



NAPIER
CITY COUNCIL
Te Kaunihera o Ahuriri

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AUDIT AND RISK COMMITTEE

Open Agenda

Meeting Date:	Thursday 5 December 2019
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Time:	1pm
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Venue:	Council Chamber Hawke's Bay Regional Council 159 Dalton Street Napier
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Committee Members	John Palairet (In the Chair), Mayor Kirsten Wise, David Pearson, Councillor Nigel Simpson and Councillor Graeme Taylor
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Officer Responsible	Director Corporate Services
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Administration	Governance Team
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**Next Audit and Risk Committee Meeting
To be confirmed**

ORDER OF BUSINESS

Apologies

Nil

Conflicts of interest

Public forum

Nil

Announcements by the Mayor

Announcements by the Chairperson

Announcements by the management

Confirmation of minutes

That the Minutes of the Audit and Risk Committee meeting held on Friday, 13 September 2019 be taken as a true and accurate record of the meeting.120

Agenda items

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Public Excluded

Nil

AGENDA ITEMS

1. HEALTH AND SAFETY REPORT

<i>Type of Report:</i>	Operational
<i>Legal Reference:</i>	N/A
<i>Document ID:</i>	871748
<i>Reporting Officer/s & Unit:</i>	Sue Matkin, Manager People & Capability

1.1 Purpose of Report

The purpose of the report is to provide the Audit and Risk Committee with an overview of the health and safety performance as at 31 October 2019.

Officer's Recommendation

The Audit and Risk Committee:

- a. Receive the Health and Safety report as at 31 October 2019.

Chairperson's Recommendation

That the Committee resolve that the officer's recommendation be adopted.

1.2 Background Summary

The Health and Safety report as at 31 October 2019 is shown at **Attachment A**

1.3 Attachments

- A Health and Safety report as at 31 October 2019 [↓](#)

INFORMATION PAPER

TO:	NCC Staff
REPORT DATE:	1 November 2019
PREPARED BY:	Michelle Warren
SUBJECT:	HEALTH & SAFETY STATISTICS
AGENDA ITEM	OCTOBER H&S REPORTING

PURPOSE

The purpose of this report is to provide all NCC Staff, Council and Risk & Audit with an overview of the health and safety performance as at **31st October 2019**.

SUMMARY – KEY PERFORMANCE INDICATORS

October LTIs = 0

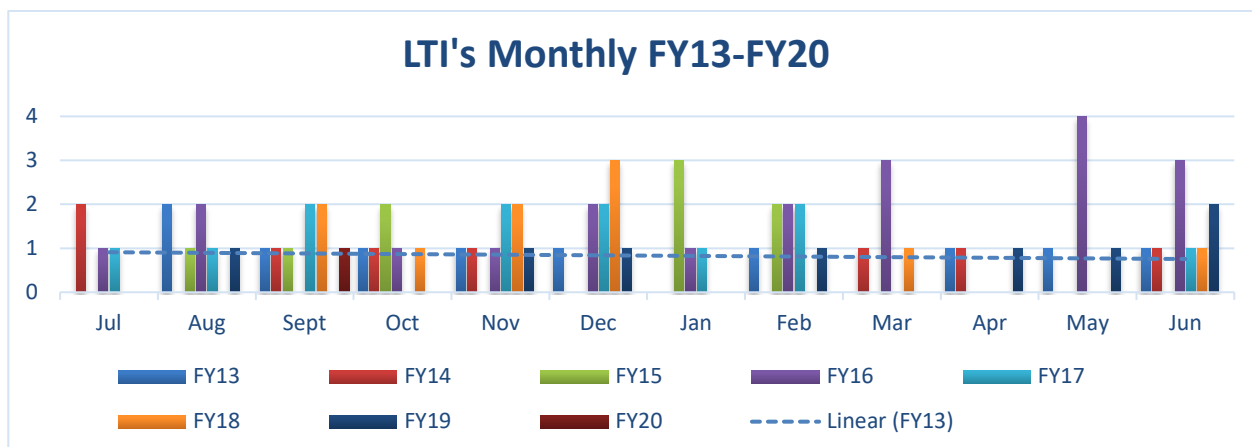
Reported Incidents (Total Company)	Aug 2018	Aug 2019	Sept 2018	Sept 2019	Oct 2018	Oct 2019	YTD 2018	YTD 2019	Targets FY20	On Target
Lost time injuries (LTIs):	1	0	0	0	0	0	1	1	<=8	●
Medically treated injuries (MTIs):	2	0	5	3	1	3	9	3	<=40	●
Total recordable injuries (MTIs + LTIs):	3	0	5	3	1	3	10	4	<=48	●
Near miss/hit & property damage reporting	15	14	10	16	11	13	50	48	>=180	●
Incidents Involving Public using our facilities	4	5	4	11	16	13	38	30	<=200	●
Significant Incidents or Accidents involving Contractors	1	0	1	1	0	0	3	1	<=5	●

LTIs and MTIs YTD as at 31 October 2019 (Comparison between FY19 and FY20)

- No change to LTIs
- 66.6% decrease MTIs
- 60% decrease in TRIs





54 days since last LTI

	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
FY13	0	2	1	1	1	1	0	1	0	1	1	1	10
FY14	2	0	1	1	1	0	0	0	1	1	0	1	8
FY15	0	1	1	2	0	0	3	2	0	0	0	0	9
FY16	1	2	0	1	1	2	1	2	3	0	4	3	20
FY17	1	1	2	0	2	2	1	2	0	0	0	1	12
FY18	0	0	2	1	2	3	0	0	1	0	0	1	10
FY19	0	1	0	0	1	1	0	1	0	1	1	2	8
FY20	0	0	1	0									1



HEALTH AND SAFETY PERFORMANCE LEAD INDICATORS AS AT OCTOBER 2019

Lead Indicators	Detail	Aug 19	Sept 19	Oct 19	YTD FY20	Full Year Target FY20	On Target
Body discomfort reporting (1 in 5 people)	An early intervention programme to resolve the cause of the discomfort in the workplace and/or medical treatment before developing into chronic pain and an injury. Online e-learning videos are part of the programme. Resolutions:	4	1	2	10	=>50	●
Work Station Assessments (10 / 10)	New employees receive workstation assessments and e-learning videos. Re assessments completed as required or where new areas or equipment set up. <ul style="list-style-type: none">New EmployeesExisting Employees in different BU/Area/New desks or chairs	7	2	4	16	100%	●
Near miss incident reporting	Near miss incidents reported	14	16	13	58	180	●
Incident investigations	All LTIs and MTIs investigations commenced within seven days of the event. <ul style="list-style-type: none">N/A	0	0	0	0	100%	●
Health and Safety Meetings	Health and safety meetings at each workplace. <ul style="list-style-type: none">N/A	4	0	4	12	30	●
Internal Health and Safety Audits (1 per week)	Health and safety audit of health and safety management system at nominated workplaces. <ul style="list-style-type: none">Waterworks – Chlorine DosingCity Strategy – Mural Painting	1	4	2	11	48	●
Contractor Health & Safety Audits and/or Safety Observations	Contractor Audits / Safety Observations <ul style="list-style-type: none">Demo 1 Asbestos RemovalBerkett Earthmovers – New AquaticRocket Scaffolding – Post Office BldgGarden Depot – Tree Planting Te Awa	3	5	4	17	26	●

Lead Indicators	Detail	Aug 19	Sept 19	Oct 19	YTD FY20	Full Year Target FY20	On Target
Planned visible leadership - workplace health & safety observation & conversation	Workplace health and safety observations, including a conversation with staff during a workplace visit by a core management team member. Walk around chats HS safety observation 1 per quarter Attend HS mtgs e.g. toolbox 3 per year	36	33	38	154	240	
Planned visible leadership – participating in a health and safety meeting	SLT team member participating in a workplace or work group health and safety meeting at the workplace or joining a conference call.	31	50	25	121	250	
Inductions	New Staff inducted to Napier City Council or staff who have moved business unit and re-inducted	5	7	6	28	100%	
Safety Alerts	Safety alerts published to educate and prevent the same or similar injury occurring again. • N/A	0	0	0	0	6	

HEALTH AND SAFETY OTHER REPORTING

Other	Detail	Aug 19	Sept 19	Oct 19	Full Year Target FY20
Significant incident	An event in a different circumstance may result in serious harm. • N/A	1	0	0	0
Significant Issues or Incidents Involving Contractors	An event involving a Contractors causing significant concern. • N/A	0	0	0	0
HSWA, Regulations, WorkSafe Updates and/or notifications	Any updates communicated to management. • N/A	2	0	0	N/A
Return To Work in Progress	Employees who are on a return to work programme. • Aquarium 2 • MTG 1 • Kennedy Park 1 • Depot 4	13	15	8	

Training	No Staff
First Aid	11
Traffic Controller	1
Total trainings	12

Wellbeing

- Health Monitoring
 - Asbestos Register
 - Hearing screening
 - Vaccination follow ups

2. RISK MANAGEMENT REPORT NOVEMBER 2019

<i>Type of Report:</i>	Information
<i>Legal Reference:</i>	N/A
<i>Document ID:</i>	873301
<i>Reporting Officer/s & Unit:</i>	Ross Franklin, Consultant

2.1 Purpose of Report

To provide the Audit and Risk Committee with an update on progress with risk management work and to report on the highest paid risks.

Officer's Recommendation

The Audit and Risk Committee:

- a. Note the Risk Management Work being undertaken by Napier City Council staff and management.
- b. Note the current Major risks.
- c. Receive the Risk Report dated 22 November 2019.

Chairperson's Recommendation

That the Committee resolve that the officer's recommendation be adopted.

2.2 Background Summary

Napier City Council (NCC) has a programme of work to develop and mature its enterprise risk capability. A risk maturity roadmap has been developed to guide this work.

The Committee supports this work by acting in a monitoring and advisory role. This report provides an update to the Committee on progress against the roadmap and reports the highest rated risks to ensure they are being actively managed.

NCC has a Risk Management Framework document together with a Risk Management Strategy. These documents set out the NCC risk appetite and the risk management roles, responsibilities and reporting requirements.

NCC risks are recorded in a risk management software solution known as "Sycle". Each risk is assigned a risk owner and the risk is rated based on an assessment against the NCC risk matrix and based on the level of residual risk once any control measures and actions (or work programmes) designed to prevent or mitigate the risk have been identified and implemented.

NCC has an internal Risk Committee made up of officers from different areas of the organisation. The role of the risk committee is to coordinate the risk management process; monitor the risk profile, risk appetite and effectiveness of controls; monitor & review high and extreme risks and report extreme and high risks to Council's senior leadership team. The committee is chaired by the Manager Business Excellence & Transformation.

The Risk Management Strategy requires high and extreme risks to be reported to the Audit & Risk Committee. Recognising the level or NCC risk maturity all high\extreme strategic risks and extreme operational risks are reported to each Audit & Risk Committee meeting.

2.3 Issues

The following are specific items on the work programme:-

- Development of the Sytle Projects module
- Continuation of a Business Continuity Management programme of work
- Review risk processes, systems and of the risk register

Sycle Projects Module

work continues to progress on the implementation of the projects module in Sytle.

Business Continuity Management

A draft Business Continuity Management (BCM) policy and the draft Business Impact Analysis were presented to the committee at the March meeting. The next stage is to identify the BCM risks for each site, based on the business impact analysis and capture any key risk into the Corporate Risk Management framework

The BCM framework responds to the strategic risk SR5 – ‘Event causing disruption or destruction of critical business functions and/or production and delivery of council services’.

Risk Management at NCC

The role of Manager Business Excellence & Transformation has been vacant for many months and as a result the proactive approach to progressing risk management practises in Council have faltered. While individuals have still continued to review and update the risk register the committee has not met during the period over which this position has been vacant.

Jane Klingender has been appointed to the role of Manager, Business Excellence & Transformation. A new position of Risk Advisor has been approved and the role has not yet been filled, with the first round of advertising being unsuccessful. A review of the job description and grade has been undertaken in preparation for re-advertising. With the appointment of the Risk Advisor there will be a significant uplift in the organisation's capability and focus on risk management.

2.4 Significance and Engagement

There are no external consultation requirements for this report.

2.5 Implications

Risk Register

There are currently 5 strategic and 149 operational risks in the risk register. (Project risks have been excluded from reporting). Two new operational risks have been added to the registers since the last meeting of the Committee.

There are five risks to report to the Committee as the highest rated risks; one is an operational risk rated Extreme (OR164) and four are strategic risks rated High (SR2, SR3, SR5 and SR6).

These risks are reported in the attached spreadsheet. (Attachment A).

All five risks have treatment actions to further manage the causes or consequences of each risk.

Extreme Risks

There are no risks in the registers that have a current rating (revised risk rating) of extreme.

Risk OR164 Bluff Hill – fall from cliff top was previously reported as extreme however a review of the risk has determined that the risk is high – not extreme. There is an old existing fence in place to prevent an accidental fall. A new, replacement fence is being constructed to ensure the level of protection is maintained.

High Risks

The four high risks in the strategic register are:

- SR2 Removal of three waters delivery and management
- SR3 Increased number and/or severity of major/natural disaster events
- SR5 Event causing disruption or destruction of critical business functions and/or production and delivery of council services.
- SR 6 Risk management practices

These risks were previously reported to you on 11 September and they have not changed. The risks are outside the control of NCC. The risks treatments listed against these risks are ongoing.

Other Topical Current, New and Emerging Risks

In addition to the risks reported as a matter of course we have identified some current topical risks of relevance to the organisation. These all impact on the organisation's ability to deliver high quality services to the community. The risks identified include:-

- Legal action such as the pool litigation and leaky building claims. These are impacting on both the management resource (time that is not spent delivering other projects etc.) and the Councils finances (cost).
- The election and changes in Council. It takes time for new councillors to come up to speed and this can impact on the organisations decision making. We have 5 new Councillors who are currently being inducted into the organisation.
- Provincial Growth Fund requests may not be successful
- Drinking Water – OR26 "Contamination of Water Supply resulting in death and or widespread illness"
 - OR26 has an inherent risk rating of extreme with a revised (current) risk rating of high as a result of many actions and controls that all go into the make up of the Water Safety Plan (WSP). The only fully effective control is chlorination of source water resulting in the provision of residual disinfection throughout the network. All other actions and controls do not reduce the extreme risk rating.

2.6 Options

N/A

2.7 Development of Preferred Option

N/A

2.8 Attachments

- A Schedule of High Strategic and Extreme Operational Risks as at 21 November 2019



Napier City Council Risk Register - High Strategic and Extreme Operational Risks

As at 21/11/2019

Risk Code	Risk Issue	Causes	Treatment Actions	Primary Category / Sub Category	Inherent			Revised			
		Inherent			Consequence	Likelihood	Risk Rating	Consequence	Effectiveness of Controls	Likelihood	Risk Rating
SR5	Event causing disruption or destruction of critical business functions and/or production and delivery of council services.	Natural disaster or event, malicious attack, critical failure of assets, infrastructure, or systems	<ul style="list-style-type: none"> - Business Continuity Framework developed for NCC - Each Directorate must develop business continuity plans for its operations. - Information Services have a disaster recovery plan 	Service Delivery	Severe	Possible	Extreme	Major	Partially Effective	Possible	High
SR6	Incomplete risk management processes fail to manage risk related to Infrastructure Services	<ul style="list-style-type: none"> - Risk delegates lack competence. - Operational tempo. - Process gaps around asset knowledge, assurance, and follow up. - Processes not being fully implemented. 	<ul style="list-style-type: none"> - Develop and deploy and tune network models for infrastructure networks - Improve asset condition and performance data through deployment of maintenance management transformation programme. - Risk management and control training to be deployed to directorate risk owners. - Set up risk reviews as standing agenda item in 1:1 meetings with reports. 	Service Delivery	Major	Likely	Extreme	Major	Partially Effective	Possible	High
SR3	Increased number and/or severity of major/natural disaster events	<ul style="list-style-type: none"> - Earthquake. - Tsunami. - Volcanic ash. - Flooding. - Epidemic or pandemic. 	<ul style="list-style-type: none"> - Evaluate Council's insurance cover - Review and test Business Continuity Plans and procedures 	Service Delivery	Severe	Rare	High	Severe	Partially Effective	Rare	High
SR2	Removal of 3 waters delivery and management	<ul style="list-style-type: none"> - Central government water enquiry. - Repeated non-compliance with water quality standards. - Public health issues. - Public outcry. 	<ul style="list-style-type: none"> - Guide change with the objective of delivering a regional solution - Improving 3 waters asset management practices - Improving 3 waters operations - Planning for additional resources - Submission to the Water Enquiry 	Service Delivery	Moderate	Possible	High	Moderate	Partially Effective	Likely	High

3. AUDIT AND RISK COMMITTEE CHARTER

<i>Type of Report:</i>	Procedural
<i>Legal Reference:</i>	N/A
<i>Document ID:</i>	873943
<i>Reporting Officer/s & Unit:</i>	Adele Henderson, Director Corporate Services

3.1 Purpose of Report

The purpose of this report is to advise the incoming committee of the committee charter and of the recommendation for the charter to be reviewed over the next 12 months.

Officer's Recommendation

The Audit and Risk Committee:

- a. Note and discuss the current Audit and Risk Committee Charter and make any recommended changes

Chairperson's Recommendation

That the Committee resolve that the officer's recommendation be adopted.

3.2 Background Summary

The objective of the Audit and Risk Committee is to provide independent, objective assurance and assistance to the Napier City Council on the Councils governance, risk management, internal control and compliance frameworks, and its external accountability responsibilities.

The new Council confirmed its committee structure and the inclusion of the Audit and Risk Committee on 19th November 2019.

The Audit and Risk Charter outlines the key role and responsibilities of the Committee and is reviewed every second year to ensure that Committee's focus areas remain relevant in the changing environment of Council activities.

The **attached** Charter was adopted by the Council on 18 September 2018.

3.3 Issues

The charter sets out the committee's role and responsibilities. This is required to be reviewed at least every 2 years. With the start of a new term of Council and of a new term of the Audit and Risk Committee it will be a good time for the committee to spend time becoming familiar with the charter and reviewing the content to ensure it makes the committee's role and responsibilities clear to members.

Any recommendations can be made and provided to the committee for adoption at the end planned meeting.

3.4 Significance and Engagement

N/A

3.5 Implications

Financial

N/A

Social & Policy

N/A

Risk

N/A

3.6 Options

The options available to Council are as follows:

- a. Receive and note the content of the current Audit and Risk Committee Charter and continue to operate until the suggested review date of 18th September 2020
- b. Identify and recommend changes to the content of the Audit and Risk Committee Charter and bring changes back to the next meeting of Audit and Risk Committee
- c. Instruct Officers to bring the charter back to a future meeting of the committee for discussion and review.

3.7 Development of Preferred Option

The recommendation is that the Committee notes the content of the current charter and make any changes that fit the new requirements of the incoming Councillors and committee

3.8 Attachments

- A Audit and Risk Committee Charter 2018 [↓](#)



Audit and Risk Committee Charter			
Approved by	Council		
Department	Corporate Services		
Original Approved Date	18 September 2018	Review Approval Date	18 September 2018
Next Review Deadline	18 September 2020	Document ID	325090
Relevant Legislation	Local Government Act 2002		
NCC Documents Referenced	Code of Ethics		

Objective

The objective of the Audit and Risk Committee (the Committee) is to provide independent, objective assurance and assistance to the Napier City Council (the Council) on the Council's governance, risk management, internal control and compliance frameworks, and its external accountability responsibilities.

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 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 five members appointed by the Council. These must include the Mayor, the Chair of the Finance Committee and the Deputy Chair of the Finance Committee (or other nominated person). The Council will also select two independent members.

The Napier City Council will appoint the 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, recognizing the difference in 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.

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 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

The 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 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 controls in relation to preventing fraud and satisfy itself that the Council has 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.

Control Framework

The 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; and
- review whether management has taken steps to embed a culture which is committed to ethical and lawful behavior.

External Accountability

The 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 on 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 appropriate mechanisms in place to review and implement, where appropriate, relevant external audit reports and recommendations; and
- satisfy itself that the Council has a performance management framework that is linked to organisational objectives and outcomes.

Legislative Compliance

The 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

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:

- contribute the time needed to study and understand the papers provided;
- apply good analytical skills, objectivity, and good judgment; and
- express opinions frankly, ask questions that go to the core of the issue, and pursue independent lines of enquiry.

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.

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 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.

Policy Review

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

Document Control History

Version	Reviewer	Change Detail	Date
1.0.0	Caroline Thomson	Initial publication	14 December 2016
2.0.0	Caroline Thomson	Review process	01 August 2018
3.0.0	Caroline Thomson	Republication (nb: version control issues)	18 September 2018

4. PROPOSED AUDIT AND RISK COMMITTEE 2020 MEETING CALENDAR

Type of Report:	Operational
Legal Reference:	N/A
Document ID:	871747
Reporting Officer/s & Unit:	Caroline Thomson, Chief Financial Officer

4.1 Purpose of Report

To consider the proposed timetable of meetings for the Audit and Risk Committee in 2020, as detailed below.

Officer's Recommendation

The Audit and Risk Committee:

- a. Receive the proposed timetable of meetings for the Audit and Risk Committee for 2020.

Chairperson's Recommendation

That the Committee resolve that the officer's recommendation be adopted.

4.2 Background Summary

The following table sets out the meetings held during 2019 together with the proposed schedule for meetings for 2020:

Proposed Audit and Risk Committee meetings timetable 2020			
2019	Content	2020	Content
28 March 2019	Draft Annual Plan, risk management, insurance arrangements, BCP update, H&S, investment and debt report, external audit arrangements, freeholding framework	20 March 2020	Insurance arrangements, Draft Annual Plan 20/21, external audit arrangements
20 June 2019	Risk management, H&S, investment and debt report, internal audit programme, legislative compliance, legal update, Annual Plan	12 June 2020	General
13 September 2019	Risk management, H&S, investment and	18 September 2020	Draft Annual Report 19/20

	debt report, audit management report, Draft Annual Report, legal update, review of A&R committee, Cloud vendor security, IT firewall penetration test, relocation of offsite archives	
5 December 2019	Risk management, H&S, investment and debt report, fraud gap analysis, audit management report, A&R committee meeting calendar, sensitive expenditure	11 December 2020 General

4.3 Issues

No Issues

4.4 Significance and Engagement

N/A

4.5 Implications**Financial**

N/A

Social & Policy

N/A

Risk

N/A

4.6 Attachments

Nil

5. FINANCIAL DELEGATION

<i>Type of Report:</i>	Legal and Operational
<i>Legal Reference:</i>	Local Government Act 2002
<i>Document ID:</i>	869923
<i>Reporting Officer/s & Unit:</i>	Adele Henderson, Director Corporate Services

5.1 Purpose of Report

To review and approve the Chief Executive's financial and non-financial delegation

Officer's Recommendation

The Audit and Risk Committee:

- i. Approve an increase of the financial delegation to the Chief Executive from \$500k to \$1m
- ii. Approve the Delegation to the Chief Executive document dated 5 December 2019

Chairperson's Recommendation

That the Committee resolve that the officer's recommendation be adopted.

5.2 Background Summary

The delegations to the Chief Executive were made 16 December 2015 and were last modified in 2015.

A full review of all legislation that effects local government was undertaken in 2016, and were provided for Council approval at that time.

In terms of section 42 of the Local Government Act 2002, the Chief Executive is responsible for:

- implementing the decisions of the Council;
- providing advice to the Council and its community board;
- ensuring that all responsibilities, duties and powers delegated to the Chief Executive or to any person employed by the Chief Executive, or imposed or conferred by any Act, regulation or bylaw are properly performed or exercised;
- managing the activities of the Council effectively and efficiently;
- maintaining systems to enable effective planning and accurate reporting of the financial and service performance of the Council;
- providing leadership for the staff of the Council;
- employing staff on behalf of the Council (including negotiating their terms of employment).

Clause 32 of Schedule 7 of the Local Government Act 2002 (the "Act"), authorises the Council, for the purposes of efficiency and effectiveness, to delegate to the Chief

Executive, and, subject to any conditions, limitations, or prohibitions imposed by the Council, gives the Chief Executive the authority to subdelegate to council officers.

The Chief Executive is accountable to the Council, council committees, and subcommittees for the actions of all staff and contractors. Individual staff are accountable to the Chief Executive and are not directly accountable to the Council, council committees, subcommittees or individual councillors.

The Local Government Act prohibits the delegation of the following:

- the power to make a rate; or
- the power to make a bylaw; or
- the power to borrow money, or purchase or dispose of assets, other than in accordance with the long-term council community plan; or
- the power to adopt a long-term council community plan, annual plan, or annual report; or
- the power to appoint a chief executive; or
- the power to adopt policies required to be adopted and consulted on under this Act in association with the long-term council community plan or developed for the purpose of the local governance statement;

The Council specifically delegates authority to the Chief Executive the power to sub-delegate to other officers any or all of the powers or authorities delegated to him or her. All sub-delegations must be given in writing by the Chief Executive.

The delegation to the Chief Executive includes a delegation of the power to warrant enforcement officers. The Council has determined that there are no circumstances in which the Council wishes to:

- a) limit or restrict the exercise of the power; or
- b) impose conditions on the exercise of the power; or
- c) prohibit, in specified circumstances, the exercise of the power;

on the basis that the Chief Executive will continue to implement auditable processes for the investigation of the background of officers prior to the granting of a warrant.

5.3 Issues

The present financial delegation to the Chief Executive were made in 2015. Given the size and scale of the capital programme this setting may be considered too low. Each Council has the discretion to set the financial delegation that it feels is appropriate.

Council is facing a significant capital programme over the coming years, and may wish to consider increasing the financial delegation to the Chief Executive to ensure that contracts can be awarded in a timely manner. It is acknowledged that an increased delegation does not remove the responsibilities of the Chief Executive to spend within the agreed parameters of the Long Term Plan.

“The Council encourages the Chief Executive to report to Council is any matter is considered difficult, is of particular political importance or sensitivity, where there is special community interest in it, or where the matter relates to a subject area where the council policy is unclear.”

At present an increasing number of contracts must be negotiated and then ratified by the Tenders Subcommittee. These contracts typically come about as

the result of a formal tendering process with set evaluation criteria, and then some post tender negotiations with the preferred tenderer about price (and in some cases scope). That tendering process leaves very little opportunity for the Tender Subcommittee to add value other than at a general oversight.

One of the issues that is presently causing concern is the current level of delegated authority to the Chief Executive reduces the flexibility to respond to the difficult contracting environment. In addition, the construction industry costs have increased considerably over recent years. It is estimated, based on the Local Government Cost Index (LGCI) figures produced by BERL in 2018, that capital expenditure costs have increased by 8.4% since 2015.

It is recommended that the financial delegation of the Chief Executive be increased to \$1m, which allows the Tender Subcommittee to retain oversight of the upper level of contracts.

5.4 Significance and Engagement

This decision raises no issues in terms of the Councils Significance and Engagement Policy

5.5 Implications

Financial

N/A

Social & Policy

A new document has been created to provide Council with better visibility over the delegations to the Chief Executive as attached.

Risk

That Council would like more rather than less oversight on awarding of contracts and therefore increasing the workload of the Tenders subcommittee.

There would be a small increase in the level of risk for the Council as a result of the lesser level of oversight, even though all contract would still covered by the change would be for already budgeted expenditure and undergo the check and balances already in place at officer level. To a degree change in risk profile would be off-set by an improvement in the flexibility and negotiation position.

5.6 Options

The options available to Council are as follows:

Financial Delegation

- a. Set the financial delegation threshold to \$1,000,000 as recommended;
- b. Determine a different new threshold; or
- c. Retain the status quo \$500,000

Non-financial Delegations

- d. Approve non-financial delegations to the Chief Executive as attached
- e. Change the non-financial delegations to the Chief Executive as attached

5.7 Development of Preferred Option

Financial Delegation

Option a – increase the financial delegation to \$1,000,000

This will reduce the number of contracts that will need consideration by the Tenders Subcommittee. Costs of construction have increased significantly since the financial delegation to the CE was originally made. For contracts below the threshold it will significantly reduce the time between negotiation and commitment, and hence improves the Councils negotiation position.

Non-Financial delegation

Option d – approved as attached, as no risk has been identified with delegations of this nature. As noted above, there are some things that cannot be delegated by Council

5.8 Attachments

A Delegations to the Chief Executive [↓](#)



NAPIER
CITY COUNCIL
Te Kaunihera o Ahuriri

Delegations to Chief Executive

Dated 5 December 2019

Index

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Purpose

The Council is an elected unit of local government that exists in perpetual succession unless that status is altered by statute. It acts by resolution and through its Chief Executive.

The delegations in this document formalise the powers and authority delegated by the Napier City Council to its Chief Executive.

Council Responsibility and Accountability

The Council has overall responsibility and accountability for the proper direction and control of the Council's activities in pursuit of community outcomes. This responsibility includes:

- Formulating the City Council strategic direction in conjunction with the community – particularly through the Long Term Council Plan (LTP);
- Setting policy frameworks for the community and the organisation;
- Determining the services and activities to be undertaken and setting the budget for the organisation;
- Striking the rates;
- Managing principal risks;
- Upholding the law and administering various laws and regulations;
- Monitoring the delivery of the LTP and Annual Plan;
- Ensuring the integrity of management control systems;
- Safeguarding the public interest;
- Ensuring effective succession of elected members;
- Reporting to ratepayers.

A key to the efficient running of any council is that there is a clear division between the role of elected members and that of management. The Local Government Act 2002 sets out a series of governance policies that support the principles of local government. The Council has adopted a Local Governance Statement. That statement clarifies the governance and the management responsibilities, the governance role and expected conduct of elected members, and describes the effective, open and transparent processes used by Council.

The delegations of powers and authority to committees or to the Chief Executive is an essential part of having effective and efficient governance and management systems in place.

While many of the Council's functions may be delegated, the overall responsibility for maintaining effective systems of internal control ultimately rests with the Council. Internal control includes the policies, systems and procedures established to provide measurable assurance that specific objectives will be achieved.

No delegation relieves the Council, an elected member, or officer of the liability or legal responsibility to perform or ensure performance of any function or duty.

Chief Executive's Role

The Chief Executive is appointed by the Council in accordance with section 42 of the Local Government Act 2002. The Chief Executive is responsible for implementing and managing the Council's policies and objectives within the budgetary constraints established by the Council.

In terms of section 42 the Chief Executive is responsible for:

- implementing the decisions of the Council;
- providing advice to the Council and its community board;
- ensuring that all responsibilities, duties and powers delegated to the Chief Executive or to any person employed by the Chief Executive, or imposed or conferred by any Act, regulation or bylaw are properly performed or exercised;
- managing the activities of the Council effectively and efficiently;
- maintaining systems to enable effective planning and accurate reporting of the financial and service performance of the Council;
- providing leadership for the staff of the Council;
- employing staff on behalf of the Council (including negotiating their terms of employment).

Clause 32 of Schedule 7 of the Local Government Act 2002 (the "Act"), authorises the Council, for the purposes of efficiency and effectiveness, to delegate to the Chief Executive, and, subject to any conditions, limitations, or prohibitions imposed by the Council, gives the Chief Executive the authority to subdelegate to council officers.

The Chief Executive is accountable to the Council, council committees, and subcommittees for the actions of all staff and contractors. Individual staff are accountable to the Chief Executive and are not directly accountable to the Council, council committees, subcommittees or individual councillors.

Delegation to the Chief Executive

Pursuant to the provisions of clause 32 of Schedule 7 of the Local Government Act 2002, Napier City Council delegates to the Chief Executive of the Napier City Council all powers and authority to act on any matter in respect of which the Council is empowered or directed by law to exercise or undertake, except those powers or authorities in respect of which delegation is prohibited by the Act, by any other statute or regulation, or expressly excluded from this delegation. This delegation does not preclude the Chief Executive from referring any such matter to the Council, or a committee of the Council for a decision.

The Council encourages the Chief Executive to report to Council if any matter is considered difficult, is of particular political importance or sensitivity, where there is special community interest in it, or where the matter relates to a subject area where council policy is unclear.

The Act prohibits the delegation of the following:

- the power to make a rate; or

- the power to make a bylaw; or
- the power to borrow money, or purchase or dispose of assets, other than in accordance with the long-term council community plan; or
- the power to adopt a long-term council community plan, annual plan, or annual report; or
- the power to appoint a chief executive; or
- the power to adopt policies required to be adopted and consulted on under this Act in association with the long-term council community plan or developed for the purpose of the local governance statement;

In addition the Council has not delegated the following powers or authorities to the Chief Executive:

- the power to compulsorily acquire land under the Public Works Act 1981;
- the power to set strategic policy direction;
- the power to enter into contracts for the supply of goods and services to a value exceeding \$500,000 (proposed Council 5 December 2019);
- the power to enter into unconditional contracts for the sale or purchase of land or an interest in land;
- the power to enter into unconditional leases whether as landlord or tenant for a term of 2 years or more, (with the exception of leases of clubrooms and other buildings on Council parks and reserves in accordance with the Council's established policy);
- the hearing of notified resources consents, designations and Heritage Order applications;
- any matter not permitted to be delegated by any other Act (for example the approval of a policy statement or plan under the Resource Management Act 1991 or the granting of special exemptions under s.6 of the Fencing of Swimming Pools Act 1987);
- any matter that can only be given effect by a Council resolution.

For the purposes of this delegation "unconditional" means "without a condition requiring an approval to be given by resolution of the Council, or Committee of the Council with authority to give that approval".

The Council specifically delegates authority to the Chief Executive the power to subdelegate to other officers any or all of the powers or authorities delegated to him or her. All subdelegations must be given by the Chief Executive in writing.

In addition to the delegations made above, in relation to matters arising at the end of term of the Council, from the day of the declaration of the results of the triennial general election until the first meeting of the Council following the triennial general election, authority to make decisions on behalf of the Council, in respect of urgent matters arising during this time:

- a) in consultation with the Director Infrastructure or Director Corporate Services in respect of Tenders and Contracts with delegated authority to award contracts up to \$500k in value;
- b) in consultation with the Group Manager: Planning and Regulatory Services in respect of Liquor Licensing and Regulatory matters;

c) in consultation with the incoming Mayor, as may be appropriate, in respect of other matters;

with any decision made outside of the normal delegations to the Chief Executive to be reported to the first ordinary meeting of the incoming Council or to a meeting of the appropriate Standing Committee of the Council.

That the Council delegate to the Chief Executive the authority to enter into agreements for the taking of land or easements where the compensation payable for the land or the interest in land, in each case does not exceed \$100,000 (plus GST) exclusive of disbursements.

Appointment of Enforcement Officers

The delegation to the Chief Executive includes a delegation of the power to warrant enforcement officers. The Council has determined that there are no circumstances in which the Council wishes to:

- a) limit or restrict the exercise of the power; or
- b) impose conditions on the exercise of the power; or
- c) prohibit, in specified circumstances, the exercise of the power;

on the basis that the Chief Executive will continue to implement auditable processes for the investigation of the background of officers prior to the granting of a warrant.

6. SENSITIVE EXPENDITURE: MAYOR AND CHIEF EXECUTIVE

<i>Type of Report:</i>	Operational and Procedural
<i>Legal Reference:</i>	N/A
<i>Document ID:</i>	871750
<i>Reporting Officer/s & Unit:</i>	Caroline Thomson, Chief Financial Officer

6.1 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 report of Sensitive Expenditure for the Mayor and Chief Executive and review for compliance with the Sensitive Expenditure Policy.

Chairperson's Recommendation

That the Committee resolve that the officer's recommendation be adopted.

6.2 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.

6.3 Issues

No Issues

6.4 Significance and Engagement

N/A

6.5 Implications

Financial

N/A

Social & Policy

N/A

Risk

N/A

6.6 Attachments

- A Sensitive expenditure items Q1 - Mayor [↓](#)
- B Sensitive expenditure items Q1 - Chief Executive [↓](#)
- C NCC Sensitive Expenditure policy [↓](#)

Mayor Sensitive Expenditure

Report for Audit and Risk Committee Meeting

Transactions processed from 1 July 2019 to 30 Sept 2019

Transaction Date	Supplier	Value	Details in Ledger
Entertainment			
5/07/2019	Faye White	\$ 503.48	Faye White - expense claim for Councillor team social gathering
5/09/2019	Faye White	\$ 289.48	Faye White - expense claim for Councillor end of triennium social event
18/09/2019	Pak 'N Save Napier City	\$ 12.42	Soft Drinks for Mayor Dalton Farewell
23/09/2019	Design Cuisine Limited	\$ 630.00	Farewell catering for Mayor Dalton
Total entertainment		\$ 1,435.38	
Mayors Travel & Accommodation			
11/07/2019	Faye White	\$ 156.52	Faye White - expense claim for Evening meal
11/07/2019	Faye White	\$ 59.13	Faye White - expense claim for Airport parking
16/07/2019	Faye White	\$ 72.00	Faye White - expense claim for Travel to and from speaking engagement
18/07/2019	IBIS Wellington	\$ 160.00	1 night accomm for Faye White 17/07/19
18/07/2019	IBIS Wellington	\$ 42.17	IBIS Wellington dinner and breakfast
19/07/2019	Faye White	\$ 29.57	Faye White - expense claim for Parking at airport 17/7 - 18/07/19
30/07/2019	IBIS Wellington	\$ 46.09	FAYE WHITE ACCOM JUL 19 dinner and breakfast
30/07/2019	IBIS Wellington	\$ 142.61	FAYE WHITE ACCOM JUL 19 Faye White WLG 29Jul2019
31/07/2019	Corporate Cabs Limited	\$ 37.96	CORPORATE CABS Wgtn 30/07/19, FWhite - Form 267
31/07/2019	Corporate Cabs Limited	\$ 45.81	CORPORATE CABS Wgtn 17/07/19, FWhite - Form 249
31/07/2019	Corporate Cabs Limited	\$ 39.07	CORPORATE CABS Wgtn 09/07/19, F White - Form 169
31/07/2019	Corporate Cabs Limited	\$ 43.56	CORPORATE CABS Wgtn 06/09/19, F White - Form 169
31/07/2019	Air New Zealand Limited - Travelcard	\$ 27.83	TRAVEL CARD WHITE/F NPE to WLG rtn FORM 249
31/07/2019	Air New Zealand Limited - Travelcard	\$ 104.35	TRAVEL CARD WHITE/F WLG to NPE rtn FLEXIPLUS FORM 249
31/07/2019	Air New Zealand Limited - Travelcard	\$ 419.13	TRAVEL CARD WHITE/F NPE to WLG rtn FORM 249
31/07/2019	Air New Zealand Limited - Travelcard	\$ 104.35	TRAVEL CARD WHITE/F WLG to NPE rtn FLEXIPLUS FORM 249
31/07/2019	Air New Zealand Limited - Travelcard	\$ 311.31	TRAVEL CARD WHITE/F NPE to WLG rtn FORM 249
31/07/2019	Air New Zealand Limited - Travelcard	\$ 17.39	TRAVEL CARD WHITE/F NPE to WLG rtn FORM 249
31/07/2019	Mastercard	\$ 26.09	AIR NZ ONLINE Flight change
Total travel and accommodation		\$ 1,884.94	
Total For Quarter		\$ 3,320.32	

Chief Executive Sensitive Expenditure**Report for Audit and Risk Committee Meeting**

Transactions processed from 1 July 2019 to 30 Sept 2019

Transaction Date	Supplier	Value	Details in Ledger
Employee Benefits			
25/06/2019	Mastercard	\$ 263.04	Credit Card - WAYNEJ Staff Recognition Drinks
15/07/2019	Design Cuisine Limited	\$ 35.00	CEO OFFICE CAKE FOR CEO Staff Reward and Recognition - cake
3/08/2019	Mastercard	\$ 7.83	SLT morning tea at breakfast meeting 31.07.2019
8/08/2019	Mastercard	\$ 30.70	Lead Team Morning tea at SLT Strategy Day 6.8.2019
10/08/2019	Mastercard	\$ 14.78	CE - parking Hawkes Bay Airport 2019-08-08
5/09/2019	Mastercard	\$ 37.70	ot Drink Catering for SLT Meeting 03 Sept 2019
Total employee benefits		\$ 389.05	
Other operating expenditure			
3/07/2019	Mastercard	\$ 95.83	Lunch, Dunedin WJ, K Short, K Wixon, A Campbell
6/08/2019	Mastercard	\$ 133.91	Breakfast meeting SLT
12/09/2019	Eastern Institute Of Technology	\$ 47.83	Meeting at EIT for SLT 6 August 2019
Total other operating expenditure		\$ 277.57	
Travel and Accommodation			
30/06/2019	Air New Zealand Limited - Travelcard	\$ 493.92	TRAVEL CARD JUNE 2019 JACK/W NPE to DUD rtnTo meet with Ian Taylor
30/06/2019	Corporate Cabs Limited	\$ 56.83	Corp cabs - June 2019 Wayne Jack Wgtn 17/06/19 - Form 208
30/06/2019	Air New Zealand Limited - Travelcard	\$ 104.35	TRAVEL CARD JUNE 2019 JACK/W WLG to DUD rtnTo meet with Ian Taylor FLEX
30/06/2019	Corporate Cabs Limited	\$ 53.29	Corp cabs - June 2019 Wayne Jack x1, Akld 06Jun2019 - Form 191
4/07/2019	Mastercard	\$ 14.78	CE - Parking HB Airport I Taylor mtg dunedin
9/07/2019	Intercontinental Wellington	\$ 1,184.35	Columna Capital CE - LGNZ accm and meals W Jack
9/07/2019	Mastercard	\$ 93.91	CE - Dinner LGNZ Conf with T Jack 6 July Wgtn
11/07/2019	Mastercard	\$ 36.35	CE - Taxi LGNZ Cnf City to Airport Wgtn
13/07/2019	Mastercard	\$ 44.35	WAYNEJ Api Tapine personal - LGNZ Conf for reimbursement
20/07/2019	Mastercard	\$ 43.22	CE - Taxi Wellington Airport-City Injunction hrng
23/07/2019	Mastercard	\$ 14.78	CE - Airport parking Injunction hearing 18 July
31/07/2019	Air New Zealand Limited - Travelcard	\$ 384.35	TRAVEL CARD JACK/W NPE to WLG rtn Form 260
31/07/2019	Air New Zealand Limited - Travelcard	\$ 8.69	TRAVEL CARD JACK/W CHC to NPE rtn / 1 Form 260
31/07/2019	Air New Zealand Limited - Travelcard	\$ 104.35	TRAVEL CARD JACK/W WLG to NPE rtn FLEXIPLUS Form 260
31/07/2019	Mastercard	\$ 47.48	Cab Wellington Airport-Te Papa WJ, FW, AC 29 July
31/07/2019	Mastercard	\$ 14.78	CE - Parking Hawkes Bay Airport 29 July 2019
31/07/2019	Mastercard	\$ 27.83	Corp Cab Te Papa-Airport WJ, JW, AC 29 July 2019
31/07/2019	Corporate Cabs Limited	\$ 38.51	CABS JUL 19 CHARGES 19 Wgtn 06/07/19, WJack - Form 37
15/08/2019	Mastercard	\$ 67.74	CE Taxi City-Airport 14 August 2019
16/08/2019	Mastercard	\$ 14.78	CE Napier Airport Parking 13-08-2019
31/08/2019	Corporate Cabs Limited	\$ 95.16	AUG CHARGES 19 WJack Akld x1 trip 13/08/19 - Form 43
31/08/2019	Air New Zealand Limited - Travelcard	\$ 104.35	august 19 charges JACK/W AKL to NPE rtn - FORM 270
31/08/2019	Air New Zealand Limited - Travelcard	\$ 206.96	august 19 charges JACK/W NPE to AKL rtn - FORM 270
31/08/2019	Air New Zealand Limited - Travelcard	\$ 273.04	august 19 charges JACK/W AKL to NPE - FORM 278
31/08/2019	Corporate Cabs Limited	\$ 91.23	AUG CHARGES 19 WJack, Akld x1 trip 08/08/19 (to see lawyers)
Total Travel and Accommodation		\$ 3,619.38	
Total For Quarter		\$ 4,286.00	



Sensitive Expenditure Policy			
Approved by	Director Corporate Services		
Department	Finance		
Original Approval Date	12 June 2011	Review Approval Date	17 Sept 2019
Next Review Deadline	17 Sept 2021	Document ID	346084
Relevant Legislation	Local Government Act 2002, Local Authority (Members' Interest) Act 1968, Public Audit Act 2001		
NCC Documents Referenced	Procurement Policy, Motor Vehicle Policy, Recognition Policy, Gifts Received Policy, Credit Card Policy, Conflicts of Interest Policy, Travel Policy		

Purpose

The purpose of this policy is to provide elected members 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. 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 according 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. Deciding when sensitive spending is appropriate

- 2.1. For all expenditure, consideration needs to be given to FBT requirements.
- 2.2. In deciding what appropriate sensitive expenditure is, elected members and employees need to take account of both individual transactions and 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. Responsibilities of the Mayor, Councillors and Directors

- 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 Senior Leadership Team (SLT). 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. 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 SLT 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 SLT, Mayor and Councillors 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. 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, original 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, description, and purpose for minor expenditure (<\$20) when receipts are not available.
- 5.6. Wherever possible, Councils preferred suppliers are to be used (refer NCC's Procurement Policy.)

6. 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 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. 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. Travel**8.1. For information specific to Travel refer to the Travel Policy (Doc ID 753431). The Travel Policy covers use of private vehicles for Council business, rental cars, taxis/shuttles and public transport, accommodation, air travel, and other travel related expenditure.****9. Entertainment and Hospitality**

Entertainment and hospitality can cover a range of items from tea, coffee and biscuits to catering, such as meals and alcohol. 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 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-authorised by an SLT 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).

Goods and Services Expenditure

10. 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.

- 10.1. 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.
- 10.2. Without the express prior approval of SLT, the Chief Executive or Mayor, no surplus assets with a market value of more than \$500 per item will be sold directly to elected members, employees or their friends, acquaintances or family.
- 10.3. 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. 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.

- 11.1. 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.
- 11.2. Where a reward/prize is obtained by chance and without inducement, it may be retained by the individual, otherwise it would be the property of Council. E.g. a reward is offered to select one supplier over another.
- 11.3. Exceptions are prizes received from competitions at training or conference events or through membership of professional bodies which are the property of the individual. However, when their 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.
- 11.4. Council requires employees leaving the Council with unpaid loyalty rewards, to transfer the benefits to Council or buy the unapplied rewards from Council at the market rate. Where neither of these is practical, arrangements are to be made with the supplier to cancel the unapplied rewards.

12. Private use of Councils assets

- 12.1. 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.
- 12.2. 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 Director.
- 12.3. The costs to Council of private use will be recovered, unless it is impractical or uneconomic to separately identify those costs.
- 12.4. Private use of Council assets can incur FBT so the impact of this must be considered before approval is granted.

13. Private use of Council suppliers

- 13.1. The private use of Council's official procurement processes is not permitted. 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.
- 13.2. Staff may however, make moderate use of any access to goods or services through Councils suppliers only under the approved Staff Discount scheme. All transactions are directly 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.
- 13.3. Employees are able to purchase goods from the Council store at the Austin Street depot. Payment for goods is deducted from the employees pay on completion of a Staff Purchase Sheet.
- 13.4. 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.

14. Council Use of Private Assets

- 14.1. 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).
- 14.2. Insurance for the private asset being utilised is the responsibility of the employee.
- 14.3. To reduce the risk of the Council paying reimbursement costs that benefit the employee or elected member, pre-approval by a Director 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.
- 14.4. Reimbursement will be set at actual and reasonable costs. All claims require supporting documentation.
- 14.5. Employees must not approve or administer payments to themselves for the Council's use of their private assets.

Employee Support and Welfare Expenditure**15. Clothing**

- 15.1. 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.

16. Care of dependants

- 16.1. 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.

17. Financing Social Club Activities

- 17.1. 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.

18. Farewells and retirements

- 18.1. Expenditure on 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.

19. Sponsorship of staff and others

- 19.1. Staff taking part in an activity that is not part of their job, such as a sporting event, may be sponsored by their entity through the provision of, or payment for goods and services (for example a t-shirt or entry fee)
- 19.2. 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.
- 19.3. In normal circumstances, sponsorship will be provided through a social club rather than directly to the staff member.
- 19.4. 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.

20. Professional Memberships

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

- 20.1. Payment of professional fees by Council on behalf of an employee must be:

- Approved by the Director or 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 Fringe Benefit Tax;
- refunded directly to the Council if the membership is cancelled

Other types of expenditure**21. 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.

21.1. 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. Amounts under \$250 to be approved by a Director):
- Non-political (i.e. politically neutral).

21.2. The amount given on behalf of Council should reflect the occasion and the prestige of Council in its relations with Tangata Whenua. Amounts of \$250 and over are to be approved by the Chief Executive.**22. Communications technology**

22.1. 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.

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

23. Gifts given

23.1. 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).

24. Gifts received

24.1. 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
3.0.0	Talia Foster	Review in line with Travel Policy	17 Sept 2019

7. 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>	871746
<i>Reporting Officer/s & Unit:</i>	Caroline Thomson, Chief Financial Officer

7.1 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 2019 (to be tabled at the meeting).

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 2019.

Chairperson's Recommendation

That the Committee resolve that the officer's recommendation be adopted.

7.2 Background Summary

Audit NZ has completed the audit of Council's accounts for the year ended 30 June 2019. The findings from the audit are set out in the audit management report attached.

Audit NZ issued Council with an unmodified audit opinion and an unmodified audit report on the Council's summary annual report for 2018/19. This means that Audit NZ were satisfied that the financial statements and financial performance information present fairly the Council's activity for the year and its financial position.

7.3 Issues

The financial statements are free from material misstatements.

The audit management report contains detailed findings and recommendations for areas of improvement together with management response. Audit NZ has agreed to remove section 4.2 relating to the trial balance from the final report.

The final audit management report will be tabled at the meeting.

7.4 Significance and Engagement

N/A

7.5 Implications

Financial

N/A

Social & Policy

N/A

Risk

N/A

7.6 Attachments

A Draft Audit NZ management report for the year ended 30 June 2019 [↓](#)

Report to the Council on the audit of

Napier City Council

For the year ended 30 June 2019

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2.

Key messages

3. We have completed the audit for the year ended 30 June 2019. This report sets out our findings from the audit and draws attention to areas where the City Council is doing well and where we have made recommendations for improvement.

Audit opinion

4. We issued an unmodified audit opinion dated 26 September 2019. We also issued an unmodified audit report on the City Council's summary annual report on 24 October 2019.

Matters identified during the audit

The following significant issues were considered during the audit.

- **Weather tightness claim** – We are satisfied with the disclosure of a weather tightness claim as a contingent liability, rather than a provision, on the basis that there is no reliable estimate of the likely cost.
- **Revalued assets** – We were satisfied with the robustness of the valuations undertaken this year by the City Council. The classes of assets revalued were the roading assets and the land and buildings assets.
- **Assets that are revalued but were not revalued this year** – We reviewed, and are satisfied with, the robustness of management's assessments as to why there is no material difference between the fair value and the carrying value of these assets.
- **Mandatory performance measures** – We are satisfied that the reporting of mandatory measures, as required by the Non-Financial Performance Rules 2013 (the rules), fairly represented the City Council's performance and complied with the intentions of the rules. We were also satisfied with the explanations and commentary that were included in the Annual Report in relation to measures that had not been achieved.
- **Deferred tax liability** – As in its prior years' financial statements, the City Council has not accounted for deferred tax liabilities in relation to its revalued port assets on the basis that the inner harbour assets are highly unlikely to be sold. However this is not an acceptable argument under the relevant accounting standard, PBE IAS 12 *Income Taxes*. The accounting standard requires all deferred tax liabilities to be recognised. We also note that the unrecognised deferred tax liability is close to our materiality thresholds (i.e. a possible impact on our audit opinion in future years).

5. We are pleased to note that there has been an improvement in the delivery of the draft Annual Report and the supporting work papers in the current year. There is still some room for improvement as there were issues (detail and timing of delivery) with the information provided.

There are six new recommendations raised in the management report (see section 4) but it is pleasing to note that the City Council continues to work on clearing previous recommendations.

Thank you

6. We would like to thank the Council, management and staff for their help and assistance throughout the audit.

7.

8.

9. Stephen Lucy

10. Appointed Auditor

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.

Priority	Explanation
12. Urgent	<p>13. Needs to be addressed <i>urgently</i></p> <p>14. 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.</p>
15. Necessary	<p>16. Address at the earliest reasonable opportunity, <i>generally within six months</i></p> <p>17. 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.</p>
18. Beneficial	<p>19. Address, <i>generally within six to 12 months</i></p> <p>20. 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.</p>

1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
<p>Rate Assessment Notice compliance with legislation</p> <p>A formal review should be completed on the rates assessment notice to ensure all legislative requirements have been met.</p>	4.1	Necessary
<p>Financial statements should be prepared directly from the trial balance</p> <p>The financial statements should be prepared directly from the trial balance (i.e. adjustments should be made to the general ledger prior to the financial statements being produced).</p>	4.2	Necessary

Recommendation	Reference	Priority
Revaluations The City Council should ensure that all assets in a class of assets are revalued at the same time and that all valuation reports are examined for accuracy.	4.3	Necessary
International travel approval All international travel should be pre-approved by the Chief Executive with information on what the benefit and purpose to Council is, ensuring all expenditure incurred for travel is Council expenditure.	4.4	Necessary
Approval of the Mayor's expenditure Documentation setting out the Mayor's expenditure provided to the Audit and Risk committee should be retained.	4.5	Necessary
Need for a QA over performance measure report The City Council should complete a monthly review of all the service requests relating to wastewater and water supply, to ensure the correct attendance and completed times are recorded.	4.6	Necessary

1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous recommendations. Appendix 2 sets out the status of previous recommendations in detail.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open	-	7	5	12
Implemented or closed	-	2	-	2
Issues raised in 2019 interim management letter that we will follow-up as part of our 2019/20 audit		4	2	6
Total	-	13	7	20

2 Our audit report

2.1 We issued an unmodified audit report



We issued an unmodified audit report on 26 September 2019. This means we were satisfied that the financial statements and the non-financial performance information in the activity groups present fairly the City Council's activity for the year and its financial position at the end of the year.

We also issued an unmodified audit report on the City Council's summary annual report on 24 October 2019. This means that we were satisfied that the summary of the annual report fairly represents the information regarding the major matters dealt with in the annual report.

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.

	Assets	Liabilities	Equity	Financial performance
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Tax on revaluations				1,854
Tax expense				(702)
Deferred tax liability		(1,152)		
Total	0	(1,152)	0	1,152

Explanation of uncorrected misstatements:

To recognise the income tax/deferred tax relating to the port assets.

Management explanation for not correcting the misstatement:

It is highly unlikely that the Inner Harbour assets will ever be sold by Council. Consequently, there will be no asset or liability in the future.

Audit New Zealand comment on management explanation

The basis upon which the City Council is not accounting for deferred tax liability is not an acceptable argument under the relevant accounting standard, PBE IAS 12 *Income Taxes*. The accounting standard requires all deferred tax liabilities to be recognised. We also note that the deferred tax liability is close to our materiality thresholds (i.e. a possible impact on our audit opinion in future years).

2.3 Corrected misstatements

We also identified misstatements that were corrected by management. These corrected misstatements had the net effect of increasing expenditure by \$430,174 and to decrease the associated asset by the same amount compared to the draft financial statements. The corrected misstatements are listed in Appendix 2.

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. This included the dates we required the information to be provided to us.

We are pleased to note that there has been an improvement in the delivery of the draft Annual Report and the supporting work papers in the current year. The staff were generally prompt and responses to audit queries were of good quality. There is still some room for improvement as there were issues (detail and timing of delivery) with the information provided, e.g. fixed assets revaluations and service requests KPIs.

3 Matters raised in the Audit Plan



21. In our Audit Plan of 8 April 2019, we identified the following matters as the main audit risks and issues:

22.

Audit risk/issue	Outcome
Weathertightness	
<p>In its 2017/18 financial statements, the City Council included disclosure on the weather-tightness claims in its contingent liability note and appropriate provision for these claims within the financial statements.</p> <p>The City Council is involved in litigation for weather-tightness issues on an ongoing basis. We are of the view that a liability should be recognised in the City Council's financial statements where the estimated figure for the potential liability is known.</p> <p>We understand one of the litigation claims has been settled during the year.</p>	<p>We are satisfied with the disclosure of a weather tightness claim as a contingent liability, rather than a provision, on the basis that there is no reliable estimate of the likely cost.</p> <p>The Council has advised us, including a specific representation in the year end representation letter, that the reasons for the uncertainty include:</p> <ul style="list-style-type: none"> • The plaintiff is still quantifying the claim at this point in time which is unusual for these cases. • There is significant uncertainty in determining the costs of these cases. Council's experience in settling a recent weather tightness claim was that the final settlement considerably exceeded its best estimate as at 30 June 2018. <p>Therefore the City Council has recognised a contingent liability based on the amount of the known claim at this time.</p> <p>We reviewed the documentation to support Council's position and also discussed the claim with Council's external legal representatives.</p>
Fair value of property, plant and equipment	
<p>Infrastructural assets and other revalued assets need to be revalued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value. The relevant accounting standard is PBE IPSAS 17, <i>Property, Plant and Equipment</i>.</p> <p>The City Council revalues its assets on a three yearly cycle with the exception of roading and library collection which is done annually. The last full revaluation</p>	<p>Revalued assets – land and buildings, and roading</p> <p>We were satisfied with the robustness of the valuations undertaken this year by the City Council.</p> <p>For land and buildings (\$550 million) and the roading assets (\$247 million) we:</p> <ul style="list-style-type: none"> • Reviewed how the City Council ensured completeness over the asset data;

Audit risk/issue	Outcome
<p>for the City Council was 30 June 2017. As such, the only assets that City Council is due to revalue as at 30 June 2018 are the roading assets and library collection.</p> <p>In a non-revaluation year the City Council must consider whether there has been any significant movement in the fair value of the assets that are not being revalued.</p> <p>In addition, the value of work in progress (WIP) on projects that span an extended period of time needs to be assessed for impairment regularly over the period of each project.</p> <p>We expect that the City Council will have done a comprehensive analysis to determine whether there is a significant variance between the fair value as at 30 June 2019 and the carrying value that would trigger the need for the City Council to revalue or impair its assets.</p>	<ul style="list-style-type: none"> Reviewed the City Council's explanations of variances between the latest and prior years' valuations for reasonableness; Obtained a confirmation from the Independent valuers (Opus and Telfer Young); Confirmed our understanding of the valuation methodology and key assumptions. We assessed these for compliance with PBE IPSAS 17 and evaluated their reasonableness based on our experience and knowledge of other roading, and land and building valuations; Determined how the age and condition of the assets had been determined, and how this had been reflected in the determination of the remaining useful life of the assets and the valuation calculation for those assets; Determined how unit rates for replacement costs have been determined for roading assets. We confirmed the reasonableness of a sample of unit costs by reference to recent capital works undertaken by the City Council; and Reviewed how changes in the value of roading, and land and buildings are accounted for and disclosed in the financial statements. <p>The roading valuation report noted some areas for the City Council to continue to improve its records however these were not material to the value of the assets and the revaluation amounts were appropriately included into the financial statements.</p> <p>Assets that are revalued but were not revalued this year</p> <p>We were satisfied with management's assessment that a full revaluation was not required to be undertaken for the asset classes that were not revalued this year.</p> <p>We reviewed the robustness of management's assessments as to why there is no material difference between the fair value and the carrying value of these assets, with a focus on the significant assets that were not revalued (3 waters). The City Council obtained advice from</p>

Audit risk/issue	Outcome
	<p>a 3rd party (AECOM) for the 3 waters assets. We sighted a report from AECOM who advised that, based on the Capital Goods Price Indices published by Statistics New Zealand, they assessed the indicative associated movement of 3 waters facilities infrastructure assets over the period since the last valuation as approximately 4.65% (being 1.6% for this year and 3.05% for the previous year).</p>
Risk of management override of internal controls	
<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls.</p> <p>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.</p> <p>Auditing standards require us to treat this as a risk on every audit.</p>	<p>To address 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"> • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. • Reviewed accounting estimates (e.g. weather tightness provision) for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. • 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. <p>From our testing we did not identify any issues that indicated management override.</p>
Systems for mandatory performance measures	
<p>The measures set out in the Non-financial Performance Measures Rules 2013 (the Rules) were reported on for the first time in the 2016 Annual Report. The Rules came into force under s261B of the Local Government Act 2002, and mandated a total of 19 measures across water supply, wastewater, storm water drainage, flood protection, and roading and footpath activities.</p> <p>We again assessed the systems in place to measure performance, and reviewed</p>	<p>We continue to recommend improvements in this area. We:</p> <ul style="list-style-type: none"> • followed up on the City Council's progress in implementing the recommendations we made in last year's management report; and • performed testing on the reported median response times to ensure appropriate reporting in the Annual Report. <p>We found that some of the records included in the system were not complete. We found as we followed these through that the supporting job</p>

Audit risk/issue	Outcome
<p>the reporting in the Annual Report, against the measures during our 2017/18 audit. We noted in this review that there had been improvements in this area when compared to the 2016/17 audit.</p> <p>We found that improvements could still be made in relation to the reporting against mandatory measures for complaints and median response times.</p>	<p>sheets had the required data but that this had either not been recorded in the system at all or had not been recorded accurately.</p> <p>We also reviewed any required additional commentary where necessary to ensure the City Council is reporting fairly on its performance during the year.</p>
Capital projects	
<p>The City Council continues to undertake an intensive capital programme.</p> <p>Council has recognised the risk with the level of projects being undertaken and is taking positive actions to mitigate these. A project manager has been contracted to co-ordinate and oversee the capital programme. A process to regularly report on the progress of the capital projects has also been implemented.</p>	<p>The level of carry forwards from this year to next year has increased by \$10.5 million over the prior year to \$15.2 million.</p> <p>We have no significant concerns over the carry-forwards as there were some major projects that were delayed such as the National Aquarium expansion project and the Aquatic Centre Expansion project. The Aquarium delay is due to final designs still being a work in progress and the need for the City Council to secure external funding for the project. The Aquatic Centre delay is due to the current legal case around the project being taken by a number of residents against the City Council about whether there was adequate/appropriate consultation in making the decision to proceed with the project.</p> <p>The major projects included in the carry forward work do not affect the levels of service.</p>
Investment property revaluation	
<p>Investment properties need to be revalued annually.</p> <p>The relevant accounting standard is PBE IPSAS 16, <i>Investment Properties</i>.</p>	<p>We assessed the revaluation as being fair value and that it had been appropriately included into the financial statements.</p> <p>We reviewed the valuation and assessed whether the underlying assumptions and data were consistent with the City Council's management and knowledge of the assets.</p>

Audit risk/issue	Outcome
Deferred tax liability	
<p>In its prior years' financial statements, the City Council has not accounted for deferred tax liabilities in relation to its revalued port assets on the basis that the inner harbour assets are highly unlikely to be sold. This was noted in Council's Letter of Representation as an uncorrected misstatement of \$1.278 million in 2017/18.</p> <p>The basis upon which the Council is not accounting for deferred tax liability is not an acceptable argument under the relevant accounting standard, PBE IAS 12 <i>Income Taxes</i>. The standard requires all deferred tax liabilities to be recognised. We note that the deferred tax liability calculations are getting closer to our materiality thresholds (i.e. a possible impact on our audit opinion).</p>	<p>We continue to recommend that the City Council comply with Generally Accepted Accounting Practice.</p> <p>As noted in section 2.2, this remains an outstanding issue in the current year with the deferred tax liability being understated by \$1.152 million.</p>
Reporting of bribery and corruption	
<p>Parliament's Finance and Expenditure Committee has expressed an interest in understanding whether the public sector has effective corruption prevention and detection processes in place.</p>	<p>We assessed the controls the City Council has in place to reduce the risk of wrongdoing – particularly bribery and corruption.</p> <p>We found that City Council's policies and procedures in relation to bribery and corruption have elements of good practice but on balance, for an organisation the size of the City Council, some improvements are required. We recommend that:</p> <ul style="list-style-type: none"> the City Council carry out an assessment to identify areas that are at risk for bribery and corruption. Mitigating actions should be put in place to ensure the risk is lowered. the City Council ensure the fraud policy is included in the induction pack for new employees. the fraud policy be expanded to be explicit about reporting requirements in relation to attempted bribery and corruption, and should also include who the members of the Fraud Management Group are.

Audit risk/issue	Outcome
	<ul style="list-style-type: none">the mechanism in ensuring controls in relation to fraud is adequate be expanded so that it is specific to bribery and corruption. We would expect at least annual reporting that would consider mechanisms indicating the adequacy of controls to be presented to those charged with governance (Council or the Audit and Risk Committee), including consideration by senior management of any changes required.

23.

4 Items noted during our final audit work



24. The following are the items that we noted during our final audit work that need to be brought to your attention.

25. Matters noted in our interim audit work are set out in our report dated 22 August 2019.

4.1 Rate Assessment Notice compliance with legislation

We recommend that a formal review to be completed on the rates assessment notice to ensure all legislative requirements have been met.

We reviewed the Council's rates assessment notice and compared it against the legislative provisions included in the Local Government Rating Act. From this review we noted the following areas were not complying with the Act:

- The address of the Local Authority is not included (we did note that the Private Bag address was included)
- The factor for the targeted rate did not state it was based on a SUIP, it states Fixed \$ Charge (We note on the back where it describes each targeted rate it does state that it is based on SUIP)
- The penalty regime included on the rates assessment notice did not match what was in the rates resolution.

If the legislative provisions for rates are not met the worst case scenario is that the rates are not legally enforceable. With rates being the main source of income for Council, this is an area where if the rates do not meet all legislative requirements they may not be collectable.

Management comment

Audit was conducted on the 2018/19 rates template. The 2019/20 rates template complies with s.45 of the Local Government (Rating) Act and includes the following features:

- *Local Authority physical address is located on page 2 of the rates assessment.*
- *As per s.41(1)(i) information on the factors used to calculate the amount of the liability of a rating unit in respect of each targeted rate is contained on pages 1 and 2 of the rates assessment 2019/20. For the purpose of ratepayer clarity, this information was spread over two pages and provides a detailed breakdown of targeted rates (refer to page 2, section 2 – Targeted Rates) for further information.*
- *Whilst the wording and layout of the penalties information is not identical to the wording and layout of the Rates Resolution 2019/20, the application of penalties*

described in the rates assessment 2019/20 is consistent with the application of penalties within the Rates Resolution 2019/20.

4.2 Financial statements should be prepared directly from the trial balance

We recommend that the financial statements should be prepared directly from the trial balance (i.e. adjustments should be made to the general ledger prior to the financial statements being produced).

We were not provided with a clear reconciliation between the general ledger trial balance and the financial statements. When we carried out our own reconciliation of the trial balance to the financial statements, it was unclear how a number of general ledger codes had been mapped to the financial statements.

Manual adjustments should be made rarely outside of the trial balance and if they are made they should be clearly documented.

Management comment

As agreed with Megan, this paragraph is to be removed.

4.3 Revaluations

We recommend that the City Council ensure that all assets in a class of assets are revalued at the same time and that all valuation reports are examined for accuracy.

During our audit of the revaluation of the land and buildings and the investment properties we noted several issues.

With the revaluation of the land and buildings we noted that:

- there were assets that had not been revalued from that class of assets (these were not material to the overall result);
- some assets had been revalued and included in the financial statements that were not in this class of assets but instead belonged in the drainage class (these were corrected before the final version of the annual report);
- some assets were revalued that should not have been revalued as they were non-current assets held for sale and are not subject to revaluation (these were corrected before the final version of the annual report); and
- some of the revalued assets were not correctly mapped into the financial records.

For the revaluation of the investment properties the City Council received two different revaluation figures. While the right version was included in the annual report the City Council had not initially questioned these differences.

Overall the City Council needs to ensure that the revaluation reports from the valuers are examined to ensure that they are happy that the results of the valuation include all appropriate items and that the movements in the values of the assets are reasonable.

Management comment

We acknowledge the issues you have raised above. The revaluation report received from the valuer was later than expected, resulting in a very short time for finance to update the fixed asset register with the revalued figures and update the financial statements. As a result of the lateness of the report and the requirement for us to provide audit with a finalised draft set of accounts we were under considerable pressure to get this done and reconciled. Please see below responses to your bullet points above:

- 1. We acknowledge there were some assets that were not revalued that the valuer did miss, even though we had provided this information to them. However due to the time restraints as advised above and the relevant small value of these, it was decided not to have these assets revalued.*
- 2. Assets revalued in the drainage class - as we are required to assess annually those classes of assets held at fair value, the 2018/19 year required us to revalue our Operational Assets (except Plant and Equipment), and Council's Restricted Assets. This was outside of our normal three yearly revaluation cycle. There were a small number of above ground assets that were revalued in the drainage class that was included by the valuers (as they would have normally done as part of the three yearly cycle). We will ensure in future if we are required to do an off-cycle revaluation that those assets that are not affected are not included in the valuers report.*
- 3. Assets held for sale were included in the re-valuation, and we do acknowledge this was an oversight by us. As soon as this error was realised, audit were advised immediately whilst the audit team was onsite.*
- 4. Noted and agreed – the valuer's report had some minor classification errors that were not picked up at the time, but we will ensure this is checked against our records forward.*

4.4 International travel approval

We recommend all international travel is pre-approved by the Chief Executive with information on what the benefit and purpose to Council is, to ensure that all expenditure incurred is appropriate.

We found one occurrence of international travel not being approved in line with the sensitive expenditure policy.

Clause 13.2 of the Sensitive Expenditure policy states that “International travel undertaken for the purposes of training and personal development of employees (other than the Chief Executive), must be approved by the Chief Executive with the overall cost approved through the annual or long-term plan process”.

Clause 13.3 of the Sensitive Expenditure policy states that “Any person travelling internationally on Council business must provide a report to the Mayor or Chief Executive on their return detailing the benefits of the trip”.

We could not find any documentation that the travel was pre-approved by the Chief Executive or that there was a report back to the Chief Executive regarding the benefits of the trip to the City Council. This made it difficult to assess if the expenditure had a benefit to the City Council and was appropriate City Council expenditure.

As with all other expenditure, it is important that documentation is kept as proof that the appropriate approval process was followed.

We note that the travel has since been retrospectively approved by the Chief Executive.

Management comment

Noted and agreed – we will continue to educate all staff as part of our finance training sessions to ensure compliance with the Sensitive Expenditure Policy, noting in particular international travel pre-approval requirement.

Please note that from September 2019 we have entered into a preferred supplier agreement for travel – being Orbit. All international travel is booked through Orbit and is set up so that the booking can only be done if authorised by the CE, therefore ensuring international travel is compliant with policy.

4.5 Approval of Mayor’s expenditure

We recommend that the documentation setting out the Mayor’s expenditure provided to the Audit and Risk committee is retained.

This recommendation supplements our recommendation in the interim management report that reporting of the Mayor and Chief Executive’s sensitive expenditure be provided more frequently to the Audit and Risk Committee during the year (as opposed to annually).

We understand that a report outlining the Mayor’s expenditure was presented to the Audit and Risk committee at its June 2019 meeting. However we have been unable to obtain a copy of that report, which we would expect to include a listing of the expenditure that the Committee reviewed.

Management comment

The report that went to the June 2019 meeting was the Sensitive Expenditure report done by our internal auditors, Crowe Horwarth, for the period July 2018 to March 2019 – we did provide audit with a copy of this.

We agree that the reporting of the Mayor's and CE's sensitive expenditure is to be provided more frequently than annually, and have now set up the report to be presented on a quarterly basis.

4.6 Need for a Quality assurance process over performance measure report

We recommend that the City Council complete a monthly review of all the service requests relating to wastewater and water supply, to ensure the correct attendance and completed times are recorded.

During our testing and review of the performance measures we found that there was no quality assurance over the reports generated that calculate the result of the attended to and resolution time performance measures.

We found the following issues:

- Both for wastewater and water supply the median formulas were not encompassing the total population. For wastewater this did not have a material impact as only a couple of service requests were not included but for water supply there were 1,000 service requests unintentionally excluded from the median formula;
- There was no review over the data that the report was pulling. Due to this we found attended and resolution times were not coming through in the report. We worked with the City Council to update missing data (where possible) with the results from the hard copy of the service details; and
- Instances where the completion time was recorded as being the exact same time as the service request being received, when the supporting documentation disagreed with this.

Completing a quality review each month of the service requests, will ensure that any anomalies are picked up and investigated to ensure the City Council is reporting accurately on its performance measures.

Management comment

The following actions will be undertaken to address this:

- *Reports are now checked for formulas and data range to ensure resolution times are captured.*

- *The data checking process was based on follow up of prior month only and now has been changed to check data from the start of the year to current month. This is occurring monthly and quarterly.*
- *Some afterhours calls were being advised as being at the time the afterhours operator finalised the advice to us, not the time the issue was reported to them. This has been followed up with the afterhours call centre.*
- *The completion time can be the same time as the Service Request being received where the call has been closed out due to a caller logging the same issue multiple times. The system cannot easily identify duplicates at entry point and callers may not advise they have logged earlier, e.g. dirty water can be logged with the depot line, and also be logged 20 mins later with customer service. Process changes are progressing on improving duplicate request handling.*
- *The Service Request system and processes are being reviewed as part of the Acella project.*

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 activity groups.

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 Councillors, 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 Councillors, office holders, or employees.

There were no items noted during our audit that we need to bring to your attention.

6 Changes to the Government Rules of Sourcing



As from 1 October 2019, the new Government Procurement Rules (the Rules) came into force. The Rules are a revision of the previous third edition of the Government Rules of Sourcing and were approved by Cabinet in May. Much of the content is consistent with the third edition with some re-numbering of Rules. The new Rules and a table of rule changes can be found in this link [Table of Rule Changes](#). A few important changes are noted below.

Whilst these Rules are not mandatory for the City Council, the Government encourages the wider public sector, including all Regional Councils and Territorial Authorities, to apply the Rules as good practice.

Government Procurement Charter

The new rules include a Charter for the first time. The Charter sets out the Government's expectations of how agencies should conduct their procurement activity to achieve public value. The Charter applies even when the Rules do not. The City Council will need to demonstrate how it is meeting these expectations in its procurement activity.

Broader outcomes

The new Rule 16 outlines a number of secondary benefits that it is seeking from the way in which procurement is conducted in the public sector. These secondary benefits relating to the costs and benefits to society, the environment and the economy are required to be considered (where appropriate) along with the whole of life costs of the procurement.

To maximise the effects of these priorities, the Government will be designating some contracts or sectors where the outcomes must be prioritised. These will be published at www.procurement.govt.nz.

Procurement planning

A new Rule 15 includes guidance and expectations related to procurement planning. Rule 22 has been amended so that significant procurement plans must be submitted to the Ministry of Business, Innovation, and Employment for review on request

Threshold changes

The thresholds for when the Rules apply (contained in Rules 6 and 7) have been taken out of the Rules document and will now be found at www.procurement.govt.nz. We understand this is to facilitate changes in the thresholds as necessary, without a full change to the GPS. The immediate change is to the threshold for new construction works, which reduces from \$10 million in the current edition to \$9 million.

We encourage procurement staff to understand the changes, and consider their implementation by considering any changes that would be required to the City Council's procurement policies, procedures and practices.

7 Helping you to understand your risks: procurement and contract management

Why it matters

26. Procurement and contract management carry high risk in terms of costs, public and political profiles, reputation, and performance. Delivering services well depends on doing procurement and contract management well.

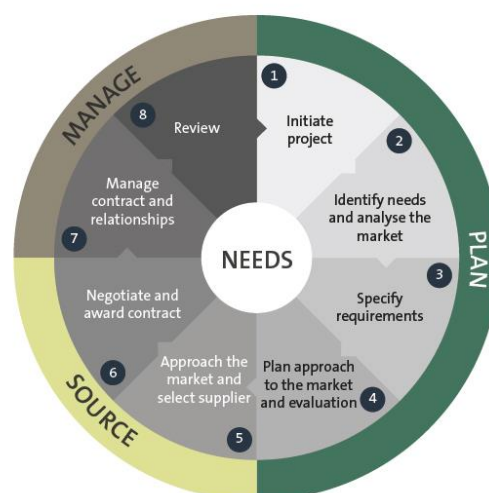
Understanding your risks

27. We have used our sector expertise, and recognised best practice, to develop a standardised risk assessment tool to analyse your local authority's procurement and contract management risks. We have included the sector context by displaying your position compared to other entities in the sector¹.

What do we mean by procurement and contract management?

28. Procurement is the overarching term used to describe all the business processes associated with purchasing goods and services. Procurement is much more than "buying something" – it includes all the processes involved in acquiring goods and services from a third party. Effective contract management helps ensure goods and services are delivered well, to specification, and in full. Both go together to ensure public value is realised.

Figure 2
The eight-stage life cycle of procurement



Source: (Recoloured from) the Ministry of Business, Innovation and Employment.

The Auditor-General's work programme – Procurement

29. The Office of the Auditor-General is part way through its work programme on Procurement. Earlier this year performance auditors visited 22 local authorities in the Waikato, Bay of Plenty, Canterbury, and Wellington Regions to talk about how local authorities in those regions carry out procurement. This audit identified some challenges that local authorities need to respond to so that procurement can continue to support the delivery of infrastructure and services to local areas. This will be particularly important with the significant growth that is forecast in many areas.

¹ This analysis is limited to entities audited by Audit New Zealand only.

30. The Office of the Auditor-General plans to publish its findings by the end of 2019. It will be important for each local authority to consider the Auditor-General's findings in order to determine priorities for further improving or developing the approach to procurement.

How do we assess risk?

31. Our assessment tool considers risk from two angles:

- The risk in the environment. This is the inherent risk. It is influenced by complexity, instability, change, delivery of critical services, interdependencies, and reliance on third parties. Size, strategic direction, and the nature of services are also important.
- The effectiveness of management systems and processes. This is control risk and covers the main aspects of good practice that we would expect to be applied. Effective management systems and processes mitigate aspects of inherent risk and reduce the risk of something going wrong.

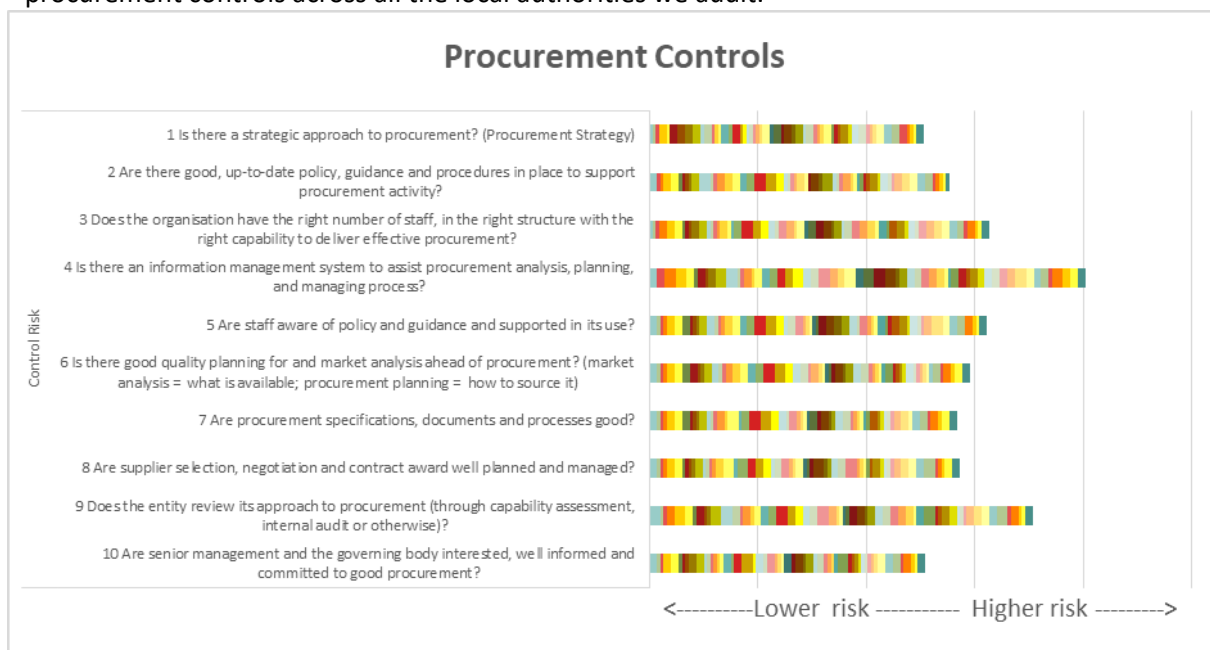
The risk assessment process we have undertaken is based on the design of the controls only. We have not performed testing to ensure the controls are operating effectively.

What are the assessments telling us?

Procurement is particularly important for local authorities, in which investment in developing, renewing and maintaining infrastructure is typically outsourced to private sector providers. In addition, many local authorities have entered into alliances, partnerships or other collaborative arrangements to support service delivery. With continued pressure on rates and other sources of funding, the need to achieve good value for money remains an important consideration. However, many local authorities have told us that they aim to use their spend to deliver other benefits, such as supporting the local economy.

Common areas of risk across local government

32. In the graph below we have summed the risk rating we assessed for each of ten procurement controls across all the local authorities we audit.



33.

34. Two areas stand out across local government as priorities for improvement:

- Ensuring there is an appropriate information management system so that staff can analyse procurement spend, plan and manage procurement processes, and keep good records;
- Being open to continuous improvement through reviewing procurement practices and capability.

35. The graph below shows a similar analysis for contract management controls. Overall this indicates that contract management controls are weaker than those covering the purchasing stage of the procurement cycle. We encourage all local authorities to consider whether their approach to contract management is as clearly defined, well-resourced and implemented as it needs to be.

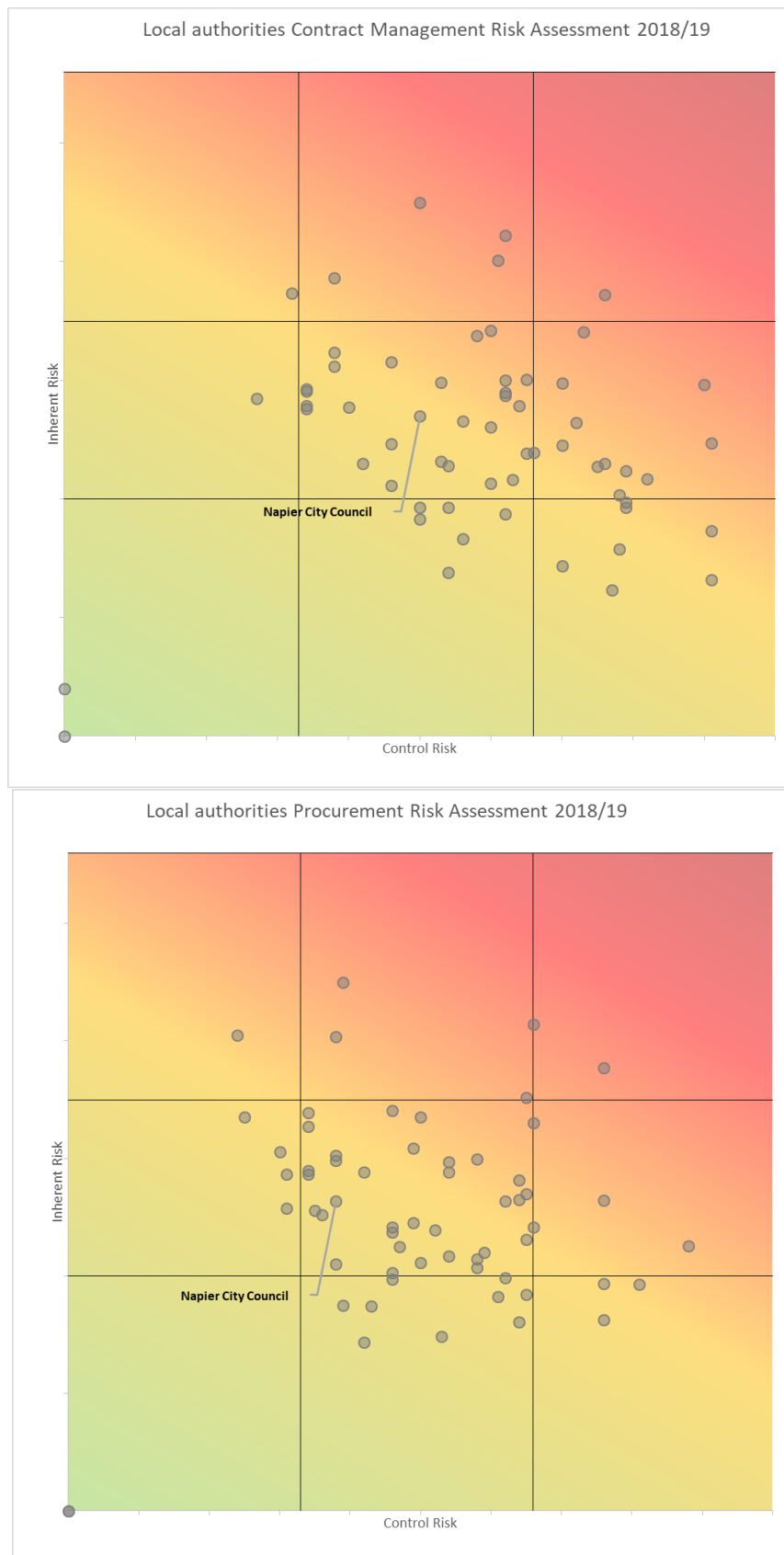


36.

37. Three aspects of contract management might provide a focus for this consideration:

- Assessing whether there is a strategic approach to supplier relationship management;
- Making sure there are good, up to date policies, guidance and procedures in place to help staff manage contracts effectively; and
- Ensuring there is an appropriate contract management system in place.

38. Each grey dot in the graphs below represents a local authority mapped according to our assessment of its inherent and control risk.



39. Local authorities uses a range of procurement approaches and have a significant number of contracts for a diverse range of goods and services. Levels of inherent risk vary widely depending on the size of local authorities, as well as the extent of and approach to outsourcing.

40. Napier City Council has medium levels of inherent risk for both procurement and contract management.

41. There is little the City Council can do to reduce its level of inherent risk. However, it can strengthen its systems and processes to bring down the overall level of risk. In our view the controls for procurement and contract management are at a medium level, with procurement being stronger than contract management. In our view the City Council could strengthen its contract management systems and processes, to bring the overall level of risk down to low risk.

Our view on priorities for strengthening the City Council's control over procurement and contract management

42. We expect up to date policy, procedures and guidance to form a sound basis for controlling contract management. Policy needs to be regularly updated to make sure it continues to comply with the good practice promoted by the Government Procurement Rules.

43. In our view, the area we believe would make the most difference to strengthening the City Council's controls would be making sure that there a structured and suitably formal approach to contract completion and transition. This might involve:

- Having formal close out process in place.
- Putting together an end of contract strategy, either in total, or for key contracts.
- Using transition plans where service delivery needs to continue.
- Having clear and well defined handover / commissioning processes for outsourced projects.

Continuing focus on risk for 2019/20

44. As part of our 2019/20 audit we will consider procurement-related risks during our audit planning, based on our knowledge of your local authority, your pattern of spend and the range of contracts you have in place.

45.

8 Useful publications



Based on our knowledge of the City Council, we have included some publications that the Council and management may find useful.

Description	Where to find it
Public accountability: A matter of trust and confidence	
<p>Public accountability is a cornerstone of our system of government. Knowledge on what the public is getting for their taxes and rates, how well that is being spent, and the integrity of the overall system are the basics of public accountability.</p> <p>This discussion paper is the first phase in a programme of work about the future of public accountability.</p> <p>The next phase of our research on public accountability will build on what we have learned here and focus on how well the current public accountability system is positioned to respond to the challenges and opportunities the public sector faces. This research will inform what the Auditor-General's Office does to improve trust and promote value in the public sector.</p>	<p>On OAG's website under 2019 publications.</p> <p>Link: public-accountability</p>
Post implementation reviews	
<p>The OAG has recently completed a review of Auckland Council's post implementation review process. While many aspects of the report are specific to Auckland Council, it documents the process that Auckland Council uses, and includes a post implementation review checklist.</p>	<p>On the OAG's website under publications.</p> <p>Link: Post-implementation review process</p>
Inquiry into Waikato District Health Board's procurement of services from HealthTap	
<p>Findings of the inquiry into the decision of Waikato District Health Board in 2015, to enter into a contract with the United States-based company HealthTap Inc to provide "virtual care" services through an online service.</p> <p>There are important lessons about a good procurement process that can be learned and applied to other procurements in the public sector – in particular, when seeking to be innovative.</p> <p>Innovation in the public sector is important. It can lead to new and better services for the public and more efficient ways to deliver current services. However, when public organisations seek to innovate, it is all the more important to respect the disciplines of good procurement. Innovative service delivery and good procurement practice are not mutually exclusive.</p>	<p>On OAG's website under 2019 publications.</p> <p>Link: inquiry-waikato-dhb</p>

Description	Where to find it
Inquiry into procurement of work by Westland District Council at Franz Josef	
<p>This report concerns a decision of the Westland District Council to carry out work at Franz Josef to protect the town's wastewater treatment plant from flooding. The work was carried out on an urgent basis and resulted in the construction of a new 700-metres-long stopbank on the bank of the Waiho River.</p> <p>This report identifies numerous examples of poor decision-making and poor procurement practice. They include the lack of any proper risk analysis or consideration of alternative options, the failure to seek expert advice on either the immediacy of the flood risk or whether building a stopbank was the right response, an inadequate planning and procurement process for a project of this type and scope, an apparent disregard for legislated decision-making requirements, and a failure to consult those affected by the work until the work was already under way.</p>	<p>On OAG's website under 2019 publications.</p> <p>Link: westland-dc-procurement</p>
Water reports	
<p>A number of reports on water have been released:</p> <ul style="list-style-type: none"> Crown investment in freshwater clean-up The OAG examined how the Ministry for the Environment administered four Crown freshwater clean-up funds for improving lakes, rivers, streams, and wetlands. Our primary objective was to assess whether Crown funding was being used effectively to improve freshwater quality. Observations on Waikato River Authority's freshwater restoration operations The OAG looked at the operational approach of the Waikato River Authority to restoring and protecting the Waikato and Waipā Rivers for additional insight into how different entities manage Crown funds. Managing freshwater quality: Challenges and opportunities The OAG published a report on how effectively Waikato Regional Council, Taranaki Regional Council, Horizons Regional Council, and Environment Southland managed the effects of land use on freshwater quality in their regions. We found that the effectiveness of the four regional councils' approaches was variable. In this report, we assess the progress they have made since 2011 	<p>On OAG's website:</p> <p>Link: freshwater-clean-up</p> <p>Link: wra-freshwater-restoration</p> <p>Link: freshwater-quality</p>

Description	Where to find it
Client updates	
<p>In March 2019, we hosted a series of client updates. The theme was “Improving trust and confidence in the public sector”.</p> <p>These included speakers from Audit New Zealand and external organisations.</p>	<p>On our website under publications and resources.</p> <p>Link: Client updates</p>
Good practice	
<p>The OAG’s website has been updated to make it easier to find good practice guidance. This includes resources on:</p> <ul style="list-style-type: none"> • audit committees; • conflicts of interest; • discouraging fraud; • good governance; • service performance reporting; • procurement; • sensitive expenditure; and • severance payments 	<p>On the OAG’s website under good practice.</p> <p>Link: Good practice</p>
Reporting fraud	
<p>The OAG have released data from 2012-2018 on fraud in public entities. This includes how the fraud was detected, the type of fraud and the methods and reasons for the fraud. The graphs show the high-level sector, and this can be broken down further into sub-sectors by opening the spreadsheets available.</p>	<p>On the OAG’s website under data.</p> <p>Link: Reporting Fraud</p>

Appendix 1: Status of previous recommendations

Open recommendations

Recommendation	First raised	Status
Necessary		
Reporting against Mandatory measures for complaints and median response times		
<p>That 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>That the following improvements be implemented:</p> <ul style="list-style-type: none"> Continue to review the effectiveness of the current reporting and systems to accurately capture the underlying data and ensure the data is complete. Continue to perform regular (e.g. 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. 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. Continue to review DIA guidance to ensure that the data being captured and reported meets the mandatory reporting requirements. <p>For our detailed recommendations on this matter, please refer to our management report dated 26 October 2016.</p>	<p>2016/17</p> <p>Letter dated 14 June 2017</p> <p>2015/16</p> <p>Letter dated 26 October 2016</p>	<p>NO PROGRESS</p> <p>We have not seen verifiable evidence of a centralised review.</p>

Recommendation	First raised	Status
Improvements in the Expenditure System Controls		
<p>That:</p> <ul style="list-style-type: none"> one up approval to be gained for all expenditure; expenses are coded into the appropriate financial year; a review of a random sample of smaller purchases against supporting documentation as part of the management accountant's review would reduce the risk in this area; and Development of a system report which will identify where the same staff member has raised, approved and receipted the goods and 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>2016/17</p> <p>Letter dated 8 December 2017</p> <p>Prior to 2015/16</p>	<p>PENDING</p> <p>The majority of expenditure is now being processed via Approval Plus. The Procurement Advisor is able to still manually raise POs and approve invoices still. The reason for this is the inability of Approval Plus to link to the stock system. This is being actively investigated by the Payroll/Accounts Payable Coordinator who is looking for ways to integrate the ordering of stock to the general Approval Plus procedure.</p> <p>We will follow up the progress of this during our next interim audit.</p>
Log on accounts with no password expiry		
<p>That the current review of user accounts, identifies and ensures that log on accounts comply with Council password rules.</p> <p>We recommend that further verification work is continued on the validity of 'Active Directory' accounts.</p>	<p>2015/16</p> <p>Letter dated 26 October 2016</p> <p>30 June 2019</p>	<p>IN PROGRESS</p> <p>We reviewed a current Active Directory (AD) listing and found there are no User network log on accounts that have passwords that don't expire. However, there are many generic accounts that have no password expiry and are used for administrative tasks such as room bookings, reception, library and 'Health Mail Boxes'. Additionally we noted that many of these generic accounts have never been used. We discussed the status of AD accounts as shown in the listing and understand that further verification work is to be performed to confirm their validity.</p>

Recommendation	First raised	Status
Water by meter rates - improvement to systems		
That an independent post input review of rates per cubic meter and property classification inputted into the system be carried out, evidenced with a dated signature.	2016/17 Letter dated 8 December 2017	NO PROGRESS The Rates Coordinator has advised that there is no post input review, however, water by meter readings are a direct upload into the system via a csv file. There is also no input review of the csv file that is uploaded.
Recognition of Deferred Tax Liability – Wharf Assets		
That the City Council recognise its deferred tax liability with respect to its wharves.	Prior to 2015/16	NO PROGRESS See sections 2.2 and 3. The deferred tax liability for 2018/19 has not been accounted for. This was noted as uncorrected misstatement in the Letter of Representation and in this Management Report.
High Annual Leave Balances		
That management continue to encourage those with high annual leave balances to take leave.	Prior to 2015/16	IN PROGRESS 144 staff had annual leave greater than 6 weeks (2018: 185 staff)
McLean Park Sports Ground Hire Income		
That a regular audit process be implemented over gate takings/ticket sales at the McLean Park Sports ground.	Prior to 2015/16	NO PROGRESS No changes noted from last year.

Recommendation	First raised	Status
Beneficial		
Guidelines for Sensitive and Discretionary Expenditure Policy review		
<p>That the 'Policy Guidelines for Sensitive and Discretionary Expenditure' be reviewed in the next financial year to ensure that the policy remains up-to-date and meets the City Council's needs.</p>	<p>Prior to 2015/16</p>	<p>IN PROGRESS</p> <p>The Sensitive Expenditure policy was reviewed on 6 November 2018.</p> <p>We disagree with the guidance in Part 12 of the policy covering Airline loyalty schemes, which states that unless a cost is incurred to the Council then any loyalty rewards gained via travel are the property of the individual employee.</p> <p>Our expectation is that, to the extent that it is practically possible within the requirements of the law, that:</p> <ul style="list-style-type: none"> • loyalty rewards accruing to staff carrying out their official duties are treated as the property of the City Council; • as far as practicable, those loyalty rewards should be applied only for the benefit of the City Council. • staff should keep a record of loyalty rewards accrued on City Council business (and those rewards applied for the benefit of the City Council), and regularly supply the City Council with a report of this record – e.g. six monthly. <p>We also recommend that the policy be enhanced for the following matters:</p> <ul style="list-style-type: none"> • Tipping: The City Council should be clear that it will not meet the costs of tipping by staff while they are on City Council business in New Zealand, and will pay for tips during international travel only in places where tipping is local practice (using a principle of moderate and conservative

Recommendation	First raised	Status
		<p>expenditure and that tipping should not in any circumstances be extravagant).</p> <p>Cash advances: The policy is silent on cash advances. Our interpretation of that silence is that cash advances are not allowed under any circumstances. It would be helpful for City Council staff to have that expectation clearly set out in the policy. On the other hand, if cash advances are allowed, we would expect clear guidance on their use in line with good practice.</p>
Procurement and Contract Management		
<p>We have made the following recommendations:</p> <ul style="list-style-type: none"> • Complete a register of all procurement (non purchase order) contracts to ensure the City Council has a complete view of its contracted obligations. • Complete the roll-out of the electronic purchase order system as a means to facilitate purchase order analysis and improve the efficiency of processing purchase orders. • Provide procurement training and development for those involved in significant procurement activity – both sourcing and managing contracts – particularly around probity and contract risk. • Enhance the documentation to support considerations of conflict of interest in procurement. • Consider whether the procurement expertise available in the design office can be better utilised in assisting those business units in Council with little specialist knowledge of procurement. • Consider using a wider range of procurement approaches (including 	2010/11	<p>IN PROGRESS</p> <p>The policy which is to cover these recommendations is still in draft.</p> <p>We will follow this up during our next interim audit by utilising a member of our specialist assurance audit team with expertise in the area of procurement and contract management.</p>

Recommendation	First raised	Status
<p>evaluation methodologies) to fit the goods/services being procured.</p> <ul style="list-style-type: none"> • Provide additional guidance to staff involved with procurement about the documentation that needs to be retained to support the procurement (including contract management) activity. • Consider development of standard template procurement documentation to assist in consistency across the procuring business units. • Consider the security of key procurement and contract documentation in the case of fire or natural disaster. • Clarify whether the clause in the delegations policy that requires “all contracts entered into by the Chief Executive or any Manager that exceeds half of the delegated authority must be reported to the following ordinary meeting of Council” is being complied with (and clarify the definition of Manager for the purposes of application of the policy). 		
Conflict of interest risk management		
<p>That policies and guidance in place be improved.</p> <p>Employee Handbook</p> <p>A policy covering conflicts of interest should be developed and included in the next version of Employees' Handbook. Detailed recommendation are noted in our final management report for 2014/15.</p> <p>Interest Register</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</p>	2014/15	<p>NO PROGRESS</p> <p>No update from prior years.</p>

Recommendation	First raised	Status
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.		
Valuation of property, plant and equipment Unit costs: Three waters (freshwater, wastewater, and stormwater)		
That a unit rate calculation valuation approach is taken which is based on the inputs used to construct assets and the costs for each input	2016/17	OPEN 2018/19 was not a revaluation year for the 3 waters.
Valuation of property, plant and equipment Unit costs: Roading		
That the Council ensure that unit rates used in the valuation of roading assets are complete and accurate.	2016/17	IN PROGRESS We noted improvements this year and we will follow up this up during our next final audit.

Issues raised in 2019 interim management letter that we will follow-up as part of our 2019/20 audit

Recommendation	Reference	Priority
Journal Approvals We recommend matching the work flow for journal approvals to the transaction listing to ensure all journals have been through the work flow process of approval.	2.2.1	Necessary
Reconciliation Reviews We recommend that: <ul style="list-style-type: none"> reconciliations are printed, signed and dated as evidence of preparation and review and that reconciling items are cleared regularly; and The general suspense account is cleared regularly. 	2.2.2	Necessary
New staff impact upon procedures We recommend that the City Council has clearly documented procedures in place for key tasks (particularly those tasks that are less frequent in nature); this will assist in ensuring continuity when there are changes in the personnel carrying out those tasks.	2.2.3	Necessary
Sensitive expenditure – Mayor and Chief Executive We recommend that reporting of the Mayor and Chief Executive's sensitive expenditure be provided more frequently to the Audit and Risk Committee during the year (as opposed to annually).	2.2.4	Necessary
Kennedy Park: Weakness in Till Takings Sign Off We recommend that a more appropriate sign-off process be put in place, where the employee signing off the Cashier Balance Sheet report can be easily verified.	2.2.5	Beneficial
Stocktake of Fixed Assets We recommend that 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.	2.2.6	Beneficial

Implemented or closed recommendations

Recommendation	First raised	Status
Need for better record keeping of retentions		
There should be better record keeping of retention balances and “old” retentions should be regularly reviewed to ensure they are being paid out when they are due.	30 June 2018	All retentions have been reviewed and only the relevant ones are included in the financial records.
Periodic review of users and access rights		
That management establish a formal process to periodically review user accounts and access rights, both at the network level and including other Council systems.	2015/16 Letter dated 26 October 2016	Review of user accounts for both the network and the NCS application system has been completed.

Appendix 2: Corrected misstatements

	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Bank	1	913,679			
Employee Entitlements			(913,679)		
Property plant and equipment impairment	2				430,714
Water assets		(430,714)			
Asset revaluation reserve	3			28,197,465	
Property plant and Equipment		(28,197,465)			
Total		(27,714,500)	(913,679)	28,197,465	430,174

Explanation of uncorrected misstatements

- 1 To correctly accrue the end of year payroll liability
- 2 To record the reservoirs no longer able to be used.
- 3 To correct errors made in the revaluations of property plant and equipment.

Corrected disclosure deficiencies

Detail of disclosure deficiency
The reconciliation to the cash flow needed to be adjusted to ensure that it reflected the balances in the rest of the financial statements.
The numbers of the employees included in the disclosures relating to the bands and total numbers of employees needed to be changed to match the underlying records.
Some of the benchmark calculations needed to be updated to ensure that the correct figures were used to calculate them.
Some drainage assets were incorrectly revalued in the initial valuer's report and included in the financial statements. These needed to be reversed.
The disclosure as required for the water rates needed to be included into the financial statements.

47.

Corrected performance reporting misstatements

Detail of misstatement
Further detail needed to be added into the wastewater performance measures relating to compliance with resource consents to ensure it reflected what had happened during the year.
Dry weather overflows incorrectly did not include one overflow which had incorrectly been recorded as a wet weather overflow.
The total number of complaints per 1,000 connections was calculated on an incorrect number of connections.
The attendance and resolution times for the water supply call outs were incorrectly calculated due to the underlying information.

48.

Appendix 3: 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 activity groups 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 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to the audit we have carried out an engagement in the areas of performing a limited assurance engagement related to the City Council's debenture trust deed, which is compatible with those independence requirements. Other than the audit and this engagement, we have no relationship with or interests in the City Council.</p>
Fees	<p>The audit fee for the year is \$137,000, as detailed in our Audit Proposal Letter.</p> <p>Other fees charged in the period are \$4,200, for the limited assurance engagement related to the City Council's debenture trust deed.</p>

Area	Key messages
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 that is significant to the audit.</p> <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> <p>The Audit Manager responsible for the audit has not undertaken any work related to the internal auditors (as her sister is a Crowe Horwath employee). The audit supervisor has reported directly to the Appointed Auditor on any of our work relating to internal audit.</p>

49.

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

PO Box 99
Wellington 6140
Phone: 021 222 4015

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8. EXTERNAL ACCOUNTABILITY: INVESTMENT AND DEBT REPORT

<i>Type of Report:</i>	Operational
<i>Legal Reference:</i>	N/A
<i>Document ID:</i>	871749
<i>Reporting Officer/s & Unit:</i>	Caroline Thomson, Chief Financial Officer

8.1 Purpose of Report

To consider the snapshot report on Napier City Council's Investment and Debt as at 31 October 2019.

Officer's Recommendation

The Audit and Risk Committee:

- a. Receive the snapshot report on Napier City Council's Investment and Debt as at 31 October 2019.

Chairperson's Recommendation

That the Committee resolve that the officer's recommendation be adopted.

8.2 Background Summary

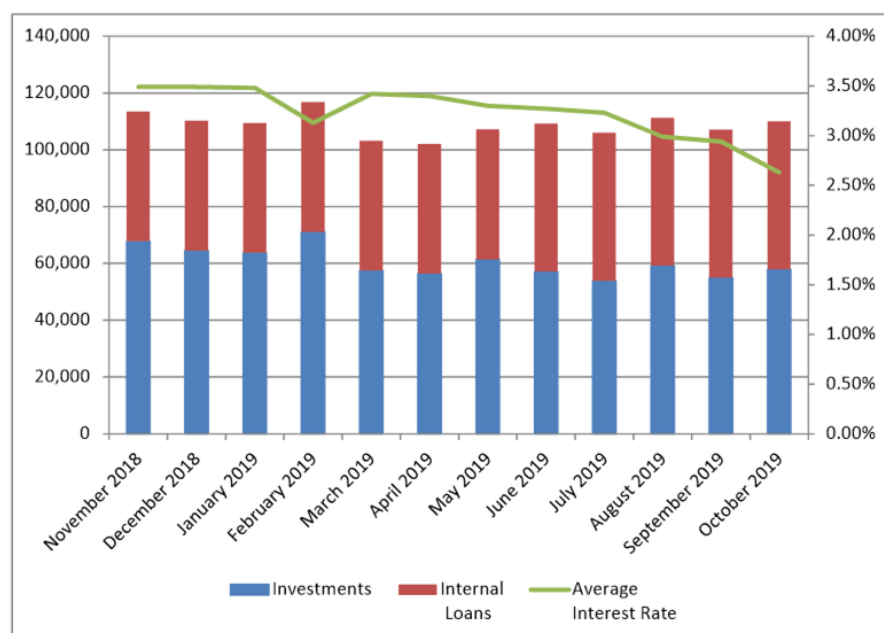
As at 31 October 2019 Council held \$57.9m on deposit at an average interest rate of 2.63%. The average investment rate for the 12 months to date is 3.23%

The snapshot report on Napier City Council's Investment and Debt as at 31 October 2019 is shown at **Attachment A**.

8.3 Attachments

- A Investment and Debt report as at 31 October 2019 [↓](#)

Month	Investments	Internal Loans	Average Interest Rate
November 2018	67,760	45,735	3.49%
December 2018	64,473	45,735	3.49%
January 2019	63,694	45,735	3.48%
February 2019	71,038	45,735	3.13%
March 2019	57,485	45,735	3.42%
April 2019	56,339	45,735	3.40%
May 2019	61,395	45,735	3.30%
June 2019	57,053	52,118	3.27%
July 2019	53,860	52,118	3.23%
August 2019	59,204	52,118	2.99%
September 2019	54,957	52,118	2.94%
October 2019	57,925	52,118	2.63%
AVERAGE	60,432	48,395	3.23%



Note: The weighted average interest rate for August 2019 reduced substantially due to a number of new term deposits (established to cover expected cash flows in December 2019) for shorter terms at lower interest rates.

\\Ncc-fp1-07\FINANCE\Audit & Risk meeting agendas\Meeting 051219\Investment and debt report as at 051219.xlsx

9. INTERNAL AUDIT: COMMUNITY GRANTS MANAGEMENT

<i>Type of Report:</i>	Operational
<i>Legal Reference:</i>	Local Government Act 2002
<i>Document ID:</i>	872363
<i>Reporting Officer/s & Unit:</i>	Caroline Thomson, Chief Financial Officer

9.1 Purpose of Report

To table to the Committee the internal audit on community grants management undertaken by Council's internal auditors, Crowe Horwath.

Officer's Recommendation

The Audit and Risk Committee:

- a. Receive the report from Crowe Horwath titled 'Community Grants Management'.

Chairperson's Recommendation

That the Committee resolve that the officer's recommendation be adopted.

9.2 Background Summary

Napier City Council provides types of community grants to help community based organisations provide programmes and activities in Napier. Community groups can apply to Council for a Community Services funding or Creative Communities grant. These grants are contestable so the success of applications depends on the criteria, priority of the respective grant compared with the others, and the grants money available for allocation.

9.3 Issues

Crowe Horwath have completed an internal audit of community grants management as part of the 2019/20 internal audit programme.

The scope of the internal audit included benchmarking Council's policies and procedures with regard to contract tendering, selection and management of members interests against OAG good practice guidelines. The internal audit process involved evaluating the key expectations of the various stages of the grants process and sample testing of grants from planning through to review.

The review concluded that overall Council's practices are appropriate and identified two findings of low priority which can be easily remediated by Council. These findings and management response are contained on pages 7 and 8 of the attached report.

9.4 Significance and Engagement

N/A

9.5 Implications

Financial

N/A

Social & Policy

N/A

Risk

N/A

9.6 Attachments

A Community grants management internal audit report [↓](#)



August 2019

Community Grants Management Internal Audit

Napier City Council

Audit / Tax / Advisory

Smart decisions. Lasting value.

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1. Executive Summary



Community Grants Management

Napier City Council

1.1. Objectives and scope

As part of our 2018/19 Annual Internal Audit Plan at the Napier City Council (hereafter "NCC" or "the Council") we have undertaken a Grants Management internal audit.

The scope of this internal audit incorporated the following steps:

- A benchmark of the Council's policies and procedures with regard to contract tendering, selection and management of member's interests against the following good practice guidelines:
 - The OAG's good practice guide: *Public sector purchases, grants, and gifts: Managing funding arrangements with external parties*
 - The OAG's good practice guide: *Principles to underpin management by public entities of funding to non-government organisations.*
 - Our own experience with local government and other public sector entities
- An evaluation of the key expectations at the various stages of the grants process by a review of policies and procedures and sample testing of a representative sample of grants.
 - Planning stage
 - Selection stage
 - Monitoring stage
 - Review stage.

Typical Grants Process



1.2. Background

The Council provides various types of community grants to help community-based organisations provide programmes and activities in Napier. Community groups can apply to the Napier City Council for a Community Services Funding or a Creative Communities Grant. These grants are contestable so the success of applications depends on the criteria, priority of the respective grant compared with the others, and the grants money available for allocation.

- The **Community Services Funding** is available to not-for-profit community organisations who support and enhance the community through the services they provide Napier residents, often in their time of need. This fund supports those organisation so they can meet current and future community needs, innovate and/or continue to provide services that benefit the Napier community.
- The **Creative Communities Grant** is available for projects or events that encourage participation in arts and culture within the Napier Community.
- The **Community Development Grant** supports initiatives that respond to a community need. This grant is provided to community organisations that are helping to make Napier the best city in New Zealand to live, to work, raise a family, and enjoy a safe and satisfying life.

The Council's Community grants
provided in 2018-19 year

Note: The amounts taken from the Council's website and subject to change.

Community Grants Management

Napier City Council

1.3. Key observations

The 'good practice' for managing grants in the public sector environment in New Zealand has been described in the Office of the Auditor-General's Good practice guide '*Public sector purchases, grants, and gifts: Managing funding arrangements with external parties*'. This Guide introduces several important principles that govern all funding arrangements and several key practical considerations that public entities should apply in practice to ensure that its approach to managing public money is fit for purpose.

The Council's Community grants that fall in scope of our review are of low value and low complexity. They are what the Guide classifies as "grants with limited conditions". These grants have different set of expectations compared to conditional grants or other public sector purchases. In line with the principle of simplicity and proportionality, it is unreasonable to expect that such low value-low risk grants have complex evaluation criteria, comprehensive monitoring and reporting mechanisms. We have taken these factors into consideration during our review.

We noted the following **strengths** in the Council's grant management operations:

- **Knowledgeable key personnel** involved in the process. This helps the Council ensure all grants are processed consistently and with sufficient quality.
- **Appropriate level of documentation** and guidelines to assist the Council's personnel and the evaluation committees' members to follow the intended processes.
- **Structured and repeatable processes** to review and evaluate individual applications, document the results of the assessment decisions and to monitor successful grants.

Overall, **the Council's practices** in relation to these in-scope grants **are appropriate** given their size and nature. We identified two findings of low priority, which can be easily remediated by the Council.

Although out of scope for our review, through our interviews we noted that the Council intends to review the structure of its existing grants with a view to create an arrangement that could provide the greatest impact on Napier's communities. We fully support this initiative and suggest that the Council also ensures that its future grant structure is aligned to the Council's strategic priorities and the impact of these grants is measured and reported.

Key considerations for managing public money

Simplicity and proportionality

The requirements put in place should be as practical as possible, considering the amounts involved.

The risk

Get the right balance between risk and expected benefit.

The goal

Process should not dominate at the expense of the outcome.

The context

The arrangements need to fit with the overall context of funding.

The nature of the parties

Understand the needs of the other party and the consequences of those needs for them.



1.4. Basis and use of report

This report has been prepared in accordance with the objectives and approach set out in the proposal dated 29 April 2019, and subject to the limitations set out in Appendix 4 "Basis and Use of Report".

2. Observations and Recommendations



Community Grants Management

Napier City Council

1. Formalise the conflicts of interest recording process for the Community Development grant**Rating of finding: Low****Observation**

The funding decisions for the Community Development grant are generally made by the Manager Community Strategies. This is because most of the grants are within the Manager's delegated authority.

The Manager is required to comply with the Council's existing Conflicts of Interest Policy. The Policy requires all staff to identify and disclose any potential conflicts as they arise. In the context for the Community Development grant, this means that if the Manager Community Strategies has a perceived or actual conflict of interest with the applicant, the Manager should refer the application to the Director of Community Services.

Currently there is no formal process for the Manager to positively confirm that as the decision maker, the Manager has no actual or perceived conflicts of interest for all the applications assessed by the Council.

This situation increases the risk that not all perceived and actual conflicts could be identified, managed and recorded appropriately for all applications evaluated by the Council for the Community Development grant.

Recommendations

Update the existing Community Development Funding Assessment Form to include a written declaration by the decision makers – either the Manager Community Strategies or the Director Community Services – that they have identified, managed and recorded any conflicts of interest in line with the Council's Conflicts of Interest Policy.

This could be in a form of a simple checkbox on the Assessment Form, which the Manager can sign off to evidence that the Manager has no conflicts with the applicant.

Agreed Management action(s)

We will implement this immediately on all forms for assessors and in the case of Community Development Grants, decision makers also.

Responsible Person

Natasha Mackie, Manager Community Strategies

Date of Implementation

30 October 2019

2. Address the deviations from the Creative NZ's Assessors Guide guidelines**Rating of finding: Low****Observation**

The Council distributes the Creative Communities grant as part of Creative NZ's Creative Community Scheme.

Creative NZ has developed an Assessors Guide to help the councils and other third parties better understand its expectations in relation to how this grant should be distributed.

The Council has the following minor deviations from the Guide:

- The Council's Creative Communities Assessment Committee consists of six members¹, while the Guide recommends that there be at least seven. The odd number of members assists with voting.
- The Guide requires all Committee members' conflicts of interest be noted and documented in the minutes of the Committee

Recommendations

While these deviations are minor, the Council should inform Creative NZ about them and ensure Creative NZ, as the ultimate funder, is comfortable with the current Council's processes.

If Creative NZ raises any concerns about these deviations, the Council should adjust its practices to comply with the Guide.

Agreed Management action(s)

We will advise Creative NZ about these deviations through our annual reporting to them.

Conflicts of interest identified during decision meeting and the action taken, e.g. XX left the room / did not participate in the vote, etc. will now be noted in the minutes.

Responsible Person

Natasha Mackie, Manager Community Strategies

Date of Implementation

¹ According to the Council's Creative Communities Terms of Reference.

Community Grants Management

Napier City Council

<p>meeting, including the member's absence during the relevant discussions. The Council records the conflicts identified by the Committee members, but does not record whether they leave the room during corresponding assessments.</p> <ul style="list-style-type: none">• The Guide specifies five assessment areas that should be used to evaluate grant applications. The Council has introduced additional area (NCC Local Priorities) on top of these five.	<p>30 June 2020</p>
--	---------------------

Community Grants Management

Napier City Council

Appendices

Appendix 1 – Summary of areas assessed in our review

The table below provides a summary of the expectations we applied in our review and the results in relation to the three in-scope grants. The expectations are based on the Office of the Auditor-General's Good practice guide '*Public sector purchases, grants, and gifts: Managing funding arrangements with external parties*'.

✓ - indicates that the expectation has been met (considering the risk, size and nature of the grant)

! - indicates improvement opportunity identified (refer Section 2 of this report)

✗ - indicates the expectation has not been met.

Expectations	Community Services Grant	Community Development Grant	Creative Communities Grant
Planning Stage			
Clear policies are in place identifying the purpose and criteria of grants that the Council will fund	✓	✓	✓
Policies and procedures are in place to ensure that public information on the availability of funds and process for applying are appropriately made available	✓	✓	✓
The purpose of grants aligns with Council's objectives (e.g. supports a 'public good' activity, entity or project)	✓	✓	✓
Selection Stage			
Policies and procedures are in place to ensure that applications are considered through a consistent and transparent process	✓	✓	✓
Policies and procedures are in place to ensure that conflicts of interest are identified, declared and appropriately managed	✓	!	!
An analysis of the benefits of the grant is undertaken in relation to the grant amount sought	✓	✓	!
Formal levels of approval for the awarding of grants are in place and are adhered to	✓	✓	✓
Appropriate conditions are formalised to ensure appropriate use of grants, accountability for the use of grants and the extent and type of monitoring	✓	✓	✓
Documentation exists of terms of the grant and what is being funded and consequences if conditions of the grant are not met	✓	✓	✓

Community Grants Management

Napier City Council

Expectations	Community Services Grant	Community Development Grant	Creative Communities Grant
Monitoring Stage			
Regular reporting, monitoring or other checks are undertaken to ensure compliance with the conditions of the grant and to assess whether further funds should be released	✓	✓	✓
Procedures are in place enforcing penalties where conditions are not met	✓	✓	✓
Review Stage			
Full reporting of results achieved by the grant against the intended objectives exists	✓	✓	✓
Actions are taken where requirements of the grant have not been met	✓	✓	✓
Information on the achievement of grant objectives is retained to assist with future funding decisions	✓	✓	✓
Records are maintained to demonstrate overall public benefits delivered by grants	✓	✓	✓

Appendix 2 – List of interviews

Name	Title
Antoinette Campbell	Director Community Services
Natasha Mackie	Manager Community Strategies
Belinda Mcleod	Community Funding Advisor

Community Grants Management

Napier City Council

Appendix 3 – Classification of Internal Audit Findings

Risk ratings are based on the use of professional judgement to assess the extent to which deficiencies could have an effect on the performance of systems and controls of a process to achieve an objective.

Rating	Definition	Guidance	Action required
High	<ul style="list-style-type: none"> Issue represents a control weakness, which could cause or is causing major disruption of the process or major adverse effect on the ability of the process to achieve its objectives. 	<ul style="list-style-type: none"> Material errors and departures from the organisation's policies and procedures Financial management / accountability / probity concerns Non-compliance with governing legislation and regulations may result in fines or other penalties Collective impact of many moderate or low issues 	<ul style="list-style-type: none"> Requires significant senior management intervention and may require significant mobilisation of resources, including external assistance. Ongoing resource diversionary potential. Requires high priority to immediate action
Moderate	<ul style="list-style-type: none"> Issue represents a control weakness, which could cause or is causing moderate adverse effect on the ability of the process to meet its objectives. 	<ul style="list-style-type: none"> Events, operational, business and financial risks that could expose the organisation to losses that could be marginally material to the organisation Departures from best practice management procedures, processes 	<ul style="list-style-type: none"> Requires substantial management intervention and may require possible external assistance. Requires prompt action.
Low	<ul style="list-style-type: none"> Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives. 	<ul style="list-style-type: none"> Events, operational and business risks that could expose the organisation to losses which are not material due to the low probability of occurrence of the event and insignificant impact on the operating capacity, reputation and regulatory compliance Departures from management procedures, processes, however, appropriate monitoring and governance generally mitigates these risks. 	<ul style="list-style-type: none"> Requires management attention and possible use of external resources. Requires action commensurate with the process objective.
Process Improvement	<ul style="list-style-type: none"> Audit recommendation is for improving already existing processes and controls. 	<ul style="list-style-type: none"> Potential improvements in efficiency and effectiveness of existing process and controls which already demonstrate compliance with procedures and legislation 	<ul style="list-style-type: none"> Recommendations made for management consideration and implementation as determined by management.

Community Grants Management

Napier City Council

Appendix 4 – Basis and Use of Report

This report is prepared on the basis of the limitations set out below:

- Our procedures were performed according to the standards and guidelines of The Institute of Internal Auditors' International Professional Practices Framework. The procedures were not undertaken in accordance with any auditing, review or assurance standards issued by the External Reporting Board (XRB).
- Our procedures were designed to provide limited assurance which recognises that absolute assurance is rarely attainable, due to such factors as the use of judgment in gathering and evaluating evidence and forming conclusions, and the use of selective testing, and because much of the evidence available for review is persuasive rather than conclusive in nature.
- Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. Our procedures were not designed to detect all weaknesses in control procedures as they were not performed continuously throughout a specified period and any tests performed were on a sample basis.
- Any projection of the evaluation of the control procedures to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.
- The matters raised in this report are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, management should not rely on our report to identify all weaknesses that may exist in the systems and procedures under examination, or potential instances of non-compliance that may exist.
- Recommendations for improvement should be assessed by management for their full commercial impact, before they are implemented.
- This Report is not to be used by any other party for any purpose nor should any other party seek to rely on the opinions, advice or any information contained within this Report. In this regard, we recommend that parties seek their own independent advice. Crowe disclaims all liability to any party other than the client for which it was prepared in respect of or in consequence of anything done, or omitted to be done, by any party in reliance, whether whole or partial, upon any information contained in this Report. Any party, other than the client for which it was prepared, who chooses to rely in any way on the contents of this Report, does so at their own risk.

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AUDIT AND RISK COMMITTEE

Open Minutes

Meeting Date:	Friday 13 September 2019
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Time:	9.00am – 9.24am
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Venue	Ikatere Boardroom Level 2, Capeview Building 265 Marine Parade Napier
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Present	John Palairt (In the Chair), Acting Mayor Faye White, Councillor Claire Hague and Councillor Kirsten Wise
---------	--

In Attendance	Chief Executive, Director Corporate Services, Chief Financial Officer, Director Infrastructure Services, Director City Services, Director Community Services [from 9.08am], Manager Communications and Marketing
---------------	--

Administration	Governance Team
----------------	-----------------

Apologies

Acting Mayor White / Councillor Hague

That the apologies from Mayor Dalton and David Pearson be accepted.

Carried

Conflicts of interest

Nil

Public forum

Nil

Announcements by the Acting Mayor

The Acting Mayor gave a brief update to the Committee on current work underway.

Announcements by the Chairperson

Nil

Announcements by the management

The Chief Executive advised that Napier City Council has recently received accreditation as a White Ribbon organisation, recognising Council's policies and kaupapa in relation to relationship violence. Three people have also received specific accreditation as leaders in this space – the Chief Executive, the Manager Community Strategies and the Building Maintenance Lead.

Confirmation of minutes

Councillors Wise / Hague

That the Minutes of the meeting held on 20 June 2019 were taken as a true and accurate record of the meeting.

Carried

AGENDA ITEMS

1. HEALTH AND SAFETY REPORT

Type of Report: Operational

Legal Reference: Health and Safety at Work Act 2015

Document ID: 823535

Reporting Officer/s & Unit: Sue Matkin, Manager People & Capability

1.1 Purpose of Report

The purpose of this report is to provide Audit and Risk with an overview of the health and safety performance as at 31 July 2019.

At the Meeting

There was no discussion on this item.

Committee's recommendation

Councillors Hague / Wise

The Audit and Risk Committee:

- a. Receive the Health and Safety report as at 31 July 2019.

Carried

2. RISK MANAGEMENT REPORT AUGUST 2019

<i>Type of Report:</i>	Information
<i>Legal Reference:</i>	N/A
<i>Document ID:</i>	829299
<i>Reporting Officer/s & Unit:</i>	Ross Franklin, Consultant

2.1 Purpose of Report

To provide the Audit and Risk Committee with an update on progress with risk management work and to report on the highest paid risks.

At the Meeting

It was noted that a risk management focussed role is currently being advertised. This role will have responsibility for risk management and will also contribute to work underway for business continuity planning.

As the reporting function of the project module in Sycle is implemented information will be provided both to project managers and also this Committee for an independent and politically focussed perspective.

In response to questions from the committee it was noted that there has been no softening in the construction market nationally.

The Bluff Hill fencing project is now being aligned with road widening on Lighthouse Road so as not to create longer impacts on residents than absolutely necessary.

Committee's recommendation

Councillors Hague / Wise

The Audit and Risk Committee:

- Note the Risk Management Work being undertaken by Napier City Council Staff and Management
- Note the current Major risks
- Receive the Risk Report Dated 26 August 2019

Carried

3. EXTERNAL AUDIT: AUDIT NZ INTERIM MANAGEMENT REPORT

Type of Report: Legal

Legal Reference: Local Government Act 2002

Document ID: 823537

Reporting Officer/s & Unit: Caroline Thomson, Chief Financial Officer

3.1 Purpose of Report

To consider the Audit NZ Interim Management Report for the year ending 30 June 2019.

At the Meeting

The Auditors are currently completing the year end audit; they have made positive comment about the transparent ethical environment. Small matters identified are already being actioned. A compulsory and comprehensive induction programme which takes into account feedback from current elected members is being prepared for the incoming council; this will include information on interests including a new application to facilitate declarations.

Some discussion took place on the management of higher leave levels, noting that while pay out of some leave was an option it was preferred for wellbeing reasons that the leave was actually taken. The overall levels of outstanding leave have reduced over the last couple of years through working with staff in this way.

Committee's recommendation

Councillors Hague / Wise

The Audit and Risk Committee:

- a. Receive the Audit NZ Interim Management Report for the year ending 30 June 2019.

Carried

4. LEGISLATIVE COMPLIANCE: ANNUAL TAX UPDATE TO 30 JUNE 2019

Type of Report: Operational

Legal Reference: Local Government Act 2002

Document ID: 823538

Reporting Officer/s & Unit: Caroline Thomson, Chief Financial Officer

4.1 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 2019.

At the Meeting

The Chief Executive noted that a proposal for FBT to be scaled based on organisation size has been raised to our local MP.

It was noted that the tax position for elected members is not well understood, even by personal accountants, such as GST implications, what can be claimed for etc. and it would be useful to have this information provided to incoming councillors as part of the induction programme.

Committee's recommendation

Acting Mayor White / Councillor Hague

The Audit and Risk Committee:

- a. Receive the report from PwC titled 'Napier City Council Annual Tax Update year to 30 June 2019'.

Carried

5. EXTERNAL ACCOUNTABILITY: INVESTMENT AND DEBT REPORT

Type of Report: Operational

Legal Reference: N/A

Document ID: 827499

Reporting Officer/s & Unit: Caroline Thomson, Chief Financial Officer

5.1 Purpose of Report

To consider the snapshot report on Napier City Council's Investment and Debt as at 31 July 2019.

At the Meeting

A brief discussion took place in relation to any impacts of changing interest rates on investments.

Committee's recommendation

Councillor Hague / Acting Mayor White

The Audit and Risk Committee:

- a. Receive the snapshot report on Napier City Council's Investment and Debt as at 31 July 2019.

Carried

PUBLIC EXCLUDED ITEMS

Councillor Hague / Acting Mayor White

That the public, excepting Stephen Lucy of Audit NZ be excluded from the following parts of the proceedings of this meeting, namely:

1. External Accountability: Draft Annual Report 2018/19
2. Legislative Compliance: Legal Update as at 30 June 2019
3. Review of Audit and Risk Committee
4. Cloud Vendor Security Review by DIA
5. IT Firewall Penetration Test
6. Relocation of Offsite Archives

Carried

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. External Accountability: Draft Annual Report 2018/19	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.

<p>2. Legislative Compliance: Legal Update as at 30 June 2019</p>	<p>7(2)(g) Maintain legal professional privilege</p>	<p>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.</p>
<p>3. Review of Audit and Risk Committee</p>	<p>7(2)(c)(i) Protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information or information from the same source and it is in the public interest that such information should continue to be supplied</p>	<p>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.</p>
<p>4. Cloud Vendor Security Review by DIA</p>	<p>7(2)(b)(ii) Protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information</p>	<p>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.</p>

5. IT Firewall Penetration Test	7(2)(b)(ii) Protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information	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.
6. Relocation of Offsite Archives	7(2)(b)(ii) Protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information	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.

The meeting moved into committee at 9.24am

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

Chairperson

Date of approval