consideration as to how the costs of project development is paid in the event the project does not proceed or is deferred (new initiative).

b. **Improving project management**

13. Project management has been a key improvement focus over the last two years. The Integrated Catchment Management (ICM) project management office has established the following key focus areas:

- Foundation activities
- Setting up for success
- Supporting delivery
- Management and governance effectiveness

14. There is an organisational project management “refresh” in progress with steps to date including updated templates and the roll out of the software “Psoda” (project, programme, and portfolio management tool)
for use for all projects undertaken at Waikato Regional Council. Focus areas to come will drill down to how projects are initiated at Waikato Regional Council - whether as part of an LTP, annual plan, renewal or other mechanism. Initiating well will enable more confidence to be placed in the information received during the planning phase and ensure that Waikato Regional Council is undertaking the right projects for the right reasons and the right scope (i.e., foundation activities / setting up for success).

15. ICM project management is moving towards a three year cycle for capital renewals. In the last few years ICM has moved from a compressed work programme of investigation, design and build in one financial year to splitting investigation and design to year one, and construction to year two. The move to introduce a year ‘0’ will enable scoping of forward works programmes to ensure priorities are being defined and met and that there is explicit governance and gating decision-making as part of project development (i.e., setting up for success / supporting delivery).

16. Additional independent reviews of projects and costs has been undertaken starting this financial year. For example, an external firm Project Lab is reviewing the three year stopbank renewal programme (2018-21) to re-assess potential projects to identify which ones should progress to capital works, refine their scope and revisit estimated costs. This review has been incorporated into the Infrastructure Strategy and forward works programme.

c. Improving unit rates, cost estimates and long term cost projections.

17. Beqa was engaged to review unit prices and cost estimates in 2016. They reveal that construction costs have increased substantially in recent years due in part to pressure on the construction industry for Auckland housing, NZTA motorway and Christchurch rebuild. The cost escalation is in the order of 30%. The zones with substantial assets have set aside larger project contingencies to enable adjustment to the price increases for current projects. In the future these costs will fully be incorporated into the project cost estimates.

18. PWC was engaged to assess the long term financial impact of the Lower Waikato and Waipa flood control scheme in 2016 (reported to Integrated Catchment Management Committee, 11 August 2016, Doc#8827763). A finding is that due to growing demands for health and safety related components and enhanced environmental performance, “like for like” infrastructure renewal for many assets is insufficient. Renewals and new assets will need to address these issues at additional cost. Going forward, these costs need to be fully incorporated into the project cost estimates.

d. Improving asset management

19. Many projects are held within/ and emanate from the Council’s asset management system. An asset management improvement plan is contained in the existing asset management plan, which is currently being updated. It is noted that KPMG in the current audit of Council’s asset management assesses the Council as developing in this area and indicates that Council should consider committing additional resource to advance its asset management improvement programme.

20. A business case for the 2018-28 LTP has been prepared to provide additional resourcing to improve asset management, including improvements in asset analysis and data renewal, which would contribute to improvements to better understanding asset costs and renewals, including ongoing efforts to update unit rates/construction rates. This effort is fundamental to many projects, as the scheme reviews that indicate potential projects, for example, utilise base data and information contained in the asset management system (and GIS system).
e. Improving information and transparency

21. There is a need to more explicitly report costs, breakdown of costs on a regular basis to committees and communities for new works and prominent projects (which historically have been lumped into larger budgets so that the expenditure is not readily transparent).

22. There is need to inform committees and communities about typical project lifecycle and provide the opportunity for Council and community to reassess the project during that process, via milestone reporting and appetite for proceeding with the project as more understanding and better costings are attained (i.e. see column 3, Attachment A, for typical refinement of costs as a project develops).

23. There is need to better inform what comprises ‘project cost’ and the magnitude of costs, including design iterations, consenting and consultation and breakdown of construction components. Investigation, design, consenting and consultation can comprise a significant portion of small to medium projects – the typical size of projects in which the Waikato Regional Council is involved.

24. Improvement to transparency of costs associated with multiyear projects will be addressed via reporting these separately to governance and in accordance with the project management framework (and project development) stages. Information will be incorporated into Finance and relevant catchment committee reports going forward, with opportunity to reassess projects as more information and better cost estimates emerge.

Conclusion

25. ICM management and staff have reflected on this project and taken on board a number of learnings that highlight the importance of maintaining momentum on the current improvement programme and adherence to project management principles. A combined effect of a number of factors, including the lack of regular reporting of project development costs, have contributed to surprising the drainage scheme stakeholders of the likely cost of an increased level of flood protection in the Tauhei area. A number of improvements to processes are underway to address the issues identified above, and with an allocation of funding at project inception and regular reporting of project milestones across multiyear projects, the risk of this occurring in the future are minimised.

Attachment:
- Tauhei project lifecycle versus typical practice versus Waikato Regional Council recently adopted project management framework
Attachment

Attachment 1: Tauhei project lifecycle versus typical practice versus Waikato Regional Council recently adopted project management framework

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<td>Indicative $ from similar works</td>
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Report to Audit and Risk Committee -
To be received

Date: 17 October 2017

Author: Greg Ryan, Acting Manager Business and Technical Services

Authoriser: Clare Crickett, Director Integrated Catchment Management

Subject: Waikato Regional Council flood protection asset risk management

Section: A (Committee has delegated authority to make decision)

Purpose
1. The purpose of this report is to provide the Committee with an overview of the work areas currently underway to manage the risk associated with the flood protection assets managed by the Waikato Regional Council. This report includes:
   a. An overview of the framework of legislation and plans that the Waikato Regional Council flood protection activity operates within
   b. A summary of findings from the report into the Edgecumbe flood event, including an overview of the recommendations made and how they relate to the Waikato Regional Council
   c. An update on the work recently undertaken to assess the Waikato Regional Council assets that protect urban areas
   d. A brief introduction to the involvement of the Waikato Hydro-scheme (operated by Mercury) and Tongariro Hydro-scheme (operated by Genesis) in the management of flooding in the Waikato River; and
   e. An update on other asset management projects, including the Waikato Regional Council Infrastructure Strategy 2018 – 2067, and the recently completed asset management review by KPMG.

Staff Recommendation:
That the report “Waikato Regional Council flood protection asset risk management” (Doc #11203125 dated 17 October 2017) be received.
Part A: Waikato Regional Council framework for flood risk management

Background
2. The Waikato Regional Council has a number of roles in relation to flood risk management that are defined by:
   - The Civil Defence Emergency Management (CDEM) Act 2002, which, through the establishment of the Waikato CDEM Group, provides for the coordination of risk reduction, readiness, response and recovery activities.
   - The Soil Conservation and Rivers Control Act 1941, which provides the basis for council’s role to establish and maintain flood protection assets (in conjunction with the Local Government Act and Resource Management Act).
   - The Land Drainage Act 1908, which provides the basis for council’s role to establish and maintain land drainage assets (also in conjunction with the Local Government Act and Resource Management Act).
   - The Resource Management Act 1991, which provides a basis for the management of activities and land use in relation to flood risk (particularly through the Waikato Regional Policy Statement and the subsequent requirements placed on the Waikato Regional Plan and district plans).

3. In order to give effect to the roles outlined above and provide a structure for the delivery of these services, council has adopted the following framework:

The Long Term Plan (identified above in red) is a critical step in council decision making in relation to flood risk management, including:
   - Council’s response to change (either observed or expected)
   - The strategic approach that council will take to managing flood protection infrastructure (via the Waikato Regional Council Infrastructure Strategy, which is part of the Long Term Plan)
   - The full range of activities that council will undertake to manage flood risk (e.g. emergency response resilient development and asset management); and
   - The way that council will fund flood risk management, including where that funding will be sought from.

Zone plans are also an important tool that council uses to apply a geographic (catchment-based) lens to flood risk management.
Part B: Edgecumbe flood event enquiry

Background
4. On 6 April 2017, at approximately 8:30am, the Rangitaiki River breached a concrete floodwall at College Road, Edgecumbe resulting in the flooding of much of the township. No loss of life occurred but the disruption to the life of many residents was significant. Fifteen houses were rendered permanently uninhabitable and more than 250 houses required repairs of a level which necessitated there being evacuated for a considerable period.

5. An independent review was commissioned by Bay of Plenty Regional Council to provide answers to the people of Edgecumbe and the wider Eastern Bay of Plenty about what happened and why. The Review Panel comprised three members; Sir Michael Cullen (Chair), Kyle Christensen and Charlie Price.

6. On 3 October 2017 the Final Report of the Review Panel entitled “Rangitaiki River Scheme Review – April 2017 Flood Event” was released to the public. The recommendations in this report generally related to:
   - The need for flood risk management to focus on areas that are particularly vulnerable
   - A range of technical recommendations in relation to the design of floodwall defences (particularly with regard to foundations)
   - The importance of monitoring the performance of critical infrastructure during events
   - The need for communities to acknowledge the potential for flood protection failure and undertake appropriate planning (e.g. evacuation planning); and
   - The need for long term planning to ensure the sustainability of flood protection infrastructure, due to issues such as climate change.

7. Also covered in the report is the operation of a hydro-dam during this flood event, and the impact of that operation on the event.


Issue
9. The recommendations made in this report are relevant to the way that flood risk is managed in the Waikato region for a number of reasons:
   - Within the region, there are a number of urban communities that are subject to a flood risk that is similar to Edgecumbe (i.e. they are located on major river floodplains and are reliant of flood defences). These communities are Te Aroha, Otorohanga, Huntly, Thames, Paeroa and Ngatea.
   - These flood defences are mostly managed, maintained and renewed by council, and while they consist primarily of earth embankments, they also include several floodwalls (albeit none similar to the concrete floodwalls in Edgecumbe)
   - For the Waikato River, the management of flood events incorporates the operation of a two hydro-electric schemes (with the operational decision making becoming very topical during flood events for both upstream and downstream communities)
   - For many of these communities, the management of the flood risk that remains with flood defences in place is still an issue that requires vigilance and active management, particularly with regard to way that land use is managed and way that communities prepare in response to the risk; and
   - The long-term challenges identified by this report (e.g. the impact of climate change on sea level and rainfall) are equally relevant to the Waikato Region.

10. The Waikato Regional Council has initiated a programme of work to start considering the issues raised in the Edgecumbe review, as well as the coordination of this with other Waikato Regional Council reviews which are discussed later in this paper.
11. While the actions for the Waikato Regional Council are yet to be fully scoped, the Committee is advised that initial steps include a visual audit of flood defences within urban communities (refer to Part C of this report) and initial discussions with Civil Defence regarding how to ensure community planning takes account of the potential for flood defence failure.

12. It is also important to acknowledge that already Council advocates for the management of the risk of flood defence failure/overtopping when providing advice on land use management. This includes the provision of information to better understand the risk that remains even with flood defences in place (e.g. flood hazard maps that ignore flood defences), along with policy and planning recommendations to respond to that risk (e.g. through the Regional Policy Statement and district plans). In this regard, it is essential that Council continues to utilise all its functions (in this case, planning under the RMA) to reinforce the management of the risks associated with flood protection assets.

Conclusion

13. The flooding that impacted Edgecumbe in April 2017 significantly impacted that community, along with the broader Eastern Bay of Plenty. As is the case for flood protection assets across New Zealand, a similar scenario may occur in the Waikato Region. It is therefore essential that the recommendations made following this event are considered and where appropriate integrated into the way that the Waikato Regional Council (and local government in general) supports the management of flood risk in the Waikato Region.

Part C: Waikato Regional Council flood protection in urban areas

Background

14. After the April 2017 Edgecumbe flood event, council directed staff to undertake a qualitative assessment of council’s flood protection infrastructure in Ngatea, Thames, Paeroa, Te Aroha, Otorohanga and Huntly. This assessment consisted of council operational staff and a contracted engineer undertaking a “sunny day” asset walkover and visual assessment to identify issues such as:

- General signs of instability or stress
- External erosion
- Over-steepened slopes; and
- Encroachments (e.g. construction works, builds and trees).

15. The outcome of this assessment was the identification/recording of any observed asset defects, along with a preliminary assessment of the impact of that defect on the vulnerability of the asset to failure.

Issue

16. The assessment undertaken for urban flood protection assets identified a number of defects that required resolution, including several that increased the vulnerability of the asset to failure during a flood event. In general, the defects observed related to:

- Damage to stopbank crests, resulting in localised low points that may (to varying degrees) compromise the level of protection provided
- Vegetation encroaching onto stopbanks that may compromise structural integrity and impede inspections and maintenance
- Penetration of stopbanks by pipes (by third parties) that may (unless done properly) compromise structural integrity
- Over steepened stopbank batters that may increase vulnerability to failure; and
- Erosion around outlets.

All issues raised are currently being resolved by staff.

17. In general, the assessment undertaken suggested the following areas of focus for council:
• Raising the profile and benefits of urban flood protection infrastructure within the communities it protects
• Identifying and minimising unauthorised encroachments to urban flood protection infrastructure
• Reducing the potential impact of stock damage to urban flood protection infrastructure
• The importance of contingency plans when infrastructure upgrades are carried out over multiple years
• The role of good infrastructure design, construction and maintenance records in knowledge transfer between staff and other stakeholders
• Reporting on urban flood protection infrastructure separately from that protecting rural areas
• More rigorous analysis of monitoring of higher risk urban flood protection infrastructure (e.g. floodwalls); and
• A more thorough assessment of urban flood protection infrastructure to inform stakeholder communication strategies, emergency response and civil defence planning.

18. Along with the work that is being undertaken to resolve the issues identified, staff are also preparing a communications plan to raise the profile of flood protection infrastructure, as well as a plan that outlines council’s general approach to managing the risks identified by this exercise.

Conclusion
19. The Edgecumbe flood event in April 2017 has raised the profile of flood protection in an urban environment, and in particular the consequences of asset failure. The Waikato Regional Council manages flood protection assets in several urban areas, and as a consequence of the Edgecumbe event has undertaken an initial inspection of these assets (in addition to the regular inspections already undertaken as part of normal asset management practice). These inspections have identified several instances where remedial work is required to reduce the vulnerability of these assets, and these have either been resolved or are in the process of being resolved.

Part D: The involvement of hydro-schemes in the management of flood events in the Waikato River

Background
20. The Waikato River channel includes the Waikato Hydro Scheme, which consists of a series of nine hydro-electric dams on the main river channel. The management of the river flow through these dams drives the flow in the Waikato River as well as the level of Lake Taupo, both of which are particularly important during flood events.

21. The resource consents that authorise the operation of the Waikato Hydro Scheme acknowledge this role, and requires the operator (Mercury) to work alongside council to develop and apply a “high flow management plan”. This plan provides an agreed set of principles that the two organisations will operate under, along with an operational plan that is based a set of flood phases that escalate based on upstream (Lake Taupo) and downstream (Waikato River) observations, along with the status of the dams with regard to dam safety criteria.

22. Fundamental to the “high flow management plan” is the early engagement of council and Mercury staff when flooding is possible to discuss expected impacts and potential management options that may reduce those impacts.

23. In addition to the Waikato Hydro Scheme, the Tokaanu Power Scheme (operated by Genesis Energy), is also a relevant consideration, given that it introduces water into the Waikato River catchment from adjacent catchments. Like the Waikato Hydro Scheme, the resource consents that authorise the operation of this scheme includes requirements related to flood management (e.g. provision for the diversion of water from other catchments to cease during flood events).
Issue

24. The operation of dams has been topical following several flood events (e.g. Edgecumbe in 2017, Brisbane in 2011), as well as flooding in the Waikato River. This is particularly in regard to the decisions that are made with regard to the operation of the dams, and what impact those decisions had on the impact of the flood event.

25. It is important that the Committee has assurance that robust decision making processes are in place to manage this aspect of flood risk management. To this end, staff from Council and Mercury will provide the Committee with an overview of this information early in 2018.

Conclusion

26. The operation of the Waikato Hydro Scheme (operated by Mercury) and Tokaanu Power Scheme (operated by Genesis) is an important component of flood management in the Waikato River, with decisions affecting upstream and downstream water levels, as well as the associated impacts. Further information will be provided to the Committee early in the new year that will outline the decision making processes in place to manage the risk associated with this activity.

Part E: Other work areas related to flood protection asset management

Waikato Regional Council Infrastructure Strategy 2018 – 2067

27. Further to the last update to the Committee, the Waikato Regional Council Infrastructure Strategy 2018 – 2067 has now been completed and will be presented to council for consideration as part of the development of the 2018 – 2028 Long Term Plan. The issues identified by the strategy are consistent with the last report to the committee, with the addition of a recommendation that council’s approach to managing these issues should be to maintain current asset management practice, while also targeting specific areas for improvement.

28. The targeted areas for improvement range from operational improvements (e.g. our approach to asset renewal planning) to much more significant and strategically challenging issues. These include the potential to acknowledge and account for the broader value council’s assets provide (e.g. the protection of nationally significant infrastructure such as rail and road).

Asset management review – flood protection (KPMG)

29. Further to the last update to the Committee, this audit has now been completed and a final report received by staff. This report identified several areas of high risk for council, which are being currently prioritised. These areas are:

- The alignment of asset management planning and council policies
- Managing changing demands from infrastructure
- Improvements around levels of service setting and performance reporting against those; and
- Improvements around the assessment of asset criticality and residual risk.

These issues are all being discussed and addressed as part of the development of the Regional Asset Management Plan, as well as a proposal for additional asset management focused staffing resources (as part of the development of the 2018 – 2028 Long Term Plan).

Asset management maturity and improvement plan

30. Further to the last update provided to the Committee, the review of the 2014 improvement plan has now been completed as part of the development of the Regional Asset Management Plan. The reviewed draft improvement plan, which includes issues noted in the above audit, will be incorporated into the Regional Asset Management Plan (noting that this improvement plan is reliant on a corresponding request for additional resources).
Waikato Regional Council dam safety (council owned assets)
31. Along with stopbanks, floodgates and pump stations, council also manages several retention dams that, during periods of heavy rainfall, retain runoff and reduce flows in the associated waterways. Outside of these instances, the dams are empty.

32. The Integrated Catchment Management Committee has received a report that outlines improvements that are being made in relation to the management of these assets, including the re-prioritisation of maintenance work and the development/implementation of an improved dam safety management system. This work area will ensure that council follows best practice for the management of these assets, along with pre-empting expected legislative changes.

Overall conclusion
33. The effective management of flood risk by the Waikato Region Council requires the coordination of a number of responsibilities that relate to matters such as land use, flood protection assets and emergency response. This coordination needs to focus on both the maintenance and upkeep of existing efforts to manage flood risk, while also monitoring and responding to changing expectations and emerging issues.

34. The information provided in this report provides the Committee with an overview of how council manages flood risk, along with providing summaries of the following current areas of focus:
   • The findings from the review of the April 2017 Edgecumbe flood event
   • Work initiated to provide a stronger focus on Council assets that protect urban areas
   • An introduction to the role that hydro-schemes play in the management of flood events; and
   • An overview of several projects underway to review and improve our approach to managing flood protection infrastructure.

Attachments:
- Summary of recommendations from the Rangitaiki River Scheme Review (April 2017 flood event)
Attachment 1: Summary of recommendations from the Rangitaiki River Scheme Review (April 2017 flood event)

The legal and planning framework for flood hazard management
a) Efforts to complete the application of the hazard management framework and associated documents should be ramped up to ensure comprehensive cover of all of the region.
b) Particular attention needs to be paid to areas with high vulnerability, such as small rural townships where resilience may be low.

The College Road floodwall
c) An automatic river water level monitoring device should be installed close to any critical structures, such as a floodwall, to enable accurate water levels to be recorded both for design purposes and for public record of flood levels.
d) Passive pressure acting around the bottom edge of foundation slabs should not be included as resistance in the design of structures, and reference to this at the end of section A3 of the Bay of Plenty Regional Council Guideline 2014/01 “Stopbank Design and Construction Guidelines” should be removed.
e) The Regional Council should review the design of, and reconsider any impermeable barriers that they have, or are intending to, put in place near to the landward side of any floodwall or stopbank.
f) The risk to flood defence structures from uncertainties around ground conditions should be minimised by carrying out comprehensive investigation, design, and construction supervision for all stopbanks and floodwalls. Investigations should be located so as to be representative of the ground on which the structure is to be placed.
g) Flood defence structures should rely on simple and robust designs which minimise the potential impact of natural ground variability. Caution should be taken in the application of sophisticated analyses for stopbanks and floodwalls due to the high potential for natural variability in the ground conditions along their lengths.
h) Residual risk to flood protection structures from variability in ground conditions should be taken into account in land use planning and emergency planning, including alert and evacuation procedures.
i) Specifications drawn up for placement of fill for flood defence walls should recognise that a higher quality of fill is needed for floodwalls than for stopbanks, and should be subject to quality control.
j) Consideration should be given to the outcome of a study by Cardno that is currently underway into the effects of daily ramping of river levels on river bank stability as against damage from floods, and appropriate action taken to minimise these effects.
k) The College Road floodwall should not be replaced with another wall, but ways sought to enable a stopbank to be constructed in its place (noting that the properties closest to the breached wall have been acquired by the Regional Council).
l) Floodwalls should not be used in areas characterised by variable and piping prone ground conditions unless specially engineered with extended cutoffs, or riverside blankets to control seepage.
m) The existing fill at the College Road floodwall and the remnants of the floodwall itself should be removed or thoroughly investigated before construction of a new flood defence structure/stopbank. Investigation and inspection of the fill carried out at that time should be used to provide further insight into its condition and significance to the failure.
n) The condition of the foundations of the ‘downstream’ floodwall (89 to 101 College Rd) following the 2017 floods should be investigated.

Operation of Matahina Dam
o) Review the Lake Matahina Flood Management Plan with the aim of: discussing and agreeing a clear protocol around forecasts and timing that requires 70.0mRL as the target lake level. This should be particularly focused on achieving 71.6mRL earlier in an event so there is sufficient time to
make the decision to give approval to go to 70.0mRL and to achieving that level without excessive spillway flows;
- developing a template for use in written communications during flood drawdown mode that includes specific details on the timing and rate of outflows required to achieve specified lake levels at specified times;
- reviewing the target maximum lake level for determining optimum outflow, with the possibility of using a level between maximum operating level and maximum flood level;
- requesting Trustpower to consider whether modifications can be made to improve dam safety when lake level drops below 71.6mRL including lengthening the debris boom so that it remains functional at 70.0mRL.

p) Review monitoring and maintenance plans for the current rain and river gauge network and improve reliability of operation.

q) Review number and location of upstream rain gauges to improve accuracy and confidence in flood forecasting. Consideration to be given to spatial coverage as well as redundancy to provide back-up if one or more gauges are non-operational during an event. The current coverage appears limited for the Upper Whirinaki and entire western side of the catchment in particular.

r) Consider additional/back-up river flow gauges to provide better information on upper catchment flows that will provide opportunities for improved optimisation of dam outflows and use of the upper range of Lake Matahina storage during flood events. This could be combined with an enhanced flood forecasting model that includes measured flow data assimilation up to the time of forecast.

s) Work with Pioneer Energy to investigate the possible use of storage in Lake Aniwaniwa during large floods to further reduce downstream peak flows.

t) Work with Pioneer Energy to provide real-time Aniwaniwa outflows and lake levels to the Regional Council during flood events.

Reid’s Floodway
The recommendations for the completion of Reid’s Floodway are provided in Section 6 – Long-term strategy and design philosophies.

Evacuation planning
u) Evacuation plans need to be developed to manage the risk of stopbank failures. This will require the evaluation of the “safe” capacity for both overtopping and geotechnical failure modes and planned evacuations for flood events which exceed the assessed “safe” capacity.

v) Consideration should be given to variable river level trigger thresholds where the residual risk of geotechnical failures is being managed through evacuation plans. This is in recognition of the importance of antecedent groundwater conditions as well as the duration of elevated river levels in the development of geotechnical failure mechanisms.

w) Specific consideration needs to be given where large capital works upgrades, such as Reid’s Floodway and Spillway, are not yet completed and operational.

x) The development of an evacuation plan for Edgecumbe is something to be urgently completed by the Regional Council, Civil Defence and the Whakatāne District Council working together.

Long-term strategy and design philosophies
y) The Regional Council should give high priority to developing and implementing long term sustainable flood risk management solutions for the Rangitāiki Plains to manage the effects of climate change as well as providing ecological and cultural value to the wider community.

z) The stopbank raising for both banks of the upper reach of Reid’s Floodway allowed for in the current (2015-25) long term plan would appear to be a poor option given the well-known geotechnical complexities of the underlying geology. It is also considered that stopbank raising is not aligned with the visions and objectives of the Rangitāiki River Document or generally accepted best practice.
aa) The work the Regional Council is currently undertaking to examine the feasibility of spill compartments and an additional outlet from Reid’s Floodway as well as a lower fixed crest for Reid’s Spillway should be pursued using all of the tools available including designations (s166-186, Resource Management Act, 1991), and if necessary, the Public Works Act 1981.

bb) The flood hydrology of the Rangitāiki River needs to be updated to include the April 2017 event. It is recommended that a “naturalised” annual maxima flood series is developed that uses estimated Matahina Lake inflows rather than flows at Te Teko as its basis.

Community engagement

c) Engagement of the full community (including Edgecumbe township) should be undertaken when considering further options for Reid’s Floodway. This should include full notification of any notices of requirement and/or application for resource consent.