



Meeting of the Finance Audit & Risk Sub-committee

Date: Wednesday 3 June 2015
Time: 9.00am
Venue: Council Chamber
Hawke's Bay Regional Council
159 Dalton Street
NAPIER

Agenda

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HAWKE'S BAY REGIONAL COUNCIL
FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 03 June 2015

Subject: ROLE AND FUNCTIONS OF THE FINANCE, AUDIT & RISK SUB-COMMITTEE

Reason for Report

1. At its inaugural meeting, the first order of business is to provide clarity to its members on the role and functions of the Sub-committee which includes confirming the Terms of References as adopted by the Regional Council and the related delegations and reporting lines.

Terms of Reference (adopted 25 February 2015)

a) Purpose

The purpose of the Audit and Risk Committee is to report to the Corporate and Strategic Committee on matters that will assist the Council to fulfil its responsibilities for:

1. The robustness of risk management systems, processes and practices
2. The provision of appropriate controls to safeguard the Council's financial and non-financial assets, the integrity of internal and external reporting and accountability arrangement
3. The independence and adequacy of internal and external audit functions
4. Compliance with applicable laws, regulations, standards and best practice guidelines
5. The review of Council's expenditure policies and the effectiveness of those policies.

b) Specific Responsibilities

The Audit and Risk Committee shall have responsibility and authority to:

1. Consider the appropriateness of the Council's existing accounting policies and principles and any proposed changes
2. Enquire of internal and external auditors for any information that affects the quality and clarity of the Council's financial statements and statements of service performance, and assess whether appropriate action has been taken by management in response to this
3. Satisfy itself that the financial statements and statements of service performance are supported by adequate management signoff and adequate internal controls and recommend adoption of the Annual Report by Council
4. Confirm that processes are in place to ensure that financial information included in Council's Annual Report is consistent with the signed financial statements
5. Review whether Council management has in place a current and comprehensive risk management framework and associated procedures for effective identification and management of the council's significant risks
6. Undertake periodic monitoring of corporate risk assessment, and the internal controls instituted in response to such risks
7. Undertake systematic reviews of Council operational activities against Council stated criteria

8. Confirm the terms of appointment and engagement of external auditors, including the nature and scope of the audit, timetable, and fees
9. Receive the external audit report(s) and review action to be taken by management on significant issues and audit recommendations raised within the report(s)
10. Conduct a committee members-only session with external audit to discuss any matters that the auditors wish to bring to the Committee's attention and/or any issues of independence
11. Review the effectiveness of the system for monitoring the Council's compliance with laws (including governance legislation, regulations and associated government policies), Council's own standards, and best practice guidelines; including health and safety.

c) Membership

- Four members of Council, being:
Councillors Debbie Hewitt, Rick Barker, Christine Scott and Fenton Wilson (elected by Council on 25 March 2015)
- An external appointee, being.....*(to be determined at a subsequent meeting)*

d) Chairman

A member of the Committee as elected by the Council, being Councillor Debbie Hewitt ***(elected by Council on 25 March 2015)***

e) Meeting Frequency

The Committee shall meet quarterly, or as required

j) Quorum

The quorum at any meeting of the Committee shall be not less than 3 Councillor members of the Committee.

k) Accountability

The Finance, Audit and Risk sub-committee is not delegated to make any decisions. All recommendations of the sub-committee must be considered by the Corporate and Strategic Committee prior to any decision of Council.

l) Officers Responsible

- Chief Executive
- Group Manager Corporate Services

Reporting Through the HBRC Governance Structure

2. The FA&R sub-committee makes recommendations to the Corporate and Strategic Committee, which then considers those recommendations in order to recommend decisions to the Regional Council.

Decision Making Process

3. Council is required to make a decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements contained in Part 6 Sub Part 1 of the Act in relation to this item and have concluded the following:
 - 3.1. The decision does not significantly alter the service provision or affect a strategic asset.
 - 3.2. The use of the special consultative procedure is not prescribed by legislation.
 - 3.3. The decision does not fall within the definition of Council's policy on significance.
 - 3.4. The decision is not inconsistent with an existing policy or plan.
 - 3.5. Given the nature and significance of the issue to be considered and decided, and also the persons likely to be affected by, or have an interest in the decisions

made, Council can exercise its discretion and make a decision without consulting directly with the community or others having an interest in the decision.

Recommendations

That the Finance, Audit and Risk Sub-committee:

1. Receives and reaffirms the Terms of Reference for the sub-committee
2. Receives and confirms the Delegations made to it by the Hawke's Bay Regional Council
3. Receives and confirms the reporting lines for the sub-committee as per the HBRC Governance structure.

Paul Drury
GROUP MANAGER
CORPORATE SERVICES

Liz Lambert
CHIEF EXECUTIVE

Attachment/s

There are no attachments for this report.

HAWKE'S BAY REGIONAL COUNCIL
FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 03 June 2015

Item 4

Subject: MEMBERS' LIABILITY

Reason for Report

1. To provide clarification on the liability that members may be exposed to in carrying out the duties of the Subcommittee and the insurance cover that Council currently has in place to mitigate against such liability.

Background

2. As requested by the Chairperson of this Subcommittee, to review the liability that members of the Subcommittee could be exposed to in making decisions on papers considered by this Subcommittee, the following reports are presented with this paper as **Attachment 1**.

- 2.1. Two reports from Sainsbury Logan Williams, the first on "Councillor Liability" and the second on "Health and Safety" as relates to statute.
- 2.2. A letter from Council's insurance brokers, Jardine Lloyd Thompson Ltd (JLT) on the cover provided in Council's insurance policies, specifically professional indemnity, public liability and statutory liability policies.

Lauren Hibberd from Sainsbury Logan Williams will attend this meeting to present the material included in the attachment, and also to provide additional clarification if required.

3. The current insurance policy limits, cover and excess are as follows.

Policies	Cover	Excess
Public Liability	\$100 million	\$2,000
Professional Indemnity	\$100 million	\$10,000
Statutory Liability (part of employer's liability policy)	\$500,000	\$5,000

4. It is proposed to increase the claim limit for the statutory liability policy from \$500,000 to \$1 million effective from 1 July 2015. JLT have advised Council that this increase in cover is prudent, in their opinion, to reflect the additional liability due to the proposed changes in Health and Safety legislation.

Decision Making Process

5. Council is required to make a decision in accordance with Part 6 Sub-Part 1, of the Local Government Act 2002 (the Act). Staff have assessed the requirements contained within this section of the Act in relation to this item and have concluded that, as this report is for information only and no decision is to be made, the decision making provisions of the Local Government Act 2002 do not apply.

Recommendation

1. That the Finance, Audit and Risk Subcommittee receives the reports on "**Members' Liability**" from Sainsbury Logan Williams and from Jardine Lloyd Thompson insurance brokers.

**Paul Drury
GROUP MANAGER
CORPORATE SERVICES**

Attachment/s

- 1** Councillor Liability Reports



SAINSBURY
LOGAN &
WILLIAMS

LAWYERS SINCE 1875

30 November 2013

Hawke's Bay Regional Council
Private Bag 6006
NAPIER

Attn: Paul Drury

COUNCILLOR LIABILITY

- 1 You have asked us to provide Council with our opinion on the personal liability of Councillors as elected members of a local authority.
- 2 Under s 43(1) of the Local Government Act 2002 ("LGA"), members of a local authority are **indemnified** by the local authority for any liability if they acted in good faith and in pursuance of the responsibilities or powers of the local authority:
 - (1) A member of a local authority (or a committee, community board, or other subordinate decision-making body of that local authority) is indemnified by that local authority, whether or not that member was elected to that local authority or community board under the Local Electoral Act 2001 or appointed by the local authority, for—
 - (a) costs and damages for any civil liability arising from any action brought by a third party if the member was acting¹ in good faith and in pursuance (or intended pursuance) of the responsibilities or powers of the local authority (or committee, community board, or other subordinate decision-making body of that local authority); and
 - (b) costs arising from any successfully defended criminal action relating to acts or omissions in his or her capacity as a member.
- 3 This indemnity does not apply to directors of council-controlled organisations.¹
- 4 However, members may be (jointly and severally) liable for the losses of local authorities (by way of Report from the Auditor-General to the Minister of Local Government and recovery by the Crown) in the following cases:²
 - 4.1 money belonging to, or administrable by, a local authority has been unlawfully expended;
 - 4.2 an asset has been unlawfully sold or otherwise disposed of by the local authority;

¹ Section 43(3) LGA. In respect of their obligations, it is usual for the entity, where it is a Company, to provide separate Directors and Officers cover, provided the Constitution specifically authorises it.

² Section 44(1) LGA

SJW-003502-199-67-V1

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Partners: Magnus Macfarlane, Gerard Sullivan, Stephen Greer, Stuart Webster, Andrew Wares
Adrian Barclay, Nathan Gray, Lara Blomfield, Lauren Hibberd, Lincoln Reid

- 4.3 a liability has been unlawfully incurred by the local authority; or
- 4.4 a local authority has intentionally or negligently failed to enforce the collection of money it is lawfully entitled to receive.
- 5 Individual members are not liable if they establish that the act or failure to act that resulted in loss occurred:³
 - 5.1 without their knowledge;
 - 5.2 with their knowledge but against their protests;
 - 5.3 contrary to the manner in which they voted on the issue.
- 6 More generally, members are not liable if they establish that in the circumstances, they acted in good faith and in reliance on reports, information, or professional or expert given by:⁴
 - 6.1 An employee of the local authority whom they reasonably believed was reliable and competent in relation to the matters concerned;
 - 6.2 A professional adviser or expert in relation to matters that they reasonably believed to be within the person's professional or expert competence.⁵
- 7 Members are only liable for the losses if the Auditor-General issues a report on those losses to the Minister of Local Government.⁶
- 8 The Crown is entitled to take proceedings against members to recover the losses which, when recovered, are payable to the local authority.⁷
- 9 In the House of Lords case in *Porter v Magill* ⁸, Lord Bingham summarised the principles underlying the equivalent provision in English law as follows:

Powers conferred on a local authority may be exercised for the public purpose for which the powers were conferred and not otherwise. Such powers are exercised by or on the delegation of councillors. It is misconduct in a councillor to exercise or be party to the exercise of such powers otherwise than for the public purpose for which the powers were conferred. If the councillors misconduct themselves knowingly or recklessly it is regarded by the law as wilful misconduct. If the wilful misconduct of a councillor is found to have caused loss to a local authority the councillor is liable to make good such loss to the council. Powers conferred on a local authority may not lawfully be exercised to promote the electoral advantage of a political party.

³ Section 44(6)(a) – (c)

⁴ Section 46(4)(d) LGA

⁵ The ability to rely on reports from employees or from professional advisers is qualified by the necessity to believe on reasonable grounds that the advice is reliable and competent, or to be within the person's professional or expert competence.

⁶ Section 46 LGA. Note that s 46(1) contemplates that liability may arise for other persons under the general law. For example, in relation to misappropriation or theft of council property, both civil and criminal liability could arise under the general law with regard to members and other elected persons, and employees of the public body.

⁷ Section 46.

⁸ [2002] 2 AC 357

- 10 More information about the personal liability can be accessed on the Office of the Auditor-General website.⁹

Yours faithfully



Stuart Webster
Partner

Email: sjw@slw.co.nz
Direct dial (06) 833 7848

⁹ oag.govt.nz

25 May 2015

Hawke's Bay Regional Council
Private Bag 6006
NAPIER



SAINSBURY
LOGAN &
WILLIAMS
LAWYERS SINCE 1875

Attn: Paul Drury

By email: PDrury@hbrc.govt.nz

COUNCILLOR LIABILITY – HEALTH & SAFETY LEGISLATION

- 1 You have asked us to provide Council with further information on potential personal liability in respect of Health & Safety legislation following a letter dated 7 May 2015 from JLT insurers summarising current covers held by Council.
- 2 Section 12(1) of the Local Government Act 2002 provides that a local authority is a body corporate with perpetual succession.
- 3 Under s 56(1) of the Health and Safety in Employment Act 1992 ("HSE"), the officers of a body corporate may be held liable for offences under the HSE:
 - (1) Where a body corporate fails to comply with a provision of this Act, any of its officers, directors or agents who directed, authorised, assented to, acquiesced in, or participated in, the failure is a party to, and guilty of the failure and is liable on conviction to the punishment provided for the offence, whether or not the body corporate has been prosecuted or convicted.
- 4 The offences under the HSE include:
 - 4.1 Taking an action while knowing the action is reasonably likely to cause serious harm to any person and the action is contrary to the HSE;
 - 4.2 Failing to take an action while knowing the failure to take the action is reasonably likely to cause serious harm to any person and the action is required by the HSE;
 - 4.3 Failing to ensure safety of employees including identifying workplace hazards.
- 5 Penalties include infringement fees, fines of up to \$500,000 or imprisonment for up to 2 years or both a fine and imprisonment.
- 6 Under s 56I of the HSE it is not possible to be insured against or indemnified against liability for payment of a fine or infringement fee under the HSE.
 - (1) To the extent that an insurance policy or contract of insurance indemnifies or purports to indemnify a person for the person's liability to pay a fine or an infringement fee under this Act,
 - (a) The policy or contract is of no effect; and

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LJH-003502-276-1-V1

- (b) No court or tribunal has jurisdiction to grant relief in respect of the policy or contract, whether under section 7 of the Illegal Contracts Act 1970 or otherwise.

(2) A person must not

- (a) Enter into, or offer to enter into, a policy or contract described in subsection (1); or
- (b) Indemnify, or offer to indemnify, another person for the other person's liability to pay a fine or an infringement fee under this Act; or
- (c) Be indemnified, or agree to be indemnified, by another person for that person's liability to pay a fine or an infringement fee under this Act; or
- (d) Pay to another person, or receive from another person, an indemnity for a fine or an infringement fee under this Act.

- 7 This position is reflected in the second to last paragraph of the letter from JLT.
- 8 We note that this risk of personal liability in respect of Council as an employer is the same for other employers too – including directors of limited liability companies. This reflects the importance that government places on workplace safety.
- 9 The HSE is in the process of being replaced by new legislation which will provide more onerous obligations on employers to be more active in ensuring workplace safety. Sainsbury Logan & Williams are intending to hold a seminar on the changes once the legislation has been finalised and I am sure our presenters, Lara Blomfield and Nathan Gray, would be happy to make themselves available to discuss the changes with you should you wish.
- 10 I will be available at the meeting on 3 June 2015 to discuss this further with you.

Yours faithfully



Lauren Hibberd
Partner

Email: ljh@slw.co.nz
Direct dial (06) 833 7841



7 May 2015

Paul Drury
Group Manager – Corporate Services
Hawkes Bay Regional Council
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NAPIER 4142

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Dear Paul,

Councillor Liability.

You have asked JLT to provide details of the liability covers available to Councillors under Hawkes Bay Regional Councils Professional Indemnity, Public Liability and Statutory Liability policies. This stems from a Councillor enquiry and a legal opinion Council received from Sainsbury Logan & Williams.

We have not comment on the Sainsbury Logan & Williams letter, except to say that that it is unlikely that insurance would be available to Council and Councillors in circumstances where the Crown seeks recovery for losses incurred by Council through

1. money belong to or administrable by a local authority has been unlawfully expended
2. an asset has been unlawfully sold or otherwise disposed of by the local authority.

I would refer firstly to Councils Professional Indemnity and Public Liability Insurance, which Council currently places with Riskpool.

Set out hereunder is the Definition of "Member" which includes any person acting on behalf of Council or appointed to Council.

The "Member" shall mean:

- a) The Member named in the Schedule and;
- b) Any person or organisation acting bona fide in connection with;
 - (i) their duties on behalf of; or
 - (ii) the terms of their appointment by; or
 - (iii) their membership of any organisation or service formed under authority; or
 - (iv) (in respect only of a natural person working under the control and/or supervision of the Member named in the Schedule) the terms of their contract with;

the Member named in the schedule, provided that the Member does not include independent consultants or independent contractors.

The other area where Councillors could be personally held liability is under the Health & Safety legislation, which is covered by a Statutory Liability Insurance policy. Council currently has limited cover under the Employers Liability policy, however going forward for 1 July 2015, JLT will be recommending that Council maintain separate Statutory and Employers Liability policies.

The Statutory Liability policy, Insuring clause provides indemnity to Councils as the Insured and any Officer, which will include Elected Members.



Insuring Clause:

1. In consideration of payment of the premium, in reliance on the proposal and declaration (which shall deemed to be the basis of this policy) and subject to its terms, conditions, exclusions, warranties and endorsements, the insurer agrees to pay on behalf of;
 - (a) the Insured, its Defence Costs and Penalties
 - (b) the Insured, Defence Costs and Penalties for which it grants indemnity to any Officer as permitted by law;
 - (c) any Officer, Defence Costs and Penalties for which he/she does not receive an indemnity from the Insured;

arising out of any Occurrence which is connected with the business or affairs of the Insured and notified to the Company during the Period of Insurance stated in the schedule or within 30 days after its expiry, or if exercised during the Extended Reporting Period.

Provided that the;

- (i) Occurrence has taken place on or after the Retroactive Date;
- (ii) maximum amount payable by the Company for Defence Costs and Penalties for all claims under this policy shall not exceed the Limit of Indemnity stated in the Schedule.¹

We would however remind Council of the fact that under the Health & Safety legislation you are not permitted by law to insure for fines, however you can insure for awards of Reparation and legal Defence Costs.

I trust that this clarifies the position for you and if you have any additional questions then please feel free to contact the writer.

Yours sincerely,

Stephen Tustin
ACCOUNT MANAGER

1 Current policy limit is \$500,000, however it is proposed to increase to \$1m from 1 July 15.

HAWKE'S BAY REGIONAL COUNCIL
FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 03 June 2015

Item 5

Subject: APPOINTMENT OF INDEPENDENT MEMBER

Reason for Report

1. The Terms of Reference for the sub-committee includes the appointment of an Independent Member. In order to make an appointment, the sub-committee wishes to first consider feedback from all Councillors on the issue.

Feedback Received to Date

2. Before we consider the skill set for an independent member, I would prefer to have a discussion about whether or not we need one. Further, I think this is a discussion further down the track when we have thought through what it we are setting out to achieve. At this point I think we would all have a better appreciation of whether we need an independent member and should we decide yes, at that point set out the skills and knowledge we were seeking.
3. I think the skill set for the independent is extremely important - I think the independent is extremely important - might be the only one with a skill set as unlike a Board the only skill set that are pre requisite for being election is having your name known. I also think the sooner appointed the better - the appointment has been identified already by council resolution.
 - 3.1. All A & R committees need strong financial literacy. Therefore at the forefront of skills is qualifications in finance, plus
 - 3.1.1. experience in risk framework identification
 - 3.1.2. knowledge (preferably experience) in audit
 - 3.1.3. knowledge of governance
 - 3.1.4. knowledge of local government - insight into different requirements under relevant acts for local government
 - 3.1.5. elected members responsibilities vs Board members
 - 3.2. I do know that in seeking these skills in Hamilton CC and Napier CC they appointed a suitably qualified and experienced accountant as Chairman - the only position they would accept.
4. Proven ability to focus on conformance. Chartered accountant.
5. Financially literate. Local government understanding combined with private expertise. Personality trait, has strong degree of independence. Not a local. Happy to work in public / open meetings

Decision Making Process

6. Council is required to make a decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements contained in Part 6 Sub Part 1 of the Act in relation to this item and have concluded the following:
 - 6.1. The decision does not significantly alter the service provision or affect a strategic asset.
 - 6.2. The use of the special consultative procedure is not prescribed by legislation.
 - 6.3. The decision does not fall within the definition of Council's policy on significance.
 - 6.4. The decision is not inconsistent with an existing policy or plan.

- 6.5. Given the nature and significance of the issue to be considered and decided, and also the persons likely to be affected by, or have an interest in the decisions made, Council can exercise its discretion and make a decision without consulting directly with the community or others having an interest in the decision.

Recommendations

The Finance, Audit and Risk Sub-committee recommends that the Corporate and Strategic Committee:

1. Requests that the Chief Executive seeks Expressions of Interest from ...
- or
- 2.

Paul Drury
GROUP MANAGER CORPORATE
SERVICES

Liz Lambert
CHIEF EXECUTIVE

Attachment/s

There are no attachments for this report.

HAWKE'S BAY REGIONAL COUNCIL
FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 03 June 2015

Item 6

Subject: HBRC RISK ASSESSMENT AND MANAGEMENT

Reason for Report

1. Staff have developed a draft Audit and Risk Management Policy and Framework for the organisation.
2. The draft is attached for consideration by the Committee.
3. Also attached are examples of risk assessments covering risks from two of Council's work areas. Risk assessments from all Council groups are in the process of development. It is proposed that the top 10-20 risks for the organisation identified from these group assessments are reported to the Audit and Risk Committee in accordance with this policy, once it is adopted.
4. This paper seeks comment on the content of this draft Risk Management Policy and Framework, and the examples provided.

Current Framework

5. On a day-to-day basis Council staff manage a large number of risks. Staff experience, qualifications and professional judgement are critical to the mitigation of many routine operational risks. The draft Policy and Framework is designed to provide Council, as the governance body for the organisation, an awareness of the major risks to which the organisation is exposed, and the steps in place to manage or mitigate those risks.
6. Risk management is an iterative process consisting of well-defined steps which, taken in sequence, support better decision making by contributing a greater insight into risks and their impacts. It requires a systematic, logical method of identifying, analysing, evaluating, treating, monitoring and communicating risks associated with any activity, function or process, and will enable Council to better predict and respond to organisational risks.
7. Risk management is recognised as an integral part of good management practice. To be most effective risk management should be part of an organisation's culture. It is being integrated into HBRC's philosophy, practices and business plans.
8. HBRC's business landscape will continue to change and evolve. There is a need for the organisation to continuously review and improve the ability to identify and manage its risks. This policy and framework, once adopted, will set the oversight, control and discipline to drive continuous improvement of Council's organisational risk management in a changing operating environment.
9. The framework is based on three key areas where risk could impact on HBRC:
 - 9.1. Financial impact.
 - 9.2. Reputation of Council with its stakeholders.
 - 9.3. Operational capability.
10. All risks that have potential impact on Council will be assessed by each Group Manager for their respective Groups using this framework. A sample of the output from these assessments is attached for Committee information.
11. The sample reports highlight
 - 11.1. The risks as they have been assessed by staff,
 - 11.2. The controls in place to manage that risk and an assessment of the effectiveness of those controls.

12. It is important to recognise that the failure of a mitigation method (risk control) may result in the risk being greater than assessed. The management of risk control mechanisms are essential to ensure that they continue to mitigate that risk.
13. The framework includes clear parameters under which the risk likelihood and consequences have been established. It is expected that these will be reviewed from time to time as part of the ongoing improvement of Council's risk management processes.
14. If risk management is to be effective, risks must be reviewed regularly. The draft policy and framework provides for regular review and reporting.
15. Staff propose to review the draft Policy and Framework based on the feedback received from the Committee and to present it for adoption at the next meeting of the Committee programmed for 22 September 2015.

Decision Making Process

16. Council is required to make a decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements contained in Part 6 Sub Part 1 of the Act in relation to this item and have concluded the following:
 - 16.1. The decision does not significantly alter the service provision or affect a strategic asset.
 - 16.2. The use of the special consultative procedure is not prescribed by legislation.
 - 16.3. The decision does not fall within the definition of Council's policy on significance.
 - 16.4. The decision is not inconsistent with an existing policy or plan.
 - 16.5. Given the nature and significance of the issue to be considered and decided, and also the persons likely to be affected by, or have an interest in the decisions made, Council can exercise its discretion and make a decision without consulting directly with the community or others having an interest in the decision.

Recommendations

That the Finance, Audit and Risk Sub-committee:

1. Receives the HBRC Risk Assessment and Management report
2. Provides comment on the draft Audit and Risk Management Policy and Framework.

Mike Adye
GROUP MANAGER ASSET
MANAGEMENT

Liz Lambert
CHIEF EXECUTIVE

Attachment/s

- 1 Draft Risk Management Policy and Framework
- 2 Risk Table
- 3 Asset Management Risk Report
- 4 Corporate Services Risk Report

HAWKE'S BAY REGIONAL COUNCIL AUDIT & RISK MANAGEMENT Draft POLICY AND FRAMEWORK

June 2015

Item 6

Definitions:

Council: means the nine elected members as a governing body of Hawke's Bay Regional Council

HBRC: means Hawke's Bay Regional Council

Audit and Risk Committee means the Finance Audit and Risk Committee of Hawke's Bay Regional Council

Purpose of this document;

1. This document :
 - a. Sets out HBRC's risk management policy and its approach to managing risk.
 - b. Sets out systems and processes HBRC has in place to ensure the prudent stewardship and the efficient and effective use of its resources.
 - c. Documents the roles and responsibilities of the Council, the Audit and Risk Management Committee, the Chief Executive and executive management team, and all staff.
 - d. Identifies reporting procedures.
2. The policy forms part of HBRC's audit and risk management and corporate governance arrangements.

Approach to risk management and audit

1. The following key principles outline HBRC's approach to risk management and audit:
 - HBRC's risk is to be managed, monitored and reported, in accordance with this policy adopted by Council.
 - HBRC is a public organisation funded largely by money sourced from the Hawke's Bay community. It must use that money wisely and carry out its duties cost effectively. HBRC must demonstrate it is a prudent manager and user of public funds.

Attachment 1

- The Chief Executive has responsibility for overseeing risk, financial and operational management within the whole of HBRC and will report to the Risk and Audit Committee on these issues in accordance with this policy.
- The Chief Executive and Executive management team supports, advises and implements policies approved by Council, and is responsible for the management of operational risks, and for reporting to Council all new and emerging risks with the potential to significantly impact on Council.
- HBRC is conservative and prudent in its recognition and disclosure of the financial and non-financial implications of risks
- Management staff are responsible for encouraging good risk management practice within their groups and teams

Role of Council

2. Council as the governance body for HBRC has a fundamental governance role to play in financial and operational management and the management of risk. Its role is to:
 - a. Set the tone and influence the culture of risk management within HBRC. This includes:
 - Understanding that there is risk in the activities undertaken to achieve or support the desired organisational outcomes.
 - Providing clarity on the level of risk that HBRC should be exposed to in undertaking specific activities.
 - Setting the standards and expectations of staff with respect to conduct and probity.
 - b. Adopt an audit and risk management policy and framework, monitor its effectiveness and review and revise this to ensure it remains fit for purpose.
 - c. Appoint the Audit and Risk Committee and continue to monitor its effectiveness.
 - d. Consider and monitor risks associated with achievement of HBRC strategic outcomes.
 - e. Approve major decisions that may affect HBRC's risk profile or exposure.

Role of the Finance Audit and Risk Management Committee

3. The Audit and Risk Management Committee is set out in the Terms of Reference adopted by Council at its meeting on 25 February 2015.

Role of the Chief Executive and Executive Management Team

4. Key roles of the Chief Executive and the executive management team relevant to Audit and Risk policy are to:
 - a. Implement policies on audit and risk management and report on compliance and performance.
 - b. Identify, evaluate and manage (excluding governance risks) the risks faced by the Organisation.
 - c. Provide adequate information in a timely manner to Council and its committees on the status of significant risks to which the Organisation is exposed and the controls to manage those risks.

Risk management control system

5. The risk management control system encompasses a number of elements that together facilitate an effective and efficient risk assessment, enabling HBRC to consider a variety of strategic, operational, financial, and commercial risks. These elements include:

- a. Policies and procedures*

Many of the organisational risks are managed through policies and plans adopted by the Council. These include Regional Plans developed according to relevant legislation, their associated implementation plans, and policies or protocols specific to a particular issue. The policies adopted by Council are implemented and communicated through the Chief Executive to staff. Written procedures support the policies were appropriate.

- b. Reporting*

Comprehensive reporting is designed to communicate the monitoring of key risks and their controls. Decisions to rectify problems are generally made by staff, but may be at the direction of Council where a significant potential risk is identified.

- c. Annual and 10 year planning and budgeting.*

The annual and 10 year planning and budgeting processes are used to set objectives, a performance framework through which to monitor progress towards achieving those objectives, develop and communicate work programmes, and allocate resources. A number of the work programmes are designed specifically to mitigate strategic risks. Progress towards meeting annual and 10 year plan objectives is monitored regularly.

- d. Risk management framework*

This framework helps to facilitate the identification, assessment and ongoing monitoring of risks to which HBRC is exposed. The framework is formally reviewed in accordance with the timelines set out in Table 1 below, with all existing risks reviewed and new and emerging risks added.

e. Risk review programme.

The risk review programme is an important element of the risk management process. Apart from its normal programme of work, each member of the executive management team is responsible for the review of the effectiveness of the risk management framework within HBRC as set out in Table 1 below.

f. Internal audit.

An internal review of risks may be requested by Council or commissioned by the Chief Executive from time to time as they deem appropriate. Such an external review may cover the risk framework and all of the risks to which HBRC is exposed, or may be restricted to specific risks or aspects of risk. This internal audit function may be contracted to an external audit provider.

g Audit of HBRC's Long Term Plans and Annual Plans

These audits are carried out by Audit NZ on behalf of the Controller and Auditor General.

Review of effectiveness

6. The Chief Executive is responsible for reviewing the effectiveness of HBRC's risk controls. The frequency and scope of such a review shall be dictated by the Audit and Risk Committee. The review may be required for all or part of HBRC's activities. The outcome of such a review will be reported to the Audit and Risk Committee.
7. For each risk identified, the Chief Executive will:
 - Review the previous risk review and examine HBRC's record on risk assessment and control.
 - Consider HBRC's future risk profile and consider if current risk control arrangements are being effectively implemented.
8. In making his decision the Chief Executive will consider the following aspects:
 - a. Control environment:
 - HBRC's objectives and its financial and non-financial targets
 - Organisational structure and caliber of the senior management team
 - Culture, approach, and resources with respect to the management of risk
 - Delegation of authority
 - Reporting to Council

- b. On-going identification and evaluation of risks:
 - Timely identification and assessment of risks
 - Prioritisation of risks and the allocation of resources to address areas of high exposure.
- c. Information and communication:
 - Quality and timeliness of information on risks
 - Time it takes for control breakdowns to be recognised or new risks to be identified.
- d. Monitoring and corrective action:
 - Ability of the organisation to learn from its experiences
 - Commitment and speed with which corrective actions are implemented.

TABLE 1

RISK MANAGEMENT FRAMEWORK

Responsible Group	Decisions areas	Frequency of review/reporting
Council (through Audit and Risk Committee)	<ul style="list-style-type: none"> • Organisation risk profile • Top 10 residual risks • Top 10 controls • Significant new or emerging risks • Governance risks 	Annually Annually Annually As they arise Annually
Chief Executive (together with Exec Managers)	<ul style="list-style-type: none"> • Review and monitoring Organisational risks including controls • New and emerging risks reporting to Council 	6 monthly As they arise
Group Managers (together with 3rd tier managers)	<ul style="list-style-type: none"> • Review and monitoring of: <ul style="list-style-type: none"> - Risks associated with Group's risks including controls - New and emerging risks within group 	6 monthly As they arise
Staff	<ul style="list-style-type: none"> • Effective management of operational risks through implementation of controls • Reporting new or emerging risks as they arise 	Ongoing As they arise

Likelihood Table

Name	Full Description	Value
Almost Certain	Occurrence of the event within this 10-yearly LTCCP may be credibly regarded as a 'real possibility' i.e. the probability of occurrence is greater than non-occurrence. Documented and frequent incidents. Is likely to occur more than once in this 10-year LTCCP period.	99
Likely	Occurrence of the event within this 10-yearly LTCCP may be credibly regarded as a 'real possibility' i.e. the probability of occurrence is similar to non-occurrence. Documented and regular incidents. Is likely to occur once in this 10-year LTCCP period.	65
Unlikely	Occurrence of the event within this 10-yearly LTCCP would be considered as having some potential to occur – ie, a reasonable probability of occurrence over time, but less than the probability of non- occurrence. Documented but infrequent incidents. Has less than 50% chance of occurrence in this 10-year LTCCP period.	25
Highly Unlikely	Whilst possible, occurrence of the event within this 10-yearly LTCCP would be regarded by most people as unlikely i.e. the probability of non-occurrence is somewhat larger than occurrence. Documented but few incidents. Has less than 10% chance of occurrence in this 10-year LTCCP period.	12
Rare	It is not expected that the event would occur within this 10-yearly LTCCP. Occurrence of the event would probably be regarded as unusual - (the probability of occurrence is quite small). Has less than 1% chance of occurrence in this 10 year LTCCP period.	3

Item 6

Attachment 1

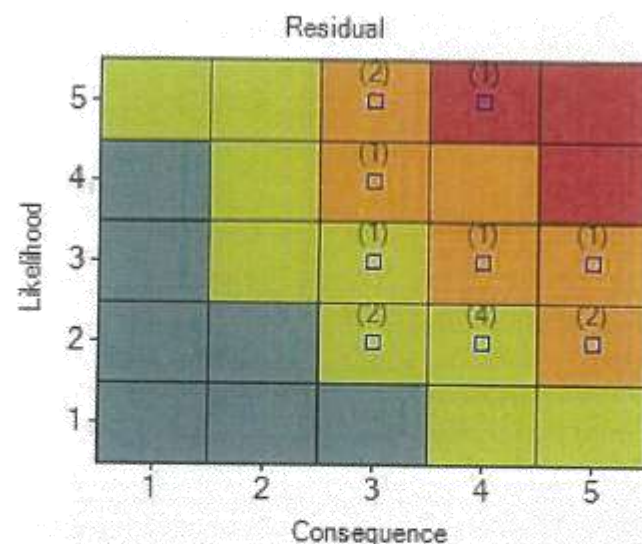
Consequence Tables**Financial**

Name	Full Description
Level 1	Value of investment(s) decreases by 30%. Loss of cash flow/income or increase in unplanned expenditure of \$5m over Note: Language to be appropriate for all sections of council
Level 2	Value of investment(s) decreases by 20%. Loss of cash flow/income or increase in unplanned expenditure of \$3m over
Level 3	Value of investment(s) decreases by 10%. Loss of cash flow/income or increase in unplanned expenditure of \$2m over
Level 4	Value of investment(s) decreases by 5%. Loss of cash flow/income or increase in unplanned expenditure of \$1m over
Level 5	Value of investment(s) decreases by 3%. Loss of cash flow/income or increase in unplanned expenditure of \$0.5m over
No Financial Impact	No measurable financial impact

Stakeholders/Reputation	
Name	Full Description
Level 1	Extreme dissatisfaction and loss of confidence. Central government investigation and/or statutory management installed. Regulatory action resulting in major prosecution and conviction of council (eg - fine of >\$100k).Note: 'Stakeholder' means clients, public, industry groups (such as forestry/agriculture), local government bodies, lobby groups, or Iwi.
Level 2	Major loss of stakeholder confidence. Extensive stakeholder dissatisfaction expressed through media resulting in a long period of negative coverage (>2 months). Widespread, unified, coordinated revolt by consent holders and/or ratepayers against fees/conditions. Regulatory action resulting in moderate prosecution and conviction of council (eg - \$25-\$100k)
Level 3	2-3 stakeholders sectors dissatisfaction expressed through media resulting in a long period of negative coverage (>2 months). Central Government impose statutory sanctions. Regulatory action resulting in prosecution but no conviction.
Level 4	Single stakeholder sector express dissatisfaction through media for up to one month. Central Government – CEO MFE directed by Minister to make enquiries. Individual(s) express dissatisfaction through media or directly.
Level 5	Individual(s) express dissatisfaction through media or directly. Individual(s) refuse to pay fees/rates as a stand against council activities. No significant impact on stakeholders or image
No Impact	No significant impact on stakeholders or image

Operational Capability

Name	Full Description
Level 1	Event results in management diversion from strategic objectives for a period of > 2 months. Delivery of LTCCP outcomes across work area significantly affected for greater than six months. Critically detrimental effects on stakeholders. Long term loss of capability (>2 months).Event results in management diversion from strategic objectives for a period of <2 months.
Level 2	Event results in management diversion from strategic objectives for a period of <2 months. Delivery of LTCCP outcomes across work area significantly affected for up to six months. Moderate detrimental effects on stakeholders. Event results in loss of operational capability for up to 2 months. Event results in management diversion from strategic objectives for a period of a few days.
Level 3	Event results in management diversion from strategic objectives for a period of a few days. Delivery of LTCCP outcomes across work area significantly affected for up to one month. Minor detrimental effects on stakeholders. Event affects limited efficiency or effectiveness of service. Managed internally.
Level 4	Event affects limited efficiency or effectiveness of service. Managed internally. Moderate staff morale problems resulting in some staff resignations but managed through minor restructuring.
Level 5	Event causes minor disruption felt by limited small group of stakeholders. Minor staff morale impact resulting in minor dissention but managed over a short period of time.
No impact	No impact on operational capability



Risk Id	Risk	Details	Risk level	Level of control	Controls	Assumptions and Additional Information	Planned Actions
17	Long term gravel supply/demand imbalance	eg. gravel build up over time resulting in loss of flood conveyance eg. shortfall of gravel to coastal processes	Extreme	Unacceptable	Annual river maintenance contracts(Confidence:Improvement Required) Asset design(Confidence:Improvement Required)		
16	Loss of data and information	eg. event destroys significant engineering files	High	Unacceptable	Budgeting(Confidence:Improvement Required)		
12	Liquid pindone is no longer available	Liquid pindone is a critical rabbit control tool. It is the only alternative to 1080 for wide scale rabbit control.	High		Research and trial effective alternative rabbit control measures?(Confidence:Improvement Required)		
9	Land Management staff advice results in land user legal action through misinformation	Land management staff disclosure of information leads to reduced farm value misinformation leads to land owner financial loss	High	Acceptable	Clear processes to manage risk (Confidence:Effective) Training and accreditation (Confidence:Effective)	There is a consistent process across HBRC	
1	Brodifacoum not available	Currently half million hectares of possum control relies on Brodifacoum to achieve its objectives.	High	Acceptable	Approved contractor status(Confidence:Improvement Required) Poison handling & distribution specifications(Confidence:Satisfactory) Standardised bait station specifications(Confidence:Improvement Required)	If this occurred, there would be financial impact, but more significantly it could be considered that a loss of the initial investment could occur over time i.e. \$15m	Fully documented approved contractor criteria to be developed and annual audit process to be implemented.
15	Engineering staff advice results in legal action through misinformation	eg. substandard flood information provided resulting in public loss eg. substandard advice acting as consultants eg. failure to identify issues	High	Acceptable	Auditing(Confidence:Effective) Relationship management(Confidence:Effective)		
14	Loss of Funding	eg. redirection of funds to other council projects	High	Effective	Asset management planning(Confidence:Effective) Budgeting(Confidence:Effective) Monitoring(Confidence:Effective)		
6	Infrastructure failure at or below design level	e.g. stop bank design for a 1%AEP event fails	High	Effective	Annual drainage maintenance contract(Confidence:Effective) Annual river maintenance		National best practice guidelines being developed

					contracts(Confidence:Effective) Asset design(Confidence:Effective) Asset management planning(Confidence:Effective) Asset Register(Confidence:Effective) Auditing(Confidence:Effective) Budgeting(Confidence:Effective) Condition and risk assessments(Confidence:Improvement Required) Insurance(Confidence:Effective) Maintenance programmes(Confidence:Effective) Monitoring(Confidence:Effective) Professionally performed design and peer review and contract supervision(Confidence:Effective) Relationship management(Confidence:Effective)		
18	Serious Harm Incident	Land Services are exposed to a variety of hazards from office level to those in the field. They range from exposure to terrain, chemical, environmental, animal hazards as well as working with equipment. We are also exposed to working with potential confrontational people.	Moderate	Acceptable	HSE policy/codes of practice(Confidence:Improvement Required)		
13	Contractors poor performance	eg. contractor causing significant infrastructure damage or personal injury or death during routine operations	Moderate	Effective	Annual drainage maintenance contract(Confidence:Effective) Annual river maintenance contracts(Confidence:Effective) Auditing(Confidence:Effective) Relationship management(Confidence:Effective)		
7	Resourcing	Infrastructure/Engineering requires a range of competencies from design, modelling, project management, facilitation, and report writing. Senior level professional knowledge and experience is required.	Moderate	Acceptable	Budgeting(Confidence:Effective) Employ chartered professional engineers (Confidence:Effective) Human Resource review (Confidence:Effective) Relationship management(Confidence:Effective)		
8	Infrastructure failure in an event exceeding design level	Flood control and drainage assets are designed to a specific capacity. This design level is generally to a specific design event eg one with a 1% chance of being exceeded in any one year - or commonly called a 100 year return event. There is always the risk of this design level being exceeded.	Moderate	Effective	Annual drainage maintenance contract(Confidence:Effective) Annual river maintenance contracts(Confidence:Effective) Asset design(Confidence:Effective) Asset management planning(Confidence:Effective) Asset Register(Confidence:Effective) Auditing(Confidence:Effective) Budgeting(Confidence:Effective) Monitoring(Confidence:Effective) Relationship management(Confidence:Effective) Scheme reviews (Confidence:Effective)		

2	Brodificoum is found in food for human consumption	A toxin that is used for HBRC wide scale possum maintenance is highly residual and could potentially occur in the agricultural food chain.	Moderate		Approved contractor status(Confidence:Effective) Poison handling and bait distribution specification standards(Confidence:Effective)		
10	Loss of domestic stock or pets due to HBRC control operation	HBRC pest control activities could result in accidental non target harm or death.	Moderate	Effective	Control tools are set to best practice standards(Confidence:Effective) Relationship management(Confidence:Effective)		
11	Lack of support from landowners to participate in community led pest control.	Pest control activities that rely on financial input from landowners is no longer undertaken due to lack of interest/ perceived risk..	Moderate	Acceptable	Auditing(Confidence:Effective) Relationship management(Confidence:Effective)		
3	Plans and programmes do not achieve environmental outcomes				No Controls Entered		
4	Industry sectors unwilling to collaborate with HBRC Land Management team towards achieving HBRC goals				No Controls Entered		
5	Significant biosecurity incident in HB e.g. foot and mouth outbreak				No Controls Entered		

Risk Id	Risk	Details	Risk level	Level of control	Controls	Assumptions and Additional Information	Planned Actions
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16	Loss of data and information	eg. event destroys significant engineering files	High	Inadequate	Budgeting(Confidence:Improvement Required)		
12	Liquid pindone is no longer available	Liquid pindone is a critical rabbit control tool. It is the only alternative to 1080 for wide scale rabbit control.	High		Research and trial effective alternative rabbit control measures?(Confidence:Improvement Required)		
9	Land Management staff advice results in land user legal action through misinformation	Land management staff disclosure of information leads to reduced farm value misinformation leads to land owner financial loss	High	Acceptable	Clear processes to manage risk (Confidence:Effective) Training and accreditation (Confidence:Effective)	There is a consistent process across HBRC	
1	Brodifacoum not available	Currently half million hectares of possum control relies on Brodifacoum to achieve its objectives.	High	Acceptable	Approved contractor status(Confidence:Improvement Required) Poison handling & distribution specifications(Confidence:Satisfactory) Standardised bait station specifications(Confidence:Improvement Required)	If this occurred, there would be financial impact, but more significantly it could be considered that a loss of the initial investment could occur over time i.e. \$15m	Fully documented approved contractor criteria to be developed and annual audit process to be implemented.
15	Engineering staff advice results in legal action through misinformation	eg. substandard flood information provided resulting in public loss eg. substandard advice acting as consultants eg. failure to identify issues	High	Acceptable	Auditing(Confidence:Effective) Relationship management(Confidence:Effective)		
14	Loss of Funding	eg. redirection of funds to other council projects	High	Effective	Asset management planning(Confidence:Effective) Budgeting(Confidence:Effective) Monitoring(Confidence:Effective)		

6	Infrastructure failure at or below design level	e.g. stop bank design for a 1%AEP event fails	High	Effective	Annual drainage maintenance contract(Confidence:Effective) Annual river maintenance contracts(Confidence:Effective) Asset design(Confidence:Effective) Asset management planning(Confidence:Effective) Asset Register(Confidence:Effective) Auditing(Confidence:Effective) Budgeting(Confidence:Effective) Condition and risk assessments(Confidence:Improvement Required) Insurance(Confidence:Effective) Maintenance programmes(Confidence:Effective) Monitoring(Confidence:Effective) Professionally performed design and peer review and contract supervision(Confidence:Effective) Relationship management(Confidence:Effective)		National best practice guidelines being developed
18	Serious Harm Incident	Land Services are exposed to a variety of hazards from office level to those in the field. They range from exposure to terrain, chemical, environmental, animal hazards as well as working with equipment. We are also exposed to working with potential confrontational people.	Moderate	Acceptable	HSE policy/codes of practice(Confidence:Improvement Required)		
13	Contractors poor performance	eg. contractor causing significant infrastructure damage or personal injury or death during routine operations	Moderate	Effective	Annual drainage maintenance contract(Confidence:Effective) Annual river maintenance contracts(Confidence:Effective) Auditing(Confidence:Effective) Relationship management(Confidence:Effective)		
7	Resourcing	Infrastructure/Engineering requires a range of competencies from design, modelling, project management, facilitation, and report writing. Senior level professional knowledge and experience is required.	Moderate	Acceptable	Budgeting(Confidence:Effective) Employ chartered professional engineers (Confidence:Effective) Human Resource review (Confidence:Effective) Relationship management(Confidence:Effective)		

8	Infrastructure failure in an event exceeding design level	Flood control and drainage assets are designed to a specific capacity. This design level is generally to a specific design event eg one with a 1% chance of being exceeded in any one year - or commonly called a 100 year return event. There is always the risk of this design level being exceeded.	Moderate	Effective	Annual drainage maintenance contract(Confidence:Effective) Annual river maintenance contracts(Confidence:Effective) Asset design(Confidence:Effective) Asset management planning(Confidence:Effective) Asset Register(Confidence:Effective) Auditing(Confidence:Effective) Budgeting(Confidence:Effective) Monitoring(Confidence:Effective) Relationship management(Confidence:Effective) Scheme reviews (Confidence:Effective)		
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10	Loss of domestic stock or pets due to HBRC control operation	HBRC pest control activities could result in accidental non target harm or death.	Moderate	Effective	Control tools are set to best practice standards(Confidence:Effective) Relationship management(Confidence:Effective)		
11	Lack of support from landowners to participate in community led pest control.	Pest control activities that rely on financial input from landowners is no longer undertaken due to lack of interest/ perceived risk..	Moderate	Acceptable	Auditing(Confidence:Effective) Relationship management(Confidence:Effective)		
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4	Industry sectors unwilling to collaborate with HBRC Land Management team towards achieving HBRC goals				No Controls Entered		
5	Significant biosecurity incident in HB e.g. foot and mouth outbreak				No Controls Entered		

Description	Issues	Details	Level of control	Controls	Planned Actions	Risk level
Rates		Level of rates non-payment stays the same or gets worse.	Effective	Appointment of a new position (debt collection officer) to oversee collection of outstanding rates.(Control owner:Group Manager Corporate Services Paul Drury (as risk owner), Confidence:Effective, Reliance:Significant)	Plan to review fraud policy (last undertaken 2007)	Moderate
External Financial & Economic Pressures		Deterioration of the national and global financial position increasing fiscal pressure on Council (through non payment of rates and fees and lower returns (interest) on cash investments and potentially lower dividends). Reduced revenue could impact on Council's ability to deliver current agreed levels of service to the community.	Effective	Annual reviews of budget and level of service with the community.(Control owner:Group Manager Corporate Services Paul Drury (as risk owner), Confidence:Effective,) Council has statutory ability to collect unpaid rates on non Maori freehold land.(Control owner:Group Manager Corporate Services Paul Drury (as risk owner), Confidence:Effective,) Finance staff receive regular updates on economic projections from external consultants.(Control owner:Group Manager Corporate Services Paul Drury (as risk owner), Confidence:Satisfactory,) HBRIC Ltd reviewing dividend payments and balancing the ability to afford against Council's needs.(Control owner:Group Manager Corporate Services Paul Drury (as risk owner), Confidence:Effective,) Reserves available for short-term contingency.(Control owner:Group Manager Corporate Services Paul Drury (as risk owner), Confidence:Improvement Required,) Robust aged receivable collection process in place for sundry debtors.(Control owner:Group Manager Corporate Services Paul Drury (as risk owner), Confidence:Effective, Reliance:Important) Sound budget processes in practice including use of BERL inflationary indices.(Control owner:Group Manager Corporate Services Paul Drury (as risk owner), Confidence:Effective,) Strong focus on managing business as usual costs through monthly and quarterly variance reporting.(Control owner:Group Manager Corporate Services Paul Drury (as risk owner), Confidence:Effective,)		Moderate
Fraud		Loss of Council funds due to fraud.	Effective	- Internal accounting controls. - Fraud policy. - Insurance is in place. - External and internal audit.(Control owner:Group Manager Corporate Services Paul Drury (as risk owner), Confidence:Effective, Reliance:Significant)		Moderate
HBRIC Ltd		Substantial deterioration in performance of HBRIC Ltd.	Effective	- Council approves annual Statement of Intent which sets out the main objectives and performance measures for both HBRIC Ltd and Port of Napier Limited. - Regular reporting from HBRIC Ltd to Council to ensure Council is aware of any potential issues that arise in HBRIC Ltd or Port of Napier Limited. - Strategic Planning. - Council has control over appointment of Directors for HBRIC Ltd and Port of Napier. - Analysis of risk management frameworks for HBRIC Ltd and Port of Napier.(Control owner:Group Manager Corporate Services Paul Drury (as risk owner), Confidence:Effective, Reliance:Important)		Moderate
Insurance		Council has adequate insurance cover in place.	Effective	Brokers engaged to ensure that levels of insurance cover are sufficient.(Control owner:Group Manager Corporate Services Paul Drury (as risk owner), Confidence:Effective, Reliance:Significant)		Low
Credit Risk		Breach of bank covenants and associated impact on financial reputation, lending of business affected, potential loss of borrowing.	Effective	- Council governance procedures and management control. - Policies. (Control owner:Group Manager Corporate Services Paul Drury (as risk owner), Confidence:Effective, Reliance:Significant)		Low

Attachment 4

Item 6

Internal Controls		Difficulty in segregation of duties due to low number of finance staff and insufficiently trained and qualified accounting resource.	Effective	<ul style="list-style-type: none">- Focus on selection of staff qualified to do the job.- Staff training.- Audit of internal controls.- Management oversight.(Control owner:Group Manager Corporate Services Paul Drury (as risk owner), Confidence:Effective, Reliance:Important)		Moderate
Leasehold Property		Increasing rents affecting leaseholders ability to afford lease payments and the implication of this defaulting on ACC payments and reporting.	Effective	<ul style="list-style-type: none">- Communication with leaseholders which includes impending lease renewals at higher amounts.- Focus on collection of outstanding lease payments.- Ability to recover outstanding lease amounts through legal action.- Policies and procedures in place to ensure reporting deadlines are achieved.(Control owner:Group Manager Corporate Services Paul Drury (as risk owner), Confidence:Effective, Reliance:Critical)		Moderate

HAWKE'S BAY REGIONAL COUNCIL
FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 03 June 2015

Item 7

Subject: EXTERNAL AUDIT

Reason for Report

1. To cover the draft arrangements letter for the external audit to be carried out by Audit NZ on Council's financial statements for the year ending 30 June 2015.
2. Included in this sub-committee's delegated terms of Reference is the responsibility to confirm the terms of appointment and engagement of external auditors, including the nature and scope of the audit, timetable and fees.

Background

3. Section 99 of the Local Government Act 2002 refers to the Auditor General being responsible to provide an audit report on Council's Annual Reports. The Auditor General has appointed Audit NZ to carry out this audit. Stephen Lucy is the current Audit Director of Audit NZ who is responsible for this audit. Stephen will be presenting the "draft arrangements letter" covering the audit for the financial year to 30 June 2015 to Councillors at this meeting, and will also cover off the future relationship between Audit NZ and this subcommittee. Please refer to **Attachment 1** for a copy of the draft arrangements letter.

Decision Making Process

4. The Audit of Council's financial statements is a requirement under the Local Government Act 2002.

Recommendations

1. That the Finance, Audit and Risk Sub-committee approves the draft arrangements letter for the Audit NZ audit of Council's financial statements for year ending 30 June 2015.

Paul Drury
GROUP MANAGER CORPORATE
SERVICES

Attachment/s

- 1 Proposed Audit Arrangements

[Draft – 25 May 2015]

Fenton Wilson
Chairperson
Hawke's Bay Regional Council
Private Bag 6006
Napier 4142

Dear Fenton

Audit for the year ending 30 June 2015

I am writing to outline our arrangements for the audit of the Hawke's Bay Regional Council for the year ending 30 June 2015. This letter has two main sections – an agreement to be signed, and details of the audit.

Agreement to be signed

On the next page is an agreement that you need to sign. Your signature confirms that the details of the audit match your understanding of the arrangements for this year's audit. Please sign and return one copy of the agreement (the other copy is for your records).

Details of the audit

Here we set out the proposed arrangements for this year's audit. These include:

- business risks/issues and our audit response (both for the Regional Council itself as well as the group – including HBRIC and the Port of Napier);
- our areas of interest for all Local Authorities;
- first financial statements prepared using the new PBE accounting standards; and
- logistics (such as our audit team, timing, and fees).

Please take the time to read this document thoroughly before returning the signed agreement. If there are additional matters that should be included, or any matters requiring clarification, please contact me.

Yours sincerely

Stephen Lucy
Director

HBRIC audit arrangements 2015

.....

Agreement to be signed

I acknowledge that the details of the audit set out here are in keeping with my understanding of the arrangements for the audit.

Signed

Fenton Wilson
Chairman

Date

DRAFT

Details of the audit

1 Introduction

This document sets out the arrangements for the audit of the Hawke's Bay Regional Council (the Regional Council) for the year ending 30 June 2015. These include:

- business risks/issues and our audit response (both for the Regional Council itself as well as the group – including HBRIC and the Port of Napier);
- our areas of interest for all local Authorities;
- first financial statements prepared using the new PBE accounting standards; and
- logistics (such as our audit team, timing, and fees).

2 Your business risks/issues and our audit response

Based on the planning work and discussions that we have completed to date, we have identified what we consider to be the main business risks and issues facing the Regional Council. Many of these risks and issues are relevant to the audit because they affect our ability to form an opinion on your financial statements. As part of the wider public sector audit, we are also required to be alert to issues of effectiveness and efficiency, waste and a lack of probity or financial prudence (as set out in the Audit Engagement Letter dated 20 June 2014).

The table below sets out the business risks and issues that we have identified in line with these requirements. The left-hand column describes these risks and issues. In the right-hand column, we describe how we plan to respond to these during the audit.

Your business issues	Our audit response
Ruataniwha Water Storage Scheme (RWSS)	
<p>The Regional Council's subsidiary, Hawke's Bay Regional Investment Company Limited (HBRIC), and thus the group, recognises an intangible asset for the development expenditure it has incurred in the development of the RWSS (\$9.553 million as at 30 June 2014). It is HBRIC's intention to sell the feasibility assets of the RWSS to a Limited Partnership on financial close at their book value.</p> <p>We note that Council has set four Conditions Precedent:</p> <ul style="list-style-type: none"> • the EPA granting satisfactory resource consent conditions for RWSS infrastructure and operations, which in turn are recommended as being workable by all investors; • agreements to purchase a minimum of 40 million cubic metres of water per annum and that the Ruataniwha Water 	<p>We will review the progress of the RWSS project and any decisions that are made in relation to this that will impact on the Council and Group.</p> <p>We will review HBRIC's accounting treatment of the development expenditure incurred during the period. In particular:</p> <ul style="list-style-type: none"> • whether the amount of the intangible asset is fairly stated and its recognition as an intangible asset complies with generally accepted accounting practice; and • HBRIC's assessment as to whether any impairment needs to be made for the RWSS development expenditure. <p>We will also review Council's accounting treatment of its advance to HBRIC including any impairment assessment.</p>

Your business issues	Our audit response
<p>Limited Partnership has committed to supply a minimum of 40 million cubic metres per annum;</p> <ul style="list-style-type: none"> securing the funding required to build and operate the RWSS infrastructure; and obtaining a bankable construction contract which adequately addresses construction risk allocation through a fixed-time, fixed-cost arrangement. 	
Investment in the Port of Napier	
<p>We understand that a valuation of the Port of Napier is being undertaken this year.</p> <p>The Regional Council will need to review the valuation for any impairment indicators of the Regional Council's investment in HBRIC in accordance with the relevant accounting standard, NZ IPSAS 26 <i>Impairment of cash generating assets</i>.</p>	<p>We will review the Regional Council's assessment as to whether the valuation of the Port has identified any indicators that the Regional Council's investment in HBRIC is impaired.</p>
Investment Properties	
<p>Investment Properties need to be revalued annually (both the Regional Council and the Port of Napier have investment properties).</p>	<p>We will review the valuations and the resulting accounting transactions to ensure that they are compliant with GAAP. The auditors of the Port will undertake similar work.</p>
Use of derivatives and hedging	
<p>The Port of Napier uses interest rate swaps to manage the interest rate expense on its debt facility.</p> <p>The Port also uses foreign exchange contracts to mitigate fluctuations in foreign currency in relation to the off shore purchases of plant and equipment.</p>	<p>The auditors of the Port will assess the effectiveness of the hedging designations and the completeness of all hedging documentation.</p> <p>They will review the accounting in the hedging reserve and the income statement as well as disclosures.</p>
Port of Napier – Follow-up of matters raised last year	
<p>Last year the auditors of the Port recommended that:</p> <ul style="list-style-type: none"> The Port review market based construction costs prior to September 2014 as a part of an impairment review of the Breakwater. The Port needs to correctly disclose the compensation paid to all key management personnel. Last year, the Port's disclosure only consisted of compensation paid to the Chief Executive and the Board of Directors. 	<p>We will liaise with the auditors of the Port to find out what progress has been made in addressing these recommendations.</p>

Your business issues	Our audit response
Adjustments to ensure the Port of Napier and HBRIC results are correctly incorporated into the Regional Council's group results	
<p>The Regional Council and group are public benefit entities as their primary objective is to provide goods or services for community or social benefit rather than to provide a financial return to equity holders.</p> <p>On the other hand, HBRIC and the Port of Napier are for-profit entities as their primary objective is to provide a financial return to equity holders.</p> <p>Different accounting standards apply to public benefit entities and for-profit entities. Therefore, when preparing the group financial statements, consideration needs to be given to any accounting adjustments that need to be made to adjust the HBRIC and Port of Napier results so that they are appropriately included in the group results.</p>	<p>We will review management's assessment of any public benefit/for-profit adjustments that need to be made when preparing the group financial statements.</p> <p>For example, the Port of Napier capitalises borrowing costs in respect of "qualifying assets" whereas the Regional Council expenses all borrowing costs. This is appropriate for both entities but does mean that an adjustment for these capitalised borrowing costs needs to be made in the group financial statements.</p>
Lease receivables agreement with ACC	
<p>In December 2013 the Regional Council entered into an agreement with ACC to sell the rights to annual rental income received on a portion of the investment property portfolio.</p> <p>The agreement also involves provisions for the proceeds from investment property sales.</p>	<p>We will review the accounting treatment of the lease agreement transactions to ensure that they are compliant with GAAP.</p> <p>As agreed in 2014 we will also perform an agreed upon procedures engagement to report to ACC under clause 19.1(g) of the Agreement for the year ended 30 June 2015.</p>
Audit of the Debenture Trust Deed	
<p>As the Regional Council's auditor, we also issue a report to the trustees of the Council's Debenture Trust Deed (the deed). This requirement is included in Council's deed dated 21 October 2009.</p>	<p>We will make arrangements with Council so we can issue our report to the trustees within 30 days of signing the annual report.</p>

We will also follow up on progress made by the Regional Council in its response to our previous recommendations.

Please tell us about any additional matters that we should be aware of as your auditor, and any specific significant business risks that we have not covered.

3 Our areas of interest for all local authorities

As part of our audit planning we have identified two areas of focus across the 2014/15 audits of all local authority clients. These are detailed below.

There are also other areas of audit interest that are part of our audit of the Regional Council which we monitor as part of our responsibility to consider the broader risks affecting local authorities.

3.1 Matters of particular interest for 2014/15

In May 2014, the Auditor-General published a report *Reflections from our audits: Our future needs – is the public sector ready?* The report recognises that public services must change and adapt to meet new challenges and help build the future New Zealanders want. The report identified five aspects that the public sector should be preparing for:

- Protecting the solid foundations of public sector finances.
- Looking after natural resources and physical assets.
- Putting ideas and plans into action.
- Acknowledging the importance of people.
- Embracing digital technology.

As part of our audit, we will consider the observations in the report and report any relevant issues to you. We plan to focus on two areas as part of the 2015 audit, investment and asset management. The purpose of investment and asset management is to provide the desired level of service in the most cost effective manner through the management of assets for present and future customers. Our focus is on significant assets and investments that are important to the delivery of services.

3.1.1 Investment management

Public sector entities are accountable for the public money that they invest in financial assets or projects and programmes. Financial assets across the New Zealand public sector are becoming increasingly significant. As part of the audit we will update our understanding of the Regional Council's financial assets and investment practices.

3.1.2 Asset management

Asset management is a core part of the Regional Council's business and critical to the prudent and sustainable use of public funds. We have recently reviewed and commented on the Regional Council's infrastructure strategy and asset management practices during our audit of the Long Term Plan Consultation Document. We will follow up on progress made addressing issues raised.

We also plan to update our understanding of how Council monitors its actual asset expenditure against the planned expenditure. Key questions that Council should consider include:

- What is the plan to close knowledge gaps about the condition and performance of significant assets?
- Is there a transparent and prudent approach to decisions to defer maintenance and renewals expenditure?
- Does Council monitor and assess the implications of unplanned asset expenditure and does this process ensure the ongoing sustainability of Council's assets for future generations?
- Is appropriate information about asset condition; asset performance; unplanned or deferred maintenance; and/or renewals reported to those charged with governance?

3.2 Other areas of interest

As well as the risks and issues noted above, there are a number of other areas of audit focus common to the local authorities sector. Refer to Appendix 1 for details.

4 First financial statements prepared using the new public benefit entity accounting standards

The Council is required to prepare the 30 June 2015 financial statements using the new public benefit entity accounting standards.

To ensure a smooth audit of the first financial statements prepared using the new standards, the Council needs to:

- determine its reporting tier (as expenditure for both Council and the Group are greater than \$30 million, they will both be PBE Tier 1);
- assess and document the differences that may have a recognition, measurement, presentation, or disclosure effect on the Council and group's financial statements;
- update the statement of accounting policies to comply with the new standards;
- prepare an opening statement of financial position and restate comparatives (including disclosures) to comply with the new standards;
- determine any required system changes to comply with the new standards; and
- consider group reporting implications that could arise from accounting policy differences between the PBE group and its for-profit subsidiaries.

We plan to audit the updated accounting policies, opening statement of financial position, and restated comparatives during the final audit visit. It is important that the above work is completed in advance of our review.

We will be progressively updating our model financial statements and publishing a table of key differences in the new PBE standards. These publications will be available on our website.

We expect the Council to have adequately prepared for the adoption of the new standards. If the audit takes more time than planned because your entity has not been prepared to apply the new standards, we will look to recover additional fees.

5 Logistics

5.1 Our audit team

The Audit New Zealand staff involved in the audit are:

Stephen Lucy	Director
Clarence Susan	Engagement Quality Control Director
Fiona Elkington	Audit Manager
Amy Soper	Audit Supervisor
Brian Breen	Information Systems Auditor
Jason Biggins	Tax Director

5.2 Important dates in the audit process

Our proposed timetable is:

	Date
Interim audit begins	20 April 2015
Draft financial statements available for audit ¹	10 August 2015
Final audit begins	17 August 2015
Final financial statements available ² for audit	31 August 2015
Verbal audit clearance given	7 September 2015
Annual report ³ available for audit	14 September 2015
Audit opinion issued	To be confirmed
Summary annual report available for audit	To be confirmed
Summary annual report audit opinion issues	To be confirmed
Draft final detailed management report issued	To be confirmed

5.3 Our interim audit visit

We carried out the interim audit during April 2015. During this visit, we focused on updating our understanding of the Council's internal control. This included reviewing the control environment, risk assessment processes and relevant aspects of information systems controls. We will use the results of this assessment to determine how much we can rely on the information produced from your systems during our final audit.

¹ Financial statements (including notes to the financial statements) with actual year-end figures.

² Financial statements incorporating all the amendments agreed to between the Council and Audit New Zealand.

³ Annual report, including any Chair's and Chief Executive's overview or reports.

5.4 Our final audit visit

Our final audit is scheduled to start on 17 August 2015 and is expected to last two weeks onsite. During this visit we will be auditing the balances, disclosures, and other information included in your financial statements.

5.5 Professional fees

Our audit fee estimate for the year ending 30 June 2015 is \$96,800 plus disbursements (GST exclusive). This is as agreed in the Audit Proposal Letter dated 20 June 2014.

The fee is an estimate and assumes that the expectations discussed in section 6.2 will be met. If this does not occur, or the scope of the audit changes, we will discuss this further with you.

We will bill \$35,000 in April and August with the balance in September.

To ensure we can complete the audit within the proposed time frame (see section 5.2) and agreed fee, it is critical that you make appropriate supporting documentation available to us on a timely basis. If this is not the case, it is likely to result in cost overruns, which we will seek to recover from you. 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.

6 Additional information about the audit

6.1 Our reporting protocols

6.1.1 Management reports

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

6.1.2 Reporting of misstatements

We will include details of all uncorrected misstatements in our management report. Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of the Regional Council's financial statements.

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 in the Regional Council's financial statements.

Where management does not wish to correct a misstatement we will seek written representations from Council (as the governing body) in the usual year end representation letter that specify the reasons why the corrections will not be made.

6.2 Our expectations of you to enable an efficient audit

To enable us to carry out our audit efficiently within the proposed audit fee, we expect that:

- the Council will provide us with access to all relevant records and provide information in a timely manner;
- your staff will provide an appropriate level of assistance;
- the financial statements will be available at the start of the final audit, include all relevant disclosures, and be fully supported by a detailed workpaper file; and
- the annual report and financial statements (including the statement of service performance) will be subjected to appropriate levels of quality review before submission for audit.

Our audit fee is based on the assumption that we will review no more than two sets of the draft annual report, one printer's proof copy of the annual report, and one copy of the electronic version of the annual report for publication on HBRC's website.

6.3 How we consider your compliance with statutory authority

As part of the Auditor-General's mandate, we carry out an audit of compliance with statutory authority. Our audit is limited to obtaining assurance that you have complied with certain laws and regulations that may directly affect the Council's financial statements or general accountability. Our audit does not cover all of the Council's requirements to comply with statutory authority.

Our approach to this aspect of the audit will mainly involve assessing the systems and procedures that are in place to ensure compliance with certain laws and regulations that we consider to be significant. We will also complete our own checklists covering the key requirements of significant legislation. In addition, we will remain alert for any instances of non-compliance that come to our attention. We will evaluate the relevance of any such non-compliance to our audit.

Appendix 1: Areas of interest for all Local Authorities

As well as the risks and issues noted above, there are also a number of other concerns common to the local government sector. The table below outlines our areas of interest for this year's audit. The left column describes each matter and the reasons for our interest. The right column describes how we plan to address each matter during the audit.

Areas of interest	Our audit response
Audit Committees	
<p>An effective Audit Committee can have a positive impact on the identification and management of risk and provide valuable support to an entity and the Governing Body.</p> <p>Good practice guidance includes:</p> <ul style="list-style-type: none"> the Auditor-General's <i>Audit committees in the public sector</i>; and the LGNZ's <i>Local Government Audit & Risk Management</i>. <p>Audit committees have a valuable contribution to make in improving the governance, and so the performance and accountability, of public entities. They can play an important role in examining an organisation's policies, processes, systems, and controls. An effective audit committee shows that an organisation is committed to a culture of openness and continuous improvement.</p> <p>The Office of the Auditor-General is in the process of updating their guidance on Audit Committees. As part of that process a discussion document has been published seeking comment from Audit Committees in the public sector on what works and doesn't work for them. We encourage the Regional Council to consider the guidance and discussion document and provide comment.</p>	<p>As part of understanding Council's overall control environment we will consider the impact the Audit Committee has on the control environment including identification and mitigation of organisational risks and improving governance and accountability.</p>
Conflicts of interest	
<p>Conflicts of interest are an area of concern from two perspectives; probity and the potential for a conflict of interest that is not well managed to create significant legal and reputation risks. Guidance for entities in this area includes the OAG's publications:</p> <ul style="list-style-type: none"> <i>Managing conflicts of interest: guidance for public entities</i>, explains how to understand conflicts of interest in the public sector, and how to identify, disclose, and manage them. It also considers both the legal and ethical dimensions of conflicts of interest. 	<p>While it is primarily the responsibility of the Council to identify and manage conflicts of interest, in the course of our usual audit work we will remain alert for conflicts of interest.</p> <p>If we identify particular risks related to the management of conflicts of interest, we may carry out further work to review the Council's systems and processes.</p>

Areas of interest	Our audit response
<ul style="list-style-type: none"> Guidance for members of local authorities about the local authorities (Members' Interests) Act 1968, provides more specific guidance for Councillors. <p>The Local Authorities (Members' Interests) Act 1968 controls the making of contracts between Councillors and the Council and prohibits Councillors from participating in Council matters in which they have a pecuniary interest.</p>	
Elected members – remuneration and allowance	
<p>The Local Government Act gives the Remuneration Authority responsibility for setting the remuneration of local government elected members. The Authority also has the role of approving a Local Authority's policy on allowances and expenses.</p> <p>Council's annual report must disclose the total remuneration received by or payable to each member of the local authority in the reporting period.⁴ A local authority must disclose remuneration paid or payable to each member from both the local authority and any Council organisation of the local authority.</p>	<p>We will assess the Council's compliance with the requirement to disclose the remuneration of each member of the local authority in the annual report against the relevant Local Government Elected Members Determination and any amendment to that Determination.</p>
Possible LTP amendments	
<p>Every proposed amendment must be audited. An amendment arises where Council proposes:</p> <ul style="list-style-type: none"> a significant change to services levels [section 97 (1)(a)]; or to transfer ownership of a strategic asset [section 97(1)(b)]; or a significant change to the revenue and financing policy [section 103(4)]. 	<p>We will remain alert for possible amendments throughout the year. We will maintain contact with management and discuss potential amendments as they arise.</p>
Project management	
<p>Taking a project-managed approach is an important part of effectively controlling capital works, changes to key IT systems and the process of change more generally – whether that is change to service delivery, or change to the way the entity works.</p>	<p>We will review the Council's approach to project management and consider whether an adequate control framework is in place and operating effectively.</p>

⁴ Schedule 10, clause 18, Local Government Act 2002.

Areas of interest	Our audit response
Funding arrangements and procurement	
<p>The Auditor-General continues to have an interest in the appropriate management of funding arrangements and procurement throughout the public sector.</p> <p>Good practice guidance includes:</p> <ul style="list-style-type: none"> • OAG's <i>Public sector purchases, grants, and gifts: Managing funding arrangements with external parties</i> • OAG's <i>Procurement guidance for public entities</i> • Government Rules of Sourcing (including the five principles of government procurement) issued by the Ministry of Business, Innovation and Employment. <p>We recommend that Council's policies and procedures for funding arrangements and procurement be compared to the good guidance provided in these publications.</p>	<p>We will follow up on whether the Council has updated its policies and guidance in line with good practice.</p> <p>We may also review whether procurement practices reflect Council policy and good practice.</p>
Contract management	
<p>Contract management is an important component of procurement. Contract management includes the effective management and monitoring of the delivery of goods or services to the agreed levels. It is essential to ensuring that the Regional Council obtains value for money from the contracts its procurement processes have put in place.</p> <p>Contract renewals provide opportunities for the Regional Council to refresh contract expectations and deliverables to align to the LTP. This can also provide opportunities for efficiencies or other savings.</p>	<p>We will discuss the contract management process the Regional Council has and consider whether there is appropriate management. Where we identify particular risks related to contract management we may carry out additional work to review the Regional Council's policies, procedures or approach to contract management in practice.</p>
Risk management	
<p>Sound risk management processes help to minimise the impact of risks on the organisation.</p> <p>Where the Council has not identified risks, or has not put in place specific processes for managing these risks, the organisation remains exposed to the full impact of the particular risk.</p>	<p>We will ascertain whether the Council has, or is implementing a formal organisation-wide approach to risk management.</p> <p>We will perform a high level review of the broad approach taken and the processes in place.</p>

Areas of interest	Our audit response
Rates	
<p>Rates are the Regional Council's primary funding source.</p> <p>Compliance with the Local Government (Rating) Act 2002 (LGRA) in rates setting and collection is critical to ensure that rates are validly set and not at risk of challenge.</p> <p>The Regional Council should ensure it has appropriate processes in place, including seeking legal advice where appropriate, to ensure compliance of its rates and rating processes with legislation.</p>	<p>For 2015, we will again consider the Regional Council's compliance with aspects of the LGRA that materially impact on the financial statements. Principally this means a focus on the rates setting process – the consistency and completeness of the resolution and the Funding Impact Statement (FIS), and reviewing a sample of differentially set and/or targeted rates to assess whether the matters and factors used are consistent with the LGRA. We will also follow up any issues identified from our review of rates in 2014.</p> <p>We stress that our review of compliance with legislation is completed for the purposes of expressing our audit opinion. It is not, and should not be seen, as a comprehensive legal review. This is beyond the scope of the audit, and our expertise as auditors. The Council has responsibility for ensuring that it complies with applicable laws and regulations.</p>
Property, plant and equipment	
<p>The Regional Council periodically revalues its:</p> <ul style="list-style-type: none"> • Land and buildings • Hydrological Equipment • Infrastructure assets. <p>PBE IPSAS 17, <i>Property, Plant and Equipment</i>, requires that valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.</p> <p>The Regional Council needs to formally review whether a revaluation is needed this year for the asset classes that it is not proposing to revalue. It is important that you make this assessment at an early stage, to avoid the risk of this becoming a significant issue at a late stage of the audit.</p>	<p>We understand that the Regional Council is not intending to revalue any assets this year.</p> <p>Therefore we will review the Regional Council's assessment of whether there is any significant difference between the carrying amount and fair value of its:</p> <ul style="list-style-type: none"> • Land and buildings • Hydrological Equipment • Infrastructure assets.

Areas of interest	Our audit response
Property, plant and equipment – impairment assessment	
<p>PBE IPSAS 21, <i>Impairment of Non-Cash-Generating Assets</i>, and PBE IPSAS 26 <i>Impairment of Cash-Generating Assets</i> respectively require that an entity assess, at the end of each reporting period, whether there is any indication that an asset (including intangible assets) may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. The standard also provides guidance on some indicators that an asset may be impaired.</p> <p>We expect the Council to have completed an impairment assessment to determine whether any assets will need to be impaired. This assessment needs to be made at an early stage, to avoid the risk of this becoming a significant issue at a late stage in the audit.</p>	<p>We will review the Council's assessment of whether there are any indicators of impairment, and the resulting accounting treatment if applicable.</p>
Performance measure rules	
<p>In November 2013 the Department of Internal Affairs (DIA) announced the Non-financial Performance Measures Rules 2013 (the Rules). The Rules came into force under s261B of the LGA 2002, and mandated a total of 19 measures across water supply, wastewater, stormwater drainage, flood protection and roading and footpath activities. These measures must be included in the 2015-2025 LTP and be reported on for the first time in the 2016 Annual Report.</p>	<p>We will discuss with Council how it is planning to establish the systems necessary to capture this information.</p>
Financial reporting disclosures	
<p>Schedule 10 of the Local Government Act and the Local Government (Financial Reporting and Prudence) Regulations 2014 detail disclosures to be included in the Annual Report. Council should review these requirements to ensure all disclosures have been included in the annual report.</p>	<p>We will check that all the disclosures required by schedule 10 of the Local Government Act and the Local Government (Financial Reporting and Prudence) Regulations 2014 have been appropriately included in the Council's annual report.</p>

HAWKE'S BAY REGIONAL COUNCIL
FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 03 June 2015

Item 8

Subject: WORK PROGRAMME GOING FORWARD

Reason for Report

1. In order to ensure the sub-committee's ability to effectively and efficiently fulfill its role and responsibilities, an overall suggested work programme for the remainder of 2015 is provided following.

22 September meeting	<p>Presentation of the Quantate model showing major risks to Council and action proposed to be taken to mitigate against those risks</p> <p>Insurance programme (presentation by Council's insurance brokers – Jardine, Lloyd Thompson)</p> <p>Health & Safety – new legislative requirements and members' accountability/liability – presentation by Worksafe</p>
11 November meeting	<p>NZ Audit report on HBRC 2014-15 Annual Report</p> <p>Follow-up on Health & Safety</p> <p>Operational review of a selected Council activity, i.e. budget vs actual and performance measures for selected activity – in line with Committee's objective to undertake systematic reviews of Council operational activities</p>

Decision Making Process

2. As this report is for information only and no decision is to be made, the decision making provisions of the Local Government Act 2002 do not apply.

Recommendation

1. That the Finance, Audit and Risk Sub-committee receives the ***“Work Programme Going Forward”*** report.

Paul Drury
GROUP MANAGER CORPORATE
SERVICES

Attachment/s

There are no attachments for this report.

HAWKE'S BAY REGIONAL COUNCIL
FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 03 June 2015

Subject: INTERNAL AUDIT

That Council excludes the public from this section of the meeting, being Agenda Item 9 Internal Audit with the general subject of the item to be considered while the public is excluded; the reasons for passing the resolution and the specific grounds under Section 48 (1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution being as follows:

GENERAL SUBJECT OF THE ITEM TO BE CONSIDERED	REASON FOR PASSING THIS RESOLUTION	GROUNDS UNDER SECTION 48(1) FOR THE PASSING OF THE RESOLUTION
Internal Audit	7(2)(i) That the public conduct of this agenda item would be likely to result in the disclosure of information where the withholding of the information is necessary to enable the local authority holding the information to carry out, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).	The Council is specified, in the First Schedule to this Act, as a body to which the Act applies.

Paul Drury
GROUP MANAGER CORPORATE
SERVICES

Liz Lambert
CHIEF EXECUTIVE