



Hastings District Council

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OPEN MINUTES

AUDIT AND RISK SUBCOMMITTEE

Meeting Date: **Tuesday, 6 September 2016**

**Minutes of a Meeting of the Audit and Risk Subcommittee held on
Tuesday, 6 September 2016 at 10.00am**

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HASTINGS DISTRICT COUNCIL

MINUTES OF A MEETING OF THE AUDIT AND RISK SUBCOMMITTEE HELD IN THE LANDMARKS ROOM, GROUND FLOOR, CIVIC ADMINISTRATION BUILDING, LYNDON ROAD EAST, HASTINGS ON TUESDAY, 6 SEPTEMBER 2016 AT 10.00AM

PRESENT: Councillor Bowers (Chair)
Mayor Yule – *present for part of meeting*
Councillors Hazlehurst, Kerr, Lester and Watkins and Mr J
Nichols

IN ATTENDANCE: Chief Executive: (Mr R McLeod)
Executive Advisor/Manager: Office of the Chief Executive
(Mr M Maguire)
Chief Financial Officer (Mr B Allan)
Strategic Financial Advisor (Mrs C Thomson)
Group Manager: Human Resources (Mrs B Bayliss)
Group Manager: Asset Management (Mr C Thew)
Health and Safety Advisor (Ms J Kuzman)
Business Services Manager (Mr R Smith)
Committee Secretary (Mrs C Hilton)

ALSO PRESENT: Mr S Lucy (Audit Director, Audit New Zealand)
Ms J Noiseux (Audit New Zealand)

1. APOLOGIES

Councillor Watkins/Councillor Lester

That an Apology for Lateness from Mayor Yule be accepted.

CARRIED ARS/16/23

2. CONFLICTS OF INTEREST

There were no declarations of conflicts of interest.

3. CONFIRMATION OF MINUTES

(Document CG-13-7-00106)

Councillor Watkins/Councillor Hazlehurst

**That the minutes of the Audit and Risk Subcommittee Meeting held Tuesday
21 June 2016 be confirmed as a true and correct record and be adopted.**

CARRIED ARS/16/24

4. RISK MANAGEMENT UPDATE

(Document 15/1330)

The Audit and Risk Subcommittee (the Subcommittee) addressed the agenda report. The Subcommittee recognised the tremendous outstanding effort that had been made, and that continues to be made, by everyone throughout the Council in response to the water contamination situation in Havelock North. The Subcommittee asked if this type of situation had been identified by the Council, as a potential risk.

The Group Manager: Asset Management, Mr C Thew, updated the Subcommittee on the issue of the water contamination situation - in terms of where this fitted within the Council's Asset Management Risk Register. The main points that were highlighted or addressed, in response to questions from the Subcommittee, included:

- The focus on the continuity of the water supply – previous maintenance work had been undertaken so that access points could be used quickly if needed.
- Concerns had been raised about the water chlorination and the boil water notice and Officers were following up where concerns had been raised, overall measurements to date were within the expected range.
- Lots of work had been undertaken by the Council's Communications team – the recent leaflet drops demonstrated that the time required for this approach was longer than many appreciated. The use of phone and email trees, in critical situations like this, is an option also being looked into, particularly where the neighbourhood support coverage is good.
- There had been demands on Officers to provide information requested by the media, while also continuing to address the water situation and carry out their work.
- The national standards are not as clear as they could be in regard to the boiled water notices.
- In order for documentation and plans, such as water safety plans, to be useful they need to be relevant and work together, without documentation being cumbersome to use.
- The Council's Business Continuity Plans are not intended to address every possible scenario that may arise, as there were so many factors and variations that may need to be taken into account. The key focus should be on the service effect and what mitigation or preparation needs to be in place and reviewed.

The Business Services Manager, Mr Smith, spoke to the agenda report and responded to questions from the Subcommittee. The main points that were raised/addressed included:

- The agenda report provided a view of current strategic risks and the mitigation in place.
- There are a number of existing policy documents Council is required to have that inherently manage risks associated with Council services.
- The Council's Risk Management approach should be inherent in these documents and make sense to those needing to implement it.
- The key aspect to consider - how to look at risks in the real world.
- The need to ensure that Council took a risk based approach to ensuring that the knowledge base in all areas is broad so if a situation arises the pressure was not solely placed on a small number of officers.
- Future reporting to Council should clearly identify how risks have been analysed

and addressed in the decision making process.

- The Council had begun to review its reporting processes and templates earlier in the year. The issue of highlighting any potential areas of risk, would be a specific requirement in the reporting templates.
- An audit of the risk management framework is due to be carried out and the results will be reported to a subsequent Subcommittee meeting.

ACTION POINTS:

- Audit Council's risk management framework and report back to the Subcommittee.
- Provide a summary of the findings from the water contamination event to the next Subcommittee meeting.

Councillor Bowers/Councillor Lester

That the report of the Business Services Manager titled "Risk Management Update" dated 6/09/2016 be received.

CARRIED ARS/16/25

5. INTERNAL AUDIT - APPROACH TO AUDIT DELIVERY

(Document 16/700)

The Chief Financial Officer, Mr B Allan, spoke to the agenda report and responded to questions from the Subcommittee. The main points that were highlighted or addressed in response to questions included:

- Officers had been in discussion with other councils to see how best to deliver the internal audit process – in the most efficient and cost effective way with the most added value.
- It was proposed there be a joint procurement approach to a single provider – so there was one internal auditor to look after "like minded" local Hawke's Bay Councils.
- Clarification was sought regarding the word "sufficient" under Recommendation "B". Officers confirmed that they would make a judgement call – based on how many of the local Hawke's Bay Council's supported this approach and their assessment of whether this would be worthwhile for HDC.

ACTION POINTS:

- Officers to make a judgement call as to whether it was worthwhile for HDC to participate in a joint procurement approach for internal audit services under the umbrella of HB LASS – subject to sufficient support from HB Councils.

Councillor Lester/Mr Nichols

A) That the report of the Chief Financial Officer titled "Internal Audit Approach to Audit Delivery" dated 6/09/2016 be received.

B) That subject to sufficient Hawke's Bay Council support, the Audit & Risk Subcommittee endorse Hastings District Council's participation in a joint procurement approach for Internal Audit Services under the umbrella of HB LASS.

With the reasons for this decision being that the objective of the decision will

contribute to meeting the current and future needs of communities in a way that is most cost-effective for households and business by:

- i) Undertaking Internal Audits on Council activities to ensure systems, processes and controls are in place therefore protecting council assets.**

CARRIED ARS/16/26

6. 2015/16 ANNUAL REPORT UPDATE

(Document 16/971)

The Chair welcomed the representatives from Audit New Zealand who were present at the meeting – Mr S Lucy (Audit Director) and Ms J Noiseux.

Mayor Yule and the Chief Executive joined the meeting at 10.35am.

Officers spoke to the agenda report. The main points that were highlighted included:

- The interim management letter (CG-13-7-00115) and some standard queries of governance (CG-13-7-00114) had been received the previous day, from Audit New Zealand and a copy was circulated at the meeting. Electronic copies of both items were also to be sent to the Subcommittee members.
- The year-end process and the revaluation of the Council's three water assets.
- Paragraph 3.5 – Transition to PBE reporting standards. This had been worked through in the last financial year.
- The draft unaudited financial statements had been included as an attachment to this report.

Mr S Lucy also addressed the meeting. He referred to the interim management letter, which had been based on the interim audit that had been undertaken. The main points that were highlighted or addressed, in response to questions from the Subcommittee, included:

- Audit NZ had not identified any significant issues.
- He did not believe there were any issues for the Council to be concerned about in regard to the interim audit.
- The Council's risk management framework.
- There was a good mix between the Council's internal and external audit with appropriate segregation.
- There were no actual or suspected frauds that Audit NZ was aware of.
- The audit of the Council's financial statements had begun the previous day.
- The reporting year was to 30 June 2016.
- Given recent events, there would be some discussion regarding the area of water quality. It would be noted that this had occurred and that there would be potential resultant financial ramifications.
- Audit NZ would have discussions with the finance team regarding the key points in terms of last year's audit – including:
 - The Opera House.
 - The revaluation of the three waters.
 - Some elements of roading had moved by a percentage and there had been some discussion if these would be revalued.
- Whether the ideal approach was for this Subcommittee to be given details of such revaluations and then to make recommendations to the Finance and

Monitoring Committee that they be included in the Council accounts? Or whether this was a technical point. If the meeting timetabling did not allow for this approach, then the members asked to have such information emailed to them for their information and/or comment in a timely manner.

- Prior to the establishment of the Subcommittee membership in the new term, such information could be circulated to Mr J Nichols and Councillor Kerr (who had been elected unopposed in the local authority elections).
- Officers advised that they had tried to achieve this, but had not managed to meet that timeframe.

ACTION POINTS:

- The interim management letter (CG-13-7-00115) and some standard queries of governance (CG-13-7-00114) would be electronically sent to members.
- Audit NZ would discuss key issues of the last year's audit with Officers and see if some areas of Council assets needed to be revalued.
- Details of any such revaluations or other relevant Council account details would be emailed to Subcommittee members at appropriate times to enable recommendations to be forwarded onto the Finance and Monitoring Committee in a timely regarding acceptance of these accounts.
- Any such account details would be forwarded to Mr J Nichols and Councillor Kerr in the interim period until the new Subcommittee membership was confirmed following the current election period.

Councillor Watkins/Councillor Hazlehurst

That the report of the Chief Financial Officer titled "2015/16 Annual Report Update" dated 6/09/2016 be received.

CARRIED ARS/16/27

7. GENERAL UPDATE REPORT AND STATUS OF ACTIONS

(Document 16/785)

The Chief Financial Officer, Mr B Allan, spoke to the agenda report and responded to questions from the Subcommittee. The main points that were highlighted or addressed, included:

- The suggested 60:40 Local Government/Central Government split in relation to the Local Authority Protection Programme (LAPP) premiums for Councils.
- It appeared that this issue had been put on hold by Treasury at present.
- It was noted that the "Status of Actions" attachment had this showing as a 40:60 split and this needed to be corrected.

ACTION POINTS:

- Officers to keep a watching brief on the matter of the Local Government/Central Government split of LAPP premiums.
- Correction to the Status of Actions attachment to show this as a 60:40 split.

Councillor Kerr/Councillor Watkins

That the report of the Chief Financial Officer titled "General Update Report and Status of Actions" dated 6/09/2016 be received.

CARRIED ARS/16/28

8. TREASURY ACTIVITY AND FUNDING

(Document 16/859)

The Strategic Financial Advisor, Mrs C Thomson, spoke to the agenda report and responded to questions from the Subcommittee. It was noted that this would be the last Audit and Risk Subcommittee meeting that Mrs Thomson would attend in her current role, as she would be the Chief Financial Officer at Napier City Council from mid-October 2016.

The main points that were highlighted in the report or addressed, in response to questions, included:

- Paragraph 3.2 – the fact that Council would be out of policy in both the 0-3 and 3-5 year policy bands until the end of May 2016, due to changing maturity profiles, was addressed. The corrective action that Officers had undertaken to bring Council back within its policy limits was outlined.
- Paragraph 3.4 – the table showing Council's overall compliance with Treasury Management Policy as at 30 June 2016. Council was fully compliant.
- Paragraph 3.6 – Council's total external debt had reduced from \$60.7M to \$50.7M at year end of 30 June 2016. Some large projects had not occurred within budgeted timeframes.
- The level of swaps and interest rates risk profiles. The graph under Paragraph 3.12 was referred to and explained as follows:
 - The red line in the graph showed the forecast external debt over the next 10 years, including major capital items. This was largely dependent on the timing of those projects.
 - The black line showed the minimum and maximum percentage limits of the forecast debt for each time band.
 - The red blocked area showed the total swap position (including forward start swaps) hedged out for eight (8) years.
 - Council was fully compliant with its policy on its fixed debt.
- The graph under Paragraph 3.14 showed Council's weighted average cost of funds since 2010/11 compared to 3 month Bank Bill Reference Rate and five (5) year swap rates. This graph was referred to and explained as follows:
 - The blue line included the interest paid on the swaps.
 - The next OCR announcement would be on 22 September 2016.
 - This context was acknowledged and the fact that the Council's framework was in good shape.

Mr Nichols/Councillor Lester

That the report of the Strategic Financial Advisor titled "Treasury Activity and Funding" dated 6/09/2016 be received.

CARRIED ARS/16/29

9. HEALTH AND SAFETY RISK UPDATE

(Document 16/909)

The Group Manager: Human Resources, Mrs B Bayliss, and the Health and Safety Advisor, Ms J Kuzman, spoke to the agenda report and responded to questions from the Subcommittee. The main points that were highlighted or addressed, in response to questions, included:

- This report was in the form of a brief update report.

- Paragraph 3.3 – the first quarterly report to the Council would be provided to the 17 November 2016 meeting - relating to the period 1 July to 30 September 2016.
- Paragraph 3.4 – the first risk management quarterly report to the Audit and Risk Subcommittee would be provided to the 23 November 2016 meeting - relating to the same period.
- A brief overview of preliminary critical risks was provided, and the authors advised that a workshop would occur before the end of the year to further assess and review controls for these risks.
- Had the health and safety culture of the organisation changed? There was now a greater level of awareness which was being reflected in a greater level of incident reporting.
- Near-miss reporting and hazard reporting was aimed at catching such incidents before they became the cause of significant injury. This was now part of actions that Council undertook as a matter of course in its day to day operations.
- How this approach was managed via key Council staff. Action had been taken across a range of areas and also including internal and external providers.
- There was also the aspect that some Officers had been working extra hours over a sustained period for a while now, as a result of the water contamination event. Action was being taken to address this and to give support and provide a backup for specific Officers/areas of Council.
- Whether the Human Resources area had sufficient resources to handle the increased amount of risk assessment reporting that was now required. Yes, there were several actions being taken to handle this.

The Subcommittee then discussed the water contamination event further, and felt there should be a standalone item on the agenda, at least once a year, to address risk management in relation the district's water supply

Councillor Hazlehurst/Councillor Watkins

That the report of the Health and Safety Advisor titled "Health and Safety Risk Update" dated 6/09/2016 be received.

CARRIED ARS/16/30

10. ADDITIONAL BUSINESS ITEMS

There were no additional business items.

11. EXTRAORDINARY BUSINESS ITEMS

There were no extraordinary business items.

The meeting acknowledged the work that Councillor Bowers, had put into her role as Chair of the Subcommittee, over past years and during this current term. Councillor Bowers was not seeking re-election to the Hastings District Council.

The meeting closed at 11.14am

Confirmed:

Chairman:

Date: