



HAWKES BAY

REGIONAL COUNCIL

TE KAUNIHERA Ā-ROHE O TE MATAU-A-MĀUI

Meeting of the Risk & Audit Sub-committee

Date: Wednesday 18 October 2023
Time: 9.00am
Venue: Council Chamber
Hawke's Bay Regional Council
159 Dalton Street
NAPIER

Agenda

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1.	Welcome/Karakia/Notices/Apologies	
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Subject: RISK MANAGEMENT POLICY RENEWAL

Reason for Report

1. This item seeks Risk and Audit Committee endorsement for the revised Council Risk Management Policy (CD0023) in the form of a recommendation to Council that it approve the policy.

Officers' Recommendation

2. Staff recommend that the Risk and Audit Committee considers Council's revised Risk Management Policy (CD0023) and recommends to Council it approves the Policy.

Background /Discussion

3. On 30 August 2023 Council adopted a Terms of Reference for the newly formed Risk and Audit Committee. Section one of the Terms of Reference states; *the purpose of the Committee is to provide advice and recommend actions, responses, and changes to Council about risk management, assurance activities, governance oversight and internal control matters, including external reporting and audit matters.* Section 1.1 stated this specifically and includes *the robustness of Council's risk management systems, policies, practice, and assurance processes.*
4. Council's Risk Management Policy sets out the boundaries for establishing a Council-specific risk management framework. As part of risk management maturity and under the newly formed Risk and Audit Committee improvements to Council's risk management practices and processes (framework) were identified. Therefore, Council's current Risk Management Policy was reviewed to ensure alignment between Council's new framework. And, also to confirm that under the new Terms of Reference Council's Risk Management Policy would ensure that the Risk and Audit Committee would fulfil certain obligations.
5. The review of Council's Risk Management Policy (CD0023) against Council's new risk management framework did not highlight any material differences.
6. The main changes to Council's Risk Management Policy (CD0023) relate to the:
 - 6.1. frequency of risk review and reporting
 - 6.2. the inclusion of Councillor's and Executive Leadership's requirement to undertake regular sentiment surveys, and
 - 6.3. the removal of the Risk Champion role that is no longer required under the new risk practices.
7. Council's Risk Management Policy (CD0023) and therefore Council's new risk management framework continue to be benchmarked and aligned to the principles of ISO 31000:2018 Risk Management Standard and the All of Government Risk Maturity Model.
8. Council's Risk Management Policy (CD0023) when approved by Council will be published, managed, and maintained through Council's controlled document system.

Significance and Engagement Policy Assessment

9. The significance of this decision is very low according to Council's policy.

Financial and Resource Implications

10. Any financial impact in relation to changes to the Risk Management Policy will be managed within budget.

Decision Making Process

11. 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:
 - 11.1. The decision does not significantly alter the service provision or affect a strategic asset, nor is it inconsistent with an existing policy or plan.
 - 11.2. The use of the special consultative procedure is not prescribed by legislation.
 - 11.3. The decision is not significant under the criteria contained in Council's adopted Significance and Engagement Policy.
 - 11.4. The persons affected by this decision are staff and Councillors.
 - 11.5. Given the nature and significance of the issue to be considered and decided, and also the persons likely to be affected by, or have an interest in the decisions made, Council can exercise its discretion and make a decision without consulting directly with the community or others having an interest in the decision.

Recommendations

That Hawke's Bay Regional Council:

1. Receives and considers the risk management policy renewal staff report.
2. Agrees that the decisions to be made are not significant under the criteria contained in Council's adopted Significance and Engagement Policy, and that Council can exercise its discretion and make decisions on this issue without conferring directly with the community or persons likely to have an interest in the decision.
3. Adopt and approve the revised Risk Management Policy (CD0023).

Authored by:

Helen Marsden
RISK & CORPORATE COMPLIANCE MANAGER

Approved by:

Susie Young
GENERAL MANAGER CORPORATE SERVICES

Attachment/s

- 1  Risk Management Policy (CD0023)



Policy

Title:	Risk Management Policy
Policy number:	CD0023

Team policy owned by:	Risk and Assurance	Version number:	1
Document owner:	Helen Marsden	Date policy last reviewed and published:	Click or tap here to enter text.
Document approver:	Susie Young	Next review due:	Click or tap here to enter text.

Purpose

The purpose of the risk management policy is to provide guidance with regards to the management of risk to:

- Support the achievement of objectives with effective prioritisation of resources
- Cultivate a culture that where everyone is responsible for managing risks
- Protect staff, council owned assets, regional resources and stakeholder interests in a sustainable way
- Ensure financial stability, and
- Provide oversight and assurance to Council and to the Executive Leadership Team (ELT) that HBRC's that risks are well managed

In addition, this policy mandates the use of a single risk management framework throughout HBRC and therefore this policy should be read in conjunction with HBRC's risk management framework.

Target audience

This policy applies to all HBRC staff, contractors, elected members and sub-committee appointees.

Policy details

1. Policy goal or objective

1.1. HBRC's objectives for this policy are to

- Ensure all staff are aware of their risk management obligations to identify, escalate and manage risks.
- Ensure staff with risk specific tasks are aware of those specific requirements.
- Frame the high-level mandatory risk practices including minimum levels of risk reporting (frequency), mandatory risk data, and storage of risk information.
- Ensure risk management principles and practices are embedded into the everyday decisions and activities undertaken by staff.

2. Related documents (e.g., Legislation, Policies, SOPs, etc)



- 1.1. Risk Management Framework
- 1.2. ISO 31000:2018 Risk Management Standard
- 1.3. All of Government (AoG) Risk Maturity Model

3. Key definitions/abbreviations

- **All of Government (AoG) Risk Maturity Model** – benchmark risk maturity model that is promoted by Local Government New Zealand (LGNZ).
- **Cause** – underlying reason why the risk event occurs
- **Consequence** – impact of an event on objectives
- **Control** – a process that either reduces, the likelihood, or the consequence of a risk event
- **Enterprise Risk Management (ERM)** – the process of planning, organising, leading, and controlling the activities of an organisation in order to either minimise the effects, or seize opportunities, from uncertainty that impacts an organisation's objectives.
- **Event** – when there is a change to circumstances that triggers a risk response
- **Incident** – is a negative event that is tied to an operational risk
- **Likelihood** – chance or probability of a risk event happening
- **Mitigation** – specific measures taken to minimise or eliminate unacceptable risks
- **Risk** – the effect of uncertainty on objectives that maybe either positive or negative

4. Background

- 4.1. HBRC's vision is a healthy environment, a vibrant community and a prosperous economy. This vision is supported by a strong set of values that includes partnership and collaboration, accountability, transparency, and excellence. Council sets HBRC's risk appetite. Setting of the risk appetite is informed by the vision, values and long-term strategy.

To help ensure that HBRC effectively and efficiently delivers on its vision, and it's strategic and operational objectives sound risk management practices have been developed. Therefore, HBRC's ELT commit to embedding these risk management practices throughout Council. The ELT support a culture of risk ownership by all staff and re-enforce the need for risk intelligent decisions that are guided by Council's risk appetite.

HBRC's commitment to ensuring risks are well managed is through a robust Risk Management System (RMS) that mandates a single risk management policy and a single risk management framework.

This risk management policy outlines the parameters and structure of HBRC's RMS, including risk specific roles and responsibilities. While the risk management framework that supports this policy provides more detail on HBRC's risk practices and risk processes

5. Principles

- 5.1. To implement a single RMS where risk management principles and practices can be consistently applied at every level of HBRC. So that, all risks are managed within Council's risk appetite and that the ELT has good oversight of risks and can in turn provide positive assurance to Council that risks are being proactively managed.

This risk management policy has been designed to align to best practices and is benchmarked on the principles outlined in ISO 3100:2018 Risk Management – Guidelines, and the structure of the LGNZ endorsed AoG risk maturity model.



HBRC's risk management policy and framework has been tailored to right-size the risk system so that it is proportionate to HBRC's size and mandate. 'Tailoring' refers to risk system components such as frequency of reporting and number of risk resources it does not change fundamental risk principles and practices

6. Risk Vision

- 6.1. All HBRC staff take responsibility for owning HBRC's risks with consistent and transparent risk intelligent decision making.

7. Risk Management Roles and Responsibilities

7.1. Council

- Sets HBRC's risk appetite.
- Defines the parameters of HBRC's RMS and risk maturity by approving the risk management policy.
- Promotes a culture of proactive risk management.
- Delegates to the Risk and Audit Committee oversight, monitoring and challenge of HBRC's RMS and risk reporting.

7.2. Risk and Audit Committee (RAC)

- From staff receive and review regular HBRC's enterprise risk report and risk survey results.
- Considers any resource requests from staff that are for prioritising and allocating resources to mitigate material risks identified.
- Oversees the effectiveness of HBRC's RMS and ensure there is an emphasis on continuous improvement and risk maturity.
- From staff receive, review and recommend to Council that it adopts any changes or customisation of the risk management policy.
- Ensures a culture exists that encourages transparency and open discussions on potential risks and emerging issues.

7.3. Executive Leadership Team (ELT)

- From the Risk and Corporate Compliance Manager receive, review and ratify regular enterprise risk reports and risk survey results.
- From the Risk and Corporate Compliance Manager receive the corrective actions status update report prior to reporting to the RAC.
- Monitor the effectiveness of HBRC's RMS to validate the focus on continuous improvement. Including, ensuring the system remains relevant by undertaking a formal annual review of both the risk management policy and framework against HBRC's strategy, objectives and culture and benchmarked to the latest best practice risk maturity model.
- Lead risk management across HBRC by endorsing the risk management policy and framework of HBRC's RMS
- Ensure adequate resource is allocated to risk management.
- Assign clear risk management roles, responsibilities, and accountabilities at an appropriate level across HBRC.
- Lead a culture that encourages transparency and open discussions on potential risks and emerging issues across all HBRC functions.
- Ensure there is a comprehensive understanding of risk management by all staff and stakeholders through promoting and communicating HBRC's RMS purpose, vision and values.
- Ensure key business decisions formally consider risks to HBRC.



- Each Group Manager must ensure adequate Group risks insights are provided to the Risk and Corporate Compliance Manager to enable enterprise risk aggregation.
- Each Group Manager must ensure any risks identified between reporting cycles that are of material significance are escalated as per the risk management framework. Any resulting risk corrective actions must be tracked and monitored until closed.

7.4. Risk and Corporate Compliance Manager

- Assist ELT so that they meet their risk management obligations as detailed in this policy.
- Support the ELT to drive a culture of risk ownership and risk intelligent decision making.
- Maintain the RMS including updating both the risk management policy and framework to ensure continuous improvement and benchmarking of these documents to the latest risk maturity best practice.
- Present the enterprise risk dashboard regularly to the ELT.
- Ensure the enterprise risk dashboard reflects ELT's sentiment and concern survey results and present to RAC.
- Develop education material and train staff on risk management concepts and practices, including training on both the risk management policy and framework.
- Oversee the embedding of risk management processes and practices across the business to ensure consistency of application.
- Oversee compliance with both the risk management policy and framework.
- Coordinate the delivery of the annual internal audit plan and track the progress of all agreed risk corrective actions resulting from the individual audits.
- Track all other outstanding control corrective actions reported to the RAC.
- Collaborate with other risk based functional management system owners, such as Health and Safety, Quality Management, Asset Management, Environmental and Information Security to ensure that the underpinning risk management system is structured in a way that supports integration.

7.5. All Staff

- Must take ownership of risks by considering and identifying risks in their day-to-day activities and decision making.
- Must ensure risk corrective actions or risk mitigations are completed within agreed timeframes.
- Must ensure risk controls are repeatable and operate as designed.
- Must escalate any risk incident or near miss in accordance with any specified regulations. Or, in the absence of specified regulations using the default risk escalation criteria as outlined in the risk management framework.
- As required, must actively participate in any risk identification or risk assessment workshops.

8. High-Level Risk Practices

- 8.1. The design of HBRC's RMS is in principle based on the risk management standard produced by the internal organisation for standardisation (ISO 31000:2018), see figure 1. ISO 31000:2018 provides the ability to tailor risk processes, so they are right sized for HBRC. In addition, the ISO model allows for better alignment to Council's other structured functional management systems such as Quality Management Systems (ISO 90001). It should be noted that some risk processes outlined in the risk management framework are structure from the AoG risk maturity model. However, these processes are complimentary to ISO 31000:2018.

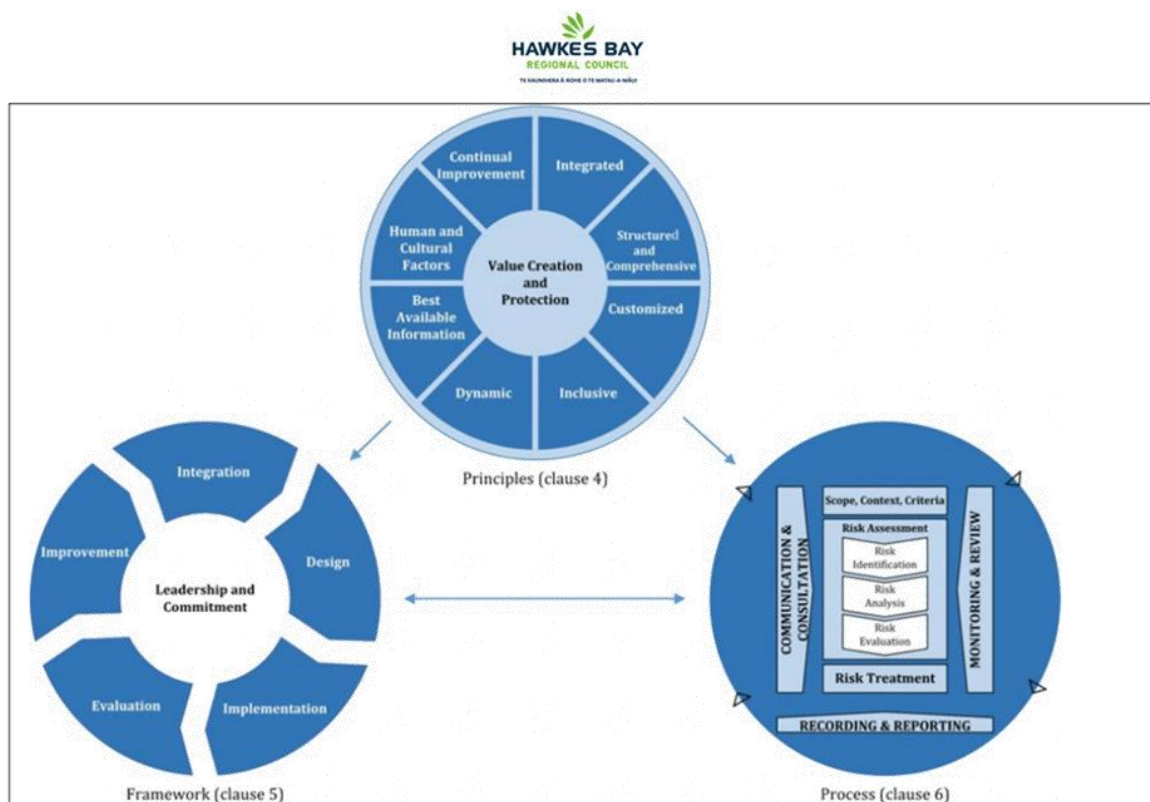


Figure 1

9. Internal Audit and Review

9.1. From time to time the RMS may be subject to an internal audit review. The aim of any review will to; benchmark the design of the RMS against best practice risk maturity models, check operational compliance with both the risk management policy and framework, and identify broader opportunities for improvement.

10. Breach of policy – consequences of non-compliance

10.1. Serious or repeated breaches of non-compliance by staff may result in disciplinary action as guided by the code of conduct. Or, in the case of a contractor action taken as determined by the underlying contract terms and conditions.

Summary of key document changes and version control

Version	Date	Key changes to be communicated to staff	Document owner	Approver
1.0	22/09/23	Policy reviewed and upload into the Controlled Document System.	Risk & Corporate Compliance Manager	Group Manager Corporate Services

Subject: TREASURY COMPLIANCE REPORT

Reason for Report

1. This item provides compliance monitoring of Hawke's Bay Regional Council (HBRC) treasury activity and reports the performance of Council's investment portfolio for the quarter ended 30 June 2023.

Overview of the Quarter – ending 30 June 2023

2. At the end of the quarter to 30 June 2023, HBRC was compliant with all measures in its Treasury Policy, however during the period it breached the counterparty risk policy.
3. In June 2023 HBRC received a dividend of \$1.87m from HBRIC following their receipt of the Napier Port dividend of the same value.
4. Cyclone Gabrielle has impacted both cash balances and borrowing requirements, with ongoing additional borrowing required to fund the recovery. Insurance proceeds when received will soften the effects of additional borrowing. The full impact of the cyclone on long-term funding is yet to be determined.
5. Additional borrowing has implications on the liquidity ratio and credit rate risks.

Background

6. Council's Treasury Policy requires a quarterly Treasury Report to be presented to the Audit and Risk Sub-committee. The policy states that the Treasury Report is to include:
 - 6.1. Treasury Exceptions report
 - 6.2. Policy compliance
 - 6.3. Borrowing Limit report
 - 6.4. Funding and liquidity report
 - 6.5. Debt maturity profile Interest rate report
 - 6.6. Investment management report**
 - 6.7. Treasury investments*
 - 6.8. Cost of funds report Cash flow and debt forecast report
 - 6.9. Debt and interest rate strategy and commentary
 - 6.10. Counterparty credit report
 - 6.11. Loan advances.
7. The Investment Management report has specific requirements outlined in the Treasury Policy. This requires quarterly reporting on all treasury investments plus annual reporting on all equities and property investments.
8. In addition to the Treasury Policy, Council has a Statement of Investment Policy and Objectives (SIPO) document setting out the parameters required for funds under management for the HBRC Long Term Investment Fund.
9. Since 2018, HBRC has procured treasury advice and services from PricewaterhouseCoopers

(PwC) and their quarterly Treasury Report containing the reports noted in paragraph 8 is attached.

Treasury exceptions report & policy compliance

10. During the quarter to 30 June 2023, there were 4 instances of noncompliance with the HBRC counterparty risk policy. These arose due to the lumpy receipt of disaster recovery funds and the need to hold additional funds to pay third parties at short notice. The breaches were corrected as soon as practical. HBRC was compliant with all other measures in its Treasury policy.
11. The maximum breach was \$23.49m which is \$8.49m over the counterparty credit limit of \$15m. The remaining 3 breaches were all under \$20m and therefore within \$5m of the credit limit.
12. This remains an on-going issue while the Council works through the cyclone recovery.

Funding & Liquidity

13. To ensure HBRC has the ability to adequately fund its operations, current policy requires HBRC to maintain a liquid balance of *“greater than 10% of existing total external debt”*. Current liquidity ratio is 14.4% and therefore meets policy.
14. The following table reports the cash and cash equivalents on 30 June 2023.

30 June 2023	\$000
Cash on Call	7,186
Short-term bank deposits	-
Total Cash & and Deposits	7,186

15. To manage HBRC liquidity risk, HBRC retains a Standby Facility with BNZ. This facility provides HBRC with a same day draw down option, to any amount between \$0.3-\$10.0m, and with a 7 day minimum draw period.

Debt Management

16. On 30 June 2023 the current external debt for the Council group was \$84.2m which includes \$1m of pre-funded debt (\$100.863m including the loan from HBRIC).
17. Since the March quarter an additional \$25m in borrowings were received to assist with increased cash requirements following Cyclone Gabrielle. \$15m of this funding is short-term, with the remaining \$10m is medium term.
18. The following summarises the year-to-date movements in Council’s debt position.

Summary of HBRC Debt

	HBRC only \$000	HBRC Group \$000
Opening Debt – 1 July 2022 – excl HBRIC Loan	46,725	46,725
New Loans raised	43,850	43,850
Less amounts repaid	(6,375)	(6,375)
Closing Debt 30 June 2023 (excluding HBRIC loan)	84,200*	84,200
Plus opening balance - loan from HBRIC	16,663	-
Total Borrowing as at 30 June 2023	100,863	84,200

*Includes pre-funding debt of \$1m.

19. Council debt maturity profile remains compliant, however short term drawdowns have pushed the policy limit in the 0-3 year bucket. This will remain high while we work through the cyclone funding. The below infographic includes our \$10m BNZ overdraft in total debt.

Funding Summary

Bucket (years)	Maturing in period (\$)	Policy	Actual
0 - 3	\$49,949,988	15% - 60%	56%
3 - 7	\$39,699,994	25% - 85%	44%
7 - 15	\$0	0% - 60%	0%
Total	\$89,649,982		100%

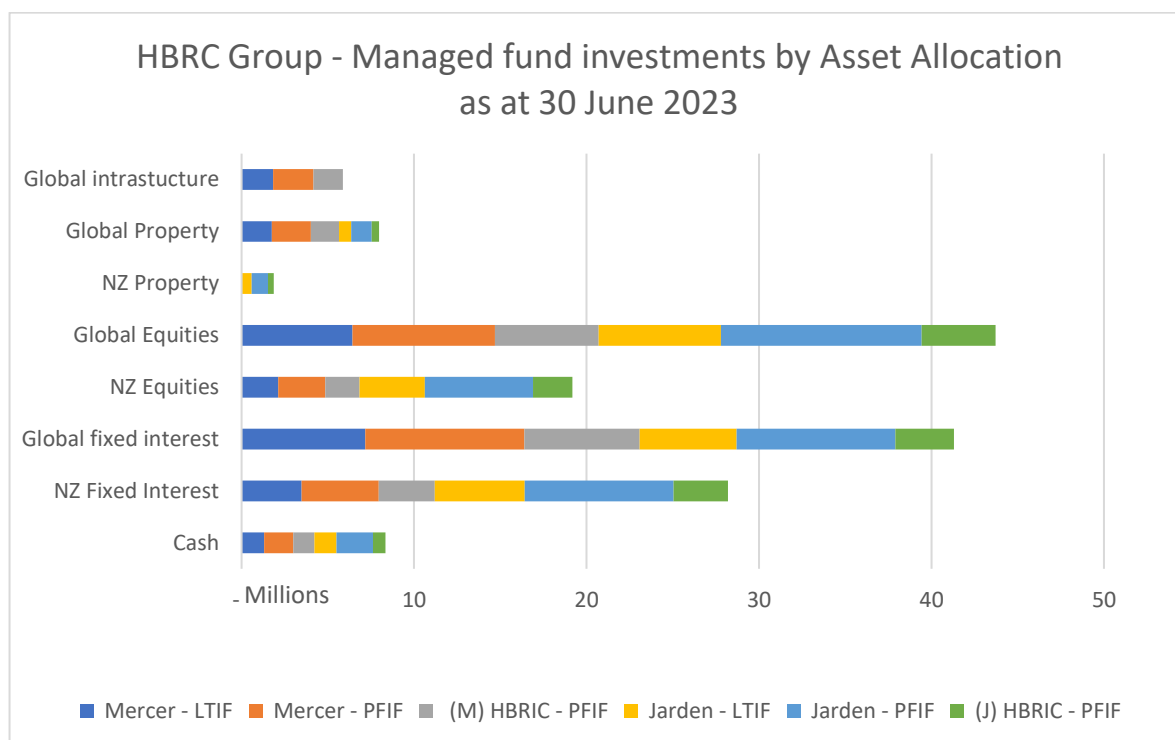
20. We have borrowed a further \$15m on in the quarter to 30 September 2023 and are currently forecasting further drawdowns being required in Q3 between 1 January 2024 and 31 March 2024. However, the amounts required and timing is yet to be confirmed and will depend on the execution of the capital programme planned between now and then.
21. Any insurance or NEMA proceeds will be used to repay the short-term debt which is currently c\$30m.
22. We are continuing to assess the interest rate risk as this is also impacting maturity profiles, putting pressure on the short-term buckets.
23. Our action to rectify this is to confirm our new debt forecast and monitor our swap options.

Managed Funds

24. Total Investment Fund portfolios capital, adjusted for inflation at 30 June 2023 was \$9.532m below the inflation-adjusted contribution target. Based on results to date and the value of the protected amount of funds, funds held are not sufficient to deliver the returns required to meet Council's requirement. No divestments have been made from managed funds this year.
25. Council budgets separately for revenue from directly-held managed funds and those held by HBRIC. HBRIC is required to deliver an overall portfolio return by way of an annual dividend agreed through an annual Statement of Intent. The composition between revenues from managed funds and other sources such as port dividends, is up to the HBRIC board. While the Council has budgeted to receive \$10.5m in dividends from HBRIC within the FY 2022-2023, the Council has only received \$6.87m due to significant downgrading of the port dividend.
26. The following table summarises the fund balances at the end of each period and the graph illustrates the asset allocations within each fund at 30 June 2023.

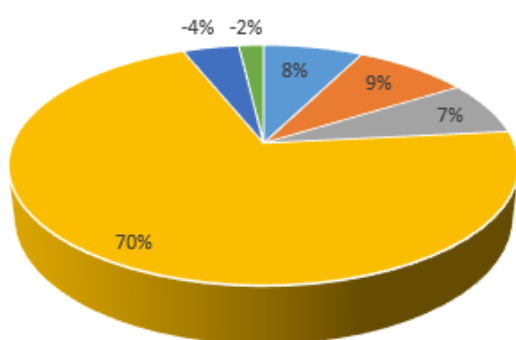
	30 Jun 2022 \$000	31 Dec 2022 \$000	30 June 2023 \$000
Fund Balances HBRC			
Fund Balance HBRC	104,449	104,421	110,828
Capital Protected Amount HBRC (2% compounded since inception)	114,239	115,384	115,895
Current HBRC value above/(below) capital protected amount	(9,790)	(10,963)	(5,067)
Funds Balances (Group + HBRIC)			
Long-Term Investment Fund (HBRC)	45,679	45,713	48,400
Future Investment Fund (HBRC)	58,770	58,708	62,428
Total HBRC	104,449	104,421	110,828
Plus HBRIC	43,226	43,315	45,638

Fund Balances HBRC	30 Jun 2022 \$000	31 Dec 2022 \$000	30 June 2023 \$000
Total Group Managed Funds	147,675	147,736	156,466
Capital Protected Amount (2% compound inflation)	162,720	164,350	164,798
Current group value above/(below) protected amount	(15,045)	(16,614)	(8,332)

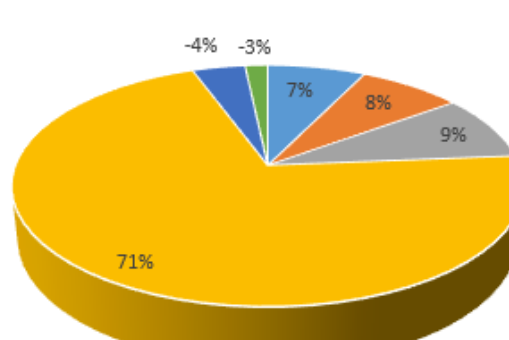


27. Fund performances have been steady this year with all cash returns reinvested.

HBRC Group - PFIF Managed funds performance
YE 30 June 2023



HBRC Group - LTIF Managed funds performance
YE 30 June 2023



■ Interest
 ■ Dividends
 ■ Realised gains
 ■ Unrealised gains
 ■ Fees
 ■ Taxes

	LTIF	PFIF	Group
Cash return reinvested	1.08%	1.21%	1.12%
Unrealised return	4.39%	4.74%	4.50%
Total return	5.47%	5.96%	5.62%
<i>By manager:</i>			
Mercer	4.95%	4.95%	4.95%
Jarden	6.98%	8.12%	6.29%

Cost of funds

28. For the last financial year to 30 June 2023, Gross Cost of Funds (COF) was 3.72% and Net COF was 3.55%

HBRIC Ltd

29. In accordance with Council Policy, HBRIC provides separate quarterly updates to the Corporate and Strategic Committee. However, given the missed meeting due to the cyclone the December 2022 quarterly update was provided to Council on 29 March 2023.

Decision Making Process

30. 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.

Recommendations

That the Risk and Audit Committee receives and considers the *Treasury Compliance Report*.

Authored by:

Jess Bennett
SENIOR MANAGER - FINANCE RECOVERY

Tracey O'Shaughnessy
TREASURY & INVESTMENTS ACCOUNTANT

Approved by:

Susie Young
GENERAL MANAGER CORPORATE SERVICES

Attachment/s

There are no attachments for this report.

Subject: INSURANCE – ANNUAL REVIEW AND UPDATE

Reason for Report

1. This item provides the Committee with an update on the levels of insurance cover that are operating across HBRC and to ensure that Councillors are aware of the cover in place and where risk exists in obtaining further limits.
2. The TOR for the Risk and Audit Committee is for this committee to review and recommend to Council the approach to insurance strategy and placements as part of its risk management practices.

Officers' Recommendations

1. Councillors acknowledge the level of insurance cover in place across Hawkes Bay Regional Council and support staff to maintain levels of cover already in place.
2. Council officers support a further \$200m group policy being entered into by HBRC (along with MWLASS participants).

Executive Summary

3. Our insurance brokers have indicated to HBRC that they expect premiums will increase up to 20% in the coming year upon renegotiation. HBRC currently pay \$1.1m per annum for current policies in place.
4. In addition to an increase cost, a proposal to have a further \$200m underground cover has been proposed as a group policy through MWLASS. This is over and above our current group policy limit of \$300m taking the full cover to \$500m(Group).
5. Investigation into self-insurance, or other mechanisms to meet cover and needs of the organisation, needs to be reviewed.

Background /Discussion

3. HBRC has predominantly held insurance for commercial motor vehicles, material damage to commercial and residential assets, infrastructure, contract works, marine and harbour master, employers' liability and statutory liability, professional indemnity and cyber. HBRC has, to date, had reasonable comfort with the ability to obtain insurance in offshore markets and have received cover requested.
4. Over the last 12 months, insurers in NZ (through offshore global reinsurers) have indicated the unease of reinsurers to provide cover to specific industries, and global protection gaps caused by the combination of climate change, cyber threats and social and demographic changes are been seen.
5. The National Climate Change Risk Assessment for Aotearoa New Zealand (NCCRA) highlighted recently that "New Zealand's financial system is highly exposed to climate change through local changes and international markets". Financial instability could result from a single shock or a series of events (such as cyclones, fires, or floods) which trigger a revaluation of assets in Aotearoa New Zealand or indirectly via international markets. Additionally, the pricing of ongoing, gradual changes (such as sea-level rise) might precipitate sudden reappraisals, such as insurance retreat from coastal assets, new debt limits, or interest rate hikes.
6. The period of Insurance Cover is due 31 October 2023, and we are anticipating an increase in

premiums charges, including possible challenges to obtain full cover at this time.

7. Recently, HBRC encountered issues with obtaining Harbourmaster Insurance. HBRC has an excess layer, which is \$75mil over \$25mil on Harbourmasters Liability. Our insurer Markel (through Singapore) only offered 50% cover for this, with co-insurance having to be obtained through London via Munich Re.

Current Insurance Cover

8. Attachment 1, outlines all insurance policies currently in place across HBRC. Insights from our current policies are:
 - 8.1. Material Damage - Commercial & Residential – This is a Group Policy with Hawke's Bay Council Group and has a Limit \$600m (HBRC sub-limit is \$20m). A memorandum of understanding is yet to be put in place across Councils. A follow up has been made with Legal and HDC.
 - 8.2. Standing Timber Insurance Policy (Forestry) – The market damage resulting from past cyclones has meant that insurers are asking for more details around our risk. Some are just not insuring certain types of trees (meaning an increased risk to carbon credits etc (probably requiring more buffer). HBRC are engaging with PF Olsen to understand impacts once we receive new information from AON on this.
 - 8.3. Commercial Marine Hull – All Hydro assets that 'live' on water must be transferred to this policy. This is as a result of the Coastal Monitoring Buoy that was lost at sea back in June 2022. It was noted that these assets should not be on the MDBI policy but on a specific Marine Policy. So far we have roughly identified \$2.4m (TBC) of Hydro assets that may need to be transferred. Complexities are some of these assets are groups of individual fixed assets (ie monitoring equipment).
 - 8.4. Contract Works – A formal review is required of this based on contracted works we expect in the coming years for rebuild. Work is required between Asset Management and Works Group to understand the risks to the organisation. In normal conditions HBRC cover Works Group external contracts within the \$250k contract limit (i.e this is mainly used for small contracts) any other larger contracts are required to have their own contract works insurance.
 - 8.5. Infrastructure Disaster Damage - Per MW LASS. The last full review of this was in 2018. It's proposed that a third layer of \$200m is needed to take the Group limit to \$500m. This is covering c\$4.48b of sum insured assets across the 9 Councils, with varying sub-limits. The excess layers haven't been reviewed for some years while asset values have continued to increase during this time. Refer to below decision.

Additional MWLASS above ground cover.

1. Selected councils in the lower North Island currently have a group infrastructure policy of \$300m for infrastructure assets (Group limit). This is made up of a Primary layer \$125m and Secondary layer \$175M.
2. HBRC has a principal sub-limit of \$65m (HBRC's loss limit). Of this 40% insured on total limit only with the assumption all other assets are flood critical and therefore covered by NEMA.
9. Other councils within this policy are Hastings District Council, Central Hawkes Bay District Council, Manawatu District Council, Whanganui District Council, Rangitikei District Council, Horizons Regional Council, Ruapehu District Council and Tararua District Council.
10. In 2018 when this policy was last reviewed total assets across the councils was circa \$2bn. Assets now held across these councils is double, i.e. upward of \$4.4bn.
11. In 2023 Manawatu-Whanganui Local Authority Shared Services and Hawkes Bay Councils (MWLASS+HB) engaged Aon Global Risk Consulting (Aon) to assess the potential damage and loss from a large earthquake event affecting the group portfolio. MWLASS+HB has identified the need to undertake an earthquake loss modelling exercise to evaluate the suitability of their shared

natural catastrophe limit, as declared on the group infrastructure policy, prior to the 2023/24 renewal. (refer to attachment 2a AON: *Earthquake Loss Analysis for Infrastructure Assets* and attachment 3 MWLASS – *Infrastructure Insurance Layers and 3a Example of Pooled Insurance*).

12. The report has highlighted that in an earthquake, assets located in areas susceptible to liquefaction or landslides can experience greater damage. Hawkes Bay Councils have a high percentage exposure to liquefaction.
13. HBRC has assets worth \$340m (cost to fully rebuild all assets). In an event such as an earthquake it could be foreseeable that the damage would be significant compared to the recent flooding.
14. A very large central NZ earthquake is also likely to impact all the 9 councils therefore putting pressure on the available group funds to be allocated. Scenario modelling review was undertaken by Aon Risk Consulting – refer to Attachment 3: *Manawatu-Whanganui Local Authority Shared Services and Hawkes Bay Councils (MWLASS+HB) Earthquake Loss Analysis for Infrastructure Assets*.
15. The report is highlighting that the Hawkes Bay region is susceptible to high risk of liquefaction, including predicted damage from a large quake.
16. The expected cost for this additional cover has been proposed at \$800k-\$900k. All Councils wishing to be part of this, need to advise MWLASS by the end of October 2023. It is likely not all Councils will chose to be part of this, and cost may be lower/higher dependent on participants.
17. The MWLASS board has requested that MW LASS member councils review the completed report and analysis (scenario modelling) with a request that member councils receive the report provided, and acknowledge whether the member council may wish to participate.

Alternative methods of insurance

6. In response to recent events, reinsurance costs have increased substantially. Insurers have to manage these extra costs by increasing premiums. Recently, insurers have been using an increase in excess to ensure that insurance remains accessible. However, in some situations, the excess may be so high that the cover makes the cost of insurance difficult to justify.
7. Mōhio's Climate Innovation Lab, at Auckland University, released an options report on financing climate adaptation (Attachment 4: *Adaptation Finance – Risks and Opportunities Aotearoa New Zealand - report attached for interest only*). Insights from this report identify options and alternative means of mitigating risks, such as environmental, green, social and sustainability bonds.
8. In 2022 Auckland City Council moved to self-insurance fund model. Auckland Council ring-fenced managed funds creating an asset backed self-insurance fund (SIF) and requires the management of the investment fund to be outsourced to an external provider.
9. The MIF was initially seeded with NZD 20 million and is expected to grow over time through future premiums (less claims), investment returns and potentially further capital injections.
 - 9.1. The MIF must maintain a moderate level of liquidity to pay claims, as required and must minimise the correlation of the portfolio to events that might impact Auckland negatively.

Strategic Fit

10. Insurance to cover future climate change events is in the best interest of Hawkes Bay Regional Council to ensure ongoing protection of our above and below ground assets.
11. Protecting our \$340m of infrastructure will ensure value is maintained by our ratepayers, that in addition provides vital flood mitigation to our region.
12. However further investigation is required to find alternative cheaper mitigations for insurance risks given the large and continued increases in premiums as shown.

Significance and Engagement Policy Assessment

13. The decisions presented in this paper would not be considered to trigger the significant and engagement policy.

Financial and Resource Implications

14. Our insurance brokers have indicated to HBRC that they expect premiums will increase up to 20% in the coming year upon renegotiation. Increase in premiums must be met by general rates. Any increase will directly impact available funds.
15. In addition, lack of insurance cover for material and critical assets may lead to unrecoverable losses in the future and HBRC having no ability to fund replacements/re-establishment.

Decision Making Process

16. 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:
 - 16.1. The decision does not significantly alter the service provision or affect a strategic asset, nor is it inconsistent with an existing policy or plan.
 - 16.2. The use of the special consultative procedure is not prescribed by legislation.
 - 16.3. The decision is not significant under the criteria contained in Council's adopted Significance and Engagement Policy.
 - 16.4. Given the nature and significance of the issue to be considered and decided, and also the persons likely to be affected by, or have an interest in the decisions made, Council can exercise its discretion and make a decision without consulting directly with the community or others having an interest in the decision.

Recommendations

That the Risk and Audit Committee:

1. Receives and considers the *Insurance – annual review and update* staff report.
2. Agrees that the decisions to be made are not significant under the criteria contained in Council's adopted Significance and Engagement Policy, and that Council can exercise its discretion and make decisions on this issue without conferring directly with the community or persons likely to have an interest in the decision.
3. Recommends that Hawke's Bay Regional Council:
 - 3.1. Note the report from the board of MWLASS;
 - 3.2. Progress with participation of excess layer of infrastructure with MWLASS of \$200m.
 - 3.3. Review how HBRC may review and look into how alternative means of Insurance may be implemented across our business.

Authored by:






Chris Comber
CHIEF FINANCIAL OFFICER

Chris Dolley
GROUP MANAGER ASSET MANAGEMENT

Approved by:

Susie Young
GENERAL MANAGER CORPORATE SERVICES

Attachment/s

- | | | |
|---|---|----------------------|
| 1 | HBRC Insurance Policy Cover Oct 2023 | Under Separate Cover |
|  | | |
| 2 | AON: Earthquake Loss Analysis for Infrastructure Assets | Under Separate Cover |
|  | | |
| 3 | MWLASS – Infrastructure Insurance Layers | Under Separate Cover |
|  | | |
| 4 | Example of Pooled Insurance | Under Separate Cover |
|  | | |
| 5 | Adaptation Finance – Risks and Opportunities Aotearoa New Zealand | Under Separate Cover |
|  | | |

Subject: HEALTH, SAFETY AND WELLBEING MANAGEMENT SYSTEM REVIEW

Reason for Report

1. This item provides the Committee with an update on the intended alignment of the HBRC Health, Safety and Wellbeing Management System (HSWMS) with the ISO45001 framework, including ongoing assurance over Health and Safety matters.

Background

ACC Workplace Safety Management Practice (WSMP)

2. From 2001 to 2019 HBRC's HSWMS was audited and certified under the ACC Workplace Safety Management Practice (WSMP) audit standard.
3. The WSMP audit standard aligned with AS/NZS 4801:2001, the joint Australia/New Zealand Standard for Occupational Health and Safety Management Systems.
4. Audit delivery differed between WSMP and AS/NZS 4801; with AS/NZ 4801 being a higher-level audit process.
5. While organisations may have sought certification under AS/NZ4801 or OHSA 18001, this was generally in response to parent company and/or customer requirements and not common. In terms of market acceptance within NZ, ACC WSMP was the 'default' standard.
6. WSMP had three levels of achievement, each attracting a workplace levy discount. To enter and remain in the programme, organisations had to achieve and maintain Primary level (at a minimum) and undertake reaudit every two years. HBRC achieved and maintained Tertiary level.

Level	Workplace Levy Discount
Primary	10%
Secondary	15%
Tertiary	20%

7. ACC ceased the WSMP programme in 2019 and as part of the cessation process extended HBRC's achievement and discount level for a further 12 months

Crowe Horwath

8. In 2018 Crowe Horwath conducted a review of HBRC's HSWMS. Their audit programme was based on the key requirements of:
 - 8.1. Health and Safety at Work Act 2015
 - 8.2. ISO 45001:2018 Occupational health and safety management systems
 - 8.3. Health and Safety Guide: Good Governance for Directors (Institute of Directors & WorkSafe).
9. The review was conducted by applying discussion, observation and review techniques; it included the material requirements of the above 'good practice' health and safety management systems and incorporated the following:
 - 9.1. Policy, planning, resources, responsibilities
 - 9.2. Leadership, worker participation & engagement

- 9.3. Governance
- 9.4. Hazard and risk management
- 9.5. Information, training and supervision
- 9.6. Contractor (PCBU) engagement
- 9.7. Incident management
- 9.8. Health and wellness
- 9.9. Emergency management
- 9.10. Audit and review.
10. Review outcomes included recommendations related to both Risk and Health & Safety. The (then) GM Group Manager Office of the Chief Executive and Chair and the HBRC HR Manager implemented the update/development of recommendations to be adopted by HBRC as part of the H&S workplan. The (then) HBRC HR Manager also held responsibility for the HBRC HSWMS, and as such began working on the adopted recommendations. After he left, the HR & Safety roles were reconfigured, and the HSW Team Leader picked up the implementation of the recommendations. The HBRC Risk Manager reported back to RAS until completed. Areas that continue to be matured are risk management and contractor management.

2021 to present

11. Despite the impacts of Covid 19 lockdowns of 2020/2021 and the staffing levels within the HSW team, HBRC's HSWMS was maintained at a level commensurate with WSMP Tertiary. This was verified via an internal review conducted in 2022.
12. HBRC's HSWMS strategy and work plans covering 2021-2024 have been built around the following health and safety cornerstones. These cornerstones reflect the HSMS system in use at the time of developing the strategy and work plan as well as the items that were reviewed as above in 2018:
 - 12.1. Knowledgeable workplace leadership
 - 12.2. Actively identifying, managing, and monitoring risk
 - 12.3. Managing the pandemic response to Covid-19 and variants
 - 12.4. Improving the management of contractors
 - 12.5. Improving health, safety and wellbeing engagement and culture
 - 12.6. Enabling an effective implementation plan and reviewing annually
 - 12.7. Improving reporting and provision of relevant information.
13. In 2022, HSW and ELT discussed the need to scope a new HS audit programme and the focus was to determine which programme might best suit HBRC.
14. The HSW team sought information from the wider health and safety community, which included other Councils such as Napier City and Horizons about their progression from ACC WSMP into other audit programmes.
15. From the discussions held and evidence observed, the majority had maintained their HSMS, updated as relevant to meet any applicable legislative or industry changes but had not progressed into another certification programme.
16. The objective of the review is to align the Hawkes Bay Regional Council's health and safety management systems to a recognised and current standard.

Discussion

17. Organisations who had moved to another certification programme undertook one of the

following options.

Programme	Programme Status	Certification availability
AS/NZ4801	<i>Available Superseded</i> until 13 July 2023. Post (July) refer to ISO45001	N/a
OHS 18001	<i>Withdrawn</i> replaced by ISO45001	N/a
ISO45001	Current	Yes
Safe+	Current	No* outcome defined by 3 performance levels

18. Both Napier City and Horizons councils have undertaken Safe+.
19. While Safe+ is independently audited by approved auditors, it is not based on an accredited audit standard. It is also not recognised outside of NZ and has not been widely adopted by NZ organisations.
20. ISO45001 is an internationally-recognised certification standard. ISO standards provide an overarching management system framework that is recognisable across the suite of certification products, for example 'Leadership' includes components of commitment, policy, roles, responsibilities and authorities. These components appear across the various ISO standards, and their implementation is contextualised to the audit standard being undertaken.
21. HBRC holds current ISO9001:2015 certification for several areas of the business. As such, the QMS in the business areas covered by that certification already conform to the general ISO framework. Aligning with that framework, albeit in a health and safety context under ISO45001, provides HBRC with natural QMS / HSWMS synergies.
22. The objective of the review is to align the Hawke's Bay Regional Council's health, safety, and wellbeing management system to a recognised and current standard.
23. The table below summarises activity to date

Time period	Activity
2001-2019	HBRC certified under ACC WSMP programme
2018	Crowe Horwath Internal Audit Decision by the Group Manager Office of the Chief Executive and Chair, the HR Manager re recommendations HBRC to adopt HBRC WSMP certification extended to 2019
2019	Work begins to implement recommendations ACC WSMP programme ceases; HBRC certification ends
2020	HSW TL new into role, manages HBRC Covid response; picks up and continues implementation of recommendations as part of HSW workplan
2021	HSW TL continues with recommendations (as part of HSW workplan)
2022	Internal review of HSMS against ACC WSMP standard Investigation into alternative safety standard 'programmes' – findings and recommended pathway presented to ELT
2023	ELT approves recommendation to align HSMS with ISO45001 Pathway stages mapped and stage 1 to occur

Financial and resource implications

Programme	Year one (2023)	Year two (2024)	Year three (2025)	Year five (2027)
ISO45001 Programme as recommended by External Auditors	Stage 1 Document review Review processes. Post review 12 months to update/amend (based on recommendations) and collect evidence of any changes in practice as a result of those. 'In general, 12 months evidence of operational implementation required	Onsite Gap Analysis Review processes alongside updates from previous recommendations and evidence of practice. Conducted onsite.	Onsite Gap Analysis Review processes alongside updates from previous recommendations and evidence of practice. Conducted onsite.	Move to standard 2 yearly review cycle
Cost: excl GST	Approx. \$ 2500	Approx. \$ 4800	Approx. \$4800	
Time	1.5 days inc report writing	2 days inc report writing	2 days inc report writing	

Next steps

24. External auditor confirmed for desktop document review in November 2023.
25. Document review completed; report received with recommendations.
26. Recommendations and remedial plan of activity provided for ELT and Risk and Audit Committee.
27. Recommendations included into the HSW Strategic Plan and Work Plan for 2024-2026.

Decision-making process

28. 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 Risk and Audit Committee receives and considers the *Health, Safety and Wellbeing Management System review* staff report.

Authored by:

Kirsty McInnes
TEAM LEADER HEALTH SAFETY & WELLBEING

Liana Monteith
MANAGER PEOPLE & CAPABILITY

Approved by:

Susie Young
GENERAL MANAGER CORPORATE SERVICES

Attachment/s

There are no attachments for this report.

Subject: EY AUDIT CLOSE REPORT ON YEAR END 30 JUNE 2023

Reason for Report

1. This report presents the Audit and Risk Committee with the auditor's preliminary findings from the year ended 30 June 2023 audit.
2. Staff from Ernst & Young will provide their report on Friday 13 October. They will present their findings and be available to answer questions and provide clarification to the committee as required.

Background

3. Each year, following the completion of the audit of HBRC's Annual Report, the auditor's report back to the governing body on any findings from the audit. The report provides commentary on areas where the auditors identified control matters during their audit procedures and makes recommendations for improvement.
4. The production of the Annual Report 2022-2023 has been a time-pressured process for staff due to late adoption of the Annual Plan and tightened annual report adoption timeframe. This is the first time in 3 years that the reporting deadline has been 31 October after extensions to 31 December for the previous two years. 31 October is the normal statutory deadline that is expected going forward.
5. This is Ernst & Youngs (the auditors) second year completing the HBRC audit.

Discussion

6. The year end audit commenced on 18 September and is ongoing however, HBRC management had a status update with the auditors on Friday 6 October where the following specific matters were covered:
 - 6.1. The auditors have completed or substantially completed the majority of their areas of focus, however, there are still some areas of testing and internal review to be completed.
 - 6.2. Consolidated group accounts are still to be received and reviewed by the auditors in the week beginning 9 October 2023.
 - 6.3. The auditors were complimentary of HBRC staff and their positive engagement and support to perform the audit.
 - 6.4. The auditors also signaled some audit adjustments. These have been summarised by HBRC management below with audit commentary to come in their report.
 - 6.5. The auditors have indicated they will be including some control findings and improvements in their report but have not yet finalised what these are with staff at the time of preparing the paper. These will be included in their report.
 - 6.6. As previously indicated to the Corporate and Strategic committee on 14 June 2023 and HBRC Council workshop on 11 October 2023, the auditors are expecting to issue a modified or qualified audit opinion on the basis that no valuation has been completed for infrastructure.

7. Audit Adjustments

8. Recognition of HBDRT bank account –

This is a bank account held by HBRC on behalf of the Hawkes Bay Disaster Relief Trust as an administrator. As HBRC are deemed to have control of the account (through access and approval rights) the auditors require us to recognise the cash balance asset of \$2.5m at 30 June 2023 and an offsetting liability for funds held on behalf of the HBDRT.

9. Adjustment to valuation of HBRC investment in HBRIC –

As part of their audit process, Foodeast (subsidiary of HBRIC) had an audit adjustment to their net assets which we need to reflect in our valuation calculation. This adjustment will increase our investment by \$4m.

10. LGFA interest reclassification –

HBRC holds some zero-coupon loans with LGFA. As they are zero coupon the auditors require us to reclassify the interest of \$0.63m from accrued interest to the loan principal balance.

11. Insurance proceeds –

In May 2023 HBRC's co-insurers agreed to paying HBRC \$4m as a partial settlement of claims under our policy for losses arising from Cyclone Gabrielle to stopbanks and other specified assets. These funds were not received until July 2023, however, as they were approved before 30 June 2023 the auditors require us to recognise the revenue and receivable.

12. Management agrees with each of these adjustments and intend to correct these within the financial statements.

13. As the audit process is ongoing there may be additional audit adjustments identified.

14. Control Findings –

These will be communicated by the auditors in their report.

Next Steps

15. The 2022-2023 Annual Report will be presented at the Regional Council meeting on 25 October 2023 for adoption.

Decision Making Process

16. 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 Audit and Risk Committee receives and notes the *EY Audit Close Report on Year End 30 June 2023* staff report.

Authored by:

Chelsea Spencer
SENIOR GROUP ACCOUNTANT





Sarah Bell
TEAM LEADER STRATEGY AND PERFORMANCE

Chris Comber
CHIEF FINANCIAL OFFICER

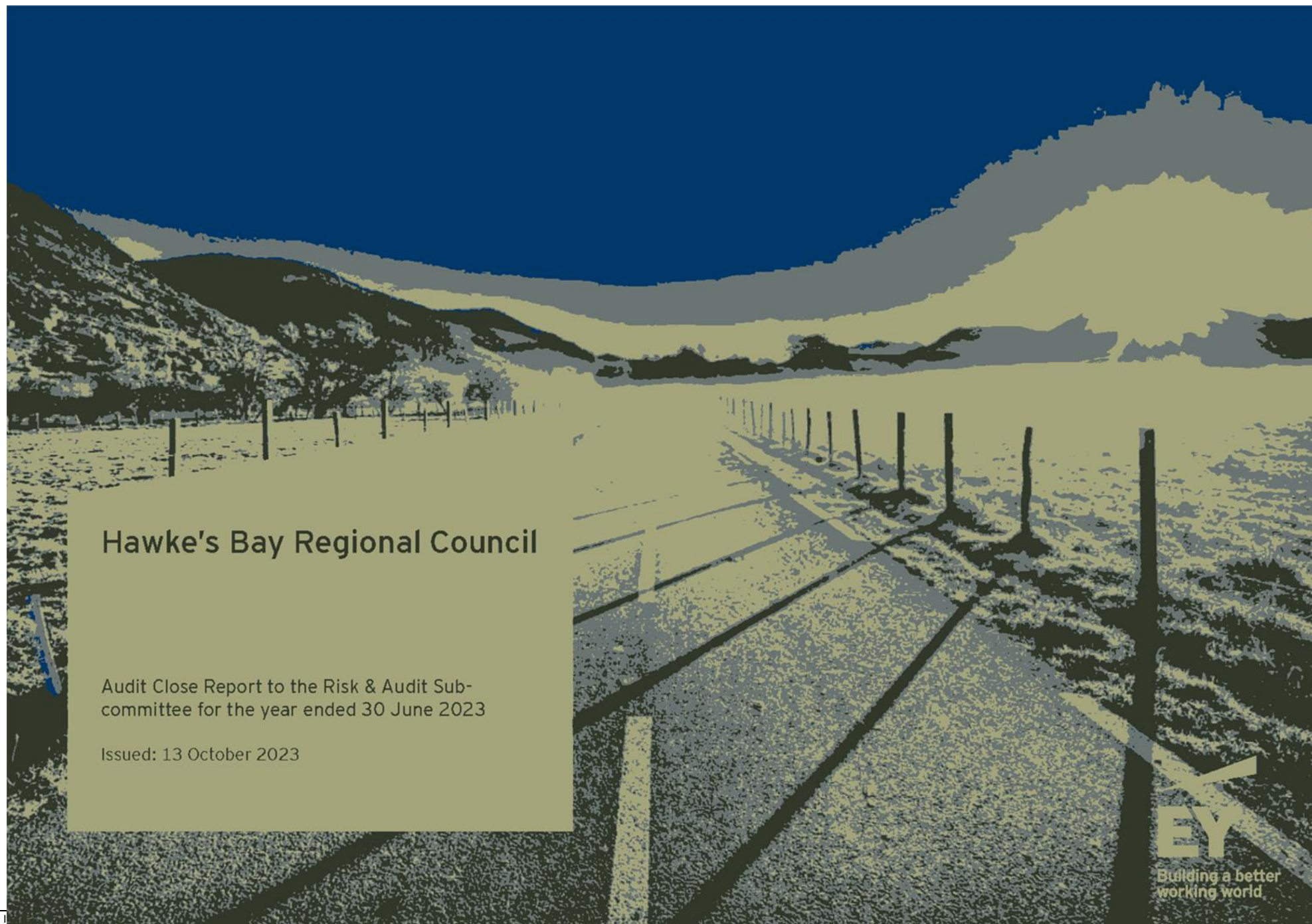
Approved by:

Susie Young
EXECUTIVE OFFICER RECOVERY

Attachment/s

- 1   Ernst & Young Audit Close Report and Report on Control findings
- 2   2023 HBRC IESBA Approval report

Item 8



WELCOME

We have substantially completed our audit of Hawke's Bay Regional Council ("Council" or "HBRC") and the consolidated Group ("the Group") for the year ended 30 June 2023. We recognise the significant impact of Cyclone Gabrielle on the community, Council and the workloads of those responsible for responding to the impact of the Cyclone. We would like to thank your staff for the assistance provided to us during the audit and this is particularly in respect of the challenging year Council has experienced.

Subject to the resolution of the outstanding matters in Appendix B, we confirm that we will issue a qualified audit report including an emphasis of matter. The qualification relates to the valuation of Council's infrastructure assets (refer to page 5 for details) and the emphasis of matter paragraph draws readers' attention to the inherent uncertainty associated with quantifying GHG emissions.

This report is intended solely for the use of the Council, and senior management of HBRC, and should not be used for any other purpose nor given to any other party without our prior written consent.

We look forward to the opportunity of discussing with you any aspects of this report or any other issues arising from our work at the Council meeting on 18 October.

If you have any queries in the meantime, please feel free to contact David on 021 923 431 or Ahmed on 027 404 4923.

Yours faithfully




David Borrie
Partner



Ahmed Sofe
Associate Director

03
Executive Summary

04
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EXECUTIVE SUMMARY

Hawke's Bay Regional Council

For the year ended 30 June 2023

AREAS OF AUDIT FOCUS

8

Key areas of focus where there are potential risks and exposure

The areas of audit focus and level of complexity or management judgement applied are:

▶ Infrastructure Assets & PP&E	HIGH	▶ Performance Reporting	MEDIUM
▶ Cyclone Recovery and Other Grants	MEDIUM	▶ Financial Assets	LOW
▶ Investment Property	MEDIUM	▶ Borrowing & Derivatives	LOW
▶ Integrity of Rates Strike, Rates Invoicing and Collection	MEDIUM	▶ Expenditure, Procurement and Tendering	LOW

STATUS OF AUDIT

17

Outstanding matters for a qualified audit opinion with an emphasis of matter paragraph are listed in the Appendices section of this report.

INDEPENDENCE

We confirm that we have complied with NZ: NZICA Code of Ethics and the Professional and Ethical Standard 1: International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) as well as the Office of the Auditor General's independence requirements, and in our professional judgement, the engagement team and the Firm are independent.

AUDIT DIFFERENCES

NIL

Current year unadjusted differences

There are no unadjusted audit differences pertaining to the financial statements and service performance reporting for the year ended 30 June 2023.

Refer to Audit Differences section for the summary of corrected findings.

MATERIALITY

\$3.7M

Our audit procedures have been performed using a materiality of \$3.7m

Our Materiality is based on 3% of total expenditure. The threshold for reporting audit differences is \$183k.

Tolerance was set individually for each significant performance measure selected for testing.

CONTROL OBSERVATIONS

6

Observations and recommendations to improve processes and controls

Observations open at 30 June 2023 and associated risk ratings are summarised below. Further details are included in the control environment section.



EY | Hawke's Bay Regional Council | For the Year ended 30 June 2023

Infrastructure Assets & Property Plant & Equipment (PP&E)

Our Understanding

Infrastructure assets and PP&E are significant balances on the Council's balance sheet and at 30 June 2023 the carrying values were \$199m and \$38m respectively (2022: \$197m and \$37m).

Infrastructure assets primarily comprise of land, stopbanks, drainage networks, sawfly works and parks and wetlands and are valued at Optimised Depreciated Replacement Cost (ODRC).

Infrastructure assets are revalued triennially using externally sourced unit costs and reviewed by an external provider. A full valuation of Infrastructure assets was scheduled for FY23, however due to the disruption caused by Cyclone Gabrielle Council has elected to not undertake a full valuation at 30 June 2023. The impact of the Cyclone and the movements in the ODRC since last valuation indicate there could be a significant differences between the carrying values of assets and their fair values.

Accounting standards also require an impairment assessment of assets where there are objective indicators of an impairment which includes damage caused by weather events. Ongoing inspections carried out over the past months indicate that assets impacted are mostly impaired (damaged and able to be repaired) with small elements lost or damaged beyond repair. HBRC concluded that it is unable to determine a comprehensive impairment charge reflecting the damage to this group of assets.

The decision to not undertake a full revaluation of infrastructure assets and Council not completing a comprehensive impairment assessment results in a limitation of audit scope. Consequently, our audit report will be qualified report in respect of these matters.

The following valuations were carried out in 2022. To consider whether values have moved materially since last valuation, management completed an assessment with reference to prevailing market values and cost rates at 30 June 2023.

- ▶ Land under infrastructure, forestry and buildings
- ▶ Land and building used for administration
- ▶ Hydrology equipment

EY Perspective



Our audit procedures involved the following:

- ▶ Held discussion with management to understand the extent of damage caused by the Cyclone and the implications this has on completing a full valuation and impairment assessment of infrastructure assets.
- ▶ Discussed with management and the Office of the Auditor General the impact of the absence of a full valuation and comprehensive impairment assessment on our audit report.
- ▶ For PP&E classes that were not scheduled for revaluation in the current year, we reviewed management's assessment of movements in key assumptions underlying the historical valuation against current market factors such as unit prices, comparable sales and capitalisation rates and their conclusion that full valuations was not warranted in 2023.
- ▶ Reviewing the fixed asset reconciliation of underlying data to the general ledger with a focus on significant additions and disposals during the year.
- ▶ Examining the appropriateness of depreciation against the estimated useful lives in the Council's accounting policies. We also considered the useful lives included in the most recent valuations.
- ▶ Testing on a sample basis the classification procedures relating to capital, renewal and maintenance work as well as cut off at year end for capital works to check if it is consistent with work completed at that point.
- ▶ Checked if there was appropriate disclosure within the financial statements.

Key Judgements: Assumptions used in valuations, useful lives of assets and classification of capital and maintenance costs

Relevant accounting standards: [PBE IPSAS 17 Property, Plant and Equipment](#)

Level of complexity or management judgement:

HIGH

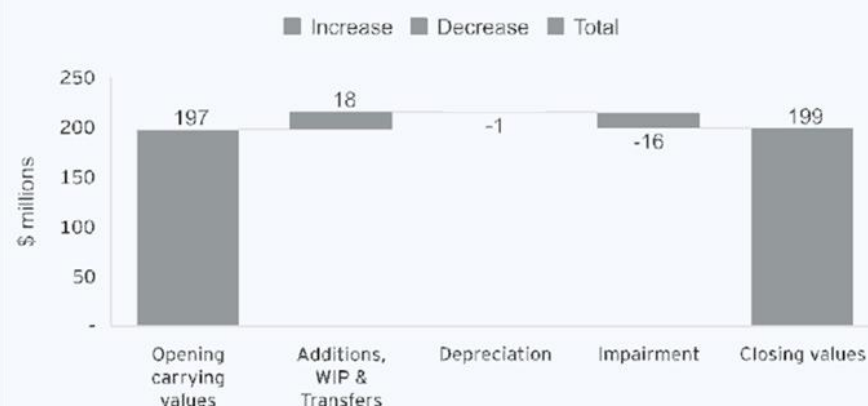


EY | Hawke's Bay Regional Council | For the Year ended 30 June 2023

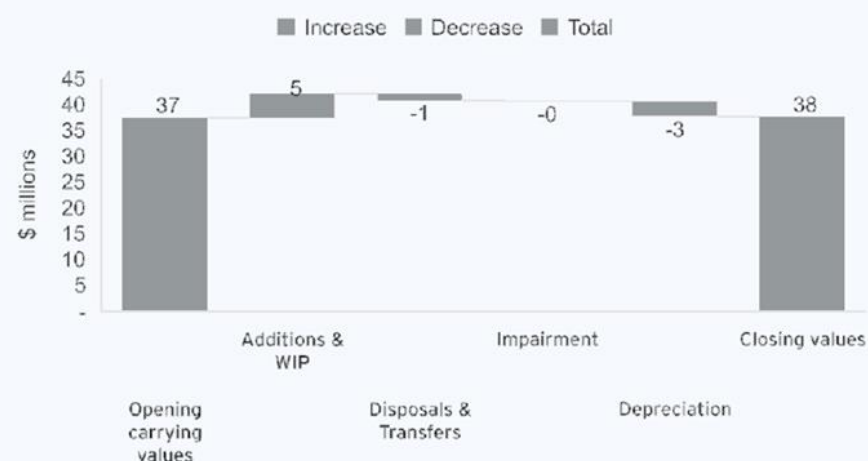
Infrastructure Assets & Property Plant & Equipment (PP&E) - cont.

Our Understanding (cont.)

Infrastructure assets movements for the year ended 30 June 2023



PP&E movements for the year ended 30 June 2023



EY Perspective (cont.)

Capital asset additions and depreciation

We selected a sample of material infrastructure asset additions during the year and vouched these to supporting documentation and obtained assurance that only costs which fulfilled the capitalisation criteria under PBE IPSAS 17 *Property, Plant and Equipment* were capitalised.

Revaluation of Infrastructure assets

Council has decided to not revalue infrastructure assets as at 30 June 2023 for the following reasons:

- ▶ The impact of the weather events was severe and widespread across the infrastructure assets network. Consequently, limited information was available for valuers to accurately prepare a valuation because of the uncertainties around the extent of the damage, replacement costs, and impact on useful lives of assets.
- ▶ The revaluation exercise would require professional engineering services. Services of this nature were in short supply in the region and any professional engineering expertise is best spent on the recovery rather than completing a revaluation.
- ▶ Valuation processes normally require internal staff time to both provide the information required by valuers and to complete appropriate due diligence over the valuation process. Management concluded those resources are better utilised assisting with the cyclone response and recovery initiatives.

It is anticipated that the infrastructure assets would be valued at the 30 June 2024 year-end once adequate information is available and professional engineering services are less devoted to the recovery.

Impairment of assets

In addition a comprehensive impairment assessment for damage to infrastructure assets wasn't determined and recorded. The reasons for this are similar to those for not undertaking a valuation.

Ongoing inspections carried out over the past several months indicate that assets impacted are mostly impaired (damaged and able to be repaired) with a small element lost or damaged beyond repair. Following the damage to infrastructure assets the Council has invested significant amounts in renewing these assets over the past few months. This has resulted in a record capital spend on infrastructure assets. Given no revaluation or impairment assessment was carried out, recording capital additions will increase already overinflated infrastructure asset values. To address this the Council has booked an impairment that is the equivalent of the value of the spend on capital renewals up to 31 August 2023. An impairment of \$16.1m has been recorded on this basis.

No impairment has been provided for other assets damaged that did not have capital expenditure to reinstate them at 31 August 2023. The cut-off date of 31 August was selected by the Council for practical reasons in order to complete the annual report on time.

A narrative note disclosure has been included in the financial statements to communicate to readers the impairment booked is based on spend on capital renewals up to 31 August 2023 and doesn't constitute a comprehensive impairment.

Not undertaking a revaluation for the 2023 year and not determining a comprehensive assessment of impairment results in us not being able to determine if infrastructure assets values are materially accurate at 30 June 2023. For this reason our audit report will be qualified in respect of these matters.

EY | Hawke's Bay Regional Council | For the Year ended 30 June 2023

Cyclone Recovery and Other Grants

Our Understanding

- ▶ Cyclones Gabrielle caused significant damage to the region's infrastructure, economy and community. Council plays an important role in the coordination of central government initiatives and funding to support local government and businesses in the region. Council is also responsible for repairing damaged flood protection assets and also improving future resilience and flood mitigations.
- ▶ In May 2023 Government allocated \$133.2m of funding for removal of sediment and debris on residential and commercial properties in the region and entered into two agreements for this to be distributed through HBRC. The \$133.2 funding consists of \$70.6m for local and regional Councils and \$62.6m for commercial entities. At year end funding that had been received was as follows:
 - ▶ \$55.3m for sediment and debris for local authorities of which \$11.7m was distributed to other Councils in the region and \$21.1m was recognised as Grants Income by HBRC representing costs incurred at 30 June 2023. The remaining balance of \$22.5m remains on the balance sheet as income in advance split between amounts held on behalf of other local authorities (\$16m) and an HBRC un-spent amount (\$6.4m)
 - ▶ \$50m for sediment & debris for commercial properties. This amount was unspent at 30 June and recorded as revenue in advance. HBRC assesses the eligibility for applications submitted by commercial entities and it has responsibility to ensure the funds are spent designated purpose.
 - ▶ Subsequent to the year end a variation agreement was entered with DIA to transfer \$12m from funds allocated for commercial entities to local authorities.
- ▶ HBRC also received the following funding:
 - ▶ \$1.5 million from DIA for establishing Regional Recovery Agency. This was fully spent at 30 June 2023.
 - ▶ \$7.4 million from DPMC for Regional Recovery Agency administration. This fund was received post balance date.
 - ▶ \$5 million from MPI for woody debris clearance.
- ▶ In addition to the above, Council received payments from NEMA for Welfare claims and partial payment from private insurers for damage incurred.
- ▶ The Crown has also allocated \$203.5m funding for HBRC towards flood mitigations including \$70m ring-fenced for Wairoa. The arrangement requires HBRC to contribute approximately \$44m towards flood mitigation.
- ▶ Council also continues to receive ongoing Waka Kotahi funding for bus services and road safety projects. For the year ended 30 June 2023, grant and subsidies from Waka Kotahi amounted to \$4.5m. Financial reporting standards require NZTA subsidies to be recognised as revenue, while a portion of the associated expenditure is capitalised.
- ▶ These grants typically require funding to be spent on a particular project or area of Council's operations with any unspent funds to be returned.

EY Perspective

We have performed the following audit procedures in order to validate the revenue and emergency works recognised during the year:

- ▶ Obtained agreements and amendments or correspondence between HBRC and central government (or other providers) for the funding approved and checked, on a sample basis, that the costs being recovered were in line with the funding agreement.
- ▶ Checked, on a sample basis, that revenue is being recognised in line with obligations/undertakings being satisfied.
- ▶ Examined costs claims from Waka Kotahi, on a sample basis, to check the expenditure was allowed to be claimed. We also carried out an assessment of the reasonability of Waka Kotahi income and its completeness in consideration of the level of costs incurred for the period.
- ▶ For a sample of revenue recognised in the year across all grants, we have vouched receipt of funds to bank.
- ▶ Assessed the disclosures in the annual report in relation to each funding is in line with relevant accounting standards.

Council recognises liabilities for funds received until costs are incurred. For the funds allocated to HBRC for sediment and debris, approximately \$21.1m was spent at 30 June 2023 of which a corresponding amounts of funding was recorded as grants income.

In addition, HBRC is responsible for allocating and ensuring funds provided to other entities are spent on approved purpose and in line with the contractual agreements with government agencies. Therefore, it is important that focus is placed on the contractual clauses included within contracts with fund recipients for funds that require return to Central Government agencies if not spend in approved purpose.

HBRC also needs to be vigilant that funds recognised as revenue meets the funding conditions and where there is no return obligation for funds, they should be recognised as revenue upon receipt.

At 30 June Council recorded \$2m grants income and expenditure for funds allocated to a number of commercial entities. Because the contracts with the fund recipients were not signed until post 30 June, we have concluded the \$2m should not be recognised as income and expenses at year end. We have recommended an audit adjustment which has been reflected in the financial statements.

In May 2023 HBRC received a confirmation from its insurance broker that an initial claim of \$4m was approved under the private insurance policy. This amount was received in July 2023. Management initially concluded this amount should not be recognised as an income on the basis that it was a cashflow funding that might be returned to insurers should they decline the HBRC claim once it is submitted. Subsequently the broker confirmed this was an approval of claims submitted on behalf of HBRC with no return obligations. We have raised an audit adjustment which has been corrected in the financial statements.

Key Judgements: Recognition of grants, appropriateness and measurement of costs claimed

Relevant accounting standards: [PBE IPSAS 23 Revenue from Non-Exchange Transactions](#)

Level of complexity or management judgement: **MEDIUM**



EY | Hawke's Bay Regional Council | For the Year ended 30 June 2023



QUALITATIVE ASSESSMENT

Investment Property

Our Understanding

HBRC leasehold properties in Napier and Wellington are recorded as investment property (IP) at fair value.

The Napier leasehold endowment portfolio comprises of 139 individual properties, all being residential and 1 commercial lease. These are all perpetual renewal ground leases with all but 1 being subject to a 21 year review. Many leases have the rents at prescribed 5% of land value on review. Under the Hawke's Bay Endowment Land Empowering Act 2002, freeholding is only allowed to the current lessee under a specified valuation methodology.

The Wellington portfolio comprises of 12 properties located in inner residential and commercial areas of Wellington.

IP is revalued annually in line with accounting policies by registered independent valuer, Telfer Young. The valuation requires significant judgement as fluctuation in assumptions including yield can materially impact the valuation outcome.

The valuation is based on a capitalisation approach and a discounted cash flow analysis. The results of both valuation approaches have been considered and the end value recommended is effectively a blend of the two approaches.

As at 30 June 2023 the portfolio of Investment property was valued at \$67.2m (2022: \$71.9m).

Components	Fair value (\$m)	Movements in value (\$m)
Napier Endowment properties	41.7	(4.0)
Wellington properties	24.9	(0.2)
Other	0.60	(0.05)
Total value	67.2	(4.25)

Overall the Napier portfolio market value decreased by 9% compared to 2022 due to higher interest rates resulting in higher discount rates. The valuer concluded the land value growth rate is unchanged at 0.5%, whilst the discount rate has increased from 5.75% in FY22 to 6% in FY23. During the year two properties were freeholded at a yield closer to the 5% ground rent applied.

EY Perspective

Our audit procedures on Investment property valuations included the following procedures:

- ▶ Reviewed key assumptions used in the valuations and assessed whether they are reasonable, in accordance with accounting standards
- ▶ Made inquiries directly of Telfer Young to understand the changes to significant judgements and assumptions they have applied in the valuation
- ▶ Tested, on a sample basis, property specific information supplied to the valuer by management to the underlying records held by the Council
- ▶ We understood the changes to the market and the portfolio which would result in movements in assumed discount rates and tenure periods
- ▶ Obtained assurance as to the valuers' independence and objectivity
- ▶ Considered the appropriateness of management's disclosures of the key estimates and judgements for investment property within the financial statements

We are satisfied the assumptions and approach applied to the valuations provides a reasonable basis to determine asset values for financial reporting. We note the valuation is based on assumptions and underlying data including:

- ▶ Existing and proposed tenancy arrangements;
- ▶ Rental growth assumptions based on prevailing economic and market conditions as at the date of valuation;
- ▶ The current condition of properties; and
- ▶ Estimated capitalisation and discount rates.

We are satisfied the values of investment properties at 30 June 2023 is reasonable and reflects market values pertaining at year end.

Key Judgements: Forecasted cashflows, average occupancy period, capitalisation rate, market rental yields

Relevant accounting standards: [PBE IPSAS 16 Investment Property](#)

Level of complexity or management judgement: MEDIUM



EY | Hawke's Bay Regional Council | For the Year ended 30 June 2023

Integrity of Rates Strike, Rates Invoicing and Collection

Our Understanding

- Rates income levied represents the Council's primary revenue source. Below is summary of the rates revenue recognised by the Council.

Rates revenue	2022 (\$m)	2022 (\$m)
Uniform annual general charges	4.6	3.8
General rates on land value	9.1	7.5
Targeted rates	20.4	18.3
Rates remitted and penalties	0.6	0.4
Total value	34.7	30.0

- There is specific legislation in place which must be adhered to for the rates strike to be lawful. Failure to comply with rating law and the associated consultation requirements can create risks to the integrity of rates revenue.
- The requirement for there to be consistency between the rates resolution, the Funding Impact Statement for that year, and the Revenue and Financing Policy in the long term plan is fundamental because this is the thread that links community consultation to the rates levied by Council. The year ended 30 June 2023 is the second year of the 2021-2031 LTP.
- The accuracy of rates revenue is dependent on the integrity of the rates database. The reliability of the rates billing system is also key to rates being billed appropriately.

EY Perspective



Our work in relation to rates revenue and debtors included:

- Testing Council's rate setting processes including testing the accuracy of the underlying valuation information.
- Reviewing Council's procedures for ensuring the rates set is compliant with the Local Government Rating Act.
- Examined the application of the rates set to the rating database.
- Reviewing the billing to specific ratepayers and subsequent collection on a sample basis.
- Reviewing the provision for doubtful rates debtors to consider whether it is appropriate in the circumstances.

Our review of the rates set by the Council identified a transposition error in the preparation of the rates resolution for the 2022/23 rating year. The error related to rate factor for the Central Hawke's Bay and Wairoa constituencies being inadvertently transposed in the rates resolution, resulting in the incorrect amounts being set. The amounts assessed to rating units in these constituencies was the amount intended to be set as the rate factor and would have been, but for the error. The funding impact statement (FIS) in the annual plan 2022/23 states the correct amount and rate payers were charged the amounts intended.

Council sought legal advice over this matter and the error was corrected by passing a Council resolution to reset the rates prior to 30 June 2023.

We recommend management to further enhance internal controls for the rates setting process and in particular the checking for consistency between the rates factors determined by Council's internal modelling and the factors included in the Council resolution setting the rates.

Key Judgements: Compliance with the Local Government (Rating) Act and provisioning for outstanding rates debtors.

Relevant accounting standards: PBE IPSAS 23 Revenue from Non-Exchange Transactions

Level of complexity or management judgement: **MEDIUM**

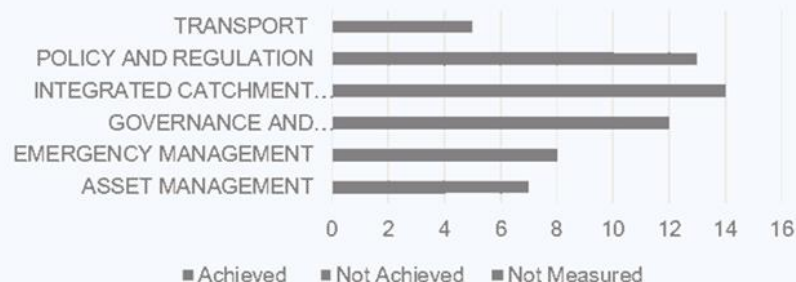


EY | Hawke's Bay Regional Council | For the Year ended 30 June 2023

Performance Reporting

Our Understanding

Non-Financial Performance Results



- ▶ Council is required to report its performance against performance measures included in the Long-Term Plan (LTP). These measures are key to the Council providing a 'performance story' to the community.
- ▶ Our audit opinion on the service performance report covers compliance with generally accepted accounting practice, and whether or not the service performance report fairly reflects the Council's actual service performance for the period.
- ▶ The performance framework set as part of the 2021/31 LTP is applicable to the current financial year.
- ▶ We have selected measures we deemed significant across the groups of activities for detailed testing in the context of our audit of the 2022/23 annual report. However, we have considered the entire performance report as part of our feedback to management.
- ▶ Hawke's Bay Regional Council, like many local authorities, have declared a climate emergency. Not dissimilar from other local authorities climate change is a focus area for the Council and this was considered in developing the 2021-31 Long Term Plan. As a result the Council included a performance measure in the Long Term Plan to measure its progress towards reducing emissions. The performance measure quantifies HBRC's emissions with a target of reducing this over time. Council continued to engage the services of EKOS to prepare GHG inventory report for the year ending 30 June 2023. Where an entity includes such measures in their accountability documents and the annual report, climate related information included in the performance information is treated like any other performance measure in the annual report and therefore such measures are subject to audit.
- ▶ As a consequence of Cyclone Gabrielle there were some gaps in service delivery, particularly in relation to flood protection. Several performance reporting measures were either not achieved or could not be measured due to the Cyclone impact on Council's operations.

EY Perspective



QUALITATIVE ASSESSMENT

We carried out the following audit procedures in assessing the effectiveness of the Council's non-financial performance reporting:

- ▶ Obtained understanding of key performance reporting processes and reviewed the collation methodologies applied by Council.
- ▶ Examined, on a sample basis, the Statement of Service Performance to determine that the measures have been reported on and outputs have been achieved where stipulated. For the selected measures this included obtaining the underlying supporting documentation and re-performing the calculations.
- ▶ Assessed the completeness and effectiveness of the performance framework utilised.
- ▶ Checked whether all mandatory performance measures stipulated by the Non-Financial Performance Measures rules 2013 have been included in Council's reporting.
- ▶ Assessed the impact of areas of service provision that have been significantly impacted by the Cyclone and how Council has identified and recorded the reported results.

We recommended further enhancements to the selected measures that can be incorporated into the upcoming long term planning process.

Greenhouse Gas emission measure:

Our audit procedures on the GHG emission measure included:

- ▶ Obtaining and reviewing the EKOS Inventory reports
- ▶ Assessing whether the reports covered adequately factors that are normally included in GHG inventory report.
- ▶ On a sample basis tested the accuracy of the GHG activities and related emission factors applied to externally sourced documentation.
- ▶ Obtained and placed some reliance on the audit report issued by McHugh & Shaw (third party auditors) engaged by the Council and EKOS to complete an audit of EKOS report.
- ▶ Assessed the adequacy of the disclosures included in the annual report that describe the judgements involved in determining the reported results.

We noted quantification of GHG emissions is subject to inherent uncertainty because scientific knowledge and methodologies to determine the emission factors and processes to calculate and estimate quantities of GHG sources are still evolving. Consequently, our audit report will include an emphasis of matter paragraph that draws readers' attention to the disclosures in the annual report in relation to this measure. This does not constitute a qualification and is consistent with the approach taken to other Councils in the sector reporting GHG emissions measures.

Key judgements: Selection of measures relevant to reporting non-financial performance

Level of complexity or management judgement: MEDIUM



EY | Hawke's Bay Regional Council | For the Year ended 30 June 2023

Low Risk Focus Areas



Assessment Outcome



Areas of Audit Focus



Background



EY Perspective



Financial Assets

- ▶ Council has a large managed investments amounting \$111m at 30 June 2023 (2022: \$105m). The administration of investments is outsourced to Jarden and Mercer.
- ▶ Council's investments in Hawkes Bay Regional Investment Company (HBRIC) amounted to \$344m as at 30 June 2023 (2022: \$368m). This investment is eliminated at group level as Council consolidate its subsidiaries in line with accounting standards.
- ▶ The increase in managed investments is a result of increased market value of global equities between January to June 2023. The reduced value of investments in the Port is due to declined share price at 30 June 2023.
- ▶ HBRC has community loans receivable of \$19.7m (2022: \$18.4m) to support ratepayers transition to energy efficient homes. The loans are repayable by a targeted rate over 10 year period. The increase is primarily related to additional loans granted during 2022/23 partially offset by repayments.

Our procedures have included:

- ▶ Examining key investment reconciliations
- ▶ Confirming the existence and valuation of all investments with investment managers at balance date through external confirmations
- ▶ Obtaining and evaluating the ISAE 3402 reports of the investment managers and custodians in order to place reliance over the external confirmations in regard to existence and valuation
- ▶ On a sample basis assessed the valuation of direct investments to externally sourced prices
- ▶ On a sample basis verifying the community loans movement during the year to agreements with ratepayers and the levy of rates to repay the loans
- ▶ Investments in HBRIC, our procedures included reperforming the fair value calculation based on externally sourced share prices and verification of HBRIC shares held.
- ▶ Assessing the appropriateness of disclosures in accordance with financial reporting standards.

We are satisfied with the existence and the valuation of investments at 30 June 2023.

Because the investments in the HBRIC is carried at fair value, HBRC estimates the fair value by aggregating the fair values of HBRIC managed investments and the fair value of the underlying component entities within HBRIC. Through this exercise we noted, the Foodeast Limited Partnership building valuation increase of \$4m was not included in determining the fair value of investments in HBRIC. As a result we recommended an audit adjustment which has been recorded in the financial statements.

In addition, we noted \$2.5m cash held on behalf of Hawkes Bay Disaster Relief Trust held in an HBRC bank account at 30 June 2023, was not recorded in the financial statements. Because the cash is held in HBRC bank accounts and its controlled by HBRC, we recommended an audit adjustment to record both the cash balance and a corresponding liability to the Trust. This was subsequently corrected.



EY | Hawke's Bay Regional Council | For the Year ended 30 June 2023

Low Risk Focus Areas



Assessment Outcome



Areas of Audit Focus



Background



EY Perspective



LOW

Borrowing & Derivatives

- ▶ Borrowing represents one of the main sources of funding for HBRC's capital projects and debt levels change with the timing of planned capital projects and the repayment profile. The total value of debt at 30 June 2023 was \$101m (2022: \$63.4m). Majority of the outstanding borrowing is through LGFA (\$79.8m), and Westpac (\$3.1m). HBRC also has borrowing amounting to \$16.7m from HBRIC and \$1.4m provincial growth fund lending.
- ▶ HBRC continues to maintain interest rate swaps to manage the Council's exposure to interest rate fluctuations arising from borrowing activities. The mark to market value of swaps as at 30 June 2023 amounted to an asset of \$2.1m (2022: asset of \$1.5m).

We carried out the following audit procedures with regard to the Council's public debt and interest rates swaps:

- ▶ Obtained an understanding of debt facility agreements maintained in the year and reviewed the relevant debt facility agreements including the process for managing drawdowns.
- ▶ We have considered the term and current classification of debt.
- ▶ Obtained LGFA confirmation of the outstanding debt position at year end
- ▶ Confirmed derivative positions in place at year end and independently valued a sample of derivative contracts.
- ▶ Reviewed disclosures associated with the debt and derivative positions.
- ▶ Reviewed the prudent benchmark measures relating to debt, interest level and sustainability as required by legislation.

Apart from the LGFA borrowing, there are no financial covenants relating to the either borrowing from the banks and HBRIC. We completed checks of Council's compliance with LGFA covenants with no issues to report.

We will complete the procedures required of us by the debenture trust deed. Our procedures will include reporting to the Trustee based on the work performed for the statutory audit of the financial statements and performance information and whether anything has come to our attention that indicates the statements made in the reporting certificates issued by the Council are misstated.



LOW

Expenditure, Procurement and Tendering

- ▶ Appropriateness of Councillor and management expenditure is an area of interest to ratepayers.
- ▶ Council's capital works procurement programme involves significant cashflows and long term contract management.
- ▶ Areas of expenditure such as travel, accommodation, training and catering can present opportunities for personal benefit (or perceived personal benefit).

- ▶ We have reviewed Council's policies and are satisfied that there is adequate guidance regarding the procedures for handling sensitive expenditure and conflicts of interest within the organisation and policies are consistent with best practice guidelines issued by the OAG in 2020.
- ▶ We have reviewed, on a sample basis, expenditure and credit card statements of councillors and management and checked expenditure is appropriate and inline with Council Policies.
- ▶ We have also updated our understanding of Council's procurement and contract tendering processes and tested a sample of procurements to ensure they follow Policies appropriately.



EY | Hawke's Bay Regional Council | For the Year ended 30 June 2023

Audit Differences

Financial Statements

The following table contains a list of the audit adjustments that have been corrected by management.

30 June 2023	Amount	Impact on P+L & OCI (Decrease) / Increase (\$000)	Asset (Increase)/Decrease 30 June 2023 \$000
Adjustment to record cash held on behalf of Hawkes Bay Disaster Relief Trust	2,572	NIL	NIL
Adjustment to recognise private insurance claim received	4,000	4,000	(4,000)
Adjustment to correct the investment in CCO for Foodeast property valuation uplift*	4,022	4,022	(4,022)
Adjustment to reverse grant income and expenses for commercial entities which didn't meet recognition criteria at year end	1,994	NIL	NIL
Reclassification adjustment for zero coupon LGFA borrowing accrued interest liability to loan balance	630	NIL	NIL

*Audit difference relates to the parent financial information only.

There were no unadjusted audit differences relating to the financial statements.

Audit differences - performance reporting

During the audit of the statement of service performance, we identify and aggregate any differences in performance measures based on a materiality of 2% - 5% or if the adjustment would change the outcome of the measure from achieved to non-achieved.

There are no unadjusted audit differences pertaining to service performance reporting information.

EY | Hawke's Bay Regional Council | For the Year ended 30 June 2023

Assessment of Control Environment

Internal Controls

As part of our audit of the financial statements and performance information, we obtained an understanding of the internal control environment to sufficiently plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control.

Throughout our audit we communicate to management observations regarding control matters and other issues arising from our interim and year end substantive procedures. The following table provides an overview of the number of observations and risk rating we have identified which includes IT controls.

Risk Ratings	H	M	L	Total
Open at 30 June 2022	-	-	8	8
Closed during FY 2023	-	-	(6)	(6)
New points raised in FY 2023	-	1	3	4
Total open points as at 30 June 2023	-	1	5	6

H High Risk - Matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within 3 months.

M Medium Risk - Matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should be taken within 6 months.

L Low Risk - A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6-12 months.

We have not identified any significant deficiencies in internal controls as it relates to the financial statements and performance information.

Items considered of moderate and low risk ranking are items which provide management with improvement opportunities within their processes, however, were not considered to represent such a risk to the organisation that immediate management attention was considered necessary. Addressing these points assists management in further improving the processes and controls already in place and strengthens the control environment.

A detailed Report on control findings, including management comments, due date and person responsible for resolution will be prepared and distributed.

Observation	H	M	L	New	Recurring
Improving the reconciliations and listing for community loans	-	✓	-	✓	
Performance reporting: <ul style="list-style-type: none"> Performance measures selected and their targets should be reportable annually Certain measures can be enhanced to focus on output and outcome rather than process 	-	-	✓	✓	
Enhance internal controls for the rates setting process and in particular the checking for consistency between the rates factors determined by Council's internal modelling and the factors included in the Council resolution setting the rates.	-	-	✓	✓	
Improving TechOne functionalities such as the generation of employee entitlements from the system.	-	-	✓	✓	
Review of earnings multiplier used for capitalisation of HBRIC management and governance costs	-	-	✓		✓
One up approval of sensitive expenditure	-	-	✓		✓
Total open points as at 30 June 2023	-	1	5	4	2

APPENDICES

A. Other Required Communications

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B. Outstanding Matters

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C. Independence

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D. Focused on The Future

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A. Other Required Communications

Auditing Standards require us to report to you certain matters that are not otherwise detailed in this report.

Matter	How matter was addressed
Material uncertainty related to going concern	No conditions or events were identified, either individually or in aggregate, that may cast significant doubt about Council's ability to continue as a going concern for 12 months from the date of our report.
Compliance with laws and regulations	We have not identified any material instances of non-compliance with laws and regulations.
Fraud and illegal acts	<p>We have made enquiries of management regarding:</p> <ul style="list-style-type: none">► Knowledge of any fraud or suspected fraud affecting the entity involving Management, employees who have significant roles in internal control; or others where fraud could have a material effect on the financial report► Knowledge of any allegations of fraud, or suspected fraud, affecting HBRC's financial information. <p>Based on our enquiries and audit procedures, we did not become aware of any fraud or illegal acts during our audit.</p>

Appendices

B. Outstanding Matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Key:



EY responsibility



Management Responsibility

Matter	Details	Responsibility	
Annual Report	Completing our review of the annual report received on 13 October	EY	
Summary financial statements	Receipt of a complete summary annual report for our review	EY	
Consolidation workbook and supporting working papers for key disclosures	Completing our review of the consolidation working papers and other work papers supporting key disclosures	EY	
Service performance support	Receipt of underlying calculations for one performance measure and our review thereof		
Debenture Reporting	Receipt and review of signed reporting certificate and Trustee reporting information		
Funding Impact Statement	Completing our audit procedures over the funding impact statements	EY	
Financial Reporting Benchmarks	Completing our audit procedures over the financial reporting benchmarks	EY	
Grants and subsidies monitoring	Concluding our audit procedures over grants income	EY	
Community loans	Finalising our audit procedures over the community loan reconciliation	EY	
Expenses / Payroll	Finalising testing of remaining samples over the general expenses and payroll	EY	
Search for unrecorded liabilities	Finalising testing of sample payments made post balance sheet to assess appropriate cut-off	EY	
Procurements	Finalisation of testing of samples selected	EY	
Documentation	Finalising minor internal documentation	EY	
Fees and charges	Finalisation of testing of samples selected	EY	
Subsequent events review	Completion of subsequent events procedures to the date of signing our audit report.	EY	
Representation letter	Receipt of a signed representation letter	EY	
Council approval of the full annual report and summary annual report	Receipt of signed full annual and summary annual report		

Appendices

C. Independence

There are no matters that, in our professional judgement, bear on our independence which need to be disclosed to the Council.

We are satisfied that all EY Offices that have provided services in the past or are currently providing services to Council have complied with the relevant independence requirements. We are satisfied that the services provided by EY during the year ended 30 June 2023 do not impact our independence.

We are not aware of any other relationships between the Firm or other firms that are members of the network of EY firms and Council that, in our professional judgment, may reasonably be thought to bear on independence.

We highlight the following services that we have or will perform in respect of the year:

Description of relationship or service	Period Provided	Safeguards adopted	Fees \$
Debenture Trust Deed reporting	FY23	Independent assurance services	3,500
ACC AUP	FY23	Independent permissible service	5,500
Total non-audit fees			9,000

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. Our fee for the audit of the financial statements is \$172k excluding disbursements and OAG Audit Standards and Quality Support charge.

We also complete the Audit of Council's subsidiaries (HBRC, FoodEast and the Port of Napier). Our audit fee is separately agreed with the respective entities.

For the non assurance services provide, a pre-concurrence from Councillors is require for us to proceed with these services. The accompanying document summarises our independence assessment of non-audit services historically provided to HBRC which we may be engaged to provide again. Where required we will seek pre-concurrence of proposed services prior to commencement.

Independence

We confirm that we have complied with NZICA Code of Ethics and the Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners (Including International Independence Standards)* (New Zealand) independence requirements, and independence requirements of the Auditor General, and in our professional judgement, the engagement team and the Firm are independent.



Appendices

D. Focused on The Future

What is the International Standard on Quality Management 1 (ISQM 1)?

A new risk-based approach to quality management

The International Auditing and Assurance Standards Board (IAASB) issued ISQM 1, which:

- ▶ Is applicable to all firms that perform audits, reviews of financial statements, other assurance services, compilations and agreed upon procedures
- ▶ Requires firms to design and implement a system of quality management (SQM) by 15 December 2022
- ▶ Focuses on proactively identifying and responding to risks that have an impact on quality

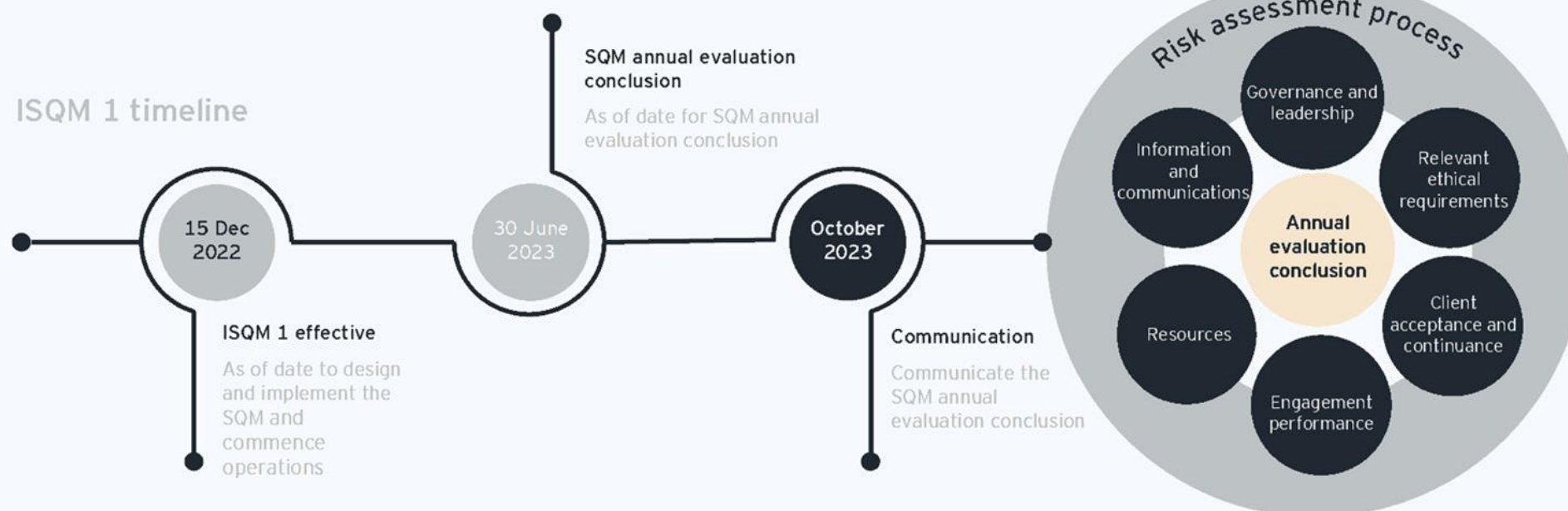
Key ISQM 1 requirements

- ▶ Establish quality objectives, identify and assess the risks to achieving those objectives, and design and implement responses
- ▶ Monitor, remediate and annually evaluate the SQM
- ▶ Communicate information about how the SQM supports the consistent performance of engagements to those charged with governance of listed entities for which the firm audits

Impact of ISQM1

- ▶ Proactively identifying and responding to risks that may have an impact on engagement quality
- ▶ Promoting further consistency across the EY network while enabling flexibility to tailor the system based on the facts and circumstances of the member firm
- ▶ Building upon strong EY processes and controls to take the quality to the next level, and being the next phase in the journey of continuous improvement, starting with the EY Sustainable Audit Quality program

ISQM 1 timeline



EY | Building a better working world

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ED None

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Amendments to IESBA Code of Ethics

Background

In April 2021, the International Ethics Standards Board for Accountants (IESBA) released changes to the non-assurance services (NAS) provisions of the International Code of Ethics for Professional Accountants (the Code).

The new provisions are effective for audit periods beginning on or after 15 December 2022. Transition provisions apply to services that are subject to an engagement letter and that have commenced at that date.

Globally, each of the large firms have committed to regulators to implement revisions to the IESBA Code in accordance with the effective date of those revisions.

Independence is a joint responsibility, and we will work together to enable compliance with the IESBA Code changes.

Public Interest Entity

The changes to the Code are applicable to public interest entities (PIEs). Hawke's Bay Regional Council is a PIE as it is considered a large entity with a higher degree of public accountability.

Pre-concurrence requirement

Pre-concurrence from those charged with governance (TCWG) will be required for any proposed non-assurance services provided to Hawke's Bay Regional Council.

The requirements provide TCWG and auditors the flexibility to agree a pre-concurrence process or TCWG can provide pre-concurrence for each individual non-assurance service.

TCWG will be asked to provide concurrence on:

- ▶ The audit firm's conclusion that the provision of the NAS will not create a threat to independence as the auditor of the PIE or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level; and
- ▶ The provision of that service.

An audit firm cannot undertake to perform or commence a non-assurance service before pre-concurrence from TCWG is provided.

This document and our accompanying discussion is intended to establish and agree a pre-concurrence process to comply with this requirement for future non-assurance services.

Proposed pre-concurrence process

The Councillors provides pre-concurrence as TCWG. As your auditor, we will provide a description of expected or potential future services that we have determined to be permitted to obtain your pre-concurrence as a general policy to accept such services if and as requested by you or your management team. The description will include:

- ▶ Nature of services
- ▶ Typical fee arrangements
- ▶ Independence threats and safeguards
- ▶ Whether the combined effect of providing multiple services creates additional threats to independence

We have provided below a description of expected or potential future services we have determined to be permitted to obtain your pre-concurrence as a general policy for the provision of such services.

Pre-concurrence of non-assurance services

In the following section, we have outlined the descriptions of non-assurance services (NAS) that EY has provided in recent years and we have determined are permissible under both local rules and the IESBA Code and within the framework allowed by The Office of the Auditor General.

This listing is not to say that EY will not be engaged for any other services but for any additional services, further approval will be required. It is intended to be a discussion of mutually acceptable NAS subject to the entity's pre-concurrence process discussed herein, and to establish a general policy identifying services that may be provided without further specific pre-concurrence.

Typical fee arrangements are either fixed fees or fees based on the number of hours incurred multiplied by agreed hourly rates. No contingent fee arrangements exist.

We will scope any NAS to ensure that we don't perform a management function and that we are not placed in a position to audit our own work (self-review threat).

Services pre-concurred through general policy

Service category	Service, relevant threats and safeguards
Agreed Upon Procedures	<p>This service relates to specified procedures performed on financial and nonfinancial information required to respond to or comply with financial, accounting or contractual requirements, regulatory reporting matters, or on request from management.</p> <p>No threats to independence. Work would usually be completed by the financial statement audit team and the associated independence standards would be met.</p>
Provision of remuneration survey data	<p>This service relates to the supply of market remuneration data to assist with deciding how you choose to set internal remuneration levels relative to market. The service does not cover entity specific remuneration advice.</p> <p>Any perceived self interest threat is safeguarded through the service being provided by a team separate to the audit team and the deliverable being objective market data.</p>

Pre-concurrence of non-assurance services

We request TCWG provide your concurrence to EY that:

- ▶ The EY conclusion that the provision of the services in the preceding pages will not create a threat to the firm's independence as the auditor of Hawke's Bay Regional Council or that any identified threat is at an acceptable level or, if not, will be eliminated, or reduced to an acceptable level;
- ▶ We may provide the services described above, if so engaged; and
- ▶ Any additional procedures that are not outlined above will be required to be approved ahead of the service being performed.

Authorised by:

Councilor

Date

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Hawke's Bay Regional Council

RISK AND AUDIT COMMITTEE

Wednesday 18 October 2023

Subject: CONFIRMATION OF PUBLIC EXCLUDED MINUTES

That the Risk and Audit Committee excludes the public from this section of the meeting being Confirmation of Public Excluded Minutes Agenda Item 9 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 are:

General subject of the item to be considered	Reason for passing this resolution	Grounds under section 48(1) for the passing of the resolution
Enterprise Risk Report	<p>7(2)(f)(ii) The withholding of the information is necessary to maintain the effective conduct of public affairs through the protection of such members, officers, employees, and persons from improper pressure or harassment</p> <p>s7(2)(j) 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 prevent the disclosure or use of official information for improper gain or improper advantage</p>	The Council is specified, in the First Schedule to this Act, as a body to which the Act applies.
Internal Assurance corrective actions update	<p>7(2)(f)(ii) The withholding of the information is necessary to maintain the effective conduct of public affairs through the protection of such members, officers, employees, and persons from improper pressure or harassment</p> <p>s7(2)(j) 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 prevent the disclosure or use of official information for improper gain or improper advantage</p> <p>s7(2)(e) 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 avoid prejudice to measures that prevent or mitigate loss to members of the public</p>	The Council is specified, in the First Schedule to this Act, as a body to which the Act applies.
Privacy event	<p>7(2)(f)(ii) The withholding of the information is necessary to maintain the effective conduct of public affairs through the protection of such members, officers, employees, and persons from improper pressure or harassment</p> <p>s7(2)(j) 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 prevent the disclosure or use of official information for improper gain or improper advantage</p> <p>s7(2)(e) That the public conduct of this agenda item would be likely to result in the disclosure of information where the withholding of the</p>	The Council is specified, in the First Schedule to this Act, as a body to which the Act applies.

information is necessary to avoid prejudice to
measures that prevent or mitigate loss to members
of the public

Item 9

Authored by:

Leeanne Hooper
TEAM LEADER GOVERNANCE

Approved by:

Desiree Cull
STRATEGY AND GOVERNANCE MANAGER

HAWKE'S BAY REGIONAL COUNCIL

RISK AND AUDIT COMMITTEE

Wednesday 18 October 2023

Item 10

Subject: RISK MATURITY REFRESH

That the Risk and Audit Committee excludes the public from this section of the meeting, being Agenda Item 10 Risk Maturity Refresh 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 are:

General subject of the item to be considered	Reason for passing this resolution	Grounds under section 48(1) for the passing of the resolution
Risk Maturity Refresh	<p>7(2)s7(2)(c)(ii) That the public conduct of this agenda item would be likely to result in the disclosure of information where the withholding of that information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide and would be likely otherwise to damage the public interest.</p> <p>7(2)s7(2)(j) 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 prevent the disclosure or use of official information for improper gain or improper advantage.</p>	The Council is specified, in the First Schedule to this Act, as a body to which the Act applies.

Authored by:

Helen Marsden
RISK & CORPORATE COMPLIANCE MANAGER

Approved by:

Susie Young
GENERAL MANAGER CORPORATE SERVICES

HAWKE'S BAY REGIONAL COUNCIL

RISK AND AUDIT COMMITTEE

Wednesday 18 October 2023

Item 11

Subject: INCIDENT REPORT

That the Risk and Audit Committee excludes the public from this section of the meeting, being Agenda Item 11 Incident report 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 are:

General subject of the item to be considered	Reason for passing this resolution	Grounds under section 48(1) for the passing of the resolution
Incident report	<p>7(2)7(2)(f)(ii) The withholding of the information is necessary to maintain the effective conduct of public affairs through the protection of such members, officers, employees, and persons from improper pressure or harassment.</p> <p>7(2)s7(2)(e) 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 avoid prejudice to measures that prevent or mitigate loss to members of the public.</p> <p>7(2)s7(2)(j) 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 prevent the disclosure or use of official information for improper gain or improper advantage.</p>	The Council is specified, in the First Schedule to this Act, as a body to which the Act applies.

Authored by:

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HAWKE'S BAY REGIONAL COUNCIL

RISK AND AUDIT COMMITTEE

Wednesday 18 October 2023

Item 12

Subject: INTERNAL ASSURANCE DASHBOARDS

That Risk and Audit Committee excludes the public from this section of the meeting, being Agenda Item 12 Internal assurance dashboards 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 are:

General subject of the item to be considered	Reason for passing this resolution	Grounds under section 48(1) for the passing of the resolution
Internal assurance dashboards	<p>7(2)7(2)(f)(ii) The withholding of the information is necessary to maintain the effective conduct of public affairs through the protection of such members, officers, employees, and persons from improper pressure or harassment.</p> <p>7(2)s7(2)(e) 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 avoid prejudice to measures that prevent or mitigate loss to members of the public.</p> <p>7(2)s7(2)(j) 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 prevent the disclosure or use of official information for improper gain or improper advantage.</p>	The Council is specified, in the First Schedule to this Act, as a body to which the Act applies.

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