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 Monday 14 May 2018 at 1.00pm.

Chairperson
H Stevens

Deputy Chairperson
Cr J Hennebry

Present
Cr B Simcock
Cr H Vercoe

External Member
G Naylor

Ex-officio
Cr A Livingston

In Attendance
Cr S Kneebone

Staff
V Payne – Chief Executive
M Garrett – Chief Financial Officer
K Bennett – Manager CE’s Office
J Becker – Finance Manager
J Cox – Democracy Advisor
Apologies
(Agenda Item 1)

There were no apologies for the meeting.

Confirmation of Agenda
(Agenda Item 2)

The Chair advised that a number of items on the agenda involved outside presenters, therefore some may be considered out of the order listed in the agenda.

Cr Vercoe moved/Cr Livingston seconded

AR18/19 RESOLVED
THAT the agenda of the Audit and Risk Committee of 14 May 2018, as circulated, be confirmed as the business for the meeting.
The motion was put and carried (AR18/19)

Disclosures of Interest
(Agenda Item 3)

There were no disclosures of interest.

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

Matters arising from previous Meetings Minutes
(Agenda Item 4) Doc # 11912100 & 11611601

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

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

- The increased cost of insurance premiums could be attributed in part to increases to material damage and infrastructure asset cover limits, premium rates and motor vehicle cover (with respect to council’s claims history).
- There had been no further occurrences of email spam and phishing since the previous update provided in March regarding a low level incident that was quickly contained and had minimal impacts overall.
- The Chief Executive expenses would be regularly reported to the Finance Committee commencing the next meeting on 16 May 2018.
- Staff and the Committee Chair had reviewed the Audit Plan. A number of submissions to the Long Term Plan raised concern about yellow bristle grass. Consultation had focussed on levels of service and increasing Council’s spend. How best to manage the pest would be determined through the Regional Pest Management Plan review. Currently, the plant was deemed to be an advisory pest not a noxious weed.
• Similarly, Council received a number of requests to address privet. Currently, Council could require removal provided there was a medical certificate confirming that privet was responsible for health issues.

• Staff intended to review the delegation threshold options for the Natural Heritage and Environmental Initiative Fund and report to Council. The Chief Executive would update Council on the timeframe for the review.

Cr Hennebry moved/Cr Simcock seconded

AR18/20

RESOLVED
THAT the report ‘Matters arising from previous meetings minutes’ (Doc # 11611601 dated 22 March 2018) be received.

RESOLVED
THAT the minutes of the Audit and Risk Committee meeting held on 9 March 2018 be confirmed as a true and correct record (Doc # 11912100).

The motion was put and carried (AR18/20)

Gift Register Update for Staff and Elected Members

(Agenda Item 5) Doc # 12354746

Chief Financial Officer (M Garrett) outlined the summary of gifts received by Elected Members and staff during the period 1 October 2017 to 31 March 2018.

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

• It was suggested that the Staff Gifts Policy be updated to reflect the Elected Members Gifts Policy, particularly where the policy refers to “may or may not accept gifts” and highlight that the value of the gift is only relevant in respect of disclosure.

• Staff must disclose receipt of gifts with an estimated value of more than $50.00, however, a significant number of disclosures were for gifts of lesser value. The reporting period included Christmas where traditionally a higher number of gifts were received.

• Concern was raised at the number of gifts received from contractors and consultants. It was noted that when considered appropriate, gifts were put in to a ballot or draw for the benefit of all/other staff.

• There were industries with clear policies around the acceptance of gifts, in that many simply could not. It was accepted there were times where accepting hospitality for professional relationship may be appropriate.

• A member requested a review of the policy and sought input from management in to the policy. It was confirmed that the review of the Staff Gifts Policy would be reported back to the next meeting of the Committee. This will include recommendations on whether gifts should be pooled for the benefit of all staff.

• It was noted that the values applied to the register were estimations of the values, and may not be exact. Members noted that the attempt to put a value on gifts was not as important as disclosing the gifts.

Cr Vercoe moved/Cr Hennebry seconded

AR18/21

RESOLVED
THAT the report ‘Gift Register Update for Staff and Elected Members’ (Doc # 12354746 dated 19 April 2018) be received.
The motion was put and carried (AR18/21)

Risk Management Activity and Key Projects Update
(Agenda Item 6) Doc # 11943341

Manager, CE’s Office (K Bennett) updated the Committee on Council’s risk management activities and key project risks.

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

- An update on the Fraud Risk Register would be reported to the next meeting.
- The need for an organisation-wide risk training programme had been borne out of lessons learned from the asbestos review, where by it was acknowledged that staff had received a report on an issue and the report was not appropriately escalated for action. The training was applied across the organisation to ensure that all issues were captured and not lost.
- A member acknowledged reference to the Maori Engagement Framework and in noting it had been adopted by Council requested a copy of the Framework.
- A member sought information as to what the level of involvement should be with respect to cross border pest incursion. It was noted that the Regional Pest Management Plan defined the role of Council in the management of pests and there was ongoing discussion with stakeholders about cross border issues.
- It was noted for members that with biosecurity being a dynamic space that there were always new incursions that were not recognised within the Plan and increasingly Council was working on a case by case basis on these incursions with the Ministry for Primary Industries, which is the lead agency for all national incursion responses.
- Members noted that 1.5 Emergency Response Framework related to the emergency response of council staff, rather than that of Civil Defence. There were synergies in the responses of Council and Civil Defence and Civil Defence would provide assistance where appropriate when the classification of the emergency warranted their input.
- The report provided the Committee with confidence in Council’s oversight of the five top risks recently identified in the World Economic Forum Global Risks Report. The risks were noted to be:
  1. Extreme weather events
  2. Natural disasters
  3. Cyberattacks
  4. Data fraud or theft
  5. Failure of climate-change mitigation and adaption
- With respect to the Health and Safety report a member noted they liked the reporting provided but questioned the degree to which councillors were taking an active role in testing staff health and safety practices against the reporting. It was noted for members that while Local Government members’ liabilities under the Health and Safety Act were different to those of corporate board members, councillors still held the same duties and responsibilities under the Act. Members noted that with field trips or site visits they were able to observe the practices of staff but there was no formal programme or record to document the observations. Management to come back with a recommendation on how Councillors can be more actively involved in workplace health and safety observations.
• It was noted that the Health and Safety audits undertaken by KPMG involved staff who were appropriately qualified in the area of Health and Safety and that Council had three staff with the appropriate qualifications.

• Members noted there were opportunities to improve on the Health and Safety awareness of Councillors with respect to work undertaken and the requirements of staff across the region. It was noted it could be introduced within the member induction.

• The allocation of the Legislative Compliance Survey related to the roles held by staff who undertook the survey. Staff had undertaken to ensure that the right people were responding to the right questions and the allocation list was kept up to date with role and staff changes.

• For the staff that did not respond to the survey, it was noted for members that the matter would be taken up with the relevant Director to highlight that there was no tolerance for non-response.

• Members noted the improvement in complaint resolution. It was further noted that subsequent dissatisfaction comments or complaints were linked to the original complaint where appropriate.

• With regard to the type of complaint and the priority assigned to the complaint, it was noted that the second highest figure was identified as “Blanks” or “Other” - in response, staff advised that they had analysed those figures and would be providing further training for the staff responsible for entering the data.

• A member proposed changes to the graphs noting acronyms were not preferred and where there was substantial amount of data that a table be used rather than a pie graph.

• The Office of the Auditor General report on Freshwater had not been received, only the presentation on the topic. The Chair noted that David Walker of Audit NZ had advised that the Office of the Auditor General had offered to present to the Committee on both the Freshwater review and the Hauraki Gulf Marine Spatial Plan review if there was interest. The committee indicated it would welcome presentations from the Office of the Auditor General.

• Staff updated the committee on work to identify sites which have used, stored or disposed of Pre-polyfluoroalkyl substances. WRC staff are working collaboratively with Hamilton Airport to see what, if any Pre-polyfluoroalkyl substances were likely to be present. The outcomes of this work may result in a programme of monitoring of the stream at Mystery Creek and streams adjoining airport land.

• Referring to page 46 of the agenda, a member noted concern that Council should develop a more effective allocation mechanism for drinking water. Through Long Term Plan submissions it was identified by Waipa District Council their concern over the Resource Consent to draw more water for the purposes of supplying Te Awamutu in times of low reserves. It was noted for members that under Variation 6 priority was afforded to municipal supplies and in times of drought others would be dropped before a municipal supply. It was acknowledged in a drought there would be constraints on quantity of supply. Members sought confirmation that advice for the Healthy Rivers Plan Change 1 Hearing Panel would be provided by an independent and impartial person. Staff also undertook to confirm for members the timeline of the appointment of the fifth member of the commissioner panel.
Cr Livingston moved/G Naylor seconded

AR18/22

RESOLVED
THAT the report ‘Risk Management Activity and Key Projects Update’ (Doc # 11943341 dated 3 May 2018) be received.

The motion was put and carried (AR18/22)

Audit NZ 2018-2028 Long Term Plan Management Report
(Agenda Item 7) Doc # 12402276

Chief Financial Officer (M Garrett) and Corporate Planning Manager (N Hubbard) presented the Audit NZ 2018-2028 Long Term Plan management report to the Committee. Audit NZ has issued an unmodified audit opinion on the plan document. In speaking to the report he also provided an update on the project governance structures, quality assurance processes and high level risk associated with the Long Term Plan project. Audit NZ (J Williams) was present to respond to questions of the members.

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

- Members noted that the appropriate measure for the proposed rail service was the implementation of the proposed service as per the proposed service level consulted on.
- Staff were commended for results of the Audit report, noting it was a big project that had gone very well.
- A member noted on page 54 a reference to management response and levels of service and questioned who determined the level of service. It was posed that the level of service would be relative to the event, and when infrastructure and assets were installed the levels of service were put together at that time. The level would be what it would take to maintain the infrastructure to meet that initial level. All levels were recorded through the Asset Management Plan and would be reported through Council’s Long Term Plan.
- In February Council set out the strategy for rate increases and set the limit at no more than 9% in any one year for existing ratepayers and after allowing for growth in the Long Term Plan Financial Strategy. Further Council set the budget for the salaries but the Council Salaries Remuneration Policy delegated to the Chief Executive to set staff salaries based on independent remuneration advice.
- Members noted concern that unlike District Councils, Council did not provide a LIM report and questioned what was Council’s liability to provide the information for the sake of flood protection. Information was available to the public via the Hazard information portal online and in many cases a LIM report will refer people to the Regional Council for further information if the property has a potential for flooding or retains some form of council infrastructure.
- Within the Land Drainage Schemes there were regular newsletters and communication for ratepayers and landowners within the scheme area.
G Naylor moved/Cr Hennebry seconded

**RESOLVED**


**RESOLVED**

THAT the Audit NZ Management Report for the 2018-2028 Long Term Plan (Doc # 12390979) be received.

The motion was put and carried (AR18/23)

**External Audit Update**

(Agenda Item 8) Doc # 12387466 & 12386661

Finance Manager (J Becker) provided an update on outstanding matters from previous audits. Audit NZ (J Williams) was present to respond to questions of the members.

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

- There were no reported issues at this stage of the interim report and the report would be further updated as the year-end audit progressed.
- Members noted that the letter was outstanding but contained items of concern such as the leave balances and noted concern that these issues had been addressed and the balances were being effectively managed. It was noted that those matters would be remaining from the end of the last financial year and it would be further commented on with the updated report to Council in June 2018.

Cr Hennebry moved/Cr Vercoe seconded

**RESOLVED**

THAT the report ‘External Audit Update’ (Doc # 12387466 dated 27 April 2018) be received.

The motion was put and carried (AR18/24)

With consent of the committee the meeting moved to Item 10 Waikato Regional Council Flood Protection Asset Risk Management.

**SECTION B: (FOR RECOMMENDATION TO COUNCIL)**

**Waikato Regional Council Flood Protection Asset Risk Management**

(Agenda Item 10) Doc # 12407393

Manager Business and Technical Services (G Ryan) provided an overview of the work areas currently underway to manage the risk associated with the flood protection assets managed by the Waikato Regional Council, and in particular the progress that has been made since the last report (February 2018).
Arising from questions, answers and related discussion, the following matters were noted:

- A member noted concern that the staff resources that had been identified as needed through the KPMG review of services, would be staggered in their employment dates. It was acknowledged that the engagement of the positions highlighted timing was a decision before Council through the Long Term Plan.

- It was noted that the submissions had indicated support for the catchment works and for the “core business” of Council. For members it was noted that the challenge was current demands and a primary responsibility for these roles was to take the pressure off the operational staff.

- From the lessons learned from the Tauhei Flood Protection Scheme project it was acknowledged that there was a need to communicate with communities the need to spend to scope projects before a commitment was made to investigate options. However it is important to limit the amount of pre-project expenditure until the total project cost estimate can be firmed up.

- A member sought further information with respect to Page 98 and lessons learned from the issues highlighted. In response it was noted that both incidents related to land within the Waikato District Council boundary and a Memorandum of Understanding had been drafted with Council to ensure that staff from each authority spoke to the right people. There was an issue with the significance of the stopbanks not being understood or communicated clearly. An opportunity had been provided for the issues to be remediated and staff were consulted with throughout the remediation process to ensure it was undertaken to Council’s standard.

- Members noted the comprehensive audit that had been undertaken by KPMG and the many actions that were identified as a result. Several actions depended on the establishment of additional management roles and the Committee emphasized the importance of establishing and filling these roles as soon as possible. It was important that the list of actions was monitored and staff kept pushing to get it done.

- With respect to the incidents it was identified for members that communication was key to ensuring that this did not occur again. It was noted that staff were reliant on landowners and operational staff to report concerns as soon as possible, but this did not always prevent issues. There was work being undertaken on a communications plan to provide the community with an understanding of how the assets function and what was needed to take care of them. This included a review of how Council was using the assets.

- Members noted an interest in receiving the reports from KPMG and what staff were doing to address the actions highlighted. It was acknowledged that two independent review reports were with management for review and would be provided to Council through the Long Term Plan Deliberations process.

- The Chair posed a recommendation for Council that would highlight the committee’s feelings on the importance for Council to give serious consideration to establish the maintenance planner and reliability engineer roles sought through the Asset Management LTP Business Case, within the Long Term Plan in Year 1 of the plan, rather than delaying the appointments.
H Stevens moved/G Naylor seconded

AR18/25

RECOMMENDED
THAT Council speed up the delivery in terms of resolving the action points identified in the Asset Management Review – Flood Protection (KPMG) report

The motion was put and carried (AR18/25)

- Members received an update on the issues identified at the Ngataea stopbank and were advised that the gradual slump measured (vertically) approximately 900mm at the maximum. Immediate response had been undertaken under Section 330 of the Resource Management Act to ensure that the issue was addressed. A review was to be undertaken to provide a longer term solution to the site noting that the short term solution was to drive sheet piles in to the failed section.

H Stevens moved/Cr Livingston seconded

AR18/26

RESOLVED
THAT the report ‘Waikato Regional Council Flood Protection Asset Risk Management’ (Doc # 12407393 dated 3 May 2018) be received.

The motion was put and carried (AR18/26)

The meeting adjourned at 3.14pm and reconvened at 3.26pm.

With consent of the meeting, the agenda continued from Item 9 - Internal Audit Programme Update

Internal Audit Programme Update
(Agenda Item 9) Doc # 11944362 & 12410842

Manager, CE’s Office (K Bennett) provided a status update on the internal audit programme.

David Sutton and Cushla Parish of KPMG spoke to their Internal Audit activity update report.

Arising from questions, answers and related discussion, the following matters were noted:
- With regard to the review of Information Services Strategy, it was noted that a new staff member would assist WRC to fulfil the recommendation to communicate more effectively with staff about IS strategy. The role for an information services business support specialist had been offered to a candidate and it was expected that they would start in the coming weeks.
- Staff were finalising the fraud risk register following the recent fraud risk workshop. KPMG would review the register for completeness. KPMG confirmed they would pick up a review of sensitive expenditure/ suspicious transaction analysis with the refresh of the internal audit programme.
Cr Vercoe moved/Cr Simcock seconded

**AR18/27**

**RESOLVED**

That the report ‘Internal Audit Programme Update’ (Doc # 11944362 dated 3 May 2018) be received.

The motion was put and carried (AR18/27)

**SECTION B: (FOR RECOMMENDATION TO COUNCIL)**

**Policy Review Schedule Update**

(Agenda Item 11) Doc # 12405368, 12325918, 2655970, 12279317

Chief Financial Officer (M Garrett) and the Finance Manager (J Becker) presented a revised Investment Management Policy for approval.

Manager CE’s Office (K Bennett) provided an update on Council’s policies that are due for review/renewal this quarter and sought approval for the Fraud Policy.

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

- Members noted that with the Treasury Risk management Policy the Committee had received from PWC a transmittal letter to clearly set out the changes. It was provided that the Investment Management Policy had been reviewed by PWC and but the letter of advice from the review would be provided to the members.
- It was acknowledged that the agenda had not contained marked up versions of the policies and the Committee could provide delegation for the independent members to review the policies and provide confirmation for Council that the policy should be approved.
- Members noted that the changes to the Fraud Policy were largely to reflect a change in Council’s terminology.
- A member noted concern that the Fraud Policy, on page 5, advised that the results of an investigation would be reported to the committee. Where there were issues of major significance, it was important that the policy was explicit as to who and what constituted “need to know” The member also noted concern that should the investigation involve the Chief Executive that the investigation should be undertaken by the independent Chair of the Audit and Risk Committee. This should be clearly spelled out in the Policy.
- A member noted that the policies should be checked with Audit NZ to determine if the policies match best practice guidelines.
- Subject to the above changes being made to the Fraud Policy there was no need for the policy to come back before the Committee.
Cr Livingston moved/G Naylor seconded

**AR18/28**

**RESOLVED**

**RESOLVED**
2. THAT the Independent members of the Audit and Risk Committee be delegated the authority to review the Investment Management Policy (Doc # 12325398) prior to its recommendation to Council.

**RECOMMENDED**
3. THAT Council adopt the revised Investment Management Policy.

**RESOLVED**
4. THAT the report ‘Policy Review Schedule Update’ (Doc # 12279317 dated 3 May 2018) be received.

**RESOLVED**
5. THAT the following changes be made to the Fraud Policy (Doc # 2655970):
   a. Change Chief Executive to reflect “Chief Executive or Independent Chair of the Audit and Risk Committee”
   b. Communication/privacy of the investigation

**RECOMMENDED**
6. THAT Council adopt the Fraud Policy (Doc # 2655970).

The motion was put and carried (AR18/28)

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

**2017/18 Annual Report – Accounting Estimates and Judgements**
(Agenda Item 12) Doc # 12379572

Finance Manager (J Becker) provided an overview of the process for the preparation and approval of the accounting estimates and judgements that underpin the financial statements included in the 2017/18 Annual Report.

Arising from questions, answers and related discussion, the following matters were noted:
- Members noted that the definition of “uncollectable” was debts that were never going to be collected such as rates from Maori owned land or debt from companies in liquidation. The new approach was to consider clearing the debts as they were incurred rather than accruing penalties.
- A further report on the estimates and judgements would be provided to the Committee in August in time for the Committee to make any recommendations to Council with respect to the Annual Report. Noting the two independent members of the committee would review with staff in July the Annual Report financial statements would be adopted in September.
H Stevens moved/Cr Hennebry seconded

**AR18/29**

**RESOLVED**

**THAT** the report ‘2017/18 Annual Report – Accounting Estimates and Judgements’ (Doc # 12379572 dated 26 April 2018) be received.

The motion was put and carried (AR18/29)

**AR18/30**

**Resolution to Exclude the Public**

Cr Hennebry moved/Cr Vercoe seconded

**RESOLVED**

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>14 <strong>Potential Liability Claims</strong></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>15 <strong>Corporate Systems Replacement Project</strong></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>16 <strong>Public Excluded Minutes of the Audit and Risk Committee meeting held on 9 March 2018</strong></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>
</tbody>
</table>
This resolution is made in reliance on sections 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by section 7 of that Act, which would be prejudiced by the holding of the relevant part of the proceedings of the meeting in public are as follows:

<table>
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<tr>
<th>Item No</th>
<th>Interest</th>
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<tbody>
<tr>
<td>14, 16</td>
<td>Protect information where the making available of the information (i) would disclose a trade secret; or (ii) 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>
</tr>
<tr>
<td>16</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>
</tr>
<tr>
<td>16</td>
<td>Avoid prejudice to measures that prevent or mitigate material loss to members of the public (Schedule 7(2)(e))</td>
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<td>14, 16</td>
<td>Maintain legal professional privilege (Schedule 7(2)(g))</td>
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<td>15, 16</td>
<td>Enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities (Schedule 7(2)(h))</td>
</tr>
<tr>
<td>14, 16</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>
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</table>

The motion was put and carried (AR18/30)

Return to Open Meeting at 4.22pm

Meeting closed at 4.22pm