



## Meeting of the Finance Audit & Risk Sub-committee

**Date:** Tuesday 12 February 2019  
**Time:** 9.00am  
**Venue:** Council Chamber  
Hawke's Bay Regional Council  
159 Dalton Street  
NAPIER

### Agenda

ITEM	SUBJECT	PAGE
1.	Welcome/Notices/Apologies	
2.	Conflict of Interest Declarations	
3.	Confirmation of Minutes of the Finance Audit & Risk Sub-committee meeting held on 21 November 2018	
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13.	Confirmation of the Public Excluded Minutes of the Finance, Audit and Risk Sub-committee Meeting held on 21 November 2018	103



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

**Tuesday 12 February 2019**

**SUBJECT: FOLLOW-UPS FROM PREVIOUS FINANCE AUDIT & RISK SUB-COMMITTEE MEETINGS**

**Item 4**

**Reason for Report**

1. In order to track items raised at previous meetings that require follow-up, a list of outstanding items is prepared for each meeting. All follow-up items indicate who is responsible for each, when it is expected to be completed and a brief status comment. Once the items have been completed and reported to the Committee they will be removed from the list.

**Decision Making Process**

2. Council is required to make every decision in accordance with the Local Government Act 2002 (the Act). Staff have assessed the in relation to this item and have concluded that as this report is for information only and no decision is required, the decision making procedures set out in the Act do not apply.

**Recommendation**

That the Finance, Audit and Risk Sub-committee receives and notes the report “***Follow-ups from Previous Finance Audit and Risk Sub-committee Meetings***”.

**Authored by:**

**Leeanne Hooper**  
**PRINCIPAL ADVISOR GOVERNANCE**

**Approved by:**

**Jessica Ellerm**  
**GROUP MANAGER**  
**CORPORATE SERVICES**

**Attachment/s**

[!\[\]\(2bae76de5ebbd5c4d7d47162f1673734\_img.jpg\) 1](#) Followups for Feb 2019 FARS meeting



## Follow-ups from Finance, Audit &amp; Risk Sub-committee Meetings

21 November 2018

	Agenda Item	Follow-up / Request	Responsible	Status Comment
1	Health & Safety Internal Audit	Provide an update on implementation of the work programme, including the draft Strategic Plan and Charter	J Lawrence	Full work programme (including the Strategic Plan and Charter and related internal comms activity) presented to Executive Leadership Team on 29/1/19. The work programme responding to the Internal Audit recommendations is underway and a verbal progress update will be provided to the 12 February FARS meeting. Detailed updates on the Health & Safety work programme will be provided to the C&S committee as a standing agenda item at each meeting.
2	Internal Audits Update	Investigate whether there is potential to bring forward any of the Audits on the work programme	M des Landes	Proposed schedule of Internal Audits for 2019-20 to be presented to 22 May FARS meeting.
3	Internal Audits Update	Transport Manager's living wage' report to be provided to Sub-committee members when available	M des Landes	To be included in Living Wage update paper to 22 May FARS meeting
4	Treasury Reporting	Treasury reporting (staff and fund managers to FARS and Council) schedule	M Collings	Reporting Schedule included in the Treasury Report standing item on the 12 February FARS agenda

Item 4

Attachment 1



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

**Tuesday 12 February 2019**

**Subject: SIX MONTHLY REPORT ON RISK ASSESSMENT AND MANAGEMENT**

**Reason for Report**

1. To provide the Sub-committee with the six monthly review of the risks that Council is exposed to and the mitigation actions in place to manage Council's risk profile.

**Background**

2. The Sub-committee last considered the risk management report at its meeting held 19 September 2018.
3. Subsequent to this meeting, Executive were briefed and then committed to further risk management discussion at Executive meetings. Executive also met with Corporate Accountant individually to commit to delivering on one or more mitigation strategies within the register. Staff will feedback at future Finance, Audit & Risk sub-Committee (FARS) meetings as to progress on actions - which would also be reflected by an update in the risk register.
4. Following on from a series of six monthly risk management workshops held in January 2019 and examination of findings at several Executive meetings, **attached** is the latest risk management update for councillors' review.
5. At the September 2018 meeting, the sub-committee was advised of the update to risks and risk owners as a reflection of the recent LTP restructure. As part of the risk management maturity process, each risk has had a risk owner commit to an action(s) in order to further mitigate their risks. This is in addition to the reassessment of current risks and their impacts within Council.
6. The sub-committee also requested feedback from the Group Manager – Office of the Chief Executive & Chair. This commentary is provided in the "Summary of Risk Management" section following, along with further detail around other aspects of Risk Management at Council and future plans including a proposed review of internal processes.

**Risk Management Progress**

7. Overall there has been a series of tangible mitigation strategies employed as Council evolves its risk management process. This has been assisted by the recent LTP process whereby additional resource has been added and has enabled Council to be more proactive.
8. A key example of this is within the Contamination of Drinking Water risk, a series of proposed "management options" have now become current practice for this risk. This is due to the additional resource added to the Compliance team which has enabled Council to do more testing after Priority One consents have been identified.
9. In addition, there has been better communication with stakeholders which has been aided by streamlined Council communication, additional clarity provided in the form of brochures and review of disclaimers, and the Joint Drinking Water committees which are now up and running.
10. There is a programme in place for improving Health & Safety within Council which is driven out of a recent Health & Safety audit which was presented to this Sub-Committee on 21 November last year. Feedback from the risk workshops has been positive, with other additional suggestions made to improve Health & Safety, with a focus on physical competence to complete a job, such as operation of a Land Use Vehicle.







11. It is noted that in this example (and others) some of the mitigation options will never necessarily be “complete” as some will require regular monitoring and progress, as such the narrative within the register has been updated to reflect that Council should continue to drive its risk mitigation strategies.
12. In addition, the level of engagement across the organisation has increased generally around risk management, with additional executive meetings, and further staff engagement on risks and communication. There is an improved culture of understanding and engagement with senior staff which Council will continue to progress.
13. Key changes to the matrix are outlined further below. These changes are in addition to reassessment of current practices and treatment options which have also been updated in the register. Risk descriptors have also been updated to better reflect the actual risk to Council.

### Key Changes to the Risk Matrix

14. Three previous risks have been renamed to better reflect the actual risk to Council.

Previous Risk Title	Amended Risk Title	Commentary
Failure to meet unrealistic public expectations	Ability to effectively engage with public and stakeholders	Recognition that the risk is not so much in Council's ability to meet expectations, but the ability to effectively educate and communicate with stakeholders
Infrastructure Failure	Infrastructure Exceedance	Recognition that flood and drainage systems are designed to meet minimum standards and the risk is that systems exceed such standards
Risk of staff providing incorrect or sensitive information to stakeholders	Risk of Council providing incorrect or sensitive information to stakeholders	Recognition that the risk of providing incorrect or sensitive information extends to beyond staff.

15. Risk trend ratings have been amended as follows.

Risk	Previous Trend Rating	New Trend Rating	Commentary
Risk of Contaminated Site contaminating Aquifer			Recognition of additional resourcing within this space including improvement monitoring capacity and better information programmes
Implementation of National Policy for Freshwater Management			TANK implementation lessons learned
Ability for Council to deliver on Planned Projects			Recognition of Project Management Office up and running with dedicated resource to ensure project service delivery.

16. Residual Risk assessments have been amended as follows.

Risk	Previous Assessment	New Assessment	Commentary
Inadequate Contractor Management	<i>Effectiveness:</i> <b>Effective</b> <i>Likelihood:</i> <b>Unlikely</b> <i>Risk Factor:</i> <b>Low</b>	<i>Effectiveness:</i> <b>Satisfactory</b> <i>Likelihood:</i> <b>Likely</b> <i>Risk Factor:</i> <b>Moderate</b>	Recognition of recent procurement and contract management audit which identified a number of inconsistencies in approach between groups. Staff are working through this internally and with other agencies to improve contract management within Council.



## Summary of Risk Management

### *External Review*

17. As proposed at its previous meeting, a risk management review is proposed for the 2019-20 financial year. This review will form part of the agreed Crowe Horwath internal audit programme included in existing internal audit budgets. A timeline and scope will be presented at the 22 May 2019 sub-committee meeting. The scope will include an assessment of the effectiveness of current risk management policies and practices within Council.

### *Council Collaboration*

18. Council staff have been meeting with Hastings District Council risk managers on an informal basis. Initial meetings indicated that there was a lot of overlap with risks within the two councils' registers. As a result it was decided to invite representatives of all five councils to the meetings, which have proven to be insightful in terms of risk management information sharing and discussion of emerging risks within our region.

### *Hawke's Bay Forums*

19. In addition to the above, it was recognised that risk mitigation can benefit from sharing collective expertise with other agencies within Hawke's Bay. As a result a Hawke's Bay Risk Management Forum was created which includes representatives from local Councils, local government departments, and local industries.
20. Its first official meeting was held in December 2018, facilitated by Price Waterhouse Coopers, and a Terms of Reference is being drafted. Future meetings are intended to be scheduled on a quarterly basis, with the purpose of these meetings being to discuss topical risks within our region, along with shared best practice for risk management.

### *Project Risks*

21. Reporting on Council's project risks has been incorporated into the Project Management Office (PMO). The PMO has created a reporting format for project risks that is in line with the current risk management reporting framework.
22. The PMO and Risk Management team meet on at least a quarterly basis to discuss any Project risk trends that may need to be incorporated into the Council wide strategic risk register.
23. To date, the key risks arising throughout the PMO process are aligned with the current risk register and are focused mainly around staff resourcing and ability to prioritise projects based on capacity and demands.

### *Risk Management Group Manager Commentary*

24. Group Manager – Office of the Chief Executive and Chair is unable to attend this meeting due to previously booked leave, however notes that in the previous six months, risk management capacity within Council has increased with further resource assisting with the risk management process. The process has also extended from its original recording and awareness nature, to increased utilisation of the register as a tool to drive change and progress in the risk management space. Specifically, risk owners have each committed to actions which will be monitored by risk staff to allow for increased visibility and accountability on mitigation strategies.
25. Risk management is also on the Executive Leadership Team (ELT) meeting agenda once a month, on average, to ensure that the risks have full and regular executive oversight, along with frequent updates on progress.
26. Whilst the risk management process has gained traction and maturity over the recent two years with regular and frequent Executive interrogation of all strategic level risks, it is recognised that there is still work to be done to filter risk management understanding and awareness throughout the rest of the organisation. Staff will report back on progress on this at the next risk management update to FARS.

## Decision Making Process

27. Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
  - 27.1. The decision does not significantly alter the service provision or affect a strategic asset, and is not inconsistent with an existing policy or plan.
  - 27.2. The use of the special consultative procedure is not prescribed by legislation.
  - 27.3. The decision does not fall within the definition of Council's policy on significance.
  - 27.4. The decision of the sub-committee is in accordance with the Terms of Reference and decision making delegations adopted by Hawke's Bay Regional Council 9 November 2016, specifically:
    - 27.4.1. The Finance, Audit and Risk Sub-committee shall have responsibility and authority to review whether Council management has a current and comprehensive risk management framework and associated procedures for effective identification and management of the council's significant risks in place, and
    - 27.4.2. undertake periodic monitoring of corporate risk assessment, and the internal controls instituted in response to such risks
    - 27.4.3. report on Council's risk management systems, processes and practices to the Corporate and Strategic Committee to fulfil its responsibilities.

## Recommendations

That the Finance, Audit and Risk Sub-committee:

1. receives and considers the ***"Six Monthly Risk Assessment and Management"*** staff report

### AND

2. confirms the Sub-committee's confidence that Council management has a current and comprehensive risk management framework and associated procedures for effective identification and management of the Council's significant risks
3. recommends that the Corporate and Strategic Committee receives and notes the resolutions of the sub-committee, confirming the robustness of Council's risk management systems, processes and practices.

### OR

4. advises staff of the specific risks (following) that require reassessment to confirm the level of risk is accurate and internal controls are adequate, for reporting back to the 22 May 2019 Sub-committee meeting.
  - 4.1. ...
  - 4.2. ...
5. recommends that the Corporate and Strategic Committee receives and notes the resolutions of the sub-committee, including the specific risks that require reassessment.

### Authored by:

**Melissa des Landes**  
**CORPORATE ACCOUNTANT**

### Approved by:

**Jessica Ellerm**  
**GROUP MANAGER CORPORATE SERVICES**

### Attachment/s

[1](#) Risk Management Register Feb 2019



Risk Descriptor - details the main component and provides an example of a risk(s) that may be attributable	Risk Type	Gross Risk (no effective measures in place)			Current Practice/Strategy (Avoidance and mitigation measures)	Residual Risk (considering measures in place)			Management Options	Risk Owner	Trend
		Consequence	Likelihood	Factor		Effectiveness	Consequence	Likelihood			
REG001: Human Health impacts from contamination of drinking water - death or illness as a result of render water unusable to consume and/or use for food preparation. Further impacts may include impacts to agricultural and pastoral activities	Public Health Organisational Reputational Environmental Financial	Extreme	Unlikely	Extreme	<ul style="list-style-type: none"> <li>Increased monitoring of bores and testing of water supply - targeted testing of consents situated within area near known municipal drinking water bores</li> <li>Operation of regional Joint Working Group (JWG) &amp; Joint Governance Group for drinking water</li> <li>Advancement of TANK plan change with new regulations and rules recommended by Joint Working Group</li> <li>Enforcement of adequate consents (including wastewater, stormwater, drinking water &amp; other consents)</li> <li>Focus on on going open communication between relevant authorities</li> <li>Increased resourcing for consents/compliance to address need for greater physical monitoring of bores (also recommended by compliance review)</li> <li>Voluntary bore owner assessment/remediation - supply of report of security to HBRC</li> <li>Internal audit on critical water infrastructure assets monitoring complete with second review due Q4 2018/19</li> <li>Inclusion of source protection zones in TANK</li> <li>Proactive communication with small scale bore owners, including clarity of responsibility and the release of brochures regarding bore security</li> <li>Drinking water committee have developed protocol on contamination of arsenic</li> <li>Council disclaimers and consents have been reviewed and updated to ensure clarification as to responsibility of consents</li> <li>Risk based approach to water monitoring has been reviewed with priority one consents being monitored on a more frequent basis completed through additional resource implemented through Long Term Plan (LTP)</li> </ul>	Effective	Extreme	Highly Unlikely	<ul style="list-style-type: none"> <li>Continue with better collaboration and communication between relevant stakeholders (including District/City Councils and Health Boards)</li> <li>Potential for advocacy role and clarification is established between all stakeholders as to where responsibility lies through Terms of Reference</li> <li>Set up a contingency fund to contract in resource to help with monitoring if needed</li> <li>Review of regional plan to provide for monitoring for ongoing life of bore</li> <li>Application of NES for drinking water (additional control of activities that may have an effect on public drinking water supplies)</li> <li>Continue to provide feedback to influence Water New Zealand</li> </ul>	Group Manager - Regulation	↔
CORP001: ICT Failure - Business Wide. Risk being loss of data and/or inability to access ICT systems. Causes could include cybersecurity attack, intentional and malicious behaviour by staff or a significant hardware failure.	Organisational Reputational	Extreme	Very Unlikely	Extreme	<ul style="list-style-type: none"> <li>Server refresh cycles and server room restrictions</li> <li>Antivirus software and firewalls</li> <li>Back ups (including off site backups)</li> <li>ICT acceptable use policy</li> <li>Access control</li> <li>Generator</li> <li>Robust vendor selection process</li> <li>Independent cyber security audit</li> <li>Staff training including regular reminders to staff</li> <li>Cyber security insurance (also covers Cloud)</li> </ul>	Satisfactory	High	High	<ul style="list-style-type: none"> <li>Cyber security risk is increasing - ensuring staff are aware of the risks and how to detect any scam activity</li> <li>Formalised incident reporting and assessment</li> <li>Repeat of previously held "phishing training"</li> <li>Independent audit on appropriate controls in place (to include penetration testing)</li> <li>Improved staff wide understanding of ICT backup plans</li> <li>Improved staff consultation when implementing or altering an ICT system or process</li> <li>Reduce the risk of hardware failure affecting services</li> <li>Option for text alert system for generator failure</li> <li>Reduce reliance on one staff member holding knowledge of systems</li> </ul>	Group Manager - Corporate Services	↔
OCEC1: Health and Safety of Staff and Public - staff working in the field or otherwise. Staff working alone and/or in potentially dangerous locations and terrain. A health & safety culture amongst all staff.	Health and Safety Organisational Reputational	Extreme	Unlikely	Extreme	<ul style="list-style-type: none"> <li>E-Road, Vehicle management and Global Positioning System</li> <li>Improved structure and formality around working alone including buddy system</li> <li>Provide appropriate emergency location devices for staff working in remote locations or other high risk work situations</li> <li>Regular Health and Safety training and policies in place. Working alone policy has been modified.</li> <li>Appropriate Property, Plant and Equipment always provided</li> <li>Site safety plans - to be filled out on a daily basis</li> <li>Liability Insurance</li> <li>Development and regular review of Codes of Practice (COP) for safe work practices across the full range of Council work</li> <li>Corporate Risk Management Framework (H&amp;S Committee) - continue to ensure effectiveness of committee</li> <li>Monitoring of workplace stress, vitae support and stress and resilience training</li> <li>SiteWide for contractors</li> <li>Vehicle driver training reintroduced for staff</li> </ul>	Effective	High	Unlikely	<ul style="list-style-type: none"> <li>Option to capture training and an 'action register' to be created when staff are required to upgrade/renew training</li> <li>Investigate benchmarks to ensure we are meeting standards as a minimum (i.e. 4WD training)</li> <li>Creation of organisation wide risk averse and continuous improvement culture. Encouragement of self reporting.</li> <li>Regular review and updating of Codes Of Practices</li> <li>Health &amp; Safety audit complete - Work programme underway</li> <li>Review of H&amp;S for contractors including induction requirements and exemption processes</li> <li>Review current Job Safety Analysis process and consider options for efficiency such as a standardised template</li> <li>Physical auditing of sites to ensure that correct processes are being followed</li> <li>Ensure officers are aware of their roles and responsibilities (both staff and Councillors)</li> <li>On person recording devices available for staff</li> <li>Internal communications on H&amp;S to be improved through a variety of channels to create better reporting and awareness</li> <li>Union with other "best practice" organisations to consider implementation of proven successful processes</li> </ul>	Group Manager - OCEC	↔
CDEM1: Preparedness of CDEM and HBRC staff to respond effectively in a regional emergency - communication, resources and capability being adequate	Public Health and Safety Organisational Reputational	Extreme	Unlikely	Extreme	<ul style="list-style-type: none"> <li>Trained staff on how to respond in an emergency to ensure safety of others and themselves</li> <li>Activation exercises</li> <li>Joint approach with other local Councils showing effectiveness</li> <li>Relationships with businesses who have resources that could be borrowed in an emergency</li> <li>Regular testing of buildings and equipment to ensure minimum requirements are met, and will function as expected during an emergency</li> <li>Relationship development with other agencies</li> <li>Rebuild of current response facility commenced in July 2018 to ensure 100% Level 4 Building Standards - expected move in date mid 2019</li> <li>Staff within HBRC and other Council's now trained to a more advanced level</li> <li>Two audits have corrective actions being worked on, including improvement of facilities and training. Additional resource now recruited.</li> <li>Disaster work with other stakeholders to secure other buildings</li> </ul>	Satisfactory	Moderate	Unlikely	<ul style="list-style-type: none"> <li>Continue to build on relationship management with other stakeholders</li> <li>Dedicated CDEM communications advisor recruitment underway</li> <li>Continue to educate public using social media and other forums on what to do in case of an emergency.</li> <li>Enact any findings from post exercise/event</li> <li>Progress community resilience plans across high risk communities and extra resource now in place</li> <li>Shorter but higher frequency of training to ensure that staff are still relevant and able to attend training sessions</li> <li>Continue with targeted training</li> <li>CDEM considerations to be understood and included in various projects</li> <li>Continue with implementation of group work programme focusing on risk, research and recovery</li> </ul>	Group Manager - Civil Defence	↔
ASSET001: Infrastructure Exceedance - flood control and drainage assets exceeding design capacity resulting in loss and/or hardship to community and assets	Organisational Financial Reputational Public Health & Safety	Extreme	Unlikely	Extreme	<ul style="list-style-type: none"> <li>Ongoing data collection to enable return period estimates to be improved over time</li> <li>Professional engineers and hydrologists</li> <li>Best design practice followed</li> <li>Review of levels of service undertaken when required</li> <li>Disaster damage reserves held in line with Council policy</li> <li>Asset management plans currently being finalised</li> <li>Recent review of hydrometric network, no major issues flagged</li> <li>Debriefs and lessons learned following any weather related response</li> </ul>	Effective	High	Unlikely	<ul style="list-style-type: none"> <li>Asset management framework aligned with standard</li> <li>Continuing staff development</li> <li>National guidelines for asset risk and condition - standardised flood protection</li> <li>Consider secondments or national pool of qualified engineers for high demand times when specialist knowledge is required</li> <li>Consider earlier engagement of consultants and amendment of current approach</li> <li>Reassessment of level and suitability of backup equipment</li> <li>Engage with River Engineers Special Interest Group, assess opportunities to second staff from other Councils</li> </ul>	Group Manager - Asset Management	↔
REG002: Risk of contaminated site contaminating aquifer - Pollutants spilling out into aquifer resulting in compromised water safety	Public Health Organisational Reputational Environmental Financial	Extreme	Unlikely	Extreme	<ul style="list-style-type: none"> <li>Maintenance of 'HAIL' register</li> <li>Strategic monitoring and review</li> <li>Control of contaminated soils through consents</li> <li>Enforcement of consents with provision of certain actions to be addressed</li> <li>Physical remediation with site monitoring and enforcement</li> <li>Compliance team review completed and additional resourcing appointed</li> </ul>	Effective	High	Unlikely	<ul style="list-style-type: none"> <li>Review of hazards management programme</li> <li>Education and encouragement of correct disposal methods - consents team get large influx of queries, option to create a FAQ sheet</li> <li>Create a pamphlet on good storm water guidance practice</li> <li>Engage in a collaborative approach with other Territorial Local Authorities (TLA's)</li> <li>Monitoring reports</li> <li>Encourage self reporting</li> <li>Continue with tightening up of source protection zones and continue with bore security programme reported to JWG</li> <li>Encouraging self reporting and testing including a reporting portal for well owners and information brochures</li> </ul>	Group Manager - Regulation	↓
OCEC002: Disruption to Business Continuity - inability to perform business functions due to staff, building or equipment loss, or system failure	Organisational Reputational	High	Unlikely	High	<ul style="list-style-type: none"> <li>Appropriate insurance cover</li> <li>Contingency in place for provision of office space and equipment</li> <li>ICM Group quality management system</li> <li>ICT backups</li> <li>Business Continuity Plan in place (reviewed annually)</li> <li>Cyber security insurance implemented</li> <li>Avoid using products and services that have a single operator</li> <li>Business Continuity Review recently conducted</li> <li>Implementation of IRIS to assist with accessibility of paperless information</li> </ul>	Satisfactory	High	Highly Unlikely	<ul style="list-style-type: none"> <li>Regular review of Business Continuity Plan (BCP)</li> <li>Improved staff wide training and awareness</li> <li>Creation of 'one pager' go to guide that staff can refer to in the incidence of risk to Business Continuity</li> <li>Centralized database of staff personal contact details in the event of a business outage</li> <li>Staff to review findings of recent review and refresh BCP within the organisation</li> <li>New dedicated ownership proposed in Business Continuity</li> <li>Ensure staff are aware of existence of BCP and where to find it</li> <li>Perform a desk top exercise for staff</li> </ul>	Group Manager - OCEC	↔



Risk Descriptor - details the main component and provides an example of a risk(s) that may be attributable	Risk Type	Gross Risk (no effective measures in place)			Current Practice/Strategy (Avoidance and mitigation measures)	Residual Risk (considering measures in place)			Management Options	Risk Owner	Trend
		Consequence	Likelihood	Factor		Effectiveness	Consequence	Likelihood			
MAORI001: Co-governance of natural resources - Goals and/or objectives may not align. Relationships and communication channels with tangata whenua and partners may break down.	Environmental Organisational Reputational	High	Unlikely	High	<ul style="list-style-type: none"> <li>Work programme - resource in place with responsibilities for progressing co-governance issues</li> <li>A collaborative process with Council working to improve relationship with Treaty Claimant Groups and Tangata Whenua</li> <li>Strategic overview of how "nuts and bolts mesh"</li> <li>Creation of Maori Partnerships Group</li> </ul>	Effective	Moderate	Unlikely	<ul style="list-style-type: none"> <li>Continue to build on relationship management with relevant stakeholders to ensure collaboration</li> <li>Recognition of 80% voting rule may allow for delays in decision making processes</li> <li>Code of Conduct to be extended to non-elected members</li> <li>Provide clarity around legislative function around what HBRC does under RMA</li> <li>Allow for more time and understanding at front end</li> </ul>	Te Pou Whakaree	↔
CORP002: Investment Portfolio - ability to receive expected dividends. Financial reliance on dividends from Napier Port in time of planned expansion. HBRC Limited with renewed mandate and directorship.	Financial Organisational Reputational	High	Unlikely	High	<ul style="list-style-type: none"> <li>Treasury Policy</li> <li>Funding strategy development</li> <li>Napier Port holds insurance for material damage and business interruption</li> <li>Public consultation on Port Funding Options to diversify risk pool and fund expansion</li> <li>Engagement of fund manager(s) to diversify funding mix and increase returns</li> <li>Council approves SOI and appointment of Directors for HBRC Limited. Regular reporting from HBRC to Council.</li> </ul>	Satisfactory	High	Unlikely	<ul style="list-style-type: none"> <li>Alter funding mix to reduce reliance on Napier Port Dividend</li> <li>Continue with communications strategy on Port Transaction including RFP for communications advisor</li> <li>Increase internal treasury performance reporting including reporting on market conditions</li> <li>Continued development of appropriate policy</li> </ul>	Group Manager - Corporate Services	↑
ORG001: Failure to establish and maintain relationships and communication channels with key stakeholders/partners - TLA's, government, ratepayers, business partners, funding providers, media, Maori	Organisational Reputational	High	Unlikely	High	<ul style="list-style-type: none"> <li>Development of protocols/guidelines for staff</li> <li>Establishment of scheduled reporting and meeting appointments with key stakeholders</li> <li>Creation of Maori Partnerships Group</li> <li>Agreement to Memoranda of Understanding where appropriate and mutually agreed</li> <li>Formation of joint working groups</li> <li>Additional Tangata Whenua funding requested in LTP</li> <li>CRM (Customer relations database)</li> </ul>	Effective	Moderate	Unlikely	<ul style="list-style-type: none"> <li>Regular and proactive communication with stakeholders to maintain and build trust and enhance two way communication</li> <li>Networking/relationship building training to be provided to staff</li> <li>Additional staff visibility at relevant events</li> <li>Ensuring stakeholders (i.e. suppliers) understand our business and its requirements</li> </ul>	Chief Executive Officer	↔
OCEC003: Ability to effectively engage with public and stakeholders - insufficient clarity around organisation's financial position, priorities and strategy. Diffusion of resourcing and capability. Public expectations may be misinformed.	Organisational Reputational	High	Unlikely	High	<ul style="list-style-type: none"> <li>Regular media releases to inform stakeholders using a variety of relevant channels</li> <li>Strategic plan refresh</li> <li>Public consultation</li> <li>Engagement with Councilors (and other stakeholders) on specific issues to ensure clear communication strategy</li> <li>Proactive information sharing i.e. media releases and reporting, publication of Works Group work programme in public spaces</li> <li>Continuous improvement of internal alignment of strategy and purpose</li> <li>Continue to differentiate roles and responsibilities between HBRC and TLA's</li> <li>Programme of communication with farmers and asset management plans</li> </ul>	Satisfactory	Moderate	Unlikely	<ul style="list-style-type: none"> <li>Cross organisational engagement plan</li> <li>Provision of clear breakdown of costs and resource implications to Councilors</li> <li>Communications team to promote "good news stories" and greater visibility of outcome reporting</li> <li>General work programme to better engage with stakeholders including a stakeholder audit scheduled for current year</li> <li>Collaborative work programme with CE's and Chairs regionally</li> <li>New communications strategic plan agreed and to be actioned in current year</li> </ul>	Group Manager - OCEC	↔
STRAT001: Implementation of National Policy for Freshwater Management (NPSFM) - risk that aspects of policy do not meet minimum standards	Organisational Environmental Reputational	High	Unlikely	High	<ul style="list-style-type: none"> <li>Annual Report and Implementation Plan</li> <li>Liaison with other councils and agencies (MFE and MPI) for guidance on NPSFM implementation</li> <li>Long Term Plan and Annual Plan</li> <li>On-going monitoring programme</li> <li>Heavy involvement in relevant stakeholder groups</li> <li>Recent reorganisation has aided in facilitating better work across organisation</li> <li>Project review for TANK including lessons learned</li> </ul>	Effective	Moderate	Unlikely	<ul style="list-style-type: none"> <li>Continue with regular monitoring to ensure that minimum requirements are being met</li> <li>Ensuring that planning processes are robust and fit for purpose</li> <li>Have an adaptive cycle to ensure that changes can be made if required</li> <li>Maintain support of Overseer model or find alternative</li> <li>Options to outsource to consultants for specialist work</li> <li>Project review to assess correctness of approach</li> </ul>	Group Manager - Strategic Planning	↔
STRAT002: Ability for Council to deliver on planned projects - Annual Plan/LTP projects. Both minor and major projects and strategies. Risk of resourcing constraints including staff time being diverted elsewhere.	Environmental Organisational Reputational	Moderate	Unlikely	High	<ul style="list-style-type: none"> <li>Ensuring appropriate project plan is in place</li> <li>Strategic and suitably qualified staff to ensure projects are executed properly</li> <li>Ensuring risks are adequately managed so staff time isn't diverted elsewhere</li> <li>Regular communication to stakeholders including public to ensure expectations are met</li> <li>New Project Management Office (PMO) implemented with dedicated resource in this space</li> <li>Pilot projects underway with planned reporting to future Council meetings</li> <li>Increased staff training on Project Management principles</li> <li>Consideration of impact or influence of 3rd parties who may be misaligned with project goals</li> </ul>	Effective	Moderate	Unlikely	<ul style="list-style-type: none"> <li>Continue to monitor projects to ensure deadlines are being met</li> <li>Consider formalising project management discipline/training to all staff involved in projects</li> <li>Full clarity of ownership on projects</li> <li>Consider resourcing within whole of Council and ability to move staff within projects</li> <li>Monitoring of pilot projects</li> <li>Option for labour hour budgeting to better understand resourcing capacity and constraints</li> <li>Active prioritisation of projects</li> <li>Project Management training scheduled to be rolled out within organisation during 2019</li> </ul>	Group Manager - Strategic Planning	↔
ORG002: Ability to retain and attract appropriately skilled staff - several roles require highly technical skills. Required service levels may be impacted as a result of not being able to fill roles and/or staff resignations	Financial Organisational Reputational	Moderate	Unlikely	Moderate	<ul style="list-style-type: none"> <li>Remuneration at local government market rates</li> <li>Regular professional development training provided to staff where applicable</li> <li>Advertisement of roles outside of region to attract staff with specific skills. Recruitment consultants engaged where required</li> <li>Strong staff culture including flexible working hours, open door policies</li> <li>Ensuring ongoing training and staff advancement, and promote internally where possible</li> <li>Cross skilling of staff where possible</li> <li>Introduction of staff performance management system and review process</li> </ul>	Satisfactory	Moderate	Unlikely	<ul style="list-style-type: none"> <li>Emphasis on maintaining strong staff culture</li> <li>Staff satisfaction and engagement survey to be repeated</li> <li>Ensuring ongoing competitiveness in remuneration by using market surveys</li> <li>Reward staff where possible and invest in their training and wellbeing</li> <li>Establish clarity of roles</li> <li>Provide flexibility in roles where possible</li> <li>Branding and image opportunities</li> <li>Remuneration flexibility (i.e. training, benefits etc.)</li> <li>Review other options for recruitment such as a finders fee, or bonding opportunities</li> </ul>	Chief Executive Officer	↑
ICM001: Biosecurity Incident - Examples include a large scale biosecurity incident in Hawke's Bay such as foot and mouth outbreak. Beetle infestation. Pest control toxins leaked into agricultural food chain. Risk of failure of other organisations to fulfil their responsibilities.	Public Health Organisational Reputational Environmental Financial	High	Unlikely	High	<ul style="list-style-type: none"> <li>HBRC to act in a support role (MPI) however good relationships maintained with Central Government with regard to possible incident responses</li> <li>Approved contractors to undertake biosecurity work</li> <li>Auditing of farmers handling and distributing their own bait stations</li> <li>Posion handling and bait distribution specification standards</li> <li>Cape to City project - elimination of pests</li> <li>Proactive communication with stakeholders</li> <li>Implementation of on-farm biosecurity protocol</li> </ul>	Effective	Moderate	Unlikely	<ul style="list-style-type: none"> <li>Continue to maintain good relationships with Central Government</li> <li>Investigate training of staff on how to respond to biosecurity incident</li> <li>Proactive agreement with MPI, Regional biosecurity forum</li> <li>Communication to staff regarding proper protocols in the event of an outbreak (i.e. location of stock)</li> <li>Review learnings of Microplasma Bovis report</li> <li>Review/increase activity in communication with stakeholders</li> <li>Discuss potential of Biosecurity communication plan with rest of organisation</li> </ul>	Group Manager - Integrated Catchment Management	↔
CORP003: Inadequate Contractor Management - resulting in unnecessary costs and/or insufficient output or quality. Poor or unsafe contractor performance.	Financial Organisational Reputational	Moderate	Unlikely	Moderate	<ul style="list-style-type: none"> <li>Appropriate contracts in place as per procurement policy</li> <li>Regular audits of contractor performance and safety</li> <li>SiteWise to help ensure quality and compliance of contractor</li> <li>Standardised contract available for staff to use</li> <li>Procurement and contract management audit complete with informal work programme on findings underway including development of templates</li> </ul>	Satisfactory	Low	Unlikely	<ul style="list-style-type: none"> <li>Ensure staff continue to follow correct procurement procedures</li> <li>Continue to ensure contractors are inducted as per HBRC policies</li> <li>Implement formalised contractor performance assessment process</li> <li>Ensure contracts are adequate and liability is clarified</li> <li>Assessment of opportunities to have a "preferred supplier" where possible</li> <li>Investigate joint resource opportunities for procurement/contract manager role</li> </ul>	Group Manager - Corporate Services	↔
STRAT003: Ability to maintain awareness and understanding of relevant legislation - inability to comply with consents, statute and national standards.	Organisational Reputational	High	Unlikely	High	<ul style="list-style-type: none"> <li>Regular training and monitoring of legislation</li> <li>Ability for staff to make submissions on legislation changes</li> <li>Independent advice provided when needed</li> <li>Local Government NZ membership. Other relevant professional/government body memberships</li> <li>ICM Group Improvement register logs and prioritises impending legislative changes</li> </ul>	Effective	Moderate	Unlikely	<ul style="list-style-type: none"> <li>Ensure staff obtain advice when and where required</li> <li>Ensure training is provided</li> <li>Cross organisational ownership</li> <li>Central database that provides updates on relevant legislation changes</li> <li>Dedication of more resourcing and enable more functional knowledge sharing within organisation</li> </ul>	Group Manager - Strategic Planning	↔



Risk Descriptor - details the main component and provides an example of a risk(s) that may be attributable	Risk Type	Gross Risk (no effective measures in place)			Current Practice/Strategy (Avoidance and mitigation measures)	Effectiveness	Residual Risk (considering measures in place)			Management Options	Risk Owner	Trend
		Consequence	Likelihood	Factor			Consequence	Likelihood	Factor			
OCEC004: Risk of Council providing incorrect or sensitive information to stakeholders - Either intentionally or unintentionally. Litigation arising as a result	Financial Organisational Reputational	Moderate	Unlikely	Moderate	<ul style="list-style-type: none"> <li>* Ensuring staff are adequately trained and briefed before providing information</li> <li>* Peer review of public documents</li> <li>* Critical documents to be externally reviewed</li> <li>* Professional indemnity and Public liability insurances are held</li> <li>* Quality control of information held (i.e. passwords)</li> </ul>	Effective	Low	Unlikely	Low	<ul style="list-style-type: none"> <li>* Implement privacy awareness training so staff are aware of their roles and responsibilities, including document management training and negligence</li> <li>* Local Government Official Information and Meetings Act (LGOIMA) training session to be held by governance team, scheduled for current 2019 calendar year</li> <li>* Development of Customer Relationship Management database underway</li> <li>* Media training planned for current 2019 calendar year</li> <li>* Ensure all Council business is conducted on Council email address</li> <li>* FAQ cards to be created and dispersed amongst staff regarding topical media stories to ensure all staff are aware of appropriate response to questions</li> </ul>	Group Manager - OCEC	  
CORP004: Accuracy and integrity of financial information - ensuring statutory returns are filed accurately. Information provided to stakeholders is factual.	Financial Reputational	Moderate	Unlikely	Moderate	<ul style="list-style-type: none"> <li>* Internal and External audit held routinely</li> <li>* Training of finance staff held frequently</li> <li>* Training sessions held with non-finance staff by finance staff</li> <li>* Fraud policy and training</li> <li>* Segregation of duties and correct authorisation levels in place - reviewed annually</li> <li>* Peer review of work</li> </ul>	Effective	Moderate	Unlikely	Low	<ul style="list-style-type: none"> <li>* Peer reviews to be conducted when non-finance staff are responsible for producing financial information</li> <li>* Continue with internal and external audits and ensure recommendations are implemented and followed</li> <li>* Improve frequency and readability of both reporting internally and to Council</li> <li>* Option for labour hour budgeting to better understand resourcing capacity and constraints</li> </ul>	Group Manager - Corporate Services	



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

**Tuesday 12 February 2019**

**Subject: PROPOSED SCOPE FOR FOLLOW-UP WATER MANAGEMENT  
INTERNAL AUDIT**

**Item 6**

**Reason for Report**

1. To present a proposed scope for a Water Management Follow-up Internal Audit for the sub-committee's review and feedback.

**Background**

2. At its meeting 6 June 2018, an internal audit report on HBRC's Water Management processes was presented to the sub-committee. This report contained a series of findings, recommendations, and management's responses to each finding.
3. At the same meeting, the sub-committee was presented with a proposed internal audit programme for the 2018-19 financial year. Councillors requested at that meeting that a Water Management "Follow up" audit be included within the 2019-20 work programme.
4. The primary purpose of this audit is for Crowe Horwath to independently investigate Council's progress on implementing and maintaining agreed action points that were stated as a response to the original audit, and the proposed scope is attached.
5. Staff note that there are less hours allocated to this follow-up audit than the original audit, due to the groundwork already having been completed. The number of hours allocated are within Council's agreed internal audit budget for the year.

**Decision Making Process**

6. Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
  - 6.1. The decision does not significantly alter the service provision or affect a strategic asset, and is not inconsistent with an existing policy or plan.
  - 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 of the sub-committee is in accordance with the Terms of Reference and decision making delegations adopted by Hawke's Bay Regional Council 9 November 2016, specifically:
    - 6.4.1. The Finance, Audit and Risk Sub-committee shall have responsibility and authority to confirm the terms of appointment and engagement of external auditors, including the nature and scope of the audit, timetable, and fees.

**Recommendations**

That the Finance, Audit and Risk Sub-committee:

1. Receives and notes the ***"Proposed Scope for the Follow-up Water Management Internal Audit"*** staff report.
2. Confirms the proposed Scope for the Follow-up Water Management Internal Audit including amendments agreed 12 February 2019.

## Item 6

**Authored by:**

**Melissa des Landes**  
**CORPORATE ACCOUNTANT**

**Approved by:**

**Jessica Ellerm**  
**GROUP MANAGER**  
**CORPORATE SERVICES**

### **Attachment/s**

[!\[\]\(c694a3ff3b077d76910920a6a1593ab4\_img.jpg\)1](#) HBRC Internal Audit Scoping document - follow-up Water Management Audit





Item 6



# Hawke's Bay Regional Council Internal Audit Scoping Document – Follow-up Water Management Audit

20 December 2018

Attachment 1

Commercial in Confidence

Audit | Tax | Advisory



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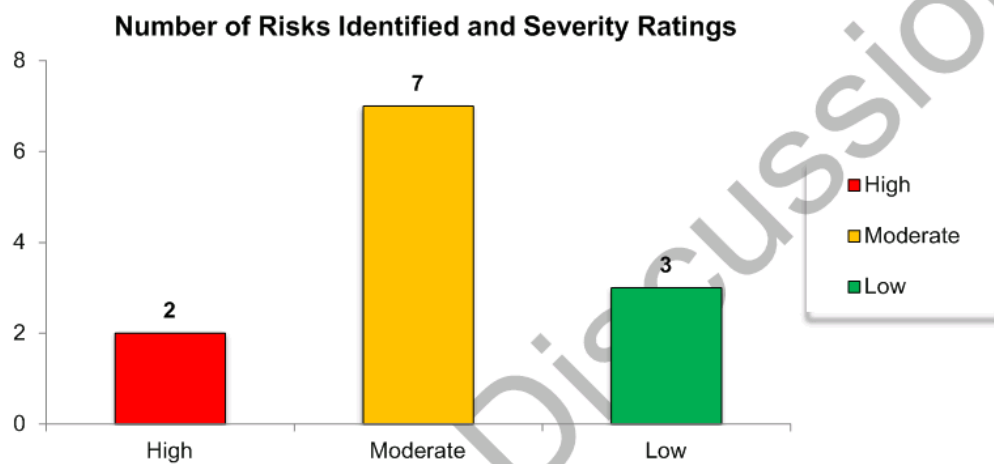
Item 6

## 1 Objectives

The objective of the assignment is to review whether management actions relating to our Water Management internal audit undertaken in May 2018 have been or are being effectively implemented in line with agreed implementation dates or that senior management has accepted the risk of not taking action.

## 2 Approach

The recommendations and action plans to be reviewed resulting from the Water Management audit are presented below.



Our approach will incorporate the following steps:

- We will verify whether findings and actions have been fully implemented, partially implemented or are yet to be actioned.
- Where defined action plans for findings are indicated as being fully implemented, verification of the implementation will be undertaken to ensure that the action plan has been implemented as documented.
- Where action plans are indicated as being partially implemented in the schedule, the level of implementation and actions still to be completed will be verified. If no date is set for full implementation or the set date had passed, a new date will be set.
- Where action plans have not been started, actions to be completed will be verified. If there is no date set for full implementation or the set date has passed, a new date will be set.
- Where management has accepted the risk of not taking action, an assessment of the appropriateness of this risk acceptance will be undertaken and a verification of the appropriate levels of management approval will be reviewed.

## 3 Deliverable

The deliverable for this assignment will be a report detailing internal audit recommendations, their implementation status and where necessary new implementation dates.

Attachment 1



Commercial in Confidence

#### 4 Estimated Hours

We estimate 35 hours of work will be required for this assignment.

#### 5 Acknowledgement and Acceptance

The details of the above scoping document have been read and understood and I am authorised to accept them for and on behalf of the Hawke's Bay Regional Council.

Signed: \_\_\_\_\_

Name: \_\_\_\_\_

Position: \_\_\_\_\_

Date: \_\_\_\_\_

PO No: \_\_\_\_\_

Draft for Discussion



## Contact Us

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Draft for Discussion

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Item 6

Attachment 1



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

**Tuesday 12 February 2019**

**Subject: DATA ANALYTICS INTERNAL AUDIT REPORT**

**Item 7**

**Purpose of Report**

1. To present the internal audit report (attached) for the Data Analytics audit undertaken by Crowe Horwath in late 2018.

**Background**

2. The Finance, Audit and Risk Sub-committee (FARS) agreed at its meeting on 6 June 2018, as part of the internal audit work programme, to engage Crowe Horwath to conduct an internal audit of Council's Data Analytics.
3. The agreed scope and purpose of the audit was to review payables and payroll, and master and transactional data for the financial year ended 30 June 2018. This data was then analysed independently by Crowe Horwath for any potential anomalies or suspicious transactions.
4. The report was then provided to staff, along with a separate spreadsheet listing the transactions that required review. This report was initially analysed by the Corporate Accountant and then reviewed by the Chief Financial Officer. Any findings requiring further interrogation were actioned where deemed necessary. The process included questioning the Payroll officer and the Accounts Payable officer and examination of relevant invoices and authorisations.
5. Following the review of findings, commentary has been provided alongside each finding within the report. For ease of reference, a key findings analysis is provided in the "Report Analysis" section following.
6. As a reminder, this is the second Data Analytics audit conducted by Crowe Horwath, having reported the findings of the 2016-17 audit to the sub-committee on 4 December 2017. A comparison to previous findings is also provided in separate analysis following.

**Report Analysis**

7. It is important to note that when a transaction is identified; it does not necessarily indicate that there is anything suspicious. There are often legitimate business reasons for a transaction being identified, such as different types of payments to a Council (rates credits versus payment for services) by way of pure example. These types of transactions may display in areas such as "duplicate address", "GST/non-GST transactions", or "duplicate IRD number" for example.
8. In addition, some transactions are listed purely for review purposes due to their higher risk nature, such as "review of top 50 vendors" as a further example. This in itself allows staff to easily assess that vendors are in line with expectations and would highlight any vendors that may appear erroneous.
9. As a result, only transactions that require further attention are outlined following. A full commentary of each finding, however, is provided in the attachment.
10. Given the small size of Hawke's Bay, there are often times when an employee may share the same address as a vendor, usually a spouse. Accounts processing staff ensure that employee approvals are not allowed where any conflicts exist between an employee and a vendor.
11. There were a selection of payments to some vendors that had a combination of GST and non-GST applied to the transactions. There were two instances where the incorrect GST treatment was applied and staff have since corrected this in the latest GST return.

12. There was a small number of invoices paid twice. This is often due to a supplier providing several small value invoices which staff have approved a second time without realising. It is noted that this occurred within Q1 of the 2017-18 financial year, prior to staff receiving findings of the initial data analytics audit discussed further following. Staff have worked through with vendors to receive a refund/credit note where applicable. The financial implication of these is low in value.
13. In terms of the payroll master file and transactional data, there were fewer records identified during this year, with no major issues to note. There were some records that require tidying up however, such as 17 employees that did not yet have addresses recorded in their master file. Payroll is working on following up with those employees.

### **2016-17 Comparison**

14. There are several notable improvements since the initial 2016-17 audit was presented to FARS.
15. The list of duplicates within the supplier master file has decreased substantially. For example, duplicate bank accounts have decreased from 146 to 89. Of these 89, some will be legitimate duplicates, such as when a vendor has more than one business function i.e. Hastings District Council. Duplicate named vendors have decreased from 48 to 8.
16. While there were a small number of minor duplicate payments, these all occurred within the first quarter of the 2017-18 financial year and there have not been any duplicate payments made to vendors since the 2016-17 audit was presented in December 2017.
17. There are also significantly fewer GST/non-GST transactions paid to the same vendor. This has decreased from 77 transactions, to 16. It is noted that 14 of these transactions had correct GST treatment, with only two minor adjustments being required, with a net value of less than \$100.
18. Overall improvement in internal processes is noticeable since the prior data analytics assignment was performed, with additional checks reducing the number of transactions arising within the review. Staff recognize, however, that there is still further work to be done to further reduce errors.
19. A proposed 2019-20 internal audit schedule will be presented at the 22 May 2019 FARS meeting. Staff are seeking feedback as to whether this Sub-committee would like to see another data analytics assignment included in that proposal, as Auditors recommend completing a data analytics audit every year.

### **Decision Making Process**

20. Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
  - 20.1. The decision does not significantly alter the service provision or affect a strategic asset, and is not inconsistent with an existing policy or plan.
  - 20.2. The use of the special consultative procedure is not prescribed by legislation.
  - 20.3. The decision does not fall within the definition of Council's policy on significance.
  - 20.4. The decision of the sub-committee is in accordance with the Terms of Reference and decision making delegations adopted by Hawke's Bay Regional Council 9 November 2016, specifically:
    - 20.4.1. The Finance, Audit and Risk Sub-committee shall have responsibility and authority to receive the internal and external audit report(s) and review actions to be taken by management on significant issues and audit recommendations raised within the report(s)
    - 20.4.2. Report to the Corporate and Strategic Committee, on whether appropriate action has been taken by management in response to the Data Analytics Internal Audit recommendations.



## Recommendations

That the Finance, Audit and Risk Sub-committee:

1. receives and notes the ***“Data Analytics Internal Audit Report”***

### AND

2. confirms its confidence that appropriate action has been taken by management in response to the Data Analytics Internal Audit recommendations
3. recommends that the Corporate and Strategic Committee receives and notes the resolutions of the sub-committee, confirming that appropriate action has been taken by management in response to the Data Analytics Internal Audit recommendations.

### OR

4. advises staff of the specific action required in response to the Data Analytics Internal Audit recommendation stated following, as agreed, for reporting back to the 22 May 2019 Sub-committee meeting.
  - 4.1 ... ..
  - 4.2 ... ..
5. recommends that the Corporate and Strategic Committee receives and notes the resolutions of the sub-committee, including the specific actions required in response to the Data Analytics Internal Audit recommendations.

### Authored by:

**Melissa des Landes**  
**CORPORATE ACCOUNTANT**

### Approved by:

**Jessica Ellerm**  
**GROUP MANAGER**  
**CORPORATE SERVICES**

## Attachment/s

[!\[\]\(95b425611cbd2b8716a140cf67c81822\_img.jpg\) 1](#) Data Analytics Internal Audit Report





Crowe Horwath.  
PART OF FINDEX

Item 7

# Hawke's Bay Regional Council

Internal Audit – Data Analytics

Attachment 1

## Audit Report

October 2018

Confidential

Prepared for: Melissa des Landes, Corporate Accountant

Prepared by: Phil Sinclair, Senior Partner – Audit & Assurance  
Martyn Solomon, Associate Partner – Audit & Assurance

Audit | Tax | Advisory



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## 1. Executive Summary

### 1.1 Objectives and Scope

The objective of this assignment was to perform a data analysis review that involved analysis of master file data and transaction data for payroll and vendor payments.

The transactional data testing covered the period 1 July 2017 to 30 June 2018 with the master data testing as at the date of extraction which was 8 August 2018.

The data analysis work did not include assessment of the respective internal controls within the business processing areas and was limited to factual reporting of identified data anomalies as per the specified tests undertaken.

### 1.2 Approach

The testing outcomes were achieved by the extraction, validation and analysis of the relevant data files from the payroll and finance application systems. This data was then imported into data analysis software where the specified tests are performed upon the logical structure and reasonableness of the data, to identify any anomalies.

We have provided the management with a workbook of the high-level summary findings of our testing, associated risks and where appropriate recommendations for further investigation of transactions or Masterfile data identified as suspicious as well as the detailed supporting results spreadsheets highlighting individual transactions and anomalies in Masterfile data that we consider require further investigation.

### 1.3 Audit conclusion

The results and recommendations of our testing are presented in 3 separate tables below covering the 3 areas of testing undertaken which were the following:

- Accounts payable master data and transactions
- Payroll master data and transactions
- Cross matching of data between accounts payable and the payroll system

### 1.4 Basis and Use of this Report

This report has been prepared in accordance with our Scoping Document dated 13 July 2018 and subject to the limitations set out in Appendix 2 - Basis and Use of the Report.



## 2. Results and Recommendations – Accounts payable master data and transactions

No.		Number of Records	Risk Rating	Comments and Recommendations	Management Commentary
<b>Suspicious suppliers</b>					
1.1	Vendors in the Masterfile with no bank account recorded	9	Low	9 active vendors were identified with the payment method "EFT" and no bank account number recorded in the Masterfile. No payments were made to the vendors identified. <b>Review and block vendors that are no longer required.</b>	Staff have reviewed the list of vendors and note that the vendors identified were set up but never actually paid. Staff have worked through this list to block any vendors that are no longer required.
1.1b	Payment method "cheque" with no address recorded	0	N/A	No records were identified.	n/a
1.2	Duplicate bank accounts in the vendor Masterfile	89	Low	89 duplicate bank accounts were identified. <b>Review the 8 duplicate records highlighted to ensure that the duplicate records and payments to those vendors are genuine. Vendors that are no longer required should be blocked.</b>	Staff have confirmed genuineness of all vendors and have worked through the list to remove any duplicate vendors. It is noted that this has decreased from 146 duplicate in the prior year.
1.3	Duplicate name	14	Low	<b>8 vendors appear to be have duplicates (and paid over \$5,000); review and deactivate vendors as required.</b> There appear to be valid business reasons for the remaining duplicate vendors identified (different locations etc.).	There are occasions where the duplicate vendor is legitimate i.e. same vendor with different branches and bank accounts. It is noted that this has decreased from 48 duplicates in the prior year. Staff have worked through the list to remove any duplicate vendors.

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No.		Number of Records	Risk Rating	Comments and Recommendations	Management Commentary
1.4a	Duplicate street address	73	Low	73 duplicate street addresses were identified. <b>Review the 4 duplicate records highlighted (paid over \$1,000) to ensure that the duplicate records and payments to those vendors are genuine. Vendors that are no longer required should be blocked.</b>	There are often occasions where a duplicate street address is legitimate, such as an entity with more than one division. Staff are reviewing the list and removed any duplicate vendors.
1.4b	Duplicate PO Box	86	Low	86 duplicate PO Boxes were identified. <b>Review the 9 duplicate records highlighted (paid over \$1,000) to ensure that the duplicate records and payments to those vendors are genuine. Vendors that are no longer required should be blocked.</b>	Staff have reviewed the list and have removed any duplicate vendors. There are often occasions where a PO Box address is legitimate i.e. NCC rates/non-rates
1.5	Duplicate payments (to vendors identified with a duplicate address, name or bank account above)	40	Moderate	40 duplicate payments were identified to vendors above with a duplicate address, name or bank account. <b>Review the 8 payments highlighted to ensure that duplicate payments were for genuine services provided.</b>	Staff have reviewed list of all vendors and confirmed all transactions listed are legitimate.
1.6	Vendors with multiple bank account changes	13	Moderate	13 vendors were identified with multiple bank account changes during the period from the log of bank account changes. <b>Review and confirm the bank account changes were genuine for the 3 vendors highlighted.</b>  <b>Payments to the vendors during the period when the suspicious bank account changes occurred are provided in tab 1.5a.</b>	Staff have reviewed the bank account changes and have confirmed that all changes are legitimate. Any bank account changes are entered by one staff member, and checked by another. In the instance of multiple changes, these were found to be mainly typos which were then corrected.
1.7	Unusual names	0	N/A	No records identified.	n/a

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No.		Number of Records	Risk Rating	Comments and Recommendations	Management Commentary
Suspicious payments					
2.1	Payments to deactivated vendors	13	Low	Review the 1 vendor paid more than \$5,000 to confirm that payments to the vendor were genuine and prior to the vendor being blocked (the blocked date was not included in log records provided). We confirmed that no payments were made to the remaining blocked vendors after the date they were blocked.	Staff have reviewed the list and can confirm that a payment to a deactivated vendor occurs when a vendor that hasn't been used in a while gets blocked and then reactivated at a later date. This can also when a staff member leaves and subsequently provides services in a contractor capacity.
2.2	Payments or purchase orders created on weekends	58	Low	A total of 1,398 invoices were approved on a weekend day. The summary shows vendors that were paid 5 or fewer times during the period (low volume vendors) where the total invoice approved was >= \$3,000. <b>Scan the list for vendors that are not known for the services they provide.</b>	Staff have reviewed payments made on weekends and confirmed that most approvals were made by Executive/senior staff working on weekends.
2.3	Vendor payments that round to \$000	98	Low	98 round numbered payments were identified. <b>Review the vendors highlighted paid round numbered amounts totalling more than \$10,000 during the period.</b>  40 of the 98 round numbered payments were to vendors that appear to relate to the Council's heating grants.	Staff have reviewed list of payments and can confirm that all payments made were legitimate.

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No.		Number of Records	Risk Rating	Comments and Recommendations	Management Commentary
2.4a - c	Benfords analysis	N/A	Moderate	The spikes shown in the Benford's graph as "suspicious" and "highly suspicious" were caused by a high number of payments starting with the first two digits 40, 45, 51, 60, 69 and 70. A summary of the vendors causing the spikes is included in the relevant spreadsheet. <b>Ensure the vendors highlighted red are genuine and that payments to each vendor are as expected.</b>	Staff have reviewed all transactions identified within the Benford's analysis and can confirm that spikes relate to Clean Heat transactions, which are all in frequently recurring fixed denominations.
2.4c	Benfords analysis (suspicious)	1	Low	Based on first 2 digits statistical analysis, one transaction was identified as statistically suspicious. At face value the payment does not appear suspicious. <b>Review listing and ensure the payment is genuine.</b>	This payment was identified due to its size. Staff have reviewed and can confirm it was a legitimate transaction (bank term deposit transfer).
2.5	Top 50 vendors by amount in the review period	50	Moderate	<b>Scan the list to ensure all vendors are known for the service they provide and amounts are in line with expectations</b>	Staff have reviewed the list of top 50 vendors and can confirm that all services listed are in line with expectations.

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Item 7

Attachment 1



No.		Number of Records	Risk Rating	Comments and Recommendations	Management Commentary
2.6	Duplicate invoices	6	Low	6 duplicate invoices were identified with duplicate supplier number, date, amount and invoice number where the invoice number was different by only a symbol, letter or translation of characters (no exact duplicates were identified). <b>All amounts were low value (&lt;=\$1,000). Review and confirm duplicates were paid and / or recovered.</b>	Staff have reviewed the list of duplicate invoices and it is noted that most of the invoices listed were not actually duplicates but had very similar invoice numbers causing them to appear within the report. The remaining invoices were for catering which all occurred during 2017 prior to the previous audit (i.e. Q1 2018). Staff have worked through the list to ensure a credit note/refund has been issued. It is noted that the amounts duplicate paid were minor in value (total value across invoices \$320).
Other anomalies					
3.1a	Credit Note Summary	N/A	N/A	Credit note data was not supplied.	n/a
3.1b	Credit note word search	N/A	N/A	Credit note data was not supplied.	n/a
3.2	With and without GST	16	Moderate	16 vendors were identified with invoices processed with and without GST. <b>At a minimum, review the 3 vendors with total potential GST claimable over \$1,000 to ensure it is understood why vendors have transactions with and without GST.</b>	Staff have reviewed and corrected any necessary adjustments in the latest GST return. It is noted that the <i>net</i> value of GST was minor (<\$100). Staff note that this has decreased from prior year where 77 transactions were recorded.



No.		Number of Records	Risk Rating	Comments and Recommendations	Management Commentary
3.3	Invalid IRD number	36	Moderate	36 vendors with an invalid IRD number were identified in the Masterfile (the calculated final check digit was not equal to the check digit recorded). <b>Review the 8 highlighted vendors paid more than \$1,000 to confirm that the vendor and payments were for genuine.</b>	Staff have reviewed the list and confirmed that all GST numbers were correct as noted on the invoice
Non-compliance with policies and procedures					
4.1	No purchase order	0	N/A	No records identified	n/a
4.2	Invoices where the staff requesting and approving the invoice were the same	0	N/A	No records identified	n/a
4.3	Invoices with more than one purchase authorisation (split invoices)	0	N/A	No records identified	n/a
4.4	Transactions posted to vendors not in the vendor masterfile	0	N/A	No records identified	n/a

Item 7

Attachment 1





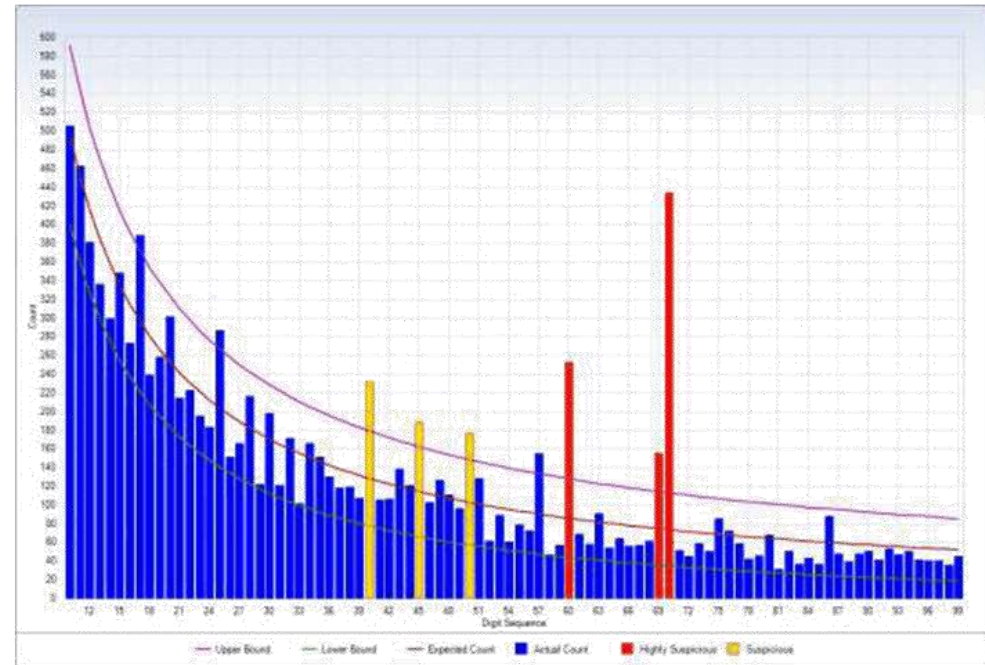
## 2.1 Benford's Graph

Benford's Law states that if you randomly select a number from a natural data set of numbers, the value of the first digit(s) in that number will occur at a predictable frequency. For example, the probability that the first digit will be a '1' is approximately 30%, rather than 11.1% as we might expect if all digits were equally likely (1 out of 9). We use Benford's Law to highlight variances from the normal expected occurrences of the first two digits in a transaction.

Anomalies that would appear as spikes and gaps against Benford's expected results could be an indication of payments being split at a certain level to avoid financial delegation limits. For example, a spike before the 5's and a gap after the 5's could indicate payments being split to overcome a financial delegation limit of \$5,000.

By applying the expected results of the Benford's Law theory to the vendor payments tables, the results generally match with the expected probabilities.

As shown in the graph above, the significant spike patterns outside the expected upper range are payments amounts starting with the two-digit numbers 40, 45, 51, 60, 69 and 70. Summary results of the payments starting with those digits have been provided to management for further testing.



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### 3. Results and Recommendations – Payroll master data and transactions

No.		Number of Records	Risk Rating	Comments and Recommendations	Management Commentary
1	No address recorded in the Masterfile	17	Moderate	<b>Review the 17 employees identified with no address recorded to confirm they exist and Masterfile information is complete and up to date.</b>	Staff have reviewed details of employees and have confirmed existence. Payroll to check with those staff if the addresses are still accurate.
2	Only a referral address recorded in the Masterfile (PO BOX etc.)	12	Moderate	12 current employees have only given a referral address or PO Box as an address. <b>Review the employee names of all 12 current employees to ensure they exist.</b>	Staff have reviewed details of employees and have confirmed existence.
3	Duplicate IRD number	0	N/A	No records were identified.	n/a
4	No bank account recorded in the Masterfile	1	Low	1 active record in the Masterfile has no recorded bank account (no payments were made through the payroll system to this employee). <b>Review and update the Masterfile record as required.</b>	This was a panel member set up who was never paid. Panel member to be removed from Masterfile.
5a	Duplicate bank account recorded in the Masterfile	8	Moderate	8 duplicate bank accounts were identified. <b>Review the records highlighted to confirm the employees exist and that segregation of duties is appropriate.</b>	Staff have reviewed bank accounts and in all cases there was either a family relationship, or staff were diverting some of their salary towards their HBRC rates, thus displaying the same bank account.
5b	Duplicate address recorded in the Masterfile	13	Moderate	<b>Review the 3 duplicate addresses highlighted and confirm that the employees sharing the same address are genuine and that there are no segregation of duties issues.</b>	Staff have reviewed staff and associated addresses and can confirm all instances are genuine.





No.		Number of Records	Risk Rating	Comments and Recommendations	Management Commentary
6	Duplicate name recorded in the Masterfile	0	N/A	No records identified.	n/a
7	Length of employment was less than 90 days	5	Moderate	5 records were employed for less than 90 days. <b>Review the 5 records highlighted to ensure that the employees were genuine and pay is reasonable for the length of employment and services provided.</b>	In all cases these employees were students employed for a fixed term period over summer.
8	Paid prior to start date	7	Low	7 staff received payments prior to their start date. <b>Review the employees identified and ensure payments were not made prior to actual start dates.</b>	Staff have reviewed these payments and confirm that they were all legitimate. I.e. a student who was paid on a casual rate, prior to becoming a permanent employee.
9	Paid after termination date	1	Low	1 employee received a payment more than 14 days after their termination date (payments less than 14 days after their termination date were assumed to be genuine final pays etc.). <b>Review the 1 employee highlighted to ensure that amounts paid were authorised and consistent with entitlements owing.</b>	This employee was a casual employee who returned to HBRC on a permanent basis.
10	Allowances greater than 25% of gross salary / wages	0	Low	No employees were identified with allowances more than 25% of their gross earnings. <b>Review the 4 current employees with allowances over \$5k to ensure the allowances are relative to their roles and contracts.</b>	Staff have reviewed the 4 employees and confirm that allowances meet the terms of their contracts.
11	Top 25 Earners	25	Low	<b>Review the listing of the 25 highest paid employee records to ensure pay and the position descriptions are consistent with expectations.</b>	Staff have reviewed the 25 employees and have confirmed that their pay is in line with their contracts.



No.		Number of Records	Risk Rating	Comments and Recommendations	Management Commentary
12	Hourly rate paid that is less than minimum wage	0	N/A	No records were identified.	n/a
13	Gross pay or direct credits that round to \$'000	3	Low	3 employees received payments that round to \$000. <b>Ensure payments were consistent with contractual arrangements.</b>	Staff have reviewed payments and can confirm that these were consistent with contractual arrangements.
14	Direct credits (payments) to bank accounts with no matching employee Masterfile record	0	N/A	No records were identified.	n/a
15	Overtime summary	4	N/A	6 employees worked overtime during the period. Overtime does not appear excessive.	Staff can be paid over time if signed off by management, such as if a staff member is required to work on a public holiday. Over time received was very minimal (\$600 or less per employee over the year).



#### 4. Results and Recommendations – Cross matching of data between accounts payable and payroll system

No.		Number of Records	Risk Rating	Comments and Recommendations	Management Commentary
1.1-1.2	Payments to vendors with an address match to the payroll Masterfile	10	Moderate	<p>10 vendors were identified with the same address as an employee (and the vendor name is not the employee name). <b>Review the 3 paid over \$5,000 to ensure that payments were for genuine goods and services provided and conflicts of interest have been appropriately managed.</b></p> <p><b>Payments to these vendors are included in tab 1.2</b></p>	Staff have reviewed and have confirmed that all payments were for genuine goods and services. An example of this may be when a staff member has a spouse/relative who is a contractor that shares the same address as an employee.
2.1-2.2	Payments to vendors with a bank account match to the payroll Masterfile	4	Moderate	<p>4 active vendors were identified with the same bank account as an employee (and the vendor name is not the employee name). <b>Review the 1 vendor highlighted (paid over \$5,000) to ensure that payments were for genuine goods and services provided and conflicts of interest have been appropriately managed.</b></p> <p><b>Payments to these vendors are included in tab 2.2.</b></p>	Staff have reviewed and have confirmed that all vendors are legitimate. The large invoice mentioned is when a terminated employee had subsequently provided contracting services.
3.1-3.2	Payments to employees through accounts payable	205	Moderate	<p>A total of \$242,899 was paid to employees through accounts payable. <b>Review the 6 vendors paid more than \$5,000 during the period to ensure that the payments are for genuine services provided.</b></p> <p><b>Payments to these vendors are included in tab 3.2</b></p>	Staff have reviewed and have confirmed that all payments are legitimate. Reimbursements/expense claims to employees are usually paid through accounts payable.





No.		Number of Records	Risk Rating	Comments and Recommendations	Management Commentary
4	Payments to vendors with Masterfile links to an employee requested or approved by that person	5	Moderate	<p>1 payment was identified (and was less than \$1,000) where the approver appears to have a conflict of interest (as identified through a link between that employee Masterfile and vendor Masterfile bank account number or address). <b>Review the Approval ID to confirm the ID is that of the staff member, the payment was genuine and policy and processes were followed.</b></p> <p>4 payments were identified where the requestor has Masterfile links to the vendor. However, the payments were expense reimbursements (the person receiving the claim is therefore expected to be also the requestor).</p>	<p>Staff have reviewed the listing and note that the list only uses data for first names. In 2 instances, the employees had the same first name therefore was displayed on the list, however was a different person.</p> <p>The remainder are for expense reimbursements. The hard copy documentation required had actually been signed through the correct authorisation channels. It is noted that these were very minor in value, and all approvals require a two approver process.</p>



## 5. Appendices

### Appendix 1 – Classification of Internal Audit Findings

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

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



## Appendix 2 – Basis and Use of this Report

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

- Our procedures were performed according to the standards and guidelines of The Institute of Internal Auditors' International Professional Practices Framework. The procedures were not undertaken in accordance with any auditing, review or assurance standards issued by the External Reporting Board (XRB).
- This report has been prepared pursuant to our terms of engagement. In preparing our report, our primary source of information has been the internal data supplied to us by management and representations made to us by management. We have not, however, sought to establish the reliability of the information sources by reference to other evidence. This report presents the results of our analysis of the information we have relied upon.
- Our report makes reference to 'Data Analysis'. This indicates only that we have (where specified) undertaken certain analytical activities on the underlying data to arrive at the information presented. We do not accept responsibility for the underlying data.
- The statements and findings included in this report are given in good faith, and in the belief that such statements and findings are not false or misleading, but no warranty of accuracy or reliability is given. In accordance with our firm policy, we advise that neither the firm nor any employee of the firm undertakes responsibility arising in any way whatsoever to any persons. Our findings are based solely on the information set out in this report. We reserve the right to amend any findings, if necessary, should any further information become available.
- Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. Our procedures were not designed to detect all weaknesses in control procedures as they were not performed continuously throughout a specified period and any tests performed were on a sample basis.
- Any projection of the evaluation of the control procedures to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.
- The matters raised in this report are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, management should not rely on our report to identify all weaknesses that may exist in the systems and procedures under examination, or potential instances of non-compliance that may exist.
- Recommendations for improvement should be assessed by management for their full commercial impact, before they are implemented.
- This Report is not to be used by any other party for any purpose nor should any other party seek to rely on the opinions, advice or any information contained within this Report. In this regard, we recommend that parties seek their own independent advice. Crowe Horwath disclaims all liability to any party other than the client for which it was prepared in respect of or in consequence of anything done, or omitted to be done, by any party in reliance, whether whole or partial, upon any information contained in this Report. Any party, other than the client for which it was prepared, who chooses to rely in any way on the contents of this Report, does it so at their own risk.

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# HAWKE'S BAY REGIONAL COUNCIL

## FINANCE AUDIT & RISK SUB-COMMITTEE

Tuesday 12 February 2019

### Subject: FINANCIAL DELEGATIONS

#### Reason for Report

1. To provide the Finance, Audit and Risk Sub-committee with the opportunity to discuss the current financial delegations for the Chief Executive (CE) and Group Managers.
2. Any changes to financial delegations need to be approved by Council, so this item enables debate through the sub-committee, the Corporate and Strategic Committee and then recommendations to Council.

#### Background

3. Council last changed the financial delegations for the CE and Group Managers in 2009, and the levels decided then are still current as below.

### Financial Delegations (As resolved by Council on 27 May 2009)

Financial Delegations – Where provision has been made in Annual Plan	
<ul style="list-style-type: none"> <li>Individual delegations to selected members of management/staff as specifically delegated by a Group Manager or the Chief Executive</li> </ul>	Various levels under \$75,000
<ul style="list-style-type: none"> <li>Group Manager</li> </ul>	Up to \$75,000
<ul style="list-style-type: none"> <li>Chief Executive</li> </ul>	Up to \$200,000
<ul style="list-style-type: none"> <li>Co-signature with Chief Executive/Chief Financial Officer (or in CFO's absence another Group Manager)</li> </ul>	Up to \$300,000
<ul style="list-style-type: none"> <li>Fee for service contracts (eg Ministry of Tourism, Ministry of Primary Industries) – Group Manager or Chief Executive can sign where these contracts have been approved by Council</li> </ul>	\$400,000
<ul style="list-style-type: none"> <li>Tenders Committee (when approved by Tenders Committee, Group Manager or CEO can sign)</li> </ul>	>\$400,000

*Note exception to the above: Chief Executive has power to enter into contracts of employment and contracts of insurance irrespective of the sums involved, providing such sums have been provided in the Annual Plan.*

Financial Delegations – If sums have not been provided in the Annual Plan	
<b>Operating Expenditure</b> <ul style="list-style-type: none"> <li>Chief Executive</li> </ul>	Up to \$15,000 from contingency provision in the Annual Plan.
<ul style="list-style-type: none"> <li>Council</li> </ul>	In excess of \$15,000 from contingency provision in the Annual Plan.
<b>Capital Expenditure</b> <ul style="list-style-type: none"> <li>Chief Executive<sup>1</sup>:               <ul style="list-style-type: none"> <li>Accumulative level with the provision that such expenditure can be funded from the Asset Replacement Reserve</li> </ul> </li> <li>If expenditure needs to be funded from other sources</li> </ul>	Up to \$250,000
<ul style="list-style-type: none"> <li>Council</li> </ul>	\$15,000
	In excess of the limits as above.

<sup>1</sup> The above delegations are limited to sign off from the Chief Executive, with the exception of Capital purchases not budgeted subject to Group Manager's signature up to \$2,500 per item.

4. Since 2009 Council's annual expenditure has increased from \$32 million to \$45 million but the delegation limits have remained the same. Staff believe that an update of the financial delegations is well overdue and should be updated to allow for efficient operation, especially to implement the ambitious workload of the 2018-28 long term plan.
5. Staff have investigated the delegation limits of other regional councils whose delegations were online, with the results shown below.

Council	Role	Delegation
Greater Wellington	CE	Authority to implement the Annual Plan
	Group Managers	\$200,000
Environment Canterbury	CE & Group Manager (Jointly)	Authority to implement the Annual Plan
	CE	\$250,000
	Group Manager	\$250,000
Bay of Plenty	CE	\$2,000,000
	Group Manager	Delegated by CE

### Proposal

6. Staff propose that the financial delegation levels for the CE and Group Managers be increased to levels that reflect the organisational growth over the last 10 years, align more closely to other regional councils and allow for the organisation to operate efficiently.
7. The following recommendations are based on simplifying the current system and allowing for practical governance.

Financial Delegations – Where provision is made in the LTP / Annual Plan	
CE	Authority to implement the LTP/Annual Plan as approved by Council – with a tolerance of up to the higher of \$100,000 or 5%
Group Managers	Up to \$150,000
Staff	Delegations provided by their Group Manager up to a level of \$100,000

8. The Tenders Committee is only used for competitive procurement processes over \$400,000.

Financial Delegations – Where no provision is made in the LTP / Annual Plan	
<b>Operating Expenditure</b>	
Council	In excess of \$100,000
CE	Up to \$100,000
<b>Capital Expenditure</b>	
Council	In excess of the limits below
CE	Up to \$50,000 per asset if funded via asset replacement reserve Up to \$20,000 if funded elsewhere
Group Managers	Up to \$20,000 per asset if funded via asset replacement reserve Up to \$5,000 if funded elsewhere

### Decision Making Process

9. Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
  - 9.1. The decision does not significantly alter the service provision or affect a strategic asset, and is not inconsistent with an existing policy or plan.
  - 9.2. The use of the special consultative procedure is not prescribed by legislation.
  - 9.3. The decision does not fall within the definition of Council's policy on significance.



- 9.4. The decision of the sub-committee is in accordance with the Terms of Reference and decision making delegations adopted by Hawke's Bay Regional Council 9 November 2016, specifically:
  - 9.4.1. The purpose of the Audit and Risk Sub-committee is to report to the Corporate and Strategic Committee to fulfil its responsibilities for the provision of appropriate controls to safeguard the Council's financial and non-financial assets, the integrity of internal and external reporting and accountability arrangements.

### Recommendations

1. That the Finance, Audit and Risk Sub-committee receives and notes the ***"Financial Delegations"*** staff report.
2. That the Finance, Audit and Risk Sub-committee provides feedback on the "Financial Delegations" levels proposed.
3. The Finance, Audit and Risk Sub-committee recommends that the Corporate and Strategic Committee:
  - 3.1. Agrees that the decisions to be made are not significant under the criteria contained in Council's adopted Significance and Engagement Policy, and that the Committee can exercise its discretion and make decisions on this issue without conferring directly with the community or persons likely to be affected by or have an interest in the decision.
  - 3.2. Reviews and considers the proposed Financial Delegations and provides feedback for recommendations to Council for decision.

### Authored by:

**Manton Collings**  
**CHIEF FINANCIAL OFFICER**

### Approved by:

**Jessica Ellerm**  
**GROUP MANAGER**  
**CORPORATE SERVICES**

### Attachment/s

There are no attachments for this report.





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

**Tuesday 12 February 2019**

**Subject: 2017-18 AUDIT NZ MANAGEMENT REPORT**

**Item 9**

**Reason for Report**

1. To provide the opportunity for the sub-committee to review and discuss the Report to the Council on the Audit of Hawke's Bay Regional Council for the year ended 30 June 2018.

**Background**

2. Each year Audit NZ provides Council with a report on how the audit went for the previous year. This includes any significant matters and recommendations that came out of the audit process.
3. Review of these reports provides the sub-committee with the chance to ask further questions and gain comfort from the audit process. It also gives an indication of any changes that might be occurring in the next financial year.
4. Unfortunately our Audit NZ director, Stephen Lucy cannot be at the meeting but had previously talked with the sub-committee on a number of these matters and will continue to do so over the 2019/20 audit.

**Decision Making Process**

5. Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
  - 5.1. The decision does not significantly alter the service provision or affect a strategic asset, and is not inconsistent with an existing policy or plan.
  - 5.2. The use of the special consultative procedure is not prescribed by legislation.
  - 5.3. The decision does not fall within the definition of Council's policy on significance.
  - 5.4. The decision of the sub-committee is in accordance with the Terms of Reference and decision making delegations adopted by Hawke's Bay Regional Council 9 November 2016, specifically:
    - 5.4.1. The purpose of the Audit and Risk Sub-committee is to report to the Corporate and Strategic Committee to fulfil its responsibilities for the independence and adequacy of internal and external audit functions.
    - 5.4.2. The Finance, Audit and Risk Sub-committee shall have responsibility and authority to receive the internal and external audit report(s) and review actions to be taken by management on significant issues and audit recommendations raised within the report(s)
    - 5.4.3. The Finance, Audit and Risk Sub-committee shall have responsibility and authority to conduct a sub-committee members-only session with Audit NZ to discuss any matters that the auditors wish to bring to the Sub-committee's attention and/or any issues of independence.

**Recommendation**

1. That the Finance, Audit and Risk Sub-committee receives and notes the **"2017-18 Audit NZ Management Report"**.
2. The Finance, Audit and Risk Sub-committee recommends that the Corporate and Strategic Committee:

- 2.1. Agrees that the decisions to be made are not significant under the criteria contained in Council's adopted Significance and Engagement Policy, and that the Committee can exercise its discretion and make decisions on this issue without conferring directly with the community or persons likely to be affected by or have an interest in the decision.
- 2.2. Confirms the Finance, Audit and Risk Sub-committee's satisfaction that the **"2017-18 Audit NZ Management Report"** is sufficient and that there are no outstanding issues of concern.

**Authored by:**

**Manton Collings**  
**CHIEF FINANCIAL OFFICER**

**Approved by:**

**Jessica Ellerm**  
**GROUP MANAGER**  
**CORPORATE SERVICES**

**Attachment/s**

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AUDIT NEW ZEALAND  
Mana Arotake Aotearoa

# Report to the Council on the audit of

Hawke's Bay Regional Council

For the year ended 30 June 2018

Item 9

Attachment 1

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## Key messages

We have completed the audit for the year ended 30 June 2018. This report sets out our findings from the audit and draws attention to areas where the Hawke's Bay Regional Council and group (the Regional Council) is doing well and where we have made recommendations for improvement.

### Audit opinion

We issued a qualified audit opinion dated 24 October 2018. The qualification relates to the limitation on our work in respect of the possible tax effects of a \$19.5 million loss on sale of Ruataniwha Water Storage Scheme (RWSS) intangible assets. We have been unable to obtain sufficient appropriate audit evidence to determine the tax balances, if any, that may arise from the disposal of the Scheme.

Our qualified opinion also notes that for the year ended 30 June 2017, which is presented as comparative information, we were unable to obtain sufficient appropriate audit evidence to support the carrying value of the RWSS assets or determine the associated tax balances.

### Matters identified during the audit

In addition to the RWSS tax asset uncertainty, we identified the following key matters during the audit:

- We reviewed the valuation of HBRC's investment in HBRIC and were satisfied that it was materially correct.
- We reviewed the fair value assessments prepared by management for infrastructure, and land and building assets. We were satisfied that the fair values of these assets did not differ materially from the current carrying value, and therefore a full revaluation was not required.
- PONL's sea defence assets – we have reviewed, and are satisfied with:
  - the depreciation expense for the sea defence assets, noting that we consider that the recorded depreciation is at the lower end of the acceptable range of possibilities; and
  - the tax balances relating to the sea defence assets, although as discussed with the Council the deferred tax liability should be reduced by \$4.85 million.
- We were pleased that this year PONL prepared special purposes financial statements for the year ended 30 June for incorporation into HBRC's group financial statements.

**Thank you**

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



Stephen Lucy  
Appointed Auditor  
11 January 2019

## 1 Our audit report

### 1.1 We issued an unmodified audit report



We issued a qualified audit report on 24 October 2018, for the reasons set out below.

Other than the qualification we were satisfied that the financial statements and statement of service performance present fairly Regional Council and Group's activity for the year and their financial position at the end of the year.

In forming our audit opinion, we considered the following matters outlined below and in sections 2 and 3.

#### 1.1.1 Our work was limited due to insufficient evidence to determine the tax effects of Ruataniwha Water Storage Scheme expenditure

The Regional Council Group (the Group), through its subsidiary HBRIC, has previously incurred expenditure developing the Ruataniwha Water Storage Scheme (RWSS). In June 2018 HBRIC sold the RWSS intangible asset to a third party for \$0.1 million and recognised a loss on sale of the intangible asset of \$7.755 million. Together with the \$11.740 million impairment recognised in 2016/17, this equates to a total loss on the project of \$19.495 million.

The Group cannot determine the amount of tax deductions available in relation to the \$19.495 million loss. HBRIC is in the process of obtaining a binding ruling from the IRD to claim the entire expenditure as deductible.

However HBRIC and the Regional Council are not certain about the likelihood of success of this application for a binding ruling. There is no current fall-back position if the ruling was not to be in HBRIC's favour as it will depend on the feedback from the ruling application process. As such, the Group has not recorded any tax asset. We have been unable to obtain sufficient appropriate audit evidence as to the likely tax effects which range between \$0 and \$5.458 million and the associated tax balances that would arise.

Our qualified opinion also notes that for the year ended 30 June 2017, which is presented as comparative information, we were unable to obtain sufficient appropriate audit evidence to support the carrying value of the RWSS assets or determine the associated tax balances.

### 1.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial.

All the Regional Council financial misstatements identified during the annual audit were corrected in the financial statements.

The Group misstatements that have not been corrected are listed in Appendix 3 along with management's reasons for not adjusting these misstatements. We are satisfied that these misstatements are individually and collectively immaterial.

We highlight that the group's equity is understated by \$4.4 million. This is largely due to a \$4.85 million misstatement relating to the Port's sea defence assets – see section 3.1

### 1.3 Quality and timeliness of information provided for audit



Management needs to provide information for audit relating to the annual report of the Regional Council. This includes the draft annual report with supporting working papers.

There were no significant issues in the quality and timeliness of information provided by the Regional Council to us for our audit. However, we will continue liaise with the Regional Council finance team on areas where the current reporting process can be improved with a focus on where audit work can reasonably be brought forward to reduce delays in finalising the annual report.



## 2 Matters raised in the Audit Plan



In our Audit Plan of 3 August 2018, we identified the following matters as the main audit risks and issues:

Audit risk/issue	Outcome
<b>Deductibility of Ruataniwha Water Storage Scheme (RWSS) costs for tax purposes</b>	
<p>Last year we were unable to obtain sufficient appropriate audit evidence to determine the deferred tax balances that should arise from the impairment of the RWSS intangible asset.</p> <p>We understand the Regional Council's subsidiary, Hawke's Bay Regional Investment Company Limited (HBRIC), has received further tax advice regarding the deductibility of the RWSS costs, and is now seeking a binding ruling from IRD regarding this matter.</p> <p>In situations where there is uncertainty over income tax treatments, IFRIC 23 requires an entity to consider whether it is probable that the IRD would accept their treatment. If it is probable, HBRIC will be able to recognise the deductions for accounting purposes. However, if it is not probable, HBRIC will be required to calculate its income tax balances based on the most likely amount or the expected value.</p>	<p>HBRIC lodged an application for a binding ruling on this matter with the Inland Revenue Department in September 2018, seeking a full deduction for the loss on sale.</p> <p>However, at this stage, it is unclear whether this tax treatment meets the probable threshold for financial reporting purposes. The potential tax benefit ranges in value from zero to \$5.458 million, but is dependent on technical interpretations of taxation legislation that will be considered during the binding ruling process.</p> <p>As set out in section 1.1.1, we have been unable to obtain sufficient appropriate audit evidence to determine the tax balances, if any, that may arise from the disposal of the RWSS assets and therefore have issued a qualified audit opinion.</p>
<b>Ruataniwha Water Storage Scheme (RWSS)</b>	
<p>The Group, has previously recognised an intangible asset for the expenditure the subsidiary HBRIC has incurred in the development of the RWSS – the carrying value of the intangible asset at 30 June 2017 was \$7.8 million. On 2 July 2018 the Regional Council announced that it had approved and completed the sale of the RWSS intellectual property and assets for \$0.1 million.</p>	<p>We were satisfied with the accounting treatment of the sale and the disclosures in the financial statements.</p> <p>During the 2017/18 period the Group sold the intangible asset to a third party for \$0.1 million.</p> <p>It recognised a loss on sale of the intangible asset of \$7.8 million. The loss on sale and an impairment recognised in the prior period equate to a total loss on the project of \$19.5 million.</p>

Audit risk/issue	Outcome
<b>Valuation of HBRC's investment in HBRIC</b>	
<p>The Regional Council's accounting policy is to hold its investment in HBRIC as "fair value through other comprehensive revenue and expense". As such, there is a need to ensure that this investment is appropriately recorded at fair value each year.</p> <p>In previous years the Council has obtained advice from an independent expert valuer, Deloitte, as to the appropriateness of the fair value of HBRC's investment in HBRIC.</p> <p>This year the Regional Council did not obtain detailed independent expert valuation advice but had a limited independent valuation performed which took into consideration other valuation information the Regional Council obtained as part of its recent Capital Structure Review.</p> <p>We note that this valuation assessment would need to be in accordance with the relevant accounting standard, PBE IPSAS 29 <i>Financial Instruments: Recognition and Measurement</i>.</p>	<p>We reviewed the valuation of HBRC's investment in HBRIC and were satisfied that it was materially correct.</p> <p>Refer to 3.2 for further detail.</p>
<b>Revaluation of assets carried at fair value</b>	
<p>Infrastructural assets and other revalued assets need to be revalued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value. The relevant accounting standard is PBE IPSAS 17, Property, Plant and Equipment.</p> <p>The last valuations were:</p> <ul style="list-style-type: none"> <li>Land and buildings – June 2016</li> <li>Hydrological assets – June 2016</li> <li>Infrastructure assets – June 2017</li> </ul> <p>There are no revaluations due in 2017/18 under the Regional Council's policy of cyclical asset revaluations.</p>	<p>We agreed with HBRC's judgement that a full revaluation is not required for any of the asset classes this year.</p> <p>We reviewed the management's assessment, which included reviewing advice from external valuers and from internal asset management staff.</p> <p>We also considered external evidence of price changes, including statistics from Stats NZ.</p>

Audit risk/issue	Outcome
<b>Valuation of investment properties</b>	
Investment properties need to be revalued annually. Both the Regional Council and PONL have investment properties.	<p>We reviewed, and were satisfied with, the valuations of investment properties.</p> <p>The group investment property portfolio increased by \$2.5 million due to additions at PONL and valuation gains across all investment properties. The additions and gains were offset by \$1.9 million of disposals from HBRC's Napier portfolio.</p>
<b>Adjustments to ensure HBRIC and PONL results are correctly incorporated into HBRC's group results</b>	
<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 PONL 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 resulting in differences in the treatment of certain transactions and events.</p> <p>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 PONL results so that they are appropriate for inclusion in the group results.</p>	<p>The key significant difference between the accounting standards related to the capitalisation of borrowing costs by the HBRIC group whereas borrowing costs need to be expensed at the HBRC level.</p> <p>This was appropriately notified to HBRC for adjustment in its group financial statements.</p> <p>We note that there are upcoming changes to a couple of accounting standards (for revenue and leases) – see section 6 and Appendix 4. These accounting standards only apply to for-profit entities but HBRC will need to be aware of them as accounting adjustments may be required on consolidation when they come into effect.</p>

Audit risk/issue	Outcome
<b>The risk of management override of internal controls</b>	
<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls. Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to treat this as a risk on every audit.</p>	<p>Based on the work performed and controls in place, we assessed that the risk of material misstatement, due to management override, is sufficiently mitigated.</p> <p>Our work included:</p> <ul style="list-style-type: none"> <li>• Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>• Reviewing accounting estimates for bias and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatement due to fraud. This included assessing the robustness of depreciation for the Port's sea defence assets and HBRC's assessment of the fair value of its investment in HBRIC; and</li> <li>• Maintaining an awareness of any significant transactions that were outside the normal course of business, or that otherwise appear to be unusual given our understanding of HBRC and its environment, and other information obtained during the audit.</li> </ul>

### 3 Other significant matters



During the course of our audit we identified the following matters which we wish to bring to your attention.

#### 3.1 Sea defence assets – Port of Napier Limited (the Port)

We have reviewed the impact at the Group level, and are satisfied with:

- the depreciation expense for the Port's sea defence assets, noting that we consider that the recorded depreciation is at the lower end of the acceptable range of possibilities; and
- the tax balances relating to the Port's sea defence assets, although as discussed with the Regional Councillors, the HBRC Directors and the Port Directors (the Port's auditors, Ernst & Young, discussed with the Port Directors) the deferred tax liability should be reduced by \$4.85 million – see misstatements in Appendix 3.

The Port's sea defence assets were revalued by AECOM as at 30 June 2017 and this was adopted in the Port's financial statements as of 30 September 2017. AECOM provided an assessment of useful lives and residual values in their independent valuation report. The Port also received an independent valuation from Opus. During the 2018 financial period the Port performed an analysis of useful lives and residual values. Refer to the below table which summarises the differences in assumptions and consequential impact on the annual depreciation expense:

	Port	AECOM	Opus
<b>Residual Value Percentage</b>			
• Breakwater 1 & 2 core	50%	20%	89%
• Breakwater 1 & 2 armour	25%	20%	28%
• Seawalls 3 – 6	50%	20%	67%
<b>Total useful life (years)</b>			<i>Average</i>
• Breakwater 1 core	200	88 – 156	155+
• Breakwater 1 armour	100	88 – 156	110
• Breakwater 2	150	70	156+
• Seawalls 3 – 6	150	70	170+
<b>Remaining useful life (years)</b>			
• Breakwater 1 core	69 – 137	25	11 – 79
• Breakwater 1 armour	0 – 37	25	0 – 47
• Breakwater 2	105 – 139	25 – 59	87 – 121
• Seawalls 3 – 6	66 – 142	5 – 62	61 – 137
<b>Annual depreciation</b>	\$0.403m	\$1.548m	\$0.936m

The Port considers that AECOM's estimated useful lives and residual values do not appropriately reflect the best estimate of these amounts, probably as a result of the amounts used by AECOM being influenced by industry valuation standard guidelines as opposed to solely considering the actual nature and condition of the Port's assets.

The Port's assumptions are based on internal engineering expertise and institutional knowledge of the assets' components developed over a significant period of time.

The Port has recognised a depreciation expense in relation to sea defence assets in accordance with the Port's assumptions outlined above. While Ernst & Young, and ourselves, understand the reasons for the Port considering that the residual values and useful lives vary from those adopted by AECOM in their valuation, typically the assumptions used for depreciation would align with those from the valuation adopted for balance sheet value purposes. That said, there are clearly significant differences in assumptions between AECOM and Opus and this suggests a higher degree of subjectivity than usual in relation to the residual values and useful lives of the sea defence assets. The adopted useful lives appear to be at the higher end of the potentially acceptable range and so Ernst & Young (and ourselves) consider that the recorded depreciation is at the lower end of the acceptable range.

The residual values adopted have a consequential impact on the determination of the Port's deferred tax liability. The residual value of the sea defence asset does not attract deferred tax as it is considered to be akin to land. In calculating the deferred tax as at 30 June 2018 the Port applied AECOM's suggested residual values of 20% across all sea defence asset components. This is inconsistent with the residual values the Port has applied in determining the depreciation charge (i.e. those in the "Port" column above). The amount on which deferred tax is not calculated should be consistent with the residual value assumed for depreciation purposes (i.e. there can only be one residual value amount).

As a result the deferred tax liability should be reduced by \$4.85 million. The Port, HBRIC and the Regional Council have decided not make this adjustment – see misstatements in section 4.1.

#### **Management comment**

*This matter has been referred to HBRIC Limited to clarify with the Port.*

### **3.2 Investment in HBRIC**

We reviewed the valuation of HBRC's investment in HBRIC and were satisfied that it was materially correct.

In particular, we were satisfied that Council undertook an appropriate process to satisfy themselves that the underlying valuation was appropriate. Following this process, the Council decided that the carrying value of HBRIC's investment should increase by \$48.3 million, to \$283.5 million.



In reaching this view Council:

- Agreed with the HBRC Board's assessment that the fair value of Port of Napier Limited (PONL) is \$291 million.
- Noted that in reaching their assessment of the fair value of PONL, the HBRC Board took into consideration a PricewaterhouseCoopers review of the reasonableness of recent presentations to Council (including indicative valuations) by First NZ Capital and Flagstaff:

	Minority sale (45% sold) \$m	IPO (45% sold) \$m	Concession/ lease \$m
Gross cash proceeds	60	94	379
Value of retained share	239	238	51
Transactions costs	(8)	(11)	(13)
	<b>291</b>	<b>321</b>	<b>417</b>

- Having assessed the fair value of the Port as \$291 million, Council then obtained a valuation from BDO of the Regional Council's investment in HBRC (noting that BDO do not take any responsibility for the accuracy of the valuation of PONL or its appropriateness for use in the financial statements of the Regional Council).
- Noted that BDO's assessment of the Regional Council's investment in HBRC is determined as follows:

	\$000
Fair value of PONL (based on Council's assessment)	291,000
Net debt	(5,700)
Capitalised HBRC Management and Governance Costs (based on information provided to BDO by Regional Council management)	(1,800)
<b>Fair value of HBRC</b>	<b>283,500</b>

We note that the Port value adopted by HBRC recognised in the financial statements is at the lower end of the ranges proposed in the valuations.

We have reviewed the First NZ Capital and Flagstaff presentations and the PWC and BDO reports and:

- Assessed the judgements made by the HBRC Board and management in determining the value of the investment in the Port. We have assessed the value they have adopted as reasonable.
- Assessed the judgements made by Council and management in determining the value of the investment in HBRC. We have assessed the value they have adopted as reasonable.



## 4 Less significant matters

### 4.1 Contract management system

We recommend that a process be implemented to:

- require all staff to provide a current Contract Central contract number for payment of contracted goods or services; and
- require contract owners on a six monthly or annual basis to review and update the contract details and status.

The Regional Council's procurement manual requires every new contract to be set up in its contract management system, Contract Central, which will allocate a specific contract number and will enable the collation of all information under each contract. From discussions with management, we identified that the use of Contract Central across the Regional Council is inconsistent and there is no process in place to ensure that all contracts are actually set up in the system.

It was also noted that the state of all the contracts in the system was set to current, but it was clear from an inspection that a large number of contracts recorded in the system were old and the system information was inaccurate.

Requiring all staff to provide a current Contract Central contract number before any payments will be made for contracted goods or services, would ensure that all contracts are entered into the system and that the information entered is complete. Implementing a regular six monthly or annual review process by requiring contract owners to update the contract details and status would also ensure the contract data is accurate.

Ensuring that contract data is complete and accurate will enable the Regional Council to better utilise the contract information to monitor procurement and contract management activity.

#### Management comment

*Contract management is currently being reviewed and these matters will be added to the scope.*

### 4.2 NCS Magiq application system user authentication

We recommend that:

- user authentication be required during the NCS Magiq application system (Rates and 'Clean Heat' loan repayments) login process; and
- password rules be implemented in accordance with the Regional Council's policy and generally accepted good practice.

User authentication for the NCS Magiq application system (Rates and 'Clean Heat' loan repayments) has not been implemented.

The NCS Magiq system uses its own application system rules to authenticate users. The application system is not connected to Active Directory and good practice user authentication rules have not been implemented. To gain access to NCS Magiq, users connect to the application server via a URL web interface then login.

NCS Magiq software support recommend that the sites use Active Directory (or other Lightweight Directory Access Protocol server) to have a single sign-on experience.

#### **Management comment**

*We have been in contact with NSC to see if it possible to link these passwords to the active directory. We will continue to work on a solution.*

### **4.3 Intangible asset additions**

We recommend that individual project budgets be set for significant intangible asset projects and that all projects are reviewed at year end to identify their completion status.

The Regional Council currently records the annual budget for intangible asset additions as one project in its finance system. The budget was made up of a number of planned projects to purchase and construct new software, and to update existing software.

At year-end all of the expenditure incurred on the project was capitalised. This treatment was not correct because the implementation of the new resource management system (IRIS) was still in progress. This was corrected in the financial statements.

Setting project budgets for intangible assets at an individual level where there are significant projects being undertaken such as the IRIS project would allow the Regional Council to better monitor progress on these projects more accurately and assist with year-end reporting. An assessment of all intangible assets projects at year end should be undertaken regardless and the asset value of projects not completed should be accounted for as work in progress assets.

#### **Management comment**

*New project codes and individual budgets have now been setup so that in individual projects can be isolated.*

### **4.4 Community loans**

We recommend that a fair value assessment be performed of the community loans when these are issued to determine the difference between the fair value and carrying value that may need to be recognised in the net surplus/deficit as grant expenditure.

Community loans are often provided at a lower interest rate than the market rates. If a community loan is provided at a low interest rate the loans must initially be recognised at fair value, rather than face value, and subsequently measured using amortised cost. Any difference between the face value of the loan and its fair value is then recognised in the net surplus/deficit as a grant expenditure.

The Regional Council recognises its community loans at their face value. We have previously assessed that any variance to face value would not be significant particularly as the level of the loans was decreasing. However we are aware that the Regional Council in its 2018-2028 LTP is intending to provide more community loan funding for schemes such as clean heat. We note that the interest rates are low and given that these loans are currently repaid through rates they are of lower risk.

However, a formal fair value assessment of the community loans issued during the financial year should be made to ensure that any difference between the fair value and face value of the loan is appropriately accounted for.

The fair value of the community loans will be the present value of expected future cash flows. This will include forecast repayments of the loan principle. The discount rate used needs to be a market interest rate, which reflects the credit risk of the loan at inception, and reflect the risk of the instrument in an arm's length transaction.

#### **Management comment**

*We will continue to monitor these loans and the material amounts of any additional LTP activity.*

#### **4.5 Unpresented Cheques**

We recommend that the current process to clear unpresented cheques be reviewed to ensure all stale cheques are being cancelled periodically.

When reviewing the bank reconciliations we noted 20 unpresented cheques (\$7,600) that are 6 months or older, 13 of which relate to 2016/17 year. While there is a process for reviewing unpresented cheques every 6 months and cancelling stale ones, some cheques have not been picked up.

#### **Management comment**

*This has been reviewed and is now up to date.*

## 5 Public sector audit



The Regional Council is accountable to their local community and to the public for its use of public resources. Everyone who pays taxes or rates has a right to know that the money is being spent wisely and in the way the Regional Council said it would be spent.

As such, public sector audits have a broader scope than private sector audits. As part of our audit, we have considered if the Regional Council has fairly reflected the results of its activities in its financial statements and non-financial information.

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

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

We have found no issues to bring to your attention.

## 6 Group audit



The group comprises:

- The Regional Council;
- Hawke's Bay Regional Investment Company Limited; and,
- Port of Napier Limited.

We have not identified any of the following during our audit for the year ended 30 June 2018:

- Instances where our review of the work of component auditors gave rise to a concern about the quality of that auditor's work.
- Limitations on the group audit.
- Fraud or suspected fraud involving group management, component management, employees with significant roles in group-wide controls, or others where the fraud resulted in a material misstatement of the group financial statements.

## 7 Adoption of new accounting standards



The Regional Council's subsidiary, HBRIC, must apply new "For-Profit" revenue and financial instrument accounting standards in preparing its 30 June 2019 financial statements. In particular these new standards are likely to have an impact on its subsidiary PONL's financial statements.

The HBRIC group is consolidated into the Regional Council which is a public benefit entity (PBE) group. In submitting information to the Regional Council for consolidation purposes, consolidation adjustments may be necessary due to the different for-profit and PBE accounting requirements for revenue, financial instruments, and leases.

Adjustments that arise on transition to the new for-profit standards will need to be assessed as to whether they need to be reversed for PBE consolidation purposes.

We encourage Regional Council management to discuss these "mixed group" reporting issues with HBRIC and the PONL. We would expect HBRIC to have an understanding of the transition work being undertaken by PONL and the impact on HBRIC's group accounts and the Regional Council to assess whether these adjustments will need to be reversed.

We have outlined to HBRIC our expectations as set out below on the transition work to be undertaken (this was communicated to HBRIC in their management report dated 23 October 2018).

We have provided further information about these new standards in Appendix 4. We also provide information in the Appendix about NZ IFRS 16 *Leases*, which applies in preparing the 30 June 2020 financial statements.

### Transition requirements

HBRIC management is responsible for performing the necessary transition work to successfully implement these new standards. This includes:

- Documenting an impact assessment of the new standards and identifying changes required to accounting practices.
- Implementing changes to systems and processes that may be necessary to support changes in accounting practices.
- Updating HBRIC's accounting policies.
- When required, making adjustments to the financial statements in accordance with the transitional provisions of the new standards and providing support for these adjustments.
- Updating HBRIC's revenue and financial instrument related disclosures in the financial statements.

- Keeping relevant parties informed, such as your auditor and audit committee.

The transition to these new standards may be complex and time-consuming for some entities. It is therefore important that HBRIC and PONL substantially complete their transition work on these new standards early (especially given PONL has a 30 September year-end and will implementing the new standards at that stage – unless it early adopts for its 30 September 2018 financial statements).

We are responsible for reviewing HBRIC management's transition work, and ensuring transition adjustments are reasonable and complete. We encourage HBRIC to share its transition plan and transition work with us early in the audit process so we can agree issues and adjustments in a timely manner. We will also liaise with the auditor of PONL to gain an understanding of their transition processes and likely adjustments.



## 8 Useful publications



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

Description	Where to find it
<b>Audit Committees</b>	
The Office of the Auditor-General (OAG) has released various best practice information on Audit Committees.	On the OAG's website under "Our Work – Audit Committee Resources" Link: <a href="#">Audit Committee Resources</a>
<b>Model financial statements</b>	
Our model financial statements reflect best practice we have seen to improve financial reporting. This includes: <ul style="list-style-type: none"> <li>significant accounting policies are alongside the notes to which they relate;</li> <li>simplifying accounting policy language;</li> <li>enhancing estimates and judgement disclosures; and</li> <li>including colour, contents pages and subheadings to assist the reader in navigating the financial statements.</li> </ul>	On our website under publications and resources. Link: <a href="#">Model Financial Statements</a>
<b>Data in the public sector</b>	
The Office of the Auditor-General (OAG) has published a series of articles about how data is being used in the public sector. These cover: <ul style="list-style-type: none"> <li>functional leadership;</li> <li>building capability and capacity;</li> <li>collaboration; and</li> <li>security.</li> </ul>	On the OAG's website under publications. Link: <a href="#">Data in the public sector</a>
<b>Infrastructure as a Service</b>	
The OAG has completed a performance audit on Infrastructure as a Service and considered whether the benefits are achieved.	On the OAG's website under publications. Link: <a href="#">Infrastructure as a Service</a>

## Appendix 1: Recommendations



Our recommendations for improvement and their priority are based on our assessment of how far short current practice is from a standard that is appropriate for the size, nature, and complexity of your business. We use the following priority ratings for our recommended improvements.

Priority	Explanation
Urgent	<p><b>Needs to be addressed <i>urgently</i></b></p> <p>These recommendations relate to a significant deficiency that exposes the Regional Council to significant risk or for any other reason need to be addressed without delay.</p>
Necessary	<p><b>Address at the earliest reasonable opportunity, <i>generally within six months</i></b></p> <p>These recommendations relate to deficiencies that need to be addressed to meet expected standards of best practice. These include any control weakness that could undermine the system of internal control.</p>
Beneficial	<p><b>Address, <i>generally within six to 12 months</i></b></p> <p>These recommendations relate to areas where the Regional Council is falling short of best practice. In our view it is beneficial for management to address these, provided the benefits outweigh the costs.</p>

### New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
<p><b>Contract management system</b></p> <p>We recommend that a process be implemented to:</p> <ul style="list-style-type: none"> <li>require all staff to provide a current Contract Central contract number for payment of contracted goods or services; and</li> <li>require contract owners on a six monthly or annual basis to review and update the contract details and status.</li> </ul>	4.1	Necessary

Recommendation	Reference	Priority
<b>NCS Magiq application system user authentication</b> We recommend that: <ul style="list-style-type: none"> <li>• user authentication be required during the NCS Magiq application system (Rates and 'Clean Heat' loan repayments) login process; and</li> <li>• password rules be implemented in accordance with the Regional Council's policy and generally accepted good practice.</li> </ul>	4.5	Necessary
<b>Intangible asset additions</b> We recommend that individual project budgets be set for significant intangible asset projects and that all projects are reviewed at year end to identify their completion status.	4.3	Beneficial
<b>Community loans</b> We recommend that a fair value assessment be performed of the community loans when these are issued to determine the difference between the fair value and carrying value that may need to be recognised in the net surplus/deficit as grant expenditure.	4.4	Beneficial
<b>Unpresented Cheques</b> We recommend that the current process to clear unpresented cheques be reviewed to ensure all stale cheques are being cancelled periodically.	4.5	Beneficial

### Status of previous recommendations

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

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open	0	4	0	4
Implemented or closed	0	6	0	6
<b>Total</b>	<b>0</b>	<b>10</b>	<b>0</b>	<b>10</b>

## Appendix 2: Status of previous recommendations

### Open recommendations

Recommendation	First raised	Status
<b>Necessary</b>		
<b>Log on accounts with no password or account expiry</b>		
<p>The current Regional Council policy is that users' passwords must expire and be changed every 45 days.</p> <p>Forcing users to regularly change password is a good security practice to mitigate the risk of unauthorised access to the Regional Council's information systems. Enabling account expiry ensures that log on accounts are only open during the period required to perform and complete the contracted tasks.</p> <p>Any exemption should be approved at the appropriate level of management and approval properly documented. Account expiry should be set for non-staff, or alternatively, a formal process be put in place to review access on a regular basis.</p>	2015/16	<p>We obtained a current listing and noted a number of user accounts that do not comply with the Regional Council's policy. For example some user accounts:</p> <ul style="list-style-type: none"> <li>• have no password expiry;</li> <li>• are generic; and,</li> <li>• are allocated to third parties and that have passwords that don't expire.</li> </ul> <p><b>Management comment</b></p> <p><i>There are a few user accounts that have exemption from the overall password policy. For example the rates counter computers. Given that there are many staff using these terminals throughout the day it is not efficient to log in and out per user. The risks are minimal and are believed to be acceptable.</i></p>

Recommendation	First raised	Status
<b>Necessary</b>		
<b>Periodic review of log on accounts</b>		
The Regional Council should undertake a periodic review of log on accounts to determine if access and access privileges continue to be appropriate.	2015/16	<p>We obtained a current listing and noted a number of user accounts that do not comply with the Regional Council's policy. For example some user accounts:</p> <ul style="list-style-type: none"> <li>• have no password expiry;</li> <li>• are generic;</li> <li>• have not been used for a long time (for example since 2011); and,</li> <li>• are allocated to third parties and that have passwords that don't expire.</li> </ul> <p>This issue is still outstanding.</p> <p><b>Management comment</b></p> <p><i>User are reviewed for every new staff member and for every staff member leaving the organisation. ICT have been asked to review the current listing for any users that may have been missed through this process.</i></p>
<b>Staff have local administration rights at their workstations</b>		
We recommended that the Regional Council discontinue the general practice of providing local administrator rights to system workstations.	2015/16	<p>Progress has been made on restricting staff local administration rights at their workstations but this resolution is still in progress.</p> <p><b>Management comment</b></p> <p><i>A review has been done and any residual local administrator rights are seen as necessary and an acceptable risk to the business.</i></p>

Recommendation	First raised	Status
<b>Necessary</b>		
<b>Sensitive expenditure policy review</b>		
<p>We recommended that the Regional Council consider incorporating further guidance, into the next update of its sensitive expenditure policy.</p> <p>Good practice is that an entity's sensitive expenditure policies include guidance on matters such as:</p> <ul style="list-style-type: none"> <li>• Credit limits to be set for credit cards;</li> <li>• Situations where cash advances on credit cards are allowed (if any);</li> <li>• Guidance on taking annual leave while traveling for work purposes;</li> <li>• Sale of surplus assets to staff – maximise return to entity if disposing of assets to staff.</li> </ul> <p>Further information on guidance that should be incorporated into sensitive expenditure policies can be found in the Office of the Auditor General Controlling sensitive expenditure: Guidelines for public entities publication.</p>	2016/17	<p><b>Management comment</b></p> <p><i>Any potential changes will be considered the next time that the policy is reviewed.</i></p>

## Implemented or closed recommendations

Recommendation	First raised	Status
<b>Necessary</b>		
<b>Masterfile maintenance</b>		
We recommended current processes are reviewed to ensure there is adequate supporting information and checks to verify that creditors and changes are bona fide.	2016/17	The staff performing masterfile maintenance have implemented a review against the Companies Office register.
<b>No post input approval/review once delegation has been allocated to an individual in NAV</b>		
We recommended that the Regional Council implement a system to ensure that delegations entered into the accounts payable system are accurate and appropriate authorised.	2016/17	An annual review process has been implemented. Managers are asked to confirm delegation levels for their employees.
<b>User authentication for MYOB payroll system</b>		
We recommended that the password rules in MYOB (Payroll) are implemented in accordance with the Regional Council's policy and used by system users for authentication purposes.	2016/17	This issue has been resolved.
<b>Users with Domain Administrator rights</b>		
<p>We recommended that:</p> <ul style="list-style-type: none"> <li>Domain administrator rights should be restricted to those staff whose role require such access to reduce the risk of unauthorised access to the Regional Council's information systems.</li> <li>A regular review of users, would ensure there is no unauthorised users are added to the group with domain administrator rights.</li> </ul>	2015/16	Domain Administrator rights have been restricted. This issue has been resolved.
<b>IS systems change management</b>		
Regional Council management should implement its Change Management Policy.	2015/16	Change management procedures have been implemented. This issue has been resolved.



## Appendix 3: Uncorrected misstatements

	Income statement (increase)/ decrease \$	Net assets (decrease)/ increase \$	Equity (increase)/ decrease \$
Revaluation reserve/Other comprehensive income			(4,850,722)
Deferred tax		4,850,722	
To record sea defence deferred tax on basis of management's assumed residual values as at 30 June 2018.			
Accounts receivable		93,000	
Accounts payable		(93,000)	
To reclassify accounts payable balances in debit position as at 30 June 2018.			
Provision for holiday pay		88,550	
P&L/retained earnings	(88,550)		
To release accrual for senior management holiday pay considered unlikely to be paid as at 30 June 2018.			
Revenue	424,000		
Accounts receivable		(424,000)	
Judgemental adjustment for unconfirmed receivable balances as at 30 June 2018.			
Revaluation reserve/Other comprehensive income			426,533
Income tax expense	(267,246)		
Deferred tax		(426,533)	
Current tax		267,246	
To update tax balances in accordance with revised tax calculations.			
<b>Total Port of Napier Limited</b>	<b>68,204</b>	<b>4,355,985</b>	<b>(4,424,189)</b>
<b>HBRC (company)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Regional Council (parent)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Regional Council (group)</b>	<b>68,204</b>	<b>4,355,985</b>	<b>(4,424,189)</b>

### Management explanation for not correcting misstatements

The Port has made this decision and we do not wish to have inconsistent treatment at the HBRC group level. This is not considered to be material at the HBRC group level.

## Appendix 4: Adoption of new accounting standards

### NZ IFRS 15 Revenue from Contracts with Customers

Some key facts about NZ IFRS 15:

- Applies to for-profit entities with reporting periods that commence on or after 1 January 2018.
- Replaces NZ IAS 18 *Revenue* and NZ IAS 11 *Construction Contracts*, and revenue related interpretations.
- Revenue is recognised by applying a five step revenue recognition model, which is applied at the contract level.
- Depending on the contract, revenue may be recognised over time as performance obligations are satisfied, or at a point in time.
- The standard permits an entity to apply the standard either, retrospectively by restating comparatives for the previous reporting period, or prospectively from the start of the current financial period.
- There are new revenue disclosures, including disclosures about the transition. These new disclosures will need to be carefully considered on transition.

Under NZ IFRS 15, revenue is recognised by applying the five step model below, to its contracts with customers:

- 1 Identify the contract(s) with a customer.
- 2 Identify each of the separate and distinct performance obligations in the contract.
- 3 Determine the consideration to be received. NZ IFRS 15 provides guidance on variable consideration, such as volume pricing or discounts, and bonus or incentive payments.
- 4 Allocate the consideration to be received to each of the separate performance obligations.
- 5 Recognise revenue when (or as) the separate performance obligations are satisfied.

NZ IFRS 15 includes detailed guidance on the application of these five steps.

Application of this five step model may be time consuming and complex, particularly if an entity has a wide range of contractual terms with its customers. Significant judgement may also be required in applying the five step revenue recognition model.

## NZ IFRS 9 Financial Instruments

Some key facts about NZ IFRS 9:

- Applies to for-profit entities with reporting periods that commence on or after 1 January 2018.
- Replaces NZ IAS 39 *Financial Instruments: Recognition and Measurement*.
- Introduces new criteria for determining whether a financial asset is subsequently measured at fair value (and whether fair value movements are recognised in profit/loss or reserves) or amortised cost.
- For share investments not held for trading, fair value movements are recognised in profit/loss unless an entity makes an irrevocable designation at acquisition to measure the shares at fair value through other comprehensive income.
- The impairment model is based on expected credit losses, meaning credit losses may be recognised earlier than under NZ IAS 39. Application of the expected credit loss model may be complex for some entities.
- The hedge accounting requirements have been updated, including changes to hedge effectiveness testing, and hedging with options. However, transition to the new NZ IFRS 9 hedging requirements is currently optional. This means entities have a choice in the meantime to either transition to the new NZ IFRS 9 hedging requirements or continue to apply the NZ IAS 39 hedging requirements.
- There are options on whether to adopt NZ IFRS 9 by restating comparatives or adopting from the start of the first year of applying the standard. The transition provisions are complex.
- The disclosure requirements of NZ IFRS 7 have been amended by NZ IFRS 9. These revised disclosures will need to be carefully considered on transition.

## NZ IFRS 16 Leases

Some key facts about NZ IFRS 16:

- Applies to for-profit entities with reporting periods that commence on or after 1 January 2019.
- Replaces NZ IAS 17 *Leases*, and lease related interpretations.
- Lessees will no longer apply the finance and operating lease distinction. Lessees will need to recognise most leases on the statement of financial position as a lease liability and “right to use” asset. The lease liability and right to use asset will generally be initially recognised at the present value of the lease payments. The asset will then be depreciated over the term of the lease while an interest expense recognised on the lease liability based on the

discount rate determined at the commencement of the lease. Recognition exemptions are available for low value and short-term leases.

- For lessees, significant judgement may need to be exercised when determining the lease term for a lease with renewal and termination options.
- Lessors continue to apply the finance and operating lease distinction.

### **Mixed group issues**

The HBRIC group (i.e. the Port and the HBRIC parent) is a for-profit group which is consolidated into the Regional Council which is a public benefit entity (PBE) group.

In submitting information to the Regional Council for consolidation purposes, consolidation adjustments may be necessary due to the different for-profit and PBE accounting requirements for revenue, financial instruments, and leases.

Adjustments that arise on transition to the new for-profit standards will need to be assessed as to whether they need to be reversed for PBE consolidation purposes.

We encourage management to discuss these “mixed group” reporting issues with HBRIC and the Port.

## Appendix 5: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect all instances of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the Regional Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to our audit of the audited information and our report on the disclosure requirements, we have audited the Regional Council's 2018-28 long term plan and are currently auditing an amendment to that long term plan. We have also performed a limited assurance engagement related to the Regional Council's debenture trust deed, and performed an agreed upon procedures assignment relating to a contract between the Regional Council and the Accident Compensation Corporation. Other than these engagements, we have no relationship with, or interests in, the Regional Council or its subsidiaries and controlled entities.</p>

Area	Key messages
Fees	<p>The audit fee for the year is \$105,800 (plus disbursements), as detailed in our Audit Proposal Letter.</p> <p>Other fees charged are:</p> <ul style="list-style-type: none"> <li>the audit of the Regional Council's long term plan (\$64,000);</li> <li>ACC agreed upon procedures assignment (\$5,000);</li> <li>assurance engagement related to the Debenture Trust Deed (\$4,100); and</li> <li>The audit fee for the LTP amendment is being charged on an actual and reasonable basis (\$30,310 has been charged to date).</li> </ul>
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the Regional Council or its subsidiaries that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the Regional Council or its subsidiaries during or since the end of the financial year.</p>

Attachment 1

Item 9

AUDIT NEW ZEALAND  
Mana Arotake Aotearoa

PO Box 99  
Wellington 6140  
Phone: (04) 496 3099

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

**Tuesday 12 February 2019**

**Subject: TREASURY REPORT**

**Item 10**

**Reason for Report**

1. This item provides an update on the development of Council's diversified investment portfolio and application to join the Local Government Funding Agency (LGFA).

**Background**

2. On 26 September 2018 Council resolved to appoint dual fund managers, being Mercer and First New Zealand Capital. Since that time staff have been working with both fund managers to get all of the paperwork and signing-on process completed before funds could be transferred.
3. First NZ Capital was the first to finalise and the first transfer of \$5,000,000 was made on 5 December 2018.
4. Mercer had some suggested minor amendments to the Statement of Investment Policy Objectives (SIPO) and Treasury Policy to allow for more practical implementation of the portfolio. These amendments included making reference to having two investment fund managers, allowing some infrastructure assets in the growth asset mix and allowing some unhedged equities. The changes did not impact the overall asset mix or risk profile and had been reviewed by Council's Treasury advisors who provided a view that the changes are consistent with the previous SIPO and minor in nature.
5. These changes agreed by the Corporate and Strategic Committee on 12 December 2018 and recommended to Council for adoption on 19 December 2018. Once these changes were adopted the final sign on documents for Mercer were completed mid-January. The first transfer of \$5,000,000 to Mercer was made on 18 January 2019.
6. Due to the delays getting the amendments to the SIPO and Treasury Policy adopted, the distribution of funds to the investment managers drifted out with the anticipation that the full allocation will take place by the end of February 2019. The table below sets out the anticipated movement of funds.

<b>Completed</b>			
<b>Date</b>	<b>Mercer</b>	<b>First NZ Capital</b>	<b>Total</b>
05/12/18	-	\$5 million	\$5 million
18/01/19	\$5 million	\$5 million	\$10 million
<b>Proposed</b>			
<b>Date</b>	<b>Mercer</b>	<b>First NZ Capital</b>	<b>Total</b>
11/02/19	\$10 million	\$10 million	\$20 million
21/02/19	\$5 million	-	\$5 million
<b>TOTAL</b>	<b>\$20 million</b>	<b>\$20 million</b>	<b>\$40 million</b>

7. Forecast returns could be unfavourably affected by the delays and staff will continue to update the Sub-committee and full Council on any effects on investment income and any mitigation that may be required. A full finance report will be provided to Council on 27 February 2019.

**Treasury Reports**

8. At the last sub-committee a draft treasury report was presented for review.
9. Due to the fact that there were minimal funds invested by the end of the 31 December 2018 quarter, staff have decided to delay the first full treasury report until meaningful data is available. This will come to the sub-committee at the next meeting on 22 May 2019.
10. Attached is a detailed quarterly report from First NZ Capital for the \$5,000,000 invested since 5 December 2018. Once full reporting is implemented, future reports will be wrapped up into a summary version.

**Joining LGFA**

11. Authority to execute all of the documentation for joining the LGFA was resolved by Council on 19 December 2018 and staff are working alongside Council's solicitors to complete all of the documentation. It is anticipated that this transaction will be completed by the end of February 2019.

**Decision Making Process**

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

**Recommendation**

That the Finance Audit and Risk Sub-committee receives and notes the ***"Treasury Report"***.

**Authored by:**

**Manton Collings**  
**CHIEF FINANCIAL OFFICER**

**Approved by:**

**Jessica Ellerm**  
**GROUP MANAGER**  
**CORPORATE SERVICES**

**Attachment/s**

[1](#) FNZC report dated 31 December 2018

FNZC

Item 10

## Discretionary Investment Management Service (DIMS) Annual Report

**Prepared for:**

Hawke's Bay Regional Council  
AW1673615

**Adviser:**

Hawke's Bay Team

**For the reporting period** 01 Jan 2018 to 31 Dec 2018

Attachment 1

FNZC

AW1673615

Hawke's Bay Regional Council

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## Portfolio Valuation as at 31 Dec 2018

Instrument	Issuer	Quantity	Valuation (NZD)
<b>Cash</b>			
NZD Cash	NZD Cash	3,071,138.00	\$3,071,138.00
<b>Subtotal</b>			<b>\$3,071,138.00</b>
<b>NZ Fixed Interest</b>			
Auckland Intl Airport 3.97% 02/11/2023	Auckland Intl Airport	140,000.00	\$146,912.47
BNZ Term Deposit 3.63% 10/06/2020	BNZ Term Deposit	150,000.00	\$150,268.52
Meridian Energy 4.88% 20/03/2024	Meridian Energy	140,000.00	\$151,142.15
Spark Finance Ltd 4.50% 25/03/2022	Spark Finance Ltd	200,000.00	\$211,905.97
Wellington Intl Airport 6.25% 15/05/2021	Wellington Intl Airport	140,000.00	\$151,583.14
<b>Subtotal</b>			<b>\$811,812.25</b>
<b>NZ Equity</b>			
Contact Energy Limited	Contact Energy Limited	14,250.00	\$84,075.00
Ebos Group Limited	Ebos Group Limited	4,100.00	\$82,328.00
Fisher & Paykel Healthcare Corporation Limited	Fisher & Paykel Healthcare Corporation Limited	6,850.00	\$89,050.00
Fletcher Building Limited	Fletcher Building Limited	17,000.00	\$82,960.00
Freightways Limited	Freightways Limited	11,600.00	\$85,260.00
Heartland Group Holdings Limited	Heartland Group Holdings Limited	30,000.00	\$41,400.00
Infratil Limited	Infratil Limited	20,500.00	\$74,825.00
Kathmandu Holdings Ltd	Kathmandu Holdings Ltd	10,500.00	\$28,770.00
Mainfreight Limited	Mainfreight Limited	930.00	\$28,644.00
Mercury NZ Limited	Mercury NZ Limited	9,400.00	\$34,263.00
Mettlifecare Limited	Mettlifecare Limited	10,500.00	\$56,595.00
Oceania Healthcare Limited	Oceania Healthcare Limited	25,000.00	\$26,750.00
Sanford Limited	Sanford Limited	4,250.00	\$28,050.00
Skellerup Holdings Limited	Skellerup Holdings Limited	14,000.00	\$28,280.00
Spark New Zealand Ltd	Spark New Zealand Ltd	9,000.00	\$37,350.00
Summerset Group Holdings Limited	Summerset Group Holdings Limited	5,700.00	\$36,309.00
The a2 Milk Company Limited	The a2 Milk Company Limited	9,150.00	\$102,022.50
The New Zealand Refining Company Limited	The New Zealand Refining Company Limited	20,000.00	\$47,000.00
Vista Group Ltd	Vista Group Ltd	11,500.00	\$43,125.00
Z Energy Ltd	Z Energy Ltd	17,500.00	\$96,075.00
<b>Subtotal</b>			<b>\$1,133,131.50</b>
<b>Total</b>			<b>\$5,016,081.76</b>

The valuations in this report use the closing price on the last business day of the period. For investments listed on a stock market, the price used is usually the price of last sale on the valuation date. This price is provided by the market on which the investment is traded. The price for unlisted investments is the price investors can sell or redeem their investment for on the valuation date. This price is provided by the manager or issuer of the investment, or by a market data provider. Where investments are priced in a foreign currency, the exchange rate used is the rate at 5pm New York time on the valuation date (11am the following day New Zealand standard time). These exchange rates are provided by IRESS (NZ) Limited. The quantity of instruments held is at the valuation date.

FNZ is a registered custodian (FNZ Custodians Ltd) within New Zealand only. All New Zealand registered bonds and securities held by FNZ in custody are segregated and administered in FNZ Custodians Limited (FSP177746) which is a nominee company designated for investor assets. FNZ Custodians Limited is a FNZ Group entity that holds investor assets as a bare trustee. For all Australian and International registered bonds and securities the following registered custodians are contracted to provide sub-custodial services; Citigroup Pty Ltd or Citibank, N.A.

AW1673615

Hawke's Bay Regional Council

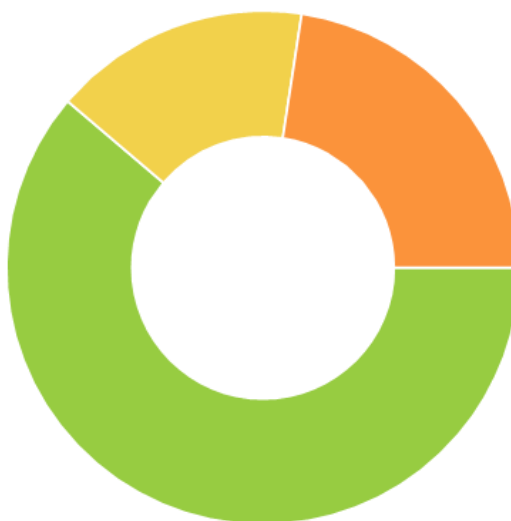
## Portfolio Asset Class Allocation as at 31 Dec 2018

This pie graph represents the assets held in your portfolio grouped by asset class.

16.18% NZ Fixed Interest

22.59% NZ Equity

61.23% Cash



This graph is generated using the market value of instruments held as at the valuation date.

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Hawke's Bay Regional Council

## Portfolio Performance Summary

Portfolio Return and Valuation as at 31 Dec 2018

Return for period  
01 Jan 2018 to 31 Dec 2018

Opening portfolio value as at 01 Jan 2018 (NZD) \$0.00

Capital in	5,000,000.00
Capital out	0.00
Securities in	0.00
Securities out	0.00
Realised gain/loss	0.00
Unrealised gain/loss	3,822.73
Gross interest	5,676.77
Gross dividends	0.00
Tax	0.00
Fees	-40.00
Rebates	0.00
Change in accrued Interest	6,622.26

Closing portfolio value as at 31 Dec 2018 (NZD) \$5,016,081.76

Net gain/loss after fees and tax	16,081.76
Portfolio return after fees and before tax	0.32%

Please refer to Appendix - Performance by Asset Class for more detail.

The fees in this section shows only the percentage based charges. A more detailed breakdown of fees including trading expenses and other charges is contained in the Fees Schedule. A detailed breakdown of rebates and interest payments is contained in the Income schedule.

FNZ uses the Internal Rate of Return ('IRR') methodology (another term for this calculation is the Discounted Cash Flow Method). The IRR (Internal Rate of Return) is a measure of portfolio return that excludes external factors (such as inflation) and arrives at the percentage rate earned on each dollar for the period for which it is invested. Please contact your Adviser if you require further information on IRR.

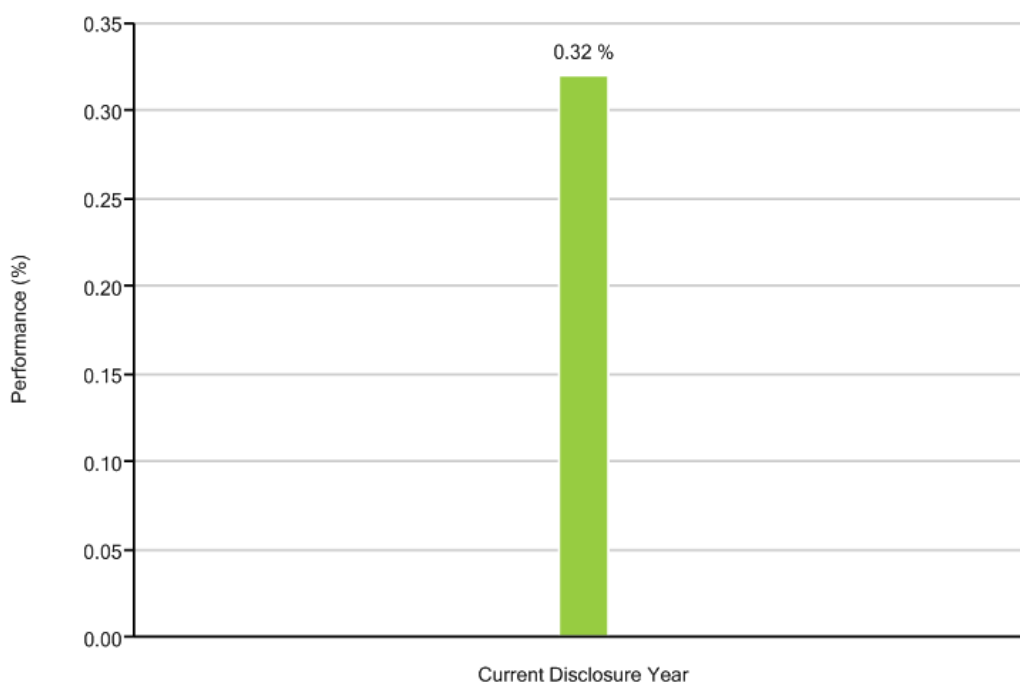
'Realised gains or losses' are the increase or decrease in the value of investments you have sold or redeemed during the period. It is the difference between the value at the beginning of the period or the purchase price for investments bought during the year and the price they were sold for. Where you have bought the same investment asset at different times and prices, the weighted average cost is used as the purchase price. 'Unrealised gains or losses' are the increase or decrease in the value of investments you still hold at the end of the period. The sum of realised and unrealised gains or losses is the total gain or loss from changes in the price of investments during the period for your portfolio.



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Hawke's Bay Regional Council

**Historical Performance Returns**  
For the period: 01 Jan 2018 to 31 Dec 2018



This portfolio has no valid performance returns for the disclosure year(s) ending 2016, 2017.

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Hawke's Bay Regional Council

**Transactions by Asset Class**  
**For the period: 01 Jan 2018 to 31 Dec 2018**

Date	Transaction Type	Quantity	Unit Price	FX Rate	Settlement Amount	Currency	Unit Balance
<b>NZ Equity</b>							
<b>Contact Energy Limited</b> (Contact Energy Limited)							
01/01/2018	Opening Balance						0.00
13/12/2018	Buy / Sell Trade	14,250.00	5.9091	1.0000	84,204.68	NZD	14,250.00
31/12/2018	Closing Balance						14,250.00
<b>Ebos Group Limited</b> (Ebos Group Limited)							
01/01/2018	Opening Balance						0.00
13/12/2018	Buy / Sell Trade	4,100.00	20.6000	1.0000	84,460.00	NZD	4,100.00
31/12/2018	Closing Balance						4,100.00
<b>Fisher &amp; Paykel Healthcare Corporation Limited</b> (Fisher & Paykel Healthcare Corporation Limited)							
01/01/2018	Opening Balance						0.00
13/12/2018	Buy / Sell Trade	6,850.00	12.3000	1.0000	84,255.00	NZD	6,850.00
31/12/2018	Closing Balance						6,850.00
<b>Fletcher Building Limited</b> (Fletcher Building Limited)							
01/01/2018	Opening Balance						0.00
13/12/2018	Buy / Sell Trade	17,000.00	4.8316	1.0000	82,137.20	NZD	17,000.00
31/12/2018	Closing Balance						17,000.00
<b>Freightways Limited</b> (Freightways Limited)							
01/01/2018	Opening Balance						0.00
13/12/2018	Buy / Sell Trade	11,600.00	6.9500	1.0000	80,620.00	NZD	11,600.00
31/12/2018	Closing Balance						11,600.00
<b>Heartland Group Holdings Limited</b> (Heartland Group Holdings Limited)							
01/01/2018	Opening Balance						0.00
13/12/2018	Buy / Sell Trade	30,000.00	1.5100	1.0000	45,300.00	NZD	30,000.00
31/12/2018	Closing Balance						30,000.00
<b>Infratil Limited</b> (Infratil Limited)							
01/01/2018	Opening Balance						0.00
13/12/2018	Buy / Sell Trade	20,500.00	3.5700	1.0000	73,185.00	NZD	20,500.00
31/12/2018	Closing Balance						20,500.00
<b>Kathmandu Holdings Ltd</b> (Kathmandu Holdings Ltd)							
01/01/2018	Opening Balance						0.00
13/12/2018	Buy / Sell Trade	10,500.00	2.6750	1.0000	28,087.50	NZD	10,500.00
31/12/2018	Closing Balance						10,500.00
<b>Mainfreight Limited</b> (Mainfreight Limited)							
01/01/2018	Opening Balance						0.00
13/12/2018	Buy / Sell Trade	930.00	30.3600	1.0000	28,234.80	NZD	930.00
31/12/2018	Closing Balance						930.00
<b>Mercury NZ Limited</b> (Mercury NZ Limited)							
01/01/2018	Opening Balance						0.00
13/12/2018	Buy / Sell Trade	9,400.00	3.5850	1.0000	33,699.00	NZD	9,400.00
31/12/2018	Closing Balance						9,400.00
<b>Metlifecare Limited</b> (Metlifecare Limited)							
01/01/2018	Opening Balance						0.00
13/12/2018	Buy / Sell Trade	10,500.00	5.3386	1.0000	56,055.30	NZD	10,500.00
31/12/2018	Closing Balance						10,500.00
<b>Oceania Healthcare Limited</b> (Oceania Healthcare Limited)							
01/01/2018	Opening Balance						0.00
13/12/2018	Buy / Sell Trade	25,000.00	1.1100	1.0000	27,750.00	NZD	25,000.00
31/12/2018	Closing Balance						25,000.00
<b>Sanford Limited</b> (Sanford Limited)							
01/01/2018	Opening Balance						0.00
13/12/2018	Buy / Sell Trade	4,250.00	6.7100	1.0000	28,517.50	NZD	4,250.00
31/12/2018	Closing Balance						4,250.00
<b>Skellerup Holdings Limited</b> (Skellerup Holdings Limited)							
01/01/2018	Opening Balance						0.00
13/12/2018	Buy / Sell Trade	14,000.00	2.0100	1.0000	28,140.00	NZD	14,000.00
31/12/2018	Closing Balance						14,000.00

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Hawke's Bay Regional Council

**Transactions by Asset Class**  
**For the period: 01 Jan 2018 to 31 Dec 2018**

Date	Transaction Type	Quantity	Unit Price	FX Rate	Settlement Amount	Currency	Unit Balance
<b>Spark New Zealand Ltd (Spark New Zealand Ltd)</b>							
01/01/2018	Opening Balance						0.00
13/12/2018	Buy / Sell Trade	9,000.00	4.3200	1.0000	38,880.00	NZD	9,000.00
31/12/2018	<b>Closing Balance</b>						<b>9,000.00</b>
<b>Summerset Group Holdings Limited (Summerset Group Holdings Limited)</b>							
01/01/2018	Opening Balance						0.00
13/12/2018	Buy / Sell Trade	5,700.00	6.1800	1.0000	35,226.00	NZD	5,700.00
31/12/2018	<b>Closing Balance</b>						<b>5,700.00</b>
<b>The a2 Milk Company Limited (The a2 Milk Company Limited)</b>							
01/01/2018	Opening Balance						0.00
13/12/2018	Buy / Sell Trade	9,150.00	10.9800	1.0000	100,467.00	NZD	9,150.00
31/12/2018	<b>Closing Balance</b>						<b>9,150.00</b>
<b>The New Zealand Refining Company Limited (The New Zealand Refining Company Limited)</b>							
01/01/2018	Opening Balance						0.00
13/12/2018	Buy / Sell Trade	20,000.00	2.2300	1.0000	44,600.00	NZD	20,000.00
31/12/2018	<b>Closing Balance</b>						<b>20,000.00</b>
<b>Vista Group Ltd (Vista Group Ltd)</b>							
01/01/2018	Opening Balance						0.00
13/12/2018	Buy / Sell Trade	11,500.00	3.5600	1.0000	40,940.00	NZD	11,500.00
31/12/2018	<b>Closing Balance</b>						<b>11,500.00</b>
<b>Z Energy Ltd (Z Energy Ltd)</b>							
01/01/2018	Opening Balance						0.00
13/12/2018	Buy / Sell Trade	17,500.00	5.7424	1.0000	100,492.00	NZD	17,500.00
31/12/2018	<b>Closing Balance</b>						<b>17,500.00</b>
<b>NZ Fixed Interest</b>							
<b>Auckland Intl Airport 3.97% 02/11/2023 (Auckland Intl Airport)</b>							
01/01/2018	Opening Balance						0.00
12/12/2018	Buy / Sell Trade	140,000.00	1.0428	1.0000	145,993.26	NZD	140,000.00
31/12/2018	<b>Closing Balance</b>						<b>140,000.00</b>
<b>BNZ Term Deposit 3.63% 10/06/2020 (BNZ Term Deposit)</b>							
01/01/2018	Opening Balance						0.00
13/12/2018	Term Application	150,000.00	1.0000	1.0000	150,000.00	NZD	150,000.00
31/12/2018	<b>Closing Balance</b>						<b>150,000.00</b>
<b>Meridian Energy 4.88% 20/03/2024 (Meridian Energy)</b>							
01/01/2018	Opening Balance						0.00
12/12/2018	Buy / Sell Trade	140,000.00	1.0792	1.0000	151,091.36	NZD	140,000.00
31/12/2018	<b>Closing Balance</b>						<b>140,000.00</b>
<b>Spark Finance Ltd 4.50% 25/03/2022 (Spark Finance Ltd)</b>							
01/01/2018	Opening Balance						0.00
14/12/2018	Buy / Sell Trade	200,000.00	1.0555	1.0000	211,092.00	NZD	200,000.00
31/12/2018	<b>Closing Balance</b>						<b>200,000.00</b>
<b>Wellington Intl Airport 6.25% 15/05/2021 (Wellington Intl Airport)</b>							
01/01/2018	Opening Balance						0.00
12/12/2018	Buy / Sell Trade	140,000.00	1.0791	1.0000	151,071.20	NZD	140,000.00
31/12/2018	<b>Closing Balance</b>						<b>140,000.00</b>

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Hawke's Bay Regional Council

**Income Schedule**  
For the period: 01 Jan 2018 to 31 Dec 2018

**Dividends Received**

Date	Instrument	Currency	Gross (local)	RWT (local)	Net (local)	FX Rate	Gross (NZD)	Net (NZD)
Total							0.00	0.00

**Interest Payments**

Date	Instrument	Currency	Gross (local)	RWT (local)	Net (local)	FX Rate	Gross (NZD)	Net (NZD)
06/12/2018	NZD Cash	NZD	273.97	0.00	273.97	1.0000	273.97	273.97
31/12/2018	NZD Cash	NZD	5,402.80	0.00	5,402.80	1.0000	5,402.80	5,402.80
Total							5,676.77	5,676.77

**Rebates**

Date	Instrument	Narration	Rebate Recipient	Amount (local)	FX Rate	Amount (NZD)
Total						0.00

Attachment 1

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Hawke's Bay Regional Council

**Fee Schedule**  
**For the period: 01 Jan 2018 to 31 Dec 2018**

**Percentage Based Charges**

Date	Fee Description	Fee Currency	Amount
------	-----------------	--------------	--------

**Total Percentage Based Charges expressed as a Percentage of the Portfolio\*** 0.35%

\*This calculation is the sum of the daily accrued percentage based charges annualised over the reporting period.

**Individual Action Fees**

Date	Fee Description	Fee Currency	Amount
14/12/2018	BNZ term deposit purchase fee	NZD	40.00
<b>Total</b>			<b>40.00</b>

**Trading Expenses**

Date	Fee Description	Fee Currency	Amount	FX Rate	Amount (NZD)
------	-----------------	--------------	--------	---------	--------------

Please note that only fees processed by FNZ Custodians Limited (including margin on client funds, margin on FX transactions and brokerage) are included in the Trading Expenses table. Trading Expenses such as buy/sell spread, or third party margins, are not included.

**Other Charges**

Date	Fee Description	Fee Currency	Amount	FX Rate	Amount (NZD)
------	-----------------	--------------	--------	---------	--------------

Please note that any fees, including margin on client funds, margin on FX transactions and brokerage that is not processed by FNZ Custodians Ltd, will not be included in this report. Please refer to the FNZ disclosure statement for more information on FNZ fees.

FNZC

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Attachment 1

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Hawke's Bay Regional Council

**Appendix - Performance by Asset Class**  
**For the period: 01 Jan 2018 to 31 Dec 2018**

Instrument	Opening value	Purchases /sales	Realised gain	Unrealised gain	Accrued interest	Closing value	Gross income	Rebates	Capital return (%)	Gross return (%)	Total gain/loss	FX impact (%)
<b>Cash</b>												
NZD Cash	0.00	3,071,138.00	0.00	0.00	0.00	3,071,138.00	5,676.77	0.00	0.00	0.17	5,676.77	0.00
<b>Subtotal</b>	<b>0.00</b>	<b>3,071,138.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>3,071,138.00</b>	<b>5,676.77</b>	<b>0.00</b>	<b>0.00</b>	<b>0.17</b>	<b>5,676.77</b>	
<b>NZ Fixed Interest</b>												
Auckland Intl Airport 3.97% 02/11/2023	0.00	145,993.26	0.00	12.74	906.47	146,912.47	0.00	0.00	0.01	0.63	919.21	0.00
BNZ Term Deposit 3.63% 10/06/2020	0.00	150,000.00	0.00	0.00	268.52	150,268.52	0.00	0.00	0.00	0.18	268.52	0.00
Meridian Energy 4.88% 20/03/2024	0.00	151,091.36	0.00	-1,879.36	1,930.15	151,142.15	0.00	0.00	-1.24	0.03	50.79	0.00
Spark Finance Ltd 4.50% 25/03/2022	0.00	211,091.98	0.00	-1,591.98	2,405.97	211,905.97	0.00	0.00	-0.75	0.39	814.00	0.00
Wellington Intl Airport 6.25% 15/05/2021	0.00	151,071.20	0.00	-599.20	1,111.14	151,583.14	0.00	0.00	-0.40	0.34	511.94	0.00
<b>Subtotal</b>	<b>0.00</b>	<b>809,247.80</b>	<b>0.00</b>	<b>-4,057.80</b>	<b>6,622.26</b>	<b>811,812.26</b>	<b>0.00</b>	<b>0.00</b>	<b>-0.52</b>	<b>0.33</b>	<b>2,564.47</b>	
<b>NZ Equity</b>												
Contact Energy Limited	0.00	84,204.68	0.00	-129.67	0.00	84,075.00	0.00	0.00	-0.15	-0.15	-129.67	0.00
Ebos Group Limited	0.00	84,460.00	0.00	-2,132.00	0.00	82,328.00	0.00	0.00	-2.52	-2.52	-2,132.00	0.00
Fisher & Paykel Healthcare Corporation Limited	0.00	84,255.00	0.00	4,795.00	0.00	89,050.00	0.00	0.00	5.69	5.69	4,795.00	0.00
Fletcher Building Limited	0.00	82,137.20	0.00	822.80	0.00	82,960.00	0.00	0.00	1.00	1.00	822.80	0.00
Freightways Limited	0.00	80,620.00	0.00	4,640.00	0.00	85,260.00	0.00	0.00	5.76	5.76	4,640.00	0.00
Heartland Group Holdings Limited	0.00	45,300.00	0.00	-3,900.00	0.00	41,400.00	0.00	0.00	-8.61	-8.61	-3,900.00	0.00
Infratil Limited	0.00	73,185.00	0.00	1,640.00	0.00	74,825.00	0.00	0.00	2.24	2.24	1,640.00	0.00
Kathmandu Holdings Ltd	0.00	28,087.50	0.00	682.50	0.00	28,770.00	0.00	0.00	2.43	2.43	682.50	0.00
Mainfreight Limited	0.00	28,234.80	0.00	409.20	0.00	28,644.00	0.00	0.00	1.45	1.45	409.20	0.00
Mercury NZ Limited	0.00	33,699.00	0.00	564.00	0.00	34,263.00	0.00	0.00	1.67	1.67	564.00	0.00
Metlifecare Limited	0.00	56,055.30	0.00	539.70	0.00	56,595.00	0.00	0.00	0.96	0.96	539.70	0.00
Oceania Healthcare Limited	0.00	27,750.00	0.00	-1,000.00	0.00	26,750.00	0.00	0.00	-3.60	-3.60	-1,000.00	0.00
Sanford Limited	0.00	28,517.50	0.00	-467.50	0.00	28,050.00	0.00	0.00	-1.64	-1.64	-467.50	0.00
Skellerup Holdings Limited	0.00	28,140.00	0.00	140.00	0.00	28,280.00	0.00	0.00	0.50	0.50	140.00	0.00
Spark New Zealand Ltd	0.00	38,880.00	0.00	-1,530.00	0.00	37,350.00	0.00	0.00	-3.94	-3.94	-1,530.00	0.00
Summerset Group Holdings Limited	0.00	35,226.00	0.00	1,083.00	0.00	36,309.00	0.00	0.00	3.07	3.07	1,083.00	0.00

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Appendix - Performance by Asset Class  
For the period: 01 Jan 2018 to 31 Dec 2018

Instrument	Opening value	Purchases /sales	Realised gain	Unrealised gain	Accrued interest	Closing value	Gross income	Rebates	Capital return (%)	Gross return (%)	Total gain/loss	FX impact (%)
The a2 Milk Company Limited	0.00	100,467.00	0.00	1,555.50	0.00	102,022.50	0.00	0.00	1.55	1.55	1,555.50	0.00
The New Zealand Refining Company Limited	0.00	44,600.00	0.00	2,400.00	0.00	47,000.00	0.00	0.00	5.38	5.38	2,400.00	0.00
Vista Group Ltd	0.00	40,940.00	0.00	2,185.00	0.00	43,125.00	0.00	0.00	5.34	5.34	2,185.00	0.00
Z Energy Ltd	0.00	100,492.00	0.00	-4,417.00	0.00	96,075.00	0.00	0.00	-4.40	-4.40	-4,417.00	0.00
Subtotal	0.00	1,125,250.98	0.00	7,880.52	0.00	1,133,131.50	0.00	0.00	0.70	0.70	7,880.52	
Total	0.00	5,005,636.77	0.00	3,822.73	6,622.26	5,016,081.76	5,676.77	0.00			16,121.76	

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

**Tuesday 12 February 2019**

**Subject: RESOURCE MANAGEMENT INFORMATION SYSTEM (IRIS)  
IMPLEMENTATION UPDATE**

**Item 11**

**Reason for Report**

1. To provide an update on progress with the implementation of the new Resource Management Information System software (IRIS).

**Milestones and Progress Update**

2. The Business Case for the system implementation was approved on 28 June 2017 and expenditure was confirmed in the LTP.
3. Phase 1 of the project is on schedule and will close on 31 March 2019.
  - 3.1. Consents and Compliance modules went live on 26 November 2018, in line with the revised forecasts received by this committee on 6 June 2018
  - 3.2. Incidents and Enforcements modules are on schedule, and will 'go live' on 11 February 2019
  - 3.3. The Water Information Services module has been deferred to Phase 2. This was to avoid potential disruption to services over the high risk weather period (November – April)
  - 3.4. A lessons learnt workshop will be held in mid-February and learnings from this phase will be used in the planning and implementation of Phase 2.

**Next Steps**

4. Phase 2 of the project will soon be initiated. This will deliver modules for Biosecurity, Integrated Catchment Management and Water Information Systems (moved from Phase 1). The LTP includes the following provisions for Phase 2.
  - 4.1. 2018-19: \$650,000
  - 4.2. 2019-20: \$350,000
  - 4.3. \$600,000 of the cost is the capitalisation of internal labour, the remaining \$400,000 is for external implementation services.
5. The following steps will be undertaken to validate the budget figures.
  - 5.1. Review the business requirements in light of the changes to the organisation structure, especially the Integrated Catchment Management functions
  - 5.2. Finalise the scope of engagement with external suppliers
  - 5.3. Confirm internal resourcing requirements
  - 5.4. Identify any improvements arising from Phase 1 that need to be addressed
  - 5.5. Any significant budget variation brought back to Council for approval.
6. Staff are confident that there is no need to revisit our sourcing approach, because:
  - 6.1. The initial RMIS selection explicitly included the Phase 2 functions and capabilities (Biosecurity and Land Management). The IRIS product was rated favourably in these areas compared to others.
  - 6.2. IRIS has been specifically developed for Regional Council functions by a consortium of other regional councils. HBRC has similar needs to the other regional councils, so should be able to leverage the base functionality available.

- 6.3. Introducing alternative products or solutions for the Phase 2 functions would increase the complexity and cost of IT support and integrations.

#### **Decision Making Process**

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

#### **Recommendation**

That the Finance, Audit & Risk Sub-committee receives and notes the ***“Resource Management Information System Implementation Update”*** report.

#### **Authored by:**

**Andrew Siddles**  
**ACTING ICT MANAGER**

#### **Approved by:**

**Jessica Ellerm**  
**GROUP MANAGER**  
**CORPORATE SERVICES**

#### **Attachment/s**

There are no attachments for this report.

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

**Tuesday 12 February 2019**

**Subject: FEBRUARY 2019 SUB-COMMITTEE WORK PROGRAMME UPDATE**

**Item 12**

**Reason for Report**

1. In order to ensure the sub-committee's ability to effectively and efficiently fulfill its role and responsibilities, an overall update on its work programme is provided following.
2. It should be noted that some non-urgent items in the work programme have been deferred due to current staff resourcing and capacity restraints. We have now successfully recruited for and appointed a Financial Accountant who commenced employment on 19 November 2018. This additional senior resource will provide much needed capacity to make good progress on a substantive work programme for this team.

<b>Task</b>	<b>Item</b>	<b>Scheduled / Status</b>
Internal Audits	Health & Safety	Presented to 21 November 2018 FARS meeting.
	Data Analytics	Presented to 12 February FARS meeting.
	Business Continuance	Deferred to future 2019-20 programme.
	Water Management	Scope to be agreed at 12 February FARS meeting to be presented to 22 May FARS meeting.
Risk Assessment & Management	Reporting on risks (6-monthly) affecting Council plus noting changes / improvements / areas that require attention from last report (3-monthly).	Presented to 19 September 2018 and 12 February meeting. Risk management now a monthly item on Executive agenda and action register now implemented.
Insurance	Council's proposed 2018-19 Insurance programme.	Reported to 6 June 2018 FARS meeting next update to 22 May FARS meeting subject to timing.
Annual Report	Discussion on Audit Management Letter. Discussion on the major issues (if any) in the audit report on the Annual Report.	Audit Director attended 21 November 2018 FARS meeting to discuss Annual Report process.
S17a Efficiency Reviews (Section 17a Local Government Act)	Update on progress and findings of Section 17a Efficiency Reviews.	No reviews scheduled in Q1&2 of Year 1 of LTP (Long Term Plan). Q3 has Open Spaces and Surface Water Science reviews planned. Q4 has Fleet review planned. Staff member regularly attends Hawke's Bay Council wide S17a Review collaboration meetings where opportunities for cost sharing are discussed.

Task	Item	Scheduled / Status
Investment Returns & Treasury Monitoring	Update on progress in obtaining required level of dividend from PONL (Port of Napier Limited). Update on Treasury function within Council.	HBRIC Ltd 2018-19 Sol (Statement of Intent) adopted at 27 June 2018 Council meeting. SIPO (Statement of Investment Policy & Objectives) adopted at 27 June 2018 Council meeting. Amendment made to SIPO and Treasury Policy 19 December 2018 Council meeting. Fund managers appointed at 26 September Council meeting, updates now captured within treasury report. Application to join LGFA (Local Government Funding Agency) underway.
Living Wage	Procurement and Contract Management	Staff are currently undertaking a review of supplier contracts and will perform an exercise to quantify the financial impact of enforcing a procurement policy which requires suppliers to pay the Living Wage. The findings of this will be presented at 22 May FARS meeting, alongside an update on the PTOM (Public Transport Operating Model) review.

### Decision Making Process

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

### Recommendation

That the Finance, Audit and Risk Sub-committee receives and notes the ***“February 2019 Sub-committee Work Programme Update”*** staff report.

### Authored by:

**Melissa des Landes**  
**CORPORATE ACCOUNTANT**

### Approved by:

**Jessica Ellerm**  
**GROUP MANAGER**  
**CORPORATE SERVICES**

### Attachment/s

There are no attachments for this report.

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

**Tuesday 12 February 2019**

**SUBJECT:** Confirmation of the Public Excluded Minutes of the Finance, Audit and Risk Sub-committee Meeting held on 21 November 2018

That the Council excludes the public from this section of the meeting being Confirmation of Public Excluded Minutes Agenda Item 13 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:

**GENERAL SUBJECT OF THE  
ITEM TO BE CONSIDERED**

Appointment of an Independent Member of the Finance, Audit & Risk Sub-Committee

**REASON FOR PASSING THIS RESOLUTION**

7(2)(a) 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 protect the privacy of natural persons

**GROUND(S) UNDER SECTION 48(1) FOR  
THE PASSING OF THE RESOLUTION**

The Council is specified, in the First Schedule to this Act, as a body to which the Act applies.

**Authored by:**

**Leeanne Hooper**  
**PRINCIPAL ADVISOR GOVERNANCE**

**Approved by:**

**James Palmer**  
**CHIEF EXECUTIVE**

**Item 13**