## Waikato Regional Council
### Audit and Risk Committee

#### OPEN MINUTES

**Date:** Tuesday, 20 August, 2019, 9 am  
**Location:** Council Chamber  
Waikato Regional Council  
401 Grey Street, Hamilton East

**Members Present:**  
H Stevens – Chair  
Cr J Hennebry - Deputy Chair  
G Naylor  
Cr H Vercoe  
Cr B Simcock  
Cr A Livingston - Ex Officio (Chair Waikato Regional Council)

**In Attendance:**  
Cr F Lichtwark

**Staff Present:**  
J Becker - Chief Financial Officer  
V Payne - Chief Executive Officer  
K Bennett - Manager Chief Executive's Office  
L Van Veen - Democracy Advisor
1. **Terms of Reference**

2. **Apologies**

   There were no apologies received.

3. **Confirmation of Agenda**

   The agenda of the meeting was accepted.

   **AR19/37**
   **Moved by:** G Naylor  
   **Seconded by:** Cr B Simcock

   **RESOLVED (Section A)**

   That the agenda of the Audit and Risk Committee of 20 August 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 as it related to the agenda.

5. **Matters arising from previous meeting minutes**

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

   Chief Financial Officer (J Becker) presented to the report.

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

   - With respect to point eight of the actions and matters arising, it was noted that staff had recommended to Council that surplus funds from the 2018/19 financial year be held to fund potential costs associated with upcoming national policy direction from central government. It was also noted that proposed policy on freshwater and also on high productivity land presented potentially conflicting provisions and therefore consideration of these matters in tandem was vital to ensure effective and efficient ways of addressing these, particularly given a majority of the region’s soils were perceived as “high quality”.
   
   - With respect to point 1 of the actions and matters arising, a member sought clarification for the delay in the completion of the Officer of the Auditor General’s (OAG) report on Freshwater. The Chief Executive (V Payne) advised that the delay was a result of staff turnover at OAG and that recent conversations held with OAG had signalled that a draft report was expected to be provided to Council shortly. David Walker (Audit NZ) undertook to follow this up with the OAG and provide an update to members.
   
   - With respect to point 12 of the actions and matters arising, a member queried if Council had adequate insurance cover in relation to its modified vehicles. Staff undertook to investigate this and report back to the committee.
   
   - A member referred to a point made in the previous meeting minutes of the pre-election report being “politically neutral”. Staff assured members that advice was sought with regards to ensuring best practice was followed in the development and release of this report.
Matters noted for correctness in the minutes were:

- David Walker (Audit NZ) requested that the words "for some areas" be included at the end of the sentence on page 2 to clarify materiality levels set for sensitive expenditure. This was to clarify that materiality was determined based on the specifics of the expenditure on a case by case basis, and that a zero tolerance applied specifically to expenditure incurred by the Chief Executive.

AR19/38
Moved by: Cr H Vercoe
Seconded by: Cr A Livingston

RESOLVED (Section A)
That the report Matters arising from previous meetings minutes (May 2019) (Audit and Risk Committee 20 August 2019) be received.

RESOLVED (Section A)
That the minutes of the Audit and Risk Committee meeting held on 13 May 2019 with the noted corrections to page 2, be confirmed as a true and correct record.

The motion was put and carried

6. Risk Management Activity - Update

Report to update the Audit and Risk Committee on Waikato Regional Council’s risk management activities.

Manager Chief Executive’s Office (K Bennett) presented to the report.

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

- Staff confirmed that KPMG had reviewed the revised Risk Management Framework.
- It was noted that post-control risk consequences were understated as they did not reflect the consequences of risks developing over time. Staff undertook to revise the Framework to suit.
- Discussion was had regarding the level of risk within the iwi relationships space (Corporate Risk 03). Comments raised during the previous committee meeting were reemphasized, in that controls were in place to manage those aspects that Council had control over, however risks associated with external factors were outside its control. It was highlighted that as Council operated within a political environment, the high risk assigned to this was expected and unavoidable. This was further complicated by the level of service Council were expected to provide, based on its mandate from central government, versus expectations from iwi.
- The relativity of risk from fraud was noted as an aspect to consider across a number of corporate risks. It was highlighted that fraud risks were substantially qualitative, for example, reputation, organisation culture, staff morale.
- Members highlighted the difference between acute events caused by extreme weather conditions versus the effects of climate change over time. It was noted that the specific effects of extreme weather conditions should be clearly addressed within the framework and that climate change was best managed by way of long term policy and adaptation mechanisms. The need for increased collaboration between Council and the community
was emphasised as a priority where trending of climate change effects was evident. It was noted that this approach to climate change could benefit future design and implementation of flood control assets, specifically for those which were due for replacement.

- The Chief Executive (V Payne) highlighted the recently developed hazards portal as a good example of where Council had worked collaboratively with the community to address climate change effects. This type of approach placed the onus on members of the public to take responsibility for their own decisions as to whether or not to carry out their activity within a specific location, taking into account past accounts of identified hazards.

- Staff advised that they would be looking to work with the National Climate Change Risk Assessment to better plan for ways of raising public awareness and inform adaptation actions, ensuring joint responsibility was held between Council, central Government and the community in the management of climatic effects.

- Members emphasized the need to be aware of key high level initiatives already in place to address climate change before establishing new forums. An example was the Waikato Plan which currently held a key mandate in addressing climate change effects for the region.

- A member highlighted that health and safety legislation required that all practicable means needed to be undertaken by Council in order to provide a safe and healthy work environment and that this needed to be reflected in the Framework.

- A member noted that assessment of appropriate levels of insurance held by Council needed to be incorporated into the Framework.

- It was noted that risk created through innovation or improvements to business should be encouraged. Not all risk was considered negative.

- Staff assured members that communications from top down and bottom up and regular audit of processes and systems ensured Council held a robust way of addressing its risk.

AR19/39
Moved by: Cr A Livingston
Seconded by: Cr B Simcock

RESOLVED (Section A)

1. That the report Risk Management Activity – Update (Audit and Risk Committee 20 August 2019) be received; and

   The motion was put and carried

AR19/40
Moved by: Cr A Livingston
Seconded by: Cr B Simcock

RECOMMENDED (Section B)

That the Risk Management Framework be approved.

   The motion was put and carried

7. Coastal and riverine landfills and contaminated land risk
Report to inform the committee of the Fox Landfill situation and risks posed by landfills and other types of contaminated land vulnerable to climate change. This report gives an overview of traditional and modern risk assessment in the contaminated land sector, and the critical differences between risk perception and effective risk assessment. It informs the committee of regional council functions with respect to contaminated land and what projects staff are working on in this area.

The report was taken as read.

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

- Staff assured members that Council held a comprehensive register of coastal/riverine landfill sites and also contaminated sites located within the region.
- A member emphasized that it was important to recognize that adverse extreme weather events which cause landfill failure such as the Fox Landfill situation are not always the result of climate change - any extreme weather event could cause these effects. Given this it was noted as critical for Council to plan for these types of "acute" failures occurring in future by a schedule of at risk sites, with ownership of these sites identified.
- David Walker (Audit NZ) advised that the Council keep in mind litigation which might arise from such events and that key decisions were made with this in mind. Consenting was an area of Council where this should particularly be considered.
- A meeting was scheduled for September between contaminated site experts across New Zealand to discuss next steps. Staff undertook to provide a report at the next committee meeting to provide an update on the next steps.

AR19/41

Moved by: G Naylor
Seconded by: Cr Hennebry

RESOLVED (Section A)

That the report 'Coastal and riverine landfills and contaminated land risks' (Audit and Risk Committee 20 August 2019) be received.

The motion was put and carried

8. Insurance programme update

Report to provide the committee with an update on the Council’s insurance programme, including professional indemnity / public liability insurance renewal, market indications that will affect the November 2019 renewal for and claims notified since the last committee meeting.

Chief Financial Officer (J Becker) presented to the report.

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

- There had been a significant increase to professional indemnity/public liability insurance premiums for this financial year.
- Staff had anticipated increases to premiums next year and had made provision within the 2019/20 annual plan budget for this.
AR19/42
Moved by: Cr H Vercoe
Seconded by: G Naylor

RESOLVED (Section A)

That the report Insurance programme update (Audit and Risk Committee 20 August 2019) be received.

The motion was put and carried


Report to provide an update on the Waikato Regional Council policies that are due for review/renewal this quarter and to get the Committee’s endorsement of the updated Sensitive Expenditure Policy.

The report was taken as read.

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

- Staff highlighted that the policy did not contain significant changes to the current policy relating to sensitive expenditure, however it did provide clearer direction to staff on Council’s position on the purchase of alcohol. The main purpose of the updated policy was to provide staff with a more streamlined and clearer tool for determining Council policy around sensitive expenditure.

AR19/43
Moved by: Cr A Livingston
Seconded by: Cr H Vercoe

RESOLVED (SECTION A)

That the report Policy Review Schedule Update (Audit and Risk Committee 20 August 2019) be received.

The motion was put and carried

AR19/44
Moved by: Cr A Livingston
Seconded by: Cr H Vercoe

RECOMMENDED (Section B):

That the Sensitive Expenditure Policy be endorsed by the Committee and recommended to Council for approval.

The motion was put and carried
10. **Business Continuity Activity - Update**

To update the Audit and Risk Committee on Waikato Regional Council’s business continuity activities.

The report was taken as read.

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

- Staff noted that two exercises had been undertaken since the inaugural table-top exercise in February. The two exercises had been undertaken to address recommendations from the inaugural exercise; the first addressed IT functionality and the second addressed loss of facilities. A third exercise was scheduled to occur within the next few months and would cover "loss of people". It was noted that staff involved in the exercises were displaying greater confidence with their role requirements and expectations.
- Staff advised members that a regional council forum was being established to enable knowledge sharing and assist with facilitation of exercises being arranged across regional councils.

**AR19/45**

*Moved by: Cr Hennebry*

*Seconded by: G Naylor*

**RESOLVED (Section A)**

That the report **Business Continuity Activity - Update (Audit and Risk Committee 20 August 2019)** be received.

The motion was put and carried

11. **Annual Leave, Wellbeing and Health & Safety Indicators**

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

The report was taken as read.

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

- Members raised concern regarding the progress of reducing staff leave balances. Staff undertook to review this in more detail and develop a revised approach to manage this.
- The committee requested that future reports on leave balances identified the staff with the 10 highest balances, together with commentary on the actions that are being taken to address this.
- A member highlighted that fatigue is a key risk factor for council staff, especially for those who use vehicles on a regular basis. Members endorsed the inclusion of this as a key wellbeing measure to manage under the newly developed Health and Wellbeing Plan.

**AR19/46**

*Moved by: H Stevens*

*Seconded by: G Naylor*
RESOLVED (Section A)

That the report Annual Leave, Wellbeing and Health & Safety Indicators (Audit and Risk Committee 20 August 2019) be received

The motion was put and carried

The meeting adjourned for morning tea at 10.30am and reconvened at 10.46am.

12. **External audit update**

To provide the committee with an update on matters arising following the completion of the 2018/19 Annual Report interim audit.

The report was taken as read.

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

- D Walker (Audit NZ) advised that from Audit NZ's perspective Council's controls to manage financials were an appropriate foundation for an organization of its size. It was noted however that controls did not guarantee prevention of inaccuracies.
- Staff advised that leave variances reflected differences between Council's time sheeting and payroll systems. Organisations that did not have similar time recording systems in place were not likely to be able to identify these temporary differences.

AR19/47

**Moved by:** Cr Livingston  
**Seconded by:** Cr Hennebry

RESOLVED (Section A)

That the report External Audit Update (Audit and Risk Committee 20 August 2019) be received.

The motion was put and carried

13. **Annual tax update**

Report to present the Annual Tax Update report prepared by PwC for the year to 30 June 2019.

Refer following link for the Waikato Regional Council Annual Tax Update - Year to 30 June 2019:


Chief Financial Officer (J Becker) presented to the report.

During questions, answers and related discussion the following was noted:
A member advised that the four year frequency for Council GST reviews was too long, irrespective of the high performing results that these reviews had consistently provided over previous years. Staff undertook to revise the frequency of the tax reviews to every three years. It was noted that interim reviews could be used as a "check in" exercise between the scheduled in-depth reviews. It was also noted that more frequent reviews would provide greater evidence of compliance for Council.

AR19/48
Moved by: G Naylor
Seconded by: Cr H Vercoe

RESOLVED (Section A)
That the report Annual Tax Update 2019 (Audit and Risk Committee 20 August 2019) be received.

RECOMMENDED (Section B)
That the committee approves the proposed future tax strategy as set out in the report from PricewaterhouseCoopers as the basis for the council’s ongoing tax strategy.

The motion was put and carried

14. Key accounting estimates and assumptions for the year ended 30 June 2019

Report to present the remaining key accounting estimates and assumptions to be incorporated into the 2018/19 Annual Report for the consideration and approval of the committee.

The report was taken as read.

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

- Members discussed the status of Council as an investor in Regional Software Holdings Ltd (RSHL). Staff undertook to arrange an independent technical opinion to determine whether RSHL was to be treated as an associate given the level of investment held by Council compared to the degree of influence that this enables the Council to have over decision making. It was noted that the RSHL board determined the value of the assets owned and that the value hadn't changed since the entity was established. This value is what determines the value ascribed to the investment held by the Council.

- In response to a member’s query regarding the two forestry blocks owned by Council and what the primary purpose of these were, staff advised that these were gazetted for soil conservation purposes. It was noted that forestry was a secondary function of the blocks and that this was reflected in the valuation of these assets.

- D Walker (Audit NZ) advised that Audit NZ were not comfortable with the opinion statements made on their behalf within the agenda reports for the committee, noting that these were based on an early assessment of the issues only and needed to be confirmed through the final audit process. Staff undertook to work closely with Audit NZ to ensure appropriate opinion statements were included in reports for committee meetings going forward.
• It was confirmed that the agreement for funding of the Hamilton to Auckland commuter rail project ensured that Council’s responsibility for funding was determined through the approval of an enhanced funding assistance rate (TEFAR) from NZTA.

AR19/49
Moved by: H Stevens
Seconded by: G Naylor

RESOLVED (Section A)
1. That the report Key Account Estimates and Assumptions for the year end 30 June 2019 (Audit and Risk Committee 20 August 2019) be received; and

2. That the Audit and Risk Committee confirm and endorse the appropriateness of the key accounting estimates and assumptions for incorporation into the 2018/19 Annual Report.

The motion was put and carried

15. Public Excluded Section

ARC19/50
Moved by: Cr Hennebry
Seconded by: G Naylor

RESOLVED (Section A)

That the public be excluded from the following parts of the meeting set out below on the grounds that the public conduct of those parts of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 (the Act).

The particular interests protected by section 6 or 7 of the Act which would be prejudiced by the holding of the relevant part of the proceedings of the meeting in public are as follows:

Internal Audit Activity - Update
• Prevent the disclosure or use of official information for improper gain or improper advantage (section 7(2)(j) of the Act)

Fraud Risk Management Framework Activity – Update
• Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) (section 7(2)(i) of the Act)
• Prevent the disclosure or use of official information for improper gain or improper advantage (section 7(2)(j) of the Act)

Potential Liability Claims
• 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) of the Act)
• Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) (section 7(2)(i) of the Act)
• Maintain legal professional privilege (section 7(2)(g) of the Act)

**Key Projects Update**
• Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) (section 7(2)(i) of the Act)
• Prevent the disclosure or use of official information for improper gain or improper advantage (section 7(2)(j) of the Act)

**Public Excluded Minutes of the 13 May 2019 Audit and Risk Committee**
• 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 (7(2)(b)(ii)).
• To enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) (7(2)(i)).
• To maintain legal professional privilege, Section 7(2)(g)
• To enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities, Section 7(2)(h).
• To prevent the disclosure or use of official information for improper gain or improper advantage 7(2)(j).

**THAT David Walker (Director, Audit NZ), Naude Kotze (Manager, Audit NZ), David Sutton (Partner, KPMG) and Cushla Parish (Director – Technology Risk, KPMG) be permitted to remain at this meeting, after the public has been excluded, because of their knowledge of the agenda items. This knowledge, which will be of assistance in relation to the matter to be discussed, is relevant to that matter because of their position as auditors for Council.**

The motion was put and carried

Meeting returned to open at 12.34pm

Meeting closed at 12.34pm