

AUDIT AND RISK SUBCOMMITTEE AGENDA

WEDNESDAY 20 JUNE 2018

1:00 pm Wakatipu Room
70 Stafford Street, Dunedin

Membership

Mr David Benham	<i>(Chairperson)</i>
Cr Stephen Woodhead	<i>(ORC Chairperson)</i>
Cr Gretchen Robertson	<i>(ORC Deputy Chairperson)</i>
Cr Doug Brown	<i>(Chair Finance and Corporate Committee)</i>
Cr Trevor Kempton	
Cr Michael Laws	

Disclaimer

Please note that there is an embargo on agenda items until 1:00 pm on Monday 18 March 2018. Reports and recommendations contained in this agenda are not to be considered as Council policy until adopted.

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1. APOLOGIES

2. LEAVE OF ABSENCE

3. ATTENDANCE

4. CONFIRMATION OF AGENDA

Note: Any additions must be approved by resolution with an explanation as to why they cannot be delayed until a future meeting.

5. CONFLICT OF INTEREST

Members are reminded of the need to stand aside from decision-making when a conflict arises between their role as an elected representative and any private or other external interest they might have.

6. PUBLIC FORUM

7. PRESENTATIONS

8. CONFIRMATION OF MINUTES

Recommendation

That the minutes of the (public portion of the) meeting held on 8 March 2018 be received and confirmed as a true and accurate record.

Attachments

1. Minutes of 8 March 2018 **[8.1.1]**

9. ACTIONS

Status report on the resolutions of the Audit and Risk Subcommittee.

Item	Meeting	Action	Status
Health & Safety Report	08/03/2018	That the Chief Executive be tasked with bringing a paper to next Finance & Corporate committee round on the employment of distance technology for governance attendance at ORC meetings.	COMPLETED Reported to 21 March 2018 Finance & Corporate Committee

10. MATTERS FOR COUNCIL DECISION

10.1. Annual Report Timetable and Matters Under Consideration

Prepared for: Audit and Risk Sub-Committee
Activity: Annual Plan Report 2018 – timetable and matters for consideration
Prepared by: Stuart Lanham, Finance Manager
Date: 14 June 2018

1. Précis

Council is currently undertaking planning towards the preparation and audit of the Annual Report for the year ended 30 June 2018. The planning process includes the identification and consideration of matters and issues that may have a significant effect on the preparation, timing and completion of the report.

The purpose of this report is to inform the Audit and Risk Subcommittee of the proposed timetable and to advise of specific matters under consideration.

2. Background

The Local Government Act 2002 requires local authorities to prepare and adopt, by resolution, an Annual Report, comparing the actual activities and the actual performance of the local authority with the intended activities and level of performance as set out in the Long-Term Plan and the Annual Plan. The statutory requirement is that the Annual Report must be adopted within 4 months of the end of the financial year, this year being 31 October 2018.

The Act also requires that the Auditor-General's report on the Annual Report be contained within the Annual Report.

Council has developed a timetable for preparation of the Annual Report, with the intention of presenting a draft Annual Report to the Audit and Risk Subcommittee at the meeting planned to be held on 19 September 2018. The Annual Report would then be presented for adoption at the Council meeting set down for 26 September 2018.

A provisional Financial Report to 30 June will be submitted to the Council on 15 August 2018. The report will be provisional only at that stage, as various year end information is expected to be outstanding, and certain year end processes will be incomplete.

3. Specific matters are noted below:

3.1 *Audit arrangements*

Deloitte has been appointed to conduct the Council's audit on behalf of the Auditor-General.

The auditor intends conducting an interim audit in early July to review and assess Council internal controls, and gather information to complete the planning phase of the audit.

The final phase of the audit will take place during August and September.

Deloitte will attend the meeting of the Audit and Risk Subcommittee in September, and will present the audit opinion to the Council meeting at which the Annual Report will be adopted, on 26 September 2018.

3.2 *Format of Annual Report*

The format of the financial statements and accompanying notes in the June 2018 Annual Report will not be amended to any significant extent, other than to achieve continuous improvements where desirable.

It is noted that the format of some elements of the financial statements and accompanying notes is prescribed in detail in the Local Government Act Regulations, and full compliance with the prescribed format is mandatory. There is no discretion for councils to customise the format, for example, to exclude prescribed line items in the Funding Impact Statements even if they have no relevance to this Council.

3.3 *Consolidation of Port Otago Limited*

Council is the sole shareholder in Port Otago Limited and accordingly the Council and Port Otago Limited are regarded as a group for financial reporting purposes.

Council is required to report on the results and position of the Group itself, and on the Council separately as parent of the Group.

To prepare consolidated information in the Council's Annual Report, the Council obtains financial information from Port Otago and the company's audited Annual Report.

Deloitte as Council auditor, must also obtain the information they require regarding the Port Otago group operations, and may obtain the necessary information from the auditor of Port Otago, and from the company itself. While this aspect of the year end process is largely outside the control of the Council, it does remain an essential element in the Council's timeline to achieve the planned Annual Report adoption date.

3.4 *Consolidation Issues and Divergence of Accounting Standards*

Under the framework of accounting standards applicable in New Zealand, the Council is classified as a "Public Benefit Not-for-Profit" entity whereas Port Otago Limited is a "For-Profit" entity.

The two classifications are subject to different suites of accounting standards.

Differences in accounting and reporting requirements are identified and dealt with on consolidation of the two entities in the Annual Report.

Any further divergence between the two sets of standards applicable to the June 2018 Annual Report would require consideration as to appropriate treatment. At this stage, Council's auditor has advised that there appear to be no significant changes that will impact on the preparation of the June 2018 Annual Report.

3.5 Valuation of the Council Shareholding in Port Otago Limited

The shares in Port Otago Limited are carried at fair value in the Council's financial statements.

Council obtains an annual valuation of the shareholding as at 30 June from an independent firm of chartered accountants and business advisors. A valuation as at 30 June 2018 will be obtained for inclusion in the Annual Report.

The resulting revaluation gain (or loss) is reflected as other comprehensive revenue in the Statement of Comprehensive Revenue and Expense.

The Annual Plan provides for a gain of \$10 million in the current year. The actual valuation in any year always has the potential to differ significantly from the budget provision, given the diverse nature of the investment in the port operating business and the property portfolio, and the factors applied to determine a valuation of the shares.

3.6 Investment Property and Property Held-for-Sale

The Council's investment property is valued annually at fair value. An independent valuation will be obtained from a qualified external valuer as at 30 June 2018, and the valuation gain (or loss) will be reflected in the surplus in the Statement of Comprehensive Revenue and Expense.

Properties that Council has resolved to dispose of are classified as Property-held-for-Sale and are reported at fair value. The fair value of any such property held as at 30 June 2018 will be reassessed and any gain or impairment loss reflected in the Statement of Comprehensive Revenue and Expense.

3.7 Revenue Received in Advance

Council has received \$1.185 million of grant funding from the Ministry for Primary Industries for the control of wilding tree work. The Council distributes the funding to organisations to conduct control work, once eligibility conditions have been met.

Some funding has been distributed to date, however Council will assess the quantum of any undistributed balance at 30 June 2018, for appropriate inclusion in the Annual Report as Revenue Received in Advance.

Such amount will be excluded from income and will be reflected as a liability in the Statement of Financial Position.

3.8 Capital Works and Work in Progress

As work continues on capital infrastructural projects, including the Leith Flood Protection Scheme, it is important to critically examine the composition of expenditure to ensure the appropriate identification of the capital expenditure element of work performed during the year.

While this process is ongoing during the year, it is particularly important at year end to ensure that any completed works are capitalised, and that there is an accurate assessment of works qualifying for carry forward as work in progress 30 June 2018.

The assessments required to complete this work will be made in conjunction with the Council's engineering staff who oversee the relevant projects.

4. Recommendation

- a) *That this report is received and noted.*

Endorsed by: Nick Donnelly
Director Corporate Services

Attachments

Nil

10.2. Insurance Renewals

Prepared for: Audit and Risk Sub-Committee
Activity: Governance Report
Prepared by: Gerard Collings, Manager Support Services
Date: 12 June 2018

1. Précis

Council staff are currently working with Council's broker to finalise renewal of Council's insurance cover. This report also highlights the residual liability that remains through Council's prior membership in Riskpool.

2. Insurance

Staff are currently finalising renewal of Council's existing insurance policies for the period 4:00pm 30 June 2018 to 4:00pm 30 June 2019.

Council's brokers have been instructed to obtain options for comprehensive cover for all property and asset types previously covered in the 2017/18 year.

3. Existing Cover

The insurance categories held are scheduled below:

Material Damage (property, contents)
Business Interruption
Motor Vehicle
Fidelity Guarantee
Employers and Statutory Liability
Personal Accident
Harbour Masters and Wreck Removal
Professional Indemnity and Public Liability Insurance
Travel Insurance (international)

4. Notes

4.1 *Material Damage*

Council offices, depots, scheme pump stations, and contents. These assets are currently insured at a combined value of approximately \$46M.

The above assets are revalued for insurance purposes on a two-yearly rolling cycle. In the year where a valuation does not occur, the asset value is adjusted using the valuer's inflationary adjustment assessment from the preceding year.

It is noted that an allowance has been made to cover the increased value of contents associated with the Philip Laing House occupation and general reinstatement provision. There is also no longer a requirement for residential cover as Council has sold the last of the whole properties procured for the Leith Lindsay Flood Control Scheme.

While the overall value in asset insurance remains the same, we are expecting an increase in premium associated with the increased value of contents cover, and the increase foreshadowed last year regarding additional Fire Service Levy.

4.2 *Motor Vehicle and Plant*

An increase in premium is foreshadowed for motor vehicle and plant. This is primarily a reflection of Council's claim history, including windscreen replacements and an increase in fleet size to meet operational requirements.

4.3 Professional Indemnity and Public Liability

Prior to June 2015, Council placed its cover for Professional Indemnity and Public Liability through New Zealand Mutual Liability Riskpool.

Riskpool was established 1 July 1997 by the NZ Local Government Insurance Corporation in response to a need for more defined and affordable cover appropriate to Local Government in New Zealand. As Riskpool was set up on a mutual liability basis, some residual risk is carried between its members for each separate year of the fund.

Council adopted the Riskpool scheme as its general liability cover in 1997.

At its peak membership, Riskpool consisted of 83 of the 86 Councils in New Zealand.

The Leaky Homes, i.e. weathertight claims, saw a significant draw on the annual Riskpool funds commencing in the 2002/2003 year. From 1 February 2006, Riskpool has taken a number of steps to limit its liability in relation to these claims, and from 30 June 2009, Riskpool excluded weathertight claims for most Councils.

Until all matters (outstanding claims) for which Council have a membership liability are resolved, Council retains the shared residual risk liability. Riskpool have been asked to provide an update on the residual risk and this will be provided once a response has been received.

5. Recommendation

- a) *That this report is received and noted.*

Endorsed by: Nick Donnelly
Director Corporate Services

Attachments

Nil

11. MATTERS FOR NOTING

11.1. Risk Report - February 2018

Prepared for: Audit and Risk Sub-Committee
Activity: Governance Report
Prepared by: Nick Donnelly, Director Corporate Services
Date: 12 June 2018

1. Précis

The Terms of Reference for the Audit and Risk Subcommittee include responsibility in relation to risk including:

- Ensuring that the risks facing ORC are identified and the potential impacts are assessed.
- Ensuring that the identified risks are managed, and necessary controls are built into business processes.

A Risk Management Strategy was adopted by the Audit and Risk Subcommittee in September 2016. Based on that, a risk report has been developed and is required to be updated on a 4-monthly basis. The latest Risk Report, being the update as at February 2018, is attached to this report for consideration by the Audit and Risk Subcommittee.

2. Risk Update

The risk reporting process requires risks to be reviewed and updated on a 4-monthly cycle at the end of February, June, and October. The latest review is at the end of February 2018 and has been undertaken by the Director of Corporate Services and the Director of People and Safety. There were no new risks added, however some residual risk ratings have been changed.

Key changes to note are:

- The number of highest ranking residual risks has increased from 11 at October 2017 to 12 at February 2018. These are risks that score a rating of 10 or greater on the 5x5 risk matrix.
- The residual risk heat map includes 2 risks rated as high (score of 15+). This is a decrease of 3 from the October 2017 report. These 3 risks related to the change in central government and changes / delays in legislation.
- The residual risk heat map includes 10 risks rated as moderate in the 10-14 range. This is an increase of 4 from the October 2017 report, however as the 3 risks mentioned above have moved from high to moderate there has only been 1 additional risk move up into this rating.
- The additional risk added to the moderate ranking group is IT system / software obsolescence (772). The residual risk for this risk has increased as the bus ticketing system is coming to the end of it's useful life and being replaced. A second key environmental data legacy system is also being reviewed.

The resulting draft risk report includes three sections:

- a. Heat map and risk level overview – this is shown for both inherent and residual risk.
- b. Summary of the highest ranking residual risks – this gives detail on the risks that have the highest residual risk ratings. Note the numerical score and movement from the previous reporting period have been added to this report.
- c. Summary of all risks by risk category – reputational, financial, operational and knowledge/systems risk.

The next risk report update is due at the end of June and this will be reported to the September meeting of the Audit and Risk Subcommittee. It is still intended that this update will be undertaken by Executive collectively, with a view to assigning risks at executive level as an interim step before assigning wider to staff.

3. Recommendation

- a. *That this report and the attached Risk Report – February 2018 are received and noted.*

Endorsed by: Nick Donnelly
Director Corporate Services

Attachments

1. Attachment 1 - Risk Report - February 2018 [11.1.1]

12. NOTICES OF MOTION

13. RESOLUTION TO EXCLUDE THE PUBLIC

That the public be excluded from the following parts of the proceedings of this meeting, namely:

Deloitte Audit Plan
Managed Fund – March 2018 Report
Investment Manager Tender Process
Health & Safety Report

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:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
<i>10.1 - Deloitte Audit Plan</i>	Section 7 (2)(c)(ii) 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 - (ii) would be likely otherwise to damage the public interest.	Section 48(1)(a); Section 7 (2) (c) (ii);
<i>10.2 - Managed Fund – March 2018 Report</i>	Section 7 (2) (h) Enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities;	Section 48(1)(a); Section 7 (2) (h);
<i>10.3 - Investment Manager Tender Process</i>	Section 7 (2)(c)(ii) 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 - (ii) would be likely otherwise to damage the public interest. Section 7 (2) (h) Enable any local authority holding the information to carry out, without	Section 48(1)(a); Section 7 (2) (c) (ii); Section 7 (2) (h).

	prejudice or disadvantage, commercial activities;	
<i>10.4 - Health & Safety Report</i>	Section 7(2)(f)(ii) To maintain the effective conduct of public affairs through—the protection of such members, officers, employees, and persons from improper pressure or harassment.	Section 48(1)(a); Section 7 (2) (f) (ii).

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 or [section 6](#) or [section 7](#) or [section 9](#) of the Official Information Act 1982, as the case may require, which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public are as follows:

Items 10.1 Deloitte Audit Plan; 10.2 Managed Fund – March 2018 Report, 10.3 - Investment Manager Tender Process and 10.4 - Health & Safety Report

I also move that ORC staff be permitted to remain at this meeting, after the public has been excluded, because of their knowledge of the Deloitte Audit plan, managed funds, investment management tender process and current health & safety issues. This knowledge will be of assistance in relation to the matter to be discussed, and relevant to that matter because of their expertise.

14. CLOSURE