

ORDER PAPER

AUDIT AND RISK COMMITTEE MEETING

Date: Thursday, 10 March 2022
Time: 9.00 am
Venue: Council Chamber
Rangitikei District Council
46 High Street
Marton

Chair: Mr Craig O'Connell
Deputy Chair: Cr Nigel Belsham
Membership: Cr Angus Gordon
Cr Dave Wilson
HWTM Andy Watson

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Notice is hereby given that an Audit and Risk Committee Meeting of the Rangitīkei District Council will be held in the Council Chamber, Rangitīkei District Council, 46 High Street, Marton on Thursday, 10 March 2022 at 9.00 am.

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AGENDA

1 Welcome / Prayer

2 Apologies

3 Public Forum

No public forum.

4 Conflict of Interest Declarations

Members are reminded of their obligation to declare any conflicts of interest they might have in respect of items on this agenda.

5 Confirmation of Order of Business

That, taking into account the explanation provided why the item is not on the meeting agenda and why the discussion of the item cannot be delayed until a subsequent meeting, [enter item number](#) be dealt with as a late item at this meeting.

6 Confirmation of Minutes

6.1 Confirmation of Minutes

Author: Ash Garstang, Governance Advisor

1. Reason for Report

- 1.1 The minutes from the Audit and Risk Committee Meeting on 15 December 2021 are attached.

Attachments

1. **Audit and Risk Committee Meeting - 15 December 2021**

Recommendation

That the minutes of the Audit and Risk Committee meeting held on 15 December 2021, [**as amended/without amendment**], be taken as read and verified as an accurate and correct record of the meeting, and that the electronic signature of the Chair of this committee be added to the official minutes document as a formal record.

MINUTES



UNCONFIRMED: AUDIT AND RISK COMMITTEE MEETING

Date: Wednesday, 15 December 2021
Time: 9.00 am
Venue: Council Chamber
Rangitikei District Council
46 High Street
Marton

Present Mr Craig O'Connell
Cr Nigel Belsham
Cr Angus Gordon [*via Zoom*]
Cr Dave Wilson
HWTM Andy Watson

In attendance Mr Peter Beggs, Chief Executive
Mr Arno Benadie, Chief Operating Officer
Mr Dave Tombs, Group Manager – Corporate Services
Mrs Sharon Grant, Group Manager – People and Culture
Mr Danny Le Mar, Manager Financial Services
Mrs Jess Mcilroy, Operations Manager
Ms Adina Foley, Senior Project Manager
Mr Ash Garstang, Governance Advisor

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1 Welcome / Prayer

The meeting opened at 9.03 am. Mr O'Connell read the Council prayer.

2 Apologies

No apologies.

3 Public Forum

No public forum.

4 Conflict of Interest Declarations

No conflicts of interest were declared.

5 Confirmation of Order of Business

No changes to the order of business.

6 Confirmation of Minutes

Resolved minute number 21/ARK/062

That the minutes of the Audit and Risk Committee meeting held on 09 September 2021, without amendment, be taken as read and verified as an accurate and correct record of the meeting, and that the electronic signature of the Chair of this committee be added to the official minutes document as a formal record.

Cr A Gordon/HWTM A Watson. Carried

7 Follow-up Action Items from Previous Meetings

7.1 Follow-up Action Items from Audit and Risk Meetings

Cr Wilson arrived at the meeting at 9.10 am.

Mr O'Connell advised that he has completed a draft on the items of interest and scope for the Audit and Risk Committee's oversight of activities that are potentially impacting strategic risks. He will

present this to the Mayor and Chief Executive for review and then bring it to the Audit and Risk Committee in early 2022.

Resolved minute number 21/ARK/063

That the report 'Follow-up Action Items from Audit and Risk Meetings' be received.

Cr N Belsham/HWTM A Watson. Carried

8 Chair's Report

8.1 Chair's Report - December 2021

No report.

9 Reports for Decision

9.1 Revised Procurement Policy

Mrs Mcilroy explained that there will be three different documents; an overarching policy document, a strategy document and then a procedures manual. This tiered format will prevent staff needing to update the policy document too often.

The Committee discussed the delegations to the Chief Executive. Mr Benadie advised that funding is approved in the Long Term Plan, but that the procurement of contracts is an additional process and should be presented to Council for approval. Mr Benadie further advised that the Delegations Register is being reviewed by staff and will be presented to the Committee at a later date.

In response to a query about intellectual property risks, Mrs Mcilroy advised that the use of images and photographs should be covered within specific contracts.

In response to a query about the weighting of local suppliers vs external suppliers in procurement, Mrs Mcilroy advised that this guidance will be included in the procedures manual. The Mayor advised that although an external supplier could hypothetically challenge Council's procurement practices and supplier weightings, the fact that Council has consulted on this policy provides a reasonable defence to any such challenges.

Mrs Mcilroy noted that consideration towards iwi suppliers was a part of central governments broad outcomes, but was not reflected in the procurement policy. In the event that central government mandated specific weightings or criteria regarding iwi suppliers, Council would need to update the procurement policy accordingly.

Mr O'Connell raised the issue of other organisations having procurement policies that may conflict with Council's, where Council is an interested party. Mr Benadie advised that in the event that staff felt that they needed to deviate from the procurement policy, they would bring this decision to

Council for formal consideration. Mrs Mcilroy confirmed that this topic will be covered in the strategy document.

Resolved minute number 21/ARK/064

That the report 'Revised Procurement Policy' be received.

HWTM A Watson/Mr C O'Connell. Carried

Resolved minute number 21/ARK/065

That the Audit and Risk Committee review and provide feedback on the draft revised Procurement Policy.

Cr N Belsham/Cr D Wilson. Carried

9.2 Health, Safety and Wellbeing

Health and Safety Dashboards

In response to a query, Mrs Grant confirmed that abusive behaviour is a challenge for staff and de-escalation training has been arranged to provide staff with more tools for dealing with difficult situations.

In response to a query about whether incidents have increased in actuality or whether it is the reporting of said incidents that are increasing, Mrs Grant advised that it is difficult to know for certain, but that all reported incidents are investigated.

Mrs Grant advised that vehicle incidents are one of the big concerns for staff and a lot of attention has been directed to this area. Driver awareness training will be offered to staff in 2022, an application has been introduced to Council vehicles that identifies braking and speed concerns, and executive management are fostering a culture where staff feel free to speak to admit if they are fatigued and should not be driving.

Mr Beggs advised that executive management are cognisant of security concerns with the increasing divide between those who are vaccinated and those who are not. Executive management are looking at what security policies the Ministry of Social Development have implemented and considering how these may be applicable to Council.

Mr Beggs advised that a staff consultation process has been followed for COVID-related procedures moving forwards. He will bring recommendations to a full Council meeting in December.

Health, Safety and Wellbeing Due Diligence Plan

Mrs Grant advised that Cr Dalgety has been appointed as the Governance Health, Safety and Wellbeing Champion.

Volunteer Health and Safety Procedures

Mrs Grant advised that this document has gone to Council staff members who work with volunteers on a regular basis for their review. Mr Benadie noted that he had mentioned to the Tutaenui Restoration Group that staff were developing this document and they believed that it was a good

idea for Council to create clear guidelines in this space. Mr Benadie will show the document to them, once approved.

The Mayor noted that it was important to highlight the appreciation that Council has for volunteers.

In response to a query about the hazards of hand-held electric tools, Mrs Grant advised that she would anticipate that there would be a Council staff member overseeing volunteer projects, and the risks associated with these tools would be managed by this person.

Resolved minute number 21/ARK/066

That the Health, Safety and Wellbeing report together with attachments, be received.

Cr D Wilson/HWTM A Watson. Carried

Resolved minute number 21/ARK/067

That the Audit and Risk Committee reviews the proposed Health, Safety and Wellbeing Governance Charter and provides feedback (if any).

Cr D Wilson/HWTM A Watson. Carried

Resolved minute number 21/ARK/068

That the Audit and Risk Committee approves the current health, safety and wellbeing reporting schedule as provided in the Health, Safety and Wellbeing Due Diligence Plan.

Cr D Wilson/HWTM A Watson. Carried

Resolved minute number 21/ARK/069

That the Audit and Risk Committee reviews the Health, Safety and Wellbeing Strategy and provides feedback (if any).

Cr D Wilson/HWTM A Watson. Carried

Resolved minute number 21/ARK/070

That the Audit and Risk Committee reviews the Volunteer Health and Safety Guidebook and provides feedback (if any).

Cr D Wilson/HWTM A Watson. Carried

9.3 Treasury Reporting

The Mayor noted that with central government having mandated the Three Waters Reform, it was going to be important to consider Council's debt-replacement policies. It was anticipated that most of Council's debt will be taken over by the new water entity, but the details of how this will work is still unclear. The Committee noted that it would be a struggle to fund Council's most expensive capital works in the Long Term Plan once the water assets are transferred. Mr Beggs advised that any transaction of water assets would be outside of the current 2021-31 Long Term Plan, and will be covered during a future Long Term Plan instead.

Mr Beggs advised that central governments “no worse-off” pledge related to councils not being left with stranded overheads, etc. He further advised that the “transfer of debt” is a distinct issue, and relates to the debt associated with public water assets being transferred to the new entity.

Mr Tombs advised that the four borrowing covenants driven by Local Government New Zealand will most likely see some serious amendments in response to the Three Waters Reform, as this is an issue that all territorial authorities will face. He suggested that staff begin including a report to future meetings on Council’s ‘projected financial position’.

Mr O’Connell advised that regional boundaries are no reason to avoid collaboration and co-operation with other councils. Other regions also have Local Authority Shared Services agreements, and it could be useful for Council to consider how these work and be open to working with other councils regarding the implementation of the Three Waters Reform.

The Committee noted that while there were still many unknowns with the transfer of assets and debt to the new water entity, it was an issue that Council needs to proactively work on and plan for.

Resolved minute number 21/ARK/071

That the report ‘Treasury Reporting’ be received.

Cr N Belsham/Cr A Gordon. Carried

Resolved minute number 21/ARK/072

That the Audit and Risk Committee review the Treasury Reporting report.

Cr N Belsham/Cr A Gordon. Carried

9.4 Audit and Risk Committee Work Programme

Mr Tombs advised that staff will bring a summary of management accounts to this Committee in the future, and that a full report on this will go to the Finance/Performance Committee.

Recommendation 1

That the report ‘Audit and Risk Committee Work Programme’ be received.

Cr Belsham/Cr Wilson. Carried

Recommendation 2

That the Audit and Risk Committee provide feedback regarding the proposed Audit and Risk Work Programme.

Cr Belsham/Cr Wilson. Carried

10 Reports for Information

10.1 Protected Disclosures Update

Mrs Grant advised that under the Protected Disclosures Act 2000, elected members are defined as employees.

Resolved minute number 21/ARK/073

That the Protected Disclosures Update be received.

Cr N Belsham/Cr D Wilson. Carried

10.2 2020/21 Annual Report Overview

Mr Le Mar advised that the adoption of the annual report has been pushed out to the December Council meeting. Mr Benadie advised that the timeframes provided by Audit NZ are very tight and that the adoption of the annual report in 2021 is an indicator of staffs hard work. Mr O'Connell agreed, noting that the timeframes Audit NZ are working to have been driven by central government.

There was some discussion around whether a Long Term Plan amendment would be required. The Mayor and the Chief Executive agreed that this is an issue for Council consideration.

Resolved minute number 21/ARK/074

That the report '2020/21 Annual Report Over' be received.

Cr N Belsham/Cr D Wilson. Carried

10.3 Risk Management Policy

Taken as read.

Resolved minute number 21/ARK/075

That the report 'Risk Management Policy' be received.

Cr N Belsham/Cr D Wilson. Carried

10.4 Management Accounts

Taken as read.

Resolved minute number 21/ARK/076

That the report 'Management Accounts' be received.

Cr N Belsham/Cr D Wilson. Carried

10.5 Internal Audit Programme

Taken as read.

Resolved minute number 21/ARK/077

That the report 'Internal Audit Programme' be received.

Cr N Belsham/Cr D Wilson. Carried

10.6 Audit NZ Management Letter Points

Taken as read.

Resolved minute number 21/ARK/078

That the report 'Audit NZ Management Letter Points' be received.

Cr N Belsham/Cr D Wilson. Carried

10.7 Insurance Update

Taken as read.

Resolved minute number 21/ARK/079

That the report 'Insurance Update' be received.

Cr N Belsham/Cr D Wilson. Carried

10.8 Fraud Reporting

Taken as read.

Resolved minute number 21/ARK/080

That the report 'Fraud Reporting' be received.

Cr N Belsham/Cr D Wilson. Carried

10.9 Strategic Risk Review

Taken as read.

Resolved minute number 21/ARK/081

That the report 'Strategic Risk Review' be received.

Cr N Belsham/Cr D Wilson. Carried

11 Public Excluded

The meeting went into public excluded session 11.08 am.

Resolution to Exclude the Public

Resolved minute number 21/ARK/082

That the public be excluded from the following parts of the proceedings of this meeting.

1. Audit and Risk Committee Minutes (Public Excluded) - 09 September 2021

The general subject matter of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48 of the *Local Government Official Information and Meetings Act 1987* for the passing of this resolution are as follows:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48 for the passing of this resolution
1. 11.1 – Audit and Risk Committee Minutes (Public Excluded) – 09 September 2021	s7(2)(b)(i) - Trade secret s7(2)(f)(i) – Free and frank expression of opinions s7(2)(j) – Improper gain or improper advantage	S48(1)(a)

This resolution is made in reliance on Section 48(1) of the Local Government Official Information and Meetings Act 1987 and the particular interests protected by Section 6 or Section 7 of the Act which would be prejudiced by the holding or the whole or the relevant part of the proceedings of the meeting in public as specified above.

Cr D Wilson/HWTM A Watson. Carried

12 Open Meeting

The meeting went into open session 11.11 am.

Resolved minute number 21/ARK/084

That the public excluded meeting move into an open meeting, and the below recommendations be confirmed in the open meeting:

21/ARK/083 - 21/ARK/083

HWTM A Watson/Cr D Wilson. Carried

The meeting closed at 11.12 am.

The minutes of this meeting were confirmed at the Audit and Risk Committee held on 17 February 2022.

.....
Chairperson

ITEM 6.1
ATTACHMENT 1

UNCONFIRMED

7 Follow-up Action Items from Previous Meetings

7.1 Follow-up Action Items from Audit and Risk Meetings

Author: Ash Garstang, Governance Advisor

1. Reason for Report

- 1.1 On the list attached are items raised at previous Audit and Risk meetings. Items indicate who is responsible for each follow up, and a brief status comment.

2. Decision Making Process

- 2.1 Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and have concluded that, as this report is for information only, the decision-making provisions do not apply.

Attachments

1. **Follow-up Actions Register** [↓](#)

Recommendation

That the report 'Follow-up Action Items from Audit and Risk Meetings' be received.

Current Follow-up Actions

Item	From Meeting Date	Details	Person Assigned	Status Comments	Status
1	6-Dec-21	Regarding the tender process: Mr van Bussel said he is reluctant to cut back on operational checks as the scheme is running well but would re-evaluate and bring his findings to the next meeting.	Andrew van Bussel / Anna Thompson	Will discuss at the next meeting.	In progress
2	6-Dec-21	Mr Duncan said he checked an invoice that was 10 years old and the rate was more than it is now. Mr van Bussel said in previous years that the council had dropped the rate where the committee had normally set the rate. Mr Tombs would investigate.	Dave Tombs	The 2011/12 Annual Plan shows a unit rate of \$140.05 and a Total Rate of \$230k. The 2021/22 LTP shows a unit rate of \$121.04 and a Total Rate of \$186.5k. (figures include GST)	Closed
3	29-Sep-21	Regarding the Financial Summary: Mrs Mcilroy, Mr van Bussel and Mr Smith would discuss and come back with an action finance plan for the Capital Works programme.	Jess Mcilroy / Andrew van Bussel	Andrew is addressing this one.	In progress
4	29-Sep-21	Regarding the Financial Summary: the Committee would like a working group to discuss past financials, and would like Mr Tombs to be in attendance.	Dave Tombs	Past financials discussed with working group; Summary Paper provided to March 2022 meeting	In progress
5	8-Mar-21	That the following questions be answered and in a timely manner. 1. Why is public good being charged and does the scheme get the benefit of it? 2. Does the scheme get depreciation back or does it go into Councils consolidated account? 3. What is Councils role? 4. What cash reserve sits within the scheme?	Dave Tombs	Dave to discuss these items at meeting in March 2022.	In progress
6	8-Mar-21	Financial Statements: Mr Duncan asked for a glossary of terms.	Dave Tombs	Dave asked for clarification as to 'what terms' need to be clarified at the December 2021 meeting. Awaiting response.	In progress

8 Chair's Report

8.1 Chair's Report - March 2022

Author: Craig O'Connell, Chair

1. Reason for Report

- 1.1 Mr O'Connell may provide a verbal update.

Recommendation

That the verbal Chair's Report – March 2022 be received.

9 Reports for Decision

9.1 Rail Hub Project - Significant Risks and Mitigations (first draft)

Author: Craig O'Connell, Chair

Date: 4 March 2022

Notes regarding the Risk analysis

Introduction

The following risk analysis is a first draft of significant risks associated with the Rail Hub project. It is presented to stimulate discussion and it is expected that the list will be modified.

The Risk Register will include many more risks. This is not a comprehensive list, merely a first draft to identify the main risks.

The mitigations are initial suggestions only. The Executive Management team will review and expand the mitigations, if necessary.

Key

LPP – Limited Partnership

GP – General Partner

LP – Limited Partner

SPV – Special Purpose Vehicle

Tier 1 risks are those elements that could derail the project by 10% or more. These are listed below (in no particular order).

1. Relationship impairment

- a. Disputes between parties (Council, Project, Contractors, and Tenants)
- b. Limited Partnership – partnership agreement – caution that the minority shareholders are adequately protected and that the Constitutions for the GP and LPs are not conflicting

Mitigations

- *Agreements are aligned and consistent. Ensure independent legal advisors work well together*
- *Each parties' objectives and priorities understood by other parties. Differences discussed and managed*
- *Agreed mechanism/process to raise issues early and address*

2. Reputation impairment

- a. Council reputation impaired through action (or inaction) taken by the Council, contractor, or a tenant

Mitigations

- *Stakeholder impact assessment completed for all major decisions*
- *Regular meetings with and polling of stakeholders to monitor sentiment and to identify concerns*

3. Project delivery flaws

- a. Project disciplines are inappropriate and/or ineffective
- b. Scenarios and external influences insufficiently scoped and/or insufficient allowances made
- c. Supply chain delays
- d. Quality compromises resulting in rework and additional cost
- e. The Risk Register not reviewed and maintained

Mitigations

- *Utilise PMO and ensure external/peer review and advice*
- *Ensure adequate PMO resource dedicated to this project*
- *Strong project governance – regular meetings and metrics to monitor progress. Key delivery agencies regularly report to project governance. If appropriate, invite key stakeholders to contribute to governance meetings.*

4. Financial targets not met

- a. Cost overruns
- b. End cost/return per square metre from the SPV less than expected
- c. Key partner abandons the project

Mitigations

- *Robust financial planning with realistic contingencies*
- *External peer review*
- *Potential scenarios developed. E.g., significant time delay impacts on costs*
- *Backup plans for key scenarios*

5. Legal/Regulatory failures

- a. Challenges to legal decisions related to Council decisions

Mitigations

- *Experienced and competent external legal advice. Beware of reliance on one source of legal advice across all areas*
- *Risky decisions and/or potential areas of challenge identified and mitigation plans developed.*
- *Clear separation of operational, political, and commercial decisions*

6. Environmental assessment / climate change

- a. This is broader than just the Rail Hub. All activities on the site as well as activities associated with the site (e.g., Bioforestry) have the potential to impact the environment and/or public environment sentiment plus impact of conspiracy theorists and fake news

Mitigations

- *Environmental impact assessment undertaken early. Ensure broad perspective and ensure tenants own environmental impact assessments are independent, comprehensive and thorough. Independently review tenant environmental impact assessments.*
- *Project governance to maintain watching brief on shifting public sentiment and regulatory/legal requirements re environmental issues*

7. Wider infrastructure impact

- a. Marton/Regional infrastructure placed under stress due to demands on Rail Hub site

Mitigations

- *Ensure core local/regional infrastructure has capacity to deliver increased demands*

8. Failure to adapt to changing circumstances

- a. Changing economic environment
- b. Local Government reforms impact underlying financial and resource availability
- c. Technical changes impact tenant viability with a flow on impact to the Rail Hub project

Mitigations

- *Project governance regularly reviews international, NZ wide, Regional, and local situation and trends. Project plans adapted as required*

9. Local politics

- a. Competing projects attempt to delay/curtail this project

Mitigations

- *Ensure strong, cooperative local/regional political relationships*

Recommendation 1

That the report 'Rail Hub Project - Significant Risks and Mitigations (first draft)' be received.

Recommendation 2

That the risks and mitigations contained within this draft report are agreed to by the Committee, with the below modifications noted:

-
-
-

Recommendation 3

That the Chief Executive or their delegate reviews and presents updated risks and mitigations to the Audit and Risk Committee meeting scheduled for **[date]**.

10 Reports for Information

10.1 Protected Disclosures Update

Author: Sharon Grant, Group Manager - People & Culture

Authoriser: Peter Beggs, Chief Executive

1. Reason for Report

This report provides members of the Audit and Risk Committee with an update on protected disclosures for the reporting period, this update being that there are no protected disclosures to report.

2. Context

The Protected Disclosures Act 2000 and Amendment Act 2009 (Act) enables the disclosure and investigation of serious wrongdoing within or by an organisation. The Act provides legal protection to employees who disclose serious wrongdoing within the workplace. Employees who make a disclosure under the Act are not liable to any civil or criminal proceedings, or to disciplinary proceedings by the employer, for reasons of that disclosure.

The Act defines serious wrongdoing as:

1. An unlawful, corrupt, or irregular use of public funds or resources; or
2. Conduct that poses a serious risk to public health, safety, the environment; or
3. Conduct that poses a serious risk to the maintenance of the law; or
4. A criminal offence; or
5. Gross negligence or mismanagement by public officials.

Under the Act, a disclosure can be made by an employee. The definition of employee under the Act is wider than other legislation and includes employees, contractors, volunteers and elected members.

3. Discussion

Rangitikei District Council has a Protected Disclosures Policy and Procedure which was last reviewed in March 2021. In relation to disclosures made during this reporting period, there are no protected disclosures to report.

Recommendation

That the 'Protected Disclosures Update' be received.

10.2 Health, Safety and Wellbeing

Author: Sharon Grant, Group Manager - People & Culture

Authoriser: Peter Beggs, Chief Executive

1. Reason for Report

1.1 This report provides an update on health, safety and wellbeing matters. The report includes the combined Health and Safety Dashboard for December 2021 and January 2022, and the Health and Safety Dashboard for February 2022; an update on progress with the Health, Safety and Wellbeing Due Diligence Plan; and highlights from the Health, Safety and Wellbeing Work Programme.

2. Context

2.1 Elected Representatives are considered Officers under the Health and Safety at Work Act 2015 (Act). This means that they have an obligation to exercise due diligence in relation to health and safety matters. Due diligence is defined in section 44(4) of the Act as taking reasonable steps to:

2.1.1 Acquire and update knowledge of health and safety matters; and

2.1.2 Gain an understanding of the operations carried out by the organisation, and the hazards and risks generally associated with those operations; and

2.1.3 Ensure the person conducting business or undertaking (PCBU) has appropriate resources and processes to eliminate or minimise those risks; and

2.1.4 Ensure the PCBU has appropriate processes for receiving and considering information about incidents, hazards and risks, and for responding to that information in a timely way; and

2.1.5 Ensure there are processes for complying with any duty, and that these are implemented; and

2.1.6 Verify that these resources and processes are in place and being used.

2.2 Council's Health and Safety Dashboards (Dashboards) provide health and safety event data and year-to-date trends. The Dashboards also identify critical risk categories and provide information on current health, safety and wellbeing initiatives. The Dashboards support Elected Members to exercise their due diligence obligations by providing up-to-date information on incidents, hazards and risks, together with continuous improvement activities and wellbeing initiatives.

2.3 Council is committed to continuous improvement, monitoring and review across all aspects of workplace health, safety and wellbeing. Continuous improvement is achieved through actions identified in the Health, Safety and Wellbeing Due Diligence Plan and the Health, Safety and Wellbeing Improvement Action Plan.

3. Discussion

3.1 Health and Safety Dashboard

3.1.1 The combined dashboard for December 2021 and January 2022, and the Dashboard for February 2022 is attached to this report.

3.1.2 The Dashboard for the two-month period ending 31 January 2022 includes three events and four near misses.

3.1.3 The Dashboard for February 2022 includes one event and one near miss.

3.1.4 There were no WorkSafe notifiable accidents or incidents for the reporting period.

3.2 Health, Safety and Wellbeing Due Diligence Plan

3.2.1 The Audit and Risk Committee endorsed the Health, Safety and Wellbeing Due Diligence Plan (Due Diligence Plan) at its September 2021 meeting.

3.2.2 The Due Diligence Plan outlines activities that will be undertaken to enhance elected member knowledge and understanding of health and safety matters. An update of Due Diligence Plan activities undertaken since the last Audit and Risk Committee Meeting (December 2021) is provided below. The Due Diligence Plan is attached to this report for reference.

3.2.3 Health, Safety and Wellbeing Governance Charter:

A framed, signed copy of the Health, Safety and Wellbeing Governance Charter is displayed in Council Chambers.

3.2.4 Work as Done Sessions:

A date for the Work as Done Session (Parks and Reserves) will be confirmed as soon as possible, taking into account meetings already scheduled for March 2022 and the evolving Covid-19 situation. It is likely that the planned Work as Done Sessions for Parks and Reserves and Lone Workers will be combined into one session.

3.3 Health, Safety and Wellbeing Work Programme Highlights

3.3.1 Health, safety and wellbeing initiatives currently underway include:

- Health and wellbeing measures related to Covid-19 including ongoing review of Pandemic Response Plan.
- Installation of four defibrillators for Council and community use (Marton Office, King St, Te Matapihi, and Taihape Library and Information Centre).
- Trial of 'Stop. Take-5' initiative within Parks and Reserves Team.
- Driver safety training (simulator exercise) for RDC staff.
- Health and safety leadership training, including management of mental health and wellbeing at work (Executive and Senior Leadership Teams).

3.3.2 Health, safety and wellbeing initiatives planned within the next two months include:

- Work as Done Sessions (Parks and Reserves / Lone Workers)
- Selection and implementation of an on-line health and safety reporting system.
- Review of RDC's Health and Safety Risk Register.

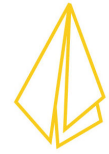
4. Attachments

- 1. Health and Safety Dashboard: December 2021 - January 2022** [↓](#)
- 2. Health and Safety Dashboard: February 2022** [↓](#)

3. Safety and Wellbeing Due Diligence Plan [↓](#)

Recommendation

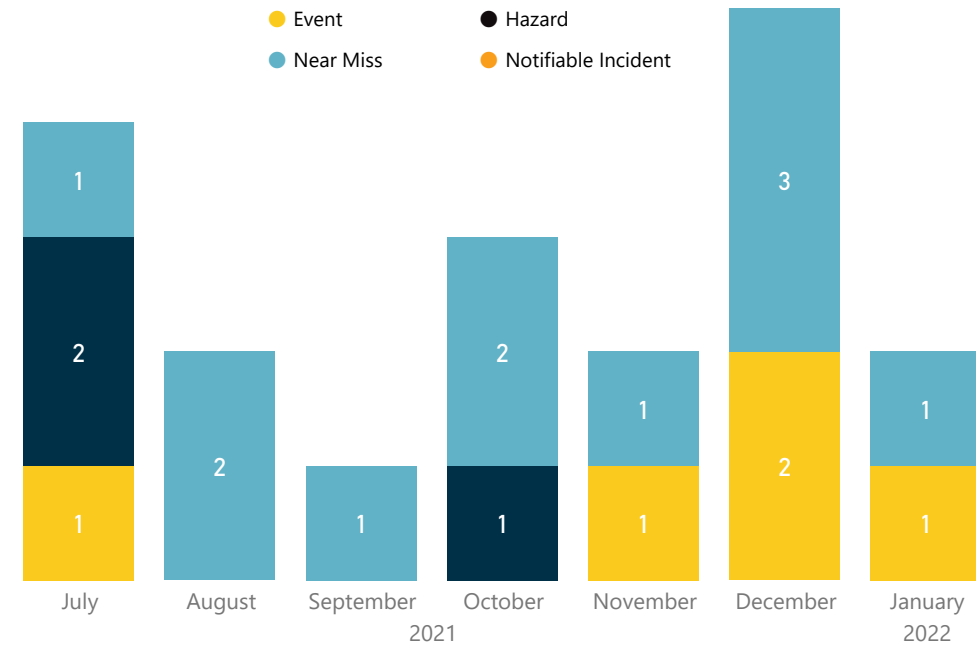
That the Health, Safety and Wellbeing report together with attachments, be received.



Rangitikei District Council Health & Safety

Events, Hazards and Near Misses

01 July 2021 to date



Last 2 months

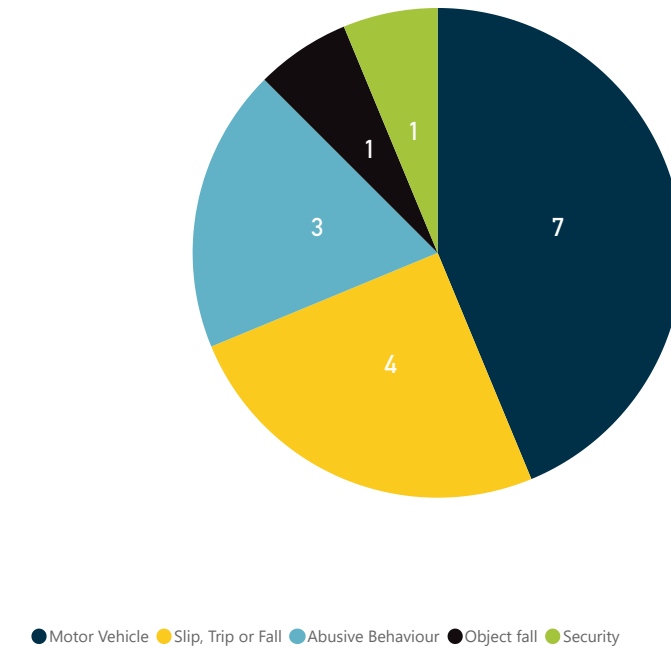
December 2021-January 2022

3 Events
0 Notifiable Incidents
0 Notifiable Illness/Injuries

3 Near Misses
0 Hazards

Event/Near Miss Category

01 July 2021 to date



Wellbeing News

Unite against Covid-19!

Book your booster vaccination now! Ministry of Health advice confirms that the third Covid-19 vaccination (booster) provides the best possible protection against the effects of Omicron. You can receive your booster 3 months after your second vaccination. To book, or to find a walk-in clinic, go to <https://bookmyvaccine.covid19.health.nz/>.

Remember to forward a copy of your booster record to Sharon or Christin.

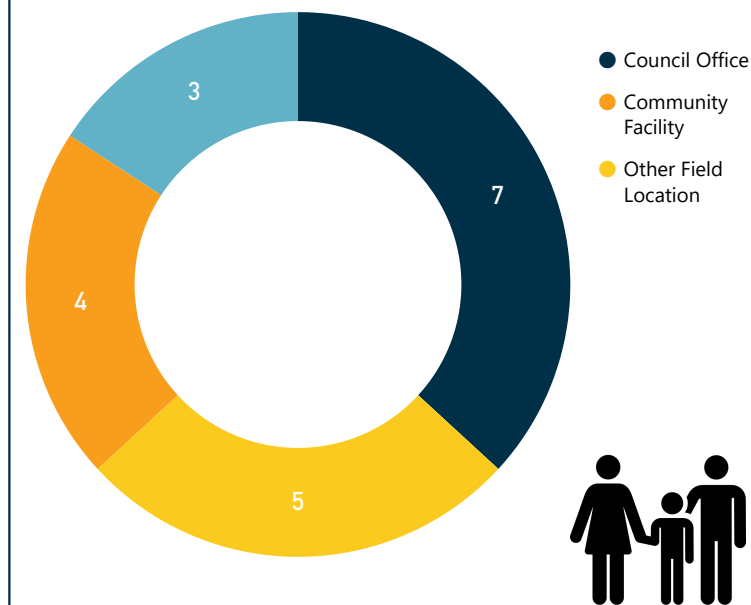
Be safe - be SunSmart during summer!

Being SunSmart is about protecting your skin and eyes from damaging UV radiation when outdoors, especially from September to April. Remember to Slip, Slop, Slap and Wrap! **SLIP** on clothing to cover your skin or slip into the shade, **SLOP** on sunscreen that is at least SPF30, **SLAP** on a hat with a wide brim or with flaps for covering your ears and neck and **WRAP** on your sunglasses - check your sunglasses label for the sun protection rating.

Reminder that the Wellbeing Programme is located on Kapua under "Working Here" and clicking on the Safety and Wellbeing icon.

Location

Events, Hazards and Near Misses



Driver Ratings

Rating	Nov	Dec	Jan
5 Stars	9	10	8
4 Stars	8	13	14
3 Stars	16	11	12
2 Stars	4	3	3
1 Star	0	0	0

Coming Up

Stage 1 Training for H&S Representatives on 1st and 2nd February 2022

Health & Safety Leadership/Mental Wellbeing by Design Training for ELT and SLT to be held on Tuesday 15 February 2022

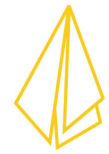
Next Health and Safety Committee Meeting is scheduled for 1.30pm Thursday 3 March 2022 in Chambers

Safe Driving Awareness Simulator Training 23 February 2022

ARRIVING SOON! Four AED Defibrillators have been ordered and we are awaiting delivery. The defibrillators will be located:

1. Inside the foyer of the main office, 46 High St Marton
2. On the outside of the King St Depot
3. On the outside of the Taihape Library and Information Centre
4. On the outside of Te Matapihi, Bulls

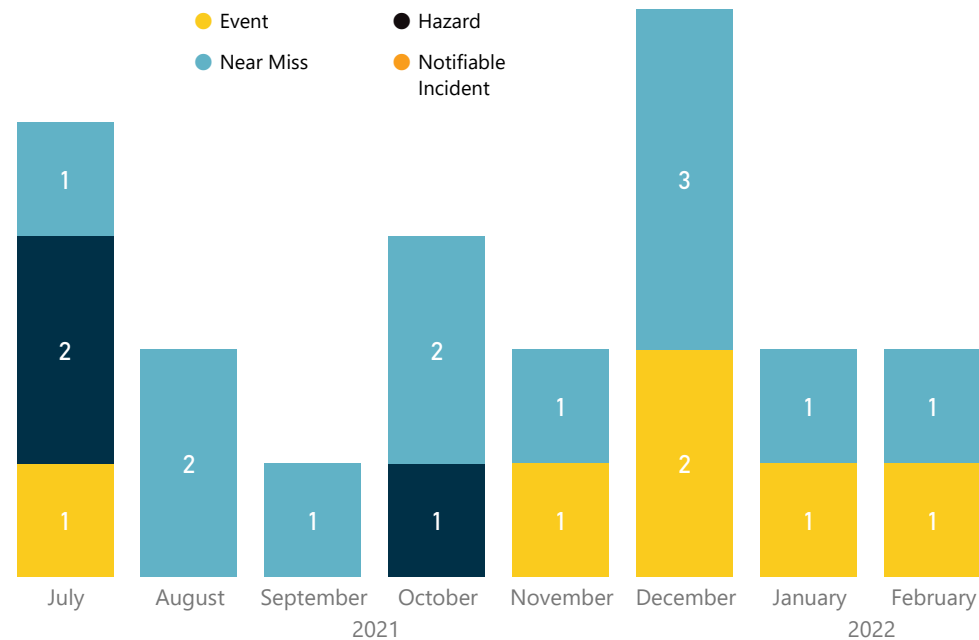
Defibrillators will be available for staff and community use and training will be provided to staff once they arrive.



Rangitikei District Council Health & Safety

Events, Hazards and Near Misses

01 July 2021 to date



Last month

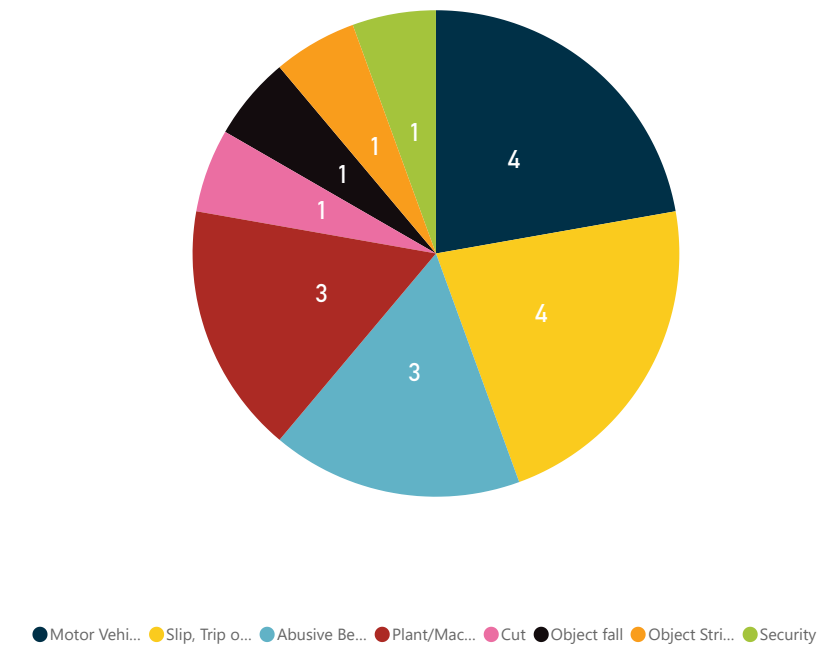
February 2022

1 Events
0 Notifiable Incidents
0 Notifiable Illness/Injuries

1 Near Misses
0 Hazards

Event/Near Miss Category

01 July 2021 to date



Wellbeing News

Unite against Covid-19!

Booster vaccines are available now! If it's been more than three months since your second Covid-19 vaccination, please book your booster ASAP. Having your booster provides the best possible protection from the harmful effects of Omicron.

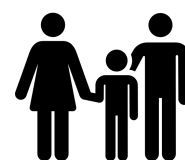
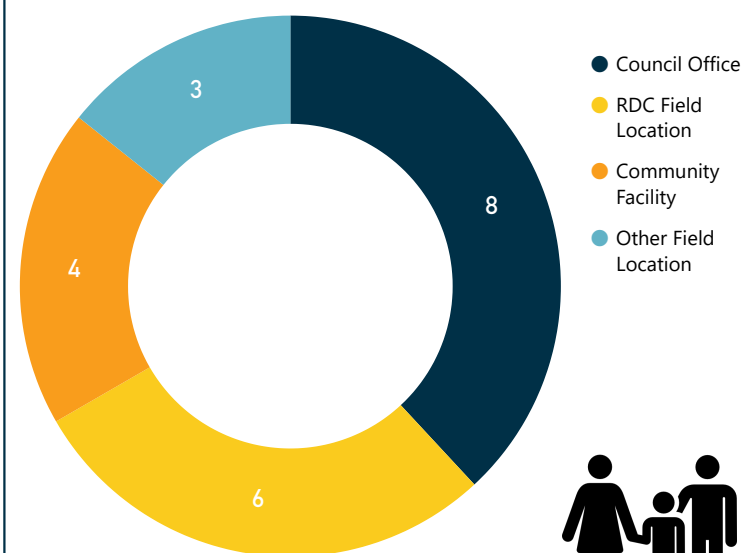
As boosters are part of our Covid-19 Vaccination Policy, please remember to forward a record of your booster to Christin or Sharon.

We strongly encourage you to have a plan for what you will do if you have to isolate. Identify people outside of your home who could help by dropping off food or supplies (contactless) and assist with any other support you need. You could also put together a wellness kit - medications, pain relief such as ibuprofen, nasal spray, throat lozenges, cough medicine, ice blocks, vapour rubs etc.

Don't forget about hygiene necessities such as face masks, hand sanitiser, gloves, tissues, rubbish bags and cleaning products.

Location

Events, Hazards and Near Misses



Driver Ratings

Rating	Dec	Jan	Feb
5 Stars	10	8	10
4 Stars	13	14	10
3 Stars	11	12	9
2 Stars	3	3	6
1 Star	0	0	0

Coming Up

The four AED Defibrillators have arrived! Arrangements are being made for the defibrillators to be located:

1. Inside the foyer of the main office, 46 High St Marton
2. On the outside of the King St Depot
3. On the outside of the Taihape Library and Information Centre
4. On the outside of Te Matapihi, Bulls

Training will be provided to staff once they have been installed and the defibrillators will be available for staff and community use.

An exciting new health and safety initiative, "STOP - Take-5" is being trialled by the Parks and Reserves Team. You will hear more about this soon, including how you can STOP and Take-5 for Safety.

Stars of Council - Nga whetu o te Kaunihera - Tupuarangi Award - Safety & Wellbeing

This award acknowledges staff who consider the wellness of others and actively promotes mental health in others, shares safety and wellness initiatives, has prevented accidents and incidents through reporting and/or has increased workplace and staff morale.

More information about the awards, and the nomination form, are available on Kapua.

Health, Safety and Wellbeing Due Diligence Plan

This Due Diligence Plan is aligned to the Institute of Directors Health and Safety Guide: Good Governance for Directors (March 2016) and aims to enhance due diligence in health, safety and wellbeing (HS&W) leadership at Rangitikei District Council (RDC).

A positive and robust HS&W culture begins at the Council table and spreads throughout the organisation. The Health and Safety at Work Act places a duty on elected members – as Officers – to exercise due diligence to ensure that RDC complies with its health and safety duties and obligations.

Due diligence requires Officers to take reasonable steps to understand RDC's operations and HS&W risks, and to ensure that they are managed so that everyone is safe. Due diligence is defined in the Health and Safety at Work Act as taking reasonable steps to:

- Acquire and update knowledge of health and safety matters
- Gain an understanding of the operations carried out by the organisation and the hazards and risks generally associated with those operations
- Ensure the organisation has, and uses, appropriate resources and processes to eliminate or minimise those risks
- Ensure the organisation has appropriate processes for receiving and considering information about incidents, hazards and risks, and for responding to that information in a timely way
- Ensure there are processes for complying with any duty, and that these are implemented
- Verify that these resources and processes are in place and being used.

This due diligence plan outlines the activities that will be undertaken to enhance elected member knowledge and understanding of HS&W matters. The plan is aligned to the elements of policy and planning, delivery, monitoring and review.

A key part of this plan is the 'Work as Done' sessions. The intent of these sessions is for the key staff responsible for each area to demonstrate the nature of their operations, the hazards and risks associated with those operations, and their HS&W approach and processes to eliminate or minimise those risks. Where appropriate, a site visit will be scheduled as part of this process.

Scheduled activities		Due diligence element				When
What	Who	Policy & planning	Delivery	Monitoring	Review	
SafePlus Assessment	Whole organisation				*	March 2021 <i>Complete</i>
Work as Done Session: Landfill remediation at Putorino Road / Mangaweka Bridge Replacement	Elected Members Chief Executive, ELT, Officers.		*	*		May 2021 <i>Complete</i>
SafePlus Assessment report to Audit and Risk	Audit and Risk Committee Chief Executive, GM People and Culture				*	Sept 2021 <i>Complete</i>
Endorse HS&W in the Workplace Policy	Audit and Risk Committee	*				Sept 2021 <i>Complete</i>
Endorse HS&W Due Diligence Plan	Audit and Risk Committee	*				Sept 2021 <i>Complete</i>
Appoint Governance HS&W Champion	Council	*				Sept 2021 <i>Complete</i>
Institute of Directors Advanced H&S Governance Training (on-line)	Governance H&S Champion Group Manager People and Culture		*			Oct 2021 <i>Complete</i>
Develop HS&W Governance Charter	H&S Champion GM People and Culture	*				Oct/Nov 21 <i>Complete</i>
Review HS&W strategy and reporting	H&S Champion GM People and Culture	*				Oct/Nov 21 <i>Complete</i>
Endorse HS&W Governance Charter, strategy and reporting	Audit and Risk Committee	*				Dec 2021 <i>Complete</i>
Work as Done Session: Parks and Reserves (includes site visit)	Elected Members Chief Executive, ELT, Officers.		*	*		2022 (to be scheduled)
Work as Done Session: Lone workers	Elected Members Chief Executive, ELT, Officers.		*	*		2022 (to be scheduled)
Work as Done Session: Animal Control (includes site visit).	Elected Members Chief Executive, ELT, Officers.		*	*		May 2022
Work as Done Session: Libraries / front of house	Elected Members Chief Executive, ELT, Officers.					July 2022
HS&W governance training for new Council.	Elected Members		*			Nov/Dec 22

Regular activities (including reporting schedule)		Due diligence element				When
What	Who	Policy & planning	Delivery	Monitoring	Review	
Monthly HS&W Report (Dashboard)	Full Council CE and Executive Leadership Team			*		Monthly
Quarterly HS&W Report (full report)	Audit and Risk Committee			*		Quarterly
Full report of notifiable incidents or accidents	Audit and Risk Committee			*		As needed
Discussion of HS&W incidents, innovations and other matters	CE and Executive Leadership Team		*	*		Monthly
Attend HS&W Committee Meetings	GM People and Culture GM Assets and Infrastructure		*	*		Bimonthly
Review of HS&W Committee Meeting minutes and matters arising	CE and Executive Leadership Team		*	*	*	Bimonthly
Departmental HS&W Toolbox Meetings	Departmental GM's		*	*	*	Monthly
Updates / training on HS&W Matters	As appropriate		*			As needed

10.3 Summary of Management Accounts

Author: Dave Tombs, Group Manager - Corporate Services

Authoriser: Dave Tombs, Group Manager - Corporate Services

1. Reason for Report

- 1.1 To provide the Audit/Risk Committee with a Summary of the key aspects of the detailed monthly Financial Snapshot that is presented to, and reviewed by, the Finance/Performance Committee.

2. Context

- 2.1 Each month a detailed Financial Snapshot is presented to, and reviewed by, Council's Finance/Performance Committee.
- 2.2 At its December 2021 meeting the Audit/Risk Committee requested a Summary of the Snapshot be presented to future Audit/Risk Committee meetings.
- 2.3 Officers invite feedback from the Committee regarding the content of the Summary presented in this Report.

3. Discussion and Options Considered

- 3.1 The Financial Snapshot presented to the February Finance/Performance Committee was more detailed than versions presented in other months as it included the results of the Mid-Year Budget Review ('MYBR').
- 3.2 The MYBR placed greater emphasis on *full year forecasts* that on *year to date budget variances*. It is intended to repeat this exercise in April.
- 3.3 Key features of the February MYBR include:

Capital Expenditure

Based on current predictions, and assuming 'normal business conditions' continue, Officers predict that:

- around \$31.4m of the 2021/22 Capital Budget will be spent prior to 30 June 2022; and
- \$16m will be carried forward into 2022/23.

Revenue

Based on current predictions, and assuming 'normal business conditions' continue, Officers predict that:

- Up to \$1.5m of the 2021/22 Revenue Budget relating to Low Cost Low Risk work will likely be deferred to 2022/23 and 2023/24 (as will the related capital expenditure); and
- around \$200k of unbudgeted revenue was received from the sale of land that was not budgeted to be sold.

Operating Expenditure

Based on current predictions, and assuming 'normal business conditions' continue, Officers have identified the following items of unbudgeted operating expenditure for 2021/22:

- Survey on Earthquake Rating for Council owned buildings (\$150k); and
- Security Guards at Council owned buildings to help control visitors' compliance with COVID requirements (\$150k); and
- Insurance costs (\$150k) due to more up to date asset valuations being provided; this increase is after insurance deductions from other insurance related initiatives; and
- Up to \$200k related to Putorino Landfill costs – refer 27 January 2021 PX Council paper; and
- Up to \$100k in relation to Hunterville water treatment plant consenting costs (some of this will be capital) – refer Council paper 30 September 2021.

Personnel Costs

The following adverse YTD Personnel Cost budget variances (>5%) were reported at the end of January. Personnel Costs Budget savings elsewhere result in Council, overall, reporting an adverse variance of \$228k at the end of January 2022:

- Asset Services \$137k (YTD Actual \$249k; YTB Budget \$122k)
 - Only the first quarter's PMO wages have been capitalised; subsequent PMO wages to be capitalised will significantly reduce this variance
- Information Services \$28k (YTD Actual \$358k; YTD Budget \$330k)
 - \$22k wages to be capitalised which will significantly reduce this variance
- Property \$27k (YTD Actual \$352k; YTD Budget \$325k)
 - Combination of staff leaving and being paid out their leave and 'cashing in' some accumulated leave
- District Promotions \$100k (YTD Actual \$152k; YTD Budget \$52k)
 - District Promotions Strategy has a YTD \$217k Other Operating Expense budget and related expenditure of \$23k. The salaries that give rise to this variance are being funded from this budget.
- Building \$78k (YTD Actual \$259k; YTD Budget \$181k)
 - Offset by budget savings in Contractors and Professional Services (YTD Actual Costs \$74k; YTD Budget \$155k) – i.e. the budget was set based on acquiring these services via a Contractor; they have actually been sourced via an Employment arrangement.

Depreciation

From an accounting perspective, the unbudgeted Operating Expenditure costs are offset by Depreciation, which is expected to be around \$1m to \$1.2m under budget.

ITEM 10.3

Recommendation

That the report 'Summary of Management Accounts' be received.

10.4 Fraud Reporting**Author:** Dave Tombs, Group Manager - Corporate Services**Authoriser:** Dave Tombs, Group Manager - Corporate Services**ITEM 10.4****1. Reason for Report**

- 1.1 To provide the Audit and Risk Committee (“the Committee”) an update on the latest Fraud Register.

2. Commentary – Fraud Allegations

- 2.1 The Fraud Register summarises all outstanding fraud allegations against Council that have been made to the Fraud Officer. These allegations will remain on the Fraud Register until ‘closed’ by the Committee.
- 2.2 As for the previous Committee meeting, there are no outstanding fraud allegations so the Fraud Register is ‘blank’ and hence no register is attached.

3. Commentary – Fraud Awareness

- 3.1 Officers conducted some preliminary Fraud Awareness communication in February and will continue to send out regular updates regarding this.

Recommendation

That the report ‘Fraud Reporting’ be received.

10.5 Insurance Update

Author: Dave Tombs, Group Manager - Corporate Services

Authoriser: Dave Tombs, Group Manager - Corporate Services

1. Reason for Report

- 1.1 To provide the Audit and Risk Committee with an update on current Insurance related matters.

2. Commentary

2.1 Insurance Claims for 2021/22:

2.1.1 Council has the following insurance claims this financial year:

- July: ute slipped on ice, went through a fence, down a steep hill (panel damage)
- August: ute hit a bin while turning (dent to rear door)
- November: vehicle backed into a trailer (minor damage)
- January: lawnmower damaged truck door (bent door)

2.2.2 None of these incidents resulted in damage to any person.

2.2 Considerations for Insurance Cover for 2022/23:

- Considering increasing deductible for Professional Indemnity Insurance (deductible currently \$25k per claim; current premium \$60k pa)
 1. increase deductible to \$100k per claim; reduce annual premium to \$50k
 2. increase deductible to \$250k per claim; reduce annual premium to \$44k
- Reviewing Properties, and their respective insured values, covered by Material Damage

Recommendation

That the report 'Insurance Update' be received.

10.6 Internal Audit Programme**Author:** Dave Tombs, Group Manager - Corporate Services**Authoriser:** Dave Tombs, Group Manager - Corporate Services**1. Reason for Report**

- 1.1 To provide the Audit/Risk Committee with an update on its 2021/22 Internal Audit Programme.

2. Context

- 2.1 Council has introduced a more formal Internal Audit Programme which will include providing an update to each Audit/Risk Committee meeting.

3. Discussion and Options Considered

- 3.1 Officers have developed a draft five-year Internal Audit Programme that is attached to this report. See Attachment 1.

2021/22 Programme

- 3.2 Officers have developed the following draft 'key points' for the internal audit reviews currently scheduled for 2021/22:

3.2.1 Health and Safety (SafePlus)

- Council conducted its most recent SafePlus assessment in March 2021
- These assessments are scheduled every 18 to 24 months so officers suggest amending the draft Internal Audit Workplan so the next one of these is conducted in 2022/23.

3.2.2 Fleet Management Services (August to April)

- Review the composition of our fleet and provide fleet utilisation analysis
 - a. Draft preliminary report received
 - b. Majority of fleet is aged and needs replacement
 - c. Will feed into 22/23 Annual Plan
- Develop a Vehicle Ownership Policy

3.2.3 Community Engagement (January to March)

- Council has developed a draft Community Engagement Framework and has commissioned an independent formal review of the Framework to make sure it addresses the 'key considerations' (review due prior to end of March 2022).

3.2.4 Ethics (March to May)

- This is a very broad topic that can be structured to encompass a large number of areas for review
- The following are currently being suggested to be included in this review:

- (1) Review of Council's recruitment and selection processes
 - (2) Community Engagement: do all sections of our community have an equal opportunity to contribute to Council business (do any barriers exist for some sections of our community?)
 - (3) Procurement: is our Procurement conducted in an ethical manner
- The attached Scope and Fee Estimate has been received late February 2022.
 - The attached Ethics Review – Background provides greater detail regarding the proposed nature of the review.

3.2.5 Legislative Compliance (March to June)

- Provide an updated, current Schedule of all legislation that Council is required to comply with, with recommended timetable for each to be reviewed 'for possible compliance concerns'
- Recommend a process to ensure that the Schedule is current at all times
- Identify those different capacities (e.g., mandatory or 'result of a business-like decision') in which Council must comply with each piece of legislation (e.g. the Building Act 2004, Dog Control Act 1996, Sale and Control of Liquor Act 2012).

This summary will then lead into Part Two of this Review which will include an assessment of Council's compliance with this legislation.

2022/23 Programme

- 3.3 Officers invite a discussion with Committee Members to identify potential amendments to the 2022/23 Internal Audit Programme (Attachment 1).

Attachments

1. **Internal Audit Programme** [↓](#)
2. **Ethics Review - Scope** [↓](#)
3. **Ethics Review - Background** [↓](#)

Recommendation

That the report 'Internal Audit Programme' be received.

**Rangitikei District Council
Internal Audit Program (draft)**

	21/22	22/23	23/24	24/25	25/26
Known/arising material risks	A	A	A	A	A
Health and Safety (Safeplus)	A		A		A
Fleet management Services	A			B	
Community Engagement (note 1)	A			A	
Ethics (2)	A			A	
Legislative Compliance (3)	A				A
Cyber Security/IT Recovery Plans	B	A	B	B	A
Business Continuity Plan (4)	B			B	
Indirect tax evaluation	C		C		B
Antifraud Assessment (5)		A		C	C
Cash handling controls/processes		A		B	
Statement of Service Performance (6)		A/B	C	C	C
Planning Applications (6)		A/B			C
Peer review (6) (7)		A/B			
Procurement and Contract Management			A		
Elected Member effectiveness (8)			A		
Insurance Management			A/B		
Risk Management Framework			A/B		C
Digital Transformation (9)			A/B		
Community Wellbeing (10)			A/B		
Accounts Payable				A	
Treasury Management				A	
Complaints Handling				A/B	
Capital Program (11)				A/B	
Onboarding/off boarding of staff (12)					A

Key:

- A formal, externally review
- B structured internal review
- C overview

Notes

1. Includes working with Iwi/other partnerships; improvements to our ongoing communication with the community
2. Evaluation of our ethics related objectives/procedures/activities etc
3. Include compliance with payroll legislation (holiday pay etc)
4. In the event of major flood/quake
5. Fuel card, credit card, sensitive expenditure, false invoices, false time sheets/overtime
6. Improvements identified?? Barriers to success??
7. Other governance arrangements
8. Year 2 of election cycle
9. Existing and future 'ways of working'
10. Homelessness, health/leisure facilities, community support
11. Including Project Management, works order management, department set up
12. including new/old staff 'getting' on/off of payroll



24 February 2022

PO Box 4125
27 Matipo Sreet
Palmerston North 4410

Dave Tombs
Group Manager Corporate Services
Rangitikei District Council
Private Bag 1102
MARTON 4741

Email admin@auditors.co.nz
www.auditors.co.nz

Phone 06 354 3685

Dear Dave,

INTERNAL AUDIT SERVICES

The Objective & Scope of the Engagement

You have requested that CKS Audit be engaged to carry out an ethics review for the Rangitikei District Council ("RDC"), as set out in Appendix 2.

Standards to Apply

We will conduct the provision of internal audit services in accordance with the Standards for Assurance Practitioners as issued by the *External Reporting Board* (XRB) and as appropriate to each internal audit project. As members of *Chartered Accountants Australia and New Zealand* ("CAANZ"), the Institute's professional and ethical standards (the codes of ethics and professional standards) will also apply to this engagement.

Timing

The ethics review will commence in either late March or early April, the final date to be agreed between the parties. Provided responses to queries and necessary access and documentation is made available in a timely way to CKS Audit, it is anticipated that a draft report will be available for RDC management no later than 20 working days from the commencement date.

Reporting

Draft reporting will be prepared solely for the internal use of RDC's Management and only the final approved (by RDC and CKS Audit) report is to be tabled at Audit Risk Committee meetings.

The final report is made solely to the RDC. Our internal audit work has been undertaken so that we might state to the RDC those matters we are required to state in the final report under this engagement letter, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than RDC, for our internal audit work, for the final report, or for the conclusions we have formed.

Ownership of and Access to Audit Files

The working papers and files prepared under this engagement by us during the course of project work, including electronic documents and files, are the sole property of CKS Audit and constitute confidential information. Requests by third parties for access to our working papers, including those made by parties entitled by law to compel us to provide such access, will be discussed with you and your consent obtained before access is given, other than by operation of law.

Chartered Accountants Australia New Zealand (CAANZ) requires practitioners to be subject to review from time to time in order to ensure that professional standards are being maintained. Reviews are based on a sample of files and your files may be selected for examination. The reviewer is officially appointed by the Institute and is bound by a declaration of secrecy. Further, the reviewer is the only person from the Institute who has access to your audit file, and no copies are made, but the review could include anonymous reference to information provided by you.

CKS Audit - Responsibilities

In accordance with the objective and scope of this engagement, CKS Audit will:

- Undertake our work using a “risk based” approach and prepare a working paper file sufficient and appropriate to support the assurance outcome to be reported.
- Provide information to key contacts (as appropriate) to confirm factual accuracy of the project’s findings.
- Provide a draft report with details of findings, implications, and proposed recommendations, before finalisation to the applicable *RDC* senior leadership team member.
- Correspond as needed / on a regular basis to the *RDC* senior leadership team member with an update on progress against the agreed scope of work.

RDC - Responsibilities

In accordance with the objective and scope of this engagement, *RDC* will:

- Provide or enable reasonable access in a timely way to all necessary information, including records, documents and correspondence relating to the agreed audit project.
- Respond to queries in a timely way.
- Allow CKS Audit access at all reasonable times to any land, premises, or member of staff of the *RDC*, or member council, as applicable for the completion of an internal audit project.

Performance

We are committed to the successful delivery of internal audit services. If at any time *RDC* is dissatisfied with the service provided by CKS Audit; or wishes to discuss how the service could be improved, the matter should be raised directly with a Director.

Resourcing and Cost

CKS Audit shall provide audit resources as deemed necessary to complete project work, having due regard to the qualifications, competences and experience levels required for completion of each project.

Our charge out rate exclusive of GST is between the range of █████ and █████ per hour exclusive of GST. The amount will be dependent on the project complexity and required staff mix. Project work may also be invoiced on an interim basis, as the work is completed. For clarity, the rate will cover all costs, except for actual travel and accommodation cost reimbursement (where applicable). We do not expect the 3 areas of review in appendix 2 to exceed the range █████ to █████ exclusive of GST. Should any significant change occur to the scope of the work any fee change will be agreed with *RDC* prior to the extra cost being incurred.

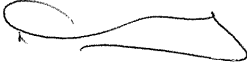
Conclusion

Once you have read this letter and you agree with the contents, can you please sign both copies where indicated and then return one copy to me as soon as you can.

If at any stage you have any questions or concerns about anything relating to the audit, please contact us.

We look forward to working with you and your colleagues on this project.

Yours sincerely,



David Kelly
Director

Acknowledged and agreed on behalf of *Rangitikei District Council* by:

Dave Tombs
Chief Financial Officer

Date

Appendix 1 – Key Contacts

Rangitikei District Council

Name and Designation	Function	Contact detail
Dave Tombs	Group Manager Corporate Services (Primary Contact)	(06) 327 0099 ext. 890 M 027 210 2267 Dave.Tombs@rangitikei.govt.nz

CKS Audit

Name	Function	Contact detail
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Appendix 2 - Internal Audit Review of Ethics – Scope, Approach and Reporting**Rangitikei District Council (RDC): Internal Audit Review Ethics****Scope**

1. To what extent can RDC procurement activities practically be enhanced to incorporate the principles of social and sustainable procurement.
2. To what extent could/should RDC Elected Member ethical behaviour framework be practically enhanced to minimize risk associated with noncompliance with the required standards.
3. To what extent can RDC recruitment activities practically be enhanced to incorporate the principles of ethical recruitment.

Out of Scope

1. With respect to item 3, ethical practices solely related to recruitment agencies as opposed to internal recruitment, are outside of scope.

Internal Audit Approach and Reporting

1. Gaining an understanding of RDC policies with respect to the three matters in the scope above.
2. Evaluating current policies against good practice and authoritative sources.
3. Reporting on our relevant findings from the above evaluation and making recommendations regarding changes to RDC existing policies.
4. Providing a draft report for management comment.
5. Finalising report once received back with management comment in.
6. Attend Audit and Risk committee meeting.

Not in current scope but may be of interest

1. Carry out a sample test of existing social procurement amongst existing suppliers with a particular focus on smaller and local suppliers. While large suppliers' websites and annual reports often make statements regarding social and sustainable procurement activities, small suppliers often also carry out these activities but this is not formerly captured.

Internal Audit Review – Ethics

OVERVIEW

Review, and provide recommendations for improvements to, the ethical framework within which certain areas of Council operations are conducted.

Potentially this covers a wide-range of activities so we are adopting a practical approach focussing on a number of specific areas:

SCOPE

1. Social and Sustainable Procurement

Background:

Social and Sustainable Procurement is an emerging initiative.

- Social procurement is a procurement approach whereby businesses actively seek to do business with other entities that are themselves socially responsible.
- Social procurement means using procurement as a tool to generate benefits (impact) beyond the products and services required.
- Social procurement is procurement practice that considers value for money in a broader sense – considering broader social, cultural and environmental outcomes alongside price, quality and risk.
- Social procurement includes having a focus on doing business with ‘social enterprises’. Social enterprises are businesses with a social or environmental mission. Like traditional businesses they aim to make a profit – but it’s what they do with these profits that sets them apart, reinvesting them so that society benefits. They do this through a variety of means such as:
 - Employing individuals with barriers to the job market;
 - Diverting waste away from landfill;
 - Making key services affordable for disadvantaged groups;
 - Supporting businesses to become carbon neutral;
 - Donating essential items to vulnerable groups;
 - Reinvesting profits to contribute to Sustainable Development Goals.

Review

To what extent can our Procurement activities be – practically - enhanced to incorporate the principles of social and sustainable procurement?

2. Decision Making/

Background

One of the fundamental requirements of a proper performing council is the ethical behaviour, and the perception thereof, of its elected members.

- Council's Local Governance Statement includes the following (S5.1):
...all members must make a declaration that they will perform their duties faithfully and impartially, and according to their best skill and judgement in the best interests of the District.
- Sections 5.4 and 5.5 of the Local Governance Statement identify certain specific obligations of elected members relating to their conduct, and the need to comply with Council's Code of Conduct.
- Council's Code of Conduct includes (S4):

Ethical behaviour: members will not place themselves in situations where their honesty and integrity may be questioned, will not behave improperly and will avoid the appearance of any such behavior.

- The Code of Conduct includes a range of obligations relevant to the ethical behaviour of elected members and also includes reference to the Local Authorities (Members' Interests) Act 1968.

Review

To what extent could/should our *Elected Member Ethical Behaviour* framework be – practically - enhanced to minimise risk associated with non compliance with the required standards?

3. Recruitment

Background

There are many aspects to the principle of Ethical Recruitment.

The recruitment of new staff is obviously a process that must be conducted without, actual or perceived, bias. Staff involved in a particular recruitment process may have intermittent experience with the recruitment process so may pose a greater risk than those who have regular, frequent involvement in the process.

The way our staff communicate, and the regard they show to candidates, during the recruitment process provides a highly visible picture of our culture/values – and this directly impacts our reputation.

Ethical recruitment includes that, during the recruitment process, we consider a candidate's personality, work ethic, interest and goals in addition to their qualifications. That means we don't only hire new staff on their current goals – but we also consider their future goals.

This will result in greater staff retention.

Ethical recruitment also includes:

- the total absence of any form of discrimination or prejudice before, during or after the recruitment process; and
- the provision of timely, honest, complete feedback to unsuccessful applicants; and
- the lack of any 'embellishment' by the interview panel during the interview process (eg making the position appear more favourable than it actually is); and
- the lack of unethical use of social media, advertising and referral practices; and
- compliance with relevant legal requirements; and
- Poaching – should we 'be open' to the concept of poaching staff from other councils/organisations?
- How should we address have a preferred candidate whose appointment we know would have a serious detrimental impact on another council?

Review

To what extent can our Recruitment activities be – practically - enhanced to incorporate the principles of ethical recruitment?

10.7 Treasury Reporting**Author:** Dave Tombs, Group Manager - Corporate Services**Authoriser:** Dave Tombs, Group Manager - Corporate Services**1. Reason for Report**

1.1 To provide the Audit and Risk Committee with a report on Council's performance in relation to compliance with its Treasury Management Policy as at January 2022.

2. Context

2.1 Council's Liability Management Policy is contained within Council's Treasury Management Policy. The Liability Management Policy includes four borrowing covenants that Council's borrowing arrangements must comply with.

3. Analysis – Current Position

3.1 The four borrowing covenants are as follows:

1. Net Interest/Total Revenue must not exceed 20%
2. Net Interest/Annual Rates Revenue must not exceed 25%
3. Net Debt/Total Revenue must not exceed 175%
4. External Debt plus Committed Facilities plus Liquid Investments divided by External Debt must be greater than 110%

3.2 Net Interest/Total Revenue must not exceed 20%

January YTD figures (draft)

• Interest Expense	\$50k
• Interest Income	\$12k
• Net Interest	\$38k
• Total Revenue	\$29m
Net Interest/Total Revenue	<1%

(Note : Interest Expense is charged every six months and not accrued 'in between'. The \$50k is the figure recorded at the end of January; if the figure was accrued each month it would be higher. However, even if the actual figure was, say, double the YTD Interest Expense it would not jeopardise this covenant.)

3.3 Net Interest/Annual Rates Revenue must not exceed 25%

• YTD Net Interest (from S3.2)	\$38k
• YTD Net Interest annualised (indicative figure)	\$100k
(S3.6 below shows the impact of future increases of Debt on this benchmark)	
• Rates Revenue full year budget	\$25.6m
Net Interest/Annual Rates Revenue (based on current debt levels)	<1%

3.4 Net Debt/Total Revenue must not exceed 175%

• Debt	\$3m
• Bank/Deposits	\$7m
• Net Debt	NA
• Notional Full Year Revenue	\$47m
Net Debt/Total Revenue	NA

(Note Debt was increased to \$8m in February)

3.5 External Debt plus Committed Facilities plus Liquid Investments (Available Finance) divided by External Debt must be greater than 110%

• External Debt	\$3m
• Bank/Deposits	\$7m
• Available Finance	\$10m
Available Finance divided by External Debt	333%

4. Analysis – Future Position

4.1 Notional Future Covenants are presented below. These are based on the following assumptions:

Expected increase to Council Debt (current Balance \$3m):	\$19m
Full year CapEx	\$31m
YTD CapEx	\$7m
Future CapEx	\$24m
Full Year OpEx (excl Depreciation)	\$26m
YTD OpEx (excl Depreciation)	\$13m
Future OpEx	\$13m

ITEM 10.7

Full Year Income	\$47m	
YTD Income	\$29m	
Future Income	\$18m	
• Interest Expense (borrow at 2.5%: full year)		est \$550k
• Assume Bank Balance		\$5m
• Future Debt Total		\$22m
• Interest income (notional)		\$20k
Net Interest/Total Revenue (530k/47m) must be <20%		1%
Net Interest/Annual Rates Revenue (530k/25.6m) : must be <25%		2%
Net Debt/Total Revenue (17m/47m) : must be <175%		36%
Available Finance divided by External Debt (27m/22m) : must be >110%		123%

Recommendation

That the report 'Treasury Reporting' be received.

10.8 Three Waters Reform - Financial Summary

Author: Dave Tombs, Group Manager - Corporate Services

Authoriser: Peter Beggs, Chief Executive

1. Reason for Report

- 1.1 To provide Audit/Risk Committee with an overview of the known/potential financial impacts of the proposed Three Waters Reform.

2. Context

- 2.1 Government has announced its intention to take responsibility for the provision of the Three Waters Services from local government from 1 July 2024.
- 2.2 This reform will have significant implications for every local government. Many of the details of these implications are not yet finalised.
- 2.3 This report is intended to provide a high level summary of the key financial impacts of the reform. It is emphasised that this summary is based on information available at the time of writing this report and a number of these implications are likely to change.
- 2.4 It is fully expected that some of the figures/details included in this report will change – possibly significantly – as some of the details of the reform evolve over the next two years.

3. Financial Impacts

Operating Income

- 3.1 Council's current Long Term Plan (LTP) incorporates the Three Waters for each of its 10 years. The LTP shows budgeted Total Council Income for 2024/25 of \$46m. Of this amount, \$30.1m relates to Rates Income of which \$10.7m (35%) is attributable to the Three Waters.
- 3.2 Approximately \$850k of this \$10.7m relates to rural water schemes and is currently expected to remain with council.
- 3.3 The LTP also has \$190k budgeted for Fees and Charges Income in 2024/25 arising from the Three Waters activity.
- 3.4 Council will not receive this \$10m post 30 June 2024 (this amount equates to 33% of its 2024/25 Rates Income and 22% of its Total Income).

Grant Income

- 3.5 Government is providing Council with some significant grant funding related to these reforms although some details associated with these grants is not yet finalised.
- 3.6 The *No Better Off Funding Program* is designed to help promote the future of local government and community wellbeing:
 - 3.6.1 Government has allocated \$2b to this fund
 - 3.6.2 Council's share is \$13.3m, based largely on population size

3.6.3 \$3.3m of this available from 1 July 2022; the balance after 1 July 2024

3.6.4 Funding can be used for Opex or Capex – possibly current LTP projects?

3.6.5 Details are still being finalised – emphasis is on infrastructure/services that support/enable lower emissions, housing development, growth, community wellbeing

3.7 The *No Worse Off Funding Program* is designed to ‘address the financial impacts directly as a result of the reform’.

3.7.1 Government has allocated \$500m to this fund

3.7.2 Each Council’s share is likely to be paid in 2024/25 and will be based on a series of formulae

3.7.3 \$200m will be allocated on a per capita basis (\$50m specifically for Auckland, Christchurch and Wellington; \$150m for all other councils) to address stranded overheads

3.7.4 \$50m will be buffer for the initial allocation

3.7.5 The criteria for the balance is still being developed

Other Grant Income

3.8 During 2020/21 the Government announced that Council would receive \$4.8m as a ‘*Three Waters Stimulus Grant*’. It was intended that Council would receive this equally over 2020/21 and 2021/22.

3.9 This grant is intended to contribute to Council’s cost of developing:

3.9.1 the Marton to Bulls Wastewater Pipeline;

3.9.2 Bulls potable water supply reservoir; and

3.9.3 Taihape Papakai Wastewater pump station and rising main.

3.10 This funding is part of the Government’s Three Waters Accelerated Investment Programme which is not directly related to the Three Waters Reform initiative. However it has been included in this report as it is related to the Three Waters.

Operating Expenses

3.11 Council’s LTP shows budgeted Total Council Operating Expenses for 2024/25 of \$46.3m, of which \$10.9m (24%) is attributable to the Three Waters.

Cash Expenses	\$3.4m
Depreciation	\$4.7m
Allocated Finance Costs	\$1.3m
Allocated Overheads	\$1.3m
Total	\$10.9m

3.12 Approximately \$430k of this \$10.9m relates to rural water schemes and is currently expected to remain with council.

- 3.13 The vast majority of the Allocated Overheads would remain with Council, meaning Council would lose \$10m of its 2024/25 Operating Income (22% of Total Income) and \$9.2m Operating Expenses (20%).
- 3.14 However, of the \$9.2m Operating Expenses, \$1.3m relates to Allocated Finance Costs and the way Council will be compensated for these is not clear.

Assets and Capital Expenditure

- 3.15 Council’s 2020/21 Annual Plan shows that the book value of Council’s water related assets at 30 June 2021 was \$109m, out of a Council total of \$611m (18%).
- 3.16 Council’s LTP shows total assets figure at 30 June 2024 of \$765m. Assuming that water related assets continue to represent 18% of Council’s total fixed assets that would mean Council will transfer assets with a book value of \$138m.
- 3.17 Council’s LTP includes the following capital expenditure amounts for Years 2 and 3:

Water Supply	\$11.2m
<i>(\$10m relates to Marton New Bore)</i>	
Wastewater	\$16.6m
<i>(\$14.7m relates to Marton to Bulls Centralisation project: an another \$6.5m is budgeted for 2020/21)</i>	
Stormwater	\$1.0
Total	\$28.8m

Debt

- 3.18 The Funding Impact Statements included in Council’s 2020/21 Annual Report show the following levels of debt as at June 2021:

Water Supply	\$17.3m
Wastewater	\$3.9m
Stormwater	\$0.9m
Total	\$22.1m

 - Council only had \$3m of external debt at June 2021: the majority off this debt was ‘internally funded’
- 3.19 The mechanism for repaying water related debt to Councils has not yet been finalised.
- 3.20 All future capital expenditure on new (as opposed to ‘replacement’) water assets will be debt funded.
- 3.21 Future levels of Capital Expenditure and Debt will be significantly impacted upon future cost escalation and ‘the market’s ability to deliver’.

Reserves

- 3.22 It is not currently known how a Reserves figure will/may be allocated to the Three Waters.

ITEM 10.8

Recommendation

That the report 'Three Waters Reform – Financial Summary' be received.

10.9 Review of Treasury and Finance Policies/Strategies**Author:** Dave Tombs, Group Manager - Corporate Services**Authoriser:** Dave Tombs, Group Manager - Corporate Services**1. Reason for Report**

1.1 In accordance with Council's Audit and Risk Committee Work Programme, Officers have reviewed Council's:

1.1.1 Treasury Management Policy

1.1.2 Finance Strategy (part of Council's Finance and Infrastructure Strategy)

1.1.3 Revenue and Financing Policy

2. Commentary

2.1 Key Observations:

Treasury Management Policy

- No required amendments identified

Finance Strategy (Pages 32 to 34 of Long Term Plan)

- No required amendments identified
- Acknowledged that:
 - the Three Waters Reforms will impact the longer term references contained within the Strategy; and
 - Some ratios included in the Strategy that relate to future years will vary from the ratios should they be re-calculated 'today' (although such variances are not considered material)

Revenue and Financing Policy (Pages 114 to 118 of Long Term Plan)

- No required amendments identified
- Acknowledged that:
 - Council is consulting on introducing a Forestry Rating Differential from 1 July 2022; and
 - Such a rating differential is consistent with the Revenue and Financing Policy

Attachments

1. **Treasury Management Policy** [↓](#)
2. **Finance Strategy as per LTP** [↓](#)
3. **Revenue and Finance Policy as per LTP** [↓](#)

ITEM 10.9

Recommendation

That the report 'Review of Treasury and Finance Policies/Strategies' be received.

FINANCIAL SERVICES

TREASURY MANAGEMENT POLICY

Date of adoption: 22 October 2020

Resolution number: 20/RDC/391

Date by which review
must be completed: September 2023

Relevant legislation: LGA 2002

Statutory/Policy: Statutory

Included in the LTP: Indirectly
(via Finance Strategy)

TREASURY MANAGEMENT POLICY

Date of adoption by Council/Committee	22 October 2020
Resolution Number	20/RDC/391
Date by which review must be completed	September 2023
Relevant Legislation	LGA 2002
Statutory or Operational Policy	Statutory
Included in the LTP	Indirectly (via Finance Strategy)

1 Introduction

Rangitikei District Council’s (“Council’s”) *Treasury Management Policy* consists primarily of two statutory policies:

1. Liability Management Policy and
2. Investment Policy

These statutory policies:

- form the key elements of, and provide, the framework under which Council operates its borrowing and investment activities; and
- are required under the Local Government Act 2002 (“LGA2002”) (Section 102 : Sections 104 and Section 105 outline the required content of these policies).

2 Overview

The key objectives of Council’s treasury activities are to protect the interests of, and ensure fairness between, Council’s current and future ratepayers.

In doing so, Council will apply procedures and controls to:

- ensure funds are always available to meet both planned and unplanned (but not extreme) levels of expenditure; and
- prudently manage the borrowing costs and investment returns that impact Council’s operational budgets; and
- ensure that all borrowings, investments and incidental financing arrangements comply with relevant legislation; and
- prudently manage the risk and volatility associated with Council’s treasury activities; and

- safeguard Council's assets; and
- provide appropriate treasury reporting; and
- ensure the key principles of Council's Treasury Management Policy are kept current via regular reviews and reporting.

Generally, Council will:

- avoid speculative type investments; and
- avoid investments in organisations whose activities are not consistent with Council's social, environmental, ethical or cultural values; and
- maintain a 'risk averse' approach to its treasury activities.

3 Liability Management Policy

3.1 Introduction

The Liability Management Policy applies to the following liability arrangements (ie borrowing arrangements) with external parties:

- to fund Council's capital works program, especially to provide funds for new (as opposed to replacement) assets. Council views the use of debt for these purposes as an appropriate and efficient mechanism for promoting intergenerational equity between current and future ratepayers;
- for specific one-off projects, including those caused by an emergency situation, or new levels of service that may arise from time to time

All other council liabilities (eg hire purchase, credit transactions, deferred payment and lease arrangements) are managed in the course of council's day-to-day operations.

Council's borrowing requirements will be clearly identified in its Long Term Plan and Annual Plans. Amounts not included in the Long Term Plan or Annual Plan can only be borrowed if approved by council resolution.

3.2 Requirements

S104 of LGA2002 states that the Liability Management Policy must state Council's policies regarding its management of borrowings and other liabilities, including:

- interest rate exposure; and
- liquidity; and
- credit exposure; and
- debt repayment.

3.3 Borrowing Covenants

The first two of these four considerations (interest rate exposure and liquidity) are most effectively governed with the use of borrowing covenants. In determining what constitutes a prudent level of borrowings, Council will apply the Local Government Funding Agency covenants for unrated councils as at 30 June 2020. An unrated council is one whose borrowings from LGFA are below \$20m and who is not a guaranteeing member of LGFA. These covenants are more conservative than the covenants that apply for rated councils.

Council’s Long Term Plan and Annual Plans show the planned future levels of Council debt. Although future cost of servicing debt is subject to future market conditions, the Long Term Plan will incorporate a reasonable estimate of these costs. Debt levels for each year within the Long Term Plan and for each Annual Plan must comply with the covenants in this Policy.

3.4 Interest Rate Exposure

Covenant	Limit
Net interest/total revenue	< 20%
Net interest/annual rates income	< 25%
<p>Notes:</p> <p>Net interest is total annual interest cost and finance costs less interest earned</p> <p>Total revenue is cash income from rates, government grants and subsidies, user charges, interest, investment income but excludes vested assets and developer contributions</p> <p>The following examples have been provided to assist with ‘giving this covenant some context’. These examples assume</p> <ul style="list-style-type: none"> Interest rate at 3% Interest earned \$zero Total annual revenue \$30m Annual rates income \$24m <p>Net interest/total revenue (maximum is 20%)</p> <p>Example 1 : Debt of \$3m: $[(3m*3\%)-0]/30m = 0.3\%$</p> <p>Example 2 : Debt of \$40m: $[(40m*3\%)-0]/30m = 4\%$</p> <p>Net interest/annual rates income (maximum is 25%)</p> <p>Example 1 : Debt of \$3m: $[(3m*3\%)-0]/24m = 0.4\%$</p> <p>Example 2 : Debt of \$40m: $[(40m*3\%)-0]/24m = 5\%$</p>	

Council’s finance department will primarily manage the impact of interest rate risk by accessing only fixed interest rate borrowings. Council approval will be obtained should non fixed interest rate borrowings be sought.

3.5 Liquidity

Covenant	Limit
Net debt/total revenue	<175%
The example information in S3.4 (Total Revenue of \$30m and Debt of \$40m) would provide a Net Debt/Total Revenue ratio of 133%.	
External debt plus committed loan facilities plus liquid investments divided by external debt	>110%
<p>The following examples have been provided to assist with ‘giving this covenant some context’. These examples assume</p> <ul style="list-style-type: none"> Committed Loan Facilities \$zero Cash at Bank \$2million Term Deposits \$4million <p>Example 1 : Debt of \$3m would give a Liquidity Ratio of $(3+0+2+4)/3 = 300\%$</p> <p>Example 2 : Debt of \$40m would give a Liquidity Ratio of $(40+0+2+4)/40 = 115\%$</p>	

In addition, Council will aim to maintain a current bank balance of between \$1m and \$3m, using debt and an interest earning deposit account as required.

3.6 Credit Exposure

At the time of approving this Treasury Management Policy, Council had one parcel of debt but expected to increase this number during the next Long Term Plan.

Council will ensure that each of its first seven parcels of debt:

- matures in financial years different from other parcels of debt; and
- is likely to provide Council with sufficient finance so that no further debt will be required for at least 6 months; and
- is included in a report to Finance and Performance Committee; and
- considers the cost/benefit of being fixed or floating with regards to other existing parcels of debt and market conditions.

3.7 Debt Repayment

Council will repay borrowings when, or before, they fall due in accordance with the applicable borrowing arrangement by refinancing or from surplus general funds.

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3.8 Management and Reporting

A summary of Council’s debt portfolio will be provided to Finance and Performance Committee on a quarterly basis.

This quarterly reporting will include commentary regarding Council’s debt position compared to the position included in the Annual Plan and Ten Year Plan.

3.9 Other Considerations

3.9.1 The New Zealand LGFA

Should Council borrow more than \$20m from LGFA and/or become a guaranteeing member of LGFA, borrowings from the LGFA may involve Council:

- contributing a portion of its borrowing back to LGFA as an equity contribution, for example as Borrower Notes; and
- providing guarantees of the indebtedness of other local authorities to LGFA and of the LGFA itself; and
- contributing additional equity or subordinated debt to LGFA if required; and
- securing its borrowings from LGFA and other obligations of the LGFA with a charge over RDC’s rates and rates revenue, and
- subscribing for shares and uncalled capital in LGFA.

3.9.2 Foreign Exchange Exposure

Council will ordinarily source its borrowings from bank debt, LGFA or from domestic capital markets (fixed rate bonds, medium term notes, floating rate notes and commercial paper). It is not envisaged that Council will have any foreign exchange exposure. Council approval will be sought should such exposure, of \$1,000 or more, be identified.

3.9.3 Other Guarantees

Apart from LGFA, Council may provide financial guarantees to local organisations, groups or bodies for recreational and community purposes.

The total value of these non-LGFA guarantees will be capped as per the following covenant:

Covenant	Limit
Non-LGFA Guarantees as % of total annual rates	3%

3.9.4 Other Liabilities

Other RDC liabilities will be managed in the course of RDC's day-to-day operations.

4 Investment Policy

4.1 Introduction

Council will generally hold two types of investment:

1. commercial and
2. strategic

Commercial investments typically arise where council invests surplus funds with the primary objective of generating a commercial return whilst exposing council to an appropriate level of risk. Council, like most public authorities:

- recognises that holding commercial investments should reduce the reliance on rates, and
- has a focus on investments that have a relatively low risk, and
- recognises that lower returns are generally associated with the lower risk investments that will form part of its investment portfolio, and
- will generally not hold equity investments for purely commercial reasons.

Strategic investments typically arise where council invests funds in an opportunity where the primary objective is to generate a social, community or similar benefit or for legislative reasons. These investments are generally expected to return a lower financial return to council than commercial investments.

Council's investment plans will be clearly identified in its Long Term Plan and Annual Plans.

4.2 Requirements

S105 of LGA2002 states that the Investment Policy must state Council's policies regarding its investments, including:

- the mix of investments, and
- the acquisition of new investments, and
- an outline of the procedures by which investments are managed and reported to the local authority and
- an outline of how risks associated with investments are assessed and managed.

4.3 Mix of Investments

Council's investments will typically be in the form of:

- equity and other shareholding interests - these may include holding financial interests in LGFA, Council Controlled Organisations and other strategic investment opportunities; or

- property, including land, buildings and ground leases; or
- forestry investments; or
- financial investments.

Council will not invest in initiatives that are not consistent with its social, environmental, cultural or ethical values.

4.4 Acquisition of New Investments

New equity and forestry investments (and disposals thereof), not included in an Annual Plan or Long Term Plan, require prior council approval.

The placing of surplus cash and working capital in interest-bearing bank deposit accounts is regarded as business as usual activity and, for these purposes, is regarded as a banking activity and not an investing activity.

4.5 Management and Reporting (including Risk Management)

A summary of Council's investment portfolio and its performance will be provided to Finance and Performance Committee on a quarterly basis.

This quarterly reporting will include commentary regarding investment returns compared to the amounts included in the Annual Plan and Ten Year Plan.

Where Council holds financial investments it may use mechanisms such as interest rate swaps, interest rate options and forward rate agreements to manage interest rate risk. In doing so, Council will seek external advice as required.

5 Other

5.1 Review

The Treasury Management Policy shall be reviewed by Council at least once every three years. The Local Government Act 2002 Amendment Act 2010 states that Council does not need to go through the special consultative process to amend the Liability Management Policy and the Investment Policy.

5.2 Reporting

- Council's Long Term Plan and Annual Plans show the planned future levels of Council debt and investment (S3.3 and S4.1)
- Each new parcel of debt will be reported to Council's Finance and Performance Committee (S3.6)

- A summary of Council’s investment portfolio and debt position will be provided to Finance and Performance Committee on a quarterly basis. This quarterly reporting will include commentary regarding investment returns and debt position compared to the amounts included in the Annual Plan and Ten Year Plan (S3.8 and S4.5)
 - Council’s Treasury function will formally report any concerns relating to Council’s investment portfolio or debt position to Audit and Risk Committee and to Council.
- 5.3 All delegations exercised under this Policy need to comply with the requirements of the Delegations Register and/or any sub-delegations that may be made by the CEO. All such sub-delegations made by the CEO must be clearly recorded.

Section 2: Financial and Infrastructure Strategy

Financial Summary

Overall the District is in good shape and approaching exciting times. The Government’s stimulus response to COVID-19 has presented the District with some unprecedented opportunities and there are numerous signs that we are entering a period of long and sustained growth.

Our population is expected to grow and our economy is expected to grow. Our infrastructure has to keep up. However, we must not simply focus on growth infrastructure. If we are to avoid problems other councils are facing it is critical we also maintain our existing infrastructure. Unfortunately, this is becoming more expensive to do and, in the absence of external funding, puts pressure on rates.

However, with an increasing population, in most sectors, including residential, industrial and commercial, the increasing rates burden will be spread over a larger ratepayer base. That means that if rates are increased by, say, 5% and the rate base increases by 2%, each existing ratepayer will face a rate increase of around 2.95%.

Council currently has relatively low levels of debt. This will enable us to push ahead and pursue our opportunities. Our Long Term Plan shows that we intend to invest around \$221m throughout the District in the next 10 years.

However, the cost of our asset renewals has grown faster than our income in recent years. This will require higher rate increases in the first few years of our Long Term Plan than we would like.

Key Issues

Balancing the Budget

Council is required, both morally and legally, to have a sustainable balanced budget. Where considered prudent, Council may set its operating revenues at a different level to its operating expenses.

Capital grants to be received in years 1 and 2 of the Long Term Plan prevent these years from being in deficit. However, Council is planning deficits for years 3 to 5 of the Long Term Plan.

A key cause of these deficits is the increase to the depreciation cost that Council incurs – depreciation has increased from \$10.6m in 2019 to a budgeted figure of \$14m in 2022. Without reducing its assets and infrastructure base, Council has very limited ability to manage this cost.

Council considers it prudent to rate for such cost increases over several years, thus avoiding unanticipated and large increases in any one year. Although this will result in Council having an unbalanced budget for some years of this Long Term Plan, it will result in an ongoing, sustainable balanced budget.

Council considers this a better model than imposing large rate increases in the early years

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of the Long Term Plan. Council has considered its ratepayers and its favourable funding position when making these decisions.

Council has also committed to an ongoing programme of pursuing operational efficiencies. Future budgets include an element of inflation and Council has also incorporated efficiency savings in its various operating budgets. Council recognises that contemporary business practices (including greater use of technology, strategic procurement, greater focus on long term business partnerships etc) enable sustainable operating efficiencies to be obtained. The budgets included in this Long Term Plan include \$8 million of ‘cost reduction without impacting on levels of service delivery’ in recognition of this initiative. To the extent that such savings are not achieved this will impact on future debt levels, service levels and/or rate rises.

Rates Over the Coming Years

Rates are an important source of Council revenue. Council has kept recent rate increases relatively low. Rates help pay for the renewal of its assets, the cost of which has grown faster than the recent rates increases. This needs to be addressed and Council has elected to do this over several years rather than in one year.

Overall, Council expects to increase rates (excluding penalties and remissions) over the next 10 years as follows:

1	2	3	4	5	6	7	8	9	10
7.07%	7.29%	6.54%	6.54%	8.79%	5.54%	3.79%	3.79%	2.54%	2.04%

As mentioned above, these increases are NOT what each individual ratepayer will be facing as we expect a significant larger ratepayer base over which these increases will be spread.

Council has set limits on its rate increases (excluding penalties and remissions) as follows:

1. Less than 7.5% for years 1 and 2
2. An average of less than 5% for the remaining 8 years

Council will use rating differentials and will amend the level of its Uniform Annual General Charge where it considers that the results of doing so are fair and equitable to the overall community. The very nature of our rating system means that, from time to time, unforeseen outcomes can arise that will be considered unfair and inequitable by some ratepayers.

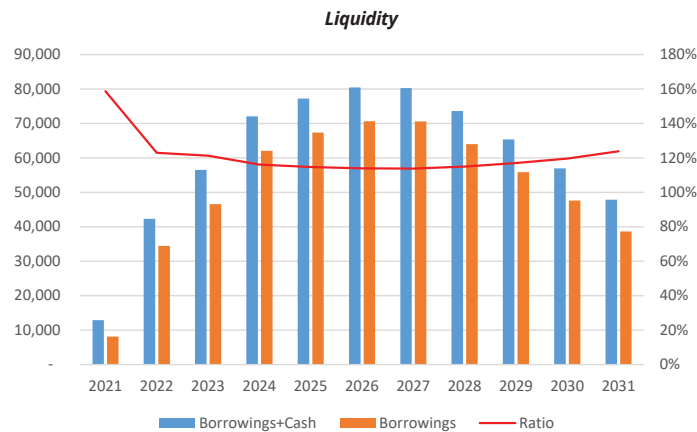
Capital Expenditure

Council’s planned capital expenditure programme shows we intend to invest more than \$221m in the District over the next 10 years. This level of investment will be funded by a mix of rates, grants and debt. Council expects its debt to increase to around \$71m during this Long Term Plan. Council also expects to maintain cash reserves of over \$9m in years

three to 10 of this Long Term Plan (which provides a debt capacity of around \$91m).

Critically, this amount includes maintaining our existing infrastructure and flood management strategies and also investing in the District's future.

Further details of these initiatives are stated elsewhere in this strategy.



One of our challenges is whether we'll be able to complete all the capital work we've planned to do. Not completing our programme presents some risks. Our planned Capital Works programme for the 10 years is \$221 million.

Delays could potentially result in increased costs or assets could fail before they are upgraded or replaced, risking continuity and delivery of services. There is also the risk that we charge rates to fund programmes that we then can't deliver in the proposed timeframe.

We have already taken steps to ensure we can complete our capital works programme, including employing more dedicated project managers and seeking early external expertise for major projects. We will continue to maintain our critical infrastructure to meet our existing levels of service.

There are some things we can't control, like the increased demand for skilled construction workers and materials, but we don't believe these risks to be significant and we are confident we can deliver our programme.

Treasury

Council recognises that it needs to increase its debt levels if it is to crystallise the opportunities that lies before it. However Council, also recognises that increases to debt must only be made in a responsible and managed manner.

Council's borrowing limits are set out in its Treasury Management Policy:

1. Net interest payments as a ratio of total revenue must be less than 20%
2. Net interest payments as a ratio of annual rates revenue must be less than 25%
3. Net debt as a ratio of total revenue must be less than 175%
4. External debt plus liquid investments divided by external debt must be more than 110%

Council's Long Term Plan shows that these limits in the next 10 years are forecast to be:

1. Ranges from 1.0% to 3.4% maximum
2. Ranges from 2.0% to 5.2% maximum
3. Ranges from 51% to 126% maximum
4. Ranges from 114% to 124% minimum

Council's Treasury Management Policy provides further information regarding Council's strategies regarding Borrowing Mechanisms and issuing security for debt. Generally, Council will primarily seek debt finance from the Local Government Funding Agency. Such debt will be secured by way of a charge over rates revenue offered through a Debenture Trust Deed ("DTD"). Under a DTD, Council's borrowing is secured by a floating charge over all Council rates levied under the Local Government Rating Act. The security offered by Council ranks pari passu with other lenders.

From time to time, and with Council approval, security may be offered by providing a charge over one or more of Council's assets.

Council's objectives for holding and managing financial investments and equity securities is contained in its Treasury Management Policy. Council's general policy regarding investments is:

- Council may hold financial, property, forestry and equity investments if there are strategic, commercial, economic or other valid reasons;
- Council will keep under review its approach to all major investments and the credit rating of approved financial institutions; and
- Council will review its policies on holding investments at least once every three years.

Rangitikei District Council

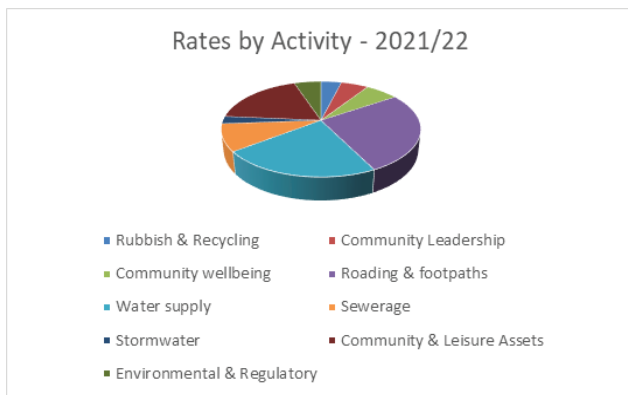
Section 2: Financial and Infrastructure Strategy

Other Significant Factors

Council feels that it can provide and maintain existing levels of service, and meet additional demands for services, based on the parameters identified in this Strategy.

However, Council is also aware of external factors that may impact this, including COVID-19. This Long Term Plan has been prepared on the basis that COVID-19 does not re-emerge.

Council is aware that COVID-19, or a variant thereof, could re-emerge over the term of this Long Term Plan. Such a threat would certainly have the potential to have a significant impact on Council's plans, and ability to deliver the outcomes, as set out in this Long Term Plan.



Securities

Council's objectives for holding and managing financial investments and equity securities are set out in the Treasury Management Policy.

The Council's general policy on investments is that:

- the Council may hold financial, property, forestry, and equity investments if there are strategic, commercial, economic or other valid reasons (e.g. where it is the most appropriate way to administer a Council function);
- the Council will keep under review its approach to all major investments and the credit rating of approved financial institutions; and
- the Council will review its policies on holding investments at least once every three years.

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Appendix 1

Data confidence

In projecting future costs for its infrastructure, Council needs to have regard for the reliability of the information it has on its assets. The maintenance, renewal, and capital expenditure programme for Council's core assets is based on the information in Council's Asset/Activity Management Plans. This is the best information available to Council about these assets. Information about asset condition has some limitations, as noted in the following pages. In an effort to improve asset data confidence, Council initiated a revised Asset Management Strategy for the potable water, wastewater and stormwater assets in 2019. This strategy includes more detailed assessments of asset performance and asset condition for the Three Waters networks. The work on collecting more accurate asset data will continue for the next three years and is expected to be completed by 2024. On completion the new asset management strategy will produce a 30-year prioritised programme of works for renewals, performance upgrades and network growth for the Three Waters assets.

Council completed numerous CCTV inspections, inflow and infiltration studies and flow measurements of the networks to gain a level of confidence on the existing critical assets. The normal age-based asset renewal approach will be followed for the next three years to limit the exposure to poor decision-making until such time as the new asset management strategy work has been completed.

Roading

The RAMM databases are Council's prime asset register for the network. It is routinely updated, random samples of newly collected RAMM data are QA field checked, and the databases are also continually checked during the course of their use and any anomalies are corrected when identified.

All information held in the databases is reliable. Some data fields are incomplete, but this relates to information that is unknown or cannot be readily assessed, e.g. historical information relating to construction dates, old pavement subsurface formation details etc. This would very expensive to obtain, i.e. by on site testing. This limits information that can be generated in some instances.

The confidence asset data is in the range 'A-B'.

A Highly reliable B Reliable

Revenue and Financing Policy

Introduction

The Local Government Act 2002 (“LGA2002”) requires Council to adopt a Revenue and Financing Policy (S102) that must:

- state Council’s policies in respect of funding both operating expenses and capital expenditure from the sources available to it (S103(1)); and
- show that Council has determined its overall funding needs by identifying the most appropriate source(s) of funds to be used for each activity (S101(3)).

In accordance with the Local Government Act 2002 S101(3), Council considers the following when determining which funding source is appropriate for each activity:

- The community outcomes to which the activity primarily contributes; and
- The distribution of benefits between the community as a whole, any identifiable part of the community, and individuals; and
- The period in or over which those benefits are expected to occur; and
- The extent to which the actions or inaction of particular individuals or a group contribute to the need to undertake the activity; and
- The costs and benefits, including consequences for transparency.

Council also consider the overall impact of any allocation of liability for revenue needs on the current and future social, economic, environmental and cultural well-being of the community. This includes consideration of matters such as affordability and predictability of rates.

These considerations will sometimes have conflicting outcomes. When Council applies these principles to identify the appropriate funding for its activities it considers the overall impact on the Community.

Part A

General Principles for revenue and funding management

- Council will manage its finances in a way that promotes the current and future interests of the community
- Consistent with S100(1) LGA2002, Council will aim to generate sufficient operating income each year to cover its operating expenses
- Council will use a mix of revenue sources to cover its operating expenses
- Council will apply the most appropriate mix of revenue sources for each of its different activities
- When determining the level of income required to cover its operating expenses Council will seek to avoid including:
 - grants with no associated operating expenditure; and
 - proceeds from disposal of assets; and
 - reserves; and
 - increases in the fair value of fixed assets (that essentially result from applying Accounting Standards at the end of each financial year); and
 - borrowings.
- Council recognises that unforeseen operating expenses may arise
- Council will seek to attract appropriate sources of external revenue to help reduce the burden on its ratepayers and residents
- Council will ensure its level of operating expenditure is managed appropriately to help constrain the levels of operating revenue required to achieve these general principles
- Council may choose to not fully fund operating expenditure in a particular year if the deficit can be funded from operating surpluses in the preceding year or subsequent years. An operating deficit will only be budgeted when beneficial to avoid significant fluctuations in rates, fees and/or charges. Such operating deficits will typically be funded from cash reserves or borrowings.
- Council will adopt a long-term view when applying these general principles.

Funding of Operating Expenditure

Council will ordinarily use the following sources of income to finance its operating expenses:

General Rates (including the Uniform Annual General Charge)

Considered appropriate where it is not practicable, equitable or cost-effective to identify the individual or group of beneficiaries (or causers of costs) of the service. May be used to apply to a particular service to reduce the level of fees and charges that are required to be raised for that service.

Targeted Rates

Considered appropriate in a range of circumstances including where the service is of benefit to a specific group of ratepayers and where it is practicable and considered equitable.

Levies, fees and charges

Considered appropriate where the users of a service can be identified and charged according to their use of the service and where it is practicable and considered equitable. The level of fees and charges is set to recover the costs (either partially or fully) of providing that service.

Subsidies and Grants

Such funding is often received for a specific purpose and Council has no discretion regarding the use of such income. Generally, these funds reduce the need for Council to raise income through General Rates, Targeted Rates or Levies, Fees And Charges.

Development Contributions

Considered appropriate to fund costs associated with development.

Borrowing

Considered appropriate to fund new capital projects that deliver benefits over several years. Sometimes required to fund operating expenses such as depreciation and/or an operating deficit.

Petrol Tax

Considered appropriate to help fund costs associated with Roading and Footpaths Group.

Other (Finance income, sundry)

Considered appropriate to fund costs associated with the provision of the service to which it relates, replacement of assets and/or to decrease levels of required debt.

General Rates and Targeted Rates : Further Information

When setting the General Rates, Targeted Rates and Levies, Fees and Charges, Council balances a range of considerations including:

- The impact on the current and future social, economic, environmental and cultural well-being of the Community; and
- The most appropriate mix of funding for each of its activities (refer to Part B below)

The General Rate is used to fund activities that are predominantly provided for the benefit for the community as a whole, and individual charging for these services is viewed as being impracticable, inequitable and/or not cost-effective.

Council uses the Capital Value of properties to set the General Rate. Council may introduce rating differentials where it considers it reasonable and equitable: for example to alleviate the impact of large increases in the Capital Value of any rating category/categories relative to other rating categories. Such increases can arise where a particular rating category incurs a high increase in its capital values relative to other categories.

Council applies a Uniform Annual General Charge (UAGC) as part of the General Rate. The level of UAGC is determined by Council based on what it considers fair, equitable and necessary to provide a fair distribution of rates. Council may adjust the UAGC to alleviate the impact of large increases in any rating category/categories. Such increases can arise where a particular rating category incurs a high increase in its capital values relative to other categories.

Targeted Rates are used to fund operations, maintenance and renewal costs related to the provision of specific activities. Council may also use a Targeted Rate for a service to show clearly the costs of a service, even if the service and rate are district-wide.

Targeted Rates that are set in circumstances where the service is available to only parts of the community will be charged on a basis of service provision and will not be based on the value of the property. These rates are in the nature of a proxy for a user charge.

Generally, Council will seek to avoid:

- Large increases in any rating category. Such increases can often arise where a particular rating category incurs a high increase in its capital values relative to other categories; and
- Large 'across the board' annual rate increases. Council will aim to apply a pattern of steady, constant rate increase as opposed to a series of alternating high increases and minor increases.

Council may identify instances where some land uses receive more benefit from, or place more demands on, council services and/or may have a differing ability to pay rates. In such situations, where considered equitable, practicable and/or where this contributes to the predictability of rates, Council may elect to use rating differentials.



Funding of Capital Expenditure

General

Revenue that is collected to cover Council's depreciation charge (which forms part of Council's operating expenditure) is used to finance the replacement of capital assets.

In addition to the sources of income for operating expenditure listed above Council may use the following to fund capital expenses:

- Borrowings
- Reserves
- Proceeds from the disposal of assets

Borrowings

Council borrowings are managed as per Council's Liability Management Policy that forms part of Council's Treasury Management Policy.

Borrowings are generally used to fund capital projects that include an element of service enhancement.

Borrowing for capital expenditure enables the Council to ensure there is intergenerational equity in terms of who funds capital expenditure – the repayments are spread over the reasonably expected average life of the asset where practicable. This means today's ratepayers are not asked to fund tomorrow's assets.

Part B.

Summary of Funding Used in Activities

Council has determined the most appropriate source(s) of funds from each of the sources listed in Part A to be used for each activity and the method of apportioning rates and other charges. The following table shows which mechanisms may be used to fund expenditure for Council's activities by group.



























Where the overall level of fees and charges falls below budget alternative income sources may be required to fund that service. Conversely, where the overall level of fees and charges falls exceeds budget Council may have additional revenue to ease the financial pressure in other areas.

Council will seek to mitigate the costs to ratepayers for each of these activities by obtaining income from external sources (e.g grants) where suitable opportunities arise.

Typically, the capital cost of expanding the range of these services may be met from grants, subsidies, donations and/or borrowings.

Activity	General Rate	Targeted Rate	User fees/ charges	Subsidies and grants	Petrol Tax	Other
Community Leadership						
Council and Community Boards						
Roading						
Roading						
Water Supply						
Urban water						
Rural Water Schemes						
Sewerage and the treatment and disposal of sewage						
Wastewater						
Stormwater						
Stormwater						
Community and leisure						
Libraries						
Halls						
Swim Centres						
Community Housing						
Domains						
Property						

Section 6: Significance and Engagement Policy

Activity	General Rate	Targeted Rate	User fees/ charges	Subsidies and grants	Petrol Tax	Other
Public Toilets						
Cemeteries						
Forestry						
Rubbish and recycling						
Solid waste						
Environmental and Regulatory Services						
District Planning						
Resource Consents						
Building Services						
Dog Control						
Public Health						
Community Well-being						
Civil Defence						
District Promotions						
Information Centres						



Primary: largest source of activity funding, or within 20% of the largest source of funding



Secondary: >5% but less than 45% of the overall source of funding for the activity



Minor: <5% of the overall source of funding for the activity

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10.10 Strategic Risk Review**Author:** Dave Tombs, Group Manager - Corporate Services**Authoriser:** Dave Tombs, Group Manager - Corporate Services**1. Reason for Report**

1.1 To provide Audit and Risk Committee with an update of the Strategic Risk Review currently being conducted by the Executive Leadership Team (“ELT”).

2. Context

2.1 Council conducted a full review of its Strategic Risk Register (‘SRR’) during 2021 and is committed to keeping the SRR ‘current’.

2.2 ELT has recently reviewed two of the ten risks contained in the SRR and the results of these reviews are attached.

2.3 ELT will:

- Continue to review the other risks contained in the SSR; and
- Consider whether the SSR should include any other risks not currently contained in the SRR; and
- Continue to provide updates to the Audit and Risk Committee.

2.4 Further to Section 2.3 above, Council’s SRR has identified the following Strategic Risks:

2.4.1 Trust and confidence are tarnished

2.4.2 Insufficient capability and capacity to fulfil agreed commitments

2.4.3 Legal and political environment requires excessive resources

2.4.4 Capital programme falters

2.4.5 Financial stability is lost

2.4.6 Regulatory effectiveness is questioned

2.4.7 Climate change responsiveness is ineffective

2.4.8 Business continuity is compromised

2.4.9 Obligations with health and safety and environmental protection are not met

2.4.10 Changes to governmental legislation are transformational

2.5 Subject to feedback from the Audit and Risk Committee, the SRR will be updated to incorporate the proposed changes.

3. Commentary

3.1 The attached shows a number of amendments to ‘Risk 5: Financial Stability is Lost’. These changes are primarily to place greater emphasis on Council’s *Operational Performance*; Council’s *Capital Programme Performance* is addressed in a separate Risk.

Attachments

1. **Strategic Risk Reviews** [↓](#)

Recommendation

That the report 'Strategic Risk Review' be received.

<p>5. Financial stability is lost</p> <p>The risk is that Council’s financial projections, in terms of operating expenditure and revenue, prove substantially incorrect or insufficient. This could require a substantial increase in rates and increase the level of borrowing.</p> <p>Inherent Risk Likelihood – Medium/High Impact – High</p>	<p>The following initiatives are in place:</p> <ul style="list-style-type: none"> • The Long Term Plan 2021-2031 demonstrates Council will achieve a sustainable balanced budget. • Ongoing financial management and oversight is a critical executive responsibility of the ELT-function that is reported at each Finance and Performance Committee and Audit and Risk Committee meeting. • <u>Cost centre managers proactively take responsibility for continually managing their respective budgets and provide forecast information for a mid year budget review.</u> • Maintain external stakeholder relationships with key funding partners. • Maintain resilience with our internal billing systems. • Project Management Office delivers project fiscal oversight. • Major capital projects utilise external advisory boards. • Current and accurate asset and infrastructure management information is maintained. • Appropriate insurance cover is maintained.<u>Requests for significant unbudgeted expenditure are thoroughly scrutinised and considered by ELT.</u> • <u>Rates modelling is effective and well informed.</u> <p>Mitigated Risk Likelihood – Low Impact – High</p>
<p>6. Regulatory effectiveness is questioned</p> <p>The risk is that there are inconsistencies with how regulatory matters (e.g. building and resource consents) are dealt with, which could mean the community loses</p>	<p>Council shall ensure there is the correct balance of facilitating pragmatic solutions and compliance with legislative requirements, Council bylaws and policies.</p>

<p>confidence in Council’s processes and could have a negative impact on Council’s reputation.</p> <p>An additional risk is Council’s ability to perform it’s regulatory functions within legislative timeframes.</p> <p>Inherent Risk Likelihood – High Impact - High</p>	<p>Ensure that Council’s Building Consenting Authority (BCA):</p> <ol style="list-style-type: none"> 1. Is clear on requirements and expectations for staff and applicants; 2. Has the appropriate systems and training in place. 3. Is resourced appropriately. <p>Council to consider common systems with neighbouring Councils and BCAs by regularly assessing its business model.</p> <p><u>Council remain abreast of future changes that impact Council’s regulatory function.</u></p> <p>Mitigated Risk Likelihood – Low Impact - Low</p>
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10.11 Sensitive Expenditure December 2021 Summary**Author:** Danny Le Mar, Manager Financial Services**Authoriser:** Dave Tombs, Group Manager - Corporate Services**1. Reason for Report**

1.1 To provide the Audit and Risk Committee with a summary of the sensitive expenditure that was incurred for the first 6 months of the 21/22 financial year.

2. Context

2.1 Finance provides a Sensitive Expenditure Summary to the Audit and Risk Committee every six months.

3. Discussion and Options Considered

3.1 The summary of sensitive expenditure:

3.1.1 has been extracted from the Council's general ledger;

3.1.2 has not been audited

3.1.3 is provided for information purposes.

Attachments

- 1. Sensitive Expenditure Report** [↓](#)

Recommendation

That the report 'Sensitive Expenditure December 2021 Summary' be received.

Rangitikei District Council
Account Details
For Period ended 31 December 2021

Activity	Account	2021/22 YTD Actuals December	2021/22 YTD Budgets December	2021/22 YTD Variance December
Council	10100321. Flowers/Gifts	1,836	3,072	1,236
Council	10100583. Catering	7,197	6,900	(297)
Council	10100676. Travel Costs	903	2,652	1,749
Council	1010067601. Travel Costs - Accommodation	2,668	2,640	(28)
Council Committees	10300583. Catering	0	402	402
Council Committees	10300676. Travel Costs	0	276	276
Council Committees	1030067601. Travel Costs - Accommodation	0	276	276
Building	30100583. Catering	87	102	15
District Planning	30200583. Catering	406	0	(406)
District Promotions	40200583. Catering	39	0	(39)
Libraries	40801583. Catering	347	398	51
CEO Business Unit	91100321. Flowers/Gifts	507	300	(207)
CEO Business Unit	91100583. Catering	1,136	300	(836)
CEO Business Unit	91100676. Travel Costs	535	2,424	1,889
CEO Business Unit	9110067601. Travel Costs - Accommodation	788	2,700	1,912
People and Culture	91200583. Catering	191	500	309
People and Culture	91200676. Travel Costs	0	784	784
People and Culture	9120067601. Travel Costs - Accommodation	0	1,026	1,026
Policy & Democracy	91400583. Catering	0	150	150
Policy & Democracy	91400676. Travel costs	17	1,266	1,249
Policy & Democracy	9140067601. Travel Costs - Accommodation	(427)	1,092	1,519
Financial Services	92100583. Catering	495	100	(395)
Financial Services	92100676. Travel Costs	147	1,200	1,053
Financial Services	9210067601. Travel Costs - Accommodation	750	402	(348)
Customer Services	92300583. Catering	205	252	47
Customer Services	92300676. Travel Costs	0	260	260
Customer Services	9230067601. Travel Costs - Accommodation	(214)	260	474
Information Services	92600676. Travel Costs	428	700	272
Information Services	9260067601. Travel costs - Accommodation	2,413	900	(1,513)
Community & Leisure	94100583. Catering	47	126	79
Community & Leisure	94100676. Travel Costs	17	252	235
Community & Leisure	9410067601. Travel Costs - Accommodation	1,978	402	(1,576)
Asset Services	95100321. Flowers and Gifts	79	0	(79)
Asset Services	95100583. Catering	249	250	1
Asset Services	95100676. Travel Costs	712	0	(712)
Asset Services	9510067601. Travel Costs - Accommodation	551	0	(551)
Env & Regulatory Unit	96100583. Catering	8	156	148
Env & Regulatory Unit	96100676. Travel Costs	0	498	498
Env & Regulatory Unit	9610067601. Travel Costs - Accommodation	(74)	1,200	1,274
Parks & Reserves	96200583. Catering	222	0	(222)

*Report Contains Filters

10.12 Accounting Policy Review**Author:** Danny Le Mar, Manager Financial Services**Authoriser:** Dave Tombs, Group Manager - Corporate Services**1. Reason for Report**

- 1.1 To inform the Audit and Risk Committee ('the Committee') of accounting policy changes and to demonstrate to the Committee that Officers have considered changes to accounting policies as part of their planning for financial year end.

2. Context

- 2.1 Each year the Committee receives a report on changes in accounting policies.
- 2.2 Normally changes in Council's accounting policies are driven by changes in accounting standards. Council is required to comply, in all material respects, with all relevant accounting standards so there is no option to adopt/not adopt these standards into our accounting policies.
- 2.3 As part of Council's LTP there were some changes required to be made to ensure that Council complied with a new accounting standard (PBE IFRS 9 Financial Instruments).
- 2.3.1 This accounting policy will be first in-effect for the 30 June 2022 annual report.
- 2.3.2 The new accounting standard does not impact Council significantly as it is targeted at the way financial assets are recognised and recorded over the life of the asset. The Council has very little exposure to this.
- 2.4 The only other change that we could expect for the 30 June 2022 Annual Report is changes to useful lives of assets.
- 2.4.1 We have a revaluation of our infrastructure assets effective 30 June 2022 which may trigger changes to the useful lives of our assets.
- 2.4.2 The revaluation is carried out independently and any recommendations arising from the revaluation regarding asset lives and values are reviewed by Council once this has been completed.

Recommendation

That the report 'Accounting Policy Review' be received.

10.13 Audit NZ Management Letter Update**Author:** Danny Le Mar, Manager Financial Services**Authoriser:** Dave Tombs, Group Manager - Corporate Services**1. Reason for Report**

- 1.1 To provide the Audit and Risk Committee ('the Committee') with an update of Management Letter Points raised by Audit NZ.

2. Context

- 2.1 At its December 2021 meeting, the Committee was presented with:
 - 2.1.1 A summary of outstanding Management Letter points; and
 - 2.1.2 Advice that the 2019/20 Management Letter had not yet been finalised; and
 - 2.1.3 Advice that the 2020/21 Management Letter had not yet been received.
- 2.2 Officers now advise that:
 - 2.2.1 No significant change has been made to the outstanding Management Letter points (so these have not been re-attached); and
 - 2.2.2 The 2019/20 Management Letter has now been finalised and is attached; and
 - 2.2.3 The 2020/21 draft Management Letter has been received and is attached. Note this has not yet been fully reviewed by Officers.
- 2.3 Reminder to the Committee - the intent of including the Management Letter Update on this agenda is for Officers to 'demonstrate proper oversight' of these issues rather than for a detailed review of the items to be undertaken.

Attachments

1. **Audit NZ Report 2019/20** [↓](#)
2. **Draft Audit NZ Report 2020/21** [↓](#)

Recommendation

That the report 'Audit NZ Management Letter Update' be received.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Report to the Council on the audit of

Rangitikei District Council

For the year ended 30 June 2020

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Key messages

We have completed the audit for the year ended 30 June 2020. This report sets out our findings from the audit and draws attention to areas where the Rangitikei District Council (the District Council) is doing well and where we have made recommendations for improvement.

Audit opinion

We have issued a modified audit opinion dated 17 December 2020. The qualified opinion is on the activity statements for incomplete information about the number of complaints the District Council has received related to water, wastewater and stormwater complaints. For the year ended 30 June 2020 and the comparative year, we were unable to determine whether the District Council's reported results for these measures were materially correct. Refer to section 4.1 for further detail.

We issued an unmodified opinion over the financial statements. This means that financial statements and accompanying information are fairly presented.

Without modifying our audit opinion, we also included an emphasis of matter paragraph to draw attention to the disclosures in the financial statements relating to the effect of the Covid-19 pandemic on the District Council.

Key matters considered during the audit

The following key matters were considered as part of the audit:

- Impact of Covid-19 – the District Council prepared an assessment of the impact on its operations including changes to internal controls, activities, financial and performance results, the assumptions around the fair value of assets and possible impairment. We reviewed this assessment and related information. We reviewed the District Council's disclosure on these impacts and concluded that it was appropriate.
- Bulls Community Centre – the District Council started the development of the Bulls Community Centre during 2018/19 and it is not expected to be completed until the 2021/22. Given the financial significance of this project we reviewed the accounting treatment as at 30 June 2020 by testing costs related to the project, work-in-progress and any significant grants received. We are satisfied the Bulls Community Centre has been correctly accounted for and disclosed.
- Fair value of Property, Plant and Equipment:
 - The District Council periodically revalues its operational and infrastructural assets. *PBE IPSAS 17, Property, Plant and Equipment*, requires that valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value. The District Council revalued its infrastructure assets in the prior year.

- We reviewed District Council's assessment of whether there was any significant difference between the carrying amount and fair value of its revalued assets. Based on the work performed we are satisfied that the fair value is not materially different to the carrying value.
- For land and buildings, a valuation was performed. This was not significant given the value of these asset classes compared to the total asset portfolio. Based on the work performed, we were satisfied that the land and buildings revaluation was appropriately recognised and disclosed.
- Quality and timeliness of information provided for audit – our ability to complete the audit was adversely impacted by delays in the District Council providing us with supporting documentation and a completed draft annual report. We have recovered a portion of the additional costs we incurred from the District Council.

Thank you

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



Chris Webby
Appointed Auditor
18 January 2022

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
Urgent	Needs to be addressed <i>urgently</i> These recommendations relate to a significant deficiency that exposes the District Council to significant risk or for any other reason need to be addressed without delay.
Necessary	Address at the earliest reasonable opportunity, <i>generally within six months</i> 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.
Beneficial	Address, <i>generally within six to 12 months</i> These recommendations relate to areas where the District Council is falling short of best practice. In our view it is beneficial for management to address these, provided the benefits outweigh the costs.

1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
Quality and timeliness of information provided for audit Ensure the financial statements are ready along with all the supporting information when agreed.	2.4	Necessary
Performance reporting – recording of complaints Ensure the District Council record all complaints in the system based on the DIA guidance. Formalised procedures should be established.	4.1	Urgent
Local Authorities (Members Interest) Act – Retrospective approval Implement a robust formal system that ensures transactions between Councillors and the District Council are monitored throughout the year so if Local Authorities (Members Interest) Act approval is required, this is sought in advance.	4.2	Necessary

Recommendation	Reference	Priority
<p>Identification of earthquake prone buildings</p> <p>Update the earthquake prone listing spreadsheet and take into account allowances for any works required to the earthquake prone buildings as part of the next valuation.</p>	4.3	Necessary

1.2 Status of previous recommendations

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

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open	-	24	3	27
Implemented or closed	1	7	2	10
Total	1	31	5	37

2 Our audit report

2.1 We issued a modified audit report



We issued a qualified opinion on 17 December 2020. The qualified opinion is on the activity statements for incomplete information about the number of complaints the District Council has received related to water, wastewater and stormwater complaints.

For the year ended 30 June 2020 and the comparative year, we were unable to determine whether the District Council’s reported results for these measures were materially correct. Refer to section 4.1 for further detail.

We issued an unmodified opinion over the financial statements. This means that financial statements and accompanying information are fairly presented.

Without modifying our audit opinion, we also included an emphasis of matter paragraph to draw attention to the disclosures in the financial statements and service performance relating to the impact of the Covid-19 pandemic on the District Council.

In forming our audit opinion, we considered the following matters. Refer to sections 3 and 4 for further detail on these matters.

2.2 Uncorrected misstatements

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

Uncorrected misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Roading assets	1	(8,727,478)			
Revaluation reserve				8,727,478	
Total		(8,727,478)		8,727,478	

Explanation of uncorrected misstatements

1 Prior year uncorrected misstatement

The updated final road valuation dated 20 September 2019 corrected the overhead charge which was overstated by 2% in the draft valuation and consequently reduced the depreciated replacement cost for the road network assets. This adjusted value which was not recognised by Council would have decreased the road network asset by \$8,727,478 and the road revaluation reserve in equity by the same amount.

2.3 Corrected misstatements

We also identified misstatements that were corrected by management. A list of some of the correct misstatements and disclosures 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 District Council. This includes the draft annual report with supporting working papers. We provided a listing of information we required to management for the audit visits. This included the dates we required the information to be provided to us.

The District Council were not able to provide us with the full financial statements and supporting documentation when it was agreed upon. This delayed the audit and meant that additional resources were required to be able to complete the audit. This resulted in cost overruns. We have recovered a portion of the additional costs we incurred from the District Council.

We **recommend** management ensures the financial statements are ready along with all the supporting information when agreed. This will help ensure the audit runs smoothly and will mitigate the need for us to seek a cost recovery in future audits.

Management comment

This year is a transitional year regarding the preparation of the annual report. The timing of staff turnover has meant that we haven't had sufficient time to fully introduce all the changes we are intending to introduce with regards to the preparation of the annual report.

However we expect our preparation for the 20/21 annual report to be a significant improvement compared to the prior year and we expect further improvement to be achieved for the 21/22 annual report.

3 Matters raised in the Audit Plan



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

Audit risk/issue	Outcome
Bulls Community Centre	
<p>Development of the Bulls Community Centre commenced during the prior financial year and is expected to be completed in the next financial year.</p> <p>Due to the significance of the project we undertook a review last year of the project management practises being used by the District Council. Our review noted a number of opportunities for the District Council to improve its project management practices. We will follow up with management on the progress they have made implementing our recommendations.</p> <p>The District Council is continuing to fundraise for the cost of the project through grants and donations. There is judgement required to determine when to recognise a grants as revenue and the amount to be recognised. The accounting treatment of each grant is dependent on the conditions or milestones included in the grant agreement.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • tested costs related to the project and ensured these had been accounted for correctly; • confirmed the project was work-in-progress as at 30 June 2020; and • tested the significant grants back to contract. <p>Overall conclusion</p> <p>We have gained assurance the Bulls Community Centre has been correctly accounted for and disclosed.</p>
Fair value of Property, Plant and Equipment	
<p>PBE IPSAS 17 <i>Property, Plant and Equipment</i> requires that valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.</p> <p>The District Council periodically revalues its infrastructure and land and buildings assets. The last revaluations were:</p> <ul style="list-style-type: none"> • Land and buildings – 1 July 2016 • Infrastructure assets – 30 June 2019 <p>We understand that land and buildings will be revalued as at 1 July 2019.</p>	<p><u>For infrastructure assets:</u></p> <p>We reviewed the District Council’s assessment of whether there is any significant difference between the carrying amount and fair value of its revalued assets. Based on the work performed we are satisfied that the fair value is not materially different to the carrying value.</p> <p><u>For the land and buildings revaluation:</u></p> <p>We performed the following procedures:</p> <ul style="list-style-type: none"> • Assessed relevant controls that management has put in place for the valuation.

Audit risk/issue	Outcome
<p>In a non-revaluation year the District Council must consider whether there has been any significant movement in the fair value of the assets.</p> <p>We expect that the District Council will have done a comprehensive analysis to determine whether there is a significant variance between the fair value as at 30 June 2020 and the carrying value. If the variance is significant it would trigger the need for the District Council to revalue the assets.</p>	<ul style="list-style-type: none"> • Obtained an understanding of the underlying data. • Reviewed the accounting entries and disclosure. • Evaluated the qualifications, competence and expertise of the external valuer used. • Reviewed the method of valuing the Property, Plant and Equipment and assess if the applicable method used is in line with the financial reporting framework, including the reasonableness of the assumptions used. <p>We noted that the valuer was not provided details on whether any buildings required earthquake strengthening. Therefore, the values calculated in the valuation do not make allowances for any works required to the affected buildings. We have made a recommendation in section 4.3 to address this going forward.</p> <p>Overall conclusion</p> <p>Based on the work performed, we were satisfied that the land and buildings revaluation was appropriately recognised and disclosed.</p>
Impairment of Property, Plant and Equipment	
<p>PBE IPSAS 21 <i>Impairment of Non-Cash Generating Assets</i> and PBE IPSAS 26 <i>Impairment of Cash Generating Assets</i> require the District Council to assess assets held at cost for indicators of impairment on an annual basis.</p> <p>We expect that the value of work in progress (WIP) on projects that span an extended period of time to be assessed for impairment regularly over the period of the project.</p>	<p>We discussed with the Principal Asset Advisor whether there had been any impairment indicators identified. From these discussions no impairment indicators were identified apart from some potential earthquake prone buildings. We have made a recommendation in section 4.3 for the valuation of earthquake prone buildings to make an allowance for any works required to the affected buildings.</p> <p>Overall conclusion</p> <p>We are satisfied that there is no evidence of a material impairment of Property, Plant and Equipment.</p>

Audit risk/issue	Outcome
Impact of Covid-19	
<p>On 11 March 2020, the World Health Organisation declared the outbreak of coronavirus (Covid-19) a pandemic. The New Zealand Government has taken steps to deal with the spread of Covid-19 which has included significant restrictions on the movement and interaction of people within New Zealand.</p> <p>This will have various potentially significant effects on individuals, communities, the economy, businesses, the wider public sector and each public sector entity.</p> <p>It is important that the District Council considers the impact of this event on various aspects of its operations and the information included in the annual report.</p> <p>We expect the District Council to complete an assessment of the impact of Covid-19 on its operations and any effect this has on the financial and performance information included in the annual report, including any additional disclosures which may need to be included. In addition, we expect there will be some significant variances between budgeted and actual figures/results which will require explanation.</p> <p>This assessment may also include the effect of Covid-19 on matters such as revenue recognition, valuation of assets, and the provision for doubtful debts.</p>	<p>Since Covid-19 was declared a pandemic in the early part of 2020, it has had and continues to have an impact on the operations and financial results of the District Council.</p> <p>The District Council prepared an assessment of the impact on its operations including, changes to internal controls, activities, financial and performance results, the assumptions around the fair value of assets and possible impairment. We have discussed with management and reviewed this assessment and related information. We have not identified any additional risks that have arisen as a result.</p> <p>The impact included closure of non-essential facilities during alert levels which saw a reduction in revenue and some levels of service. In addition, the District Council carried forward some capital projects. The overall impact on the financial results was not significant and some non-financial performance measures were not achieved as a result of the shut-down.</p> <p>We have reviewed disclosure around the differences of actual financial results against budget and the disclosure around the actual non-financial performance results against targets.</p> <p>We assessed the District Council’s disclosure around these impacts and concluded that it was appropriate. Based on our audit work, we noted that the control environment was maintained during the remote/working from home environment.</p> <p>Overall conclusion</p> <p>From our review of the work completed by the District Council and the disclosures included in the annual report we have no issues to report to you.</p>

Audit risk/issue	Outcome
The 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 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 District Council and its environment, and other information obtained during the audit. <p>Overall conclusion</p> <p>From our testing we did not identify any issues that indicated management override.</p>
PBE IPSAS 35-38 – new group accounting standards	
<p>Public benefit entities were required to adopt a new suite of IPSAS based group accounting standards for periods beginning on or after 1 January 2019.</p> <p>The standards for adoption were as follows:</p> <ul style="list-style-type: none"> • PBE IPSAS 35 – <i>Consolidated Financial Statements</i>; • PBE IPSAS 36 – <i>Investments in Associates and Joint Ventures</i>; • PBE IPSAS 37 – <i>Joint Arrangements</i>; and • PBE IPSAS 38 – <i>Disclosure of interests in other entities</i>. <p>The key changes arising from these new standards are:</p>	<p>The District Council completed an assessment of entities which it is involved with to determine whether there were any changes required because of the new standards and shared this assessment with us. From our review of the assessment we were satisfied that the assessment was complete and fair.</p> <p>Overall conclusion</p> <p>There were no changes required to the District Council’s annual report due to the new standards.</p>

ITEM 10.13 ATTACHMENT 1

Audit risk/issue	Outcome
<ul style="list-style-type: none"> • varied the definition of control that may result in additional entities which were previously accepted as not controlled now being assessed as controlled; • introduced the concept of an investment entity; • the Joint Arrangement standard has changed the classifications and subsequent treatment of joint arrangements; and • a new standard which is specific to disclosures on an entity's interest in other entities. This has increased the amount of disclosures required in an entity's financial statements. 	

4 Issues noted during the audit



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

4.1 Performance reporting – recording of complaints

An important part of the District Council's service provision is the number of complaints it receives related to significant services. This is significant because the number of complaints is indicative of the quality of services received by ratepayers.

The District Council reports on a number of complaints related performance measures included in its long-term plan in accordance with the Non-Financial Performance Measures Rules 2013 made by the Secretary for Local Government.

The significant performance measures, mandated by legislation, and impacted for the year ended 30 June 2020 and the comparative year were:

- the total number of complaints (per 1,000 connections) received about any of the following:
 - Drinking water clarity, taste, or odour.
 - Drinking water pressure or flow.
 - Continuity of supply.
 - The District Council's response to any of these issues.
- the total number of complaints received about sewerage odour, system faults or blockages, or the Council's response to issues with the sewerage system (per 1,000 connected properties); and
- the number of complaints received by a territorial authority about the performance of its stormwater system, expressed per 1,000 properties connected to the territorial authority's stormwater system.

The Department of Internal Affairs (DIA) has issued guidance to assist local authorities in applying the Rules, including on how to count complaints. Their guidance states:

Where there is more than one complaint per event, each complaint is counted separately, not each event or occurrence. This records the public's response to the event.

Our audit testing found that the District Council has been counting one complaint per event, rather than counting each complaint separately.

Complete records for all complaints made to the District Council were not available and we were unable to determine whether the District Council's reported results for these performance measures were materially correct. As a result, our work was limited and there were no practicable audit procedures we could apply to obtain assurance over the number of complaints reported against these performance measures.

We **recommend** that the District Council ensure they record all complaints in the system based on the DIA guidance. Formalised procedures should be established.

Management comment

All calls are recorded (often these are just a clarification or question – but they are all still noted on Council's RFS system as a complaint). This has been changed since Audit raised it with Council in 2020.

4.2 Local Authorities (Members Interest) Act – Retrospective approval

As part of the District Council preparing the annual report it was identified that the District Council had made payments of more than \$25,000 to an entity that a Councillor has an interest in, so therefore deemed by the Act to be concerned or interested in contracts between the District Council and the entity. The District Council realised they did not have prior approval from the Auditor-General for this contract and payments as required by the Act.

The District Council requested retrospective approval from the Auditor-General on 17 December 2020. The Auditor-General granted approval under section 3(3)(aa) of the Act on 17 December 2020.

We **recommend** that the District Council implement a robust formal system that ensures transactions between Councillors and the District Council are monitored throughout the year so if Local Authorities (Members Interest) Act approval is required, this is sought in advance.

Management comment

Agreed. Officers will review this once the 2020/21 audit has finalised.

4.3 Identification of earthquake prone buildings

During our audit work over the revaluation of the land and buildings, we noted that the valuer was not provided detail on whether any buildings required earthquake strengthening. This meant that the values calculated in the valuation do not make any allowances for any works required to the buildings.

We reviewed the District Council's earthquake prone assessment spreadsheet and noted:

- several buildings included in the listing have no assessment completed;
- several buildings not included in the listing; and

- several buildings identified as earthquake prone, therefore, these should have been considered in the valuation.

Given our overall materiality, we were able to assess that there was no material error as a result of the valuer not taking into account allowances required for any works required to these earthquake prone buildings.

We **recommend** the District Council update the earthquake prone listing spreadsheet and take into account allowances for any works required to the earthquake prone buildings as part of the next valuation.

Management comment

In the short term RDC commissioned a detailed seismic assessment of all Council owned building that are used on a daily basis by staff and the public. This first survey includes a total of 9 buildings.

For the medium to long term RDC included funding in the first two years of the 2021 – 31 LTP for a full audit and condition assessment of all Council owned properties in the district. This audit will include seismic assessments of all Council owned buildings. The objective of this two year project is to formalise a plan of what properties should be retained, sold, demolished or gifted. It will also allow RDC to create a prioritised capital expenditure programme for the properties to be retained to be included in the next LTP budgets.

5 Public sector audit



The District 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 District 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 District Council has fairly reflected the results of its activities in its financial statements and non-financial information.

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

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

No issues were identified from our testing regarding the expenditure incurred. We, however, still recommend the Mayor's expenditure is approved on a one-up basis in line with best practice.

6 Useful publications



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

Description	Where to find it
Sensitive expenditure	
<p>The Auditor-General has updated his good practice guide on sensitive expenditure. The guide provides practical guidance on specific types of sensitive expenditure, outlines the principles for making decisions about sensitive expenditure, and emphasises the importance of senior leaders “setting the tone from the top”. It also describes how organisations can take a good-practice approach to policies and procedures for managing sensitive expenditure.</p>	<p>On the OAG’s website under publications. Link: Sensitive expenditure</p>
Client updates	
<p>As part of our response to the Covid-19 situation, we developed online client updates to replace the in-person sessions that were cancelled.</p> <p>This year’s material is accessible via video presentations on our website. You can explore the material at a pace that takes account of your busy schedule.</p> <p>The themes respond to challenges that our clients now face, such as planning for unexpected events or dealing with additional reporting requirements related to Covid-19 and climate change.</p>	<p>On our website under publications and resources. Link: Client updates</p>
Client Substantiation File	
<p>When you are fully prepared for an audit, it helps to minimise the disruption for your staff and make sure that we can complete the audit efficiently and effectively.</p> <p>We have put together a tool box called the Client Substantiation File to help you prepare the information you will need to provide to us so we can complete the audit work that needs to be done. This is essentially a tool box to help you collate documentation that the auditor will ask for.</p>	<p>On our website under good practice. Link: Client Substantiation File</p>

Description	Where to find it
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>

Appendix 1: Status of previous recommendations

Open recommendations

Recommendation	First raised	Status
Necessary		
Quality and timeliness of information provided to audit		
<ul style="list-style-type: none"> Ensure that fair value assessments are performed earlier for assets not being revalued. Perform revaluations early to ensure that for the final audit all the information required is able to be provided and has been reconciled and included in the first draft of the financial statements. We note that the land and building valuations are due to be performed next year. Perform a quality assurance review over the annual report by a staff member not directly involved in collating the information. Provide a complete annual report at the start of the audit. 	2018/19	<p>In progress.</p> <p>Some improvements made but there were still issues noted. This has been discussed with management and expected to be addressed in the 2020/21 audit.</p> <p>Management comment</p> <p><i>All incorporated in our planning.</i></p>
Condition and performance data for Infrastructure Assets		
Continue to implement a program to collect condition and performance data.	2018/19	<p>Outstanding.</p> <p>Management comment</p> <p><i>This is in progress.</i></p>
Monthly reconciliation of operational Property, Plant and Equipment to the fixed asset register		
Implement a monthly reconciliation of work-in-progress and the fixed asset register to the general ledger which is independently reviewed.	2018/19	<p>Outstanding.</p> <p>Our testing identified that the fixed asset register and the general ledger did not reconcile to each other. The general ledger was \$256k higher than the fixed asset register. This could indicate that there is an overstatement of fixed assets by \$256k or the difference is due to incorrect entries into the FAR meaning the amount in the general ledger is correct.</p>

Recommendation	First raised	Status
		<p>Management comment</p> <p><i>Our fixed asset register and financial system are both in Magiq, therefore always reconciles to each other.</i></p> <p><i>We are working on a process to capitalise assets monthly, however, this is separate from a reconciliation.</i></p>
2019/20 rates resolution variance to the annual plan		
<ul style="list-style-type: none"> Obtain legal advice on the process to follow to address the legislative breach. Check the funding impact statement in the published annual plan to ensure that the funding impact statement agrees with the Rates resolution. 	2018/19	<p>Outstanding.</p> <p>As part of reviewing the 2020/21 Rates Resolution, we noted that the Wastewater Public Good Rate did not agree to the amount in the adopted annual plan for 2020/21. The amount set per the rates resolution is \$86.37, and the amount per the annual plan is \$88.23.</p>
Performance measure result classification		
<p>The District Council report its statement of service performance results as achieved/not achieved with additional disclosure if required.</p>	2018/19	<p>In progress.</p> <p>The District Council will continue to use the assessment of achieved/partly achieved/not achieved as they are specified in the current long-term plan. This is expected to be addressed as part of reporting against the 2021-31 long-term plan.</p> <p>Management comment</p> <p><i>The 9 month report was presented to the June Council Meeting.</i></p>
Review of Bulls Community Centre Project		
<p>Review and apply the improvement in project management identified in our review of the Bulls Community Centre Project.</p>	2018/19	<p>In progress.</p> <p>The Council have undertaken an internal review of the Bulls Community Centre Project and are in the process of implementing these recommendations along with the previous recommendations we have made.</p>

Recommendation	First raised	Status
Changes to financial delegations		
<p>The District Council review all financial delegations set up within the system to ensure these are correct.</p> <p>Going forward each quarter there is an independent review of any changes made to the financial delegations with the District Council's FMIS.</p>	2018/19	<p>Outstanding.</p> <p>Management comment</p> <p><i>Open. No change.</i></p>
Sensitive expenditure policy to be updated		
<p>The District Council consider incorporating further guidance into their next update of its sensitive expenditure policies and staff handbook.</p>	2018/19	<p>In progress.</p> <p>Management comment</p> <p><i>To be presented to Audit & Risk Committee September 2021.</i></p>
Sensitive expenditure – one-up approval		
<p>The District Council enforces a one-up approval for sensitive expenditure items. Retrospective approval should be sought if the one-up approval can't be given at the time of payment.</p>	2018/19	<p>In progress.</p> <p>Our testing identified instances of approval not being done one-up.</p> <p>Management comment</p> <p><i>Draft Sensitive Expenditure Policy requires all sensitive expenditure to be reported to ELT (and Audit & Risk Committee) every 6 months.</i></p>
Service performance information		
<p>Implement a regular review of information entered to ensure that the correct data is being captured for attendance times.</p> <p>Continue to reinforce training on requirements to ensure staff are aware of the correct processes to follow and understand the information being captured.</p>	2017/18	<p>In progress.</p> <p>Modified audit opinion was issued as a result of complaints on the same issues were being treated as one complaint. Refer to 4.1 for more information.</p> <p>Management comment</p> <p><i>RFS system is being reviewed and made easier to extract info from - for 1 July 2021 onwards.</i></p>
Improving creditor masterfile review process		
<p>The District Council phone to confirm new creditors or changes to a creditor's bank account number to ensure they are valid.</p>	2017/18	<p>Open – no progress.</p>

Recommendation	First raised	Status
Capital work-in-progress		
Review the capital WIP balance to: <ul style="list-style-type: none"> clearly identify projects included in the balance; and perform an impairment assessment over the outstanding WIP balance at year-end; and ensure projects are capitalised on a timely basis once they are ready for use; and perform a monthly reconciliation. 	Prior to 2017/18	In progress. Management comment <i>WIP management has been developed so we can clearly identify what has been put to WIP.</i> <i>We have not completed an impairment assessment over WIP as there is no WIP been there for longer than 12 months.</i> <i>Not considered efficient/necessary to reconcile every month, the WIP process is completed at year end so not reviewed monthly but will be done annually.</i>
Process for removing Manawatu District Council staff from the District Council’s IT systems when they leave		
We continue to recommend that formalised procedures be established, and managers made aware of their responsibilities for advising IT when external contractors cease employment with the Council.	Prior to 2017/18	In progress. HR and IT have been working with Manawatu District Council HR manager to ensure effective and timely processes are in place for adding and removing shared staff and contractors access. Management comment <i>We have met with Manawatu staff and have improved the process. Manawatu is using our exit checklist and is sending this through to RDC people and culture when MDC staff are leaving.</i>
Reviews of Magiq users access levels		
We continue to recommend that regular reviews of users of the District Council’s Magiq system be completed to ensure access remains appropriate.	Prior to 2017/18	In progress. A review of user accounts was performed when council moved its mail to Exchange cloud, however we still noted opportunity for further regular reviews and removal of access. Management comment <i>Review of all Admin access within modules completed and will be repeated as a quarterly exercise.</i> <i>Managers of areas were asked to confirm users with admin access for Magiq modules they manage.</i>

Recommendation	First raised	Status
No regular testing of Business Continuity and IT Disaster Recovery plans		
<p>We continue to recommend that Business Continuity and IT Disaster Recovery plans be finalised.</p> <p>As part of the project to implement new IT infrastructure we recommend that testing of failover to the new secondary datacentre be performed and the IT DR plan be finalised.</p>	<p>Prior to 2017/18</p>	<p>In progress.</p> <p>No documented Business Continuity or IT Disaster Recovery plans are in place and no regular testing performed to confirm that Council could continue to operate and recover from a major disaster.</p> <p>Management comment</p> <p><i>DR process in place with Advantage which includes testing of failover process. Daily reports provided to confirm successful backups. Business continuity plans have not been completed yet.</i></p>
IS policies are not up to date		
<p>We continue to recommend that updates to IS policies be approved and staff and contractors made aware of the policies.</p>	<p>Prior to 2017/18</p>	<p>In progress.</p> <p>HR have taken responsibility for reviewing and updating all Council policies including IS.</p> <p>Management comment</p> <p><i>We have made progress in this area and policies and procedures are being reviewed.</i></p> <p><i>We have completed the following policies:</i></p> <ul style="list-style-type: none"> • <i>Information Security</i> • <i>Information Backup and Restore</i> • <i>IT Asset Replacement</i> • <i>Information Management Strategy</i> • <i>Remote and Flexible Working</i> <p><i>Policies currently being reviewed</i></p> <ul style="list-style-type: none"> • <i>Acceptable Use</i> • <i>Mobile Devices</i> • <i>CCTV</i> • <i>Incident Management Plan</i> <p><i>We consider that these reviews have now become 'BAU' for Council so, for these purposes, this matter can be considered closed.</i></p>

Recommendation	First raised	Status
Carry forward of capital expenditure		
Continue to reduce the amount of capital expenditure carried forward to the next financial year.	Prior to 2017/18	Open. Management comment <i>Carry forwards will be reviewed each year.</i>
Performance measure rules		
Continue to review the effectiveness of the collection and reporting of data.	Prior to 2016/17	In progress. Modified audit opinion was issued as a result of complaints on the same issues were being treated as one complaint. Refer to 4.1 for more information. Management comment <i>RFS system is being reviewed.</i>
Review of procurement practice		
As part of our 2016 audit we completed a review of the joint procurement process undertaken by Manawatu District Council, Horowhenua District Council, and the Council. Our summarised recommendations are detailed below: <ul style="list-style-type: none"> • Conflict of Interest declarations to be signed off by the appropriate authority at the time that they are signed off by the person completing the declaration. • Declarations to be regularly updated, both actively and at key stages of the procurement process. • Declarations to be completed by those with the ability to influence the decision of the evaluation team, regardless of whether or not these individuals have decision-making power. • A business case be prepared for all procurements of significant value and risk. • A procurement strategy or plan should specify the roles and responsibilities of those involved in the process. This includes those sitting on the evaluation team and any advisors to the process. 	Prior to 2017/18	Open. Management comment <i>To be addressed in new Procurement Policy and Procedures, scheduled for 2021/22.</i>

Recommendation	First raised	Status
<ul style="list-style-type: none"> Consider risks during the procurement planning stage. These risks relate to the procurement process rather than the contract. While the procurement strategy identified the broad scope of the procurement, we would expect to see more specificity around timing and quality of what was being procured. 		
Contract management		
<p>Endorse an integrated policy for organisation-wide use and review the Councils current contract management system for appropriateness.</p> <p>Monitor service contracts between contractors and the Council against the Key Performance Indicator's (KPI's); to confirm the work performed is completed to a satisfactory standard.</p>	<p>Prior to 2016/17</p>	<p>Open.</p> <p>Management comment</p> <p><i>In 2021 the PMO established preferred conditions for engaging consultants based on modified ACENZ short form and CCCS long form contracts, as well as preferred conditions for engaging contractors based on modified NZS3910:2013.</i></p> <p><i>These terms are being used in all contracting and procurement activities, and specify minimum levels of insurance for contractors.</i></p> <p><i>A large-scale revision of the RDC procurement policy is being undertaken by the PMO. This will clarify and streamline procurement activities, which then lead in to streamlined contract management.</i></p> <p><i>The PMO lead role is expanding to include managing long-term contracts like shared services and roading contracts. A large contract performance matrix is being developed, and establishment of KPIs for long-term contracts is being investigated.</i></p>
Sensitive expenditure approvals		
<p>We recommend that:</p> <ul style="list-style-type: none"> All credit card statements get approved on a one-up basis in a timely manner; and 	<p>Prior to 2016/17</p>	<p>Open.</p> <p>Two instances were noted where expenditure incurred via credit cards was not approved on a one-up basis.</p>

Recommendation	First raised	Status
<ul style="list-style-type: none"> Sufficient supporting documentation for purchases be included with the credit card statement. 		Management comment <i>This is now standard practice.</i>
Monitoring of contractor performance		
Implement a quality assurance (QA) programme over services contracted out to third parties. This is especially important when the performance of these contractors feed into Council's KPIs, for example responding to roading call outs.	Prior to 2016/17	Open. Management comment <i>Open. In progress.</i>
Request for service		
Review the process and remind staff of the need to ensure that the request for service (RFS) system is updated on a timely basis.	Prior to 2016/17	In progress. Management comment <i>Improvements have been made to the RFS system, the system continues to be updated and improved, with the appointment of a complaints resolution more progress will be made during the next few months.</i>
Project management		
Perform a review over Council's project management system to ensure that appropriate project management techniques are implemented, including developing a post implementation review (PIR) to bring forward lessons learnt from completed projects to current projects.	Prior to 2016/17	Open. Management comment <i>These actions have been completed. The PMO is well established now, and protocols include a post-implementation review with lessons learned shared widely and incorporated in the scoping of new projects.</i>
Beneficial		
Assets with no construction date		
Implement a process to improve the asset data on road assets with no construction date.	2018/19	In progress. The Council continue to look at processes that will improve the integrity of asset data. Analysis and implementation of possible measures will require a multiple-year timeframe. Management comment <i>This is in progress.</i>

Recommendation	First raised	Status
Tracing infrastructure assets from the asset management systems to the finance system		
Develop a common asset identifier to ensure assets in roading asset management system (RAMM) and Assetfinda can be reconciled with the District Council's finance system.	2018/19	In progress. Management comment <i>We do have a common identifier for groups of assets however, Assetfinda and RAMM get out of date over time due to entries being different, Finance have been in discussion around how we keep them reconciled going forward, likely timeframe will be from 30 June 2022 as that's when the assets get revalued and at that point in time everything will reconcile.</i>
Bribery and corruption policy		
The District Council consider the following: <ul style="list-style-type: none"> Develop an overarching bribery and corruption policy that links to related policies and procedures. Update the related policies/procedure to ensure their scope clearly includes bribery and corruption. 	2019	In progress. Management comment <i>Scheduled for review during 2021/22.</i>

Implemented or closed recommendations

Recommendation	Status
Unsealed road useful life change	
Review the unsealed road useful life to ensure that the useful life of 19 years is appropriate.	Issue closed. The District Council's change in useful lives for unsealed roads is adequately supported.
Creditors cut-off	
Review and improve the current cut-off procedures to ensure expenditure is recorded in the correct period.	Issue closed. No issues noted from cut-off testing.
Legislative compliance	
Implement a process to ensure the summary annual report is made publicly available within a month of signing the annual report.	Issue closed. The 2019/20 Summary Annual Report was made publicly available within one month of signing.

Recommendation	Status
High annual leave balances	
Implement regular reviews of annual leave balances of all staff to ensure the liability and associated risks are minimised by implementing leave plans for staff with high leave balances.	Issue closed.
Inconsistent procedures for adding and removing users from systems	
We continue to recommend that procedures for amending and removing access should be formalised and all council staff be made aware of their responsibilities for advising IT about staff leaving.	Issue closed. HR have now established formalised processes for advising IT about all staff starting, changing role and leaving.
Risk management improvements	
At the next update, ensure the risk management policy and guidance incorporate the 11 principles in line with AS/NZS ISO 31000:2009. Formally review risks and update the District Council's risk management framework on an annual basis.	Issue closed. This is now being reviewed by the Audit and Risk Committee and reported back to the full Council.
Succession planning	
There are some District Council staff members who have a vast amount of sector knowledge. The District Council needs to ensure that there are succession plans in place for when these staff members leave so that the operations of the District Council will not be effected. There is a risk that once staff members leave, there will no longer be this knowledge base within the District Council.	Issue closed. There is a new organisational structure in place which provides for a more even distribution of activities, and allows for easier career pathways and succession plans. Additionally, a review project is underway which will result in improvements to the District Council's performance and development framework, including career planning and professional development.
Marton pool	
Perform a review of all invoices received from Nicholls Swim Academy to ensure they are paid in accordance with the contract. We also recommend that Council establish a process to ensure the reasonableness of the credit notes received for pool entry fees.	Issue closed. A new process has been implemented to show that the payments are made in accordance with the contract.
Conflict of Interest Policy	
There is no organisation wide Conflict of Interest Policy in place for Council staff. While the staff handbook briefly mentions Conflicts of Interest, it is not robust.	Issue closed. This is covered in the Conflict of Interest Policy and Declaration Process, and the Sensitive Expenditure Policy. Both policies are current and available to staff on the Intranet.

Recommendation	Status
<p>We expect Council to have a Conflict of Interest Policy in place containing:</p> <ul style="list-style-type: none"> • the principles that should guide decision-making about Conflicts of Interest, including integrity, honesty, transparency, openness, independence, good faith, fairness, and impartiality; • comprehensive guidance on what may constitute a Conflict of Interest; • examples of circumstances in which there may be a perceived, actual, or potential interest; • differences between pecuniary and non-pecuniary interests and when these may arise; • broad range of options for avoiding or mitigating any Conflicts of Interest that may arise; and • what gifts or hospitality may be acceptable and the process which applies to disclosure. 	
Update to staff handbook	
<p>The staff handbook could be improved by including the following specific matters:</p> <ul style="list-style-type: none"> • prohibition (or disclosure) of any significant financial interests in customers, suppliers or competitors; • prohibition or disclosure of the receipt of gifts, loans or other special privileges from customers, suppliers or competitors; • prohibition of the payment of bribes and certain types of rebates or other forms of compensation to induce sales or obtain favourable contract terms; • prohibition of the use of the Council’s funds to reimburse employees or others for expenditures that would violate the entity’s policies; and • prohibition of unrecorded cash funds. 	<p>Issue closed.</p> <p>This is covered in the Conflict of Interest Policy and Declaration Process, and the Sensitive Expenditure Policy. Both policies are current and available to staff on the Intranet. Additionally, this is covered in Individual Employment Agreements, which all employees sign. Relevant clauses are clause 31 (Gifts), 32 (Conflicts of Interest), and 33 (Policies and Work Rules).</p>

Appendix 2: Corrected misstatements

Current year misstatements	Ref	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Putorino landfill	1		(475,000)		475,000
Roading revaluation and accumulated reserves	2			Overall nil	
Total		-	(475,000)	-	475,000

Explanation of corrected misstatements

- To account for the Putorino remediation costs as a provision. As at 30 June 2020 this is the best estimate to complete the remediation work.
- The reversal of roading revaluation loss through the profit and loss was incorrectly coded in the system to the roading revaluation reserve instead of the accumulated reserve. The District Council needed to complete a journal for \$17,495,000 to correct this.

Corrected disclosure deficiencies

Detail of disclosure deficiency
Salary banding disclosures needed to be updated.
Funding Impact Statements needed to be updated to be in line with the prescriptive format required by the Local Government (Financial Reporting and Prudence) Regulation 2014.
A number of changes required to the benchmarks.
Needed to include a report on opportunities for Maori as per the Local Government Act 2002.
To update the reconciliation of net surplus/(deficit) to net cash flow from operating activities.
Key management personnel compensation disclosure needed to be updated.
Insurance of assets disclosure needed to be updated.
Various other notes needed to be updated.

Corrected performance reporting misstatements

Detail of misstatement
There were a number of reported results that needed to be updated.
There were a number of targets that needed to be updated to be in line with the long-term plan.

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 performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General’s Auditing Standards. The audit cannot and should not be relied upon to detect all instances of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the District 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 a limited assurance engagement related to the District Council’s Debenture Trust Deed, which is compatible with those independence requirements. Other than the audit and the limited assurance engagement, we have no relationship with, or interests in, the District Council or its subsidiary.</p>
Fees	<p>The audit fee for the year is \$123,558, as detailed in our Audit Proposal Letter.</p> <p>We obtained a cost recovery of \$15,000 to recover some of the additional costs to complete the audit as a result of client performance.</p> <p>Other fees charged in the period are \$4,250, for the limited assurance engagement related to the District Council’s Debenture Trust Deed.</p>
Other relationships	<p>Subsequent to the audit being completed a staff member of Audit New Zealand who was involved in the audit accepted a position of employment with the District Council.</p> <p>Apart from the staff member of Audit New Zealand accepting a position at the District Council, 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 District Council that is significant to the audit.</p>

ITEM 10.13 ATTACHMENT 1



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AUDIT NEW ZEALAND
Mana Arotake Aotearoa

**Report to the Council
on the audit of**

Rangitikei District Council

For the year ended 30 June 2021

ITEM 10.13 ATTACHMENT 2

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Key messages

We have completed the audit for the year ended 30 June 2021. This report sets out our findings from the audit and draws attention to areas where the Rangitikei District Council (the District Council) is doing well and where we have made recommendations for improvement.

Audit opinion

We have issued a modified audit opinion dated 23 December 2022. The modified opinion is on the activity statements for incomplete information about the number of complaints the District Council has received related to water, wastewater and stormwater complaints. For the year ended 30 June 2021 and the comparative year, we were unable to determine whether the District Council's reported results for these measures were materially correct. Refer to section 3 for further detail.

We issued an unmodified opinion over the financial statements. This means that financial statements and accompanying information are fairly presented.

Without modifying our audit opinion, we also included an emphasis of matter paragraph to draw attention to the disclosure in the financial statements which outlines that subsequent to year-end, the Government announced it will introduce legislation to establish four publicly owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities from 1 July 2024. The impact of these reforms, once legislated, will mean that the District Council will no longer deliver three waters services.

Matters identified during the audit

The following key matters were considered as part of the audit:

- Bulls Community Centre – The District Council started the development of the Bulls Community Centre during 2018/19 and it was completed during this year. Given the financial significance of this project we reviewed the accounting treatment as at 30 June 2021. We tested costs related to the project, the capitalisation of the project, and the depreciation rates applied to asset components. We are satisfied the Bulls Community Centre has been correctly accounted for and disclosed.
- Accounting for Shovel Ready Funding – We reviewed the District Council's accounting treatment against the relevant accounting standard and against technical accounting advice. Our work has provided us with assurance that the District Council has correctly accounted for shovel ready funding for the financial year.
- Impact of three waters reform (stimulus funding) – We reviewed the District Council's accounting treatment against the relevant accounting standard and against technical accounting advice. Our work has provided us with assurance that the District Council has correctly accounted for three waters stimulus funding for the financial year.
- Impact of three waters reform (three waters reform disclosure) – We are satisfied that the three waters reform announcement was appropriately disclosed in the annual report as a subsequent event.

Thank you

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

Chris Webby
Appointed Auditor
DRAFT – 28 January 2022

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
Urgent	Needs to be addressed <i>urgently</i> These recommendations relate to a significant deficiency that exposes the District Council to significant risk or for any other reason need to be addressed without delay.
Necessary	Address at the earliest reasonable opportunity, generally within six months 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.
Beneficial	Address, generally within six to 12 months These recommendations relate to areas where the District Council is falling short of best practice. In our view it is beneficial for management to address these, provided the benefits outweigh the costs.

1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
Impact of three waters reform – stimulus funding Implement a process to investigate and explain the variance between the general ledger and quarterly reporting to the Department of Internal Affairs (DIA). If adjustments are required to quarterly reporting the District Council should notify DIA.	3	Necessary
The risk of management override of internal controls Supporting documentation is maintained for all manual journal entries recorded in the general ledger. All manual journal entries should be independently reviewed and this process should include a review of the supporting documentation.	3	Necessary

Recommendation	Reference	Priority
<p>Classification of capital expenditure</p> <p>Management performs a review of all costs currently classified as capital expenditure work-in-progress to ensure that they have been correctly coded.</p> <p>Management issues guidance to all staff that approve expenditure on what constitutes operating expenditure and capital expenditure. The guidance should include examples of classification for common types of expenditure incurred by the District Council.</p>	4.1	Necessary
<p>Fraud risk assessment</p> <p>The District Council undertakes a formal fraud assessment to assess:</p> <ul style="list-style-type: none"> • transactions, activities, or locations that may be susceptible to fraud; and • controls/processes the District Council has in place to mitigate those risks. 	4.2	Beneficial

1.2 Status of previous recommendations

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

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open	-	17	3	20
Implemented or closed	-	9	-	9
Total	-	26	3	29

2 Our audit report

2.1 We issued a modified audit report



We issued a modified audit report on 23 December 2021. The modified opinion is on the activity statements for incomplete information about the number of complaints the District Council has received related to water, wastewater, and stormwater complaints.

For the year ended 30 June 2021 and the comparative year, we were unable to determine whether the District Council’s reported results for these measures were materially correct. Refer to section 3 for further detail.

We issued an unmodified opinion over the financial statements. This means that financial statements and accompanying information are fairly presented.

Without modifying our audit opinion, we also included an emphasis of matter paragraph to draw attention to the disclosure in the financial statements which outlines that subsequent to year-end, the Government announced it will introduce legislation to establish four publicly owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities from 1 July 2024. The impact of these reforms, once legislated, will mean that the District Council will no longer deliver three waters services.

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.

Uncorrected misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Roading assets	1	(8,727,478)			
Revaluation reserve				8,727,478	
Operating expenses	2				272,529
Infrastructure assets		(272,529)			
Total		(9,000,007)		8,727,478	272,529

Explanation of uncorrected misstatements

1 Prior year uncorrected misstatement

The updated final road valuation dated 20 September 2019 corrected the overhead charge which was overstated by 2% in the draft valuation and

consequently reduced the depreciated replacement cost for the road network assets. This adjusted value which was not recognised by Council would have decreased the road network asset by \$8,727,478 and the road revaluation reserve in equity by the same amount.

2 Projected error

To reclassify transactions that have been recognised as part of infrastructure assets that should have been recognised as operating expenses. This projected error is based on testing of a representative sample of transactions.

2.3 Corrected misstatements

We also identified misstatements that were corrected by management. A list of some of the correct misstatements and disclosures 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 District Council. This includes the draft annual report with supporting working papers. We provided a listing of information we required to management for the audit visits. This included the dates we required the information to be provided to us.

We received the draft financial statements, draft performance information, and supporting information within the agreed timeframes. The quality of these documents had improved compared to the prior year.

3 Matters raised in the Audit Plan



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

Audit risk/issue	Outcome
Bulls Community Centre	
<p>Development of the Bulls Community Centre commenced during the 2019 financial year and was completed in September 2020.</p> <p>Due to the significance of the project, we have undertaken reviews of the project management practices being used by the District Council over the last two financial years, noting a number of opportunities for the District Council to improve its project management practices.</p> <p>The District Council continued to fundraise for the cost of the project through grants and donations. There is judgement required to determine when to recognise a grants as revenue and the amount to be recognised. The accounting treatment of each grant is dependent on the conditions or milestones included in the grant agreement.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • tested costs related to the project and ensured these had been accounted for correctly; • confirmed the asset was capitalised during the year; and • confirmed that the depreciation rates applied to asset components were reasonable and in line with the District Council’s accounting policy on depreciation. <p>Overall conclusion</p> <p>We have gained assurance the Bulls Community Centre has been correctly accounted for and disclosed.</p>
Performance reporting – recording of complaints	
<p>The District Council reports on a number of complaints related performance measures included in its long-term plan in accordance with the Non-Financial Performance Measures Rules 2013 made by the Secretary for Local Government.</p> <p>The significant performance measures, mandated by legislation, and impacted for the year ended 30 June 2020 and the comparative year were:</p> <ul style="list-style-type: none"> • The total number of complaints (per 1000 connections) received about any of the following: <ul style="list-style-type: none"> ○ Drinking water clarity, taste, or odour. ○ Drinking water pressure or flow. ○ Continuity of supply. 	<p>We reviewed the District Council’s systems and processes for recording complaints and noted that the District Council made changes to the system part way through the financial year. As the District Council did not log all the complaints for the year (only logged unique and non-scheduled calls), there was no work we could do to gain assurance over completeness. As a result of the changes only being able to be made during the financial year, the District Council was still not able to report completely on the complaints for the entire year.</p> <p>Overall conclusion</p> <p>Our work was limited and there were no audit procedures we could apply to the information on the complaint measures. This is the basis for our modified audit report.</p>

Audit risk/issue	Outcome
<ul style="list-style-type: none"> ○ The District Council’s response to any of these issues. • The total number of complaints received about sewerage odour, system faults or blockages, or the Council’s response to issues with the sewerage system (per 1000 connected properties). • The number of complaints received by a territorial authority about the performance of its stormwater system, expressed per 1000 properties connected to the territorial authority’s stormwater system. <p>The District Council did not keep a record of all calls which meant the District Council were not able to review all calls to identify any additional complaints that should have been recorded. As a result, the District Council was unable to report completely on the complaints performance measures and the number of complaints reported was understated, resulting in a modification to the audit opinion for the year ended 30 June 2020. As part of this year’s audit we will need to review whether the District Council is able to report completely on the complaints for the entire financial year.</p>	
Accounting for Shovel Ready funding	
<p>The District Council received Shovel Ready funding from central government.</p> <p>It is important that this funding is clearly and appropriately accounted for in accordance with the PBE accounting standards, and that the District Council is transparent with its community and meeting any obligations.</p>	<p>To gain assurance over the accounting treatment we:</p> <ul style="list-style-type: none"> • reviewed the contracts for projects which received shovel ready funding; • took into account technical opinions over similar contracts; and • reviewed the accounting treatment against the accounting standards and identified the key milestones/conditions that the District Council had to achieve before being entitled to the funding. From this review we identified that the District Council should be recognising revenue in advance which was subsequently updated.

Audit risk/issue	Outcome
	<p>Overall conclusion</p> <p>Our work has provided us with assurance that the District Council has correctly accounted for their shovel ready funding for the financial year.</p>
Impact of three waters reform	
<p>During 2020/21, the District Council signed a non-binding Memorandum of Understanding (MoU) with Crown. By signing this MoU, the District Council agreed to participate in the exploration of future service delivery options for the three waters services and to collaborate with agencies involved in the reform.</p> <p>On signing of the MoU, the District Council subsequently received \$4.8 million of the share of \$761 million Crown stimulus funding. It is important that the District Council is appropriately accounting for its share of the funding and is meeting the obligations of the funding agreement.</p> <p>The Government is proposing to establish four publicly owned entities to take responsibility of drinking water, wastewater and stormwater infrastructure across New Zealand.</p> <p>The District Council will need to decide whether to opt out of the proposed new service delivery model. There is still considerable information to come as to what these reforms may mean for the District Council before this decision will be made.</p> <p>We would expect the District Council has taken steps to:</p> <ul style="list-style-type: none"> consider the implications of any government announcements about three waters reform up to the date of authorisation of the financial statements. This includes the impact on financial statements and disclosures, including subsequent events disclosures; and 	<p>Stimulus funding</p> <p>Of the \$4.8 million granted to the District Council a payment of \$2.4 million was received upfront. The remainder is due to be received when subsequent milestones are achieved.</p> <p>To gain assurance over the accounting treatment we received a technical opinion on how the three waters stimulus funding should be accounted for. We used this opinion and then considered the District Council's situation. From this review we identified that the District Council should be recognising revenue in advance as at 30 June 2021 as the District Council had spent less than the initial \$2.4 million payment on the agreed projects. There is a return clause requiring any unspent funds at the end of a project to be returned. The District Council subsequently updated their financial statements to reflect this.</p> <p>We agreed the District Council's spend for related projects to the general ledger and identified that there was a variance between this and the amount included in the quarterly report to DIA. Staff involved in managing the funding are new to the District Council. The variance could not be explained.</p> <p>Overall conclusion</p> <p>Our work has provided us with assurance that the District Council has correctly accounted for the three waters stimulus funding for the financial year.</p> <p>We recommend that the District Council implements a process to investigate and explain the variance between the general ledger and quarterly reporting to DIA. If adjustments are required to quarterly reporting the District Council should notify DIA.</p>

Audit risk/issue	Outcome
<ul style="list-style-type: none"> ensure any Crown stimulus funding resulting from the three waters reform programme received by the District Council has been appropriately accounted for in accordance with PBE accounting standards and the terms of the agreement. 	<p>Management comment <i>[Management comment]</i></p> <p>Three waters reform disclosure</p> <p>The Minister of Local Government announced on 27 October 2021 that the Government is making the three waters reform mandatory. This means the Government will introduce legislation to establish four publicly owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities from 1 July 2024. The impact of these reforms, once legislated, will mean that the District Council will no longer deliver three waters services.</p> <p>As this announcement was made before the District Council adopted the annual report, a subsequent event disclosure note was required. The District Council included a subsequent event note disclosure.</p> <p>Given the significance of the announcement and impact on local authorities with three waters assets going forward, it was agreed by the Office of Auditor-General to include an emphasis of matter paragraph in all impacted local authorities audit reports. This applied to all local authorities that adopted their annual report after the announcement.</p> <p>Overall conclusion</p> <p>We are satisfied that the three waters reform announcement was appropriately disclosed in the annual report as a subsequent event.</p>
Fair value of Property, Plant and Equipment	
<p>PBE IPSAS 17 <i>Property, Plant and Equipment</i> requires that valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.</p> <ul style="list-style-type: none"> Land and buildings – 1 July 2019 Infrastructure assets – 30 June 2019 <p>In a non-revaluation year the District Council must consider whether there has been any significant movement in the fair value of the assets.</p>	<p>We reviewed the District Council’s fair value assessment as at 30 June 2021 which considered whether a revaluation was required.</p> <p>Because roading assets make up a significant portion of the District Council’s assets that are carried at fair value we requested additional information relating to roading. We reviewed cost fluctuations in the most significant roading contract since the last valuation was performed and determined that they were not significant for our audit.</p>

Audit risk/issue	Outcome
<p>We expect that the District Council will have done a comprehensive analysis to determine whether there is a significant variance between the fair value as at 30 June 2021 and the carrying value. If the variance is significant it would trigger the need for the District Council to revalue the assets.</p>	<p>We agreed with management’s assessment and are satisfied that no revaluation was required for the District Council’s operational and infrastructure assets.</p> <p>Overall conclusion</p> <p>We are satisfied that the value of the District Council’s Property, Plant and Equipment is fairly stated in the financial statements.</p>
Impairment of Property, Plant and Equipment	
<p>PBE IPSAS 21 <i>Impairment of Non-Cash Generating Assets</i> and PBE IPSAS 26 <i>Impairment of Cash Generating Assets</i> require the District Council to assess assets held at cost for indicators of impairment on an annual basis.</p> <p>We expect that the value of work-in-progress (WIP) on projects that span an extended period of time to be assessed for impairment regularly over the period of the project.</p>	<p>We discussed with management whether there had been any impairment indicators identified. From these discussions no impairment indicators were identified apart from some potential earthquake prone buildings. We are aware that the District Council is carrying out a detailed assessment program on the earthquake strength of its buildings. Once this assessment has been carried out the District Council will need to apply the appropriate accounting treatment.</p> <p>Overall conclusion</p> <p>We are satisfied that there is no evidence of a material impairment of Property, Plant and Equipment.</p>
Ongoing impact of Covid-19 pandemic	
<p>The long-term impact of Covid-19 in New Zealand, and how it might affect public entities, is unknown. However, it is likely that the uncertainties in the economic environment will increase the risk of material misstatement in financial statements. These effects might include uncertainties relating to revenue and asset valuations.</p> <p>We would expect the District Council has taken steps to:</p> <ul style="list-style-type: none"> • reconsider the risks that the District Council faces; and • reconfirm that reporting and internal control systems are in place and functioning effectively. 	<p>The continuing effect of Covid-19 on local government entities is uncertain. To cover off our audit risk we have:</p> <ul style="list-style-type: none"> • gained an updated understanding of the impact of Covid-19 on the District Council’s operations, financial statements, and performance story; • determined that management has not identified or recorded any significant additional Covid-19 related revenue, receivables, or costs, other than Shovel Ready funding. Shovel Ready funding has been recognised in line with PBE accounting standards; and • assessed the completeness and reasonableness of disclosures contained within the annual report relating to the impact of Covid-19.

Audit risk/issue	Outcome
	<p>Overall conclusion</p> <p>We are satisfied that the impact of the Covid-19 pandemic is fairly reflected in the financial statements and performance information.</p>
<p>The risk of management override of internal controls</p>	
<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 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 District Council and its environment, and other information obtained during the audit. <p>During our testing of manual journal entries we identified two that had no supporting documentation. Both journal entries were subsequently reversed so there was no impact on the financial statements. When we discussed this matter with management they could not explain why the journal entries were made as they were made by a previous staff member. This demonstrates the importance of ensuring all manual journals have the appropriate the supporting documentation behind them which would allow staff not involved in the journal to understand why the journal was processed.</p> <p>Overall conclusion</p> <p>From our testing we did not identify any issues that indicated management override.</p> <p>We recommend that supporting documentation is maintained for all manual</p>

Audit risk/issue	Outcome
	<p>journal entries recorded in the general ledger. All manual journal entries should be independently reviewed and this process should include a review of the supporting documentation.</p> <p>Management comment <i>[Management comment]</i></p>

4 Issues noted during the audit



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

4.1 Classification of capital expenditure

During our testing of capital expenditure coded to infrastructure assets we identified six transactions out of a sample of 53 transactions that we assessed as being operational in nature. We have projected the quantum of the error to be \$273k.

The transactions we identified as being incorrectly classified related to:

- costs incurred to establish the project management office;
- costs incurred to develop a wastewater asset management strategy; and
- repairs and maintenance of infrastructure assets.

Expenditure of this nature does not meet the definition of the cost of an item of Property, Plant and Equipment per PBE IPSAS 17 *Property, Plant and Equipment*. The District Council is required to evaluate costs at the time they are incurred. Costs incurred to establish the project management office and to develop a wastewater asset management strategy should not have been capitalised on the basis that they may lead to the purchase or construction of other assets in the future.

We **recommend** that management performs a review of all costs currently classified as capital expenditure work-in-progress to ensure that they have been correctly coded.

We also **recommend** that management issues guidance to all staff that approve expenditure on what constitutes operating expenditure and capital expenditure. The guidance should include examples of classification for common types of expenditure incurred by the District Council.

Management comment

[Management comment]

4.2 Fraud risk assessment

From discussions with the management it was identified that no formal fraud risk assessment has been performed to assess where the District Council may be susceptible to fraud.

The responsibility for the prevention and detection of fraud rests with the Council and management through the implementation and continued operation of adequate internal control systems. In order to discharge this responsibility the Council and management

should be aware of where the District Council may be susceptible to the risk of fraud and to design controls to mitigate those risks.

Fraud, by its nature, always attracts a great deal of interest irrespective of the scale of the fraud. Invariably questions are asked about how the fraud took place and whether the controls designed to stop fraudulent activity were operating effectively.

In the public sector the interest in fraud is heightened because public funds are involved, and because those individuals entrusted with public funds are expected to exhibit the highest standards of honesty and integrity. Because of the increased scrutiny it is especially important that the District Council have an active fraud risk assessment process in place.

We **recommend** that the District Council undertakes a formal fraud assessment to assess:

- transactions, activities, or locations that may be susceptible to fraud; and
- controls/processes the District Council has in place to mitigate those risks.

Management comment

[Management comment]

4.3 Breach of Local Government Act 2002 section 98(4)

The District Council has not met the statutory deadline for publishing its summary annual report. The Local Government Act 2002 section 98(4) requires the summary annual report to be made publicly available within one month after the adoption of its annual report. The annual report was adopted on 23 December 2021 but the summary annual report was not made publicly available until 25 January 2022.

We acknowledge that the preparation and amendments required to the draft summary annual report were adversely impacted by statutory holidays and the availability of staff to make amendments.

5 Assessment of internal control



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

5.1 Control environment

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

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

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

5.2 Internal controls

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

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

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

As part of the audit, we did not control test the systems so we were not able to rely on these. Outstanding issues around the internal controls are highlighted in Appendix 1.

6 Public sector audit



The District 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 District 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 District Council has fairly reflected the results of its activities in its financial statements and non-financial information.

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

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

From our testing of expenditure incurred by those charged with governance and senior management we identified three instances where the expenditure was not approved on a one-up basis. This is not in line with the District Council's sensitive expenditure policy. The expenditure incurred was reasonable. There are no other matters that we would like to bring to your attention.

7 Useful publications



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

Description	Where to find it
Performance reporting	
Public organisations are responsible for reporting their performance to Parliament and the public in a way that meaningfully reflects their organisation’s aspirations and achievements. The Auditor-General published a discussion paper that explores five areas for improvement in performance reporting.	On the Office of the Auditor-General’s website under publications. Link: The problems, progress, and potential of performance reporting
Local government risk management practices	
The Covid-19 pandemic is a stark reminder for all organisations about the need for appropriate risk management practices. In our audit work, we often see instances where councils do not have effective risk management. This report discusses the current state of local government risk management practices and what councils should be doing to improve their risk management.	On the Office of the Auditor-General’s website under publications. Link: Observations on local government risk management practices
Managing conflicts of interest involving council employees	
This article discusses findings across four councils on how conflicts of interest of council employees, including the chief executive and staff, are managed.	On the Office of the Auditor-General’s website under publications. Link: Getting it right: Managing conflicts of interest involving council employees
The Auditor-General’s report on the results of recent audits	
The OAG publishes a report on the results of the local government sector each cycle of annual audits for the sector.	On the OAG’s website under publications. Link: Local government 2019/20 audits
Procurement	
The OAG are continuing their multi-year work programme on procurement. They have published an article encouraging reflection on a series of questions about procurement practices and how processes and procedures can be strengthened.	On the OAG’s website under publications. Links: Strategic suppliers: Understanding and managing the risks of service disruption Getting the best from panels of suppliers Local government procurement

Appendix 1: Status of previous recommendations

Open recommendations

Recommendation	First raised	Status
Necessary		
Identification of earthquake prone buildings		
Update the earthquake prone listing spreadsheet and take into account allowances for any works required to the earthquake prone buildings as part of the next valuation.	2019/20	In progress. The District Council is carrying out a detailed assessment program on the earthquake strength of its buildings.
Condition and performance data for Infrastructure Assets		
Continue to implement a program to collect condition and performance data.	2018/19	Outstanding.
Changes to financial delegations		
The District Council review all financial delegations set up within the system to ensure these are correct. Going forward each quarter there is an independent review of any changes made to the financial delegations with the District Council's FMIS.	2018/19	Outstanding.
Sensitive expenditure – one-up approval		
The District Council enforces a one-up approval for sensitive expenditure items. Retrospective approval should be sought if the one-up approval can't be given at the time of payment.	2018/19	In progress. From our testing of expenditure incurred by those charged with governance and senior management we identified three instances where the expenditure was not approved on a one-up basis.
Service performance information		
Implement a regular review of information entered to ensure that the correct data is being captured for attendance times. Continue to reinforce training on requirements to ensure staff are aware of the correct processes to follow and understand the information being captured.	2017/18	In progress. We will review updates made by the District Council to the RFS as part of our next interim audit.

Recommendation	First raised	Status
Improving creditor Masterfile review process		
The District Council phone to confirm new creditors or changes to a creditor's bank account number to ensure they are valid.	2017/18	Open – no progress.
Capital work-in-progress		
Review the capital WIP balance to: <ul style="list-style-type: none"> clearly identify projects included in the balance; perform an impairment assessment over the outstanding WIP balance at year-end; and ensure projects are capitalised on a timely basis once they are ready for use; and perform a monthly reconciliation. 	Prior to 2017/18	In progress. The opening balance of work-in-progress was capitalised during the year. Therefore work-in-progress at the end of the year only relates to costs incurred during this year. This District Council is making improvements to the way it monitors work-in-progress and we will review these as part of our next interim audit.
Process for removing Manawatu District Council staff from the District Council's IT systems when they leave		
We continue to recommend that formalised procedures be established, and managers made aware of their responsibilities for advising IT when external contractors cease employment with the Council.	Prior to 2017/18	In progress. HR and IT have been working with Manawatu District Council HR manager to ensure effective and timely processes are in place for adding and removing shared staff and contractor's access. We have noted some other external contractor's access is open despite it not being used for over six months. This included IT support providers.
Reviews of Magiq users access levels		
We continue to recommend that regular reviews of users of the District Council's Magiq system be completed to ensure access remains appropriate.	Prior to 2017/18	In progress. The District Council has implemented a quarterly review process. We will review this process as part of our next interim audit.
No regular testing of Business Continuity and IT Disaster Recovery plans		
We continue to recommend that Business Continuity and IT Disaster Recovery plans be finalised. As part of the project to implement new IT infrastructure we recommend that testing of failover to the new secondary datacentre be performed and the IT DR plan be finalised.	Prior to 2017/18	In progress. No documented Business Continuity or IT Disaster Recovery plans are in place and no regular testing performed to confirm that the District Council could continue to operate and recover from a major disaster.

Recommendation	First raised	Status
Carry forward of capital expenditure		
Continue to reduce the amount of capital expenditure carried forward to the next financial year.	Prior to 2017/18	Open. The District Council continues to carry forward a significant capital expenditure budget.
Performance measure rules		
Continue to review the effectiveness of the collection and reporting of data.	Prior to 2016/17	In progress. We will review updates made by the District Council to the RFS as part of our next interim audit.
Review of procurement practice		
<p>As part of our 2016 audit we completed a review of the joint procurement process undertaken by Manawatu District Council, Horowhenua District Council, and the Council. Our summarised recommendations are detailed below:</p> <ul style="list-style-type: none"> • Conflict of Interest declarations to be signed off by the appropriate authority at the time that they are signed off by the person completing the declaration. • Declarations to be regularly updated, both actively and at key stages of the procurement process. • Declarations to be completed by those with the ability to influence the decision of the evaluation team, regardless of whether or not these individuals have decision-making power. • A business case be prepared for all procurements of significant value and risk. • A procurement strategy or plan should specify the roles and responsibilities of those involved in the process. This includes those sitting on the evaluation team and any advisors to the process. • Consider risks during the procurement planning stage. These risks relate to the procurement process rather than the contract. 	Prior to 2017/18	Open.

Recommendation	First raised	Status
<ul style="list-style-type: none"> While the procurement strategy identified the broad scope of the procurement, we would expect to see more specificity around timing and quality of what was being procured. 		
Contract management		
<p>Endorse an integrated policy for organisation-wide use and review the current contract management system for appropriateness.</p> <p>Monitor service contracts between contractors and the District Council against the Key Performance Indicators to confirm the work performed is completed to a satisfactory standard.</p>	Prior to 2016/17	Open.
Sensitive expenditure approvals		
<p>We recommend that:</p> <ul style="list-style-type: none"> All credit card statements get approved on a one-up basis in a timely manner; and Sufficient supporting documentation for purchases be included with the credit card statement. 	Prior to 2016/17	In progress. From our testing of expenditure incurred by those charged with governance and senior management we identified three instances where the expenditure was not approved on a one-up basis.
Monitoring of contractor performance		
<p>Implement a quality assurance (QA) programme over services contracted out to third parties. This is especially important when the performance of these contractors feed into Council's KPIs, for example responding to roading call outs.</p>	Prior to 2016/17	Open.
Request for service		
<p>Review the process and remind staff of the need to ensure that the request for service (RFS) system is updated on a timely basis.</p>	Prior to 2016/17	In progress. We will review updates made by the District Council to the RFS as part of our next interim audit.
Beneficial		
Assets with no construction date		
<p>Implement a process to improve the asset data on road assets with no construction date.</p>	2018/19	In progress. The District Council continues to look at processes that will improve the integrity

Recommendation	First raised	Status
		of asset data. Analysis and implementation of possible measures will require a multiple-year timeframe.
Tracing infrastructure assets from the asset management systems to the finance system		
Develop a common asset identifier to ensure assets in roading asset management system (RAMM) and Assetfinda can be reconciled with the District Council's finance system.	2018/19	In progress. We will review the reconciliation between the general ledger and the infrastructure asset management systems as part of our next final audit.
Bribery and corruption policy		
<p>The District Council consider the following:</p> <ul style="list-style-type: none"> Develop an overarching bribery and corruption policy that links to related policies and procedures. Update the related policies/procedure to ensure their scope clearly includes bribery and corruption. 	2018/19	In progress.

Implemented or closed recommendations

Recommendation	Status
Local Authorities (Members Interest) Act – Retrospective approval	
Implement a robust formal system that ensures transactions between Councillors and the District Council are monitored throughout the year so if Local Authorities (Members Interest) Act approval is required, this is sought in advance.	Issue closed. The District Council did not require approval this year.
Quality and timeliness of information provided to audit	
<ul style="list-style-type: none"> Ensure that fair value assessments are performed earlier for assets not being revalued. Perform revaluations early to ensure that for the final audit all the information required is able to be provided and has been reconciled and included in the first draft of the financial statements. We note that the land and building valuations are due to be performed next year. Perform a quality assurance review over the annual report by a staff member not directly involved in collating the information. Provide a complete annual report at the start of the audit. 	Issue closed. We received the draft financial statements, draft performance information, and supporting information within the agreed timeframes. The quality of these documents had improved compared to the prior year.

Recommendation	Status
Monthly reconciliation of operational Property, Plant and Equipment to the fixed asset register	
Implement a monthly reconciliation of work-in-progress and the fixed asset register to the general ledger which is independently reviewed.	Issue closed. There were no variances between the fixed asset register and general ledger in Magiq at 30 June 2021.
2019/20 rates resolution variance to the annual plan	
<ul style="list-style-type: none"> Obtain legal advice on the process to follow to address the legislative breach. Check the funding impact statement in the published annual plan to ensure that the funding impact statement agrees with the Rates resolution. 	Issue closed. We did not identify any variances between the 2021/22 rates resolution and the 2021-31 long-term plan.
Performance measure result classification	
The District Council report its statement of service performance results as achieved/not achieved with additional disclosure if required.	Issue closed. The 2021-31 long-term plan does not include the same eight levels of achievement that were included in the previous long-term plan.
Review of Bulls Community Centre Project	
Review and apply the improvement in project management identified in our review of the Bulls Community Centre Project.	Issue closed. An internal review of the Bulls Community Centre Project was undertaken during the year. The District Council is in the process of implementing recommendations from the review along with the previous recommendations we have made.
Sensitive expenditure policy to be updated	
The District Council consider incorporating further guidance into their next update of its sensitive expenditure policies and staff handbook.	Issue closed. An updated sensitive expenditure policy was presented to the Audit and Risk Committee in September 2021. We will review the updated policy as part of our next interim audit.
IS policies are not up to date	
We continue to recommend that updates to IS policies be approved and staff and contractors made aware of the policies.	Issue closed. A new IS Security policy has been written and adopted by the District Council. Processes are being developed to ensure any copies of the IS policies remain in sync and that all network users are shown the policies and agree to comply with them.

Recommendation	Status
Project management	
<p>Perform a review over Council’s project management system to ensure that appropriate project management techniques are implemented, including developing a post implementation review (PIR) to bring forward lessons learnt from completed projects to current projects.</p>	<p>Issue closed. The District Council has established a project management office. A post-implementation review process is in place.</p>

Appendix 2: Corrected misstatements

Current year misstatements	Ref	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Other grants revenue	1				2,168,278
Income in advance			(2,168,278)		
Total					

Explanation of corrected misstatement

- To correctly account for other grant funding relating to three waters reform and the Marton rail hub in line with the conditions of the grant funding agreements.

Corrected disclosure deficiencies

Detail of disclosure deficiency
Rating units disclosure needed to be corrected to include all rating units.
Remuneration disclosures including salary bands needed to be corrected.
Several changes were required to correctly disclose budget and prior year amounts and disclosures.
A number of changes were required to the benchmarks.

Corrected performance reporting misstatements

Detail of misstatement
There were a number of reported results that needed to be corrected.
There were a number of targets that needed to be updated to be in line with the long-term plan.

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 performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect all instances of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the District Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: <i>International Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to the audit we have carried out a limited assurance engagement related to the District Council's Debenture Trust Deed and audited the District Council's 2021-2031 long-term plan. These engagements are compatible with those independence requirements. Other than these engagements, we have no relationship with, or interests in, the District Council or its subsidiary.</p>
Fees	<p>The audit fee for the year is \$134,678, as detailed in our Audit Proposal Letter.</p> <p>Other fees charged in the period are \$110,760 for the audit of the 2021-2031 long-term plan, and \$4,400 for the limited assurance engagement related to the District Council's Debenture Trust Deed.</p>
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the District Council that is significant to the audit.</p> <p>A staff member of Audit New Zealand has accepted a position of employment with the District Council during the financial year. Whilst employed by Audit New Zealand they had no involvement in this year's audit.</p> <p>We are not aware of any other situations where a staff member of Audit New Zealand has accepted a position of employment with the District Council during or since the end of the financial year.</p>

ITEM 10.13 ATTACHMENT 2



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10.14 Audit and Risk Committee Work Programme

Author: Dave Tombs, Group Manager - Corporate Services

Authoriser: Dave Tombs, Group Manager - Corporate Services

1. Reason for Report

1.1 To provide, for reference, the Committee with the current Audit and Risk Committee Work Programme.

2. Commentary

2.1 Councils such as Rangitikei District Council (RDC) need to have in place a properly structured and managed Audit and Risk Committee Work Programme.

2.2 This includes having structured Audit Committee agenda items, ensuring that the Audit and Risk Committee reviews key governance, risk management and regulatory matters.

2.3 The current Work Programme was reviewed at a previous Committee meeting and is presented at each subsequent Committee meeting to provide members with an opportunity to review/amend the proposed Work Programme in light of potential recent/current factors.

3. Discussion

3.1 This Programme has been drafted on the assumption that the Audit and Risk Committee will hold quarterly meetings in March, June, September and December each year (with additional meetings scheduled as required).

3.2 Current Audit and Risk Committee Work Programme:

Item	Audit and Risk Committee Meeting
Governance	
Audit Committee Terms of Reference	March 2021; at least once every 3 years
Latest Management Accounts - Overview	Each meeting
Latest Health and Safety reporting	Each meeting
Compliance with Treasury Management Policy	Each meeting
Fraud Reporting	Each meeting
Protected Disclosure Reporting	Each meeting
Outstanding AuditNZ management letter points	Each meeting
Insurance Update	Each meeting

ITEM 10.14

Three Waters: Financial Considerations	Each meeting
Current Areas of Concern	Each meeting – see S3.3 below.
Statutory	
Annual Report	Summary Update: September and December each year (as required)
Internal Audit	
Outstanding internal audit recommendations	Each meeting (none currently exist)
Annual Internal Audit workplan	Discuss March, confirm June each year
Internal Audit Workplan Updates	Each meeting
Policies etc	Policies considered appropriate for ARC to review
Gifts and Hospitality Policy	Annual Review: September
Sensitive Expenditure Policy	Annual Review: September
Fraud, Bribery and Corruption Policy	Annual Review: September (not sufficiently advanced – deferred until 2022)
Protected Disclosure “Whistle Blower” Policy	Annual Review: September
Staff Code of Conduct	ARC Review every 2 years; next review September 2023.
Health, Safety and Wellbeing Policy	ARC Review every 2 years; next September 2023.
Delegations Register	Last updated January 2018; next review deferred until 2022.
Policy on Development Contributions	Required by S102 LGA; S106 LGA requires Policy to be reviewed every 3 years. Current version adopted 9 June 2021.
Procurement Policy	Draft to Audit & Risk Committee in December 2021. Then review every 3 years.
Rates Postponement Policy	Required by S102 LGA; S110 LGA requires Policy to be reviewed every 6 years. Update required by June 2026.
Rate Remission Policy	Required by S102 LGA; S109 LGA requires Policy to be reviewed every 6 years. Update required by May 2027.
Rate Remission for Maori Freehold Land Policy	Required by S102 & S108 LGA; Update required by 2024.

Significance and Engagement Policy	Required by S76 LGA; Update required by 2024.
Treasury Management Policy	Adopted by Council October 2020; ARC review each financial year (March 2022)
Accounting Policies	Annually
Finance and Infrastructure Policy; Revenue and Finance Policy	March each year
Risk	
Risk Management Policy	December each year (was reviewed September 2021)
Strategic Risk Register	December each year (was reviewed in full during 2021; currently subject to a 'rolling review')

3.3 Current Areas of Concern

Officers have included current known Areas of Concern within reports submitted to this meeting but welcome discussion regarding any other topics that the Committee would like included.

Recommendation

That the report 'Audit and Risk Committee Work Programme' be received.

11 Public Excluded

Resolution to Exclude the Public

The meeting went into public excluded session [enter time](#)

Recommendation

That the public be excluded from the following parts of the proceedings of this meeting.

1. Cybersecurity

The general subject matter of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48 of the *Local Government Official Information and Meetings Act 1987* for the passing of this resolution are as follows:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48 for the passing of this resolution
11.1 - Cybersecurity	s7(2)(j) – improper gain or improper advantage	s48(1)(a)(i)

This resolution is made in reliance on Section 48(1) of the Local Government Official Information and Meetings Act 1987 and the particular interests protected by Section 6 or Section 7 of the Act which would be prejudiced by the holding or the whole or the relevant part of the proceedings of the meeting in public as specified above.

12 Open Meeting