



# AUDIT AND RISK COMMITTEE

## Open Agenda

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Meeting Date: Friday 31 March 2023

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Time: 9.30am

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Venue: Small Exhibition Hall  
War Memorial Centre  
Marine Parade  
Napier

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Committee Members **Chair:** Bruce Robertson

**Members:** Mayor Kirsten Wise, David Pearson, Councillor Sally Crown (Deputy Chair), Councillor Greg Mawson and Councillor Hayley Browne

Ngā Mānukanuka o te Iwi representative (*yet to be appointed*)

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Officer Responsible Deputy Chief Executive / Executive Director Corporate Services

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Administration Governance Team

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**Next Audit and Risk Committee Meeting**  
**Friday 23 June 2023**

## 2022 TERMS OF REFERENCE - AUDIT AND RISK

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<i>Chairperson</i>	<i>External independent appointee</i> <i>Appointed by Council</i>
<i>Deputy Chairperson</i>	<i>Appointed by Committee</i>
<i>Membership</i>	<i>The Mayor</i> <i>Deputy Chair of Sustainable Napier Committee</i> <i>Chair of Prosperous Napier Committee</i> <i>External independent appointee – Local Govt expert</i> <i>External independent appointee – Finance expert</i> <i>Ngā Mānukanuka o te Iwi (Māori Committee) Representative</i> <i>Note: The Chief Executive and External Auditor are required to attend all meetings but are not members and have no voting rights.</i>
<i>Quorum</i>	<i>3</i> <i>One of which is an external appointee</i>
<i>Meeting frequency</i>	<i>At least quarterly and further as required</i>
<i>Officer Responsible</i>	<i>Deputy Chief Executive / Executive Director Corporate Services</i>

### **Role**

The role and scope, as well as any delegations of the Audit and Risk Committee are defined in the Audit Charter (see version at time of adoption below).

### **Delegations**

The role and scope, as well as any delegations of the Audit and Risk Committee are defined in the Audit Charter.

The Committee can make recommendations to Council or the Chief Executive as appropriate.

# ORDER OF BUSINESS

## Karakia

## Apologies

David Pearson

## Conflicts of interest

## Public forum

Nil

## Announcements by the Mayor

### Announcements by the Chairperson including notification of minor matters not on the agenda

*Note: re minor matters only - refer LGOIMA s46A(7A) and Standing Orders s9.13*

A meeting may discuss an item that is not on the agenda only if it is a minor matter relating to the general business of the meeting and the Chairperson explains at the beginning of the public part of the meeting that the item will be discussed. However, the meeting may not make a resolution, decision or recommendation about the item, except to refer it to a subsequent meeting for further discussion.

## Announcements by the management

### Confirmation of minutes

That the Minutes of the Audit and Risk Committee meeting held on Friday, 9 December 2022 be taken as a true and accurate record of the meeting. ....101

### Agenda items

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### Minor matters not on the agenda – discussion (if any)

**Public excluded** .....100

# AGENDA ITEMS

## 1. HEALTH AND SAFETY REPORT - OCTOBER/NOVEMBER/DECEMBER 2022

<i>Type of Report:</i>	Operational
<i>Legal Reference:</i>	N/A
<i>Document ID:</i>	1482761
<i>Reporting Officer/s &amp; Unit:</i>	Anna Nottage, Chief People Officer

### 1.1 Purpose of Report

The purpose of this paper is to provide the Audit & Risk Committee with an overview of Health & Safety activity for the period Quarter 4 FY22.

#### Officer's Recommendation

The Audit and Risk Committee:

- a. **Receive** the Quarter 4 (October/November/December 2022) Health and Safety report.

### 1.2 Background Summary

Health and Safety have continued with the reporting format that contains trend data and detailed analysis on several leading and lagging Health and Safety indicators. This report is attached.

Key points to note for the October – December 2022 quarter are:

- The recent surge in community Covid 19 cases in the quarter resulted in an increase of reported cases at NCC. The increase was managed using Ministry of Health guidelines and advice.
- Reporting for most leading indicators remains strong and continues to trend in an upward direction. Lagging indicators have decreased, except for near misses. Near miss reporting reflects good health and safety practice and should be encouraged.
- Requirements for the health monitoring and surveillance of employees were addressed throughout the October – December quarter.
- There is a planned audit and review of health and safety performance to provide assurance that the Council is meeting the obligations and duties as a Person Conducting Business or Undertakings (PCBU) under the Health and Safety at Work Act 2015.

#### COVID-19

#### Health and Safety resourcing

Following approval at the previous Audit and Risk Committee we have engaged Gareth McDonald from H&S Consultancy to provide specialist advice and support to Napier City Council’s Health and Safety Team.

**Covid 19**

The recent surge in cases in November and December resulted in an increase of workers remaining at home for the mandatory seven-day isolation period.

The following table outlines the number of reported cases each month in the quarter, with a breakdown of cases according to each directorate.

Covid 19 Cases						
Month	Community	Infrastructure	City Strategy	Corporate	City Services	Total Cases
October	5	-	1	2	-	8
November	12	1	4	2	9	28
December	11	5	3	5	6	30

Following the Ministry of Health guidelines and advice, control measures were re-initiated and escalated to provide workers with adequate protection and to reduce the risk of infection.

**Risk and Audit Committee Report**

Due to recent changes in the Health and Safety Team and time and resourcing constraints due to Cyclone Gabrielle, this report best reflects the data, information, and insights available. The report attempts to mirror the reporting format submitted by the previous Health, Safety and Wellbeing Manager.

Going forward the intention is to develop a refreshed reporting structure focusing on two critical components:

- Assurance that the Council is meeting their responsibilities, and duties of the Council a PCBU under HSWA 2015.
- Review of progress against the identified Health and Safety strategic risks (SR14), operational risks (OR183) and project risks.

**Audit and review of H&S**

NCC will commence a review of its Safety Management System and its requirements under the Tier One Health and Safety Management System Framework. A three-yearly audit and review is an essential function to:

- 1) Evaluate the effectiveness of the Framework and System;
- 2) Ensure the continued relevance of the processes within them;
- 3) Provide feedback so that new strategies and plans can be developed.

This review will include specific evaluation of Hazard and Risk Management processes. As part of the review, the Health and Safety Management Framework will be revised and

updated to provide for new planned activities, changes to the organisation, and to ensure the Framework is achieving its purpose.

### **Pre-employment, Annual, Exit Health Monitoring**

October 2022-December 2022.

- 5 applicants had pre-employment fitness to work which consists of a health questionnaire, musculoskeletal assessment, visual acuity screening, hearing screening, respiratory screening questionnaire/lung function screening (if applicable)
- 91 employees had annual health monitoring due to the tasks they do within their current role- this consisted of hearing screening & respiratory screening questionnaire.
- The employees were also offered a blood sugar level screening to detect early screening for potential diabetes and establish if a GP appointment was required.
- There were several employees where we requested they make a follow up GP visit.
- Hepatitis C- This is a Ministry of Health national Campaign and there are people in New Zealand that do not know they have Hepatitis C- this is a finger prick test and using a test strip the results come up within 10 minutes. All employees screened were negative to hepatitis C.
- 2 employees had exit screening they were from the Environmental Solutions Team.

### **Hearing Screening**

Oct-Dec 2022: 73 employees had hearing screening.

- 22 employees have normal hearing.
- 25 have mild hearing loss.
- 26 have hearing loss (more than mild loss)
- 16 with hearing loss have already seen an audiologist and did not require re-referral.
- 10 were referred to the Audiologist in Oct-Dec 2022.

### **Respiratory Screening questionnaire:**

- 99 employees completed the respiratory screening questionnaire.
- No employees were referred to their GP.
- There are workers with asthma which is controlled by administering their prescribed inhalers.

### **Animal Control Workers zoonotic blood test annually**

- All employees have been provided a lab form in November 2022 to check for:
- Toxoplasmosis, Toxocara, Hydatids.
- 3 of the 5 employees lab results have been received requiring no actions.
- Awaiting the other 2 employee lab results.

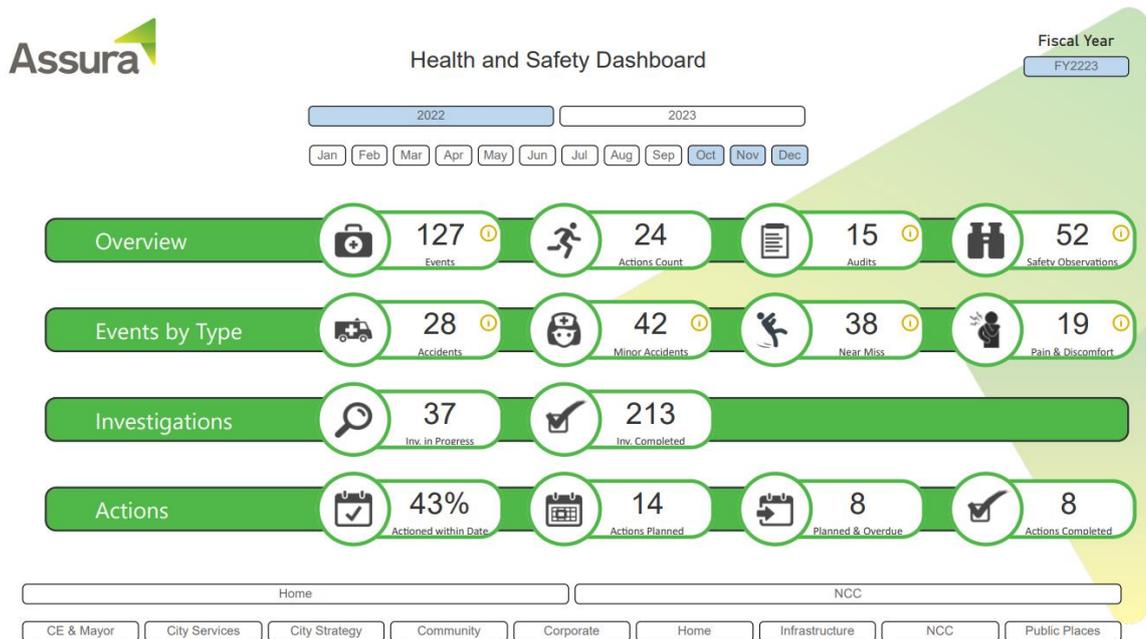
### **Environmental Solutions Trace Metal blood/urine test annually**

- 3 employee lab results have been received requiring no action.

### Hepatitis A & B Vaccinations

- 8 employees are having hepatitis vaccinations due to the tasks they do.
- The employees could be exposed to used sharps, sewage, human body fluids (blood).
- 7 employees have no immunity to Hepatitis A & B – they are having a course of 3 vaccinations.
- 1 employee has no immunity to Hepatitis A and having a course of 2 vaccinations.

### Health and Safety quarterly reporting for October/November/December:



### Lagging indicators

**Employees - Lagging Indicators**

	Month	YTD	LY Month	LY YTD	Target (Year)	KPI (Year)
Lost Time Injuries	0	0	0	1	< 8	✓
Medically Treated	0	2	0	5	< 45	✓
First Aid	0	4	1	2	< 20	✓
Near Miss	5	63	8	43	>= 40	✓
Property Damage	0	5	0	3	< 10	✓

**Public / Customers - Lagging Indicators**

	Month	YTD	LY Month	LY YTD	Target (Year)	KPI (Year)
Medically Treated	0	1	0	2	< 100	✓
First Aid	0	2	0	0	< 10	✓
Significant Incidents	0	0	0	0	< 10	✓
Insignificant	0	0	0	0	< 100	✓
Near Miss	1	9	0	0	>= 25	X
Property Damage	0	0	0	0	< 10	✓

**Contractors - Lagging Indicators**

	Month	YTD	LY Month	LY YTD	Target (Year)	KPI (Year)
Significant Incidents	0	0	0	0		
Property Damage	0	1	0	0	< 10	✓

**Employees - Lagging Indicators**

	Oct-22	Nov-22	Dec-22	Total
Lost Time Injuries	0	0	0	0
Medically Treated	1	0	0	1
First Aid	2	1	0	3
Near Miss	7	17	5	29
Property Damage	2	1	0	3

**Public / Customers - Lagging Indicators**

	Oct-22	Nov-22	Dec-22	Total
Medically Treated	0	0	0	0
First Aid	0	0	0	0
Significant Incidents	0	0	0	0
Insignificant	0	0	0	0
Near Miss	6	1	1	8
Property Damage	0	0	0	0

**Contractors - Lagging Indicators**

	Oct-22	Nov-22	Dec-22	Total
Significant Incidents	0	0	0	0
Property Damage	0	0	0	0

**Leading indicators**

**Employees - Leading Indicator Tables**

	Month	YTD	LY Month	LY YTD	Target (Year)	KPI (Year)
Pain and Discomfort	2	30	4	24	>= 12	✓
New Hazards	2	34	1	11	>= 10	✓
Hazards Reviewed	0	8	0	1		
Workstation Assessments	0	8	3	36		
Inductions	8	58	6	59		
Rehabilitation Required	0	11	2	8		
Competencies - Other	32	561	25	623		

**Audits**

	Month	YTD	LY Month	LY YTD
Audits - Contractor	0	17	1	21
Audits - Internal	0	24	0	41

**Safety Observations**

Observation_Type	Month	YTD	LY Month	LY YTD
Safe Practice	1	11	0	5
Suggestion	1	11	0	6
Unsafe Conditions	11	53	5	45
Unsafe Practice	7	25	4	41

**Employees - Leading Indicator Tables**

	Oct-22	Nov-22	Dec-22	Total
Pain and Discomfort	6	10	2	<b>18</b>
New Hazards	9	8	2	<b>19</b>
Hazards Reviewed	1	7	0	<b>8</b>
Workstation Assess.	1	5	0	<b>6</b>
Inductions	21	6	8	<b>35</b>
Rehabilitation Req.	5	3	0	<b>8</b>
Competencies - Other	76	78	32	<b>186</b>

**Audits**

	Oct-22	Nov-22	Dec-22	Total
Audits - Contractor	10	0	0	<b>10</b>
Audits - Internal	2	3	0	<b>5</b>

**Safety Observations**

Observation_Type	Oct-22	Nov-22	Dec-22	Total
Safe Practice	1	1	1	<b>3</b>
Suggestion	1	2	1	<b>4</b>
Unsafe Conditions	11	8	11	<b>30</b>
Unsafe Practice	5	3	7	<b>15</b>

**Meetings**

Meeting_Type	Oct-22	Nov-22	Dec-22	Total
Team Meeting	3	4	2	<b>9</b>
Committee Meeting	1	3	1	<b>5</b>
Safety Meeting	3	1	1	<b>5</b>
Other	1	1		<b>2</b>

### Health and Safety Training and Competency

Competencies				
OrgLevel2	Month	YTD	LY Month	LY YTD
<b>City Services</b>	<b>10</b>	<b>495</b>	<b>7</b>	<b>493</b>
Aggressive Customer Training		11		17
CABA (Compressed Air Breathing Apparatus) Training	6	6		12
Confined Space		1		4
COVID - 19 Framework and Tool Kit LEVEL 2 & 3				3
COVID - 19 Framework and Tool Kit LEVEL 3.				78
E-Bike SWMS signoff				1
Electrical Testing				3
Emergency Response Plan Training - (Spills & Spill Kits)		11		8
Ergonomic Essentials for the Office - Elearning Version 2 Video				1
EWP (Elevated Work Platforms)				3
Eye Care		2	1	2
Fire Extinguisher Training				9
First Aid	3	11		14
Forklift OSH/DOL Driver Training		24		
Framework and Contractors Presentation				1
Growsafe Certified		1		10
Hazardous Substances in the Workplace Training		3		122
Health and Safety Induction - completed		5	1	7
Mental Health Matters				6
Plant Training Record (Stihl)				2
Psychological Safety				6
Respirator Management Training				1
Respiratorv Fit Testina - Completed				1
<b>Total</b>	<b>42</b>	<b>798</b>	<b>37</b>	<b>943</b>

Competencies				
OrgLevel2	Oct-22	Nov-22	Dec-22	Total
<b>Community</b>	<b>31</b>	<b>47</b>	<b>19</b>	<b>97</b>
Workstation Assessment completed by HS Team		4		4
SOP 006 - Abusive Threatening Customers		5		5
Site Safe - Workers Health	6	1		7
Office Fire Prevention and Response - Video			1	1
Manual Tasks: Industry - Elearning		1		1
Health and Safety Induction - completed	13		1	14
First Aid - Resuscitation Level 3			2	2
First Aid	12	15	13	40
Fire Warden Training			1	1
EWP (Elevated Work Platforms)			1	1
Ergonomic Essentials for the Office - Elearning Version 2 Video		2		2
Crisis Resilience in Situ - Aggressive Customer		19		19
<b>City Strategy</b>	<b>14</b>	<b>19</b>	<b>3</b>	<b>36</b>
<b>City Services</b>	<b>44</b>	<b>46</b>	<b>10</b>	<b>100</b>
TMO NP (Traffic Mgmt Operative Non-Practising) - (Previously TC)		12		12
SOP 294 - Cardan Shaft Park Break Safety	32	9		41
SOP 290 - Experienced Operator	2			2
SOP 001 - Pedestrian Sprayer	1			1
Site Safe - Workers Health	7	15		22
Safe Working at Heights			1	1
Health and Safety Induction - completed	2	2		4
<b>Total</b>	<b>89</b>	<b>112</b>	<b>32</b>	<b>233</b>

### 1.3 Attachments

Nil

## 2. SENSITIVE EXPENDITURE - MAYOR AND CHIEF EXECUTIVE

<i>Type of Report:</i>	Procedural
<i>Legal Reference:</i>	N/A
<i>Document ID:</i>	1638233
<i>Reporting Officer/s &amp; Unit:</i>	Caroline Thomson, Chief Financial Officer Talia Foster, Accounting Manager

### 2.1 Purpose of Report

To provide the information required for the Committee to review Sensitive Expenditure of the Mayor and Chief Executive for compliance with Council's Sensitive Expenditure Policy.

#### Officer's Recommendation

The Audit and Risk Committee:

- a. **Receive** the 31 December 2022 quarterly report of Sensitive Expenditure for the Mayor and Chief Executive and review for compliance with the Sensitive Expenditure Policy.

### 2.2 Background Summary

The Sensitive Expenditure Policy approved by the Senior Leadership Team on 17 September 2019 requires a report of all sensitive expenditure by the Chief Executive and by the Mayor to Audit and Risk Committee meetings (clauses 6.3 and 6.4). The policy also states that the expenditure items will be reviewed by the Chairperson or the Deputy Chairperson of the Audit and Risk Committee for compliance with this policy.

### 2.3 Issues

No issues

### 2.4 Significance and Engagement

N/A

### 2.5 Implications

#### Financial

N/A

#### Social & Policy

All sensitive expenditure transactions for the quarter ended 32 December 2022 are compliant with Council's Sensitive Expenditure Policy.

#### Risk

N/A

### 2.6 Attachments

- 1 Mayor Sensitive Expenditure report (Doc Id 1638218) [↓](#)
- 2 Chief Executive Sensitive Expenditure Report (Doc Id 1638217) [↓](#)

## Mayor Sensitive Expenditure

### Report for Audit and Risk Committee Meeting

Transactions processed from 1 October 2022 to 31 December 2022

Transaction Date	Transaction Source	Supplier	Value	Details in Ledger	Compliant with Policy
<b>Entertainment</b>					
Dec-22	AP	Suncourt Hotel	169.00	Food provided for Strategic Away meeting	✓
<b>Total Entertainment</b>			<b>\$ 169.00</b>		
<b>Mayor's Travel &amp; Accommodation</b>					
Oct-22	AP	Orbit travel	\$ 34.20	Taxi costs LGNZ AKONA MAYORAL INDUCTION	✓
Oct-22	AP	Orbit travel	\$ 423.16	Air travel/accommodation costs for attendance at LGNZ Mayoral Induction (Wgtn)	✓
Oct/Nov 22	AP	Orbit travel	\$ 940.86	Air travel/accommodation for FIFA Soccer Women's World Cup Draw - host city invitation	✓
Nov-22	AP	Orbit travel	\$ 529.17	Air travel LGNZ Rural Provincial	
Nov-22	AP	Orbit travel	\$ 160.87	Accommodation for attendance at LGNZ Zone 3 meeting	✓
Nov-22	AP	Suncourt Hotel	\$ 312.00	Accommodation Strategic Away meeting	✓
<b>Total Mayor's Travel &amp; Accommodation</b>			<b>\$ 2,400.26</b>		
<b>Conferences</b>					
<i>No transactions in this quarter</i>			\$ -		n/a
<b>Total Conferences</b>			<b>\$ -</b>		
<b>Total For Quarter</b>			<b>\$ 2,569.26</b>		

**Transaction Source key:**

EC	Transaction approved through expense claim process
CC	Transaction processed through NCC's corporate card
AP	Transaction approved through normal purchasing & payables process

## Chief Executive Sensitive Expenditure

### Report for Audit and Risk Committee Meeting

Transactions processed from 1 October 2022 to 31 December 2022

Transaction Date	Transaction Source	Supplier	Value	Details in Ledger	Compliant with Policy
<b>Entertainment</b>					
22/09/2022	CC	Banh Mi Saigon	85.30	ELT meeting refreshments	✓
11/10/2022	CC	Ahuriri Village Kitchen	52.16	Breakfast meeting with Te Taiwhenua O Te Whanganui a Orotu representative	✓
15/10/2022	CC	Albion Canteen	22.61	CE and one employee working lunch	✓
21/10/2022	CC	Banh Mi Saigon	94.70	ELT lunch Strategy Day	✓
27/10/2022	AP	Dalton St Kitchen	94.26	ELT meeting refreshments - Away Day 11 Oct	✓
2/12/2022	EC	Aquarium of NZ	44.35	ELT meeting refreshments	✓
8/12/2022	EC	Design Cuisine	228.00	CE & Mayoral forum lunch	✓
9/12/2022	EC	Adoro, Ahuriri	40.87	Breakfast meeting with Te Taiwhenua O Te Whanganui a Orotu representative	✓
9/12/2022	EC	Kilim Café	37.83	Lunch meeting with Planner & Policy Professional	✓
16/12/2022	CC	Dixie Browns, Taupo	55.48	Refreshments for Strategic Away meeting	✓
5/12/2022	AP	Suncourt Hotel	169.00	Food provided for Strategic Away meeting	✓
21/12/2022	AP	Design Cuisine	317.00	CE & Mayoral forum lunch	✓
<b>Total Entertainment</b>			<b>\$ 1,241.56</b>		
<b>Travel &amp; Accommodation</b>					
18/11/2022	EC	Kisa Restaurant	\$ 54.78	Dinner costs Rural & Provincial forum attendance	✓
22/11/2022	CC	Pravda Café	\$ 51.79	CE & Mayor breakfast costs Rural & Provincial forum attendance	✓
29/11/2022	AP	Suncourt Hotel	\$ 312.00	Accommodation Strategic Away meeting	✓
2/12/2022	EC	Uber	\$ 7.16	Taxi transport CE Rural & Provincial forum attendance	✓
<b>Total Travel &amp; Accommodation</b>			<b>\$ 425.73</b>		
<b>Conferences</b>					
<i>No transactions in this quarter</i>			\$ -		n/a
<b>Total Conferences</b>			<b>\$ -</b>		
<b>Total For Quarter</b>			<b>\$ 1,667.29</b>		

#### Transaction Source key:

EC	Transaction approved through expense claim process
CC	Transaction processed through NCC's corporate card
AP	Transaction approved through normal purchasing & payables process

### 3. SENSITIVE EXPENDITURE POLICY UPDATE

<i>Type of Report:</i>	Enter Significance of Report
<i>Legal Reference:</i>	Enter Legal Reference
<i>Document ID:</i>	1642327
<i>Reporting Officer/s &amp; Unit:</i>	Talia Foster, Accounting Manager

#### 3.1 Purpose of Report

Provide an opportunity for review and input to the Sensitive Expenditure Policy.

#### Officer's Recommendation

The Audit and Risk Committee:

- a. **Endorse** the Sensitive Expenditure Policy dated 17 March 2023.

#### 3.2 Background Summary

Napier City Council's last Sensitive Expenditure Policy was dated 17 September 2021 and was approved by the previous Chief Executive (CE). It is good practice to review this policy regularly, so staff have undertaken a detailed review. Only minor adjustments were made, mainly to provide more clarity and adjust naming conventions or references.

There are two changes of note:

- 1) Alcohol – Changes were made in the 2021 revision to remove any expenditure on alcohol with NCC funds, except with the prior approval of the CE which would only be given in exceptional circumstances. We are reverting to the previous position where alcohol can be purchased with a valid business purpose, and ensuring that the expenditure and consumption is not excessive.
- 2) Staff purchases from the Council store room – We have now removed the out-dated practice which allowed staff to purchase household goods from the Council store room.

#### 3.3 Issues

No issues

#### 3.4 Significance and Engagement

Not applicable

#### 3.5 Implications

##### Financial

The changes to the policy are not expected to have any impact on the total expenditure of Council.

##### Social & Policy

Not applicable

## **Risk**

There is potential reputational risk to Napier City Council if the Sensitive Expenditure Policy does not provide adequate guidance and controls to the Council's expenditure. Review of the policy by the executive leadership team and Audit and Risk Committee is intended to reduce this risk.

### **3.6 Options**

The options available to Council are as follows:

- a. Endorse the Sensitive Expenditure Policy dated 17 March 2023
- b. Provide recommendation of improvements to be made to the policy by management.

### **3.7 Development of Preferred Option**

Officers have undertaken a thorough review, referring to Office of the Auditor General guidance and advice from our internal and external auditors. The policy has been reviewed at multiple levels of the organisation and controls over the policy have been considered thoroughly. On this basis, the policy is expected to be fit for use and acceptable to the Audit and Risk Committee.

### **3.8 Attachments**

- 1 Sensitive Expenditure Policy (Doc Id 1645342) [↓](#)

# INTERNAL POLICY



<b>Sensitive Expenditure Policy</b>			
<b>Approved By</b>	Chief Executive		
<b>Department</b>	Corporate Services – Finance Department		
<b>Original Approval Date</b>	12 June 2011	<b>Review Approval Date</b>	17 December 2021
<b>Next Review Deadline</b>	17 December 2023	<b>Document ID</b>	349335
<b>Relevant Legislation</b>	Local Government Act 2002 Local Authority (Members' Interest) Act 1968 Public Audit Act 2001		
<b>NCC Docs Referenced</b>	Procurement Policy	1367676	
	Motor Vehicle Policy	218460	
	Disposal of Surplus Assets Policy	219066	
	Recognition Policy and Framework	382700	
	Gifts and Gratuities Policy	556126	
	Credit Card Policy	352631	
	Conflict of Interest Policy	350732	
	Travel Policy	837431	

## Purpose

The purpose of this Policy is to provide Elected Members, the Chief Executive and Council employees with a clear framework for managing sensitive expenditure. The most fundamental fact applicable to all expenditure by Council is that money used is ratepayers' funds. Consequently, sensitive expenditure needs to be consistent with the standards of probity and prudence that are expected of a public entity and be able to withstand elected members and public scrutiny.

Definition of sensitive expenditure: Expenditure by a public entity that provides, has the potential to provide or has the perceived potential to provide a private benefit to an individual staff member of a public entity that is additional to the business benefit to the entity of the expenditure. It also includes expenditure by a public entity that could be considered unusual for the entity's purpose and/or functions.

## Policy

### 1.0 Principles applicable to sensitive expenditure

In order to satisfy the requirements above, the Council expects all employees involved in arranging, making for approving expenditure to:

- do so only for Council purposes (i.e. expenditure is consistent with the Long Term Plan or Annual Plan);
- exercise integrity, prudence and professionalism
- not derive personal financial gain (unless a conflict of interest has been declared and the transaction is managed in accordance to the procedure agreed in the declaration of the conflict of interest);
- act impartially;
- ensure the expenditure is moderate and conservative in the extent of the given situation;
- ensure the transaction is made transparently
- have read and adhered to this and other relevant Council Policies (particularly the Conflicts of Interest Policy);
- are appropriate in all respects.

The above principles and Council Policies should be applied comprehensively (i.e. no single principle or Policy should be excluded)

## **2.0 Deciding when sensitive spending is appropriate**

- 2.1 For all expenditure, consideration needs to be given to Fringe Benefit Tax (FBT) requirements.
- 2.2 In deciding what appropriate sensitive expenditure is, elected members and employees need to take account of both individual transactions and the total value of sensitive expenditure.
- 2.3 Even when sensitive expenditure decisions can be justified at the item level, the combined amount of spend on a category of expenditure may be such that, when viewed in total, the entity could be considered extravagant and wasteful.

## **3.0 Responsibilities of the Mayor, Councillors and Executive Leadership Team**

- 3.1 To be truly effective, this Sensitive Expenditure Policy, procedures and other controls must be embedded in the Council's values, philosophy practices and business processes. When this occurs, everyone at Council becomes involved in the proper and prudent management of sensitive expenditure.
- 3.2 Overall responsibility for this Policy rests with the Mayor, Councillors and the Executive Leadership Team (ELT). This group is required to make it clear to employees what is and is not 'acceptable sensitive expenditure' and model these behaviours to the highest standard.

## **4.0 Good controls and judgement**

- 4.1 While the good controls at Council will assist with good sensitive expenditure conditions, good judgement will also be required. This is because it is not possible or desirable to attempt to set rules for every possible situation that may arise. In the absence of a specific rule for a given situation, the Mayor, Councillors and ELT are expected to exercise good judgement by taking the principles in this policy into account in the context of the given situation.

- 4.2 The Mayor, Councillors and ELT are required to ensure transparency in both sensitive expenditure and remuneration systems, to avoid any trade-off between the two. Items of expenditure that may not be justified under the principles of this policy should not be included as part of the employee's remuneration for the purposes of avoiding scrutiny against sensitive expenditure principles.

## **5.0 General controls for reimbursement**

- 5.1 All claims must be submitted promptly after the expenditure is incurred. Except in exceptional circumstances, this means within one month.
- 5.2 Sensitive expenditure will only be reimbursed if it is deemed reasonable, actual and has been incurred directly in relation to Council business.
- 5.3 Valid GST compliant invoices/receipts and other supporting documentation must be maintained/submitted for all sensitive expenditure. Credit card statements and Eftpos receipts do not constitute adequate documentation for reimbursement.
- 5.4 All claims must clearly state the business purpose of the expenditure where it is not clear from the supplier documentation supporting the claim.
- 5.5 All claims must document the date, amount and description.
- 5.6 Wherever possible, Councils preferred suppliers are to be used (refer to NCC's Procurement Policy.)

## **6.0 Approval for sensitive expenditure**

- 6.1 Approval for sensitive expenditure must be:
- Given only when the person approving the expenditure is satisfied that a justified business purpose and other principles have been adequately met.
  - Given before the expenditure is incurred, whenever practical.
  - Made only when budgetary provisions and delegated authority exist.
  - Given by the person senior to the person who will benefit or might be perceived to benefit from the sensitive expenditure.
- 6.2 Expenditure which is incurred (but not explicitly approved by Council) by Elected Members will be reviewed by the Mayor for compliance with this Policy.
- 6.3 Expenditure by the Mayor which is incurred (but not explicitly approved by Council) will be reviewed by the Chairperson or the Deputy Chairperson of the Audit and Risk Committee for compliance with this policy. A report of all sensitive expenditure by the Mayor will be provided to Audit and Risk Committee meetings.
- 6.4 In the case of the Chief Executive, the Mayor shall approve the expenditure. A report of all sensitive expenditure by the Chief Executive will be provided to Audit and Risk Committee meetings.

## **Specific Areas of Expenditure**

### **7.0 Credit cards**

Using credit cards is not a type of sensitive expenditure. However, they are a common method of payment for such expenditure. Employees issued with Credit Cards need to refer to NCC's Credit Card Policy (Doc ID 224194)

### **8.0 Travel**

- 8.1 For information specific to Travel refer to the Travel Policy (Doc ID 753431). The Travel Policy covers the use of private vehicles for Council business, rental cars, taxis/shuttles and public transport, accommodation, air travel, and other travel-related expenditure.

## 9.0 Entertainment and Hospitality

Entertainment and hospitality can cover a range of items from tea, coffee and biscuits to catering, such as meals. It also includes non-catering related items such as Council funded entry to sporting or cultural events.

- 9.1 The principles of a justified business purpose, moderate and conservative expenditure, should be applied.
- 9.2 Council expenditure on entertainment and hospitality should be limited to the following business justifications:
- Building relationships
  - Representing the organisations
  - Reciprocity of hospitality where this has a clear business purpose and is within normal bounds – acceptance of hospitality is expected to be consistent with the principles and guidance for the provision of hospitality.
  - Recognising significant business achievement
  - Building revenue
- 9.3 Given the many non-commercial functions of Council, there will only be limited justification for expenditure under some of the five purposes of entertainment and hospitality above, except in commercial business units.
- 9.4 Supporting the Council's internal organisational development may, in occasional circumstances, also be a legitimate business purpose for moderate expenditure.
- 9.5 All entertainment and hospitality expenditure must be pre-authorized by an ELT member, the Mayor or Chief Executive where practical and always supported by clear documentation. This documentation must identify the date, venue, costs, recipients and benefits derived and/or reasons for the event.
- 9.6 The most senior person present (with delegated authority) should approve and confirm the expenditure as being appropriate. Refer also to Council's Receiving Gifts and Hospitality Policy (Doc ID 223396).

## 10.0 Alcohol

Alcohol may be purchased with NCC funds where there is a clear business purpose and expenditure and consumption is not excessive for the circumstances. A business purpose may include celebrating successes, team building, and building internal and external relationships.10.2 Expenditure on alcohol is to be approved under the general provisions in clause 6.1.

- 10.3 Alcohol consumed when travelling on Council business is covered by the Travel Policy.
- 10.4 Refer to the Alcohol and Drug Policy, and the Motor Vehicle Policy and ensure that the consumption of alcohol does not result in undesirable conduct by employees.

## Goods and Services Expenditure

### 11.0 Disposal of Surplus Assets

As part of normal business, Council will from time to time dispose of surplus assets. Typically, this is when assets have become obsolete, worn out or surplus to requirements. Council's disposals are intended to be transparent and fair. Also refer to the Disposal of Surplus Assets Policy.

- 11.1 To ensure transparency, fairness and the best value for Council, the disposal of assets which have become obsolete, worn out or surplus to requirements, shall normally be conducted on the open market or by way of trade-in on a replacement asset.
- 11.2 Without the express prior approval the Chief Executive, no surplus assets with a market value of more than \$500 per item will be sold directly to Elected Members, Council employees or their family. In the case of the Chief Executive, prior approval must be obtained by the Mayor.
- 11.3 For assets with a value under \$500, the following principles shall apply:
  - Employees involved in selling the asset shall not benefit from the disposal
  - Sales must maximise the return to the Council; and
  - Be sold at no less than the market value determined by an appropriate valuation e.g. Trade Me.
- 11.4 On occasion, Council may decide to dispose of surplus assets for reasons other than financial return i.e. gifting for community good. Such instances will be by exception and will require the prior approval of the Chief Executive.

### 12.0 Loyalty reward scheme benefits

Loyalty reward schemes provide a benefit to the customer for continuing to use a particular supplier of goods and services. Generally, the rewards tend to be given in the name of the individual who obtains the goods and services, regardless of who has paid for them.

- 12.1 Except in the case of Airline loyalty rewards (covered in the NCC Travel Policy) and loyalty schemes such as Fly buys etc. Council treats loyalty rewards accruing to employees carrying out their official duties as property of the Council.
- 12.2 Where a reward/prize is obtained by chance and without inducement, the Chief Executive has the discretion to decide if the reward/prize is retained by the individual or is the property of Council.
- 12.3 When rewards/prizes are received from competitions at training or conference events or through membership of professional bodies they remain the property of the individual. When the value exceeds \$100 they are to be disclosed to a Manager and in the Gifts' register in accordance with the NCC's Receiving Gifts and Hospitality Policy.
- 12.4

### 13.0 Private use of Councils assets

- 13.1 Any physical item owned, leased or borrowed by Council is considered an asset for the purpose of this policy. This includes plant items, tools, photocopiers, mobiles, means of accessing the internet, and stationery.
- 13.2 The principles of transparency, moderate and conservative expenditure, are particularly relevant. Private use for personal purposes will only be permitted in limited circumstances and with approval from a member of ELT.

- 13.3 The costs to Council of private use will be recovered unless it is impractical or uneconomic to separately identify those costs.
- 13.4 Private use of Council assets can incur FBT so the impact of this must be considered before approval is granted.

#### **14.0 Private use of Council suppliers**

- 14.1 Council will not enable employees or Elected Members to obtain goods or services from a supplier on the same or similar basis to Council except in the limited way provided for below. This is to ensure that they may not receive preferential access to goods and services, and potentially a preferential price, which is not available to the public.
- 14.2 Staff may, however, make moderate use of any access to goods or services through Council's suppliers only under the approved Staff Discount scheme. All transactions are direct with suppliers and on a cash sale basis only. Staff may not use Council purchasing privileges on behalf of any third party. This includes family members or friends.
- 14.4 In rare circumstances, a Council order may cover expenditure with a personal component e.g a travel or accommodation booking. In this case payment to Council for the personal component must be made on the earlier of the confirmation of costs or receipt of the invoice from the supplier.

#### **15.0 Council Use of Private Assets**

- 15.1 Council may decide that reimbursing for use of Private Assets is appropriate for reasons such as cost, convenience or availability. Council may also decide to do this in circumstances where it would not fully use an asset of the same type if it acquired it directly. Examples include private motor vehicles, private mobiles and private computers or BYOD (buy your own device).
- 15.2 Insurance for the private asset being utilised is the responsibility of the employee.
- 15.3 To reduce the risk of the Council paying reimbursement costs that benefit the employee or elected member, pre-approval by an ELT member is required. In assessing the request particular attention is to be paid to the principles of a justified business purpose and preserving impartiality and integrity.
- 15.4 Reimbursement will be set at actual and reasonable costs. All claims require supporting documentation.
- 15.5 Employees must not approve or administer payments to themselves for the Council's use of their private assets.

### **Employee Support and Welfare Expenditure**

#### **16.0 Clothing**

- 16.1 Other than official uniforms and health and safety-related clothing, staff will not be clothed at the Council's expense when they are engaged in normal business activity.

## **17.0 Care of dependants**

17.1 The Chief Executive may authorise in exceptional circumstances the reimbursement of actual and reasonable costs in relation to the care of dependents. Some possible examples are when the employee is unexpectedly required to perform additional duties at very short notice, or a dependant unexpectedly requires additional care that the employee cannot provide because of the essential nature of their duties at the time. In all other instances care of dependants is to be treated as a personal and private expense of the employee.

## **18.0 Financing Social Club Activities**

18.1 Council may make a prudent and reasonable monetary contribution to the Council Social Club. The contribution may be a grant or subsidy for a specific event or item and must be approved by the Chief Executive.

## **19.0 Farewells and retirements**

19.1 Expenditure on welcomes, farewells, long service and retirements includes spending on functions, gifts and other items and should not be extravagant or inappropriate to the occasion. Refer to the NCC Recognition Policy.

## **20.0 Sponsorship of staff and others**

20.1 Staff taking part in an activity that is not part of their job, such as a sporting event, maybe sponsored by their entity through the provision of, or payment for goods and services (for example a t-shirt or entry fee).

20.2 Sponsorship should have a justified business purpose, which could include both publicity for the entity and its objectives and organisational development. The cost to Council must be moderate and conservative.

20.3 In normal circumstances, sponsorship will be provided through a social club rather than directly to the staff member.

20.4 Sponsorship of people who are not staff must be undertaken in a manner that is transparent. It is also preferable that, if non-staff are sponsored, the sponsorship is of an organisation they belong to, rather than directly to the individual.

## **21.0 Professional Memberships**

Membership to a professional body is a sensitive expenditure due to its personal nature.

21.1 Payment of professional fees by Council on behalf of an employee must be:

- Approved by an ELT member or the Chief Executive in the case of employees. In the case of the Chief Executive or Elected Members, the Mayor is required to give approval;
- clearly relevant to the performance of the employee's duties and responsibilities;
- for the employee alone and is not to cover members of their family or other persons;
- for no longer than one-year in duration unless significant discounts are available and it is reasonable to expect a two-year membership to be an advantage to the Council;
- for the benefit of the Council and are not intended to be a personal benefit to employees, and accordingly are not liable for FBT;
- refunded directly to the Council if the membership is cancelled and a refund is made available.

## Other types of expenditure

### 22.0 Donations and Koha

A donation or a koha is a payment (in money or by way of goods or services) made voluntarily and without the expectation of receiving goods or services in return.

22.1 Council requires donations to be:

- Lawful in all respects
- Disclosed in aggregate in the Council's annual report
- Made to a recognised organisation by normal commercial means (not to an individual)
- Not in cash (except as a koha).
- Non-political (i.e. politically neutral).

22.2 The amount given on behalf of Council should reflect the occasion and the prestige of Council in its relations with Tangata Whenua.

22.3 Amounts under \$250 are to be approved by a member of ELT. Amounts of \$250 and over are to be approved by the Chief Executive.

### 23.0 Communications technology

23.1 Communications technology – such as mobiles, telephones, email and internet access, are widely used in the Council workplace. While some personal use of this technology is unavoidable, excessive use incurs costs, including lost productivity to Council.

23.2 Council's policies on the use of communications equipment are contained within Council's IT Acceptable Use Policy (Doc ID 216222).

### 24.0 Gifts given

24.1 A gift is usually given as a token of recognition of something provided by the recipient. Gifts given to employees are covered in the Recognition Policy (Doc ID 220599).

### 25.0 Gifts received

25.1 The receiving of a gift is not strictly sensitive expenditure, however; it is nevertheless a sensitive issue. Refer to the Gifts and Benefits Policy (Doc ID 223396).

## Policy Review

The review timeframe of this policy will be no longer than every two years.

## Document History

Version	Reviewer	Change Detail	Date
3	Operations Accountant	Review in line with Travel Policy	Sept 2019
4	Accounting Manager	Full Review, including new clauses 10 – 25 and removal of the provision of alcohol.	Dec 2021

5	Accounting Manager	General review including changes in ELT naming convention, changes in alcohol agreed by ELT	March 2023
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## 4. AUDIT AND RISK CHARTER REVIEW

<i>Type of Report:</i>	Operational
<i>Legal Reference:</i>	N/A
<i>Document ID:</i>	1482759
<i>Reporting Officer/s &amp; Unit:</i>	Caroline Thomson, Chief Financial Officer Talia Foster, Accounting Manager

### 4.1 Purpose of Report

As set out in the Audit and Risk Committee Charter, the Committee will review this Charter in consultation with the Council at least every two years. Any substantive changes to the Charter will be recommended by the Committee, and formally approved by the Council. The last review of the Charter was undertaken on 5 August 2021.

#### Officer's Recommendation

The Audit and Risk Committee:

- a. **Review** the Audit and Risk Committee Charter.
- b. **Provide** any recommended changes to the Audit and Risk Charter (*Doc Id 1642532*) for Council approval.
- c. **Discuss** and agree the role the Committee would like to undertake as part of the proposed Local Government reform and revise the Audit Charter accordingly.

### 4.2 Background Summary

As set out in the Audit and Risk Committee Charter, the Committee will review this Charter in consultation with the Council at least once a year. Any substantive changes to the Charter will be recommended by the Committee, and formally approved by the Council. The last review of the Charter was undertaken on 5 August 2021.

The Officers have reviewed the Audit and Risk Committee Charter and are proposing the following additions:

- i. Inclusion of Council Controlled Organisations (CCOs) in the purpose of the committee, providing the committee with direction to widen their focus to include CCOs where they deem appropriate.
- ii. Under "Control Framework", reference to the Protected Disclosures Policy to provide the committee with direction to ensure this policy and the procedures behind it are robust.

The changes are marked up in the Audit and Risk Committee Charter attached.

#### Issues

The Committee may wish to consider including additional governance responsibilities and oversight requirements in the Charter to ensure organisational change readiness for the Local Government reform (including the 3 waters reform). This is the largest proposed reform to local government in over twenty years.

It is recommended that the Committee discuss and agree what role it will undertake

#### **4.3 Attachments**

- 1 2023-03-31 Audit and Risk Committee Charter Tracked Changes (Doc Id 1642532)



# CHARTER



Audit and Risk Committee Charter			
Adopted By	Council		
Department	Corporate Services		
Original Adoption Date	18 September 2018	Review Adoption Date	XX 2023
Next Review Deadline	31 March 2025	Document ID	325090
Relevant Legislation	Local Government Act 2002		
Policy Referenced	Code of Ethics		

## Purpose

The purpose of the Audit and Risk Committee (the Committee) is to provide independent, objective assurance and assistance to the Napier City Council (the Council) in relation to ~~on the Council's~~ governance, risk management, internal control and compliance frameworks, ~~and its as well as~~ external accountability responsibilities for both the Council and Council Controlled Organisations.

## Authority

The Napier City Council, at its meeting on 2 November 2016, re-established the Audit and Risk Committee for the 2016-19 triennial. The Council authorises the Committee, within the scope of its role and responsibilities, to:

- obtain any information it needs from any employee and/or external party (subject to their legal obligation to protect information);
- discuss any matters with the external auditor, or other external parties (subject to confidentiality considerations);
- request the attendance of any employee, including the Chief Executive, the Executive Director of Corporate Services and the Chief Financial Officer at Committee meetings; and
- obtain external legal or other professional advice, as considered necessary to meet its responsibilities, at the Council's expense.

## Composition and Tenure

The Committee will consist of seven members appointed by the Council. These must include the Mayor, the Chair of the Prosperous Napier Committee and the Deputy Chair of the Prosperous Napier Committee, the Deputy Chair of the Sustainable Napier Committee, the Deputy Chair of the Hearings Committee, ~~(or other nominated person)~~ and a representative from Ngā Mānukanuka o te Iwi the Maori Committee. The Council will also select up to threetwo independent members.

The Napier City Council will appoint the chairperson and deputy chairperson of the Committee.

Members will be appointed for an initial period not exceeding three years after which they will be eligible for extension or re-appointment, after a formal review of their performance.

Council representatives on the Committee will carry out their duties as outlined in the Charter, recognising the difference in the role of the Committee compared to Councillor community advocate.

The Chief Executive, the Director of Corporate Services and the Chief Financial Officer will not be members of the Committee but may attend meetings as observers as determined by the Chairperson.

The members, taken collectively, will have a broad range of skills and experience relevant to the operations of the Council. At least one independent member of the Committee should have accounting or related financial management experience with an understanding of accounting and auditing standards in a public sector environment together with a strong background in infrastructure, corporate governance and risk.

## Role and Responsibilities

The Committee has no executive powers and will conduct itself in accordance with the values and ethics of the Council.

The Committee is directly responsible and accountable to the Council for the exercise of its responsibilities. In carrying out its responsibilities, the Committee must at all times recognise that primary responsibility for the management of the Council rests with the Chief Executive.

The responsibilities of the Committee may be revised or expanded in consultation with, or as requested by, the Napier City Council from time to time.

## Risk Management

For both the Council and Council Controlled Organisations, ~~t~~he Committee's responsibilities are to:

- review whether management has in place a current and comprehensive risk management framework, and associated procedures for effective identification and management of ~~Napier City Council's~~ financial and business risks, including fraud;
- review whether a sound and effective approach has been followed in developing strategic risk management plans for major projects or undertakings;
- review the effect of the ~~relevant Council's~~ risk management framework on its control environment and insurance arrangements;
- review whether a sound and effective approach has been followed in establishing ~~the Council's~~ business continuity planning arrangements, including whether disaster recovery plans have been tested periodically; and
- review ~~the Council's~~ internal policies and controls in relation to preventing fraud, and satisfy itself that ~~both~~ the Council ~~and Council Controlled Organisations~~ ~~have~~s appropriate processes and systems in place to capture and effectively investigate fraud-related information and ~~to~~ ensure appropriate action is taken against known perpetrators of fraud.

## Health and Safety

For both the Council and Council Controlled Organisations, ~~t~~he Committee's responsibilities are to:

- review key risks ~~of the Council~~ in the areas of safety, occupational health and environmental issues.
- review management's approach to ~~the maintenance maintaining~~—and continual improvement ~~of~~ providing a safe working environment ~~to ensure it~~ is sound and effective.

- review compliance of relevant laws, regulations and operational policies and standards.
- review the establishment and tracking of measurable workplace health, safety and environment key targets.

## Control Framework

For both the Council and Council Controlled Organisations, ~~T~~he Committee's responsibilities are to:

- review whether management's approach to maintaining an effective internal control framework, including over external parties such as contractors and advisers, is sound and effective;
- review whether management has in place relevant policies and procedures and that these are periodically reviewed and updated;
- determine whether the appropriate processes are in place to assess, at least once a year, whether policies and procedures are complied with;
- review whether appropriate policies and procedures are in place for the management and exercise of delegations;
- consider how management identifies any required changes to the design or implementation of internal controls;
- review whether management has taken steps to embed a culture which is committed to ethical and lawful behaviour; and
- review the internal Protected Disclosures Policy and related procedures to ensure that arrangements are in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or any other matters, and that there is proportionate and independent investigation of such matters and appropriate follow-up action.

## External Accountability

For both the Council and Council Controlled Organisations, ~~T~~he Committee's responsibilities are to:

- review the financial statements and provide advice to the Council, including whether appropriate action has been taken in response to audit recommendations and adjustments;
- satisfy itself that the financial statements are supported by appropriate management sign-off on the statements and the adequacy of the systems of internal controls;
- review the processes in place designed to ensure that financial information included in the Council's annual report is consistent with the signed financial statements;
- review the processes and risk assessment are in place for the development and adoption of the Council's Long Term Plan;
- satisfy itself that ~~the Council has~~there are appropriate mechanisms in place to review and implement, where appropriate, relevant external audit reports and recommendations; and
- satisfy itself that ~~the Council has~~there is a performance management framework that is linked to organisational objectives and outcomes.

## Legislative Compliance

For both the Council and Council Controlled Organisations, ~~T~~he Committee's responsibilities are to:

- determine whether management has appropriately considered legal and compliance risks as part of ~~the Council's~~ risk assessment and management arrangements; and
- review the effectiveness of the system for monitoring ~~the Council's~~ compliance with relevant laws, regulations, and associated government policies.

## Internal Audit

For both the Council and Council Controlled Organisations, The Committee's responsibilities are to:

- act as a forum for communication between the Chief Executive, senior management, and internal and external auditors;
- review the internal audit coverage and annual work plan, ensure that the plan is based on the Council's risk management plan, and recommend approval of the plan on behalf of the Council;
- advise the Mayor and Chief Executive on the adequacy of resources to carry out the internal audit, including completion of the approved internal audit plan;
- oversee the co-ordination of audit programs conducted by the internal and external auditors and other review functions;
- review all audit reports and provide advice to the Council on significant issues identified in audit reports and action taken on issues raised, including identification and dissemination of good practice;
- monitor management's implementation of the internal auditor's recommendations;
- review the internal audit charter to ensure that appropriate organisational structures, authority, access, and reporting arrangements are in place;
- provide advice to the Council on the appointment of the Head of Internal Audit (in the case of an in-house internal audit function);
- recommend the appointment of the internal auditor;
- periodically review the performance and effectiveness of the internal auditor; and
- be satisfied that any dismissal of the Head of Internal Audit is based on proper and appropriate reasons, to safeguard the independence of the audit function.

## External Audit

The Committee's responsibilities are to:

- act as a forum for communication between the Chief Executive, senior management, and internal and external auditors;
- provide input and feedback on the financial statements and the audit coverage proposed by the external auditor, and provide feedback on the audit services provided;
- review all external plans and reports for planned or completed audits and monitor management's implementation of audit recommendations;
- oversee the co-ordination of audit programs conducted by the internal and external auditors and other review functions: and
- provide advice to the Council and Chief executive on action taken on significant issues raised in relevant external audit reports and good practice guides.

## Governance

### Responsibilities of Committee Members

Members of the Committee are expected to:

- express opinions frankly, ask questions that go to the core of the issue, and pursue independent lines of enquiry;
- provide the governance test and challenge to ensure there is organisational improvement and strong risk management processes;
- contribute the time needed to study and understand the papers provided; and
- apply good analytical skills, objectivity, and good judgment;

### Reporting

The Committee will regularly, but at least once a year, report to the Council on its operation and activities during the year. The report should include:

- a summary of the work the Committee performed to fully discharge its responsibilities during the preceding year;
- a summary of the Council's progress in addressing the findings and recommendations made in internal and external audit reports, and the Auditor-General's reports (if applicable);
- an overall assessment of the Council's risk, control, and compliance framework, including details of any significant emerging risks or legislative changes; and
- details of meetings, including the number of meetings held during the relevant period and the number of meetings each member attended.

The Committee may, at any time, report to the Chief Executive or the Council any other matter it deems of sufficient importance to do so. In addition, at any time an individual Committee member may request a meeting with the Chief Executive or the Council.

## Administrative Arrangements

### Meetings

The Committee will meet at least four times each year. A special meeting may be held to review the annual report.

From time to time additional meetings may be required to consider matters outside of normal meeting cycles.

The Chairperson is required to call a meeting if requested to do so by the Council, Chief Executive or another Committee member.

A meeting plan, including dates and agenda items, will be agreed upon by the Committee each year. The meeting plan will cover all of the Committee's responsibilities as detailed in this charter.

### Attendance at Meetings and Quorums

A quorum will consist of a majority of Committee members including at least one independent member.

Meetings can be held in person, by telephone, or by video conference.

The Head of Internal Audit and external audit representatives will be invited to attend each meeting unless requested not to do so by the Chairperson of the Committee.

The Chief Executive may be invited to attend Committee meetings to participate in specific discussions or provide strategic briefings to the Committee. The Committee may also ask other employees to attend Committee meetings or participate for certain agenda items.

The Committee will meet separately with both the internal and external auditors at least once a year.

### **Secretariat**

The Chief Executive will appoint a person to provide secretariat support to the Committee. The Secretariat will ensure that the agenda for each meeting and supporting papers are circulated, after approval from the Chairperson, at least one week before the meeting, and ensure that the minutes of the meetings are prepared and maintained. Minutes must be approved by the Chairperson and circulated within two weeks of the meeting to each member and Committee observers, as appropriate.

### **Conflicts of Interest**

Once a year, Committee members will provide written declarations to the Mayor, stating they do not have any conflicts of interest that would preclude them from being members of the Committee.

Committee members must declare any conflicts of interest at the start of each meeting or before discussion of the relevant agenda item or topic. Details of any conflicts of interest should be appropriately recorded in the minutes.

Where any member is deemed to have a real, or perceived, conflict of interest at a Committee meeting, it may be appropriate that they are excused from Committee deliberations on the issue where the conflict of interest exists.

### **Induction**

New members will receive relevant information and briefings on their appointment to assist them to meet their Committee responsibilities.

### **Assessment Arrangements**

The Chairperson of the Committee, in consultation with the Mayor, will initiate a review of the performance of the Committee at least once every two years. The review will be conducted on a self-assessment basis (unless otherwise determined by the Mayor) with appropriate input sought from the Chief Executive, the internal and external auditors, management, and any other relevant stakeholders, as determined by the Mayor in discussion with the chairperson of the Committee.

### **Review of Charter**

At least once every 2 years, the Committee will review this charter. This review will include consultation with the Council. Any substantive changes to the charter will be recommended by the Committee and formally approved by the Council.

## Procedure Review

The review timeframe of this charter will be no longer than every two years.

## Document History

Version	Reviewer	Change Detail	Date
1	Chief Financial Officer	Initial publication	December 2016
2	Chief Financial Officer	Review process	August 2018
3	Chief Financial Officer	Republication (nb: version control issues)	September 2018
4	Accounting Manager	Review process and add in Health and Safety	March 2020
5	Chief Financial Officer	Review process, change to composition of committee, minor additions	June 2021
<a href="#">6</a>	<a href="#">Accounting Manager</a>	<a href="#">Review, include CCOs, include Protected Disclosure Policy</a>	<a href="#">March 2023</a>

## 5. EXTERNAL ACCOUNTABILITY: AUDIT NEW ZEALAND MANAGEMENT REPORT

<i>Type of Report:</i>	Information
<i>Legal Reference:</i>	Local Government Act 2002
<i>Document ID:</i>	1642644
<i>Reporting Officer/s &amp; Unit:</i>	Caroline Thomson, Chief Financial Officer Talia Foster, Accounting Manager

### 5.1 Purpose of Report

To consider the Audit NZ management report to the Council on the audit of Napier City Council for the year ended 30 June 2022.

#### Officer's Recommendation

The Audit and Risk Committee:

- a. **Receive** the Audit NZ management report to the Council on the audit of Napier City Council for the year ended 30 June 2022
- b. **Direct** the Executive Director Corporate Services to develop a scope for the independent review of processes around severance pays to address concerns raised in the Audit NZ management report, and bring the scope back to committee for endorsement as soon as practical to enable the review to be undertaken.

### 5.2 Background Summary

Audit NZ has completed the audit of Council's accounts for the year ended 30 June 2022. The findings from the audit are set out in the Audit NZ management report.

The Audit NZ management report contains detailed findings and recommendations for areas of improvement together with management response.

### 5.3 Issues

The financial statements received a qualified audit opinion due to the carrying value of our revalued property, plant and equipment where there was evidence that there could be a collectively material change in the fair value. Council did not prepare an early revaluation due to time and resource constraints and the significant financial cost to undertake this exercise. The full revaluation for water supply, wastewater, storm water, land and buildings, and inner harbour assets will be undertaken and completed for 30 June 2023.

A qualified opinion was also issued for certain performance information relating to the Department of Internal Affairs (DIA) mandatory performance measures for water activities in relation to water supply, wastewater, and storm water. Audit NZ were unable to determine whether the Council's reported results for these measures were materially correct.

Without modifying the audit opinion, audit has included an emphasis of matter paragraph to draw attention to the disclosures in the annual report which outlines that subsequent to year-end the Government announced it will introduce legislation to establish four publicly owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities from 1 July 2024.

The auditors have highlighted a significant issue regarding the process around severance pays. We have taken Audit NZ's advice seriously, and are in the process of scoping an independent review to address the concerns. The scope of the review is being developed by the Executive Director of Corporate Services with advice and input from the Chair of the Audit and Risk Committee. The scope will be provided to the Audit and Risk Committee for endorsement before the review begins, with the findings and recommendations to be reported back through the committee.

#### **5.4 Significance and Engagement**

N/A

#### **5.5 Implications**

##### **Financial**

N/A

##### **Social & Policy**

N/A

##### **Risk**

The issue regarding the response times is being rectified with fixes expected to be in place by 30 June 2022, ensuring the issue is cleared for the 2022/23 financial year. However, there is a risk that Council receives a further qualified opinion for 2022/23 and 2023/24 due to the issue not being corrected for the full 2022/23 year, and the comparatives that will then be reported through to 2023/24.

#### **5.6 Attachments**

- 1 Audit NZ Management Report for 30 June 2022 Annual Report (Doc Id 1644907)



# Report to the Council on the audit of

Napier City Council

For the year ended 30 June 2022

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## Key messages

We have completed the audit for the year ended 30 June 2022. This report sets out our findings from the audit and draws attention to areas where the Napier City Council (the City Council) is doing well and where we have made recommendations for improvement.

### Audit report

We have issued a non-standard audit report dated 2 February 2023.

Our audit report included:

- A **qualified opinion** on the financial statements and activity group statements. The detail is as follows:
  - We considered that based on an analysis of relevant indices and advice to the Council from independent expert valuers, there is evidence that there could be a collectively material change in the fair value of the water, wastewater and stormwater below and above ground assets (the three waters) and operational land and buildings. As the City Council have not carried out revaluations of these asset classes as at 30 June 2022, it was impracticable for us to determine the amount of any adjustment required.
  - Certain performance information relating to the Department of Internal Affairs (DIA) mandatory performance measures for water activities in relation to water supply, wastewater and stormwater.

The performance measures we qualified our opinion on are:

- Total number of complaints received – Water supply, wastewater, and stormwater.
  - Attendance and resolution times – Water supply, wastewater, and stormwater.
- Without further modifying our audit opinion, an **emphasis of matter** paragraph drawing the readers' attention to the disclosure in the annual report which outlines that subsequent to year-end the Government passed legislation to establish four publicly owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities from 1 July 2024.

## Areas of focus

We comment on the following key matters in the report:

- **Asset revaluations** – we have recommended and acknowledge the City Council will undertake a revaluation of water, wastewater and stormwater below and above ground assets (the three waters) and operational land and buildings for the year ended 30 June 2023.
- **Attendance and resolution times performance measures** – We continue to recommend that the City Council address the evidential issues associated with the Attendance and resolution times performance measures, and any possible impacts on the City Council's 2022/23 annual report.
- **Three waters complaints received performance measures** – We are pleased to report that the issues which resulted in a qualified audit opinion in 2019/20 and 2020/21 have been resolved for the year ended 30 June 2022.
- **Severance payments** – Based on the work we performed, it appeared that the process for arriving at the severance payments did not appear to comply with (fell short of) accepted good practice and the Office of the Auditor-General's *Severance payments: A guide for the public sector*. We have recommended the Council undertake a review of the process used for determining the severance payments.
- **Depot's systems and processes** – We reviewed some performance measure systems and processes used by the Depot to capture information for management and reporting processes. We noted that these systems and processes appeared to be fairly manual and there are some system workarounds. We have recommended the Council undertake a review in general of the modus operandi and systems and processes at the Depot.
- **Investment properties and roading revaluations** – We are satisfied that the investment properties and roading valuations at 30 June 2022 are reasonable and the associated disclosures are appropriate.
- **Information systems** – we made some recommendations for improvement to passwords, redundant user access and superuser system administration access.
- **Covid-19 impact** – Covid-19 continued to have an impact on some of the City Council's activities, therefore its activity statements and financial statements. We are satisfied that the City Council has included appropriate disclosures and explanations about the impact of Covid-19 on its activities and financial statements.

## Acknowledgement and thank you

We would like to thank the Council, management and staff for their assistance in completing the audit, for their preparedness for the audit, and for their engagement with us.

*Karen Young*

Karen Young  
Appointed Auditor  
23 March 2023

# 1 Recommendations



Our recommendations for improvement and their priority are based on our assessment of how far short current practice is from a standard that is appropriate for the size, nature, and complexity of your business. We use the following priority ratings for our recommended improvements.

Explanation	Priority
<b>Needs to be addressed <i>urgently</i></b> These recommendations relate to a significant deficiency that exposes the City Council to significant risk or for any other reason need to be addressed without delay.	Urgent
<b>Address at the earliest reasonable opportunity, <i>generally within six months</i></b> These recommendations relate to deficiencies that need to be addressed to meet expected standards of best practice. These include any control weakness that could undermine the system of internal control.	Necessary
<b>Address, <i>generally within six to 12 months</i></b> These recommendations relate to areas where the City Council is falling short of best practice. In our view it is beneficial for management to address these, provided the benefits outweigh the costs.	Beneficial

## 1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
<b>Attendance and resolution times performance measures</b> - We continue to recommend that the City Council address the evidential issues associated with the Attendance and resolution times performance measures, and any possible impacts on the City Council’s 2022/23 annual report.	4.1	Necessary
<b>Asset revaluations</b> – Undertake a revaluation of water, wastewater and stormwater below and above ground assets (the three waters) and operational land and buildings for the year ended 30 June 2023. We acknowledge the Council will be doing this.	4.2 and 4.3	Necessary

Recommendation	Reference	Priority
<b>Severance payments</b> – The Council undertake a review of the process used for determining the severance payments against accepted good practice and the Office of the Auditor-General’s Severance payments: A guide for the public sector.	5.1	Necessary
<b>Depot’s systems and processes</b> – Council undertake a review in general of the modus operandi and systems and processes at the Depot.	5.2	Necessary
<b>Information systems</b>		
<b>Information systems policies and cybersecurity practices</b> We recommend that: <ul style="list-style-type: none"> <li>• The Information Services Acceptable Use policy be reviewed, updated and communicated to all users (internal and external).</li> <li>• Ensure that active training for all users in Cybersecurity prevention practices is undertaken.</li> </ul>	5.3.1	Necessary
<b>Password management controls</b> – Review and improve users network password controls to meet current good practice.	5.3.2	Necessary
<b>Redundant users in financial system</b> – Procedures be established for reviewing network and Magiq users’ access and removing access to Magiq when people leave the City Council.	5.3.3	Necessary
<b>Review and improve superuser system administration access</b> We recommend the City Council: <ul style="list-style-type: none"> <li>• Review and improve the procedures for allocating, monitoring and reviewing use of system administrator / privileged access accounts in Magiq.</li> <li>• Minimise and track the use of shared privileged accounts. The password should be changed regularly to ensure only approved users have access.</li> </ul>	5.3.4	Necessary
<b>Evidence of review of Approval Plus exception reports</b> – Evidence of review (who performed the review and when the review was completed) for the review of the Approval Plus system generated reports be stored and maintained in the City Council systems as “read only”.	5.4	Necessary
<b>Non-infrastructure asset work-in-progress approvals</b> – The review non-infrastructure work-in-progress be formalised by way of sign off by the appropriate manager and supported by appropriate documentation.	5.5	Beneficial

Recommendation	Reference	Priority
<b>Depreciation rates</b> – Put quality assurance procedures to ensure that assets are depreciated in line with the City Council’s accounting policy and what is appropriate for the assets.	5.6	Beneficial
<b>Restricted assets revaluation</b> – that a revaluation of the Inner Harbour for financial reporting purposes be undertaken for the year ended 30 June 2023.	5.7	Beneficial

## 1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous recommendations. Appendix 1 sets out the status of previous recommendations in detail.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open	-	6	4	10
Audit New Zealand to follow up during 2022/23	-	2	-	2
Implemented and closed	-	7	-	7

## 2 Our audit report

### 2.1 We issued a non-standard audit report



We issued our audit report on 2 February 2023.

A **qualified opinion** on the financial statements and activity group statements. The detail is as follows:

- we considered that based on an analysis of relevant indices and advice to the Council from independent expert valuers, there is evidence that there could be a collectively material change in the fair value of the water, wastewater and stormwater below and above ground assets (the three waters) and operational land and buildings. As the City Council have not carried out revaluations of these asset classes as at 30 June 2022, it was impracticable for us to determine the amount of any adjustment required; and
- certain performance information relating to the Department of Internal Affairs (DIA) mandatory performance measures for water activities in relation to water supply, wastewater and stormwater.

The performance measures we qualified our opinion on are:

- Attendance and resolution times – water supply, wastewater, and stormwater

The City Council was unable to accurately report on fault response times for each of the three water services. The information produced by the system used to report on fault response times was not reliable because the attendance and resolution times for service requests recorded were not always accurate or classified in line with the definitions set out in the Rules. Our opinion on these performance measures was also qualified for the 2021 performance year.

- Total number of complaints received – Water supply, wastewater, and stormwater

The Department of Internal Affairs has issued guidance to assist local authorities in applying the Rules, including how to count complaints. Our audit testing found that the City Council had not been counting complaints for the 30 June 2021 year in accordance with this guidance and the City Council's method of counting was likely to have understated the actual number of complaints received. Furthermore, complete records for all complaints made to the City Council were not available.

This issue has been resolved for the 30 June 2022 year. As the limitation on our work cannot be resolved for the 30 June 2021 year, the City Council's performance information reported for this performance measure for the 30 June 2022 year may not be directly comparable to the 30 June 2021 performance information.

Without further modifying our audit opinion, an emphasis of matter paragraph drawing the readers' attention to the disclosure in the annual report which outlines that subsequent to year end the Government passed legislation to establish four publicly owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities from 1 July 2024. The inclusion of this paragraph is in line with the Auditor-General's expectations across 30 June 2022 local council audits.

In forming our audit opinion, we considered the following matters. Refer to sections three to five for further detail on these matters.

## 2.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial. The misstatements that have not been corrected are listed below along with management's reasons for not adjusting these misstatements. We are satisfied that these misstatements are individually and collectively immaterial.

Current year uncorrected misstatements	Assets	Liabilities	Equity	Financial performance
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Property, plant and equipment	481,000	-	-	-
Investment property	(481,000)	-	-	-

### Explanation of uncorrected misstatements

Misclassification between property, plant and equipment, and investment property. Relates to a property that is no longer an investment property – the property is now used by City Council to provide services to the public and the property should therefore have been included as property plant and equipment.

### Management comment

*This was highlighted during the revaluation and review process as having changed class which is a significant change in our financial system. As this was deemed immaterial for 30 June 2022, we have now made the change in the 2022/23 financial year.*

### 2.3 Corrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial. We are satisfied that these misstatements are individually and collectively immaterial.

### 2.4 Quality and timeliness of information provided for audit



Management needs to provide information for audit relating to the annual report of the City Council. This includes the draft annual report with supporting working papers. We provided a listing of information we required to management through AuditDashboard our online portal to transfer files between the City Council and Audit New Zealand. This included the dates we required the information to be provided to us.

City Council staff provided us with the documents and information requested on a timely basis.

We were able to work collaboratively with Council, management and staff, and acknowledge their assistance, willingness to help and professionalism throughout the year.

## 3 Assessment of internal control

The Council, with support from management, is responsible for the effective design, implementation, and maintenance of internal controls. Our audit considers the internal control relevant to preparing the financial statements and the service performance information. We review internal controls relevant to the audit to design audit procedures that are appropriate in the circumstances. Our findings related to our normal audit work, and may not include all weaknesses for internal controls relevant to the audit.

### 3.1 Control environment

The control environment reflects the overall attitudes, awareness and actions of those involved in decision-making in the organisation. It encompasses the attitude towards the development of accounting and performance estimates and its external reporting philosophy and is the context in which the accounting system and control procedures operate. Management, with the oversight of the Council, need to establish and maintain a culture of honesty and ethical behaviour through implementation of policies, procedures and monitoring controls. This provides the basis to ensure that the other components of internal control can be effective.

We have performed a high-level assessment of the control environment, risk management process, and monitoring of controls relevant to financial and service performance reporting. We considered the overall attitude, awareness, and actions of the Council and management to establish and maintain effective management procedures and internal controls.

We consider that a culture of honesty and ethical behaviour has been created. The elements of the control environment provide an appropriate foundation for other components of internal control.

### 3.2 Internal controls

Internal controls are the policies and processes that are designed to provide reasonable assurance as to the reliability and accuracy of financial and non-financial reporting. These internal controls are designed, implemented and maintained by the Council and management.

We reviewed the internal controls, in your information systems and related business processes. This included the controls in place for your key financial and non-financial information systems.

In performing the assessment we consider both the “design effectiveness” and “operational effectiveness” of internal control. However, it is not the purpose of our assessment to provide you with assurance on internal control in its own right. As such we provide no assurance that our assessment will necessarily identify and detect all matters in relation to internal control.

## 4 Matters raised in the Audit Plan



In our Audit Plan of 1 December 2022, we identified the following matters as the main audit risks and issues:

Audit risk/issue	Outcome
<p><b>4.1 Three waters complaints received, and attendance and resolution times performance measures</b></p>	
<p>In previous years, we have made recommendations to improve systems and processes for reporting against the DIA mandatory performance measures for the three waters and roading.</p> <p>Our recent audit opinions were modified on certain performance information – the total number of water supply, wastewater and stormwater complaints received (2019/20 and 2020/21), and the time taken to attend and resolve water supply, wastewater and stormwater faults (2020/21)</p> <p>To ensure the integrity and efficiency of reporting, the City Council should ensure:</p> <ul style="list-style-type: none"> <li>• there is a clear understanding of what the measure is intended to measure;</li> <li>• ensures that it has the appropriate systems, processes and controls in place to accurately report and collate the data; and</li> <li>• consider what level of verification or independent review/quality assurance is appropriate.</li> </ul>	<p>We reviewed the systems and processes in place for capturing information for reporting purposes and followed up on previous years’ recommendations. We found with:</p> <ul style="list-style-type: none"> <li>• Three waters complaints – the issues which resulted in a qualified audit opinion in 2019/20 and 2020/21 have been resolved for 2021/22. However, we qualified the comparative information (2020/21) because they may not be comparable with the 2021/22 information.</li> <li>• Attendance and resolution times – the issues which resulted in a qualified audit opinion in 2020/21 have not been resolved in 2021/22, and qualified audit opinion was issued over the reliability of the information.</li> </ul> <p><b>We continue to recommend</b> that the City Council address the evidential issues associated with the Attendance and resolution times performance measures, and any possible impacts on the City Council’s 2022/23 annual report.</p>
<p><b>4.2 Valuation of three water assets</b></p>	
<p>The City Council’s policy is to revalue its three water assets every three years.</p> <p>Three waters assets were last revalued at 30 June 2020, and are not scheduled for revaluation this year.</p>	<p>The City Council completed a fair value assessment. To inform the assessment, management obtained advice from independent expert valuers. We reviewed the fair value assessment and analysed the relevant indices and advice to the Council from independent expert valuers. We found there is evidence that</p>

Audit risk/issue	Outcome
<p>With the current environment having a significant impact on costs – for example, supplies and labour cost escalations. The impact of the current economic conditions could be significant and a full valuation may be necessary if the movement in the fair value is likely to be materially different to the carrying value of the assets.</p> <p>The City Council should consider whether to bring forward its three waters asset revaluation to 2021/22.</p>	<p>there could be a collectively material change in the fair value of the water, wastewater and stormwater below and above ground assets (the three waters) and operational land and buildings.</p> <p>As the City Council have not carried out revaluations of these asset classes as at 30 June 2022, it was impracticable for us to determine the amount of any adjustment required, and we qualified the opinion on the financial statements.</p> <p><b>We recommend and acknowledge</b> that the City Council will undertake a revaluation of water, wastewater and stormwater below and above ground assets (the three waters) and operational land and buildings for the year ended 30 June 2023.</p>
<p><b>4.3 Fair value assessment of land and buildings and other revalued assets</b></p>	
<p>Under the accounting standard PBE IPSAS 17 Property, Plant and Equipment, the carrying value of revalued assets is required to be assessed at each reporting date to ensure it is not materially different to the fair value of the assets. If there is a material movement, a full revaluation is required.</p> <p>For those assets that will not be revalued this year, we expect the City Council to perform a comprehensive analysis to determine whether there is a significant variance between the fair value, as at 30 June 2021, and the carrying value that would trigger the need for the City Council to revalue or impair its assets.</p> <p>The City Council should agree on a significant variance threshold, above which Council would complete a revaluation. When considering whether class and in aggregate across all asset classes carried at fair value. We note there are cost pressures and significant constraints that exist within the construction industry and limited</p>	<p>As in 4.2 above.</p>

Audit risk/issue	Outcome
<p>availability of resources within the sector (including various trades and project managers).</p> <p>We encourage the City Council to perform this assessment early so that if a revaluation is required, there is time to complete it.</p>	
<b>4.4 Revaluation of roading</b>	
<p>The City Council’s policy is to revalue its roading assets every year.</p>	<p>We reviewed the revaluation of roading assets to:</p> <ul style="list-style-type: none"> <li>• assess the valuation process, including the competence, experience and independence of the person completing the valuation;</li> <li>• review the valuation report to assess whether the requirements of PBE IPAS 17 <i>Property, Plant and Equipment</i> (including the appropriateness of the valuation basis) have been met;</li> <li>• ensure changes to useful lives have been appropriately taken up, and values and depreciation charges have been appropriately accounted for;</li> <li>• costs have been determined. We will confirm the reasonableness of a sample of unit costs by reference to recent capital works undertaken by the City Council; and</li> <li>• assess the accounting entries, presentation and disclosure of information related to the valuation in the financial statements.</li> </ul> <p>As part of the process, we;</p> <ul style="list-style-type: none"> <li>• enquired into the processes employed by the City Council to ensure that the items revalued are complete, and any items excluded from the revaluation and reason for this;</li> <li>• reviewed how the City Council satisfied itself that the revaluation is appropriate; and</li> </ul>

Audit risk/issue	Outcome
	<ul style="list-style-type: none"> <li>• discussed the results with, and obtained an assurance letter, from the valuers.</li> </ul> <p><b>Conclusion</b></p> <p>We are satisfied that:</p> <ul style="list-style-type: none"> <li>• the revaluation has been performed in accordance with appropriate accounting and valuation standards and the asset values reflect fair value;</li> <li>• the valuation movements have been fairly reflected in the financial statements and the associated disclosures are appropriate; and</li> <li>• the valuers are appropriately qualified, objective and independent from Council.</li> </ul>
<b>4.5 Impairment assessment of assets</b>	
<p>In accordance with PBE IPSAS 21, Impairment of Non-Cash-Generating Assets and PBE IPSAS 26 Impairment of Cash-Generating Assets, at each reporting date management must assess whether there is any indication that an asset may be impaired. If management identifies any indication of an impairment, then they must estimate the recoverable service amount of the asset.</p> <p>Due to the judgemental nature of the valuations used in assessing impairment there is a risk of bias or error in the assumptions and inputs used. Any bias or errors in the inputs used or calculations performed could result in a material misstatement in the carrying value of property plant and equipment/investment property/intangible assets and the related impairment expense.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>• reviewed the impairment assessment;</li> <li>• evaluated the reasonableness of the significant assumptions;</li> <li>• evaluated how management has addressed estimation uncertainty; and</li> <li>• reperformed calculations made by management.</li> </ul> <p><b>Conclusion</b></p> <p>We were satisfied that there were no assets in the current year that needed to be impaired in the annual report and had not been.</p>

Audit risk/issue	Outcome
<b>4.6 Revaluation of investment property</b>	
<p>The fair value of the City Council's investment properties needs to be assessed annually in accordance with the requirements of PBE IPSAS 16 <i>Investment Property</i>, as the City Council has adopted the fair value model for these assets.</p> <p>Given the volatility in the property market there is potential for large valuation movements year on year, which need to be accounted for within the Statement of Comprehensive Income.</p> <p>Due to the nature and value of the revaluations, any bias or errors in the inputs used or calculations performed could result in a material misstatement in the value of the investment property.</p>	<p>The Council's investment property consists of industrial and commercial sites.</p> <p>We obtained an understanding of the City Council's investment property valuation and reviewed the valuation report. The valuation methodology, underlying key assumptions and relevant indices used in the valuation are in line with PBE IPSAS 16. We also reviewed the disclosures.</p> <p><b>Conclusion</b></p> <p>We are satisfied with the investment property valuation performed and confirmed that it has been appropriately included into the financial statements</p>
<b>4.7 Drinking water performance measures</b>	
<p>The City Council is responsible for reporting performance against the safe drinking water standards. In particular this requires councils to report the extent to which the local authority's drinking water supply complies with:</p> <ul style="list-style-type: none"> <li>(a) part 4 of the drinking water standards (bacteria compliance criteria), and</li> <li>(b) part 5 of the drinking-water standards (protozoal compliance criteria).</li> </ul> <p>Up until November 2021 performance related data was captured in the Drinking Water Online (DWO) database and compliance was assessed by Drinking Water Assessors (DWA). As a result of changes to the regulatory framework for drinking water quality, the DWO is no longer accessible and the DWA role no longer exists.</p>	<p>The City Council engaged an independent external expert to assess its compliance with the drinking water standards.</p> <p>The Expert examined the City Councils processes and confirmed to us that the standards had been met.</p> <p>We assessed the Expert's work and were satisfied that the work of the expert was suitable to use as audit evidence.</p> <p><b>Conclusion</b></p> <p>We were satisfied that the drinking water standards have been met by the City Council and this is fairly reflected in the annual report.</p>

Audit risk/issue	Outcome
<p>Given these changes Council will need to ensure appropriate systems and controls are in place to ensure performance information is complete and accurate for reporting purposes.</p>	
<p><b>4.8 Central Government funding</b></p>	
<p>The Government has announced a number funding initiatives to support housing and infrastructure development, stimulate economic recovery following the impact of Covid-19 and to support Councils to transition through the Three Waters Reform. This included the following packages:</p> <ul style="list-style-type: none"> <li>• A \$3.8 billion Housing acceleration fund announced on 23 March 2021. \$1 billion of this has been set aside for investment in local Infrastructure. While the majority of this funding is available to agencies other than local government, we would expect that this is likely to result in vested assets in the future.</li> <li>• \$2.5 billion known as the “better off” and “no worse off” package aimed at supporting local government transition through the three waters reforms. We understand that Councils are able to apply for their share of an initial \$500 million tranche currently available from this package.</li> <li>• \$2.6 billion shovel ready funding package aimed at supporting economic recovery following Covid-19.</li> <li>• \$761 million funding package provided to local authorities to maintain and improve three waters infrastructure.</li> </ul>	<p>We examined significant funding agreements and reviewed the accounting of grants revenue to ensure it has been recorded in accordance with the obligations of the contracts and the relevant accounting standards.</p> <p><b>Conclusion</b></p> <p>We were satisfied that the funding agreements have been appropriately included in the annual report.</p>

Audit risk/issue	Outcome
<b>4.9 Major capital projects</b>	
<p>The City Council continues to have a significant ongoing capital programme which is challenging to deliver against in the current market.</p> <p>Accounting for capital projects, whether completed during the year or in progress at balance date, requires assumptions and judgements to be made that can have a significant impact on the financial statements. Management and the Council are responsible for managing the financial statement risks associated with capital projects. This includes ensuring:</p> <ul style="list-style-type: none"> <li>• project costs are reviewed to ensure these are appropriately classified as capital or operational in nature;</li> <li>• work in progress (WIP) balances for projects already completed or available for use are transferred to the appropriate class of asset in a timely manner and depreciated accordingly from the date of capitalisation;</li> <li>• WIP balances on projects that span an extended period of time are assessed regularly for impairment over the period of the project. Costs no longer meeting criteria for recognition as an asset should be expensed in a timely manner;</li> <li>• asset components are identified at an appropriate level, and appropriate useful lives are assigned to these components on completion;</li> <li>• the value and remaining useful life (RUL) of existing assets remains appropriate given replacement projects underway; and</li> </ul>	<p>We reviewed the accounting for costs incurred on capital projects, including:</p> <ul style="list-style-type: none"> <li>• assumptions and judgements used by management in classifying costs as either capital or operational;</li> <li>• appropriate capitalisation point for completed assets, including transfers from work in progress;</li> <li>• the reasonableness of depreciation rates and useful lives applied to asset components; and</li> <li>• the disclosures included within the financial statements, including those relating to capital commitments.</li> </ul> <p><b>Conclusion</b></p> <p>We were satisfied that the capital projects have been appropriately included in the annual report.</p>

Audit risk/issue	Outcome
<ul style="list-style-type: none"> <li>capital commitments related to contracts entered into before balance date are disclosed in the notes to the financial statements.</li> </ul>	
<p><b>4.10 Three waters reform</b></p>	
<p>On 27 October 2021, the Local Government Minister announced the Government’s intention to proceed with the three waters service delivery reforms using a legislated “all in” approach. The Three Waters Reform involves the creation of four statutory water services entities to be responsible for the service delivery and infrastructure currently owned by local authorities, with effect from 1 July 2024. The Three Waters Reform programme is expected to result in significant changes to how water supply, wastewater and stormwater assets are owned and managed in the local government sector.</p> <p>The City Council should ensure that sufficient disclosure about impact of the reform (to the extent that the impact is known) is included in the annual report.</p>	<p>The City Council has included appropriate disclosure about the impacts of the reform in the financial statements.</p> <p>As the impact could be significant, but is uncertain, we have included an emphasis of matter paragraph in the audit report drawing the readers’ attention to the uncertainty.</p> <p><b>Conclusion</b></p> <p>The City Council’s disclosure on the three waters reform as an event after balance date is sufficient and appropriate.</p>
<p><b>4.11 Covid-19 impacts</b></p>	
<p>Aspects of the City Council’s operations continue to be impacted by Covid-19. These business risks may also have an impact for the financial statements and performance information, and public sector reporting and therefore an audit risk and impact.</p>	<p>Covid-19 continued to have an impact on some of the City Council’s activities, therefore its activity statements and financial statements.</p> <p><b>Conclusion</b></p> <p>We are satisfied that the City Council has included appropriate disclosures and explanations about the impact of Covid-19 on its activities and financial statements.</p>

Audit risk/issue	Outcome
<b>4.12 Configuration and customisation costs for Software-as-a-service (SaaS)</b>	
<p>Entities can sometimes incur significant costs when implementing cloud computing arrangements. Until recently, there has been no specific guidance on this subject in IFRS accounting standards.</p> <p>The IFRS Interpretations Committee recently published decisions clarifying how arrangements in respect of a specific part of cloud technology, (SaaS), should be accounted for. The agenda decisions must be applied by for-profit entities. For PBEs, the agenda decisions can be referred to in determining the accounting treatment because the underlying intangible asset standards are consistent between IFRS and PBE IPSAS.</p> <p>The City Council should consider whether or not their accounting policy is consistent with the Committees decision and should consider whether costs relating to SaaS are correctly accounted for and appropriate disclosures are included in the financial statements of the City Council.</p>	<p>From discussions with the City Council and from the work we completed during the audit, the City Council does not currently have such arrangements.</p> <p>In future, the City Council needs to take into consideration when accounting for the Cloud arrangements the following:</p> <ul style="list-style-type: none"> <li>• Costs which should be treated as a prepayment and expensed over the term of the agreement: <ul style="list-style-type: none"> <li>○ Circumstances where the provider of the software or their contractor is also providing services relating to the implementation, configuration, and customisation.</li> <li>○ The costs charged to date and future costs for the current projects should be assessed to identify those costs directly associated with the implementation and configuration services provided by the provider.</li> </ul> </li> <li>• Should customisation of the software be required, the City Council will also need to assess whether those costs need to be recognised as an intangible asset.</li> </ul> <p>Costs which are expensed as incurred include:</p> <ul style="list-style-type: none"> <li>○ Cost of cleansing or converting data (except software for such tasks).</li> <li>○ Testing costs for SaaS arrangements where the software is not recognised as an intangible asset.</li> <li>○ Training costs.</li> <li>○ Subsequent maintenance costs.</li> </ul>

Audit risk/issue	Outcome
<b>4.13 The risk of management override of internal controls</b>	
<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls. Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to treat this as a risk on every audit.</p>	<p>To reduce the risk of material misstatement due to fraud to an acceptable level we completed the following audit work:</p> <ul style="list-style-type: none"> <li>• Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</li> <li>• Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.</li> <li>• Tested the property, plant, and equipment revaluations and fair value assessments (including key assumptions and estimates).</li> <li>• Maintained awareness of any significant transactions that were outside the normal course of business, or that otherwise appear to be unusual given our understanding of the City Council and its environment, and other information obtained during the audit.</li> </ul> <p><b>Conclusion</b></p> <p>We did not identify any issues that indicated management override of controls.</p>
<b>4.14 Adoption of PBE FRS 48 Service Performance Reporting</b>	
<p>The City Council will be required to adopt the new standard PBE FRS 48 <i>Service Performance Reporting</i> for the year ending 30 June 2023. Early adoption is permitted.</p> <p>PBE FRS 48 replaces the part of PBE IPSAS 1 <i>Presentation of Financial Statements</i> that deals with service performance reporting requirements.</p> <p>The Standard imposes additional reporting obligations on entities.</p>	<p>The City Council elected not to early adopted in 2021/22 the new standard for performance reporting.</p> <p>As with other reporting entities, the City Council is required to implement the new performance reporting standard for the year ending 30 June 2023. The City Council have yet to complete an assessment of the impact of the standard on performance reporting.</p>

Audit risk/issue	Outcome
<p>The City Council should assess the impact of adopting PBE FRS 48 and consider what disclosure changes will be required in future annual reports. Although it is not yet applicable, we encourage the City Council to assess the impact of adopting PBE FRS 48 and consider what disclosure changes will be required in future annual reports.</p>	<p><b>Conclusion</b></p> <p><b>We continue to recommend</b> the City Council complete an assessment of the impact of the standard on and disclosure changes required for its 30 June 2023 annual report.</p>

## 5 Matters identified during the audit



During the audit we identified the following matters

### 5.1 Severance payments

We reviewed a sample of severance payments. As well as reviewing the settlement agreements, we discussed with People and Capability (P&C) business unit the process for arriving at two of the severance payments.

Based on the work we performed, it appeared that the process for arriving at the severance payments did not appear to comply with (fell short of) accepted good practice and the Office of the Auditor-General's *Severance payments: A guide for the public sector*.

There appeared also to be some evidence of management override of the advice provided by P&C, and on normal standard practice.

**We recommend** the Council undertake a review of the process used for determining the severance payments against accepted good practice and the Office of the Auditor-General's *Severance payments: A guide for the public sector*.

#### Management comment

*We have begun discussions with Audit New Zealand, Executive Leaders and P&C. We are taking this matter very seriously and will conduct a review of the processes as soon as practical.*

### 5.2 Depot's systems and processes

We reviewed some performance measure systems and processes used by the Depot to capture information for management and reporting processes. We noted that these systems and processes appeared to be fairly manual and wondered:

- how fit for purpose they are;
- if management receives information in an accurate and timely manner to manage this area of the business and for decision making purposes; and
- the efficiency of the system and processes.

During our review of expenditure / accounts payable, we noted that some personnel at the Depot do not use Approval Plus finance system in the way that it was intended. For example, the online purchase order aspect of Approval Plus was not being used as

intended. Instead, manual purchase orders are raised and a copy of the purchase order scanned into Approval Plus – this is a less efficient and effective approach.

**We recommend** the Council undertake a review in general of the modus operandi and systems and processes at the Depot.

#### **Management comment**

*We have taken this recommendation on board and will begin an internal review as soon as resources allow.*

### **5.3 Information systems**

#### **5.3.1 Information systems policies and cybersecurity practices**

The City Council have a number of information systems policies, including an Information Services Acceptable Use policy - We noted that this policy is overdue for review.

**We recommend that:**

- The Information Services Acceptable Use policy be reviewed, updated and communicated to all users (internal and external).
- Ensure that active training for all users in Cybersecurity prevention practices is undertaken.

#### **Management comment**

*A review of the policy is in progress and we plan to have this approved and communicated to all users within the 2023 calendar year. We have a cybersecurity training programme which ensures all users of information systems undertake regular training. This is reviewed and reported against on a regular basis. We will ensure these practices continue, and will review that all users are completing the training.*

#### **5.3.2 Password management controls**

We reviewed network password controls, and found the following areas require improvement:

- Network user password minimum length is set to 8 characters with complexity. NZ Information Security manual (NZISM) recommends a minimum of 10 characters with complexity or 16 characters without complexity.
- As well as the above setting below current accepted good practice, many users are set so that they are not required to change their password. This raises the risk that another person may learn the password and use it inappropriately to gain access to the City Council's systems.

**We recommend** the City Council review and improve users network password controls to meet current good practice.

#### **Management comment**

*We will review our settings and the NZ Information Security Manual to ensure our processes meet the recommendations where possible. We will review the users who are not required to change their password and the reasons why these settings were in place. We expect that most of these will be able to be corrected in line with recommended good practice and will keep adequate records of alternative controls if there are any cases where this is not possible.*

### **5.3.3 Redundant users in financial system system**

There are no procedures in place for removing users access to Magiq (staff and contractors) when users leave the City Council, and no reviews are being performed of network users and users and levels of access in Magiq.

We also sighted over 200 network accounts that had not been used this financial year, and we have been unable to determine if these accounts are still required.

Reliance is placed on IT removing network access when a person or contractor leaves.

Lack of reviews and removal of access raises the risk that a person may have inappropriate access to the City Council's systems.

**We recommend** procedures be established for reviewing network and Magiq users' access and removing access to Magiq when people leave the City Council.

#### **Management comment**

*Sporadic reviews of user access in Magiq have been completed in the past, but we acknowledge that an official procedure can be implemented and carried out on a regular basis to ensure we follow best practice. The removal of staff from our active directory on their departure is a robust process which ensures that they cannot access the system and therefore cannot access Magiq. However, the review process within Magiq will keep the system tidy as well.*

### **5.3.4 Review and improve superuser system administration access**

We note that there are 15 system administrator access accounts in Magiq, including a shared generic account used by a number of staff and contractors.

We were unable to determine who has access to the generic system administrator login account as there are no procedures in place for reviewing, monitoring and minimising use of this account.

**We recommend** the City Council:

- Review and improve the procedures for allocating, monitoring and reviewing use of system administrator / privileged access accounts in Magiq.
- Minimise and track the use of shared privileged accounts. The password should be changed regularly to ensure only approved users have access.

**Management comment**

*We will implement a review as recommended and implement improvements within the 2023 calendar year.*

#### **5.4 Evidence of review of Approval Plus exception reports**

The Accounting Manager reviews three system generated Approval Plus exception reports. The reviewed are performed in the Accounting Manager's email inbox.

**We recommend** that the evidence of review (who performed the review and when the review was completed) for the review of the Approval Plus system generated reports be stored and maintained in the City Council systems as "read only".

**Management comment**

*This recommendation has been taken on board and was implemented in February 2023 by saving the review and evidence of review each week.*

#### **5.5 Non-infrastructure asset work-in-progress approvals**

We found that the process for reviewing whether the items in non-infrastructure asset work-in-progress are of a capital nature is based on a conversation.

**We recommend** that the review non-infrastructure work-in-progress be formalised by way of sign off by the appropriate manager and supported by appropriate documentation.

**Management comment**

*It was our opinion that this determination was a matter of accounting treatment rather than non-accounting managers approval. We will review our process and look to implement a sign off procedure by both the manager and the accountant to document the conversation, supporting material, and decision-making process which is currently happening. This will be implemented during the 2023 calendar year.*

## 5.6 Depreciation rates

The City Council identified that the depreciation rates used for several reticulation assets are not in line with the City Council's accounting policy and what is appropriate for these assets.

Using the incorrect depreciation rate could lead to miscalculation of depreciation expense and affect whether the financial statements are fairly reflected.

**We recommend** that City Council put in quality assurance procedures to ensure that assets are depreciated in line with the City Council's accounting policy and what is appropriate for the assets.

### Management comment

*We have made the changes in the 2022/23 accounting period and will continue to review and ensure that all assets are depreciated in line with our policies and what is appropriate for the assets.*

## 5.7 Restricted assets valuation – revaluation of the Inner Harbour

The City Council engaged independent valuers, Telfer Young to revalue its restricted assets (which included Inner Harbour) for the year ended 30 June 2022.

Telfer Young explain in its revaluation report how the Inner Harbour has been valued. They applied an inflation factor to a WSP's September 2021 insurance valuation of the Inner Harbour.

An insurance valuation of an asset may or may not be fairly reflected of a valuation for financial reporting purposes.

**We recommend** that a revaluation of the Inner Harbour for financial reporting purposes be undertaken for the year ended 30 June 2023.

### Management comment

*We have begun engaging experts for the 2022/23 revaluation process and will look to include the Inner Harbour fixed assets in this process. This will lead to a full revaluation of the Inner Harbour assets for the year ended 30 June 2023.*

## 6 Public sector audit



The City Council is accountable to their local community and to the public for its use of public resources. Everyone who pays taxes or rates has a right to know that the money is being spent wisely and in the way the City Council said it would be spent.

As such, public sector audits have a broader scope than private sector audits. As part of our audit, we have considered if the City Council has fairly reflected the results of its activities in its financial statements and performance information.

We also consider if there is any indication of issues relevant to the audit with:

- compliance with its statutory obligations that are relevant to the annual report;
- the City Council carrying out its activities effectively and efficiently;
- the City Council incurring waste as a result of any act or failure to act by a public entity;
- any sign or appearance of a lack of probity as a result of any act or omission, either by the City Council or by one or more of its members, office holders, or employees; and
- any sign or appearance of a lack of financial prudence as a result of any act or omission by a public entity or by one or more of its members, office holders, or employees.

We did not identify any issues apart from our recommendations made in section 5.1.

## Appendix 1: Status of previous recommendations

**Table 1: Open recommendations**

Recommendation	First raised	Status
<b>Necessary</b>		
<p><b>Delegations</b></p> <p>A procedure be put in place for approving operating expenditure in excess of \$1,000,000.</p>	2022	<p><b>Outstanding</b></p> <p>A review is underway to address this issue.</p>
<p><b>Sensitive expenditure</b></p> <p><i>Policy</i></p> <p>The City Council review its sensitive expenditure policies against the guidance and make any necessary changes to its policies.</p> <p><i>Practice</i></p> <p>Sensitive expenditure is approved in accordance with the sensitive expenditure policy.</p>	2022	<p><b>Outstanding</b></p> <p><i>Policy</i></p> <p>At the time of the audit the policy was going through an internal audit review.</p> <p><i>Practice</i></p> <p>We recommend that P-card expenditure incurred by the Chief Executive's Executive Assistant be reviewed and approved by the Chief Executive or other appropriate person.</p>
<p><b>Three Waters capitalisation process</b></p> <p>The costs of assets are allocated at an asset level rather than at the mains level.</p>	2020	<p><b>Outstanding</b></p> <p>The intention is to address this recommendation with the appointment of a new staff member.</p>
<p><b>Payment for Hurt and Humiliation</b></p> <p>City Council review its policy on out of court settlements for hurt and humiliation, and consider making a voluntary disclosure to the IRD.</p>	2020	<p><b>Outstanding</b></p> <p>We are not aware that a such a review has occurred.</p>

Recommendation	First raised	Status
<p><b>Attendance and resolution times (fault response times) performance measure</b></p> <p>The City Council establish a process for the centralised review of the results reported in the quarterly report to ensure their accuracy and completeness.</p> <p>We recommended that the following improvements be implemented:</p> <ul style="list-style-type: none"> <li>• Continue to review the effectiveness of the current reporting and systems to accurately capture the underlying data and ensure the data is complete.</li> <li>• Continue to perform regular, for example, weekly or even daily quality reviews of data entered in relation to complaints, service requests and response times to ensure it is complete, accurate and supportable.</li> <li>• Data fields should include information to clearly show why data has been amended or re-categorised with a clear audit trail of any changes made and who authorised these.</li> <li>• Continue to review DIA guidance to ensure that the data being captured and reported meets the mandatory reporting requirements.</li> </ul>	2016	<p><b>Outstanding</b></p> <p>The recommendations for improvement have not yet been implemented.</p>
<p><b>High annual leave balances</b></p> <p>Encourage those with high annual leave balances to take leave.</p>	Prior to 2016	<p><b>In progress</b></p> <p>As at the 9 June 2022, there are 20 employees with leave balances above 50 days. This is a reduction on the prior year. We did note that one employee has over 100 days outstanding.</p>

Recommendation	First raised	Status
<b>Beneficial</b>		
<p><b>Kennedy Park: Weakness in Till Takings sign off</b></p> <p>A more appropriate sign-off process be put in place, where the employee signing off the Cashier Balance Sheet report can be easily verified.</p>	2019	<p><b>In progress</b></p> <p>The recommendation has been partially completed – The Cashier Balance Sheet report is signed off as checked, however, there is no sign off as to who prepared it. The Business Analyst will be working alongside Kennedy Park to improve the process including both preparer and reviewer to sign off.</p>
<p><b>Stocktake of fixed assets</b></p> <p>A periodic stocktake of fixed assets be completed to ensure that all assets included in the financial records are still held by the City Council.</p>	2019	<p><b>In progress</b></p> <p>The City Council have now started completing a stocktake of all fixed assets, however it will take some to complete.</p>
<p><b>Conflict of interest risk management – interest register</b></p> <p>The register could be improved by documenting the assessment of interests disclosed for any potential conflicts and how any identified conflicts will be managed or mitigated.</p> <p>Apply the interest register, to lower management level staff, consultants and contractors involved in procurement and projects. Declarations should be updated at regular intervals (e.g. six monthly). Training should also be provided on the conflict of interest policy and should apply to Councillors, senior management, management and staff involved in the procuring of goods and services.</p>	2015	<p><b>In progress</b></p> <p>The interest register is being developed by People and Capability business unit – declarations for procurement, staff and contractors will be recorded in the central register.</p> <p>It is expected to be completed by the end of the 2023 calendar year.</p>
<p><b>Procurement and contract management</b></p> <p>We have recommended:</p> <p>a) Complete a register of all procurement (non-purchase order) contracts to ensure the City Council has a complete view of its contracted obligations.</p>		<p><b>In progress</b></p>

Recommendation	First raised	Status
<p>b) Consider whether the procurement expertise available in the design office can be better utilised in assisting those business units in City Council with little specialist knowledge of procurement.</p> <p>c) Consider using a wider range of procurement approaches (including evaluation methodologies) to fit the goods/services being procured.</p> <p>d) Provide additional guidance to staff involved with procurement about the documentation that needs to be retained to support the procurement (including contract management) activity.</p>		

**Table 2: Audit New Zealand to follow up in 2022/23**

Recommendation	First raised	Status
<b>Necessary</b>		
<p><b>Reporting on flood events</b></p> <p>Review the level of staff available for such events and implement a clear process for collating data in response to flooding events.</p>	2022	<b>Not assessed in 2022</b>
<p><b>Improvements to roading asset revaluations</b></p> <p>The roading revaluation noted that the City Council could improve its records/valuations. We recommended the City Council make these improvements.</p>	2020	<p><b>Not assessed in 2022</b></p> <p>Based on *management’s comments in 2021 to the recommendation, we will assess development and progress in 2022/23.</p> <p><i>* Council will be engaging an additional contractor this year to estimate asset ages prior to the valuation being completed for 30 June 2022. The cost database will be reviewed internally, and due to significant construction work this year we have a far broader sample of rates on which to base our unit costs. This work will mean a more robust valuation process in 2022/23.</i></p>

**Table 3: Implemented and closed recommendations**

Recommendation	First raised	Comment
<b>Necessary</b>		
<p><b>General journal approvals</b></p> <p>Match the workflow for journal approvals to the transaction listing to ensure all journals have been through the workflow process of approval.</p>	2019	We found that all journals are approved.
<p><b>Improvement in the expenditure control systems</b></p> <p>Development of a system report which will identify where the same staff member has raised, approved and receipted the goods or services. This could be run as part of each creditors pay run and then included in the creditor payment review procedures conducted by senior finance staff to gain assurance that the expenditure is appropriate and valid.</p>	2016	The City Council run a weekly exception report for Purchase Order and Invoices raised and approved by the same person. The report is reviewed by the Accounting Manager and investigated if the same person is found to have raised and approved a Purchase Order or an invoice.
<p><b>Fraud/theft event</b></p> <p>The City Council:</p> <ul style="list-style-type: none"> <li>• Learn from the fraud/theft event.</li> <li>• Obtain assurance from management responsible that internal audit's recommendations are acted on and implemented in a timely manner.</li> <li>• Consider completing a follow-up/post implementation review.</li> </ul>	2022	As part of the internal audit programme fraud awareness training has been undertaken at the City Council during the year.
<p><b>Recording of customer complaints performance measure</b></p> <p>The City Council record all complaints in the system based on the DIA guidance. Formalised procedures should be established.</p>	2020	The City Council has updated its processes and procedures and all such complaints recorded now. Unmodified opinion issued for this performance measure in 2022.
<p><b>Final pay calculations</b></p>	2020	No issues noted during this year's audit.

Recommendation	First raised	Comment
City Council ensure that holiday pay is not calculated and paid on ex gratia or other types of discretionary payments.		
<p><b>Water by meter rates - improvements to systems</b></p> <p>An independent post input review of rates per cubic meter and property classification inputted into the system be carried out.</p>	2017	No issues noted during this year's audit.
<p><b>McLean Park sports ground hire income</b></p> <p>Regular audit process be implemented over gate takings/ticket sales at the McLean Park Sports ground.</p>	Prior to 2016	We understand that offsite collection of revenue audits will be included in the internal audit programme on a cyclical basis.

## Appendix 2: Mandatory disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect all instances of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the City Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: <i>International Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to our audit and the report on the disclosure requirements, we have carried out a limited assurance engagement related to the City Council's debenture trust deed.</p> <p>This engagement is compatible with those independence requirements.</p> <p>Other than these engagements, we have no relationship with or interests in the City Council.</p>
Fees	<p>The audit fee for the year is \$165,211, as detailed in our Audit Proposal Letter.</p> <p>Other fees charged in the period are for the audit of the Debenture Trust Deed: \$5,100.</p>
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the City Council or its subsidiaries that is significant to the audit.</p> <p>The Audit Manager on the audit has not undertaken any work related to the internal auditors (as her sister is a Findex (Crowe) employee). The audit supervisor has reported directly to the Appointed Auditor on any of our work relating to internal audit.</p>

Area	Key messages
	<p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the City Council during or since the end of the financial year.</p>

## Appendix 3: Useful publications



Based on our knowledge of the Council, we have set out below some publications that the Mayor, Councillors, members of the Audit and Risk Committee and management may find useful.

Description	Where to find it
<b>Auditor-General's strategic intentions to 2028</b>	
<p>The Auditor-General's strategic intentions describe what the Office will focus on in the next five years to achieve our long-term outcomes, and how we will manage our resources to do that. The ultimate outcome we seek is that Parliament and New Zealanders have trust and confidence in the public sector.</p> <p>Within our new strategy are four priorities:</p> <ul style="list-style-type: none"> <li>• Strengthening our core assurance role: We want to ensure that the public audit system is sustainable in the long term, that we can continue to deliver our high-quality mandatory audit and assurance services, and that we are able to strengthen our in-house audit service provider (Audit New Zealand) and respond to changes affecting the audit profession.</li> <li>• Increasing our impact with public organisations: We want to increase our impact with public organisations by influencing positive change in their performance and accountability practices – in particular, focusing on matters of performance reporting, integrity, value for money, and taking a long-term view.</li> <li>• Enhancing our impact in te ao Māori: We want to continue to build trust and confidence among Māori in our role, and for our work to have increased relevance to, and impact for, Māori.</li> <li>• Building on our reputation as a source of trusted information: We want to build on our reputation as a source of trusted information about public sector performance and accountability, which the public and Parliament can use to help hold public organisations to account.</li> </ul>	<p>Link: <a href="#">Auditor-General's strategic intentions to 2028</a></p>
<b>Local government risk management practices</b>	
<p>The Covid-19 pandemic is a stark reminder for all organisations about the need for appropriate risk management practices. In our audit work, we often see instances where councils do not have effective risk management. This report discusses the current state of local government risk management practices and what councils should be doing to improve their risk management.</p>	<p>Link: <a href="#">Observations on local government risk management practices</a></p>

Description	Where to find it
<b>Matters arising from audits of 2021-31 long term plans</b>	
<p>This report sets out the main findings and observations from our audits of local authorities' 2021-31 long-term plans (LTPs)</p> <p>Areas covered:</p> <ul style="list-style-type: none"> <li>• Preparing long-term plans.</li> <li>• The financial strategies adopted by councils and their impact on rates and debt.</li> <li>• Infrastructure strategies.</li> <li>• How councils manage their assets.</li> <li>• How the Government's proposed three water reforms affected the long-term plans.</li> <li>• Climate change.</li> </ul>	<p>Link:</p> <p><a href="#">Audits of 2021-31 long term plans</a></p>
<b>Building a stronger public accountability system for New Zealanders</b>	
<p>Public accountability is about public organisations demonstrating to Parliament and the public their competence, reliability, and honesty in their use of public money and other public resources.</p> <p>This discussion paper looks at how well New Zealand's public accountability system is working in practice.</p>	<p>Link:</p> <p><a href="#">public-accountability</a></p>
<b>Audit and Risk Committee guidance</b>	
<p>An Audit and Risk Committee provides a council's governing body – the set of all elected councillors – and the community with confidence that a council is managing its risks. This article provides suggestions for how best to set up and run such a committee.</p>	<p>Link: <a href="#">Audit Risk Committee</a></p>
<b>Conflicts of interest</b>	
<p><b>Guidance</b></p> <p>The Auditor-General has published guidance on conflicts of interest. A conflict of interest is when your duties or responsibilities to a public organisation could be affected by some other interest or duty that you have.</p> <p>The material includes a printable A3 poster, an animated video on predetermination and bias, gifts and hospitality, and personal dealings with a tenderer. There is also an interactive quiz.</p> <p>These can all be used as training resources for your own employees.</p> <p><b>Managing conflicts of interest involving council employees</b></p> <p>This article discusses findings across four councils on how conflicts of interest of council employees, including the chief executive and staff, are managed.</p>	<p>Link: <a href="#">Conflicts of interest</a></p> <p>Link: <a href="#">Getting it right: Managing conflicts of interest involving council employees</a></p>

Description	Where to find it
<b>Setting rates: Potential issues for councils to watch for</b>	
<p>This article is to make councils aware of some rate-setting issues that were found when reviewing a sample of rates for 2021/22.</p>	<p>Link: <a href="#">Setting rates</a></p>
<b>What good looks like: Lessons for public organisations</b>	
<p>A presentation to our central government Audit and Risk Committee Chairs' Forum.</p> <p>The presentation contained important findings from our recent work, including our performance audits, inquiries, and good practice guidance. We also highlighted areas that we will be focusing on over the next six months, including our Covid-19-related work.</p>	<p>Link: <a href="#">what-good-looks-like</a></p>
<b>Client updates</b>	
<p>As part of our response to the Covid-19 situation, we developed online client updates to replace the in-person sessions that were cancelled.</p> <p>This year's material is accessible via video presentations on our website.</p> <p>The themes respond to challenges that our clients now face, such as planning for unexpected events or dealing with additional reporting requirements related to Covid-19 and climate change.</p>	<p>Link: <a href="#">Client updates</a></p>
<b>The problems, progress, and potential of performance reporting</b>	
<p>Performance reporting is a fundamental part of providing effective public accountability.</p> <p>This discussion paper explores five areas for improvement:</p> <ul style="list-style-type: none"> <li>• ensuring that performance information is focused on the issues that matter to New Zealanders;</li> <li>• ensuring that performance information is tailored to different audiences to make it more accessible;</li> <li>• better integrating and aligning performance information so it is clear how the activities of public organisations contribute to outcomes;</li> <li>• improving monitoring and scrutiny of the performance information that is produced to encourage continuous improvement; and</li> <li>• building demand for good quality performance information, strengthening system leadership, and investing in the capability to do it well.</li> </ul>	<p>Link: <a href="#">performance-reporting</a></p>

Description	Where to find it
<b>Procurement</b>	
<p>The OAG are continuing their multi-year work programme on procurement. They have published an article encouraging reflection on a series of questions about procurement practices and how processes and procedures can be strengthened.</p>	<p>Links:</p> <p><a href="#">Strategic suppliers: Understanding and managing the risks of service disruption</a></p> <p><a href="#">Getting the best from panels of suppliers</a></p> <p><a href="#">Local government procurement</a></p>
<b>Good practice</b>	
<p>The OAG has made it easier to find good practice guidance, including resources on:</p> <ul style="list-style-type: none"> <li>• audit committees;</li> <li>• conflicts of interest;</li> <li>• discouraging fraud;</li> <li>• good governance;</li> <li>• service performance reporting;</li> <li>• procurement;</li> <li>• sensitive expenditure; and</li> <li>• severance payments.</li> </ul>	<p>Link: <a href="#">Good practice</a></p>



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## 6. AUDIT PLAN FOR 2022/23 ANNUAL REPORT

<i>Type of Report:</i>	Enter Significance of Report
<i>Legal Reference:</i>	Enter Legal Reference
<i>Document ID:</i>	1644566
<i>Reporting Officer/s &amp; Unit:</i>	Talia Foster, Accounting Manager

### 6.1 Purpose of Report

To provide delegation to the Chair to approve the Audit Plan for the 2022/23 Annual Report in consultation with the Chief Executive.

#### Officer's Recommendation

The Audit and Risk Committee:

- a. **Recommend** that the Chair has delegation to approve the Audit Plan for the 2022/23 Annual Report on behalf of the Audit and Risk Committee, in consultation with the Chief Executive.

### 6.2 Background Summary

Audit New Zealand audit Council's Annual Report to fulfil requirements in the Local Government Act 2002. The Annual Report needs to be adopted by the Council by 31 October each year. Since the 2019/20 Annual Report, an extension has been granted to allow adoption by 31 December each year. This extension is no longer in place.

Audit NZ provide an Audit Plan for the year which discusses the timeframes, the audit approach, and key focuses for the audit team. Due to the 2021/22 Annual Report adoption being delayed, we have not yet received the Audit Plan for the 2022/23 Annual Report audit.

### 6.3 Issues

There is a risk that if the Audit Plan for the 2022/23 Annual Report audit is not reviewed by this committee before the next meeting in June, the Audit Plan will not be approved in time for it to effectively influence the audit. An audit that is not well planned and prepared for by both parties could lead to delays in the audit process and adoption of the Annual Report, and add additional time, resources, and expense for the organisation.

As the 2024 Long Term Plan (LTP) is approaching, it is in the organisation's best interests to have the Annual Report adopted in a timely manner to ensure it does not overlap with the LTP.

### 6.4 Significance and Engagement

Not applicable

### 6.5 Implications

#### Financial

Not applicable

### **Social & Policy**

Not applicable

### **Risk**

There is a risk that delegating the responsibility to one member will not provide enough assurance that all aspects of the plan have been thoroughly considered from all angles.

### **6.6 Options**

The options available to the Committee are as follows:

- a. Recommend that the Chair has delegation to approve the Audit Plan for the 2022/23 Annual Report on behalf of the committee, in consultation with the Chief Executive.
- b. Recommend that the Audit and Risk Committee will review and approve the Audit Plan for the 2022/23 Annual Report in an extraordinary Audit & Risk Committee meeting as soon as the document is made available by Audit New Zealand.

### **6.7 Development of Preferred Option**

Not applicable

### **6.8 Attachments**

Nil

## 7. ANNUAL PLAN 23/24 - KEY ASSUMPTIONS

<i>Type of Report:</i>	Legal and Operational
<i>Legal Reference:</i>	Local Government Act 2002
<i>Document ID:</i>	1639485
<i>Reporting Officer/s &amp; Unit:</i>	Caroline Thomson, Chief Financial Officer Talia Foster, Accounting Manager Danica Rio, Corporate Planning Analyst

### 7.1 Purpose of Report

To outline to the committee and seek feedback on the key assumptions and risks to the delivery of the Annual Plan 2023/24.

#### Officer's Recommendation

The Audit and Risk Committee:

- a) **Receive** the report titled 'Annual Plan 23/24 – Key Assumptions.
- b) **Endorse** the key assumptions and note the risks to the delivery of the Annual Plan 23/24.

### 7.2 Background Summary

Cyclone Gabrielle greatly impacted the Napier community along with many other neighbouring communities and areas across the country. For close to four weeks the Napier City Council (NCC) was in emergency management mode, meaning business as usual understandably came second to ensuring we were supporting the community in the aftermath of the cyclone. Since the outlook for the 23/24 year has now changed, it is necessary to revise the Annual Plan to ensure it takes all current information into account.

As a result of the immediate impact of the cyclone and the response that followed, there is a new budget requirement for recovery to consider, as well as a need to revisit decisions previously made to ensure actions are still appropriate in the current environment.

### 7.3 Issues

While NCC has been less impacted from an asset/property perspective in comparison to other Territorial Authorities, it is important that we remain sensitive to the ongoing regional recovery efforts taking place. Planning decisions around rebuilding areas such as Esk Valley and Pakowhai, and the subsequent impact on industrial and primary sector industries are just a couple of examples that highlight some of the many current unknowns.

Council also faces a lot of direct unknowns such as the total cost of response and recovery efforts, what costs will be covered by insurance, the impact to our capital plan and the prioritisation of projects (do we need to defer/stop/re-prioritise?), the impact on supply chain and transportation costs, and the impact on the Hawkes Bay region as a whole.

As a result of the immediate impact of the cyclone and the ongoing recovery efforts that have followed, there are new budget items to consider as well as a need to revisit decisions previously made to ensure they are still what is best in the current environment. Council

needs to strike the right balance between adequately funding the organisation and providing the community with a rates increase that will be acceptable and digestible given recent events.

Additional levers that can be used to help strike this balance have been identified and form the basis of the proposed revision of the Annual Plan. These levers not only have the potential to reduce the proposed rates increase for the community, but also remove the need for Council to consult on the 23/24 Annual Plan. Not only would this take some pressure off the organisation, but it may also be the best way forward as it is likely the community will not have the appetite to engage with Council during an Annual Plan consultation at this time.

The key assumptions underpinning the proposed rates increase of 11.7% (9.7% + 2% for a Disaster Recovery Rate) are as follows:

#### Vacancy loading

At a workshop on 31 January 2023, Council agreed in principle to a vacancy loading assumption of 10% (based on current vacancy levels). This equates to \$5.6m or approximately 72 positions and has been factored into the budgets.

It was confirmed that this does not mean Council is going to adopt a strategy which discourages managers from hiring. It is merely a forecasting assumption that Council believes will play out over the Annual Plan period. It was noted that the vacancy loading is a one off 'saving' and to avoid an abrupt rates increase in the future due to the removal or sharp decrease of the vacancy loading, it could be reduced slowly over time as a position of 'fuller' employment was moved towards.

#### Loan funding

Officers are recommending that Council reverts back to the rates increase set out in year 3 of the LTP 2021-31 which would result in a funding gap of \$3.3m. It is proposed that this funding gap will be loan funded for FY23/24.

Under this scenario the, loan funding the gap in FY23/24 does provide further financial challenges, by deferral of funding costs in the following FY24/25 year. The long term plan will pose some challenging decisions and require a robust review of the financial strategy to account for this, the current inflationary environment, and the potential removal of 3 waters assets.

Scoping of cost efficiency and level of service reviews, as well as a review of the current financial and investment strategy will begin shortly to provide options and solutions for consideration during the LTP development.

#### Disaster Recovery Rate (DRR)

The addition of a Disaster Recovery Rate could be 'ring fenced' and used to fund the Cyclone Gabrielle specific recovery budget which would be used for items such as recovery costs, rates remissions, and resilience planning. The rate would be in addition to the 9.7% increase, effectively bringing the overall rates increase to 11.7% if the recommended DRR of 2% (\$1.5M) was adopted. Please note, the LGRA states that implementation of such a rate does not require consultation.

## 7.4 Significance and Engagement

Section 23(3) of the LGRA states that ‘A local authority may set a rate that is not provided for in its long-term plan and funding impact statement only if – (a) the local authority is satisfied that the rate is required to meet an unforeseen and urgent need for revenue that cannot be reasonably met by any other means.’

## 7.5 Implications

### Financial

The following table sets out the ‘pre cyclone’ rates position and the levers available to Council to enable a more manageable rates increase for the community post cyclone Gabrielle.

Adjustment	AP 23/24 \$ impact	AP 23/24 % rates impact
Draft rates increase		14.0%
<u>Plus</u> rates contribution to housing		2.0%
<b>Pre-cyclone proposed rates increase</b>		<b>16.0%</b>
<b>Additional levers available to reduce rates further:</b>		
Defer rates contribution for housing to LTP	-\$1.5m	-2.0%
Gap to loan fund to reach target in Y3 LTP	-\$3.3m	-4.3%
<b>Rates increase 23/24 (per Y3 of LTP)</b>		<b>9.7%</b>
<u>Plus</u> Disaster Recovery Rate	\$1.5m	2.0%
<small>Note: does not require consultation per LGRA</small>		

### Social & Policy

N/A

### Risk

Key risks to the delivery of the Annual Plan:

Risk	Risk category	Consequence	Risk level	Mitigation	Revised risk level
Council is unable to meet the legislative adoption timeframe if Council directs officers to revise budgets or if	Legislative compliance	Rates are set at 25% of the previous year's rates for Q1 impacting on Council's cashflow	Medium	Propose a rates increase of 9.7% + 2% DRR and inform the community	Low

<b>Risk</b>	<b>Risk category</b>	<b>Consequence</b>	<b>Risk level</b>	<b>Mitigation</b>	<b>Revised risk level</b>
community consultation takes place					
The cyclone and an economic downturn impacts property owners ability to pay rates	Financial	Council's rates revenue reduces	Medium	Implement the rates remission policy for red and yellow stickered properties and fund this from the DRR	Low
Cost escalations for opex and capex are above forecast	Financial	Budget overspend impacting on Councils year end financial position	Medium	Capital and project spend is closely monitored and reported to Council	Medium
Supply chain delays impacting on capital plan and project delivery	Financial, service delivery	Compromised transportation routes & high demand for materials results in project delays.  Projects are carried forward into future years.	High	Collaborate with other HB Councils to jointly procure materials	Medium
Resourcing and skills shortage impacting on capital plan and project delivery	Service delivery	Projects are unable to be completed and carried forward into future years.	Medium	Outsource where possible to enable capital projects to get underway (cost can be capitalised)	Medium

<b>Risk</b>	<b>Risk category</b>	<b>Consequence</b>	<b>Risk level</b>	<b>Mitigation</b>	<b>Revised risk level</b>
Vacancy loading is set too high	Financial	Vacant positions are filled at a faster rate than anticipated	High	CE personnel contingency is utilised to partially offset vacancies	Medium
Staff are unable to work on BAU and redeployed to the recovery	Financial, service delivery, reputation	Capital projects are delayed	Medium	Outsource recovery resourcing	Low
Disaster recovery costs are greater than forecast	Financial	Budget overspend impacting on Councils year end financial position	Medium	Recovery costs are monitored and reported to Council quarterly	Low

### 7.6 Development of Preferred Option

The Audit and Risk Committee endorses the change in approach and the key assumptions, and notes the risks to the delivery of the Annual Plan 2023/24

### 7.7 Attachments

Nil

## 8. RISK MANAGEMENT REPORT

<i>Type of Report:</i>	Operational
<i>Legal Reference:</i>	N/A
<i>Document ID:</i>	1645164
<i>Reporting Officer/s &amp; Unit:</i>	Caroline Thomson, Chief Financial Officer Dave Jordison, Risk and Assurance Lead

### 8.1 Purpose of Report

To provide the Audit and Risk Committee (Committee) with an update on the potential impacts on the Council's current strategic risk profile brought about by Cyclone Gabrielle.

#### Officer's Recommendation

The Audit and Risk Committee:

- a) **Receive** the Risk Management Report dated March 2023, and
- b) **Endorse** a fulsome review of the Council's strategic risk profile and risk appetite, given the immediate ongoing and long term impact of Cyclone Gabrielle on the Council Strategy, risk profile and its stakeholders.

### 8.2 Background Summary

This paper provides:

- Information on the immediate and medium to long term risks as a result of Cyclone Gabrielle and their connection to the Council's strategic risk profile for the Committee's consideration and discussion.
- Specific recommendations for the Council to perform a deep dive of the strategic risks in light of Cyclone Gabrielle, with outcomes to be shared in the June Audit and Risk Committee meeting.

#### Setting the scene

##### 1. Risk management - current profile

In light of the significant damage sustained by Napier due to Cyclone Gabrielle (the Cyclone), Council personnel were re-deployed to support the emergency response, and continue to focus on supporting residents and the immediate recovery of Council's assets. Understandably, a complete identification and deep-dive assessment of the scope of risks and impacts emerging from the Cyclone has not yet been performed.

However, we have performed an initial and very high-level assessment of the changes in the risk profile and emerging risks following the Cyclone, that require further consideration and noted the following:

- Overall, the Council's **strategic risk profile is elevated** with **most risks sitting outside of appetite**. The 10 strategic risks mapped below were identified by the Executive during a workshop in May 2022 and endorsed by the Committee in July 2022.

- The review **identified 5 risks related to the immediate response**. Of those, the risk to public health and safety and environmental contamination are not well connected to the Council's existing risk profile and are particularly heightened.
- The review **identified 7 medium or long term risks related to setting up and delivering a long term recovery plan** and challenges to business as usual activities (BAU) which can result in increased costs and delays in delivery of both the recovery plan and BAU activities.

Details of the strategic risk profile and emerging risks are outlined on section 1.3.

The changes in the external environment and context that the Council is now operating in, means that priorities and what is 'top of mind' now for the Council and its stakeholders might have shifted. There is an opportunity for the Council to identify and assess long term risks and revise its risk appetite to prepare and adapt, while supporting deliberate action in high-risk areas.

Further, the extent to which current risk management practices are aligned to good practice and embedded within organisation has been identified as an area of focus for the Council, and the Cyclone has brought this into sharp focus.

Whilst the Risk and Assurance Lead continues to provide risk management support, it is acknowledged that our risk application (Cycle) and reporting is generally out of date, meaning emerging risks (operational and strategic), controls, and treatments are not captured completely and accurately.

#### Risk Management: Next Steps

The Council should consider:

- A facilitated workshop with the Executive Leadership Team and third tier managers to review the strategic risks
- Performing deep dive sessions for each key strategic risk with the Executive Leadership Team (including elevated risks due to the Cyclone).
- Revisiting the Council's risk appetite (noting that the current appetite is 'Low' for all risk categories, which may no longer be an accurate reflection of Council's risk thresholds).

## 2. Cyclone Gabrielle impacts

Below is a high-level summary of the key impacts of the Cyclone and the actions the Council is taking to manage these:

- **Awatoto Waste Water Treatment Plant (WWTP):** Council has commercial insurance on this asset although an estimate to complete has not been provided by contractors. A Project Director has been appointed. Contractors are on site disconnecting the equipment and commencing reconfiguration of the miliscreens and cleaning at WWTP is progressing as expected.
- **Key transport connection:** Two road bridges and one rail in Napier City boundaries and access north via SH2 and SH5 need to be reinstated. – a governance group comprised of the Directors for Infrastructure and Corporate Services from Hastings District Council and Napier City Council has been formed. This will ensure that decision making is joint, and that temporary and longer term solutions are agreed, with implications understood by both organisations.
- **Other structures:** lighting, drainage, Awatoto pump station.

- **Awatoto:** The Awatoto response team was assembled on March 8th within the Council, reporting to the Executive Director Infrastructure Services. The following actions have been taken to date:
  - Road has been cleared and dust suppression continues.
  - Testing results show no chemical results of concern, but high levels of biologicals which increases the risk of environmental contamination.
  - Estimated timeframe for complete clean-up of Waitangi and Awatoto Road is two weeks from 20/03.
  - A working group with a small number of industry stakeholders has been set up. The group meets twice a week and has developed a risk assessment process to enable them to re-open business. Each business will be asked to complete a risk assessment and management plan which will be shared with the Council for record keeping purposes.
  - **Indicative** timeline for reliving Unison network to industry is up to six weeks as at 16/03.
  - **Resident Liaison:** Test results from initial tranche of 17 households are clear and within expected ranges with exception of four samples with total coliforms detected. All these households have been notified of their results.
  - **Funding:** MBIE has undertaken to fund at least \$600K and up to \$1M to NCC for Awatoto response. MFE is preparing a budget bid to Cabinet to fund silt removal and storage in Awatoto.
  - **Solid waste:** Bags continue to be delivered to residents for small waste quantities. For large quantities of waste removal, a list of properties that require extra assistance has been collated and contractors are working on site.

### 1.3 Emerging risks and issues post Cyclone Gabrielle and impact on Council's strategic risk profile

A snapshot of the emerging and long term risks due to the Cyclone, and their connection to the Council's strategic risks are set out in the table in **attachment 1**.

Specifically, these have been categorised as either:

- Immediate (where the risk has or will materialise within 0-3 months following the Cyclone), or
- Medium- Long term (where the risk will materialise within 3 or more months following the Cyclone)

### 8.3 Significance and Engagement

Council is intending to engage with mana whenua when developing the long term recovery plan.

### 8.4 Implications

#### Financial

A financial impact assessment detailing the costs to remediate damage resulting from the Cyclone is underway and will be included in the quarterly report at the next Prosperous Napier Committee meeting.

Officers are currently working through the insurance claims and investigating all funding avenues available for claiming costs that do not meet the emergency response criteria as set out under the Civil Defence legislation.

### **Social & Policy**

N/A

### **8.5 Preferred option**

- a. Receive the Risk Management Report dated March 2023, and
- b. Endorse a fulsome review of the Council's strategic risk profile and risk appetite, given the immediate ongoing and long term impact of Cyclone Gabrielle on the Council Strategy, risk profile and its stakeholders.

### **8.6 Attachments**

- 1 NCC Strategic Risk Profile March 2023 (Doc Id 1645375) [↓](#)

## Strategic Risk profile – March 2023

Risk Name	Strategic (S) or New (N) Risk?	Trend post Cyclone	Commentary	Performance vs. Risk Appetite per Cycle	Current Risk	Risk Appetite per Cycle
SR23 Failure to plan and manage Council's budget	S	↗	Whist Council has insurance claims on key assets, there are costs that do not meet the criteria for reimbursement (e.g. staff's overtime pay, recovery costs). Insurance premiums are also expected to increase. The council is considering a Disaster Recovery (DR) fund in this annual budget to obtain \$1.5M each year to fund DR. A rate could be set per property.	●	High	Low
SR14 Failure to maintain a safe and healthy workplace and /or assets (ie we do not proactively navigate H&S threats)	S	↗	This strategic risk requires re-wording as it is intended to also encapsulate health and safety risks to the public as well as Council workers	●	High	Low
SR24 Failure to comply with legislation	S	↗	This may include compliance with the Civil Defence Emergency Management Act 2002.	●	High	Low
SR25 Failing to meet Te Tiriti O Waitangi commitments and obligations	S	↗	Longer-term recovery plan is to be developed in consultation with Mana Whenua and the wider community.	●	High	Low
SR27 The Council does not have the right people with the right capabilities	S	↗	Council staff have been redeployed to assist with the immediate recovery response. NCC will need to manage both BAU and longer-term recovery activities based on resources availability	●	Extreme	Low
SR15 Poor long term planning for asset utilisation and provision	S	—	Poor long term recovery planning is also a driver of the risk of the community losing trust and confidence in the Council.	●	High	Low
SR16 Supply chain issues (i.e. we are unable to source the right goods and services at the right time/price)	S	—	-	●	High	Low

Risk Name	Strategic (S) or New (N) Risk?	Trend post Cyclone	Commentary	Performance vs. Risk Appetite per Cycle	Current Risk	Risk Appetite per Cycle
SR21 Ineffective strategic relationships (i.e not optimising opportunities through relationships)	S	↗	Council has been coordinating with other District and Regional Councils, and agencies such as Te Whatu Ora, MBIE, MSD to provide appropriate response	●	High	Low
SR22 Insufficient resources (ie we do not have the right capability and capacity to deliver our capital plan)	S	↗	This should be expanded to include the recovery plan.	●	High	Low
SR26 Impact of externally driven change on the Council and community is unmanageable	S	↗	NCC needs to understand what climate risks might impact the Council and Community	●	High	Low

#### Suggested additions to strategic risks

Risk Name	Strategic (S) or New (N) Risk?	Trend post Cyclone	Commentary	Performance vs. Risk Appetite per Cycle	Current Risk
Moana and environmental contamination	N - Immediate	↗	Refer to following page (2) for additional context.	To be determined	To be determined
Community loses trust and confidence in the Council's ability to recover assets and the city	N - Medium to long term	↗	Refer to following page (2) for additional context.	To be determined	To be determined

## New risks post Cyclone Gabrielle that require further exploration

### New risks that are not yet linked to existing Strategic Risks

Risk	Immediate (I) or Medium – Long term (M/L) risk?	Potential drivers or causes	Mitigations	Linkage to existing Strategic Risk
<b>Moana and environmental contamination</b>	I	<ul style="list-style-type: none"> <li>Wastewater being discharged directly to the sea and washing up on beaches.</li> <li>Slash and other rubbish on beaches.</li> </ul>	<ul style="list-style-type: none"> <li>Continued work on the Awatoto WWTP, including monitoring and re-establishing levels of service</li> <li>Beach clean-up.</li> </ul>	N/A – this is a suggested addition to the Council's Strategic Risks
<b>Community loses trust and confidence in the Council's ability to recovery assets and the city</b>	M-L	<ul style="list-style-type: none"> <li>Negative community perception of safety and network resilience</li> </ul>	<ul style="list-style-type: none"> <li>Promotion of ongoing recovery messaging, including availability of welfare, financial, psychosocial support services (provided by other agencies such as Te Whatu Ora, MBIE, MSD to provide support to residents)</li> </ul>	N/A – this is a suggested addition to the Council's Strategic Risks

## **Immediate emerging risks connected to existing Strategic Risks**

Risk	Immediate (I) or Medium – Long term (M/L) risk?	Potential drivers or causes	Mitigations	Linkage to existing Strategic Risk
<b>Failure to protect Community health and safety</b>	I	<ul style="list-style-type: none"> <li>Contamination of silt and water in Awatoto area (<b>Issue</b>) wastewater not being screened or treated (<b>Control Deficiency</b>)</li> <li>Displaced residents do not have adequate accommodation due to housing shortage (including those who require temporary or transitional housing) (<b>Issue</b>)</li> </ul>	<ul style="list-style-type: none"> <li>Contamination site has been cordoned off, testing and clean-up is in progress.</li> <li>Continued work on the Awatoto WWTP, including monitoring and re-establishing levels of service</li> <li>Roading corridor - testing results show no chemical results of concern (but high levels of biologicals)</li> <li>Households are being tested and notified of their results</li> <li>Small waste quantities continues to be picked up in bags. For large quantities of waste removal, a list of properties that require extra assistance has been collated and contractors are working on site.</li> </ul>	<p>SR14 Failure to maintain a safe and healthy workplace and /or assets (ie we do not proactively navigate H&amp;S threats).</p> <p><b>Note: SR14 is intended to also encapsulate risks to public health and safety.</b></p>
<b>Failure to effectively coordinate with related local or central government to support recovery</b>	I	<ul style="list-style-type: none"> <li>Reliance on other District and Regional Councils, given inter-dependencies and boundaries with/between Napier City Council's remit. (<b>Issue</b>)</li> </ul>	<ul style="list-style-type: none"> <li>Council is meeting other local authorities twice a week (including Hawke's Bay Regional Council, Wairoa District Council, Hastings District Council, Central Hawke's Bay District Council).</li> <li>Residents are re-directed to the appropriate Council servicing their area.</li> </ul>	<p>SR21 Ineffective strategic relationships (i.e not optimising opportunities through relationships)</p>
<b>Council is unable to provide critical services within appropriate timeframes</b>	I	<ul style="list-style-type: none"> <li>Council's Business Continuity Management is not adequate to respond in the event of a major incident. This was identified as a high risk observation in the 2020 BCM Internal Audit review. (<b>Control Deficiency</b>)</li> <li>BCM was identified as a strategic risk but did not get enough votes to make it to the top 10</li> </ul>	<ul style="list-style-type: none"> <li>Initial recovery action plan</li> <li>Longer term recovery plan</li> <li>Disaster Recovery (DR) Fund which may be established to support recovery</li> <li>Council is exploring options for CBD CCTV resilience to retain connection in the event of a power outage</li> </ul>	<p>SR24 Failure to comply with legislation (<i>Specifically - Civil Defence Emergency Management Act 2002</i>)</p>

<b>Failure to repair or reinstate Napier's key infrastructure and assets</b>	I	<ul style="list-style-type: none"> <li>Awatoto WWTP, transfer station, roads, and other key infrastructure such as bridges and roading network have been damaged (<b>Issue</b>)</li> </ul>	<ul style="list-style-type: none"> <li>Initial recovery action plan – recovery framework based on Civil Defence Act guidelines</li> <li>Longer term recovery plan</li> <li>MBIE has undertaken to fund at least \$600K and up to \$1M to NCC for Awatoto response. MFE is preparing a budget bid to Cabinet to fund silt removal and storage in Awatoto</li> <li>DR Fund which may be established to support recovery</li> </ul>	<p>SR22 Insufficient resources (i.e we do not have the right capability and capacity to deliver our capital plan)</p> <p>SR15 Poor long-term planning for asset utilisation and provision</p>
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### Medium and long term risks connected to existing Strategic Risks

Medium - Long term Emerging Risk		Drivers or causes	Mitigations	Linkage to Strategic Risk
<b>Failure to manage and protect Council staff welfare, resulting in burnout and increasing attrition rates</b>	M/L	<ul style="list-style-type: none"> <li>Council staff have been redeployed to assist with the immediate recovery efforts, and then will need to manage both BAU and longer-term recovery initiatives. (<b>Issue</b>)</li> </ul>	<ul style="list-style-type: none"> <li>Council offers psychological support through OCP and also a more specialised psychologist was available to staff and Elected Members throughout the response</li> <li>Staff are encouraged to take leave and prioritise their wellbeing</li> </ul>	<p>SR14 Failure to maintain a safe and healthy workplace and /or assets (ie we do not proactively navigate H&amp;S threats).</p>
<b>Council-owned assets are not resilient in the face of another climate event</b>	M/L	<ul style="list-style-type: none"> <li>Assets are not repaired sufficiently and timely, sustaining further damage.</li> </ul>	<ul style="list-style-type: none"> <li>Key transport connections are being reinstated as a priority (including - two road bridges and one rail in Napier City boundaries, and access north via SH2 and SH5)</li> <li>Identification and prioritisation of key areas of infrastructure where investment is required to build resilience, to be included when seeking Central Government funding and within long term recovery plan.</li> </ul>	<p>SR15 Poor long term planning for asset utilisation and provision</p>
<b>Napier does not have a well designed action plan for recovery</b>	M/L	<ul style="list-style-type: none"> <li>Unclear understanding of the impacts and needs arising from Cyclone Gabrielle to support the development of a clear and effective recovery plan</li> </ul>	<ul style="list-style-type: none"> <li>Initial recovery action plan is in progress</li> <li>Longer-term plan is to be developed with consultation with Mana Whenua and the wider community.</li> <li>Insurance claims on key assets</li> <li>DR Fund which may be established to support recovery.</li> </ul>	<p>SR15 Poor long term planning for asset utilisation and provision</p>

		<ul style="list-style-type: none"> <li>• Estimations and assumptions related to the costs and resources required to deliver the recovery plan are incorrect, leading to a reduction in the recovery scope and/or increase in costs</li> <li>• Insufficient consultation with the community and Mana Whenua</li> </ul>		
<b>Council does not have the ability to deliver the recovery plan</b>	M/L	<ul style="list-style-type: none"> <li>• Lack of resources or capability</li> <li>• Inability to secure funding</li> <li>• Incorrect prioritisation of BAU vs. recovery plan</li> </ul>	<ul style="list-style-type: none"> <li>• Initial recovery action plan is in progress</li> <li>• Longer-term plan is to be developed with consultation with Mana Whenua and the wider community.</li> <li>• DR Fund which may be established to support recovery.</li> </ul>	SR22 Insufficient resources (ie we do not have the right capability and capacity to deliver our capital plan)
<b>Council does not have the ability to deliver on BAU due to prioritisation of recovery action plan</b>	M/L	<ul style="list-style-type: none"> <li>• Lack of resources or capability</li> <li>• Inability to secure funding</li> <li>• Incorrect prioritisation of BAU vs. recovery plan</li> </ul>	<ul style="list-style-type: none"> <li>• Initial recovery action plan is in progress</li> <li>• Longer-term plan is to be developed with consultation with Mana Whenua and the wider community.</li> </ul>	SR22 Insufficient resources (ie we do not have the right capability and capacity to deliver our capital plan)
<b>Economic downturn due to Napier businesses being unable to operate, resulting in closures and job losses</b>	M/L	<ul style="list-style-type: none"> <li>• Businesses of regional and national significance unable to operate efficiently due to Awatoto contaminated area <b>(Issue)</b></li> <li>• Trade waste producers not operating, meaning other businesses do not have access and cannot operate. <b>(Issue)</b></li> <li>• Eastern Institute of Technology (EIT) Taradale campus requires a full assessment of damage <b>(Issue)</b></li> <li>• Impact on tourism-generating events such as</li> </ul>	<ul style="list-style-type: none"> <li>• Continued work on the Awatoto Waste Water Treatment Plant, including monitoring and re-establishing levels of service</li> <li>• Council is working with business sector and business support organisations on short-term recovery needs. A working group with a small number of industry stakeholders has been set up. The Group meets twice a week and has developed a risk assessment process to enable them to re-open business. Each business will be asked to complete a risk assessment and management plan which will be shared with the Council for record keeping purposes.</li> <li>• MBIE support for local businesses is available</li> </ul>	<p>SR23 Failure to plan and manage Council's budget</p> <p>SR26 Impact of externally driven change on the Council and community is unmanageable</p>

		<p>Art Deco, which have been cancelled (<b>Issue</b>)</p> <ul style="list-style-type: none"><li>• Impact on growers given damage to orchards, paddocks resulting in supply shortages (<b>Issue</b>)</li></ul>		
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## 9. VERBAL UPDATE - ASSET MANAGEMENT ROADMAP

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*Type of Report:* Information

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*Legal Reference:* N/A

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*Document ID:* 1643803

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*Reporting Officer/s & Unit:* Kate Ivicheva, Manager Asset Strategy

### 9.1 Purpose of Report

Due to the Cyclone Gabrielle event on 14 February 2023 and the State of Emergency a verbal update to the Committee on the Asset Management Roadmap progress made and current focus will be provided.

### Officer's Recommendation

That the Audit and Risk Committee notes the verb report relating to the Asset Management Road Map be received.

### 9.2 Attachments

Nil

## 10. VERBAL UPDATE - RESPONSE AND RECOVERY PHASE

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<i>Type of Report:</i>	Information
<i>Legal Reference:</i>	N/A
<i>Document ID:</i>	1643936
<i>Reporting Officer/s &amp; Unit:</i>	<p>Louise Miller, Chief Executive</p> <p>Russell Bond, Acting Executive Director Infrastructure Services</p> <p>Thunes Cloete, Executive Director Community Services</p> <p>Jessica Ellerm, Deputy Chief Executive / Executive Director Corporate Services</p> <p>Richard Munneke, Executive Director City Strategy</p>

### 10.1 Purpose of Report

The Chief Executive and Executive Leadership Team will provide a verbal update on the impact to the organisation of the Cyclone Gabrielle event of 14 February 2023. This will include emerging risks, transition from response to recovery phase and development of a recovery structure and strategy.

### Officer's Recommendation

That the Audit and Risk Committee notes the verbal update in regard to the Impacts to the Organisation following the Cyclone Gabrielle Response Recovery Phase.

### 10.2 Attachments

Nil

# PUBLIC EXCLUDED ITEMS

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

## AGENDA ITEMS

1. Verbal Update - Insurance Claims
2. Verbal Update Chief Executive

The general subject of each matter to be considered while the public was excluded, the reasons 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:

General subject of each matter to be considered.	Reason for passing this resolution in relation to each matter.	Ground(s) under section 48(1) to the passing of this resolution.
1. Verbal Update - Insurance Claims	7(2)(h) Enable the local authority to carry out, without prejudice or disadvantage, commercial activities	48(1)A That the public conduct of the whole or 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 would exist: (i) Where the local authority is named or specified in Schedule 1 of this Act, under Section 6 or 7 (except 7(2)(f)(i)) of the Local Government Official Information and Meetings Act 1987.
2. Verbal Update Chief Executive	7(2)(h) Enable the local authority to carry out, without prejudice or disadvantage, commercial activities	48(1)A That the public conduct of the whole or 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 would exist: (i) Where the local authority is named or specified in Schedule 1 of this Act, under Section 6 or 7 (except 7(2)(f)(i)) of the Local Government Official Information and Meetings Act 1987.

# AUDIT AND RISK COMMITTEE

## Open Minutes

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Meeting Date: Friday 9 December 2022

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Time: 09.30am - 9.35am (*Open*)  
09.36am - 11.08am (*Public Excluded*)  
11.15am - 12.19pm (*Open*)  
12.20pm - 12.46pm (*Public Excluded*)

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Venue Small Exhibition Hall  
War Memorial Centre  
Marine Parade  
Napier

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Present **Chair:** Bruce Robertson  
**Members:** Mayor Kirsten Wise, David Pearson, Councillor Sally Crown (Deputy Chair) Councillor Greg Mawson and Councillor Hayley Browne

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In Attendance Acting Chief Executive (Richard Munneke)  
Deputy Chief Executive / Executive Director Corporate Services (Jessica Ellerm)  
Chief Financial Officer (Caroline Thomson)  
Accounting Manager (Talia Foster)  
Risk and Assurance Lead (Dave Jordison)  
Team Leader Building Asset Management (Andrew Clibborn)  
Manager Asset Strategy (Kate Ivicheva)  
Manager Property (Bryan Faulknor)  
Chief People Officer (Anna Nottage)  
Audit New Zealand (Karen Young)

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**Attendees Via Teams Audio Visual Link:**

Martyn Solomon, Crowe Limited (Items 5, 6 and 7)  
Matthew Wilson and Jessica Jurisich (Aon New Zealand) [Public Excluded Item 1 – Insurance Arrangements]

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Administration Governance Advisor (Carolyn Hunt)

### **Karakia**

The meeting opened with a karakia.

### **Apologies**

Nil

### **Conflicts of interest**

Nil

### **Public forum**

Nil

### **Announcements by the Mayor**

Welcomed previous members and new members to the Committee for the first Audit and Risk Committee meeting following the 2022-2025 triennial elections.

### **Announcements by the Chairperson**

Nil

### **Announcements by the management**

Nil

### **Confirmation of minutes**

There were no previous minutes to confirm as this was the first Audit and Risk Committee meeting for the 2022-2025 triennium.

*The meeting agreed to address the Public Excluded items prior to the Open Session due to time constraints of external presenters for confidential items.*

## **PUBLIC EXCLUDED ITEMS**

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B Robertson / Councillor Mawson

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- a) That the public be excluded from the following parts of the proceedings of this meeting, namely:
  - 1. Insurance Arrangements
  - 2. Legal Update
  - 3. Draft Annual Report 2021/22
- b) That Matthew Wilson and Jessica Jurisich representatives from Aon New Zealand be permitted to remain in the Public Excluded session for Item 1 – Insurance Arrangements for their expertise on this matter.

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Carried

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The general subject of each matter to be considered while the public was excluded, the reasons 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:

<b>General subject of each matter to be considered.</b>	<b>Reason for passing this resolution in relation to each matter.</b>	<b>Ground(s) under section 48(1) to the passing of this resolution.</b>
1. Insurance Arrangements	7(2)(i) Enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	48(1)A That the public conduct of the whole or 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 would exist: (i) Where the local authority is named or specified in Schedule 1 of this Act, under Section 6 or 7 (except 7(2)(f)(i)) of the Local Government Official Information and Meetings Act 1987.
2. Legal Update	7(2)(g) Maintain legal professional privilege  7(2)(i) Enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	48(1)A That the public conduct of the whole or 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 would exist: (i) Where the local authority is named or specified in Schedule 1 of this Act, under Section 6 or 7 (except 7(2)(f)(i)) of the Local Government Official Information and Meetings Act 1987.
3. Draft Annual Report 2021/22	7(2)(g) Maintain legal professional privilege  7(2)(i) Enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	48(1)A That the public conduct of the whole or 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 would exist: (i) Where the local authority is named or specified in Schedule 1 of this Act, under

		Section 6 or 7 (except 7(2)(f)(i)) of the Local Government Official Information and Meetings Act 1987.
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*The meeting moved into the Public Excluded session at 9.35am and reconvened in Open Session at 11.19am to address the remainder of the agenda items*

# AGENDA ITEMS

## 1. RISK MANAGEMENT REPORT

<i>Type of Report:</i>	Operational
<i>Legal Reference:</i>	N/A
<i>Document ID:</i>	1613814
<i>Reporting Officer/s &amp; Unit:</i>	Dave Jordison, Risk and Assurance Lead Caroline Thomson, Chief Financial Officer

### 1.1 Purpose of Report

To provide the Audit and Risk Committee (Committee) with an update on risk management, outline the processes undertaken to mitigate key risks and note emerging risks.

#### At the meeting

The Deputy Chief Executive / Executive Director Corporate Services, Ms Ellerm advised that the risk management framework approach was still somewhat as a compliance issue exercise within Council and that it required the attention of, and sponsorship from the Leadership Team. The risk report was vast and a lot of operational risks have been listed. The Executive Leadership Team were looking at significant strategic risks in Council in regard to resourcing issues, in particular the ability to retain and recruit staff all of which impacted on the delivery of the capital programme for 2022/23.

It was noted that the development of an activity roadmap to both embed the framework and build organisational maturity would commence in the first quarter of 2023.

Emerging risks related to the supply chain, labour availability and inflation which continued to put pressure on Council budgets and delivery.

The Chief People Officer, Ms Nottage confirmed that Council was meeting its Health and Safety obligations under Section 44 of the Local Government Act 2002 however, noted vulnerability due to retention and recruitment issues. A Health and Safety report based on obligations under the Act would be provided at the next meeting.

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**COMMITTEE** Councillor Browne / D Pearson

**RESOLUTION**

The Audit and Risk Committee:

- a. **Receive** the Risk Management Report dated November 2022; and
- b. **Note** the emerging risks

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Carried

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## 2. SENSITIVE EXPENDITURE - MAYOR AND CHIEF EXECUTIVE

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*Type of Report:* Procedural

*Legal Reference:* N/A

*Document ID:* 1598019

*Reporting Officer/s & Unit:* Caroline Thomson, Chief Financial Officer  
Talia Foster, Accounting Manager

### 2.1 Purpose of Report

To provide the information required for the Committee to review Sensitive Expenditure of the Mayor and Chief Executive for compliance with Council's Sensitive Expenditure Policy.

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#### At the meeting

The Chief Financial Officer, Ms Thomson spoke to the report and confirmed that all items identified in the report included two quarters (June and September) due to the elections and no meetings, complied with Council's Sensitive Expenditure Policy.

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**COMMITTEE** B Robertson / Councillor Crown

**RESOLUTION**

The Audit and Risk Committee:

- a. **Receive** the 30 June 2022 quarterly report of Sensitive Expenditure for the Mayor and Chief Executive and review for compliance with the Sensitive Expenditure Policy.
- b. **Receive** the 30 September 2022 quarterly report of Sensitive Expenditure for the Mayor and Chief Executive and review for compliance with the Sensitive Expenditure Policy

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Carried

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### 3. ANNUAL TAX UPDATE YEAR TO 30 JUNE 2022

<i>Type of Report:</i>	Operational
<i>Legal Reference:</i>	Local Government Act 2002
<i>Document ID:</i>	1605816
<i>Reporting Officer/s &amp; Unit:</i>	Caroline Thomson, Chief Financial Officer Talía Foster, Accounting Manager

#### 3.1 Purpose of Report

To provide the Audit and Risk Committee with the annual tax update on progress made during the period up to 30 June 2022.

#### At the meeting

The Chief Financial Officer, Ms Thomson presented the report prepared by PwC on the annual tax update on progress made up to 30 June 2022. A proactive approach on tax compliance is undertaken by Council and PwC provides assistance for various queries for a range of tax types.

The Committee were provided assurance in regard to forward programming and that officers were comfortable with timelines and had the benefit of PwC undertaking the independent evaluations.

**COMMITTEE** B Robertson / D Pearson

#### RESOLUTION

The Audit and Risk Committee:

- a. **Receive** the report from PwC titled 'Napier City Council Annual Tax Update year to 30 June 2022'.\*

Carried

### 4. INTERNAL AUDIT STATUS UPDATE

<i>Type of Report:</i>	Information
<i>Legal Reference:</i>	N/A
<i>Document ID:</i>	1613812
<i>Reporting Officer/s &amp; Unit:</i>	Caroline Thomson, Chief Financial Officer Talía Foster, Accounting Manager Raewyn Fowler, Business Analyst

#### 4.1 Purpose of Report

The purpose of this paper is to summarise the actions taken by management of each audit undertaken over the last two years to provide assurance to the Audit & Risk Committee that these have been addressed.

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#### At the meeting

The Chief Financial Officer, Ms Thomson advised that Martyn Solomon, Internal Audit Associate Partner with Crowe was online for any questions in relation to the following items.

Ms Thomson spoke to the report which summarised Council's internal audit actions undertaken by management over the last two years. Noting that going forward officers would like to include the actions that resulted from the external audit. Two of the actions on the internal audit list have recently been finalised and they were the Asset Management and Sensitive Expenditure Reviews.

It was noted that the field work for asset management had been undertaken 18 months ago and there had been a number of changes in management over this time. Issues raised in the report related to resourcing, evidence of silos, level of executive support and lack of integration.

It was suggested to have two roadmaps; one for organisation maturity in asset management and the other for the Long Term Plan decision making and what process will Governors follow for decision making.

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**COMMITTEE** Councillor Browne / B Robertson

**RESOLUTION**

The Audit and Risk Committee:

- a. **Receive** the internal audit status update report.

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Carried

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## 5. INTERNAL AUDIT - PROPOSED PROGRAMME FOR 2022/23

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*Type of Report:* Operational

*Legal Reference:* N/A

*Document ID:* 1613815

*Reporting Officer/s & Unit:* Caroline Thomson, Chief Financial Officer  
 Talia Foster, Accounting Manager  
 Raewyn Fowler, Business Analyst

#### 5.1 Purpose of Report

To provide the Committee with the internal audit programme recommendations for 2022/23 from Crowe.

Feedback is sought relative to the recommendations and any other review priorities the Committee deems relevant.

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**At the meeting**

The Chief Financial Officer, Ms Thomson took the report as read and no additional comments made.

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**COMMITTEE** B Robertson / Councillor Crown

**RESOLUTION**

The Audit and Risk Committee:

- a. **Receive and approve** the internal audit programme for 2022/23 from Council's Internal Auditors, Crowe (*Doc Id 1617949*).

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Carried

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## 6. INTERNAL AUDIT: ASSET MANAGEMENT

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<i>Type of Report:</i>	Operational
<i>Legal Reference:</i>	Local Government Act 2002
<i>Document ID:</i>	1618311
<i>Reporting Officer/s &amp; Unit:</i>	Jessica Ellerm, Deputy Chief Executive / Executive Director Corporate Services  Talia Foster, Accounting Manager

### 6.1 Purpose of Report

To table to the Committee the internal audit on Asset Management undertaken by Council's internal auditors, Crowe.

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**At the meeting**

The Deputy Chief Executive / Executive Director Corporate Services, Ms Ellerm acknowledged the Crowe report and noted that some of the terminology from officers included had not been intended for the final report. Currently staff were working on preparing a plan to respond to the recommendations that have been put forward. It was also noted that there had been a lot of turnover in the team and change in management of leadership in the team which may have contributed to how the report had been compiled.

**In response to questions it was clarified:**

- Mr Clibborn confirmed that Council do not have an Asset Management Steering Group.
  - He advised that the agreed actions in the column were not agreed actions and were his comments fed back to the recommendations.
  - Change of structure and turnover of staff had not allowed staff to work on it as well as could be been done.
-

- Without good governance and cross Council co-ordination the Asset Management journey would not progress well. Asset Management is a function of Council (not infrastructure alone) and to succeed will require an-all-of-Council approach.
- Mr Clibborn referred to an online course put out by the Institute of Public Works Engineering Australasia called “Gov 101 – Infrastructure Leadership and Governance” Asset Management for Governors. Included in this free course are questions for Governors to ask their Asset Managers and the Committee were encouraged to undertake this course. A link for this course will be forwarded to the Committee.
- Develop a roadmap and strategic approach going forward with transparency on how to grow in this area moving from silo behaviour and have all Council on board in a sustainable way.

Officers would provide an update report on the roadmap at the next meeting.

The Manager Asset Strategy, Ms Ivicheva advised that the current asset management systems have areas for improvement. Processes needed to be united and processes changed to work in a continuous way rather than a process connected to a Director.

As outlined, if someone is leaving or going to a different department the process should continue. First steps of the plan is to determine where there are gaps and how more people can be brought on board. She also encouraged Committee members to allocate one hour to undertake the Governance 101 course.

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**COMMITTEE** Councillor Browne / D Pearson

**RESOLUTION** The Audit and Risk Committee:

- a. **Receive** the report from Crowe titled ‘Internal Audit – Asset Management’ (*Doc Id1618432*).

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Carried

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## 7. INTERNAL AUDIT: SENSITIVE EXPENDITURE REVIEW

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<i>Type of Report:</i>	Operational
<i>Legal Reference:</i>	Local Government Act 2002
<i>Document ID:</i>	1618365
<i>Reporting Officer/s &amp; Unit:</i>	Caroline Thomson, Chief Financial Officer Talia Foster, Accounting Manager

### 7.1 Purpose of Report

To table to the Committee the internal audit on Sensitive Expenditure undertaken by Council’s internal auditors, Crowe.

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#### At the meeting

The Chief Financial Officer, Ms Thomson

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**COMMITTEE** B Robertson / Mayor Wise  
**RESOLUTION**

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The Audit and Risk Committee:

- a. **Receive** the report from Crowe titled 'Internal Audit – Sensitive Expenditure Review' (*Doc Id 1618539*).

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Carried

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B Robertson / Councillor Mawson

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That the meeting return to Public Excluded session to enable the Acting Chief Executive to discuss issues of a sensitive nature with the reason being 7(2)(a) the privacy of a person under Section 48(1) of the Local Government Official Information and Meetings Act 1987.

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Carried

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*The meeting adjourned at 12.19pm and reconvened in  
Public Excluded session at 12.20pm.*

*The meeting closed with a karakia at 12.46pm*

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Approved and adopted as a true and accurate record of the meeting.

Chairperson .....

Date of approval .....