

Audit and Risk Subcommittee 20190620 Attachments

8.1. Minutes.....	2
8.1.1. Audit and Risk Mtg Minutes 20190314.....	2
10.2. Annual Report Timetable and Matters under Consideration.....	8
10.2.1. Fixed Asset and Capitalisation Policy.....	8

Minutes of a meeting of the Audit and Risk Subcommittee held in
the Council Chamber at Philip Laing House on
Thursday 14 March 2019, commencing at 1:00 pm

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	

Welcome

Mr Benham welcomed Councillors, members of the public and staff to the meeting.

1. APOLOGIES

No apologies were received.

2. LEAVE OF ABSENCE

No Leave of Absence requests were made.

3. ATTENDANCE

Sarah Gardner (*Chief Executive*)
Nick Donnelly (*Director Corporate Services*)
Sally Giddens (*Director People and Safety*)
Victoria Donahue (*Health & Safety Business Partner*)
Stuart Lanham (*Finance Manager*)
Liz Spector (*Committee Secretary*)

4. CONFIRMATION OF AGENDA

The agenda was confirmed as tabled.

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

No conflicts of interest were advised.

6. PUBLIC FORUM

No public forum was held.

7. PRESENTATIONS

No presentations were held.

8. CONFIRMATION OF MINUTES

Resolution

That the minutes of the (public portion of the) meeting held on 19 September 2018 be received and confirmed as a true and accurate record.

Moved: Cr Robertson
Seconded: Cr Woodhead
CARRIED

9. ACTIONS (STATUS OF COMMITTEE RESOLUTIONS)

No update was given.

10. MATTERS FOR NOTING

10.1. Treasury Report - December 2018

Finance Manager Stuart Lanham introduced the Treasury Report to the subcommittee. He said the report provided information on the management and performance of the Council's short-term deposits and the managed fund, for the six months ended 31 December 2018. Chairman David Benham asked if a variety of investment tools could be explored. Director Corporate Services Nick Donnelly said in-depth cash flow forecasting will be performed, noting that flexibility and availability of funds is important. No further discussion was held and Chairman Benham made a motion.

Resolution

That the Audit and Risk Sub-Committee:

- 1) *Receive this report.*

Moved: David Benham

Seconded: Cr Woodhead

CARRIED

10.2. Risk Report - October 2018

Director Finance and Corporate Nick Donnelly reviewed the Risk Report with the subcommittee members. He said the aim of the report was to provide a high-level overview of current risks facing the Council. Councillor Laws questioned why the report didn't delve into specific details of current risks. Chairman Benham said the report was not intended to get into an operational level of detail as it would be too detailed for the committee to get involved with. Councillor Laws said he wanted to ensure that risks facing the ORC and the potential impacts of those risks are expressed to the Audit and Risk Subcommittee. Councillor Robertson said the subcommittee did need an updated risk report. She suggested implementing an operational risk system and full input from the Executive Leadership Team would ensure updated reporting. CEO Sarah Gardner said the organisation is developing in a number of areas, including risk reporting. She said clear messaging has been expressed to managers of new expectations, relative to risk reporting and other areas. Councillor Kempton suggested that staff could add an item related to risk to templates for Council Reports. Chairman Benham asked for a motion.

Resolution

- 1) *That this report and the attached Risk Report – October 2018 are received and noted and,*
- 2) *That staff provide at the next Audit & Risk Subcommittee meeting the following:*
 - a) *an updated risk report*
 - b) *A summary of top operational risks currently facing the Council*
 - c) *An outline showing the process of cascading risks through the Council to those responsible for mitigating those risks*
 - d) *A list of specific areas of risk for the subcommittee to review in greater depth,**and,*
- 3) *A section be added to the standard Council/Committee report template to include a section on risk.*

Moved: Cr Laws

Seconded: Cr Kempton

CARRIED

10.3. Health & Safety Report

Director of People and Safety Sally Giddens introduced the Health & Safety Report to the subcommittee. She asked H & R Business Partner Victoria Donahue to review the report with the members. Ms Donahue said resources are her biggest challenge to implementing health and safety. She said there is a lack of people to manage health and safety tasks. CEO Sarah Gardner said health and safety is a cultural issue as well. She said encouraging staff to report issues and follow through with paperwork is a priority and involves a shift in thinking. Councillor Woodhead asked how much time Ms Donahue thought it would take to see this culture shift take place. Ms Donahue said she is optimistic these goals are attainable in the near future. There were no more comments and Chairman Benham asked for a motion.

Resolution

That the Audit and Risk Sub-Committee:

- 1) **Notes** this report.

Moved: Cr Woodhead

Seconded: Cr Brown

CARRIED

10.4. Legislative Compliance

Director Finance and Corporate Nick Donnelly addressed the committee members about potential changes related to legislative compliance. He reiterated that the report is only to review changes to legislation, not to discuss any non-compliance with existing legislation. Chairman Benham asked for a motion.

Resolution

- 1) *That the Audit and Risk Sub-Committee **note** this report.*

Moved: Cr Robertson

Seconded: Cr Woodhead

CARRIED

Cr Kempton left the meeting at 02:36 pm.

Cr Kempton returned to the meeting at 02:42 pm.

10.5. Audit and Risk Work Programme

Director Finance and Corporate Nick Donnelly addressed the Subcommittee members. He said the Audit and Risk Work Programme report is set out to define the work programme to be covered at each Audit and Risk Subcommittee meeting to ensure the responsibilities outlined in the Terms of Reference are fulfilled. Chairman Benham made a motion to receive the report.

Resolution

- 1) *That this report is received, and the work programme for the Audit and Risk Subcommittee is endorsed.*

Moved: David Benham
Seconded: Cr Robertson
CARRIED

11. RESOLUTION TO EXCLUDE THE PUBLIC

Resolution

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

- *A&R1852 Audit Management Letter Response*
- *A&R1853 Managed Fund Report – December 2018*
- *A&R1854 Investment Manager Transfer Update*
- *A&R1855 Director’s Report*
- *A&R1856 Legislative Compliance*

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:

Audit Management Letter Response

To 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;

Managed Fund Report – December 2018; and Investment Manager Transfer Update

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)

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

Directors Report

To 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—

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 – Section 7(2)(c)(i)

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

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)

Legislative Compliance

To maintain legal professional privilege – Section 7(2)(g)

Moved: Cr Woodhead

Seconded: Cr Robertson

CARRIED

Resolution

That the meeting resume in public session at 03:32 pm.

Moved: Cr Robertson

Seconded: Cr Woodhead

CARRIED

12. NOTICES OF MOTION

No Notices of Motion were advised.

13. CLOSURE

The meeting was declared closed at 3:32 p.m.

Chairperson

Date

Fixed Assets and Capitalisation Policy

1. Purpose

The objective of this policy is to provide guidelines for the recording and reporting of the Council's fixed assets in accordance with the prescribed accounting standards of New Zealand Public Benefit Entities.

This document establishes relevant definitions and provides guidelines on capitalisation, depreciation and disposal of fixed assets. The policy seeks to ensure a consistent approach to the capitalisation and accounting treatment of all assets acquired and held by the Council.

2. Scope

This policy applies to all Council's fixed assets. Council's fixed assets include Property Plant and Equipment comprising land, buildings, plant and equipment and infrastructural assets and also covers Intangible Assets – primarily consisting of computer software.

3. Definitions

Capitalisation threshold: A monetary threshold above which an entity capitalises purchased or self-constructed assets. Council's capitalisation threshold is currently set at \$1,000.

Fixed asset: A physical asset including land and buildings, items of equipment, self-constructed infrastructural assets and computer software held for use in the provision of goods or services produced by the Council, or for administrative purposes. Fixed assets are expected to provide service potential for a period of not less than 12 months.

Kuriwao Endowment Land: Endowment land is a restricted asset and was vested in the Council by the Otago Regional Council (Kuriwao Endowment Lands) Act. The Act provides that income and proceeds from the land be used only for the Lower Clutha District. The Act restricts disposition of the land to freeholding initiated by lessees.

Depreciable amount: This is the gross cost of acquiring a capital asset and includes any subsequent capital improvements and additions.

Depreciation: Depreciation is a systematic allocation of the depreciable amount of an asset over its estimated useful life.

Derecognition: Derecognition of an asset occurs upon disposal or cessation of use, when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from derecognition of the asset is included in the surplus/(deficit) in the period in which the asset is derecognised.

Fixed asset register: The Fixed Asset Register records information on fixed assets. The register is currently held within the Conquest asset management system and is used by Finance and other areas of Council for capitalisation, valuation, depreciation and disposal purposes.

Impairment loss: An impairment loss is the recognition of a loss that occurs when the carrying amount of an asset exceeds its recoverable amount. The loss is included in the surplus/(deficit) of the period in which it occurs.

Residual value: This is the estimated amount an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful life: This is the estimated lifespan of an asset, or the period over which an asset is expected to be available to provide service potential for the Council.

4. Requirements for capitalisation

Initial expenditure at acquisition

For expenditure to be capitalised, and form part of either capital Work in Progress or a completed asset, the asset must fulfil below requirements:

- (i) The asset must be acquired (purchased, constructed or donated) for use in operations, for rental to others, or for administrative purposes.
- (ii) The asset must have a useful life greater than 12 months.
- (iii) The asset must have an acquisition cost of \$1,000 and above.

Expenditure incurred subsequently to initial acquisition

This expenditure includes the cost of renovations, enhancements or improvements that add permanent value to the asset, make the asset greater than it was when it was initially acquired, or extend its life beyond the original estimated useful life. Characteristics of such expenditure include the following:

- (i) The estimated useful life of the asset is increased.
- (ii) The productive capacity of the asset is improved.
- (iii) The quality of units or services produced from the asset is enhanced.

Elements of capital expenditure

The cost of a fixed asset comprises:

- (i) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates
- (ii) Cost of site preparation (where applicable)
- (iii) Initial delivery and handling costs
- (iv) Costs of testing whether asset is functioning properly
- (v) Professional fees

Example of costs that are not costs of a fixed asset:

- (i) Cost of opening a new facility
- (ii) Cost of staff training
- (iii) Promotional and advertising costs
- (iv) Administration and other general overhead costs
- (v) Relocation of a fixed asset

Expenditure that does not meet the requirements for capitalisation will be treated as an expense in the year incurred.

5. Asset recording and documentation

Capital purchases are coded in account 5401 – Renew or Replacement, or 5402 – Increase level of Services. Each purchase is allocated to a cost centre and the staff member responsible for the asset is required to provide information on the asset, including physical description, useful life, location and asset classification. User fields are also available for other useful information including manufacturer, model, serial number, depreciation cost centre, value (excluding GST) and invoice details. Different asset attributes can be set up for various asset types.

6. Asset classification

Assets shall be assigned to one of the following class groups, for the purposes of financial reporting: land, building and improvements, plant and vehicles, floodbanks, protection works, structures, drains, bridges and culverts. Intangible assets are recorded in the appropriate asset classification.

7. Operational assets – excluding infrastructural assets

Council's operational assets with the exceptions of land are depreciated on a straight-line basis to write off the cost of the asset to its estimated residual value over its estimated useful life.

Land: unlimited life

Council owns several classifications of land including operational, leased, and endowment. Land is recorded at cost and recorded separately from buildings, as Land generally has an unlimited useful life and is therefore are not subject to depreciation. Council receives rental revenue from leased and endowment land on a six monthly or annual basis.

Council owned building: 10-50 years

This includes all buildings and building related structures. Major improvements and fixtures permanently attached to building are considered a part of the building. For example, air ventilation system, sound proofing work, carpeting etc. A change in the internal arrangement or physical space of an existing asset so that it may be effectively used for a newly designated purpose may also be capitalised.

Council leased building: 4-7 years

Council as lessee may have to carry out several improvements on the leased properties so that they are fit for operational purposes. All fitout costs are deemed capital and depreciated over the leased term with any rights of renewal considered. The lease's expiry date is reviewed annually which may lead to a change in depreciation rate if adjusted.

Properties are classified as held for sale if the carrying amount will be recovered through a sales transaction rather than through continuing use. This condition regarded as met only when the sale is highly probable, and the property is available for immediate sale in its present state. Properties held for sale are expected to be sold within one year from the date of reclassification and will cease to be depreciated at the same time.

Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at cost and subsequently at fair value. Fair value is determined annually by independent valuers. Revaluation gains or losses arising from changes in the fair value of investment

property are reported in the surplus/(deficit) in the period in which they arise. Council receives rental revenue from investment properties on a monthly or quarterly basis.

Plant and vehicles: 2-20 years

Plant and vehicles typically comprise of large number of assets with lower value. Assets in this category are given consideration within the following sub-classes:

(i) Art work: unlimited life

Council has a number of artworks on its premises and in the fixed asset register.

(ii) Environmental monitoring equipment: 5-20 years

Council has various monitoring stations across the region for continuous measuring and recording of environmental parameters for air, land and water. Monitoring instruments installed at these stations are inspected on a regular basis to ensure they function properly and provide accurate data. All environmental monitoring assets are registered on fixed asset register for tracking and warranty purposes, though only those which meet the capitalisation threshold will be capitalised.

(iii) Firearms: 8 years

Firearms are included on the fixed asset register. Due to the inherent risk of firearms, the Administration and Health and Safety teams ensure that appropriate procedures for the use and storage of these assets are maintained.

(iv) Information technology/communications equipment: 2-5 years

Information technology equipment such as laptops, monitors, PCs, servers, switches and tablets have a useful life of 5 years and are registered in Conquest with serial numbers and users. Mobile phones are capitalised in bulk on the month of purchases and depreciated over 2 years due to higher obsolescence rate.

(v) Office furniture and minor plant: 5 years

Office furniture is often of small value and expensed when incurred. If purchases are made in bulk, they may be capitalised as one asset. Exceptions apply to furniture at new premises, where all new furniture and plant are capitalised, such as the recently established Philip Laing House and Queenstown Terrace Junction premises.

(vi) Vehicles and major plant: 6-12 years

Council's vehicles have an expected useful life of 6 years. Vehicles' information including make, model, registration, engine and chassis number as well as location are kept in the fixed asset register. Sign write costs are added to the acquisition cost of vehicles provided they are not easily removable. Major plant items such as motorcycles, trailers, tractors, carrot cutters and heavy machinery have a useful life of 12 years. Insurance cover is in place for both vehicles and major plants.

Note that assets that do not meet the capitalisation threshold may be added to fixed asset register for asset owners to manage their assets for security, tracking and warranty purposes.

Intangible assets: 3-25 years

Intangible assets are assets that lacks physical substance, and to be capitalised must have estimated useful lives of more than 12 months. The external costs of upgrades and enhancements that enable the software to perform tasks that it was previously incapable of performing may be capitalised. They

are valued at cost and amortised over the period that they are expected to be available for use. Intangible assets owned by Council include computer software, licenses and the website functionality. Fees paid for training, help desk support, conversion costs and software maintenance may not be capitalised and must be expensed in the period incurred.

Costs in the preliminary stages of development, including conceptualisation, formulation, evaluation and final selection of alternatives for new or improved systems or technology are not capitalizable and must be expensed in the period incurred.

Costs incurred for data migration or data conversion from old to new systems, including cleansing existing data, reconciling between old and new data must be expensed. If it is not possible to separate the costs of maintenance from relatively minor enhancements or upgrades, all costs should be expensed.

Infrastructural assets

Infrastructural assets deliver benefits directly to the community and are associated with major flood protection and land drainage schemes. When the Council constructs a depreciable infrastructural asset, all direct costs are included in the total cost of the asset. This includes items such as architectural, engineering, legal, consulting and project management fees from external consultants.

Floodbanks, protection works, drains and culverts are constructions or excavations of natural materials on the land and have substantially the same characteristics as land, in that they are considered to have unlimited useful lives. In the absence of natural events, these assets are not subject to ongoing obsolescence or deterioration of service performance and are therefore not subject to depreciation.

Structures and bridges are depreciated on a straight-line basis to write off the cost of the asset to its estimated residual value over its estimated useful life. Expenditure incurred to maintain these assets at full operating capability is charged to the surplus/(deficit) in the period incurred.

Useful lives of Council's infrastructure assets of each class group are summarised as below:

Infrastructural Assets	Useful Life
Floodbanks	Unlimited
Protection Works	Unlimited
Drains	Unlimited
Culverts	Unlimited
Structures	8-100 years
Bridges	33-100 years

Capital work-in-progress

From time to time the Council may have various capital projects in progress which may take more than 12 months to complete. These may be the construction of infrastructural assets, building fit-out work or computer system development work. Work-in-progress is tracked separately until the time of completion, at which point the value is reclassified as infrastructure assets, operational assets or intangible assets. They can either be reclassified as a new asset or addition to an existing asset. No depreciation is applied to capital work-in-progress.

8. Depreciation

Depreciation on assets (if applicable) begins when they are commissioned or available for use i.e. when assets are in the location and condition necessary for it to be capable of operating in the manner intended by the management.

For constructed asset, depreciation starts when the construction is completed (if depreciable). Depreciation on an asset ceases when it is disposed of (refer below) or when it is reclassified as held for sale.

9. Disposal of Assets

When assets are no longer owned by the Council and therefore removed from the asset register, their associated costs will also be removed from relevant balance sheet accounts. Any difference between the written down value and any proceeds is recognised as surplus/(deficit) in the period in which the disposal occurs. Employees may not sell Council's assets for personal gain.

Assets owned by the Council may be removed from the asset register by the following means:

- (i) **Trade in**
Assets may be considered for trade-in at the time of acquisition of replacement assets, subject to normal purchasing guidelines and written approval by the department Manager.
- (ii) **Surplus sale/auction**
Council may choose to engage Turners to auction motor vehicles and major plants. Whereas online bidding site Trademe is used for selling surplus items in the office such as office furniture.
- (iii) **Discard/disposal**
Assets may be disposed due to obsolescence or physical damage and when it is uneconomic to repair.
- (iv) **Vested assets**
Council may enter into a memorandum of understanding with external stakeholders in respect of certain infrastructural assets. For example, an asset may be constructed by the Council but is later gifted to the City Council if the asset is to be maintained by the latter party. Council records vested assets in the surplus/(deficit) account.