



# Hastings District Council

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**OPEN**

## **A G E N D A**

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### **RISK AND AUDIT SUBCOMMITTEE MEETING**

Meeting Date: **Monday, 6 May 2019**

Time: **10.00am**

Venue: **Landmarks Room  
Ground Floor  
Civic Administration Building  
Lyndon Road East  
Hastings**

<b>Subcommittee Members</b>	Chair: Mr J Nichols <i>Ex Officio: Mayor Hazlehurst</i> Deputy Mayor Kerr (Deputy Chair) Councillors Nixon and Travers  ( <i>Quorum=3</i> )
<b>Officer Responsible</b>	Chief Financial Officer, Bruce Allan
<b>Committee Secretary</b>	Christine Hilton (Ext 5633)

## **Risk and Audit Subcommittee – Terms of Reference**

A subcommittee of the Finance and Risk Committee

### **Fields of Activity**

The Risk and Audit Subcommittee is responsible for assisting Council in its general overview of financial management, risk management and internal control systems that provide:

- Effective management of potential risks, opportunities and adverse effects; and
- Reasonable assurance as to the integrity and reliability of the financial reporting of Council; and
- Monitoring of the Council's requirements under the Treasury Policy

### **Membership (4 Members)**

Chairman appointed by the Council

The Mayor

Deputy Mayor

2 Councillors

An independent member appointed by the Council.

**Quorum** – 3 members

### **DELEGATED POWERS**

Authority to consider and make recommendations on all matters detailed in the Fields of Activity and such other matters referred to it by the Council or the Finance and Risk Committee

The subcommittee reports to the Finance and Risk Committee.

**HASTINGS DISTRICT COUNCIL**  
**RISK AND AUDIT SUBCOMMITTEE MEETING**

**MONDAY, 6 MAY 2019**

**VENUE:** Landmarks Room  
Ground Floor  
Civic Administration Building  
Lyndon Road East  
Hastings

**TIME:** 10.00am

**A G E N D A**

**1. Apologies**

At the close of the agenda no apologies had been received.

At the close of the agenda no requests for leave of absence had been received.

**2. Conflict of Interest**

Members need to be vigilant to stand aside from decision-making when a conflict arises between their role as a Member of the Council and any private or other external interest they might have. This note is provided as a reminder to Members to scan the agenda and assess their own private interests and identify where they may have a pecuniary or other conflict of interest, or where there may be perceptions of conflict of interest.

If a Member feels they do have a conflict of interest, they should publicly declare that at the start of the relevant item of business and withdraw from participating in the meeting. If a Member thinks they may have a conflict of interest, they can seek advice from the General Counsel or the Democratic Support Manager (preferably before the meeting).

It is noted that while Members can seek advice and discuss these matters, the final decision as to whether a conflict exists rests with the member.

**3. Confirmation of Minutes**

Minutes of the Risk and Audit Subcommittee Meeting held Monday 18 February 2019.  
*(Previously circulated)*

**4. Treasury Activity and Funding**

<b>5.</b>	<b>Health and Safety Risk Management Update</b>	<b>15</b>
<b>6.</b>	<b>Cape Kidnappers Interim Operations Manual</b>	<b>19</b>
<b>7.</b>	<b>General Update Report and Status of Actions</b>	<b>21</b>
<b>8.</b>	<b>MBIE Review of Tauranga City Council - Bella Vista Development</b>	<b>57</b>
<b>9.</b>	<b>Internal Audit Report</b>	<b>59</b>
<b>10.</b>	<b>Additional Business Items</b>	
<b>11.</b>	<b>Extraordinary Business Items</b>	

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**REPORT TO:** RISK AND AUDIT SUBCOMMITTEE

**MEETING DATE:** MONDAY 6 MAY 2019

**FROM:** MANAGER STRATEGIC FINANCE  
BRENT CHAMBERLAIN

**SUBJECT:** TREASURY ACTIVITY AND FUNDING

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## **1.0 SUMMARY**

- 1.1 The purpose of this report is to update the Subcommittee on treasury activity and funding issues.
- 1.2 The Council is required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002. That purpose is to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost effective to households and businesses. Good quality infrastructure means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future requirements.
- 1.3 This report concludes by recommending that the report on treasury activity and funding is received.

## **2.0 BACKGROUND**

- 2.1 The Hastings District Council has a Treasury Policy which forms part of the 2018-28 Long Term Plan and a Treasury Management Policy. Under these policy documents responsibility for monitoring treasury activity is delegated to the Risk and Audit Subcommittee.
- 2.2 Council is provided with independent treasury advice by Stuart Henderson of PricewaterhouseCoopers and receives weekly and monthly updates on market conditions.
- 2.3 Under the Treasury Policy, formal reporting to Council occurs quarterly and regular more in depth treasury reporting is provided for the Risk and Audit Subcommittee.

## **3.0 CURRENT SITUATION**

- 3.1 Council's debt portfolio is managed within the macro limits set out in the Treasury Policy. It is recognised that from time to time Council may fall out of policy due to timing issues as debt moves closer to maturity and shifts from one time band to another. The treasury policy allows for officers to take the necessary steps to move Council's funding profile back within policy in the event that a timing issue causes a policy breach.
- 3.2 The following table sets out Council's overall compliance with Treasury Management Policy as at 30 April 2019:

Measure	Compliance	Actual	Min	Max
<b>Liquidity (1)</b>	✓	115%	110%	170%
<b>Fixed Interest Debt</b>	✓	68%	55%	95%
<b>Funding Maturity profile:</b>				
<b>0 – 3 years</b>	✓	27%	10%	50%
<b>3 – 5 years</b>	✓	31%	20%	60%
<b>5 years +</b>	✓	42%	10%	60%
<b>Net Debt as % Equity</b>	✓	6%	0%	20%
<b>Net Debt as % Income</b>	✓	93%	0%	150%
<b>Net Interest as % Income</b>	✓	3%	0%	15%
<b>Net Interest as % Rates</b>	✓	5%	0%	20%

(1) Liquidity Ratio = (Cash Reserves + Lines of Credit + Drawn Debt) / Drawn Debt

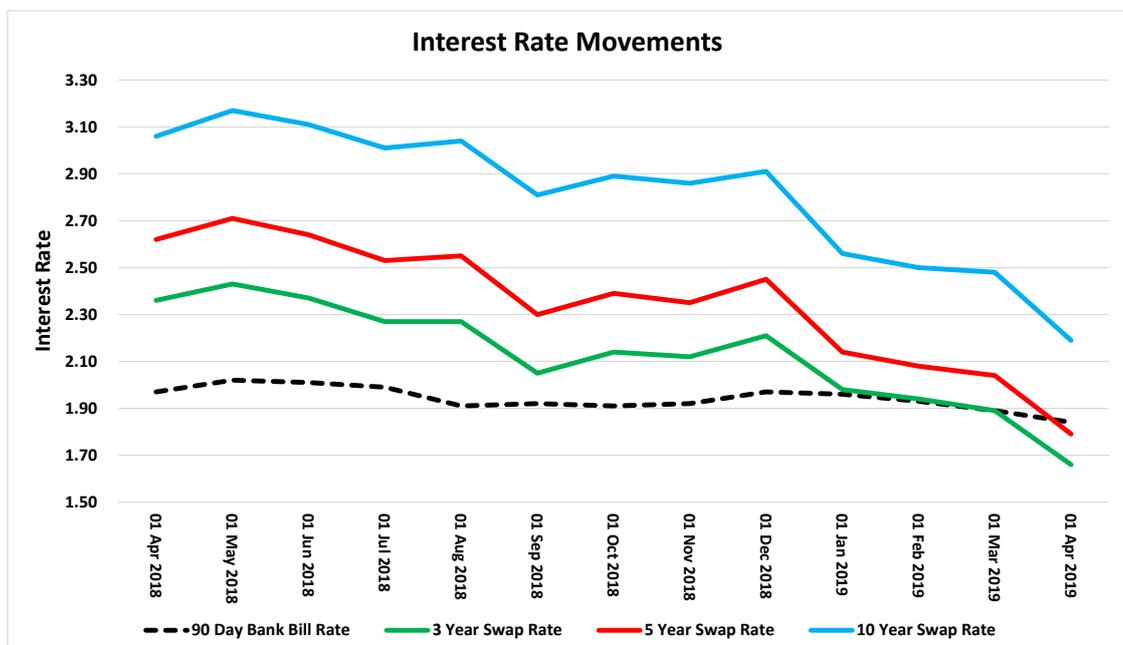
Council is currently compliant with Treasury Management Policy.

- 3.3 The current total core net external debt is \$104.2m as at 30 April 2019. This is supported by the Debt Status Report as at 30 April 2019 (**Attachment 1**). This report shows the debt at \$104.2m.
- 3.4 On the 15<sup>th</sup> March 2019 Council repaid, on maturity, \$20m of Local Government Funding Agency (LGFA) debt. This was funded by two new LGFA loans taken out in August 2018, and the proceeds invested on term deposit until needed in March 2019. Over this period the term deposit earned Council \$362,175, and cost Council \$235,665 in loan holding costs, giving a net positive return to Council of \$126,510.
- 3.5 Council has a further LGFA loan obligation of \$2m due in June 2019, and a further \$10m due in April 2020. Officers are currently investigating the merits of prefunding the second of these obligations in a similar manner, but this will be dependent on interest rates and how much debt Council wishes to hold at balance date. At the time of writing Council could borrow for a four year term at 2.06% pa fixed, and invest for nine months at 3.15% pa earning net interest income of \$75,000 over this period of prefunding.
- 3.6 Note it is not normal practice for Council to borrow money simply to invest it in financial instruments, however where there is an known need for the funds at a future point in time, Council Officers will consider borrowing early (prefunding) if it is financially advantageous to do so.
- 3.7 Under Council's treasury policy Council must maintain a liquidity ratio of greater than 110% (see 3.2 for an explanation of how this is calculated). This liquidity is essentially maintained through an undrawn \$10m line of credit with Westpac Bank plus any surplus funds held in the Councils "Call Account". As Council's debt has now surpassed \$100m, the \$10m line of credit no longer, by itself, provided the 10% liquidity needed. As a result Officers have arranged a second \$5m line of credit with Westpac Bank, giving Council a total of \$15m of liquidity at any point in time. The cost of having this second line of credit available to the Council is 0.27% pa, or \$13,500 pa. The cost using this line of credit is Westpac's 90 day bank bill rate plus a margin of 1.35% pa.
- 3.8 Standard and Poors is currently consulting on proposed changes to its credit rating methodology. The main impact to Hastings District Council if adopted has to do with how they view liquidity. Essentially they would like to see that

for the forthcoming 12 month period, our cash ending position is positive after taking into account the following formula:

Opening Bank Balance  
 Plus Forecast Cash Operating Surplus/(Deficit)  
 Minus Forecast Capital Requirements  
 Minus Loans due for repayment in the next 12 months  
 Plus Lines of Credit Available and/or Loan Prefunding Contractually Committed

- 3.9 We are currently seeking clarification on whether the Capital Requirements will be based on Councils full budgeted program, or whether they will give this number a 20% haircut. In the past they have treated Council Capital programs as aspirational rather than deliverable.
- 3.10 At present (even with our increased \$15m line of credit), due to our loan maturities and large capital program, the combined expected cash outflows exceed our available funding. That is we expect to have to increase our external debt to fund this level of activity. To meet this new liquidity test Council will have to prefund its loan maturities and possibly a proportion of its expected capital program, or have even more lines of credit.
- 3.11 Officers are keeping a watch on the outcome and implications of this consultation.
- 3.12 The graph below shows what has been happening in the wholesale interest rate market over the past 12 months. Councils floating rate loans are linked to the 90 day bill rate plus a bankers margin, so this is indicative of Council floating rate cost of funds. The 3,5, and 10 year swaps rates are indicative of what Council can buy interest rate swaps (a mechanism for buying fixed interest rate cover) at, plus a bankers margin



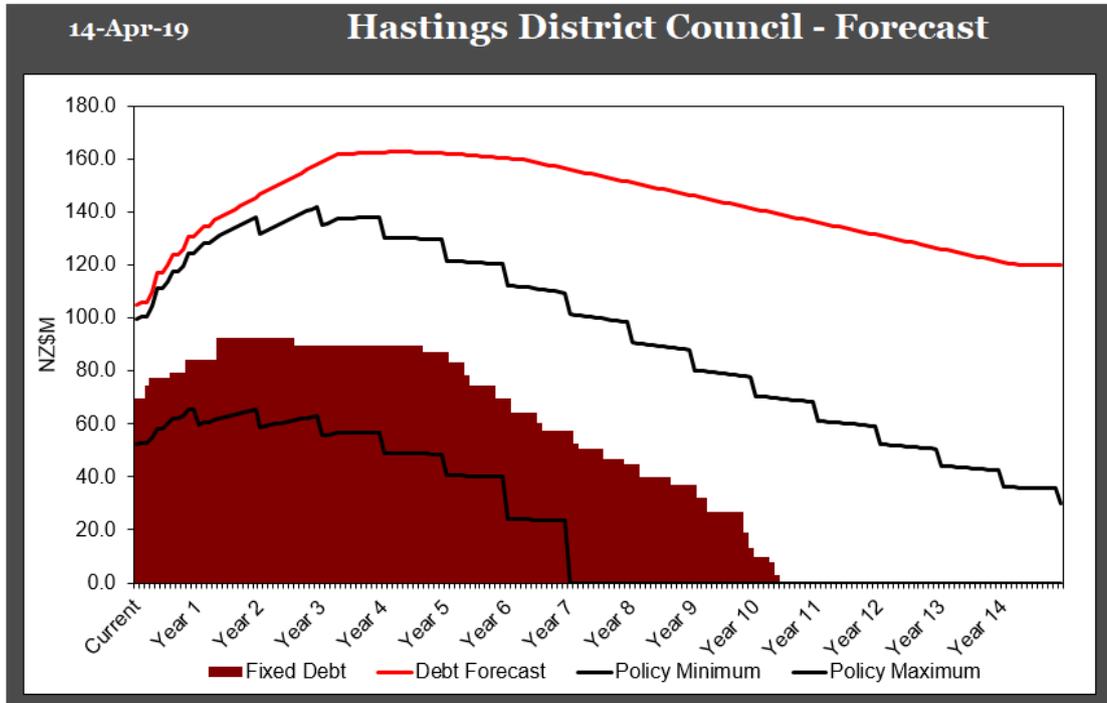
- 3.13 You will note that the longer term swap rates have been steadily declining over the past 12 months. This is a reflection that the financial markets believe that interest rates will stay lower for longer.
- 3.14 On 27 March 2019, the Reserve Bank of New Zealand released the following statement:

*“The Official Cash Rate (OCR) remains at 1.75 percent. Given the weaker global economic outlook and reduced momentum in domestic spending, the more likely direction of our next OCR move is down.*

*The global economic outlook has continued to weaken, in particular amongst some of our key trading partners including Australia, Europe, and China. This weaker outlook has prompted central banks to ease their expected monetary policy stances, placing upward pressure on the New Zealand dollar.*

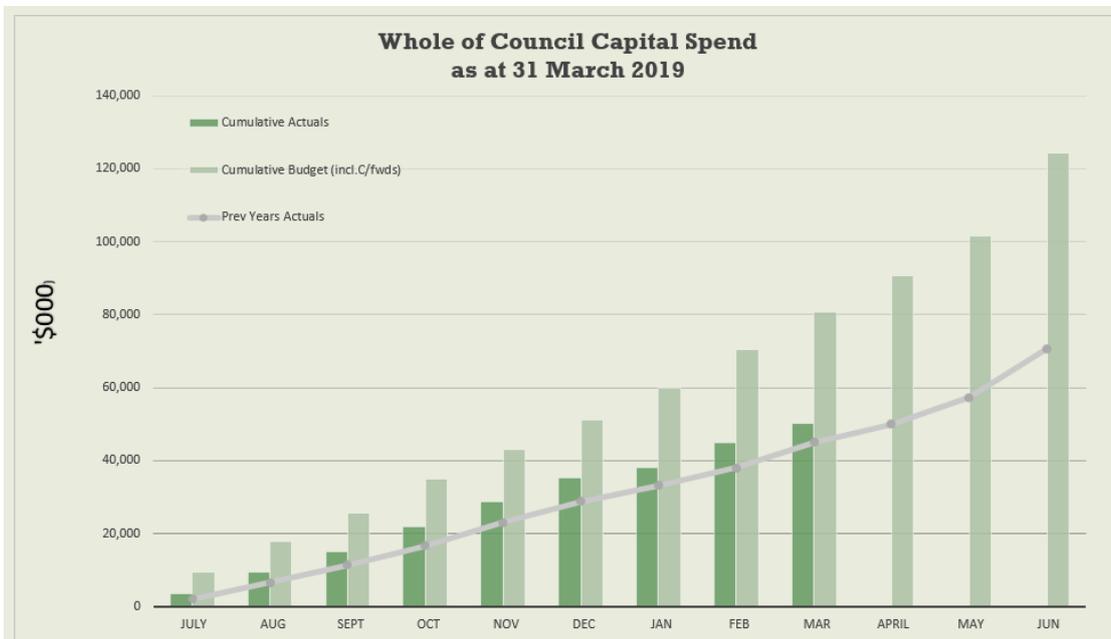
*Domestic growth slowed in 2018, with softness in the housing market and weak business investment contributing.”*

- 3.15 This was a significant change in stance by the Reserve Bank, and caused a further fall in wholesale interest rates. In fact the fall has caused both the 3 year and 5 year swap rates to fall below the 90 day bank bill rate (essentially the floating rate). This inverting of the yield curve is very unusual and has some business commenters pointing out that this is typically a precursor to a recession, arguing that history says that recessions typically follow 12 to 18 months behind such a phenomenon occurring.
- 3.16 On 17 April 2019 the quarterly Consumer Price Index (CPI) figure was released for the latest quarter. CPI only rose by 0.1% for the quarter (below expectations), with the annual CPI easing to 1.5%. This is below the mid-point of the Reserve Bank’s annual inflation bank of 1-3%. This has financial commentators musing that with the publishing of such a low CPI number, the likelihood of a cut to the official Cash Rate in May 2019 has increased.
- 3.17 The following graph shows Council’s fixed debt is within the policy minimum and policy maximum set out in Council’s Treasury Management Policy. This graph also incorporates Council’s forecast debt over the long term (based on the LTP adjusted to reflect the current level of activity). The projected external debt requirement for the next 12 months is forecast to increase, which coupled with the maturity of some existing LGFA debt, gives the Council the opportunity to take advantage of new longer term debt at historically low levels of interest.

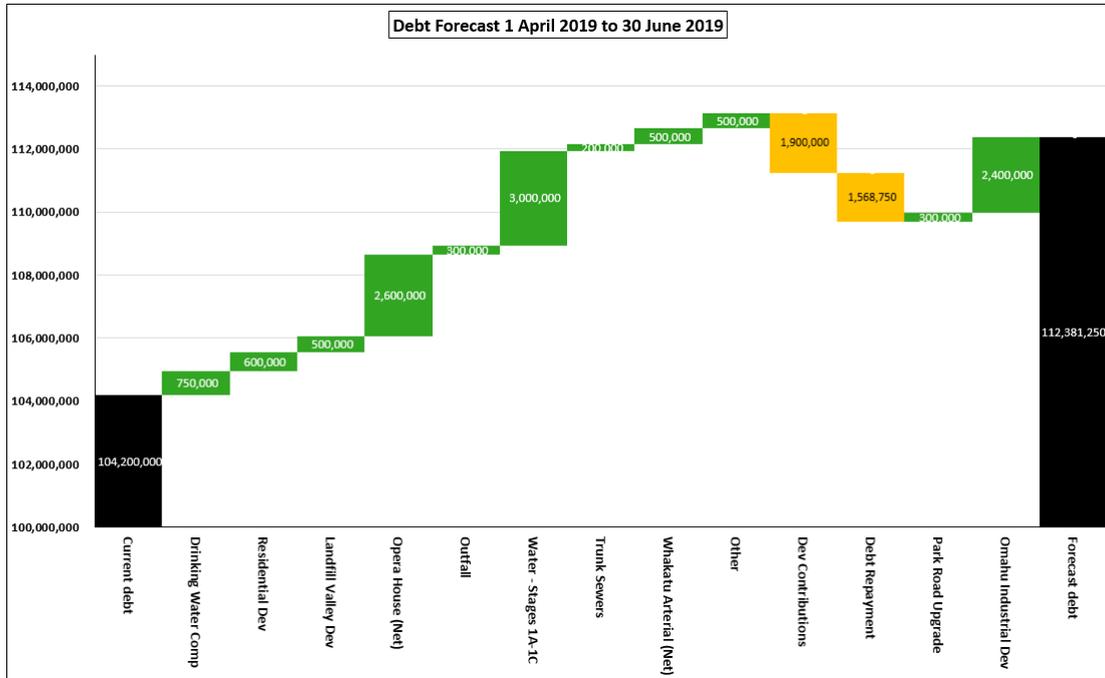


3.18 Officers and PWC advisors are currently comfortable with the level of interest rate cover in place. We will continue to pick off dips in the wholesale interest rate markets, while benefiting from the low floating rates available at the moment.

3.19 The graph below shows the budgeted capital spend program for the 2018-19 year and what has been delivered to date:

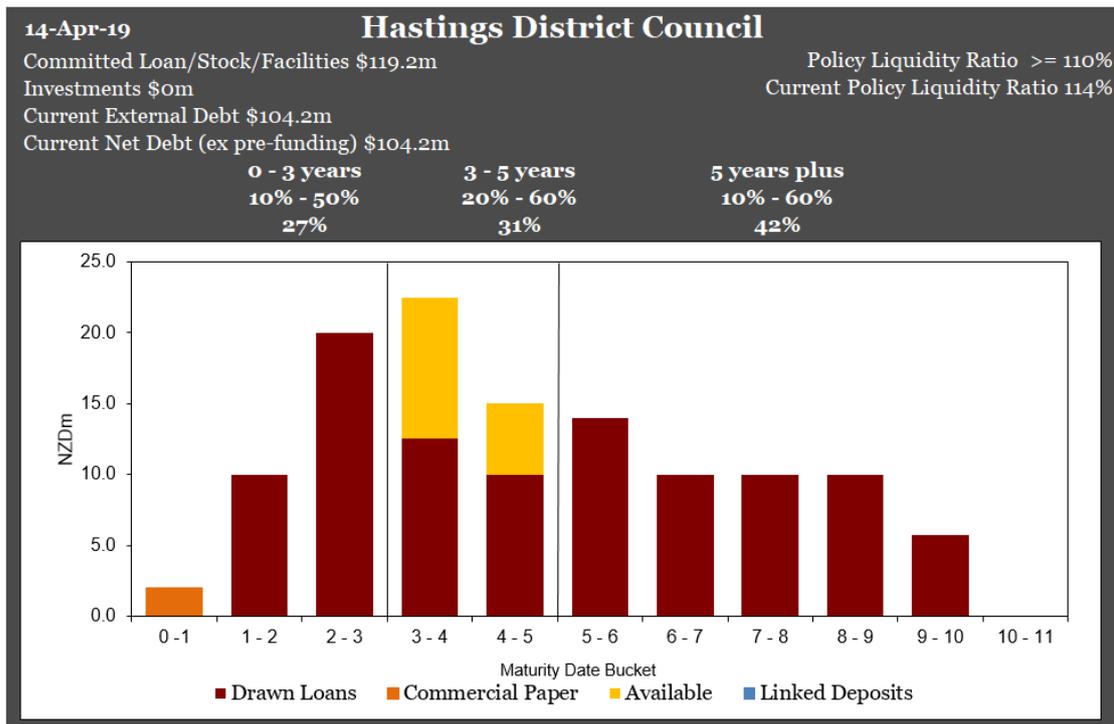


3.20 The chart below shows the key drivers of the expected movement in borrowings over the next three months. This is based on projects that have started already, or are highly likely to commence before 30 June 2019 and indicates a forecast debt position of \$112m (the 2018-2028 Long Term Plan forecast a debt position of \$125m as at 30 June 2019).



3.21 The chart identifies the major projects underway, however the smaller debt funded renewal projects have been aggregated into the “Other” heading.

3.22 The Council debt maturity has the following profile:



3.23 Any new debt will be considered along with Council’s working capital requirements and liquidity ratios.

#### 4.0 FUNDING FACILITIES

4.1 **Attachment 2** shows details of Council’s current debt facilities together with details of expiry dates and margins.

4.2 Council's liquidity ratio of 115% at 31 March 2019 is within policy (refer to 3.6 for further commentary).

## 5.0 RECOMMENDATIONS

**That the report of the Manager Strategic Finance titled Treasury Activity and Funding dated 6/05/2019 be received.**

### Attachments:

- |   |                                     |                  |
|---|-------------------------------------|------------------|
| 1 | Public Debt Status 31 March 2019    | FIN-15-03-19-190 |
| 2 | Debt Facilities as at 30 April 2019 | FIN-15-03-19-189 |

**Status Report on Council Debt  
As at 31 March 2019**

**1. Loan Funding Requirement 2018/19**

	<u>Budget</u> <u>Annual Plan</u>	<u>Actual to</u> <u>31-Mar-2019</u>
	\$	\$
Proposed New Loans	47,013,964	25,276,074
Less Debt repayment	-6,294,606	-6,062,404
<b>Total Required</b>	<b>40,719,358</b>	<b>19,213,670</b>

**2. External Borrowing (Net Debt)**

Bank Facilities	0
Term Funding	104,240,565
<b>Total External Borrowing at 31 March 2019</b>	<b>104,240,565</b>

**3. Summary of Internal Borrowings**

Balance 1 July 2018	42,838,798
Plus: Requirement to date	19,213,670
Less: Movement in bank facilities	-26,500,000
<b>Internal Borrowings at 31 March 2019</b>	<b>35,552,468</b>

**Funding of internal borrowings**

Total Internal Borrowings	35,552,468
Funded from Special Fund Reserves (interest bearing)	11,706,753
Funded from Special Fund Reserves (non interest)	13,922,681
<b>General Funds used for internal borrowings</b>	<b>9,923,034</b>

**4. Gross Council Debt allocated to activities**

Actual External Debt on Issue	104,240,565
Plus: Internal Borrowings	35,552,468
<b>Gross Debt at 31 March 2019</b>	<b>139,793,033</b>

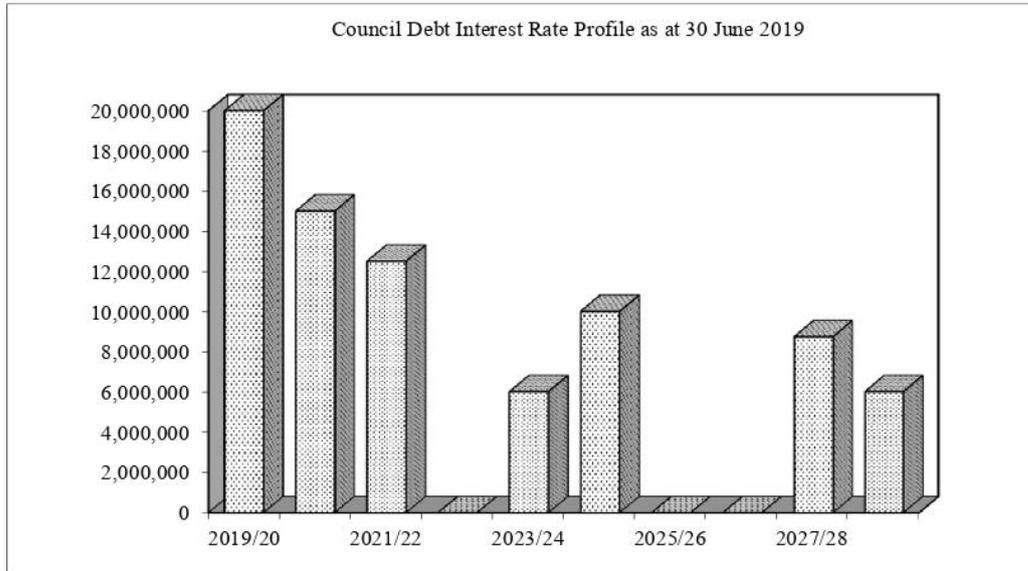
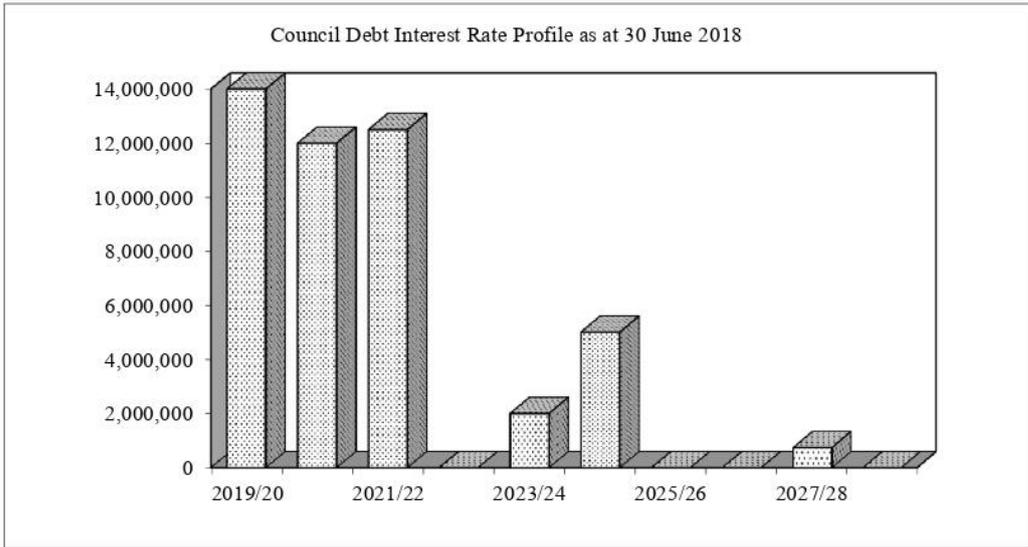
**Interest Rate Profile**

Year of Maturity	Profile at 1/07/2018	Percentage of Total	Profile at 30/06/2019	Percentage of Total	Ave Interest Rate
2018/19	10,000,000	17.47%	0	0.00%	3.10%
2019/20	15,000,000	26.21%	20,000,000	25.56%	4.37%
2020/21	12,000,000	20.96%	15,000,000	19.17%	5.27%
2021/22	12,500,000	21.84%	12,500,000	15.98%	4.97%
2022/23	0	0.00%	0	0.00%	0.00%
2023/24	2,000,000	3.49%	6,000,000	7.67%	4.91%
2024/25	5,000,000	8.74%	10,000,000	12.78%	3.99%
2025/26	0	0.00%	0	0.00%	0.00%
2026/27	0	0.00%	0	0.00%	0.00%
2027/28	740,565	1.29%	8,740,565	11.17%	3.08%
Beyond 2029	0	0.00%	6,000,000	7.67%	4.03%
<b>Totals</b>	<b>57,240,565</b>	<b>100%</b>	<b>78,240,565</b>	<b>100%</b>	<b>4.07%</b>

**Average Term (years)** 5.04  
**Average Interest Rate (excl margins)** 4.1%

Swaps	0 **	0 **
Bank Facility		0
External Debt	57,240,565	104,240,565
<b>Total</b>	<b>57,240,565</b>	<b>104,240,565</b>

\*\* Represents swaps held where no external debt held to offset.  
(excludes Swaptions)



## Funding and Interest Rate Risk 30 April 2019

Type	Banking Institution	Facility Amount (\$M)	Facility Maturity	Margin %	Commitment Fee %	Total %
Floating Rate Notes	LGFA	10.00	15-Apr-2020	0.19%	0.00%	0.19%
	LGFA	15.00	17-May-2021	0.84%	0.00%	0.84%
	LGFA	5.00	15-May-2021	0.75%	0.00%	0.75%
	LGFA	5.00	14-Apr-2022	0.38%	0.00%	0.38%
	LGFA	7.50	15-Apr-2022	0.33%	0.00%	0.33%
	LGFA	5.00	15-Apr-2023	0.83%	0.00%	0.83%
	LGFA	5.00	15-Apr-2023	0.80%	0.00%	0.80%
	LGFA	10.00	15-Apr-2024	0.58%	0.00%	0.58%
	LGFA	4.00	15-Apr-2024	0.86%	0.00%	0.86%
	LGFA	5.00	15-Apr-2025	0.87%	0.00%	0.87%
	LGFA	5.00	15-Apr-2025	0.61%	0.00%	0.61%
	LGFA	5.00	15-Apr-2026	0.65%	0.00%	0.65%
	LGFA	5.00	15-Apr-2026	0.60%	0.00%	0.60%
	LGFA	5.00	15-Apr-2027	0.65%	0.00%	0.65%
	LGFA	5.00	15-Apr-2027	0.67%	0.00%	0.67%
	LGFA	5.00	15-Apr-2028	0.79%	0.00%	0.79%
Commerical Paper	LGFA	2.00	17-Jun-2019	0.140%	0.00%	0.14%
Debt Facilities	WBC	10.00	30-Jun-2022	1.25%	0.27%	1.52%
	WBC	5.00	30-Jun-2023	1.35%	0.27%	1.62%
Local Government	Housing NZ	0.74	30-Jun-2028	0.00%	0.00%	0.00%

**REPORT TO:** RISK AND AUDIT SUBCOMMITTEE

**MEETING DATE:** MONDAY 6 MAY 2019

**FROM:** HEALTH AND SAFETY MANAGER  
JENNIE KUZMAN

**SUBJECT:** HEALTH AND SAFETY RISK MANAGEMENT UPDATE

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## **1.0 SUMMARY**

- 1.1 The purpose of this report is to provide an update to the subcommittee in regards to the management of health and safety risks within Council.
- 1.2 This issue arises due to the Health and Safety at Work Act 2015 and the requirement of that legislation for Elected Members to exercise due diligence to ensure that Council complies with its health and safety duties and obligations.

## **2.0 BACKGROUND**

- 2.1 At its June 2016 meeting, Council accepted the recommendations from the Audit and Risk Subcommittee in relation to health and safety reporting.
- 2.2 This report serves as an update report to the Risk and Audit Subcommittee on health and safety risk management.

## **3.0 CURRENT SITUATION**

### **3.1 Hazardous Substances**

- 3.2 The regulation of hazardous substances that affect human health and safety in the workplace now sits under the Health and Safety at Work Act 2015 (previously regulated under the Hazardous Substances and New Organisms Act 1996).
- 3.3 Location compliance certificates and stationary tank certificates are required under the Health and Safety at Work (Hazardous Substances) Regulations 2017, when an organisation stores or uses explosive, flammable, oxidising, toxic or corrosive substances and the quantity exceeds the thresholds specified in the Regulations.
- 3.4 Location compliance and stationary tank certification are issued annually by a licenced compliance certifier on behalf of WorkSafe NZ.
- 3.5 Council currently has six locations and two stationary tanks requiring certification, of which all have current certification (see attachment one).
- 3.6 In addition to certification requirements, Council is required to ensure that all hazardous substances are appropriately stored, as well as maintaining up-to-date inventory registers of all hazardous substances and ensuring that staff have appropriate equipment and training to competently use/handle these substances safely.

- 3.7 Council is also required to regularly undertake workplace exposure testing and to monitor the health of workers who regularly use/handle hazardous substances to ensure that health exposure risks are appropriately managed.
- 3.8 Regular internal and external inspections and audits are undertaken to ensure compliance with the Regulations.
- 3.9 Council is also responsible for the regulation of non-work related hazardous substances that can affect human health and safety under the Hazardous Substances and New Organisms Act 1996 (HSNO). This regulatory work is currently undertaken by Planning & Regulatory staff, guided by advice from Health & Safety staff.
- 3.10 Organisation Security Project**
- 3.11 Under the Health and Safety at Work Act 2015, Council is responsible for providing safe secure facilities and environments for all staff to work in, and the public to frequent (such as its libraries, pools, sports centres, and community centres).
- 3.12 In 2018, Council engaged WSP Opus to undertake a review of security measures across all 23 Council facilities. The scope of this review included the review of all Council facilities electronic security services and staff requirements for: Specification of systems, age of systems, quantity / alternatives, cost and efficiencies, staff processes and procedures, perceptions and behaviour, site design / CPTED (Crime Prevention Through Environmental Design), lighting (Security), upgrade recommendations for both physical and electronic systems
- 3.13 The review was completed in late 2018, providing Council with a report addressing each facility and outlining recommendations in order to manage the security requirements for each facility.
- 3.14 There are many recommendations through this report, some are simple and require minimal effort, and others require significant planning and expertise. Therefore an experienced Project Manager has been engaged for 12 months in order to implement the recommendations across the organisation.
- 3.15 Regular progress updates on this project shall be provided to the Risk and Audit subcommittee over the next 12 months.
- 3.16 Implementation of ISO/NZS 45001:2018 Health and Safety Standard**
- 3.17 As previously advised to the Risk and Audit Subcommittee, Council's external audit certification (ACC Workplace Safety Management Practices (WSMP) accreditation) lapsed in February 2019. This ACC scheme is now defunct, and therefore Council should undertake an alternative external audit verification of its health and safety system.
- 3.18 To achieve this external verification, in December 2018 the then Acting Chief Executive authorised implementation of the international health and safety standard ISO/NZS 45001:2018 which has been adopted by New Zealand (replacing all previous NZ standards).
- 3.19 Officers are currently working through a direct engagement process with Telarc to undertake a gap analysis of what is required to meet the standard and an initial audit assessment. It is anticipated that the gap analysis will be

completed within the next 3-6 months. The delay in undertaking the gap analysis is due to a large number of other organisations undertaking similar gap analyses and a skills shortage and availability of experienced accredited auditors.

#### **4.0 SIGNIFICANCE AND ENGAGEMENT**

- 4.1 This Report does not trigger Council's Significance and Engagement Policy and no consultation is required.

#### **5.0 RECOMMENDATIONS AND REASONS**

- A) That the report of the Health and Safety Manager titled "Health and Safety Risk Management Update" dated 6/05/2019 be received.**

##### **Attachments:**

- 1 Hazard Identification Assessment & Management - HR-03-6-6-19-37  
Hazardous Substances Management - HDC  
Location Compliance Certificates and Stationary  
Container Certificates April 2019 (For May 2019  
Risk & Audit Report)

Hastings District Council Location Test Certificates

Today: 15/04/2019  
60 days 14/06/2019

RM CA Ref	Team / Group	Location	HPRM Ref	Certificate Number	Expiry Date	Issued By	Substance(s) covered	OBSOLETE Approved Handler(s)	Certified Handler(s)	Notes
677017	Flaxmere Community Centre	Swansea Road, Flaxmere, Hastings	PRJ8-36-0212	L05726	8/06/2020	Kevin Bailey, LPG & Safety Consultants	Class 2.1.1A LPG	Not Required	Not Required	Max quantity 270kg (cylinders)
677021	WWTP	Richmond Road, East Clive, Hastings	HR-03-6-6-18-29	TST100040-30699	9/07/2019	Brendon Haughian, EnviroHaz	Class 5.1.1C Sodium Nitrate	John Popplestone, Albe Baker	Not Required	Max quantity 12,000kg. Albe Baker completing Certified Handler Feb 2019
677035	Flaxmere Waterworld	Swansea Road, Flaxmere, Hastings	HR-03-6-6-19-32	TST100040-31378	15/11/2019	Brendon Haughian, EnviroHaz	Class 5.1.2A Chlorine Cylinder & Drum	Fiona Hurley	Fiona Hurley, Lisa Longstaff, Trish Edwards, Kirsty Edwards	
677036	Frimley Pool	Frimley Rd, Hastings	HR-03-6-6-19-33	TST100040-31379	15/11/2019	Brendon Haughian, EnviroHaz	Class 5.1.2A Chlorine Gas	Fiona Hurley	Fiona Hurley, Lisa Longstaff, Trish Edwards, Kirsty Edwards	
677037	Village Pool	35 Te Mata Road, Havelock North	HR-03-6-6-19-34	TST100040-31380	15/11/2019	Brendon Haughian, EnviroHaz	Class 5.1.2A Chlorine Gas	Steve Wood, Juergen Boucher	Not Required	Chlorine Gas cylinder removed February 2019
677040	Splash Planet	Grove Road, Hastings	HR-03-6-6-19-35	TST100040-31382	15/11/2019	Brendon Haughian, EnviroHaz	Class 2.1.1A LPG, Class 3.1A Petrol, Class 3.1A-B Flammable liquids	Graham Brooker & Adrian Freeman	Not Required	

Hastings District Council Stationary Container Certificates

RM CA Ref	Team / Group	Location	HPRM Ref	Certificate Number	Expiry Date	Issued By	Substance(s) covered	Approved Handler(s)	Notes
677070	WWTP	Richmond Road, East Clive, Hastings	WAT-5-09-1-17-288	SCS#001-310A	16/08/2019	Ian Donald, HazSubs	Diesel, Tank ID 2437, Class 3.1D	John Popplestone & Armann Einarsson	John Popplestone
677070	WWTP	Richmond Road, East Clive, Hastings	WAT-5-09-1-17-287	SCS#001-309A	16/08/2019	Ian Donald, HazSubs	Diesel, Tank ID 2436, Class 3.1D	John Popplestone & Armann Einarsson	John Popplestone

HPRM Ref: HR-03-6-6-15-5

**REPORT TO: RISK AND AUDIT SUBCOMMITTEE**

**MEETING DATE: MONDAY 6 MAY 2019**

**FROM: GROUP MANAGER: ASSET MANAGEMENT  
CRAIG THEW  
GROUP MANAGER: HUMAN RESOURCES  
BRONWYN BAYLISS**

**SUBJECT: CAPE KIDNAPPERS INTERIM OPERATIONS MANUAL**

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## **1.0 SUMMARY**

- 1.1 The purpose of this report is to inform and enable endorsement and further input from the Subcommittee on the interim operations measures to manage the unquantified risks along the beach from Clifton to Cape Kidnappers.
- 1.2 This request arises from Council's decision on 5 March to remove the road closure of the beach from Clifton to Cape Kidnappers subject to the implementation of reasonable control measures.
- 1.3 The Council is required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002. That purpose is to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses. Good quality means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future circumstances.
- 1.4 This report concludes by recommending that the Committee endorses the interim operations manual.

## **2.0 BACKGROUND**

- 2.1 On the 23 January 2019 a significant landslide occurred on the beach between Clifton and Cape Kidnappers. Immediately following this event the Department of Conservation (DOC) closed their section of the walk to the gannet colony and Hastings DC temporarily closed the beach.
- 2.2 Following investigations a paper was taken to Council on the 5 March where Council adopted to re-open the beach and commence the Quantitative Risk Analysis (QRA), working with support from DOC on the QRA.
- 2.3 The recommendations adopted also required officers to consider and implement reasonable control measures prior to opening, along with a requirement to continue to investigate known risks and minimise, where practical, and regularly report back.
- 2.4 On the 28 March officers provided a summary to the full council meeting of the interim control measures proposed and council adopted the recommendations, with the 29 April date set for the implementation of the measures and removal of the temporary road closure.

### 3.0 CURRENT SITUATION

- 3.1 The interim operations manual (attached) has been produced and will be in operation when this committee meets.
- 3.2 The manual has been produced with input from Matt Shore of Stantec and council officers. Officers have also meet with Worksafe to talk through the management approach.
- 3.3 Importantly the interim operations manual includes a number of both proactive and reactive trigger conditions that instigate further action, including temporary road closures.
- 3.4 The attached manual also describes the steps being taken on an ongoing operational basis, such as signage and ongoing inspections, and the approach to verification.
- 3.5 The interim measures were activated on and before the 29 April, and the interims operations manual will be in effect at the time of the meeting.
- 3.6 The interim operations manual triggers were invoked by a further large landslide over the Easter holiday period. Whilst detailed survey information is not yet available to accurately state the size the photos provided clearly show a landslide well over the lower 100 cubic metres of material. At the time of writing this report this trigger event means that the beach access remains closed until the assessment of the new landslide, and an updated risk assessment has been completed.
- 3.7 DOC's position is unchanged with their section of the walk remaining closed until the QRA is completed and assessed. Officers are following up with DOC to confirm when their new signage will be erected.

### 4.0 SIGNIFICANCE AND ENGAGEMENT

- 4.1 This item does not trigger significance or further engagement requirements. The manual is an operational item that officers are providing to the risk and audit committee for endorsement and further input if required.

### 5.0 RECOMMENDATIONS AND REASONS

- A) **That the report of the Group Manager: Asset Management titled "Cape Kidnappers Interim Operations Manual" dated 6/05/2019 be received.**
- B) **That the Risk and Audit subcommittee endorse the interim operations manual for the management of the beach road from Clifton to Cape Kidnappers.**

#### Attachments:

1	Clifton Beach Operations Manual REV D HDC Version FINAL	PRJ19-002-0205	Under Separate Cover
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**REPORT TO: RISK AND AUDIT SUBCOMMITTEE**

**MEETING DATE: MONDAY 6 MAY 2019**

**FROM: MANAGER STRATEGIC FINANCE  
BRENT CHAMBERLAIN**

**SUBJECT: GENERAL UPDATE REPORT AND STATUS OF ACTIONS**

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## **1.0 CURRENT SITUATION SUMMARY**

- 1.1 The purpose of this report is to update the Risk & Audit Subcommittee on various matters including actions raised at previous meetings.
- 1.2 The Council is required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002. That purpose is to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses. Good quality means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future circumstances.
- 1.3 This report concludes by recommending that the report titled “General Update Report and Status of Actions” from the Manager Strategic Finance be received.

## **2.0 BACKGROUND**

- 2.1 The Risk & Audit Subcommittee members requested that officer’s report back at each meeting with progress that has been made on actions that have arisen from the Risk & Audit Subcommittee meetings. Attached as **Attachment 1** is the Risk & Audit Subcommittee Action Schedule as at 30 April 2019.

## **3.0 CURRENT SITUATION**

### **3.1 Tech one Upgrade:**

There are three main tranches of work underway in this area. The first is the upgrading of the Finance module, in order to allow for the implementation of the Procure to Pay (P2P) module. As the finance module was being upgraded it was decided to bring forward the property and rating module upgrade in order to maintain compatibility across the Council’s ERP system.

Both these upgrades are well underway with a complete testing programme being undertaken across all areas of Council to ensure there are no adverse effects from the upgrades once they go “live”.

### **3.2 Electronic Purchase Order Project (Procure to Pay (P2P))**

The third tranche of this work is the P2P implementation. Configuration for this has now started in “test” with workstreams for this project underway. It is expected that a pilot programme in “live” will be underway in October, with a full rollout from November this year.

### 3.3 Delegated Financial Authority (DFA):

A DFA policy has been written and presented to LMT for feedback, review and signoff. The current model and levels of authorisation have been adjusted in order to better reflect the way Council does business along with enabling a model of authorisation that can allow the new P2P system to control the levels of spend. Attached as **Attachments 2 and 3** is the DFA policy and the supporting schedule of delegations.

The changes to the DFA's reflect a role based delegation approach with increased financial delegations to allow staff to efficiently and effectively do their jobs.

The Policy has been drafted with input from a number of areas of Council and has taken good practice from other organisations in its development. It is important to acknowledge that the need to update delegations was to ensure Council had delegations that could be supported by the financial systems that provide the necessary approval controls.

### 3.4 Audit New Zealand 2019 Audit Plan

Attached as **Attachment 4** is the Audit New Zealand 2019 Audit Plan. The Plan highlights the audit risks and issues and has five key focus areas identified. A standard item on all Audit Plans is fraud risk and this is covered in some detail.

## 4.0 SIGNIFICANCE AND ENGAGEMENT

- 4.1 This report does not trigger Council's Significance and Engagement Policy and no consultation is required.

## 5.0 RECOMMENDATIONS AND REASONS

**A) That the report of the Manager Strategic Finance titled "General Update Report and Status of Actions" dated 6/05/2019 be received.**

**B) That the Subcommittee note that the Delegated Financial Policy and the associated Delegated Financial Authorities have been updated and adopted by the Chief Executive and the Lead Team.**

### Attachments:

1	Risk and Audit Status of Actions 30 April 2019	FIN-09-01-19-170
2	Delegated Financial Authority Policy	FIN-09-4-19-178
3	DFA Schedule 2019	CG-14-25-00081
4	Audit NZ 2019 Audit Plan	FIN-07-01-19-426



**Hastings District Council  
Risk and Audit Subcommittee  
Status of Actions Sheet – 30 April 2019**

Item No.	Meeting Date	Action	Reporting Officer	Progress as at 30 April 2019
1	6/9/16	<u>Local Authority Protection Programme</u> <ul style="list-style-type: none"> <li>Officers to keep a watching brief on the matter of the Local Government/Central Government split of LAPP premiums.</li> </ul>	CFO	Announcement by Treasury delayed  No further announcements since change of Government
2	19/6/17	<u>Building Control Liability Issues</u> <ul style="list-style-type: none"> <li>The Subcommittee would take a watching brief and Officers would report back regularly in order to update the Subcommittee.</li> </ul>	Building Control Manager	No further update available at this stage
3	28/11/17	<u>Treasury Management Advisory Service</u> <ul style="list-style-type: none"> <li>Review the terms of the existing PWC treasury management advisory service contract</li> </ul>	MSF	Procurement plan signed off, RFP being written.
4	15/11/18	<u>Performance of Contract Post Tender</u> <ul style="list-style-type: none"> <li>Need to develop a mechanism to monitor contract performance post implementation</li> </ul>	Chair/CFO	Chair to supply CFO an example of how this monitored in other industries



5	15/11/18	<u>Development Contributions</u> <ul style="list-style-type: none"> <li>Reporting of the collection of Development Contributions needs to be included with the quarterly major project update at Finance and Risk</li> </ul>	FC	Complete
6	15/11/18	<u>Internal Audit</u> <ul style="list-style-type: none"> <li>A Internal Audit Program for 2019 to be tabled at the first Risk &amp; Audit meeting of 2019</li> </ul>	FC	Update provided in agenda, program to be provided at June meeting
7	15/11/18	<u>Funding of Depreciation</u> <ul style="list-style-type: none"> <li>A one page report to be tabled showing what depreciation was charged, budgeted for, and what asset replacement expenditure occurred for the 2017/18 year</li> </ul>	CFO	To be provided at June meeting
8	18/02/19	<u>Procurement and Contract Management</u> <ul style="list-style-type: none"> <li>Request for a “standing Item” on future Risk and Audit agendas – “Procurement Issues” (a one page report)</li> </ul>	CFO	Update included in the internal audit report
9	18/02/19	<u>Annual Plan</u> <ul style="list-style-type: none"> <li>Officers to include a note that the impact of debt and what effect it could have on interest rates in relation to budget</li> </ul>	FC	To be included in the finalised version of the public annual plan document
10	18/02/19	<u>Forecasting</u> <ul style="list-style-type: none"> <li>Budgets need to be dynamic rather than reactive – forecasting and accountability aspects to be developed</li> </ul>	FC	Budget managers have updated predicted actuals and identified carry forwards required for consideration. This will be reported in the Finance and Risk Quarterly Report.
11	18/02/19	<u>Annual Plan Submission Process</u> <ul style="list-style-type: none"> <li>Officers to look at how public submissions are considered and addressed with a view to improving robust decision making and report back</li> </ul>	Strategy Manager	Initial Meeting held with Mayor and Deputy Mayor
12	18/02/19	<u>Hazardous Substances</u>	H&S Manager	Update included in H&S update



		<ul style="list-style-type: none"> <li>Bring update report on status of location compliance certificates in regard to hazardous substances</li> </ul>		
13	18/02/19	<u>Top 20 Risks</u> <ul style="list-style-type: none"> <li>Risk &amp; Corporate Services Manager to think about auditing the mitigations from a selected number of the top 20 risks</li> </ul>	RCSM	To be considered



# Delegated Financial Authority Policy

Policy expert	Aaron Wilson, Financial Controller
Policy owner	Bruce Allan, Chief Financial Officer
Owner Department	Finance
Approval date	[Date this version was approved]
Version	FIN-09-4-19-178
Review date	[Date the next review of the policy is needed]

# Policy

## 1. Purpose

The delegation of powers and authority from Council to committees and to the Chief Executive is an essential part of having effective and efficient governance and management systems in place. Council has delegated many powers and authorities to the Chief Executive, including the power to sub-delegate. The purpose of this policy is to explain the system of internal financial delegation and the requirements for the exercise of delegated financial authority.

This Policy should be read in conjunction with the Hastings District Council Delegations to Chief Executive, updated 17 July 2014, and the Register of Delegations from Chief Executive to Council Officers, dated 25 June 2009.

## 2. Scope

Part of Council's strategic and governance role is to ensure that its statutory responsibilities, duties and powers are carried out at the most effective and efficient levels. This Policy sets out the financial delegations from Council to the CEO and officers of Council.

This policy applies to all Hastings District Council employees.

This policy does not apply to Council Controlled Organisations, nor does it apply to elected members or committees of Council.

The intention of this policy is for Business As Usual purchasing activities.

## 3. Principles

Council retains ultimate responsibility for its governance, statutory and financial responsibilities, duties and powers at all times. No delegation relieves Council of the liability or responsibility for the performance of the delegated responsibility, duty or power.

Those with responsibility for a delegated task or function should always have the authority to carry it out effectively.

Subject to any legislative restrictions, a responsibility, duty or power delegated to an officer is also delegated to all officers in a direct line of authority above that officer and is also delegated to any officer who is in an acting capacity for that officer.

Depending on the circumstances in which a matter arises it may be prudent for employees to seek a higher level of authorisation. Likewise, it may be prudent for personnel to seek a higher level of authorisation for a matter not explicitly covered by the Delegations.

Whilst a transaction or other matter is within your delegation, employees must still have particular regard to the potential reputational consequences for Council, and in these cases should consider forwarding to their manager for approval.

Unless otherwise expressly stated in the Policy:

All financial values stated in this Policy are GST exclusive

## 4. Policy

This policy relates to financial delegations only.

### **The meaning of delegation**

Financial delegation covers any commitment or expenditure that binds the Council to make payment to or otherwise confer a benefit on an external party. It includes all contracts and contract variations, Memorandum of Understanding's, rents and leases for equipment, as well as purchase orders, works orders, and other purchases of goods and services.

From time to time the Council may delegate authority by resolution to determine a specific issue. This specific delegation will exist only so long as that matter is unresolved and will then lapse at a specified time.

The delegations in this Policy are made in accordance with the Local Government Act 2002 and any other legislation permitting delegation.

### **Council cannot delegate the power to:**

- Make a rate; or
- Make a bylaw; or
- Adopt a long-term plan, annual plan, or annual report; or
- Appoint a Chief Executive; or
- Adopt policies required to be adopted and consulted on under the Local Government Act 2002 in association with the long-term plan or developed for the purpose of the local governance statement; or
- Adopt a remuneration and employment policy.

(Local Government Act 2002 - Schedule 7, Clause 32 (1))

### **Delegated Authorities Specifically Excluded**

This policy does not deal with the exercise of the authority to approve payroll, which is covered by a separate delegation.

This policy does not deal with the exercise of the authority over those matters covered by the Council's Treasury Policy.

This policy does not deal with the exercise of the authority to remit rates or other amounts due to the Council, or to write off bad debts. The remission of rates is the subject of the Council's Rates Remission and Postponement Policy. The authority to write off bad debts is dealt with by separate delegation.

This policy does not deal with gifts and koha, which are dealt with by the Council's Koha and Donations Policy (currently under review).

This policy does not deal with the exercise of authority to approve spend under emergency response circumstances. (A separate policy for both local and regional incident response is to be developed as a matter of priority).

### **Policy Breach**

A breach of the DFA Policy will be considered as potential misconduct or serious misconduct and will be handled in accordance with existing disciplinary procedures, as per staff policy and information manual. Any user who becomes aware of a breach of this policy is to notify Finance or Human Resources immediately so the correct remedial action can be taken. More information is available on the process to follow in the "Protected Disclosures Policy".

## Financial Delegation

A permanent delegation of financial signing authority has a defined START date and generally no specific END date

All delegations are assigned to positions, rather than individual employees. This means that when an employee moves to a new position within Council, they leave their old delegations behind, and assume the delegations assigned to their new position.

Similarly, where an employee leaves Council, the new person employed to work in that position assumes the delegations assigned to that position. The exception to this is in the case of pCards, where an email from the Systems Accountant, is sent to the relevant Group Manager to review the needs of the position.

For new positions requiring delegation, a Delegated Financial Authority template form is to be completed and approved by the relevant group manager.

Temporary delegation is assigned when the officer is on leave and will be unavailable for a specified period of time with a defined START and END date.

Temporary delegation will be to an appropriate officer for the duration of the leave period.

### Delegated Financial Authority (DFA) Level

No expenditure or other financial commitments may be made without authorisation by an officer holding either specific delegated authority or the appropriate Delegated Authority Level.

The DFA levels as shown in the summary below are defined by role. The detail for roles holding a delegation can be found in Appendix one [LINK](#).

#### The "One-Up" Rule

Where expenditure exceeds an employee's Delegation Level, that expenditure shall be approved by the employee's line manager, rather than by another employee at a managerial level equivalent to or lower than that of the employee concerned. This is sometimes referred to as the "one-up" rule, and is intended to prevent any circumstances where an employee might feel obligated or pressured to approve an item of expenditure.

Due to the authorisation levels being role based, their line manager may be on the same authorisation level. Where this occurs the line manager may still approve, as the "one up", due to that person being higher in the organisational chart hierarchy.

HDC Delegated Financial Authorities				
Authorisation Levels			Purchase Card Limits	
Authorisation Levels	Role	Limit	Limit per Card Transaction (exc GST)	Card Limit per month (ex GST)
Level 0	CEO	\$10,000,000	\$5,000	\$10,000
Level 1	Senior Managers	\$2,000,000	\$5,000	\$10,000
Level 2	Functional Managers	\$750,000	\$2,000	\$5,000
Level 3	Operational Managers	\$100,000	\$1,500	\$3,000
Level 4	Others	\$10,000	\$1,500	\$3,000

Please refer to Appendix One: HDC Schedule of Delegated Financial Authorities.



FIN-09-4-19-179.tr5

Irrespective of the level of delegated financial authority held, expenditure should only be incurred for budgeted items, except in the case of emergency expenditure. Goods or services should only be purchased if they are consistent with the Annual Plan / Long Term Plan, or if a specific variation has been approved.

The spreadsheet distinguishes between Expenditure, along with tendered and non-tendered purchases. Staff can be involved in three distinct situations relating to purchases:

- Committing Council to purchase goods or services;
- Authorising purchase order for non-tendered goods or services;
- Authorising purchase order for goods or services supplied under tender, including variations.

#### Purchasing and Tendering

There is a clear distinction between the decision to purchase and the process on how that purchase is made. Council's Procurement Manual has details. All employees that undertake procurement activities should be familiar with the Procurement Manual. A copy is available on Infokete using the Policies, Procedures and Manuals link. Once the decision to purchase has been made, following the correct purchasing procedure, the project manager can authorise expenditure within the scope of the contract and / or in accordance with their delegation level.

#### Authorising Purchase Orders for Goods or Services Received

For all purchases of goods and services there must be 2 separate individuals in the purchase order creation process. That is, an electronic purchase order requisitioner cannot also be the electronic purchase order approver. This is to safeguard individuals from possible accusation that goods were not for Council use.

The authority levels apply to purchasing as well as the negotiation and execution of Contracts on behalf of Council to procure or deliver goods and services. The limits apply to all contractual dealings undertaken on

behalf of Council. If staff need to perform these tasks and authorise these activities on behalf of Council they will require a financial delegation.

The proposed delegated financial authorities will be used as the basis for approving expenditure as part of Council's electronic invoice approval process. The approval process must involve two people to ensure a separation of duties.

- a. The first officer creates and enters the codes for the purchase order requisition. The checker does not require the delegated financial authority to approve the expenditure as they are not approving the purchase order.
- b. A second (different) officer must approve the purchase order; this officer must have the necessary delegated financial authority and ensure that the budget manager is aware of the expenditure.
- c. Once the goods or services have been supplied either the requisitioner or the approver shall receive the purchase against the PO.
- d. If there is a variance to the expected value the PO is routed back to the requisitioner to adjust and resend to the approver.

#### **Policy relating to Purchase Card (pCard)**

A specific policy relating to use of Council pCards is supplied to all card holders and is also available on Infokete under Policies and Procedures and Manuals, Financial Guidelines. It is a requirement of Westpac for employees to provide photo ID, their date of birth and home address details when applying for a pCard.

#### **Total Value of the Contract**

Contracts or agreements must not be executed by staff where the total value of the contract exceeds the value of the financial authority delegated to the position. Where the total value of the contract (or contracts) exceeds a financial authority level specifically authorised by resolution of Council or a Committee for completion of a project.

The total value of the contract for the purposes of this policy is the "Approved Contract Sum". Delegated officers may authorise variations: (i) within the approved contract sum (the contingent sum) or (ii) outside of the approved contract sum provided that in either case – the total amount approved (inclusive of the Approved Contract Sum) does not exceed the amount of their delegated authority.

Any variations to a contract needs to be adjusted by the requisitioner and the change re-approved by the DFA approver.

#### **Personal Expenditure**

No employee shall authorise any expenditure that relates to themselves or for the purpose of personal gain. In all such instances where expenditure relates to themselves, the individual's Manager must authorise the expenditure.

#### **Contracts & Variations**

##### **Contracts**

Where a contract exceeds the approved contract value the variance may be approved by the contract manager if the new total contract expenditure is within the contract manager's delegated authority and there are budgeted funds available to cover the increase.

If the new total contract expenditure exceeds the contract manager's financial delegation, then the new increased total contract value must be approved by a delegate holding the appropriate financial authority providing the change does not change the scope of the contract.

All contract variations that change the scope of a contract must be referred to the appropriate Group Manager before proceeding.

All expenditure variances and contract variations require the contract manager to check and confirm there is available budget prior to proceeding.

#### **Contract – Engineer to Council Contracts**

The Council routinely uses NZS 3910 (or similar conditions) as the conditions of contract. Under NZS 3910 the council appoints an engineer to the contract. The engineer to Council contracts is delegated the authority to allow variations as outlined above in the guidance provided for opex and capex contracts. Any amount over this must be referred to the appropriate delegated authority holder for authorisation. It is the engineer's responsibility to keep the appropriate manager informed on contract progress and make financial arrangement for the contract.

The Engineer to Contract may not always be a Council officer, when this occurs the delegated financial authority must be formally assigned.

#### **Financial Authority for Approved Projects**

Upon letting of physical works contracts by Hastings District Council, the Project / Contract Manager will be issued financial authority within which the physical works contract must be operated. Generally this financial authority is defined by accepted budget constraints, including:

- a. The contract price.
- b. An unscheduled work allowance contingency. (Generally a percentage of the contract price or a set amount to allow for unforeseen variations.)
- c. Non-contract commitments. (i.e.: costs of quality control testing, relocation of services, materials supplied by the principal, etc.).

#### **Contract Allocation**

Apart from emergency situations or where safety is at risk, the Project / Contract Manager has no ability to commit the Council to expenditure beyond the financial allocation for that particular contract. It is essential that the Project / Contract Manager notifies the Council of any likely or possible cost increases beyond the approved financial authority level before any commitment is made on behalf of the Council that could lead to such increases.

If such notice is received the Council will attempt to arrange additional finance or may issue alternative instructions.

For further details on dealing with contract variations and other contract management matters, refer to the Contract Management section of the HDC Procurement Manual.

#### **Employment Delegations**

The financial delegations do not confer any authority to appoint staff, conduct investigation/ disciplinary and/or performance processes, dismiss/issue warnings, agree records of settlement at Hastings District Council or act as signatories for payroll authorisation. Authority for employment delegations is found in a memorandum from the Chief Executive on such matters. The Group manager from Human Resources can provide a copy should access be required.

**Disposal of Assets**

The Financial Delegations do not confer any authority to dispose of Council assets, or to forgive or remit any monies due to the Council. For the rules relating to the disposal of assets refer to the HDC Disposals Policy (currently being updated).

**Remission of Monies**

The Financial Delegations do not confer any authority to forgive or remit any monies due to Council. Specific delegation is required for any such action: this delegation may be recorded on the Delegated Financial Authority form, and recorded on the schedule of delegations, or it may take the form of a separate authorisation.

**Sub-Delegation not permitted**

No sub-delegation of financial delegation authority is permitted, unless an officer holds a specific authority to so sub-delegate. All sub-delegation must be in writing on the appropriate form. The Chief Executive has given senior managers authority to sub-delegate, but in general the officers in receipt of that sub-delegation do not themselves have the authority to sub-delegate. If an officer who holds a delegated financial authority takes leave or is going to be absent for a significant period, they should consider whether another officer requires temporary delegated authority to ensure continuity of service. Where an officer is often absent or is regularly called upon to authorise items that should not be delayed, a permanent stand-in should be nominated and suitably authorised.

**Sensitive Expenditure**

Sensitive expenditure is expenditure that provides, has the potential to provide, or has the perceived potential to provide a private benefit to an individual member of staff. It also includes expenditure that could be considered unusual for the Council's purpose and/or functions. Council is in the process of developing a formal policy on Sensitive Expenditure, however employees are expected, irrespective of their financial delegation levels, to act in a proper and prudent manner.

The Office of the Auditor-General has produced Guidelines on Sensitive Expenditure, and these Guidelines state that proper and prudent behaviour, in relation to expenditure, includes identifying and managing conflicts of interest (or situations with the potential to be perceived as conflicts of interest); being fair, honest, transparent, circumspect and careful to avoid undesired consequences; and being accountable for complying with organisational controls over expenditure.

In cases of doubt an employee should consult their line manager and also to refer to the conflicts of interest section in the HDC operations manual.

This policy is maintained by the Finance Group. The content of this policy, and the systems in place for ensuring that this policy is complied with will be reviewed from time to time. Any enquiries or comments regarding this policy should be directed to Aaron Wilson, Financial Controller.

## 5. Mandate and commitment

Authority and responsibility are inseparable. Those with the responsibility for a task or function should always have the authority to carry it out effectively. Those with authority should always be responsible for its wise use.

Delegations do not remove ultimate accountability of elected members, the Chief Executive and the Leadership Team for the affairs of Council.

## 6. Strategic alignment

The Financial Delegations policy is an enabler to allow officers to fulfil the Council vision statement “*Great Living, today and tomorrow*”. This is achieved through the Long Term goals that have been adopted by Council and sets the direction to accomplish the vision. Clear guidelines as to the delegation and authorisation of spend, ensure a prudent and efficient contribution to this.

## 7. Roles and responsibilities

Role	Responsibility
Financial Controller	Review of policy and any changes required therein
Systems Accountant	DFA changes both permanent and temporary
CFO	Any policy changes to be reviewed and taken to LMT

## 8. Review

Reviewed every two year by the Financial Controller.

## 9. Change history

Amendment (s)	Date	Updated by and authority
Updated	15 November 2018	Financial Controller – Aaron Wilson
Signed off LMT	17 April 2019	Financial Controller – Aaron Wilson



Item 7

Attachment 2





## HDC SCHEDULE OF DELEGATED FINANCIAL AUTHORITIES

Delegated Authority Levels	
Level 0	CEO
Level 1	Senior Managers
Level 2	Functional Managers
Level 3	Operation Managers
Level 4	Other

*All values exclude GST*

### BUDGETED - Identified in the LTP & Annual Plan or specific approval has been obtained

#### All Expenditure

Purchase Orders & Invoices		Full Council	Tenders Committee	Level 0	Level 1	Level 2	Level 3	Level 4	Comments
Expenditure including Contract progress payments, Purchase Orders & Invoices	Goods & General Services Professional, Utilities	No	No	\$10,000,000	\$2,000,000	\$750,000	\$100,000	\$10,000	
Other Purchases									
Purchase Card (pCard) Levels	Limit per card transaction (ex GST)	No	No	\$5,000	\$5,000	\$2,000	\$1,500	\$1,500	PMD-02-02-16-58 Purchase card (pCard) policy & Guidelines
	Card Limit per month (ex GST)	No	No	\$10,000	\$10,000	\$5,000	\$3,000	\$3,000	

Contract Agreements		Full Council	Tenders Committee	Level 0	Level 1	Level 2	Level 3	Level 4	Comments
Business case /Tender /Direct engagement									
Physical Works & Infrastructure Capital Equipment & Assets, Utilities		>\$10,000,000	400,000 *	Available Budget**	\$750,000	\$250,000	\$100,000	\$10,000	Tenders Subcommittee delegated to approve contracts to \$10M
Contract variations	Authority to make changes			Yes	Yes	Yes	Yes	No	Contract limit including contingency
Professional Advisors/Consultants	Expert Advice e.g. Legal		≥ \$200,000	\$200,000	\$200,000	\$50,000	\$25,000	No	
Vehicles		No	No	Yes	Yes	Yes	No	No	Motor Vehicle Policy PMD-03-55-13-127. Refer all vehicle request to Business Services Manager. Approval by Group Manager & CE
Travel	Domestic	No	No	Within budget limits	Within budget limits	Within budget limits	Within budget limits	No	Complete Training & Travel Authorisation Form HDC-32-0116 No employee to authorise own travel (one up approval applies) PA's can access Travel management portal
	Overseas	No	No	Yes	Yes	No	No	No	Training & Travel Authorisation Form required. CE must approve international travel.

\* Subject to Council approval through delegations , until this time current value has to remain  
 \*\* Available budget - within the purposes intended for the project within the approved Annual Plan



AUDIT NEW ZEALAND  
Mana Arotake Aotearoa

# Audit plan

## Hastings District Council

For the year ending 30 June 2019

Item 7

Attachment 4

## Audit plan

I am pleased to present our audit plan for the audit of the Hastings District Council for the year ending 30 June 2019. The purpose of this audit plan is to discuss:

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The contents of this plan should provide a good basis for discussion when we meet with you.

We will be happy to elaborate further on the matters raised in this plan.

Our work improves the performance of, and the public’s trust in, the public sector. Our role as your auditor is to give an independent opinion on the financial statements and performance information. We also recommend improvements to the internal controls relevant to the audit.

If there are additional matters that you think we should include, or any matters requiring clarification, please discuss these with me.

Yours sincerely

Stephen Lucy  
Appointed Auditor  
8 April 2019

## Audit risks and issues

### Focus areas



Based on the planning work and discussions that we have completed to date, we set out in the table below the main audit risks and issues. These will be the main focus areas during the audit.

Audit risk/issue	Our audit response
<b>Fair value of infrastructural assets and other revalued assets</b>	
<p>Infrastructural assets and other revalued assets need to be revalued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value. The relevant accounting standard is PBE IPSAS 17, <i>Property, Plant and Equipment</i>.</p> <p>The District Council’s accounting policy is that land and buildings (operational and restricted), library books, and infrastructural assets (except land under roads) are revalued with sufficient regularity to ensure that their carrying amount does not differ materially from fair value and at least every three years with the exception of heritage assets which are valued every five years.</p> <p>The accounting policies also note that future revaluations of infrastructure and park assets will take place at two yearly intervals.</p> <p>The last valuations were:</p> <ul style="list-style-type: none"> <li>• Heritage assets – June 2018</li> <li>• Land and buildings – June 2018</li> <li>• Water infrastructure (including land) – June 2018</li> <li>• Library collections – June 2018</li> <li>• Roading – June 2017</li> <li>• Parks - June 2017</li> </ul>	<p>For those assets that are not revalued, we will review the robustness of management’s assessments as to why there is no material difference between the fair value and the carrying value of those assets.</p> <p>Where revaluations are undertaken, we will:</p> <ul style="list-style-type: none"> <li>• Review how the District Council ensured completeness over the asset data;</li> <li>• Review the District Council’s explanations of variances between the latest and prior years’ valuations for reasonableness;</li> <li>• Obtain confirmation from the independent valuer or peer review valuer;</li> <li>• Confirm our understanding of the valuation methodology and key assumptions. We will assess these for compliance with PBE IPSAS 17 and evaluate their reasonableness based on our experience and knowledge of other valuations of similar assets;</li> <li>• Determine how the age and condition of the assets has been determined, and how this has been reflected in the determination of the remaining useful life of the assets and the valuation calculation for those assets;</li> <li>• For those assets valued on an Optimised Depreciated Replacement Cost (ODRC) basis, determine how unit rates for replacement costs have been determined. We will confirm the reasonableness of a sample of unit costs by reference to recent capital works undertaken by the District Council; and</li> </ul>

Audit risk/issue	Our audit response
	<ul style="list-style-type: none"> <li>Review how changes in the value of assets are accounted for and disclosed in the financial statements.</li> </ul>
<b>Opera house</b>	
<p>We understand that:</p> <ul style="list-style-type: none"> <li>earthquake strengthening works on the Opera House have commenced;</li> <li>the Municipal Building strengthening has commenced; however decisions have yet to be made regarding the future use of this facility; and</li> <li>the Civic Square project has been reprogrammed and budgeted as part of the 2018-28 LTP.</li> </ul> <p>In its 2015-25 LTP the District Council put aside \$20 million towards the Opera House complex and other potential projects. In the 2018-28 LTP the District Council refined the budgets taking in account work already completed with a budget of \$18.5 million for a vibrant city centre.</p>	<p>We will assess the impact on the 2019 financial statements as a result of any developments and decisions made around the Opera House and Civic Square development.</p> <p>This will include assessing whether costs incurred to date for the Opera House are appropriately included in capital or operating expenditure depending on the nature of the item.</p>
<b>Water supply</b>	
<p>As a result of the Havelock North Water Inquiry the District Council has significant work that will be required to be done on its water infrastructure to ensure the safety and security of its water supply.</p> <p>The District Council has completed work on its water strategy and this was used to inform the development of the 2018-28 LTP.</p> <p>There are projects that the District Council is undertaking in the 30 June 2019 year as outlined in the 2018-28 LTP.</p>	<p>We will ensure that the expenditure in relation to the District’s water supply is appropriately split between capital and operating expenditure.</p> <p>We will also take a look at how water projects are being managed and what impact this has on Council’s levels of service provided.</p>

Audit risk/issue	Our audit response
<b>Audit readiness</b>	
<p>Last year, we noted improvements to the audit process and quality of the draft financial statements whilst also noting that further improvements to the year-end process could still be made. This is particularly important in the 30 June 2019 year as the District Council is aiming to complete the Annual Report prior to the elections.</p> <p>There were some delays last year in obtaining information for the performance measures and the revaluation of water assets due to the relevant departments' high workloads. The required information was delivered to us two weeks after the audit team had completed the on-site part of the final audit.</p>	<p>We will continue to liaise with management on ways to improve the efficiency of the audit process.</p>
<b>The risk of management override of internal controls</b>	
<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls.</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>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> <li>• testing the appropriateness of selected journal entries;</li> <li>• reviewing accounting estimates for indications of bias; and</li> <li>• evaluating any unusual or one-off transactions, including those with related parties.</li> </ul>

Please tell us about any additional matters we should consider, or any specific risks that we have not covered. Additional risks may also emerge during the audit. These risks will be factored into our audit response and our reporting to you.

**Fraud risk**

Misstatements in the financial statements and performance information can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action is intentional or unintentional. In considering fraud risk, two types of intentional misstatements are relevant – misstatements resulting from fraudulent reporting, and misstatements resulting from misappropriation of assets.

The primary responsibility for the prevention and detection of fraud and error rests with the Council, with assistance from management. In this regard, we will discuss the following questions with you:

- What role does the governing body (i.e. the Council) play in relation to fraud? How do you monitor management's exercise of its responsibilities?
- Has a robust fraud risk assessment been completed? If so, is the Council satisfied that it had appropriate input into this process?
- How does management provide assurance that appropriate internal controls to address fraud risks are in place and operating?
- What protocols/procedures have been established between the Council and management to keep you informed of instances of fraud, either actual, suspected, or alleged?
- Are you aware of any actual, suspected, or alleged fraud? If so, have the results of management's investigation been reported to Council? Has appropriate action been taken on any lessons learned?

#### ***Our responsibility***

Our responsibility is to obtain reasonable, but not absolute, assurance that the financial statements and performance information are free from material misstatement resulting from fraud. Our approach to obtaining this assurance is to:

- identify fraud risk factors and evaluate areas of potential risk of material misstatement;
- evaluate the effectiveness of internal controls in mitigating the risks;
- perform substantive audit procedures; and
- remain alert for indications of potential fraud in evaluating audit evidence.

The Auditor-General has published useful information on fraud that can be found at [oag.govt.nz/reports/fraud-reports](http://oag.govt.nz/reports/fraud-reports).

#### ***Wrongdoing including bribery and corruption***

Parliament's Finance and Expenditure Committee has expressed an interest in understanding whether the public sector has effective corruption prevention and detection processes in place.

As part of its response to the Committee, the Office of the Auditor-General has asked auditors to undertake some work for all public entities to better understand the controls in place in public entities to reduce the risk of wrongdoing, particularly bribery and corruption.

In this regard, we will discuss the following questions with you:

- Is there an appropriate code of conduct or ethical guidelines that encompasses bribery and corruption?
- Has the District Council undertaken an effective risk assessment to identify where it is most at risk for bribery and corruption?
- How does the District Council make the appropriate policies and guidelines related to bribery and corruption available to staff?
- How does the District Council ensure all staff are aware of the policies and guidelines related to bribery and corruption?
- How does the District Council provide additional training and support to staff in key positions that could be susceptible to bribery and corruption (either inbound or outbound)?
- What mitigations and controls been put in place to reduce the risk of bribery and corruption?
- Who is responsible for maintaining adequate internal controls over bribery and corruption?
- Is there a process for staff involved in high risk roles (procurement, grants, funding processes, issuing permits or consents, conferring benefits, or punishments) to declare any possible bribery or corruption?
- What mechanisms are there for handling instances of attempted bribery and corruption?
- What mechanisms are in place to notify and deal with breaches of the policies relating to bribery and corruption?
- Are senior management and the governing body (i.e. the Council) interested, well informed and committed to mitigating the risks of bribery and corruption?
- How do management and the governing body monitor the controls in relation bribery and corruption?
- How do management and the governing body ensure the controls in relation bribery and corruption are adequate?

## Group audit



The group comprises:

- Hastings District Council
- Hastings District Council Holdings Limited (exempted CCO), which in turn is the parent of two other exempted CCOs, Hastings District Properties Limited and Hawke's Bay Opera House Limited
- Te Mata Trust Park Board (exempted CCO)
- Hawke's Bay Airport Limited (Associate)
- Hawke's Bay Museums Trust

Our auditor's report covers the group as a whole. Our audit approach is developed to ensure we have sufficient information to give an opinion on the group. In designing our group audit approach, we have considered the structure of the group and identified that none of the business activities/entities are considered to be a significant component.

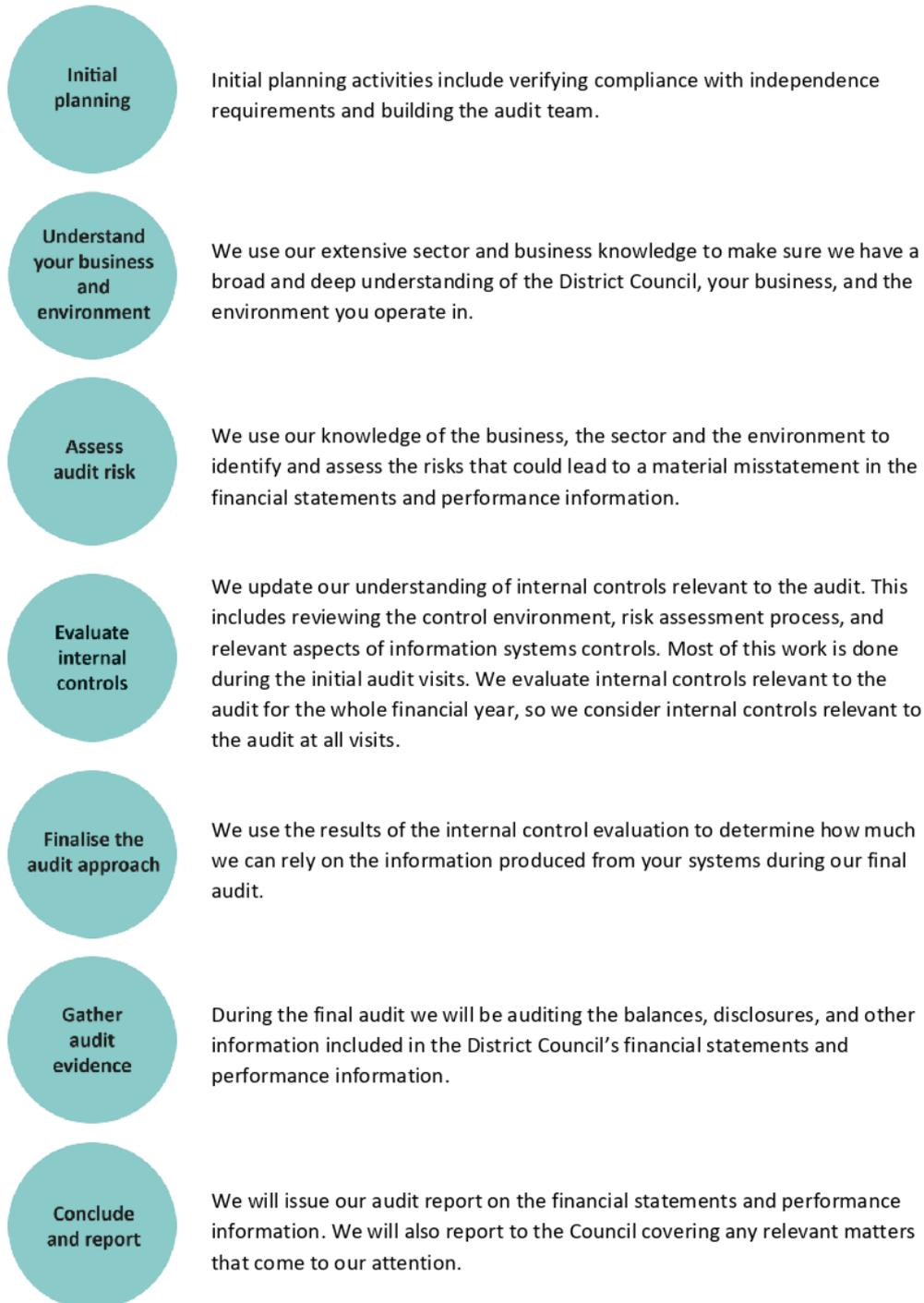
For non-significant components, we will perform analytical procedures at the group level to identify unexpected movements.

We will report any significant internal control deficiencies to the District Council and management of the group. We will communicate deficiencies related to:

- group-wide internal control; or
- internal controls at each component.

We will also communicate any fraud that we identify.

## Our audit process



### Enhancing year-end processes

The year-end financial statement close process and the preparation of the annual report requires a large number of resources to be committed to complete it effectively. This diverts the attention of your staff away from the current financial year and focuses them on past events. We want the audit process to run smoothly and we will work with management to achieve this through bringing forward the timing of audit procedures.

### Bringing forward audit procedures

Substantive audit procedures are traditionally performed after the year-end. Where possible, we will aim to bring audit procedures earlier in the year. This will be focused on year-to-date transactions for revenue, expenditure and payroll. Completion of these tests earlier in the year should allow for more timely identification and resolution of errors.

This testing will be completed during the interim audit. If we can complete this work earlier in the year, we expect this to reduce the final audit onsite work by 40 hours, as these hours will have been performed earlier in the year. This requires us to have the right information available during this visit to enable us to complete this work.

We will work with management to facilitate getting the information required at the right time. We will communicate with management if information is not available as agreed, including any impact on the year-end audit.

### Materiality

In performing our audit, we apply the concept of materiality. In the public sector, materiality refers to something that if omitted, misstated, or obscured could reasonably be expected to:

- influence readers' overall understanding of the financial statements and performance information; and
- influence readers in making decisions about the stewardship and allocation of resources, or assessing your performance.

This definition of materiality is broader than the one used in the private sector.

Accounting standards also require the Council and management to consider materiality in preparing the financial statements. IFRS Practice Statement 2, *Making Materiality Judgements*, provides guidance on how to make materiality judgements from a financial statements preparer's perspective. Although this guidance is primarily aimed at for-profit entities, the same principles can be applied by public benefit entities.

Whether information is material is a matter of judgement. We consider the nature and size of each item judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor. Materiality will be lower for some items due to their sensitivity.

### **Misstatements**

Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of your financial statements and performance information. During the audit, we will provide details of any such misstatements we identify to an appropriate level of management.

We will ask for each misstatement to be corrected, other than those that are clearly trivial. Where management does not wish to correct a misstatement we will seek written representations, in the usual year-end representation letter, from the Mayor and Chief Executive (representing Council) that specify the reasons why the corrections will not be made.

### **Professional judgement and professional scepticism**

Many of the issues that arise in an audit, particularly those involving valuations or assumptions about the future, involve estimates. Estimates are inevitably based on imperfect knowledge or dependent on future events. Many financial statement items involve subjective decisions or a degree of uncertainty. There is an inherent level of uncertainty which cannot be eliminated. These are areas where we must use our experience and skill to reach an opinion on the financial statements and performance information.

The term "opinion" reflects the fact that professional judgement is involved. Our audit report is not a guarantee but rather reflects our professional judgement based on work performed in accordance with established standards.

Auditing standards require us to maintain professional scepticism throughout the audit. Professional scepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. Professional scepticism is fundamentally a mind-set. A sceptical mind-set drives us to adopt a questioning approach when considering information and in forming conclusions.

Exercising professional scepticism means that we will not accept everything we are told at face value. We will ask you and management to provide evidence to support what you tell us. We will also challenge your judgements and assumptions and weigh them against alternative possibilities.

### **How we consider compliance with laws and regulations**

As part of the Auditor-General's mandate, we consider compliance with laws and regulations that directly affect your financial statements or general accountability. Our audit does not cover all of your requirements to comply with laws and regulations.

Our approach involves first assessing the systems and procedures that you have in place to monitor and manage compliance with laws and regulations relevant to the audit. We may also complete our own checklists. In addition, we will ask you about any non-compliance with laws and regulations that you are aware of. We will evaluate the effect of any such non-compliance on our audit.

**Wider public sector considerations**

A public sector audit also examines whether:

- the District Council carries out its activities effectively and efficiently;
- waste is occurring or likely to occur as a result of any act or failure to act by the District Council;
- there is any sign or appearance of a lack of probity as a result of any act or omission by the District Council or by one or more of its Councillors, office holders, or employees; and
- there is any sign or appearance of a lack of financial prudence as a result of any act or omission by the Council or by one or more of its Councillors, office holders, or employees.

## Reporting protocols

### Communication with management and the Council



We will meet with the Mayor, the Risk and Audit Subcommittee (as representatives of Council) and management throughout the audit. We will maintain ongoing, proactive discussion of issues as and when they arise to ensure there are “no surprises”.

### Reports to Council



We will provide a draft of all reports to management for discussion/clearance purposes. Once management comments are received the report will be finalised and provided to Council.

We will also follow up on your progress in responding to our previous recommendations.

## Audit logistics

### Our team



Our engagement team is selected to ensure that we have the right subject matter expertise and sector knowledge. Each member of the audit team has received tailored training to develop their expertise.

Our senior audit team members are:

Stephen Lucy	Appointed Auditor
Leon Pieterse	Engagement Quality Control Review Director
Megan Wassilieff	Audit Manager
Jessica Noiseux	Assistant Manager

The Engagement Quality Control Review (EQCR) Director forms an important part of our internal quality assurance process to maintain and enhance the quality of your audit. The EQCR Director is an experienced Audit Director who has sufficient and appropriate experience to objectively evaluate the judgements made by the audit team. They are independent from the day to day audit field work, and so can provide an independent challenge to the audit team on their judgements. The EQCR will work with your Appointed Auditor and the audit team, but will not have direct contact with you.

## Timetable



Our proposed timetable is:

Interim audit begins	25 March 2019
Draft interim management report issued	12 April 2019
Draft financial statements available for audit (including notes to the financial statements) with actual year-end figures	21 August 2019
Final audit begins	26 August 2019
Final financial statements available, incorporating all the amendments agreed to between us	16 September 2019
Verbal audit clearance given	23 September 2019
Annual report available, including any Chair and Chief Executive's overview or reports	25 September 2019
Draft report to Council issued	27 September 2019
Audit opinion issued	10 October 2019

## Expectations



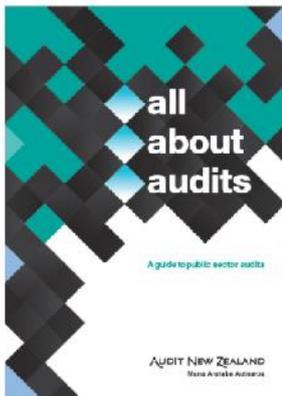
For the audit process to go smoothly for both you and us, there are expectations that each of us need to meet.

Our respective responsibilities are set out in our audit engagement letter.

We expect that:

- you will provide us with access to all relevant records and provide information in a timely manner;
- staff will provide an appropriate level of assistance;
- the draft financial statements, including all relevant disclosures, will be available in accordance with the agreed timetable;
- management will make available a detailed workpaper file supporting the information in the financial statements; and
- the annual report, financial statements and performance information will be subjected to appropriate levels of quality review before being provided to us.

To help you prepare for the audit, we will liaise with management and provide them with a detailed list of the information we will need for the audit. We have also published information to explain what to expect from your audit:



### Health and safety

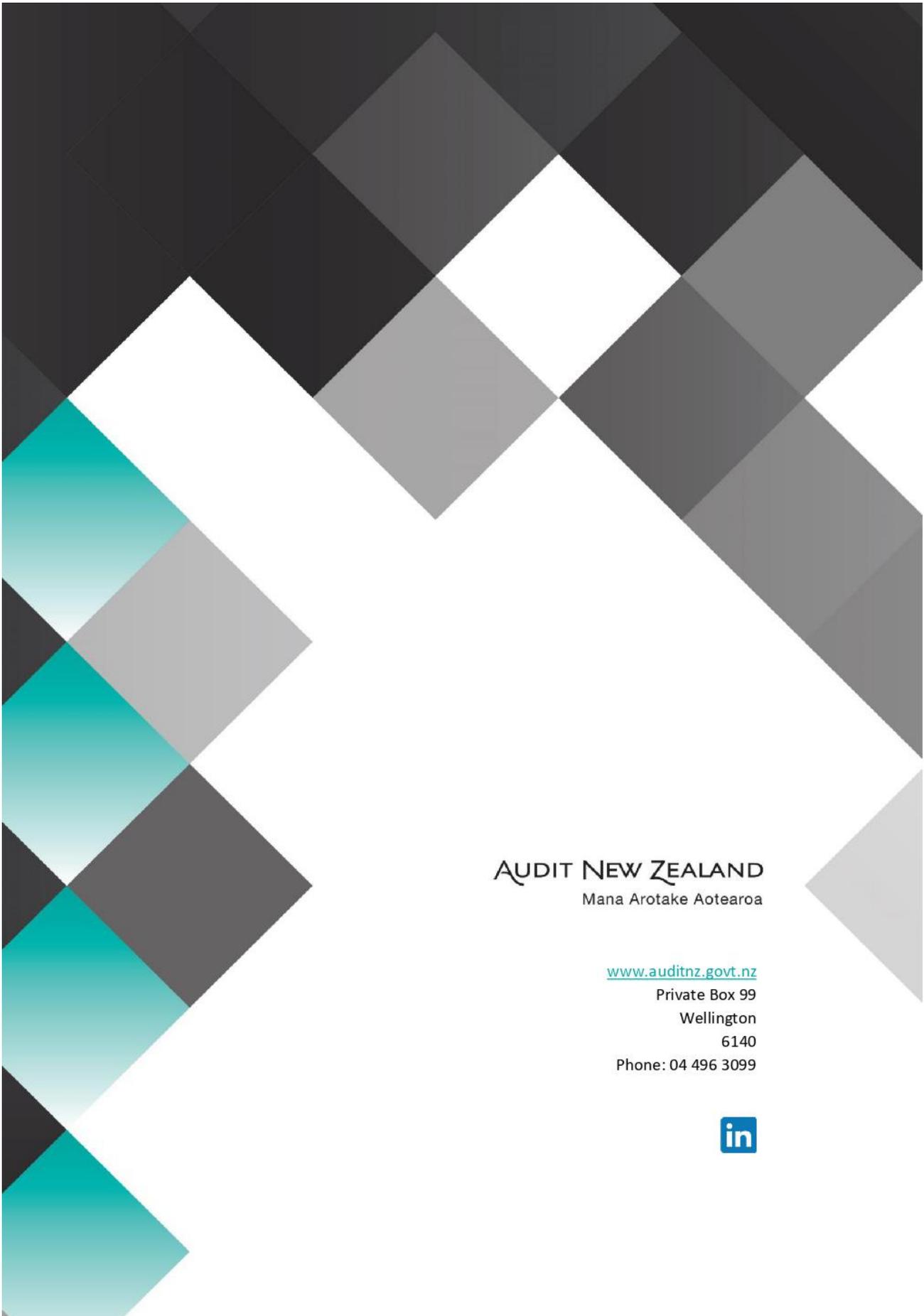


The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff.

Under the Health and Safety at Work Act 2015, we need to make arrangements with management to keep our audit staff safe while they are working at your premises.

We expect you to provide a work environment for our audit staff that minimises or, where possible, eliminates risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment where required.

We also expect management to provide our audit staff with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.



AUDIT NEW ZEALAND  
Mana Arotake Aotearoa

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**REPORT TO:** RISK AND AUDIT SUBCOMMITTEE

**MEETING DATE:** MONDAY 6 MAY 2019

**FROM:** GROUP MANAGER: PLANNING & REGULATORY  
JOHN O'SHAUGHNESSY

**SUBJECT:** MBIE REVIEW OF TAURANGA CITY COUNCIL - BELLA  
VISTA DEVELOPMENT

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## **1.0 SUMMARY**

- 1.1 The purpose of this report is to inform the Committee of the outcomes of the review undertaken by the Ministry of Business, Innovation & Employment's Review of Tauranga City Council Performance of statutory functions under the Building Act 2004 with respect to the Bella Vista development.
- 1.2 This report concludes by recommending that the report be received.

## **2.0 CURRENT SITUATION**

- 2.1 The review of Tauranga City Council is attached as Attachment 1 and provides a good summary of the findings of the review into the Bella Vista development. Officers will talk to this report, highlighting key risk areas and activities and actions that the Risk and Audit Subcommittee should be aware of.

## **3.0 RECOMMENDATIONS AND REASONS**

- A) That the report of the Group Manager: Planning & Regulatory titled "MBIE Review of Tauranga City Council - Bella Vista Development" dated 6/05/2019 be received.**

### **Attachments:**

1	Review of Tauranga City Council - Bella Vista development	Reg-2-3-19-1736	Under Separate Cover
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**REPORT TO:** RISK AND AUDIT SUBCOMMITTEE

**MEETING DATE:** MONDAY 6 MAY 2019

**FROM:** FINANCIAL CONTROLLER  
AARON WILSON  
CHIEF FINANCIAL OFFICER  
BRUCE ALLAN

**SUBJECT:** INTERNAL AUDIT REPORT

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## 1.0 SUMMARY

- 1.1 The purpose of this report is to update the Subcommittee about progress being made with the Internal Audit plan.
- 1.2 The Council is required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002. That purpose is to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses. Good quality means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future circumstances.
- 1.3 This report concludes by recommending that the Internal Audit update be received.

## 2.0 CURRENT SITUATION

### Data Analytics

- 2.1 This is the second year that we have had Crowe Horwath undertake the data analytic assessment across the Accounts Payable and Payroll masterfiles and the year's transactional data, this time from 1 July 2017 to 30 June 2018. The objective of the data analytics was to perform a data analysis review that involved an analysis of master file data and transaction data for payroll and vendor (accounts payable) payments.
- 2.2 The analysis provided 45 recommendations or comments on the outcomes of the analysis on the tests for the payroll and vendor masterfile and transactional data. Officers have reviewed the recommendations and have not found any suspicious transactions. Officers will also review the outcomes of the results from the tests undertaken and consider if there are opportunities for making improvements to current practices.

### Contract Management Review

- 2.3 The Crowe Horwath Contract Management Review undertaken in September/October 2018 separated their findings into four sections:
  - Policies and Procedures;
  - Roles and Responsibilities;
  - Contract Risk Management; and

- Contract Management Performance

- 2.4 A key part of their recommendations they have identified that there is a lack of council wide contract management policies, procedures, templates and manuals. While these exist in places, they have been developed for particular areas of Council or by specific staff to meet their own needs.
- 2.5 This review has highlighted for Council that while work has been done to improve the robustness of council's contract management, it has often been done at a group or team level and not with the wider organisations needs in consideration. There is significant opportunity to improve these practices.
- 2.6 There are 14 recommendations made with the majority of those recommendations assessed as having moderate risk to the organisation.

Area Audited	Findings summary		
	High	Medium	Low
Policies and Procedures	-	2	-
Roles and Responsibilities	-	3	1
Contract Risk Management	1	1	-
Contract Performance	1	4	1
<b>TOTAL</b>	<b>2</b>	<b>10</b>	<b>2</b>

The two findings rated "High" were the following:

- 1) Contracts not assessed for risk – while there are some risk assessment practices, these are not consistently applied.
- 2) Lack of reporting requirements – this is particularly relevant for reporting at a governance level and review of governance reporting is being considered.

- 2.7 The work being undertaken through the development Procurement and Contract Management Framework is continuing to address the findings of this review.

#### Procurement and Contract Management

- 2.8 In February the Subcommittee was given an update on a review of the procurement activities across Council. That review had highlighted opportunities to make improvements to current documentation procedures and systems to meet current best practice. The review also highlighted that there were pockets of procurement improvement projects underway that would benefit from some centralised oversight to ensure that the various initiatives remain aligned. To address both issues, a programme of work was established to create a Council Procurement and Contract Management Framework. The initial work streams for this programme of work include:

- Procurement policy, strategy(s) & plans
- Templates Procedures & Guides
- Training - Procurement & Contract Management
- Communications (Staff & Supplier)

2.9 Despite the departure of Council's Procurement Manager in March, progress has been made on a number of activities including:

- An introductory procurement and contract management training exercise for staff has been developed – at the time of writing approximately 40 staff had been identified to undertake this in-house training during May.
- The Ministry of Business, Innovation and Employment (MBIE) are rolling out contract management training this year with the first session held in Napier in February. Further sessions will be available in the coming months to the 5 Hawkes Bay Councils along with online resources.
- Significant progress has been made in developing tools and templates that are required to support the business. Typically the approach being taken is to modify the MBIE tools and templates where applicable as these are recognised as being best practice in New Zealand. These tools and templates will be much more accessible to staff.
- Work continues across the organisation to bring the contracts register up to date.
- Work has progressed updating the Council website to aid in communicating more effectively with suppliers, giving them more access to information on how to do business with Council.
- The next significant phase of work will be a refresh of the Procurement Policy and Manual, expected to be commenced by June.
- A wider programme of work is currently being scoped by the HB LASS Programme Manager looking at the creation of a Hawkes Bay Council Centre of Excellence for Procurement. While this will take some coordinated effort to create, there is a strong willingness across the 5 Councils to progress this and it is expected that such an approach will go along way to addressing the shortcomings that were identified in the Crowe Horwath Contract Management review and the shortcomings identified in our own Procurement review.

#### Future Audits

2.10 Crowe Horwath will be on-site in early May to do their annual follow-up audit to assess actions taken to address findings from previous audits. They will also be undertaking some training with finance staff to enable internal staff to be more proactive in providing internal audit support, particularly in relation to reviewing practices at our remote sites of activities.

2.11 Officers will bring back to the Subcommittee in June the proposed audit plan for 2019/20.

#### Audit Action Sheet

2.11.1 Attached as **Attachment 1** is an updated Audit Action sheet providing the Subcommittee with a view of the status of recommendations made from previous internal and external audits. Good progress has been made on addressing recommendations. Note that at this stage the most recent contract

management audit has yet to be added to this schedule as there is some work required to understand how those recommendations can be delivered, the resources required and the time needed to do so.

### **3.0 RECOMMENDATIONS AND REASONS**

- A) That the report of the Financial Controller titled "Internal Audit Report" dated 6/05/2019 be received.**

**Attachments:**

There are no attachments for this report.