Waikato Regional Council
Audit and Risk Committee
OPEN MINUTES

Date: Thursday, 7 March, 2019, 9 am
Location: Council Chamber
Waikato Regional Council
401 Grey Street
Hamilton East

Members Present: H Stevens - Chairman
G Naylor - Independent member
Cr J Hennebry
Cr H Vercoe
Cr B Simcock
Cr Mahuta - Ex officio

Staff Present: V Payne (Chief Executive Officer)
J Becker (Chief Financial Officer)
C Crickett (Director Integrated Catchment Management)
K Bennett (Manager CE's Office)
J Cox (Team Leader - Democracy Services)
Cr S Kneebone
Cr F Lichtwark
Sarah Jones
Jaydene Kana
SECTION A: UNDER DELEGATION AND FOR THE INFORMATION OF COUNCIL

1. Terms of Reference

2. Apologies

Apologies had been received from Cr A Livingston.

AR19/01
Moved by: H Stevens
Seconded by: Cr Vercoe

RESOLVED

THAT the apologies of Cr A Livingston be accepted.

The motion was put and carried

3. Confirmation of Agenda

The agenda was confirmed with no additions or discussion.

AR19/02
Moved by: Cr Hennebry
Seconded by: Cr Simcock

RESOLVED

THAT the agenda of the Audit and Risk Committee of 7 March 2019 as circulated be confirmed as the business for the meeting.

The motion was put and carried

4. Disclosures of Interest

There were no disclosures of interest noted.

5. Matters arising from open session of the previous meeting minutes

Report to receive the minutes of the open session of the previous meeting and review the actions and matters arising therefrom.

The report was presented by the Chief Financial Officer (J Becker).

During questions answers and related discussion the following was noted:

- the November meeting minutes had been included twice within the agenda pack. This was an error in publication.
- with respect to point five "The customer services team will investigate which councils are using NPS and establish benchmarking methodology for future reporting" members
were advised that staff were still trying to determine whether other councils were using NPS. The idea was to develop a community of practice.

Cr Mahuta left the meeting at 9:07 am.

AR19/03
Moved by: Cr Vercoe
Seconded by: Cr Simcock

RESOLVED

THAT the report ‘Matters arising from previous meeting minutes’ (Audit and Risk Committee 7 March 2019, dated 8 February 2019) be received.

RESOLVED

THAT the minutes of the open session of the previous meeting of the Audit and Risk Committee held on 9 November 2019 be received and confirmed as a true and correct record.

The motion was put and carried

SECTION B: FOR RECOMMENDATION TO COUNCIL

6. External Audit

Report to provide the Committee with an update on outstanding matters from previous audits and to present the Draft Audit Plan for the 2018/19 audit process.

The report was presented by the Chief Financial Officer (J Becker). The Audit NZ Manager (N Kotze) was present to respond to questions. The Chair advised that an update from Mr Walker of Audit NZ, was that there were no concerns or matters to be raised with council or with the committee.

During questions, answers and related discussion the following was noted:

- within the report there were two matters that appeared to be resolved and members questioned whether those matters should be removed. In response it was noted that the report would be reflective of the schedule and management update from Audit NZ and as there hadn’t been an interim audit they hadn’t been cleared. Where possible items would be noted as closed following the interim process.

- the risk relating to documenting the extension of consent applications related specifically to the discount regulations. Resource Use have reasonable and practical measures in place, but human error may mean steps may be missed. Council can have confidence in a high level of compliance with processes, with the occasional exception. The focus of the risk would be kept on having processes in place and ensure they are working effectively.

- a focus of the audit review will be on project management due to the number of large projects that were going on for council. Audit NZ will focus more on these to ensure appropriate processes and procedures were in place. This review was not expected to affect the audit opinion but to add value for council as a result of this review. Members
were advised that council had a dedicated Project Management Office as well as dedicated Project Managers employed on a fixed term contracts to provide oversight for significant projects such as the new office accommodation and corporate systems replacement project.

- members noted they do not want to see unnecessary work done by Audit NZ, when council already had oversight and a number of processes in place, including reporting through to the Finance committee and regular internal audits with KPMG.
- the chair expenses and the CE expenses were reported through to the Finance Committee. This ensured full transparency for council in that regard.
- in response to a question around recent enquiries regarding the DHB and Wintec members were advised that there has been an update to the methodology and the Office of the Auditor General had provided a narrower requirements scope. A specific brief that Audit would be looking for more detail at that level.
- it was important for the committee to be provided with the overall materiality limits (including dollar values) in order for the committee to assess significance and gain assurance over the financial statements.
- the pre-election report is not audited by Audit NZ, however the audit timetable was similar to the previous year and fit with council’s internal programme.

AR19/04
Moved by: Cr Hennebry
Seconded by: G Naylor

RESOLVED
THAT the report 'External audit update' (Audit and Risk Committee 7 March 2019, dated 25 February 2019) be received.

RECOMMENDED
THAT the Draft Audit Plan for the 2018/19 audit process be approved.

The motion was put and carried

SECTION A: UNDER DELEGATION AND FOR THE INFORMATION OF COUNCIL

7. Risk Management Update

Report to update the Committee on Council’s risk management activities and key project risks.

The report was presented by the Manager CE Office (K Bennett).

- members reviewed the risk register and noted the proposed recommendations that would be discussed at a workshop following the meeting.
- a member felt it was pertinent to focus on the areas where the residual risk was not in line with the acceptable risk. These would be the hotspots for council to focus on.
there was further learning required for council on climate change and whether that would be treated as a new risk in itself, or whether it would be incorporated through the council’s other risks. It was important that council understood the problem, determine what the risks are and work out the response.

a member asked whether the process that council already went through with the 10 year scheme review was enough with respect to council’s assets. The question was not just whether the assets were appropriate, but whether the levels of service for council were in line with what the ratepayers were prepared to pay for.

a member noted concern that there was a percentage of staff who were unhappy or nervous about the move to the new building. It was acknowledged that there was risk in any change and there were a number of working groups looking at the issues arising from the move to the new building and coming up with a range of mitigations.

a member noted the reference to the replacement economic modelling expert and asked whether they were an economic expert or an expert on the environment. The concern was that the replacement expert was not like for like. In response members were advised that the expert has been replaced with skills that were matched to the previous role holder. The expert comes with broad agri-business experience and is currently professor at the University of Waikato.

Plan Change 1 was going through the Resource Management Act hearing process with an independent hearings panel. There was a lot of expert opinion sitting behind every submitter and there have been opportunities for various experts to get in the same room to look at and debate the economic model. The intention behind these meeting is to ensure key issues are addressed prior to hearings. There were a lot of checks and balances and contestability of the advice being provided. The major risk for council with this project is the time and cost of the whole process and whether it does improve the water quality.

a member asked about the process relating to identifying contaminated sites. In response it was noted that council was to investigate land with a purpose of identifying contaminated land. MfE provide a framework for council and to assist the investigation released a list of land uses. This list is then used as a base for staff to base registers on and to go through and do further determination on the use of that land and potential contamination. Investigation includes looking at the industries and the types of compounds being used. Firefighting foam was one of the compounds but related to a small portion of use. The issue with the foam was the liberal application and the way it was used that made it a higher risk.

Cr S Kneebone joined the meeting at 10:06 am.
AR19/05

Moved by: G Naylor
Seconded by: Cr Simcock

RESOLVED

THAT the report 'Risk Management Activity and Key Projects Update' (Audit and Risk Committee 7 March 2019, dated 26 February 2019) be received.

The motion was put and carried

8. Policy Update

Report to provide an update on Council policies that are due for review/renewal this quarter.

The report was presented by the Manager CE Office (K Bennett).

During questions, answers and related discussion the following was noted:

• the committee should have a high level oversight of council policies. This would include the finalised sensitive expenditure policy which would incorporate travel and accommodation, gifts and personal benefits, and entertainment expenditure moving forward. The review was intended to help provide consistency between policies and to give clear guidance for staff on what expenditure is appropriate.

• a member noted that the review dealt with the policy and asked how did the committee get the assurance that the policies are being complied with. The KPMG internal audit programme formed part of that assurance for the committee as well as council’s internal controls.

• members noted the importance for staff tracking the expenses and processing the payments and the invoices to escalate issues and concerns as they arose. The transparency of reporting the expenses for councillors and the Chief Executive through to the Finance Committee supported this process. Members re-iterated the importance of fraud awareness for staff and encouragement for staff to raise any concerns as quickly as possible. Members were advised that the three core values of council would support this approach and ensure that no one was above the values and managers should expect to be held accountable for following and modelling them.

• the member requested further thinking be put in to the process to provide the assurance sought that these processes were being followed and that concerns were being appropriately escalated for review.

AR19/06

Moved by: Cr Hennebry
Seconded by: Cr Vercoe

RESOLVED

THAT the report 'Policy Review Schedule Update' (Audit and Risk Committee 7 March 2019, dated 22 February 2019) be received.
The motion was put and carried

9. **Health and Safety Update**

Report to update the Committee on management of annual leave balances, staff wellbeing and key health and safety indicators.

The report was presented by Manager People and Capabilities (N Ollington).

During questions, answers and related discussion the following was noted:

- a member proposed that the Employee Assistance Programme trends could be a useful indicator of underlying health. In response it was noted that while usage may be tracked there was not sufficient distinction to determine whether the use was related to work or non-work related issues.
- members noted their appreciation for the increasing focus on people’s mental health and noted that it was encouraging to see that issues were being identified early.

**AR19/07**

Moved by: H Stevens

Seconded by: Cr Hennebry

**RESOLVED**

THAT the report 'Annual Leave, Wellbeing and Health & Safety Indicators' (Audit and Risk Committee 7 March 2019, dated 27 February 2019) be received.

The motion was put and carried

10. **Internal Audit Update**

Report to provide the Committee a status update on the internal audit programme.

The meeting adjourned at 10.49am and reconvened at 11.05am.

Prior to the report being discussed a member noted a concern for the committee to be aware of relating to Treaty Settlements and the ongoing costs to ratepayers. The concern was that central government enter in to agreements as part of settlement obligations and the work is then passed on to council. Once the settlement funds run out there were ongoing costs and the matter should be elevated as a risk for council to be across. With respect to the ongoing work it was not always work that council would normally do. In response to the discussion it was noted that the committee would be concerned about the risks and whether they had been appropriately identified, in particular the legal compliance risk. The Committee noted their expectation to see a full analysis of the risks once they had been considered. A member asked that any report back also include the significant risk for local government generally in relation to the need to consult with every hapu that wanted to be consulted with.

Members noted that in other areas of council business there were other aspects of legislation that required consultation and discussion with Iwi, for example when reviewing and preparing plans. With respect to the Waikato Civil Defence Emergency Management Joint Committee
this could mean the inclusion of Iwi at the governance level and there was concern and uncertainty within the committee as to how to include Iwi and who to include. The decision may be simple for regions who engage with a singular group but is not simple for the Waikato.

The report was presented by the Manager, CE’s Office (K Bennett). David Sutton and Cushla Parish from KPMG were present to respond to questions.

During questions, answers and related discussion the following was noted:

- the stakeholder review had been brought to the previous meeting and as part of that KPMG had reviewed the survey methodology and results. For completeness that review has been provided back to the committee.
- the report highlighted that the majority of all key stakeholders responding to the 2018 survey were satisfied in relation to the bigger picture of council's service performance, working relationships and current ways of communicating and engaging. Any gaps identified came from a small number of responses, however regardless of the number all gaps were worthy of consideration.
- the private sector responses were covered within the Non-Government Organisation section and included industry representatives such as forestry, dairy and beef and lamb. A member noted it would be appropriate to consider the CE of the ten largest companies in the Waikato to the stakeholder list.

AR19/08
Moved by: H Stevens
Seconded by: G Naylor

RESOLVED

THAT the report 'Internal Audit Programme Update' (Audit and Risk Committee 7 March 2019, dated 25 February 2019) be received.

The motion was put and carried

11. Asset Management Update

Report to provide the Committee with an update of the work areas currently underway to manage the risk associated with the flood protection assets managed by Council.

The committee received a presentation from Manager, Technical Services (G Ryan).

During questions, answers and related discussion the following was noted:

- the impression for the committee was that council hadn't moved very far from the 2014 results, and in some places had moved backwards. In response it was noted that there had been a fundamental shift in capability and systems that had changed the outcome rather than hoping that the same approach would work.
- the reference to "on track" meant on track since 2017.
- the Regional Asset Management Plan was adopted by Council in February 2019.
• the feasibility studies were being reported on a case by case basis, as shown with the reporting relating to the Tauhei and Muggeridges projects. The matters relating to Kaiaua related to conversations with the community and not a set project.

• members noted that discipline was required in the project management space and concern that new works were dealt with in an appropriate way. The approach for Kaiaua was to determine what they needed, and it was important that any spending in to the review was capped and that no work was done without agreement as to who was to pay. Clear communication was required with the community.

• there was a structured approach at staff level with oversight across all projects. Members noted there was a gap where this oversight was not reported through to Council or a Committee. The opportunity to provide further information in this regard to the Finance Committee was noted.

• concern was raised with the definition of level of service and whether council had the right balance between capability and level of service. The schemes generally provided protection for 1 in 50 year or 1 in 100 year events. This was something that the sustainability review would look at and ensure that the right conversations were being had with the community. In some areas the renewal of assets was to upgrade to something more substantial than what was in place. The conversation would include "do we upgrade or hold the line" and ensuring that the community understood the cost impacts of upgrading.

• a report relating to the tsunami impact on the east coast was being managed by the Regional Hazards Team, jointly with the Thames Coromandel District Council.

• a member promoted the use of meaningful communications for the public and wanting to ensure that the different levels of engagement and interaction were available.

Cr F Lichtwark joined the meeting at 11:34 am.

AR19/09
Moved by: H Stevens
Seconded by: Cr Simcock

RESOLVED

THAT the report 'Waikato Regional Council flood protection asset risk management' (Audit and Risk Committee 7 March 2019, dated 25 February 2019) be received.

The motion was put and carried

12. **Insurance Update**

Report to provide the Committee with an update on activities within the Council’s insurance programme, including a summary of the outcome form the 2018 insurance renewal as well as the findings from a review of the Council’s disaster recovery provisions.
The report was presented by the Chief Financial Officer (J Becker).

During questions, answers and related discussion the following was noted:

- flood risk, together with a claim notification made in relation to the Ngatea stopbank slumping were the key drivers for council’s share of the policy increase.
- a member noted concern that a 30% increase was at the high end of the range and that this may not be a one-off increase. In response it was noted that there was provision within budgets to accommodate an increase and the work being done to understand the assets and impacts of flood risk would seek to mitigate that risk.

AR19/10
Moved by: G Naylor
Seconded by: Cr Simcock

RESOLVED

THAT the report 'Insurance update March 2019' (Audit and Risk Committee 7 March 2019, dated 11 February 2019) be received.

The motion was put and carried

13. Resolutions to Exclude the Public

AR19/11
Moved by: Cr Simcock
Seconded by: Cr Hennebry

RESOLVED

THAT the public be excluded from the following parts of the meeting, namely -

1. Key Projects update
2. Potential Liabilities update
3. Public Excluded Minutes from the previous meeting of the Audit and Risk Committee on 9 November 2018.

The general subject of each matter to be considered while the public was 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 were as follows:

This resolution was made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987. The particular interest or interests protected by section 6 and 7 of that Act, which would have been prejudiced by the holding of the relevant part of the proceedings of the meeting in public were as follows:

Key Projects update

1. To enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities – section 7(2)(h).
2. 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 (Section 7(b)(ii)).

**Potential Liabilities update**

1. 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, Section 7(2)(b)(ii);
2. To maintain legal professional privilege, Section 7(2)(g); and
3. To enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) – Section 7(2)(i).

**Public Excluded Minutes from the previous meeting of the Audit and Risk Committee on 9 November 2018.**

1. 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 (section 7(2)(b)).
2. 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 (section 7(2)(c)).
3. Avoid prejudice to measures protecting the health or safety of members of the public (section 7(2)(d)).
4. Avoid prejudice to measures that prevent or mitigate material loss to members of the public (section 7(2)(e)).
5. Maintain legal professional privilege (section 7(2)(g)).
6. Enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities (section 7(2)(h)).
7. Prevent the disclosure or use of official information for improper gain or improper advantage (Schedule 7(2)(j)).
8. Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) (section 7(2)(i))

The motion was put and carried
Meeting returned to open session at 12.33pm.

Meeting closed at 12.33pm.