

Audit and Risk Committee Agenda

Date: Wednesday, 27 June, 2018

Time: 9:00 am

Location: Council Chamber
Forum North, Rust Avenue
Whangarei

Elected Members: Cr Sharon Morgan (Chairperson)
Her Worship the Mayor Sheryl Mai
Cr Crichton Christie
Cr Shelley Deeming
Cr Sue Glen
Cr Cherry Hermon
Cr Greg Innes

For any queries regarding this meeting please contact
the Whangarei District Council on (09) 430-4200.

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Audit and Risk Committee – Terms of Reference

Membership

Chairperson:	Councillor Sharon Morgan
Members:	Her Worship the Mayor Sheryl Mai Councillors Crichton Christie, Shelley Deeming, Sue Glen, Cherry Hermon, Greg Innes
Independent Advisor:	Philip Jones
Meetings:	Quarterly.
Quorum:	4

Purpose

To oversee risk management and internal control, audit functions (internal and external), financial and other external corporate reporting, governance framework and compliance with legislation.

Key responsibilities include:

- Audit
 - Agree audit scope with Management
 - Provide direct input on audit scope to the external auditor
 - Consider audit management report, taking appropriate action
 - Consider any internal audit needs, including probity, waste and performance
 - Hold a confidential meeting with the external auditors at least once every year.
- Risk
 - Ensure a comprehensive risk management framework is in place and being operated effectively
 - Identify and monitor risks for the organisation including major projects
 - Ensure Council's assets are insured appropriately.
- Ensure Council has suitable business continuity arrangements in place.
- Policy review program.
- Service delivery review program.

Delegations

- (i) All powers necessary to perform the committee's responsibilities, including:
 - (a) establishment of working parties or steering groups.

Item 3.1**Audit and Risk Committee Meeting Minutes**

Date:	Wednesday, 28 March, 2018
Time:	9:00 a.m.
Location:	Council Chamber Forum North, Rust Avenue Whangarei
In Attendance	Her Worship the Mayor Sheryl Mai (Acting Chairperson) Cr Crichton Christie Cr Shelley Deeming Cr Sue Glen Cr Cherry Hermon
Not in Attendance	Cr Sharon Morgan (Chairperson) Cr Greg Innes
Also Present	Cr Stu Bell Cr Vince Cocurullo Phillip Jones (Independent Adviser) Nakita Veaney and Warren Auths - Audit NZ
Scribe	C Brindle (Senior Democracy Adviser)

Election of Acting Chairperson

Democracy and Assurance Manager Jason Marris opened the meeting and advised the Committee's Chairperson Cr Sharon Morgan was unavailable to chair today's meeting.

Council's Standing Orders provide that if the Chairperson is absent the committee members must elect a member to act as Chairperson at the meeting.

Nominations for an Acting Chairperson were called for. One nomination, to elect Her Worship the Mayor Sheryl Mai, was received.

Moved By Cr Cherry Hermon
Seconded By Cr Sue Glen

"That Her Worship the Mayor Sheryl Mai is elected to act as Chairperson for today's meeting."

Carried

1. Declarations of Interest

2. Apologies

Crs Sharon Morgan and Greg Innes (absent)
Cr Shelley Deeming (late arrival)

Moved By Cr Cherry Hermon

Seconded By Cr Sue Glen

That the apologies be sustained.

Carried

3. Confirmation of Minutes of Previous Audit & Risk Committee Meeting

3.1 Minutes Audit and Risk Committee 6 December 2017

Moved By Cr Sue Glen

Seconded By Cr Cherry Hermon

That the minutes of the Audit and Risk Committee meeting held on Wednesday 6 December 2017, having been circulated, be taken as read and confirmed and adopted as a true and correct record of proceedings of that meeting.

Carried

4. Decision Reports

4.1 Internal Audit Strategy and Three-year Rolling Plan 2018-21

Moved By Cr Sue Glen

Seconded By Cr Cherry Hermon

That the Audit and Risk Committee adopts the updated internal audit strategy and three year rolling plan for 2018-2021.

Carried

5. Information Reports

5.1 Financial Management Activity Update Report March 2018

Moved By Cr Cherry Hermon

Seconded By Cr Sue Glen

That the Audit and Risk Committee notes the financial management activity over the previous three months.

Carried

5.2 Health and Safety Update March 2018

Moved By Cr Sue Glen
Seconded By Cr Cherry Hermon

That the Audit and Risk Committee notes the information presented in the report and its attachment.

Carried

5.3 ICT Risk Report

Moved By Cr Cherry Hermon
Seconded By Cr Sue Glen

That the Audit and Risk Committee notes the information presented in the report.

Carried

Cr Shelley Deeming joined the meeting at 9.53am during discussion on item 5.3.

5.4 Risk Register March 2018 Update

Moved By Cr Shelley Deeming
Seconded By Cr Cherry Hermon

That the Audit and Risk Committee notes the report outlining the current risks to the Council.

Carried

5.5 External Audit Action Update

Moved By Cr Sue Glen
Seconded By Cr Crichton Christie

That the Audit and Risk Committee notes the status of the outstanding external audit actions.

Carried

5.6 Bylaws update report

Moved By Cr Sue Glen
Seconded By Cr Shelley Deeming

That the Audit and Risk Committee notes the bylaws update report.

Carried

5.7 Fraud and Whistleblowing Policy

Moved By Cr Cherry Hermon

Seconded By Cr Sue Glen

That the Audit and Risk Committee notes the updated Fraud and Whistleblowing policy

Carried

Cr Cocurullo left the meeting at 10.22am during item 5.7.

5.8 Annual Audit Plan 2017-18 Audit New Zealand

Moved By Cr Shelley Deeming

Seconded By Cr Cherry Hermon

That the Audit and Risk Committee notes the draft plan from Audit NZ on their approach to the 2017/18 annual audit of Whangarei District Council.

Carried

6. Public Excluded Business

There was no business conducted in public excluded.

7. Closure of Meeting

The meeting concluded at 10.34am.

Confirmed this 27th day of June 2018

Her Worship the Mayor Sheryl Mai (Acting Chairperson)

4.1 Reports by Audit NZ – Interim Management Report and Long Term Plan Consultation Document audit report

Meeting: Audit and Risk Committee
Date of meeting: 27 June 2018
Reporting officer: Emily Thompson (Audit and Risk Analyst)

1 Purpose

To provide the committee with the recent reports from Audit New Zealand:

- The Whangarei District Council – Final 2018 Interim Management Report, and
- The Whangarei District Council Final Management Report on the 2018-2028 Long Term Plan Consultation Document.

2 Recommendation

That the Committee note the reports.

3 Discussion

This item is to present the two Audit NZ reports to the committee.

The interim management report for 2018 has been completed following an onsite review of the recommendations from the previous financial year's audit.

The long-term plan consultation document (LTP18-28) audit report sets out the findings from the audit and where appropriate makes recommendations for improvement.

4 Significance and engagement

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via Agenda publication on the website.

5 Attachments

1. WDC – Final 2018 Interim Management Report.pdf
2. WDC Final Management Report on the LTP CD 2018-2028.pdf

Report to the Council on the interim audit of
Whangarei District Council
for the year ending 30 June 2018

Key messages

Summary

We have completed the interim audit of Whangarei District Council (the District Council) for the year ending 30 June 2018. The primary purpose of our interim audit visit was to update our understanding of the District Council's control environment, and evaluate the District Council's key internal control systems for financial and non-financial information. We also updated our understanding of the risks we highlighted in our Audit Plan.

We did not identify any significant issues from our testing around the capitalisation of projects. We do not expect this to be a significant issue at year end. The District Council staff continue to capitalise projects as the projects are completed.

The District Council is planning to revalue roading, pensioner housing and investment properties at 30 June 2018. We will review the revaluation when completed by Opus International Limited and Telfer Young Limited during our final audit. It is important that the valuation is reviewed and the assumptions assessed by the District Council to ensure it is reasonable. Council should also ensure the impact is correctly accounted for so that this does not impact the annual reporting timelines.

Management are currently in the process of assessing the impact of the accounting treatment and disclosure in the annual report of the Hundertwasser Wairau Maori Arts Centre (HWMAC). We will follow up on this matter at our final audit.

We also updated our understanding of the Whau Valley Treatment Plant (WVTP) Project and the Council One Building project. Management are currently reviewing the design plans for the WVTP and have not yet gone out for tender on the construction phase of this project. The expected construction is not planned until January 2019. The Council One Building project has been delayed as the District Council consult on this project as part of the long term plan.

We also followed up on the progress the District Council has made in addressing our recommendations made in prior years. We are pleased to note the District Council has addressed a number of our recommendations and we expect more to be addressed by our final audit visit.

Issues identified during the audit

The following table summarises our recommendations and their priority:

Section	Recommendation	Urgent	Necessary	Beneficial
1.1	Reconciliations between the RID and valuer's system A monthly reconciliation is prepared between the District Council's RID and Opteon database and independently reviewed.	✓		
1.2	Automated validation process over water readings Ensure the independent review over the automated validation process is completed in a timely manner.		✓	
1.3	Project management Policy framework is updated, projects and scope are more clearly defined, and post implementation reviews are performed, which improves the project management reporting system.			✓
1.4	Review of Delegation Manual and Policy A review of delegation manual is performed.			✓
1.5	Retaining signed employee contracts Maintain a copy of the employee's signed contract and ensure a copy of the employees signed contract is received prior to the person starting employment.		✓	
1.6	Whangarei Waste Limited (WWL) Ensure WWL prepares financial statements as required by the WWL Shareholders' Agreement or update and remove this requirement from the WWL Shareholders' Agreement.			✓

There is an explanation of the priority rating system in Appendix 1.

Thank you

We would like to thank the District Council and management for their assistance on the audit to date.



Athol Graham
Audit Director
5 June 2018

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1 Assessment of your control environment

We have performed a high-level assessment of the control environment. This assessment was performed for the purpose of planning the most effective and efficient audit approach, in order to enable us to express an audit opinion on the District Council's financial statements and the non-financial information. We considered the overall attitude, awareness, and actions of the District Council and management in establishing and maintaining effective management procedures and internal controls.

In performing this assessment we consider both the "design effectiveness"¹ and "operational effectiveness"² of internal control. However, it is not the purpose of our assessment to provide you with assurance on internal control in its own right. As such we provide no assurance that our assessment will necessarily identify and detect all matters in relation to internal control.

In performing this assessment we have identified areas where we believe the control environment can be improved. These areas are detailed later in this report.

Internal controls

We reviewed the internal controls in place for your key financial and non-financial information systems, as detailed

below. Internal controls are the policies and processes that are designed to provide reasonable assurance as to reliability and accuracy of financial and non-financial reporting, as well as compliance with significant legislative requirements. These internal controls are designed, implemented and maintained by the District Council and management. Both "design effective" and "operationally effective" internal control is important to minimising the risk of either fraud or misstatement occurring. The responsibility for the effective design, implementation and maintenance of internal control rests with the governing body.

1.1 Reconciliations between the RID and valuer's system

The District Council changed their rates valuation service provider during the 2018 financial year to Opteon. We have noted since 1 August 2017 (subsequent to the July 2017 rates strike) the District Council have not been preparing monthly reconciliations between the District Council's rating information database (RID) and the Opteon valuation database.

The risk to the District Council of not reconciling the two database is that variances between the two systems may not be highlighted in a timely manner and corrected. A reconciliation has to be prepared at 1 July 2018 otherwise it exposes the District Council to risk that they could strike their

¹ The control is effective to either prevent or detect a material error in either the financial statements and/or non-financial information and is "fit for purpose".

² The control has operated effectively throughout the period tested.

rates based on an inaccurate RID, or they may not be able to resolve issues with the RID in time to strike the rate by 1 July.

We recommend that a monthly reconciliation is prepared between the District Council's RID and Opteon database and independently reviewed.

Management comment

Management are putting in processes so that the District Council's RID database can be reconciled to the Opteon valuation database.

1.2 Automated validation process over water readings

During our control testing of the water rates, we identified that the automated validation process over the water readings was being prepared. However, it was not independently reviewed in a timely manner.

Reviewing the automated validation process in a timely manner will ensure any identified variances are resolved prior to billing ratepayers.

We recommend that management ensures the independent review over the automated validation process is completed in a timely manner.

Management comment

Management are putting in processes so this will be completed in a timelier manner.

1.3 Project management

As part of our review of the project management processes at the District Council, we have identified the following areas for improvement:

- The project management framework was last updated in 2009. This project management framework and guidance should be reviewed.
- There needs to be more clear guidance on what projects are required to be managed by the project management team.
- The scope of projects need to be more clearly defined so management can ensure the projects have achieved what they set out to achieve.
- Post implement reviews over projects should be performed, documented and reported.
- The project management system is currently being maintained on a spreadsheet. To gain efficiency and reduce the likelihood of human error it would be beneficial to improve this project management reporting system to enable better reporting. This

system should be integrated with financial management and asset management and could be considered as part of the planned updates to the asset management systems.

We recommend that the District Council consider implementing our above recommendations.

Management comment

Management note these comments and will include them in upcoming reviews.

1.4 Review of delegation manual and policy

The District Council's Delegation Manual was last reviewed in March 2014 and was due for review in March 2017. It is the District Council's policy that the delegation manual is approved at least every three years.

The risk to the District Council of not having an up to date delegation manual is that staff may be given inappropriate delegations, and there could also be differences between actual delegations set up in the system and those in the manual.

We recommend a review of the delegation manual is performed to ensure that the delegation manual is up to date.

Management comment

Management will review the delegations manual and policy.

1.5 Retaining signed employee contracts

During a walkthrough of payroll, we noted a copy of an employees signed contract was not able to be located. However we were able to find an unsigned copy of the contract.

We have been advised that the employee did not return a signed copy of their employee agreement when they first started.

We recommend that management ensure they maintain a copy of the employee's signed contract and ensure they receive a copy of the employees signed contract prior to the person starting employment.

Management comment

Management will ensure signed employee contracts are being maintained in the future.

1.6 Whangarei Waste Limited (WWL)

As part of the District Council's oversight responsibilities over Council Controlled Organisations, we noted the WWL Shareholders' Agreement stipulates that the "Board must

arrange for the annual accounts of the Company (WWL) and the Limited Partnership to be audited and must ensure that each Shareholder/Limited Partner is supplied with a copy of the audited accounts and auditor's report".

We recommend that the District Council (as a shareholder of WWL) should ensure they prepare financial statements as required by the WWL Shareholders' Agreement, or remove this requirement from the WWL Shareholders' Agreement. This has also been raised with the other shareholders.

This summary needs to be read in conjunction with the status of recommendations raised in previous years' management reports as detailed at Appendix 2.

Management comment

Management will discuss with the Board of Whangarei Waste Limited.

2 Summary of recommendations

Summary of action taken against previous years' recommendations:

Number of recommendations from previous years' audits	Current status
5	Matters that have been resolved
13	Progress is being made, but not yet fully resolved

Appendix 1: Explanation of priority rating system

Our recommendations for improvement and their priority are based on our assessment of how far short District Council is from a standard that is appropriate for the size, nature, and complexity of its business. We have developed the following ratings for our recommendations:

Urgent

Major improvements required

Needs to be addressed *urgently*

These recommendations relate to a serious deficiency that exposes the District Council to significant risk. Risks could include a material error in the financial statements and the non-financial information; a breach of significant legislation; or the risk of reputational harm.

Necessary

Improvements are necessary

Address at the earliest reasonable opportunity, *generally within 6 months*

These recommendations relate to deficiencies that need to be addressed to meet expected standards of good practice. These include any control weakness that could undermine the system of internal control or create operational inefficiency.

Beneficial

Some improvement required

Address, *generally within 6 to 12 months*

These recommendations relate to deficiencies that result in the District Council falling short of best practice. These include weakness that do not result in internal controls being undermined or create a risk to operational effectiveness. However, in our view it is beneficial for management to address these.

Appendix 2: Status of recommendations

Matters in progress

Recommendation	Current status	Priority	Management's proposed action
Accounting for the Bream Bay Land Owners Association (BBLOA) arrangement			
<p>We recommend that the District Council reviews the accounting treatment for balances and transactions resulting from this agreement to ensure that it is correctly reflected in the District Council's financial statements, and that an appropriate accounting policy is adopted for the future.</p> <p>In addition, we ask that the District Council keeps us informed of any significant developments under this agreement, and any similar arrangements entered into in the future.</p>	<p>Status: Expected to be cleared by 30 June 2018</p> <p>A review of the agreement is currently underway. The District Council do not plan to renew this agreement and are currently negotiating a settlement.</p> <p>We will review the final settlement as part of our final audit.</p>	Urgent	<p><i>Work continues on review of the agreement. The District Council has been updated via briefing reports and staff are working with the BBLOA to finalise the agreement. It is proposed that details of any agreement be adopted by the District Council in its April 2018 meeting.</i></p>

Recommendation	Current status	Priority	Management's proposed action
Hundertwasser Wairau Maori Arts Centre			
<p>As the HWMAC project progresses there are a number of issues that the District Council and Whangarei Arts Museum Trust (the Trust) will need to consider, including:</p> <ul style="list-style-type: none"> • completing appropriate due diligence over the guarantee required under the lease agreement with the District Council; • determining the accounting treatment of the land and buildings under the lease agreement with the District Council; • supporting the establishment of good practice over procurement and project management; and • considering the accounting recognition and disclosure of donated goods and services (if significant in the financial statements). 	<p>Status: Expected to be cleared by 30 June 2018</p> <p>The District Council is in the process of determining the accounting treatment of the land and building under the lease (including the peppercorn lease for the land) with the District Council.</p> <p>They will also complete due diligence over the guarantee. This will be looked at in preparation for preparing the 2017/18 financial statements. We will review the accounting treatment during our final audit.</p> <p>The District Council has reviewed the procurement process around the initial HWMAC project.</p>	Necessary	<p><i>Activities are progressing and funding has been confirmed. The District Council's due diligence has been completed and formalised.</i></p> <p><i>Under guidance from the District Council, the Trust have appointed an independent advisor to assist them with the procurement process.</i></p> <p><i>The CCO Status has been review and statement of intent is in progress. There are controls are in place to provide oversight.</i></p> <p><i>The District Council will get accounting advice from PWC to ensure accounting treatment is correct.</i></p>

Recommendation	Current status	Priority	Management's proposed action
Procurement management			
<p>The Procurement policy is due to be updated and we recommend:</p> <ul style="list-style-type: none"> • assigning responsibility for updating the policy; • clarifying how late tenders will be handled; and • clarifying the policy about the handling of gifts or hospitality from suppliers. 	<p>Status: Expected to be cleared by 30 June 2018</p> <p>The updated Procurement policy has been drafted. This also incorporates any feedback provided by internal audit. We expect the Procurement policy to be adopted before 30 June 2018.</p>	Beneficial	<p><i>The District Council have appointed a Business Support Manager. Internal Audit of procurement process is occurring in March 2018.</i></p> <p><i>A review of the policy is scheduled to be in place by end of the year.</i></p>
Controls over employee Masterfile changes			
<p>We recommend that the District Council implements an effective review process for employee Masterfile changes. This could be achieved by implementing a one-up approval step in the system.</p> <p>Alternatively, a Masterfile change report can be obtained from IT and independently reviewed on a regular basis, for example, after each pay run.</p>	<p>Status: Expected to be cleared by 30 June 2018</p> <p>An internal audit had been performed on payroll which has also highlighted this as being an issue. We expect a Masterfile change report and variance report to be produced and independently reviewed. This will be operating within the next financial year.</p>	Necessary	<p><i>We have received the updated Masterfile data audit report. The Manager, P&C will be signing it off monthly.</i></p> <p><i>The P&C Team Leader is working with Business Improvement to develop a variance report. This report will be signed off by P&C and Finance with each payrun.</i></p>

Recommendation	Current status	Priority	Management's proposed action
Review of employee Code of Conduct			
We recommend that the Employee Code of Conduct is reviewed and updated.	Status: In progress The review of the Code of Conduct is underway. Consultation with staff is about to commence.	Beneficial	<i>The review of the staff code of conduct has recommenced following the decision of elected members not to adopt their proposed new code of conduct. Input has been sort to compile a preliminary document. This will form the basis for consultation with staff.</i>
Monitoring and reporting of legal matters			
We recommend that a formal system is implemented to centrally monitor and report all outstanding legal matters. This will help monitor and mitigate the District Council's exposure to legal risks.	Status: In progress This area is currently being reviewed. We expect the review will be completed by the end of the financial year.	Beneficial	<i>New Legal resource is now in place. Work is beginning to look at these issues and identify practical approach to address this observation.</i>
Valuer's recommendations			
We recommend that the District Council implements the recommendations identified by the Roding valuers in 2014, 2016 and 2017.	Status: In progress The Opus roading valuation continues to raise five key recommendations to the District Council. We understand that management are continuing to progress the recommendations. We expect four recommendations to be cleared out in the final valuation report for the 2018 financial year.	Necessary	<i>Four items have been scoped and assigned resource to be completed prior to the June 2018 valuation. Expected completion of these four items is May 2018.</i> <i>The final item is a large project and is on hold until later in the year pending scoping and resources.</i>

Recommendation	Current status	Priority	Management's proposed action
Digitisation of paper property records			
<p>The accounting standards generally do not allow for the recognition of digitalised records as intangible assets, because digitisation of hard copy information does not result in new information or necessarily prolong the life of the information.</p> <p>We are currently working with management to assess if digitalised records can be capitalised as an intangible asset.</p>	<p>Status: Expected to be cleared by 30 June 2018</p> <p>The total cost of the digitalisation of paper records included in WIP is \$383k. Our view is that these costs should be expensed. Management plan to expense these cost at 30 June 2018.</p>	Necessary	<p><i>The District Council will expense digitisation costs going forward. Amounts already in WIP will be written off to the income statement in the 2017-18 year.</i></p>
Capitalisation of WIP			
<p>We recommend that the District Council capitalises all projects as soon as the project is completed. The as-built plans should be obtained from the contractor as soon as the project has been completed. We would expect provision of as-built plans by the contractors to be a contractual requirement.</p>	<p>Status: Expected to be cleared by 30 June 2018</p> <p>During our testing at interim, we have not identified any issues and expect this issue to be resolved at year end.</p>	Necessary	<p><i>The District Council considers this matter is closed.</i></p>
Valuation of plant, property and equipment			
<p>We recommend that asset condition data should be incorporated into the asset management system. This will ensure that the assets are consistently and objectively valued.</p>	<p>Status: In progress</p> <p>Management are considering incorporating condition information in the asset management database.</p>	Necessary	<p><i>The need for condition assessment data is a new audit point for Hansen assets (Parks, Solid Waste, Flood Protection, Storm water, Waste and Waste). Improvement of asset information is a continual process.</i></p>

Recommendation	Current status	Priority	Management's proposed action
			<i>Management will consider incorporating condition information in the asset management database to more fairly reflect asset condition as part of operational practices.</i>
Development contributions			
We have recommended that the District Council reviews its recognition of revenue to ensure that Council revenue is recorded in the correct period.	Status: Expected to be cleared by 30 June 2018 This will be addressed as part of the final audit.	Beneficial	<i>A new Revenue Manager was recruited and employed from September 2017. They will ensure that this process is reviewed and resolved by the end of the financial year.</i>
Statement of Service Performance: Flooding events performance measures			
We recommend that the District Council, as part of the Long-Term Plan, reconsiders how it measures and is able to capture the required information to report against this measure.	Status: Expected to be cleared by 30 June 2018 This will be addressed as part of the final audit.	Necessary	<i>Management plan to review as part of the work being completed for the Long-Term Plan and next year's annual plan.</i>
Weathertightness contingent liability			
We recommend as part of the year end disclosure review for the weathertightness contingent liability, that disclosure is reviewed against the legal confirmation received to ensure completeness and accuracy of the disclosure.	Status: Expected to be cleared by 30 June 2018 We expect this to be reviewed at year end.	Necessary	<i>Management will review this as part of this year's annual report. Finance will liaise with the District Council's Legal advisors to ensure completeness.</i> <i>Audit New Zealand will provide electronic copies to the District Council's Senior Financial Accountant of legal confirmations received.</i>

Matters that have been resolved

Recommendation	Outcome
Risk management	
The Risk Management framework could be improved by making it clear who is responsible for ensuring that risk processes are being applied within the District Council.	<p>Matter cleared</p> <p>From our review of the adopted Risk Management framework, it is clear who is responsible for ensuring the risk processes are being applied.</p>
Building consent fees received in advance	
We recommend that old building consents are reviewed and refunded if appropriate.	<p>Matter cleared – Management have accepted associated risks</p> <p>The District Council is of the view that fees for building consents are being actively managed since 2007 and undergo regular review in line with the 2004 Building Act. Historic applications (July 1992 - April 2007) will be dealt with on a case-by-case basis, but there is currently no resource available to progress in any other way within the District Council. All appropriate consent fees are refunded.</p> <p>Management comment:</p> <p><i>The District Council considers this completed as no further possible actions.</i></p>
Monthly reconciliations	
<p>The District Council should review the reconciliation process to ensure that reconciliations are correctly prepared and reviewed. We also recommend that the District Council implements controls around the new digital reconciliations.</p> <p>Balance sheet reconciliations are been prioritised as either high, medium, or low. The frequency of the review of each reconciliation will be determined by its priority ranking. For example, those reconciliations classified as high will be</p>	<p>Matter cleared – Management have accepted associated risks</p> <p>From our review of the reconciliations for the 2017/18 year, we have found that the creditor reconciliations, suspense accounts and bank reconciliations were not always prepared or reviewed in a timely manner. We also note that fixed asset reconciliations are being prepared; however they are not being signed off as reviewed. We will continue to maintain a watching brief over this issue.</p>

Recommendation	Outcome
<p>reviewed monthly while those of low priority may only get reviewed on a quarterly/six monthly/ or annual basis.</p> <p>Fixed Asset reconciliations</p> <p>We recommend regular reconciliations to ensure reconciling items and variances are addressed in a timely manner.</p>	<p>Management comment:</p> <p><i>This is in the work flow planning to undergo a full review by the finance team in 2018. This will identify the required frequency of preparation and review of reconciliations, as well as who will prepare them.</i></p>
Related party disclosures	
<p>We recommend that management adopt robust procedures to ensure all transactions with related parties that are not at arm's length are disclosed in the financial statements to ensure compliance with the accounting standards.</p>	<p>Matter cleared</p> <p>The management have made improvements to the information provided for related party disclosure. We note that at year end an assessment of all related party transactions (including debtor and creditors) will be provided and of whether the transactions are at arm's length or not will be performed.</p> <p>Management comment:</p> <p><i>This process is now in place with a cross check completed by finance following receipt of annual disclosures. Therefore the District Council considers this point closed.</i></p>
Funding impact statements	
<p>We recommend as part of the Long-Term Plan, that the District Council should review the allocation in the funding impact statements to ensure that the disclosures more closely align to those in the statement of comprehensive revenue and expenses.</p>	<p>Matter cleared</p> <p>Management have reviewed how cost are allocated in the funding impact statement so that they more closely align with the statement of comprehensive revenue and expenses.</p> <p>Management comment:</p> <p><i>Finance have revised their funding impact statements to align with the Income Statement account criteria.</i></p>

Recommendation	Outcome
Sensitive expenditure policy	
<p>We recommend that the sensitive expenditure policy could be updated to include dollar limits for meals, and staff should not be allowed to accrue airports. This will ensure that the District Council's policy is in line with OAG best practice guidelines.</p>	<p>Matter cleared – Management have accepted associated risks</p> <p>Management have accepted the risk associated of their policies not being in line with OAG best practice guidelines.</p> <p>Management comment:</p> <ol style="list-style-type: none"> 1 <i>In the course of business, the District Council staff travel to various locations mainly in New Zealand but also overseas. There are variations in costs for meals at these locations so it is challenging to provide a workable dollar range, however the management will review and request a range from the General Manager Corporate. This will be a domestic limit with similar discretionary allowances for overseas travel.</i> 2 <i>Travelling by the District Council staff from Whangarei can be logistically challenging and frequently requires travel in personal time. Consequently, management are comfortable allowing staff to earn loyalty rewards as a form of compensation for the inconvenience.</i>

Report to the Council on the audit of

Whangarei District Council's

Long-Term Plan Consultation Document for the period

1 July 2018 to 30 June 2028

Report to the Council

We have completed the audit of Whangarei District Council's (the District Council) Long-Term Plan Consultation Document (CD) for the period 1 July 2018 to 30 June 2028. This report sets out our findings from the audit and draws attention to our detailed findings, and where appropriate makes recommendations for improvement.

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Key messages

We have completed the audit of the District Council's CD for the period 2018-28 and issued an unmodified opinion on 28 February 2018. Overall, we were satisfied the CD adequately presented the District Council's issues and there is enough detail to facilitate consultation with the community.

Issues identified during the audit

Section	Recommendation	Urgent	Necessary	Beneficial
4.1	In future an independent quality review should be performed over the growth model.			✓
4.2.1	Continue to improve asset condition information.			✓
4.2.2	Improve asset management plans by including asset data confidence ratings.			✓
4.2.3	Progress the investigation of condition information and adjust useful lives for wastewater assets if required.			✓
5.1	Update the infrastructure strategy to provide the costs for each significant capital decision.			✓
5.2	Perform an assessment of the water and other sanitary services.		✓	
5.3	Consider developing activity plans for those areas that are not key infrastructure areas.			✓

Future focus

As well as the opinion issued on the CD we will also issue an opinion on the final Long-Term Plan (LTP) that will be adopted before 1 July 2018.

The District Council needs to ensure that there are systems in place to monitor its actual performance against budgets, levels of service and performance measures included in the LTP from 1 July 2018. These systems will assist with annual reporting, and also internal monitoring and reporting to the Council.

Thank you

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



Athol Graham
Audit Director
23 March 2018

1 Our audit opinion

1.1 We issued an unmodified audit opinion

We issued an unmodified audit opinion on the District Council's CD on 28 February 2018.

This meant we were satisfied the District Council's CD meets the statutory purpose and provides an effective basis for public participation in the Council's decisions about the proposed content of the 2018-28 LTP.

We found the underlying information and assumptions used to prepare the CD provided a reasonable and supportable basis for the preparation of the LTP.

1.1 Unadjusted misstatements

The CD is free from material misstatements, including omissions. However, in the course of the audit, we found certain misstatements that are individually and collectively not material to the CD.

We have discussed any misstatements that we found with management. The significant misstatements that have not been corrected are listed in Appendix 1 along with management's reasons for not adjusting these misstatements. We are satisfied that these misstatements are individually and collectively immaterial.

2 Audit scope and objective

The scope of our audit engagement and our respective responsibilities are contained in our audit proposal and arrangements letter dated 8 December 2017.

3 Control environment

Our approach to the audit was to identify, confirm and assess the District Council's key processes and controls over the underlying information and ultimate production of both the CD and the LTP. The purpose of this assessment was to enable us to plan the most effective and efficient approach to the audit work needed to provide our two audit opinions.

Overall we assessed the control environment in place for the preparation of the CD as reasonable for our purposes.

4 Areas of audit emphasis

During the planning stage of the audit, and our review of the content of the CD, we identified the following key risks and issues which were areas of emphasis during our audit. In this section of the report, we comment on our findings on those matters.

4.1 Growth

Managing the demands of growth includes balancing the needs and expectations of future ratepayers against the affordability of rates and debt levels for current ratepayers. Planning and investment decisions need to be made now around infrastructure to prepare for growth. The District Council is classified as a high growth Council under the urban development National Policy Statement which imposes certain planning requirements on Council to ensure growth demands are being considered throughout the District Council's planning and investment decisions.

Growth is a significant assumption underlying the CD and is used to plan the timing and extent of growth projects as well as forecasting the expected impact of growth on revenue (both rates and development contributions).

The CD has been prepared on the assumption that the population of Whangarei District will increase from 89,900 today to around 100,800 by 2028 and ratepayer growth is expected to be 1% per year. This growth assumption is based on a medium projection for growth as forecast by Statistics New Zealand which takes into account additional growth areas such as Marsden Point/Ruakaka and Port-Limeburners.

We reviewed the Asset Management Planning processes to ensure the District Council has considered the impact of these growth assumptions on the District's infrastructure requirements.

We have discussed how this assumption was derived and tested how it is applied across rates, development contributions and the significant asset management requirements. We were satisfied the assumptions had been correctly applied in the financial model and asset management plans.

We have compared the District Council's model to Statistics New Zealand's growth projections. The growth assumptions are materially consistent with Statistics New Zealand's projections. However, we noted the growth model incorrectly applied the medium projections for Tikipunga West. Currently, Tikipunga West growth projections are understated by 1,310 people over the 10 years. This will not materially impact on the financial forecasts in the LTP.

We recommend in future an independent quality review should be performed over the growth model to ensure the growth projections have been correctly applied in this model. This will ensure that any differences are identified and corrected.

Management comment

We acknowledge comments on our Districts' growth and recognise its strategic importance for the CD. We also recognise an error was made in relation to Tikipunga West, but agree that this would not materially impact the financial forecasts informing the CD.

In response to the recommendation for a quality review of the growth model, we agree and acknowledge that this can be achieved through our ongoing work on the National Policy Statement for Urban Development Capacity (NPS-UDC).

4.2 Maintenance of asset and condition information

One of the District Council's main areas of risk in relation to asset management relates to the quality of its condition information and the reasonableness of assumptions about asset condition that are adopted by the District Council.

4.2.1 Condition information

The District Council does not have good information about the condition of its underground assets and, in particular, its stormwater assets. The District Council has included \$3.6 million in the proposed 2018-2028 LTP to improve the condition information over assets.

Based on the limited asset performance information that the District Council has some assets appear to be in poorer condition than expected for their age, and we note that the District Council has adjusted stormwater renewals profiles as a result. We are satisfied that a reasonable approach has been taken to assess asset condition based on the mix of age and performance information currently available to the District Council. However, there is a risk to the District Council that as the information about asset condition improves the expected cost of asset renewals could change significantly.

There is a total of \$33.8 million in the proposed 2018-2028 LTP of additional planned renewals works for stormwater to address the backlog of renewals identified in their asset management plans and ensure the District Council is able to maintain levels of service. If the District Council does not continue to spend at these current levels over the next 30 years the backlog of asset renewals will not be cleared and there is risk that the levels of service will drop.

We recommend that the District Council continues to improve condition information of assets.

Management comment

Council has included funding to grow and improve knowledge on assets and information systems, and to aid decision making on funding priorities, within the draft plan. This includes funding for condition assessments within key areas. Assessments undertaken will need to be targeted however, and Council will work through the development of a methodology and program for reviewing or validating condition information.

4.2.2 Confidence grading levels in asset management plans

We noted that the District Council does not currently include a comprehensive schedule of data reliability in its asset management plans (AMPs) in line with the International Infrastructure Management Manual (IIMM).

Ideally, the District Council should be able to attest to the reliability its asset information based on information provided by the asset valuers. We reviewed the District Council's most recent valuation reports and, although the valuer's comment that the information is reliable, they also do not provide confidence ratings in line with the IIMM.

We recommend that the District Council includes an assessment of data reliability in its AMPs in line with the IIMM data confidence grading system. Management could request that the valuers include confidence rating in the valuation report as part of three yearly revaluations to validate the ratings.

Management comment

Where not present already Council will include a high level assessment of data reliability within this round of AMPs. It will then look to refine its data grading through the AM system upgrade and future non-roading revaluations (the Roading valuation and AMP already includes a data reliability assessment).

4.2.3 Useful lives of wastewater assets

Currently, the District Council is only spending 63% of the depreciation on wastewater to renew assets. The current modelling for wastewater suggests that assets are lasting longer than expected with renewals being delayed as a result. The implication of this trend is that the useful lives of assets may not be correct. The District Council is not planning to adjust the useful lives of assets until they have better condition information to ensure they adjust the useful lives to the correct level.

We recommend that the District Council continues to progress the investigation of condition information and, if required, adjust the useful lives of the wastewater assets.

Management comment

Council has included funding to grow and improve knowledge on assets within the draft plan, and has included the review of the useful lives of wastewater assets as a key issue within the Infrastructure Strategy.

4.3 Consultation issues

4.3.1 Civic Centre

The aim of the Civic Centre project is to bring all the District Council staff together into one building. The District Council has previously consulted on spending \$10 million to expand Forum North. Extensive work is required to address things like seismic strengthening and deferred maintenance which is likely to cost up to \$35 million. The current plan allocates a budget of \$30 million for a new civic centre including \$7 million which has been carried over from the previous LTP.

We confirmed the cost estimate of \$37 million was reasonable based on estimates provided by external consultants. However, the District Council will need to obtain more detailed costing for the project once the location has been decided. If the project costs turn out to be significantly more than expected, the District Council will need to re-consult with the public on this issue.

We are satisfied the disclosure of the issues, options and impacts about the Civic Centre project provide a reasonable basis for consultation.

4.3.2 Community led projects

The District Council is also consulting on the “nice to have” projects. In the last LTP, the District Council had already allocated budget towards a number of “nice to have” projects such as the new Theatre, Pohe Island, Town Basin Development, Tracks and Walkway and the Blue/Green network. The only additional item that was not included in the 2015-2025 plan is additional funding of \$4.5 million for community-led development.

We are satisfied that the CD provides a reasonable basis for consultation on this project by explaining the impacts on rates, debt and levels of service.

4.3.3 Rates review

The District Council is proposing to introduce a new targeted rate for transport based on capital value and reduce the Uniform Annual General Charge (UAGC). The changes in the rating system are being consulted on in this document. The reason for the changes is to make the rating system more equitable for ratepayers.

A legal review over the draft rates Funding Impact Statement and new draft policies has been performed by legal firm, Anthony Harper.

We are satisfied the information presented in the LTP CD for rates and sample properties are consistent with the financial model and draft rates Funding Impact Statement. The updates in rates have also been included in the revenue and financing policy.

4.4 Adopting and auditing the underlying information

The District Council prepared and adopted the underlying information necessary to support the CD. We have reviewed the underlying information but we have not specifically audited the District Council's policies and rates compliance with legislative requirements. It is the District Council's responsibility to ensure they comply with all legislative requirements.

4.5 Project management, reporting deadlines and audit progress

The development of the CD and LTP is a significant and complex project and a comprehensive project plan is required for a successful LTP process.

The District Council was well prepared for the audit of the CD and had a good project plan in place. The District Council worked well with us to ensure all deadlines were met in a timely manner.

5 Other matters arising from our audit

We completed our planned work on the modules detailed in our audit proposal and arrangements letter and we identified the following other matters:

5.1 Infrastructure Strategy (IS)

Section 101B (4)(b)(iv) of the Local Government Act 2002 requires a local authority's infrastructure strategy (IS) to outline the approximate scale or extent of the costs to be disclosed for each significant decision about capital expenditure the local authority expects it will be required to make.

We reviewed the District Council's IS and found that the IS has provided the extent of costs for the most likely scenario but does not provide the costs for all of the options within that decision. We also noted the following minor improvements that could be made to the IS:

- The IS states that the District Council is classified as a high growth Council but the District Council has used Statistics New Zealand's medium growth projections. It would be useful to clarify the reasons why different projections are being used.
- The IS includes a summary of the assets held by the District Council for each asset class in the asset activity section in Part 2. It may be useful for the reader to have the entire total of infrastructure covered by the IS summarised in the executive summary.
- The IS does not include a complete assessment of the funding for each of the classes of assets. The discussion is limited to renewals vs depreciation funding, but does not identify the funding sources for renewals in excess of depreciation, other capex and the maintenance and operating costs. It would be useful to summarise the funding sources within these sections of the IS.

We recommend that the IS be updated so that, for each significant capital decision, it provides the costs for each of the options within that decision to ensure compliance with the Act. The District Council could also consider including the above improvements in the IS.

Management comment

The costing of alternatives is something that Council considered when compiling the draft strategy but felt that it either didn't add any value from a disclosure perspective, or alternately the project was so far out (and the feasible options so few) as to make costing of alternatives meaningless. This issue was addressed through the audit where it was noted:

- **Whau Valley Treatment Plant** - While the cost of the key alternative could be included (upgrade the existing plant, estimated at \$12.7 million in 2014), the preferred option was included in the last LTP and all consents for it are now in place. In addition, the major cost/benefit, which is discussed in the strategy, is that even if we were to upgrade rather than replace the site, Building Act/Earthquake and capacity constraints of the existing plant would not be fully addressed. From a disclosure perspective, and for completeness, the \$12.7 million for Whau Valley will be added.
- **Ruakaka Ocean outfall** –The only real alternative with this project is disposal to land. However, when this investigated during the consenting stages, the amount of land required limited feasibility (i.e. there is effectively not enough land to dispose of the volumes). In addition, even if there were enough land, it is almost impossible to know where that land might be, and the cost of purchase, 20 years out. As a result, the strategy advises that disposal to land is not a feasible option and costed only the outfall.
- **Riverside Drive/Onerahi Road** – Similarly, the feasibility of the alternative to this project, and the timeframe for commencement, meant that costing was not meaningful. While the bypass is an option, unsuitable ground conditions encountered on the bypass route mean that it is unlikely to be feasible. In addition, the project is 6 – 8 years out and detailed options/cost analysis has not been undertaken. As a result, we discussed these issues in the strategy and noted that confirmation of the options and project details will occur closer to the time.

The aim was to provide the public with the best, and most useful, information that Council has at this time. We will continue to assess the options/costings for Ruakaka/Riverside however and where available will include costings for feasible options in strategies undertaken in the future. The Statistics New Zealand medium growth projections align with NPS-UDC "High Growth Area" but that area relates to our urban area only, not the District as a whole. The growth model is for the entire District. We will consider other minor amendments for the final strategy.

5.2 Requirement to assess water and other sanitary services

We noted in accordance with section 125 of the Local Government Act 2002, there is a requirement for the District Council to complete from time to time an assessment of water and other sanitary services. The last assessment was completed in 2005.

We recommend that the District Council performs another assessment of their water and other sanitary services as soon as possible to ensure they are compliant with the Act.

Management comment

Council has included funding for the assessment of both Water and Wastewater Sanitary Services within the plan.

5.3 Asset management planning for non-infrastructure assets

The District Council has asset management plans to support key infrastructure activities. However, for those activities that are not covered by the infrastructure strategy, there are no plans in place detailing how those assets will be managed. There are also no activity plans for the non-asset related areas of the business.

Having activity plans or an asset management plan for non-infrastructure related assets and non-asset related areas of the business, will help the District Council to more efficiently manage the activity and assets over the lifetime of the LTP.

We recommend that the District Council considers developing activity plans or an asset management plan for those areas that are not key infrastructure areas to help improve activity management.

Management comment

Council currently has activity management plans (AMP) for key non-infrastructure assets, notably Parks and Recreation assets which have a comprehensive AMP due to both the value of spend and the activity's contribution to the Community Outcomes. Both Parks and Recreation and Solid Waste were also included in the Infrastructure Strategy.

Outside of this, Council has robust systems in place but the development of full activity or asset management plans in line with IIMM is not considered fit for purpose. Council will however consider areas where there are key assets that are higher risk, and/or community facing, that may benefit from an activity/asset management plan (i.e. venues and events) to ensure that appropriate planning is in place.

6 Audit of the final LTP

The next step in the LTP audit process will be the audit of the final LTP. This is scheduled to be undertaken in two parts, firstly an interim in the week commencing 5 June 2018 and then a final visit in the week commencing 12 June 2018. To ensure our audit of the LTP is

efficient we expect the District Council to prepare a schedule of changes to the financial forecasts, draft LTP and performance framework that were the basis of the CD. This will enable us to quickly assess the extent of changes as a result of community consultation and tailor our audit work accordingly.

Under section 94(1) of the Act, our audit report on the final LTP forms part of the LTP, which the District Council is required to adopt before 1 July 2018 (section 93(3)). Our agreed timeframes will enable us to issue our audit report in time for the District Council meeting on 28 June 2018, at which time the 2018-28 LTP will be formally adopted.

We are responsible for reporting on whether the LTP meets the statutory purpose and provides a reasonable basis for integrated decision making by the District Council and accountability to the community. We considered the quality of the underlying information and assumptions as part of the audit of the CD so for the audit of the LTP we will focus on how these are reflected in the LTP. We will consider the effect of the decisions that come out of the consultation process and review the LTP to gain assurance that appropriate, material, consequential changes and disclosures have been made.

At the conclusion of the LTP audit, we will ask the District Council to provide us with a signed management representation letter on the LTP. The audit team will provide the letter template during the LTP audit.

Appendix 1: Unadjusted audit differences

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenue							(265)	(370)	(484)	(609)
Expenditure	(200) (394)	(376)	(498)	(591)	(674) 263	(709)	(694)	(690)	(685)	(669)

All the above errors in the underlying information will be adjusted in the final LTP. The errors have not been adjusted as they are not considered material to the underlying information or the CD by the District Council and Audit New Zealand.

Rates revenue is currently overstated. There should be a reduction in the Hikurangi Swamp rate in line with the financial strategy which notes the rate will increase by inflation from 2023 rather than 8%.

Interest expense is currently overstated due to a reduction in the borrowings level. The calculation for the interest expense was not updated in the financial model that was adopted for consultation. The correction of the interest calculation will result in a lower forecast debt position than is currently included in the underlying information. Because this is a more conservative debt position for consultation and does not directly affect the CD it will not be material to users of that underlying information.

Depreciation is currently overstated in the first year due to a reduction in the opening plant, property and equipment balance. The depreciation model was not updated to reflect the change.

Appendix 2: Mandatory disclosures

Area	Key messages
Our responsibilities in conducting the audit	We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the 2018-28 LTP CD and reporting that opinion to you. This responsibility arises from section 93C(4) of the Local Government Act 2002. The audit of the LTP CD does not relieve management or the District Council of their responsibilities. Our audit proposal and audit arrangements letters dated 8 December 2017 contain a detailed explanation of the respective responsibilities of the auditor and the District Council.
Auditing standards	We carry out our audit in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (revised): <i>Assurance Engagements Other Than Audits or Reviews of Historical Financial Information</i> , the International Standard on Assurance Engagements 3400: <i>The Examination of Prospective Financial Information</i> , and the Auditor-General's Auditing Standards.
Auditor independence	<p>We confirm that, for the audit of the District Council's LTP CD for the period 1 July 2018 to 30 June 2028, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.</p> <p>In addition to this report on the District Council's CD and all legally required external audits, we have provided an assurance report on certain matters in respect of the District Council's Debenture Trust Deed and completed an audit of the statement of fundraising for the Hundertwasser Wairau Maori Arts Centre. These assignments are compatible with those independence requirements. Other than these assignments, we have no relationship with or interests in the Council or any of its subsidiaries.</p>
Other relationships	We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the District Council that is significant to the audit. We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the District Council during or since the end of the financial year.
Unresolved disagreements	We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the LTP CD. Management has not sought to influence our views on matters relevant to our audit opinion.

4.2 Internal Audit Report – Procurement May 2018

Meeting: Audit and Risk Committee
Date of meeting: 27 June 2018
Reporting officer: Sue Miller

1 Purpose

To present the internal auditors report on Council Procurement process and policies recently issued by BDO.

2 Recommendation

That the Audit and Risk Committee notes the findings of the internal auditors report on Council's procurement processes and policies.

3 Background

As part of our internal audit programme staff engaged BDO to complete a limited assurance internal audit review of the Council's procurement policy and processes. The review was completed in March/ April 2018.

4 Discussion

The objective of the audit was to:

- Assess the adequacy and effectiveness of internal policies and controls in place to manage key risks associated with procurement activities;
- Assess compliance of procurement practices against Council policies and controls; and
- Assess the appropriateness of roles and responsibilities for procurement.

Several recommendations were made which provided guidance to the procurement team during the recent review of the procurement policies and processes. The updated Procurement process will be submitted to Council meeting as part of the procurement review process.

5 Significance and engagement

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via Agenda publication on the website

6 Attachment

Final Internal Audit Report – Procurement May 2018



WHANGAREI DISTRICT COUNCIL

Internal Audit

Review of procurement process and controls -
Business case to contract

Final Report

May 2018

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Private & Confidential

17 May 2018

Alan Adcock
 GM Corporate
 Whangarei District Council
 Private Bag 9023
 WHANGAREI 0148

Dear Alan

We are pleased to present our report pertaining to the Internal Audit of Procurement (Business case to contract).

In accordance with the relevant AoG Consultancy Services Order the Whangarei District Council (the 'Council') engaged BDO Wellington and Northland to undertake an internal audit over Procurement Processes. This report sets out a summary of the work we have performed, our findings, the conclusion that we reached, and recommendations we have made.

We would like to take this opportunity to acknowledge our appreciation for the assistance and co-operation provided to us in addressing our information requests and dealing with our queries as they arose during the course of the audit.

Yours sincerely

BDO Wellington

BDO Northland

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1. SCOPE AND APPROACH

Our internal audit has been performed in accordance with the Consultancy Services Order dated 23 February 2018. The objective of the audit is to assess, based on procedures performed, if procurement policies and controls are designed adequately and are implemented effectively.

Our work encompassed a review over key procurement activities for which it was agreed to cover procurement activities from 'documenting rationale and basis for procurement' through to 'finalisation of contract'.

The agreed focus was on the following areas:

- Assessing the adequacy and effectiveness of internal policies and controls in place to manage key risks associated with procurement activities;
- Assessing compliance of procurement practices against Council policies and controls; and
- Assessing the appropriateness of roles and responsibilities for procurement.

Based on our review of the above areas, we have highlighted in this report the issues identified, their implications and our recommendations for improvement as applicable.

Key Activities

To complete the objectives of this engagement, we have performed the following activities:

Interviewed	• Relevant personnel from Business Support and elsewhere in the Council during the testing phase of our review.
Reviewed	• Council policies relevant to procurement practices and evaluated against OAG guidance and industry best practice.
Evaluated	• The adequacy and effectiveness of policies and controls in place to manage associated risks relevant to procurement.
Evaluated	• The implementation of Council policies and controls in practice. This was achieved through the evaluation of the procurement process for a selection of 12 procurement decisions, between July-16 and Dec-17.*
Reported	• Work completed and significant issues identified together with our recommendations.

* The nature of a limited assurance audit determines that selection sizes for testing are judgemental. As such the selection size of transactions/ activities tested are deemed appropriate in the context of the scope of this limited assurance audit. It is important to note, due to the nature of the limited assurance audit, we cannot conclude over the entire population of procurements during the period. The work completed by BDO Northland is subject to the limitations set out in [APPENDIX 2](#).



BDO's reference points

We have used interviews with relevant Council management and staff as a fixed point of reference for conducting our review. The management and staff interviewed included:

Interviewee	Position
Jason Marris	Manager - Democracy & Assurance
Sue Miller	Manager - Business Support
Heather Edmeades	Procurement & Contract Support Officer
Marie-Katrin Richter	Team Leader - Project Management
Kevin Barry	Roading Projects Engineer

We also conducted interviews with numerous staff throughout the Council during the testing phase of the review.

BDO's work completed

For a detailed summary of work completed refer to [SECTION 5 - INTERNAL AUDIT WORK CONDUCTED](#).

2. EXECUTIVE SUMMARY OF FINDINGS

REF	TITLE	SUMMARY OF KEY FINDINGS AND RECOMMENDATIONS	Type	Rating
4.1	Procurement Environment	The procurement control environment at the Council can be described as a semi-decentralised model, with limited use of centralised controls. There is an inconsistent knowledge base among staff responsible for procurement. We have recommended an immediate requirement for active oversight from Business Support to ensure compliance. There is an opportunity upon updating the procurement policies to redefine roles and responsibilities. We also recommend software is introduced to manage all procurements and contracts as a means of having visibility over procurements in progress, procurements completed and key details of the procurement.	Risk	Medium
4.2	Policies - Structure and Content	The current suite of procurement policies are overdue for revision. We identified structural limitations with the current procurement manual and provide recommendations to improve usability, remove unnecessary requirements/rules and introduce a risk based procurement framework.	Risk	Low
4.3	Conflict of Interest - Requirements	Currently conflict of interest declarations are required to be completed by 'contract management staff'. We recommend conflict declarations are also completed by staff approving the supplier recommendation and that this is done prior to the supplier evaluation phase.	Risk	Low
4.4	Conflict of Interest - Implementation	During the testing phase of our review we identified 5 (out of 12) instances where conflict declarations had not been fully completed. We recommend immediate communication to set the expectation that the procurement leader is responsible to ensure conflict declarations are completed as required.	Risk	Medium
4.5	Variation to Procedure - Rationale	The variation to procurement procedure form does not provide guidance about how to consider risks that are created by using the variation. We recommend the form is enhanced to require risk based justification for the variation.	Risk	Low
4.6	Variation to Procedure - Documentation	During the testing phase of our review we identified two instances where a variation to procurement procedure was obtained but documentation to support the variation needed to be improved. In both of these	Risk	High

		instances final contracts were not obtained and signed. We recommend that documentation to support variations is strengthened, and these two specific contracts are signed immediately.		
4.7	Documentation of Procurement	During the testing phase of our review we identified 9 (out of 12) procurements that lacked complete documentation of procedures in Kete. We recommend requirements for documentation are communicated with staff and a checklist is developed to help staff ensure minimum documentation is filed. We also recommend the contract folder for high profile/ high value procurements are given restricted access permissions.	Risk	Low

Positive Findings

TITLE	SUMMARY OF KEY FINDINGS																
Content of procurement policies	Our review found the content and coverage of procurement policies and controls are consistent with key aspects of OAG best practice guidance and cover the fundamental requirements of Fairness, Openness, Accountability and Value for Money.																
Process followed for high value procurement	Our detailed testing to review the implementation of procurement policies and controls sampled a range of contracts, from high value to lower values. We found that the procurement process followed for larger contracts were generally well performed and documented.																
Overall conformance with policies and controls	<p>In general there was strong compliance with key policies and controls, with exceptions noted in the body of this report. 12 procurements were selected for testing and the following exceptions (non-compliance) were identified:</p> <table border="1"> <thead> <tr> <th>Requirement (excluding variations where relevant)</th><th>Exceptions</th></tr> </thead> <tbody> <tr> <td>Rationale and basis for procurement documented</td><td>-</td></tr> <tr> <td>Potential suppliers identified</td><td>-</td></tr> <tr> <td>Competitive process to engage with suppliers</td><td>-</td></tr> <tr> <td>Tenders/ proposals evaluated (4.7)</td><td>1</td></tr> <tr> <td>Conflict of interest/ Delegated authorities followed (4.4)</td><td>5</td></tr> <tr> <td>Terms of contract negotiated</td><td>-</td></tr> <tr> <td>Approval of contract (4.6)</td><td>2</td></tr> </tbody> </table>	Requirement (excluding variations where relevant)	Exceptions	Rationale and basis for procurement documented	-	Potential suppliers identified	-	Competitive process to engage with suppliers	-	Tenders/ proposals evaluated (4.7)	1	Conflict of interest/ Delegated authorities followed (4.4)	5	Terms of contract negotiated	-	Approval of contract (4.6)	2
Requirement (excluding variations where relevant)	Exceptions																
Rationale and basis for procurement documented	-																
Potential suppliers identified	-																
Competitive process to engage with suppliers	-																
Tenders/ proposals evaluated (4.7)	1																
Conflict of interest/ Delegated authorities followed (4.4)	5																
Terms of contract negotiated	-																
Approval of contract (4.6)	2																
Use of experts in the procurement process	We found examples of where external experts have been used in the procurement process, for example to project manage the procurement process, or used on the evaluation team to provide specialist knowledge and objectivity. When used effectively, external experts add strength to the procurement process. Note, this is balanced with our finding at 4.7.																



3. CONCLUSION

Based on our work performed, as specified in the scope of work in our terms of reference we have formed the following conclusions:

SCOPE OF WORK	CONCLUSION	EFFECTIVENESS
Adequacy and effectiveness of internal policies and controls in place to manage key risks associated with procurement activities.	Other than the findings in section 4.2, 4.3 and 4.5 nothing has come to our attention to indicate that the policies and controls in place to manage risks associated with procurement activities is not effective.	Partially effective
Compliance of procurement practices against Council policies and controls	Other than the findings in section 4.4, 4.6 and 4.7 nothing has come to our attention to indicate that the implementation of policies and controls in place to manage risks associated with procurement activities is not effective.	Partially effective
Appropriateness of roles and responsibilities for procurement	Other than the findings in section 4.1 nothing has come to our attention to indicate that roles and responsibilities within the procurement function is not effective.	Partially effective

Because of the inherent limitations of limited assurance audits, it is possible that fraud, error or non-compliance may occur and not be detected. A limited assurance audit is not designed to detect all instances of non-compliance within the areas reviewed by BDO, as it generally comprises making enquiries, primarily of the responsible party, and applying analytical and other review procedures. The opinion expressed in this report has been formed on the above basis. Our firm provides no other services to the Council and we have no other relationship or interests in the Council.

4. DETAILED FINDINGS

Our findings have been derived from our review of the Council's policies, procedures and controls pertaining to procurement processes, in accordance with Section 1 of this report.

4.1 Procurement Environment

Type	Risk
Rating	Medium

Audit Findings:

The procurement control environment at the Council can be described as a semi-decentralised model, with limited use of centralised controls. Key characteristics of the current procurement environment are:

- No monitoring of procurement process compliance. There are no business tools used by the Business Support department to allow the collation of information regarding procurements in progress, procurements completed and key data regarding contracts.
- Business Support has a newly created position of 'Procurement & Contract Support Officer'. This resource is currently being used on an adhoc basis to assist with some procurements. There is no guidance within procurement policies to determine when it is necessary to use this resource.
- During the testing phase of our review we observed that many different Groups and Departments are being tasked with completing procurement procedures. Within this cross-section of staff there is a range of procurement procedural knowledge and capability. It was evident that staff/departments that do not routinely use procurement procedures faced challenges applying the requirements.
- The Council engages with external experts on some procurements to facilitate the procurement process. There is no guidance within procurement policies to determine when it is necessary to engage an external party and the consideration of the cost/ benefit of doing so.

Implication:

- In our view there is a moderate/high risk of procedural non-compliance for procurements under \$100,000. This is symptomatic of a semi-decentralised procurement environment with an underdeveloped monitoring function. These factors, coupled with inconsistency in staff knowledge on lower value procurements, can result in failure to comply. This is evident in a number of findings within this report.
- The risk of non-compliance appears to reduce for higher value procurements. We have identified this as being due to the fact higher value procurements are typically led by departments (such as roading, infrastructure, etc) where procurements are completed frequently.

Recommendations:

We understand the Council is currently looking at redefining the roles and responsibilities within the procurement function. As such we have presented our recommendations in two phases - (i) Immediate action under the current environment; and (ii) Opportunities for the future.

Immediate action - the status quo

- Require oversight by the Business Support department for all procurements greater than \$100,000. We recommend oversight at a minimum includes initial meetings with the procurement leader to determine key features of the procurement plan and if support is required. Also oversight towards the end of the procurement to ensure the filing of procurement process documentation has been completed.
- All variations to process should be reviewed by Business Support prior to Group GM and CEO approval.
- To support the oversight function in the interim and future, BDO Northland are available to discuss ongoing assurance services to review procurement procedure compliance. We consider there to be value in this process for the Council and would follow a risk based approach.

Opportunities for the future

- We recommend the Council investigate software options for the managing of all procurements and contracts. In an ideal environment Business Support will have visibility over all procurements in progress, procurements complete and key details of procurement process followed (i.e. risk, tender method, evaluation method, variation used, etc). Use of the tool could be extended to contract management and timelines for contract expiry to mitigate procurement risk throughout the life of the contract.
- Responsibilities for compliance with procurement processes need to be clearly defined within the new procurement policies. We recommend consideration is given to thresholds (dollar value and risk) as to when active involvement of the Business Support team is necessary, and a threshold where external procurement process experts are used. It is our view that use of external experts should be limited to high value/ high risk procurements. This will ensure that skills and knowledge within the Council are developed and reduce the external costs attributed to a procurement.
- Internal communication of new policies, procedures and responsibilities should be done with high prominence and communicated through multiple avenues to ensure maximum reach and impact. The procurement function should also be included within induction processes.

Management Comments:

Affirmation of the Strategic Intent for Procurement is required by SLT. This will determine the model going forward, ie Centralised or decentralised or a hybrid model.

Current resources in Business Support will not be able to achieve oversight of all procurement over \$100,000.00.

Business Support will work with People and Capability to socialise the reviewed policy and provide learning and development opportunities for departments as required.

4.2 Policies - Structure and Content

Type	Risk
Rating	Low

Audit Findings and Implication:

At the outset of our review we were informed by management that existing procurement policies were overdue for revision. With this in mind the following current limitations with the policies should to be considered when the policies are revised:

- Procurement process requirements are set by dollar-value thresholds, with no consideration of wider procurement risk factors. The implication of a dollar-value only threshold is that reputational, operational or strategic risks are not considered.
- The Procurement Manual is difficult for users to follow, a sentiment that was shared amongst many staff we interviewed. We acknowledge the content and coverage of current procurement policy is consistent with key aspects of OAG best practice guidance and is inclusive of fundamental requirements. However, in our opinion there is opportunity to improve the effectiveness of the document. Staff find the current format difficult to navigate and therefore it's not easy to ensure conformance with all prescribed requirements.
- There is an inconsistent definition for the 'principals of procurement' between the Procurement Policy (parent document) and the supplementary Procurement Manual. Inconsistency between the documents creates confusion to the user.
- Some procedures specified as "required" are out-dated and not followed in practice. For example the requirement for 'Project plans' and where procurement needs to go 'via procurement for contract control'. Also of note are job titles within the delegated manual which do not align with position titles following the 2017 Council restructure.

Recommendations:

- Consideration of a risk based framework should be developed as part of the procurement policies, including a risk assessment matrix. Reference to the risk assessment matrix together with the financial value of the procurement will guide the way procurement is to be undertaken.
- The layout of the procurement manual should be revised to allow a clear structure that is user friendly with superfluous information and requirements removed. Of benefit to users would be a clear flow chart that provides a practical tool to guide what type of procurement process is needed for any type of procurement. An unambiguous procurement manual reduces the risk of challenges to the decision-making process and may reduce the cost of procuring. Clear requirements assist in ensuring procurement policy is consistently followed.
- The revised procurement policy and manual should be prepared in-house to ensure it is written within the context of how the Council operates and is congruent with the intended users. Internal consultation should occur with relevant stakeholders, including input from various levels of staff. External consultation is also of benefit to ensure the overall objective of effective procurement is met. We are available to assist at this stage to complement the process if required.



- Going forward it is important that all policy and procedure is updated in accordance with the required timeframe.

Management Comments:

A risk management framework will be included in the current policy review.

The subsequent documentation required for implementation of the new Policy will be completed when the Policy has been approved.

This will include a review of the Procurement Manual and the Quote Pack.

4.3 Conflict of interest - Requirements

Type	Risk
Rating	Low

Audit Finding:

The Procurement Manual states contract management staff are required to complete a declaration of interest form. In practice this typically means the procurement evaluation team.

Guidance from the Office of the Auditor General is that all staff involved in the procurement process should be required to declare any personal interest that may affect, or could be perceived to affect, their impartiality.

Implication:

In the public sector there is increasing scrutiny placed on the objectivity and fairness of awarding contracts. The implication of awarding a contract to a supplier where a conflict exists, whether that conflict is real or perceived, creates a risk of reputational damage and potential legal issues.

Currently other staff involved in the procurement process i.e. involved through approval of recommendations, are not required to declare conflict of interests. Depending on the value of the contract, the recommendation to award a contract is approved by Department Manager, Group Manager, Chief Executive, Council Committee or Council.

Recommendations:

Our recommendation is to introduce a process to prevent the risk of a conflict not being detected and managed, or the risk of conflict only being identified after the evaluation of suppliers has been completed.

We recommend that conflict checks are widened in the initial stages of the procurement process. A practical application of this is a process whereby the procurement leader (person leading a procurement process) emails the short-list of suppliers to relevant approvers to confirm they do, or do not have a conflict. Once responses have been received the procurement leader can determine how any conflicts are to be managed, before moving onto the evaluation phase of the procurement process.

An alternative to the above could be a process whereby the procurement leader cross references the short list of suppliers with a conflict of interests register for the leadership team and elected members. This alternative would not be as effective as the above recommendation which requires a positive e-mail response.

Management Comments:

The conflict of interest requirements will be reviewed as part of the policy development.

4.4 Conflict of Interests - Implementation

Type	Risk
Rating	Medium

Audit Finding:

During the detailed testing phase of our review we identified 5 (out of 12) instances of non-compliance with the conflict of interest requirements as currently set in Council policy. In each of these instances a procurement decision had been completed without a conflict of interest form being completed by all, or some, of the procurement evaluation staff.

Implications:

Incomplete or non-existent conflict of interest declaration exposes the Council to risk of a contract being awarded to a supplier where a conflict of interest exists. This could compromise the fairness and integrity of the procurement process with adverse reputational and legal implications becoming a heightened risk.

Recommendations:

We recommend the procurement leader is responsible for ensuring conflict of interest declarations are completed by required staff. Communication of this responsibility should be completed by the Business Support department. Consider holding training sessions for staff to reinforce the need for complete and effective conflict of interest checks.

As a broader consideration, a procurement checklist could be created to provide a visual, summarised document to work through to assess whether all required aspects of a procurement have been followed.

Note - recommendations for conflict of interest compliance should also be read in conjunction with finding 4.3.

Management Comments:

The conflict of interest processes will be reiterated in the reviewed procurement manual and training.

4.5 Variation to Procedure - Rationale

Type	Risk
Rating	Low

Audit Finding:

The procurement manual acknowledges that from time to time procurement process will not fit the needs of all procurements and a different course of action will be required. Where a 'Variation to Procedure' is needed a standard form is required to be completed. A 'Variation to Procedure' is most commonly used where there is a need for direct procurement without conducting an open competitive process.

The current 'Variation to Procedure' form requires basic information regarding the procurement and the 'reason' for the variation. The form does not provide guidance about how to consider risks that are created by using a variation, or requirements to provide documentation to support the rationale for variation.

Implications:

The current structure of the 'Variation to Procedure' form does not require reference to risks that may arise by applying the variation.

Recommendations:

We recommend the 'Variation to Procedure' form is enhanced to specify the requirement to provide supporting documentation (where necessary) and guidance to address risk. For example:

Justification - respond to factors that apply to this variation

Goods or services require specialised skills and there is only a limited number of suppliers.	[discussion facts and reference to documentation to show supporting research]
Delivery of goods or services is required at a specified time and only a limited number of suppliers have the capacity to do so.	[discussion facts and reference to documentation to show supporting research]
Standardisation or compatibility with existing Council equipment or services is necessary and can be achieved through a limited number of suppliers.	[discussion facts and reference to documentation to show supporting research]
Other factors present the need to consider only a limited number of suppliers. Please specify.	[discussion facts and reference to documentation to show supporting research]

Risks addressed - document how the associated risks of this variation are accepted

Fairness Openness Accountability Value for money Lawfulness Integrity	[indicate what are the key risks created by this variation and if you are satisfied the risks are addressed by documentation above]
--	---



Management Comments:

The variation to procedure and/or policy form and process will be reviewed as part of the policy review and included in the training.

4.6 Variations to Procedure - Documentation

Type	Risk
Rating	High

Audit Finding:

During the detailed testing phase of our review we identified 5 (out of 12) instances where a 'Variation to Procedure' was obtained. For 2 of these variations we found the following risks that, in our opinion, have not been addressed or mitigated through appropriate documentation:

Example 1 (Services contract \$280k p/a)

- Variation approved in Mar-17 which had identified a relationship with an existing supplier had been operating 'out of contract' since the original contract ended in Jul-15. The conclusion in the Variation was to extend the previous expired contract until Jul-18.
- Following approval of the variation a contract or agreement was not formalised between the Council and the supplier.

Example 2 (Services contract \$160k)

- Variation approved which concluded it was appropriate to award a contract to a supplier without entering a competitive procurement process. There is a lack of documentation to support the consideration of other potential suppliers.
- Following approval of the variation no contract or agreement was formalised between the Council and the supplier.

Implications:

In both these examples services are being provided to the Council without a legally binding contract or agreement. The risk of operating outside of contract creates potential legal implications and exposes the Council to operational risk as there are no terms or conditions to refer to.

Also:

- The variation in Example 1 concluded that the action to be taken was to wait a further 16 months before a procurement procedure be undertaken. This was to allow time to establish future service requirements from a one organisation perspective. Waiting a further 16 months perpetuates the risk of the Council having to defend their position that an incumbent supplier is operating without going through an open competitive process. Thus comprising the principals of fairness and openness.
- The variation in Example 2 lacked documentation of how other potential suppliers in the market have been considered, and eliminated as a viable alternative. The reasons for the variation are clear - 'specialised task' and a 'natural fit' which is practical because of the work being complimentary to existing services provided by the supplier. These reasons are approved, however the lack of documentation regarding evaluation of other potential suppliers exposes the Council to risk that the decision is not defensible if challenged.

Recommendations:

We recommend immediate action is taken to formalise the agreement/contract between Council and the suppliers.

We recommend that documentation to justify the reasons for variations from procedure are strengthened, as illustrated in finding 4.5.



Management Comments:

Both of the contracts identified have been reviewed. One contract has been completed and signed by the other party, the other is currently out for tender and will be an open risk until that process is completed, this is expected to be finalised by 3 Sept18.

The variation to procedure and/or policy form and process will be reviewed as part of the policy review and included in the training.

4.7 Documentation of Procurement

Type	Risk
Rating	Low

Audit Findings:

The Council procurement manual specifies a requirement to effectively store documentation of procurement procedures. This is to be saved in 'TRIM' [which has been superseded by 'Kete'] as an electronic form of document storage.

- During the detailed testing phase of our review we identified that 9 (out of 12) procurements did not have a complete set of documentation loaded on Kete to the support procurement procedure. The majority of documentation that was not on Kete was subsequently provided to audit via a 'hard copy file' or sourced from electronic files on desktop/ emails.
- There was 1 procurement (\$4.4m construction contract) where audit could not be provided with documentation to evidence the evaluation of supplier tenders. We note in this instance the procurement leader had left the Council during the procurement process and documentation of the process was generally left untidy.
- Access to contract folders within Kete is open, therefore anyone within the Council can access potentially sensitive supplier information. We have been informed restricted access rights can be placed on sensitive folders, however none were restricted in the sample we tested.

Implication:

Incomplete documentation to support the process followed in a procurement results in records not being kept in a manner that facilitates a process of external accountability or audit. There is a both a legal requirement and a business need for effective and complete record keeping.

Confidentiality of commercially sensitive information is a key concept within the public sector. An open file sharing environment could comprise this.

Recommendations:

We recommend communication to all staff regarding the requirement and responsibility to file documentation that supports a procurement. A checklist of key documentation needed to be stored on Kete could be developed to allow a simple check of completeness for the procurement leader.

We recommend that contract folders of high profile/ high value are given restricted permissions for access.

Also refer to our finding at 4.1 with regard to responsibilities within the current 'semi-decentralised' procurement environment at the Council.

Management Comments:

Documentation will be reviewed as part of the review of the manual.

Flow charts will be included.

Business Support will work with People and Capability to socialise the reviewed policy and provide learning and development opportunities for departments as required.

5. INTERNAL AUDIT WORK CONDUCTED

The following summarises the work that we conducted during our internal audit. The purpose of this summary is to provide an understanding of the areas we covered.

Scope Required	Work Completed	Conclusion										
Adequacy and effectiveness of internal policies, procedures and controls in place to manage key risks associated with procurement activities.	<ul style="list-style-type: none">Interviewed relevant Council staff to identify and assess the adequacy and effectiveness of all relevant policies and controls.Assessed the adequacy and effectiveness of the Council's:<ul style="list-style-type: none">Procurement PolicyProcurement ManualDelegations ManualEvaluated current policies and controls against OAG guidance and industry best practice.Documented and communicated where there are policy limitations and control gaps.	Based on work completed we noted limitations with the design of policies and controls. Refer to section 4.2, 4.3 and 4.5 for points to consider.										
Compliance of procurement practices against Council policies and controls.	<ul style="list-style-type: none">Evaluated actual practices against policy and controls through testing of a selection of procurements.12 procurements were tested in total and our review involved assessment of Council documentation to support conformance of the following key policies/ controls:<ol style="list-style-type: none">Business case (Rationale and basis for procurement documented)Market research (Potential suppliers identified)Engage market (Competitive process to engage with suppliers)Supplier sourcing (Tenders/ proposals evaluated)Risk mitigation (Conflict of interest/ Delegated authorities followed)Negotiate (Terms of contract negotiated)Approval of contractOf the 12 procurements 7 were selected by the Council as they were contracts of prominence, value or other interest. 5 of the procurements were selected by BDO on the basis of obtaining an independent spread across Council departments and considering the value of procurement.As a point of the reference, the 12 selected procurements contained the following attributes:<table><tr><td>Selected</td><td>Procurement value</td></tr><tr><td>3</td><td>\$100,000 - \$250,000</td></tr><tr><td>5</td><td>\$250,001 - \$2,000,000</td></tr><tr><td>3</td><td>\$2,000,001 - \$10,000,000</td></tr><tr><td>1</td><td>\$10,000,000 +</td></tr></table>	Selected	Procurement value	3	\$100,000 - \$250,000	5	\$250,001 - \$2,000,000	3	\$2,000,001 - \$10,000,000	1	\$10,000,000 +	Based on work completed we noted instances of non-compliance with policies and controls. Refer to section 4.4, 4.6 and 4.7 for points to consider.
Selected	Procurement value											
3	\$100,000 - \$250,000											
5	\$250,001 - \$2,000,000											
3	\$2,000,001 - \$10,000,000											
1	\$10,000,000 +											



Selected	Department	Group
1	District Development	Planning and Development
1	Property	Corporate
1	Communications	Corporate
1	District Promotions	Corporate
2	Waste and Drainage	Infrastructure
2	Parks and Rec	Infrastructure
2	Roading	Infrastructure
1	Water Services	Infrastructure
1	Infra planning and capital works	Infrastructure

Appropriateness of roles and responsibilities for procurement.

- Reflected on the results of our detailed testing and linked issues with limitations to existing policies and controls.
- Recommendations have been given to address current limitations and suggest alternatives going forward.



Based on work completed we noted limitations with the existing structure of roles and responsibilities. Refer to 4.1 for points to consider.





APPENDIX 1 – FINDINGS RATING

We classify our findings according to whether the matter raised represents, in our view, either a risk or an opportunity to the company. A risk is generally linked to an internal control weakness whereas an opportunity represents the identification for a potential efficiency.

To enable Management to set priorities on their action plans we will report our findings in four categories, namely, critical, high, medium and low based on our assessment of the importance of each finding.

Definitions for each category are provided below.

Explanation	
	Risk A risk may represent a source of potential harm or negative impact.
	Opportunity Opportunities may represent sub-optimal performance or potential for an efficiency to be gained.

Explanation	
	Critical Severe breakdown in controls exposing Council to substantial risk, requiring immediate management attention and resolution as soon as practicable.
	High Significant breakdown in controls exposing the organisation to risk, requiring urgent management attention and resolution.
	Medium Breakdown in controls requiring timely management attention and resolution.
	Low Process inefficiencies or non-compliance with policies and procedures of a housekeeping nature.



APPENDIX 2 - LIMITATIONS OF INTERNAL AUDIT PROJECT

This limited assurance quality assurance audit has been conducted in accordance with New Zealand Audit Standard ISAE 3000. This quality assurance audit is limited primarily to inquiries of entity personnel, inspection of evidence and observation of, and enquiry about, the operation of the control procedures for a small number of transactions or events. This audit is designed to provide a limited level of assurance in relation to the areas included within the terms of reference. An audit providing a high level of assurance has not been performed.

The engagement was performed on the basis of the following limitations:

- As a result of the inherent limitations of any internal control structure it is possible that errors or irregularities may occur and not be detected. Further, the internal control structure, within which the control procedures that we have reviewed operate, has not been reviewed and no view is expressed as to its effectiveness.
- The engagement is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed are on a sample basis. Also, this engagement does not provide all the evidence that would be required in high level positive assurance audit.
- Any projection of the evaluation of the procedures reviewed for selected processes to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

The matters raised in this report are only those which came to our attention during the course of our limited quality assurance audit and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, management should not rely on our report to identify all weaknesses that may exist in the systems and procedures reviewed, or potential instances of fraud that may exist. Findings within this report may have been prepared on the basis of management representations and should be read in the context of the scope of our work.

The Council should assess management actions for their full commercial impact before they are implemented. This report has been prepared by BDO Northland and Wellington for the purpose of, and with a view to access by the Council. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.

4.3 Financial Management Activity Update Report – June 2018

Meeting: Audit and Risk Committee
Date of meeting: 27 June 2018
Reporting officer: Alan Adcock (General Manager – Corporate/CFO)

1 Purpose

To update the Committee on financial management activity over the previous three-month period and upcoming financial matters.

2 Recommendation

That the Audit and Risk Committee notes the financial management activity over the previous three months.

3 Discussion

2017 – 2018 Annual Report

Planning for YE 2018 continues to progress both internally and through continued communication with Audit NZ. Various work in preparation for the delivery of the Annual Report has begun.

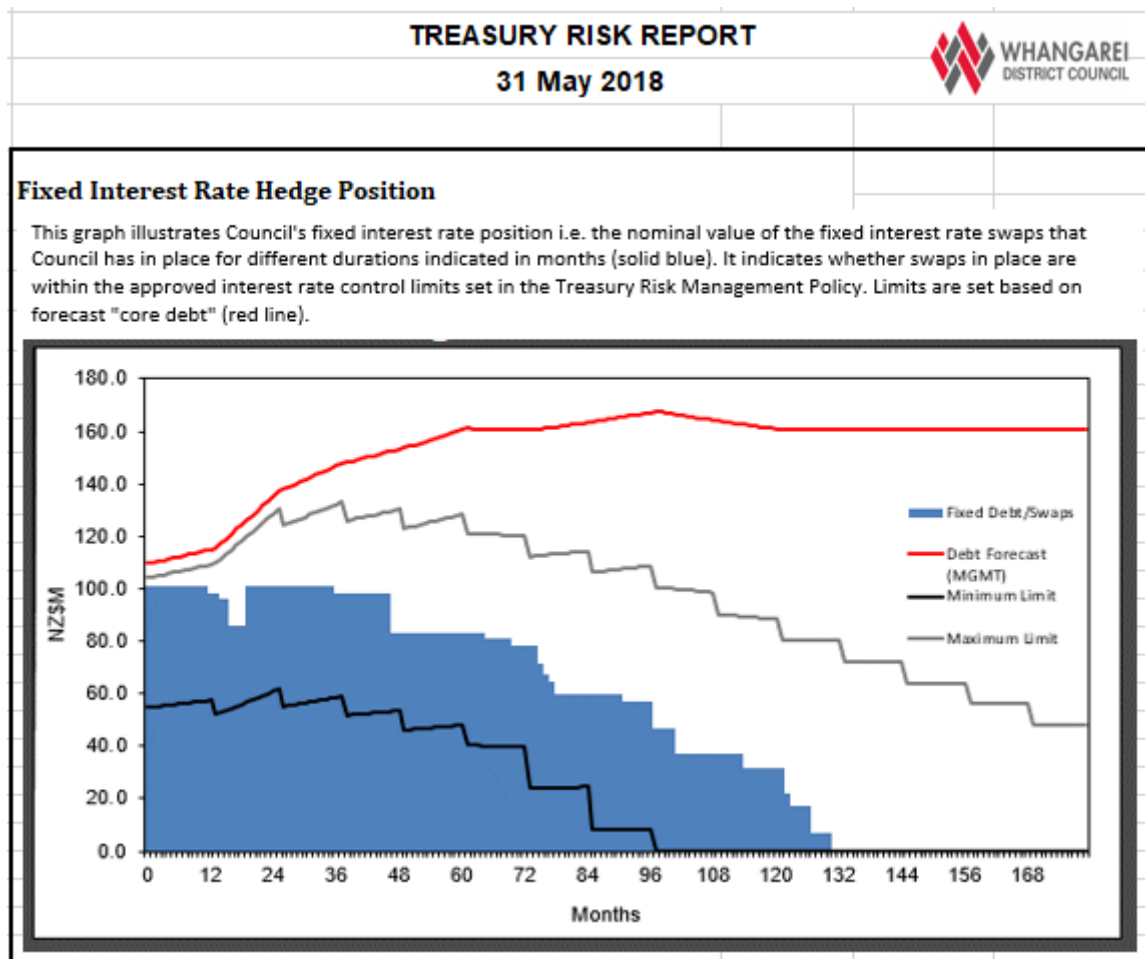
Audit Interim occurred from Monday 23 April for two weeks. An Interim Audit Letter stemming from this is a later Agenda Item.

We received an Audit Plan from Audit NZ and are progressing through the identified issues and items for year end. Some of these issues and items include:

- accounting treatment of Hundertwasser in WAMT's books and WDC Group
- disclosure and accounting treatment of the Marsden City settlement
- potential claims under the Building Act
- cessation of the BBLOA
- pensioner housing revaluation.

Treasury Risk Management

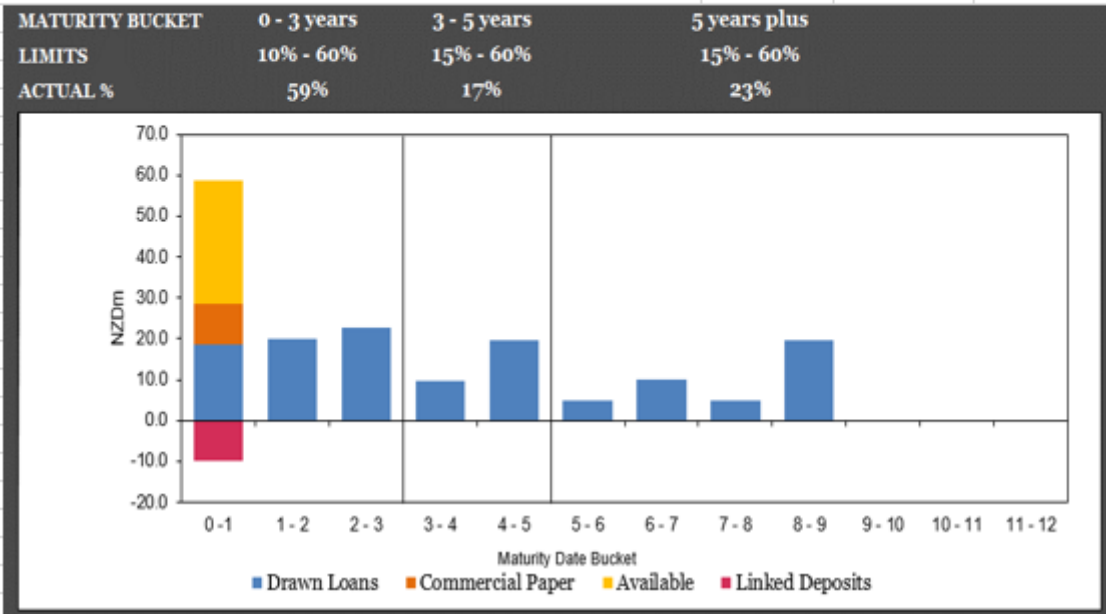
The graphs below show Council's compliance to the risk parameters set out in the Treasury Risk Management Policy. Due to current net debt tracking well below budgeted debt, staff have worked with our treasury advisors (PwC) to establish whether there is a requirement to reduce some of its short-term hedging. This has resulted in entering into some short-term receiver swaps.



We are also looking at better ways to forecast cashflows to assist with these treasury management decisions.

Funding Maturity


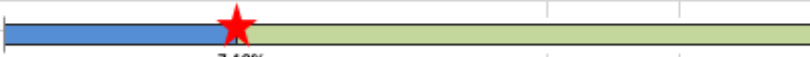

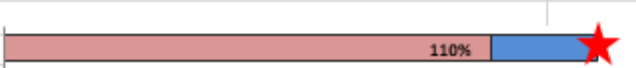
This graph illustrates the maturity of Council's total external debt against the approved limits within each maturity bucket. Current limits for each bucket are set in the Treasury Risk Management Policy and shown in the graph below, with percentages calculated on total external debt.



	Years
Weighted average duration of Loans	3.57
Weighted average duration of Swaps	7.68

POLICY LIMITS:

The following information displays Council's position in comparison to policy limits.

	Policy Limit
Net debt to total revenue:	
	less than 150%
Net interest to rates income:	
	less than 25%
Net debt per capita:	
	less than \$2150
Borrowing level available compared to external debt: (liquidity ratio)	
	greater than 110%

Payables Automation and Plan for Improved Purchase to Pay Compliance

A purchase to pay project is progressing identifying and addressing issues post the implementation of payables automation.

Insurance

The bulk of insurance schedules have undergone their annual renewal at 1 November 2017. This is reported as a separate agenda item on this Audit and Risk Committee agenda.

Annual Tax Update

Included as an attachment to this agenda is PWC's Annual Tax Update. This update is provided to Council as part of the Tax Risk Governance Framework. This framework assists Council to identify and manage tax risks in order to maintain our low risk profile.

4 Significance and engagement

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via Agenda publication on the website.

5 Attachments

1. WDC Audit Plan Final.pdf
2. Whangarei District Council – Annual Tax update 2018.pdf

Audit plan

Whangarei District Council

For the year ending 30 June 2018

Audit plan

I am pleased to present the arrangements for the audit of Whangarei District Council (the District Council) for the year ending 30 June 2018. The purpose of this audit plan is to discuss:

Audit plan	1
Audit risks and issues	2
Our audit process	6
Reporting protocols	9

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

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

We are committed to delivering a high-quality audit. Our audit is risk based, which means that we focus on the areas that matter. Every member of the audit team will contribute to achieving the highest standard of professional excellence.

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

Yours sincerely



Athol Graham
Director
3 May 2018

Audit risks and issues

Focus areas



Based on the planning work and discussions that we have completed to date, this table sets out the main audit risks and issues.

Audit risk/issue	Our audit response
Capitalisation of work in progress (WIP)	
<p>In the 2016/17 financial year, we noted that there was \$5.4 million of assets that were completed at balance date but had not been capitalised yet as the District Council was waiting on the final as-built plans.</p> <p>We understand the District Council will have a WIP balance at the end of the 2017/18 financial year. To the extent that these assets are completed we encourage the District Council to capitalise these assets and depreciate them to ensure they are correctly classified in the financial statements and are depreciated from the date they are ready to use.</p>	<p>Our audit work over the WIP balance this year will include:</p> <ul style="list-style-type: none"> • reviewing assets capitalised from WIP to ensure they meet the definition of an asset and have been correctly depreciated; and • reviewing any balances remaining in WIP to ensure they meet the definition of capital expenditure and are likely to be completed and capitalised.
Valuation of property, plant and equipment and investment properties	
<p>The District Council periodically values its infrastructure assets and investment properties. The accounting standards, specifically <i>PBE IPSAS 17: Property, Plant and Equipment</i>, requires that valuations are carried out with enough regularity to ensure that the carrying amount does not differ materially from its fair value while <i>PBE IPSAS 16 Investment Property</i>, requires the District Council to revalue their assets annually.</p> <p>The District Council's roading assets and investment properties will be revalued this year to ensure the carrying value of these assets reflects their fair value. For assets not being revalued the District Council will need to formally assess whether a revaluation is required to ensure the carrying value of these assets fairly reflects their fair value.</p>	<p>We will review the valuation methodology used to ensure it complies with generally accepted accounting practice and assess whether the District Council has correctly accounted for the valuation in its financial statements.</p> <p>We will review the District Council's assessment of whether there are any significant differences between the carrying amount and fair value of assets not revalued.</p>

Audit risk/issue	Our audit response
It is important that the District Council makes this assessment at an early stage as a full valuation may require a significant amount of time to complete if required.	
Hundertwasser Wairau Maori Arts Centre (HWMAC)	
<p>In the prior year, the Whangarei Art Museum Trust (the Trust) successfully raised \$21.7 million for the HWMAC project, surpassing the required \$16.3 million to be raised for the project to proceed. The project is proceeding with the foundation work design expected to be finalised in the upcoming months. A request for tender for the construction of the art centre is expected to be sent out upon finalisation of the foundation work.</p> <p>The following are the significant accounting issues that the Trust and the District Council will need to consider when preparing their 2017/18 annual report:</p> <ul style="list-style-type: none"> • The Trust will own the HWMAC building improvements but not the original building which will continue to be owned by the District Council. The Trust and the District Council should assess the substance of the ownership arrangements to determine how the HWMAC buildings and improvements should be accounted for, and by which entity. • Prosper Northland Trust is assisting the Trust in obtaining a guarantee to cover any future operating losses relating to the HWMAC. The Trust and the District Council will need to assess the accounting treatment and disclosure for any guarantee arrangement entered into. • The Trust has entered into an “intention to lease” agreement with the District Council for the HWMAC land and buildings, this is conditional on reaching the required level of funding and establishing the necessary guarantees. The intention to lease is set at a nominal 	We will review the Trust and the District Council’s assessment of the accounting treatment and disclosure for these significant issues.

Audit risk/issue	Our audit response
<p>annual rental of \$1 for 34 years and 11 months. The Trust and the District Council will need to consider the appropriate accounting treatment and disclosure for this lease.</p> <ul style="list-style-type: none"> The District Council will also need to ensure HWMAC related revenue is correctly accounted for in the Trust as it will significantly impact on the group's financial statements. 	
Significant projects – Whau Valley Water Treatment Plant and Council One Building Project	
<p>The District Council plans to progress the development of the Whau Valley Water Treatment Plant and the Council One Building Project.</p> <p>Because of the scale of these projects it is important that the District Council establishes the necessary procurement, project governance and management processes to ensure these projects are successful.</p>	<p>We will update our understanding of the two projects and consider the adequacy of:</p> <ul style="list-style-type: none"> project governance and management structures; procurement and project management processes applied; and risk management practices. <p>We will also consider the adequacy of systems in place for recording costs and commitments associated with the project. This includes reviewing the classification of expenditure on the project to make sure this has been accounted for in accordance with generally accepted accounting practice, identifying commitments and reviewing the District Council's impairment assessment at balance date.</p>
The risk of management override of internal controls	
<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls. Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to treat this as a risk on every audit.</p>	<p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> testing the appropriateness of selected journal entries; reviewing accounting estimates for indications of bias; and evaluating any unusual or one-off transactions, including those with related parties.

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

Fraud risk

Misstatements in the financial statements and performance information can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action is intentional or unintentional. In considering fraud risk, two types of intentional misstatements are relevant – misstatements resulting from fraudulent reporting, and misstatements resulting from misappropriation of assets. The primary responsibility for the prevention and detection of fraud and error rests with the District Council, with assistance from management. In this regard, we will discuss the following questions with you:

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

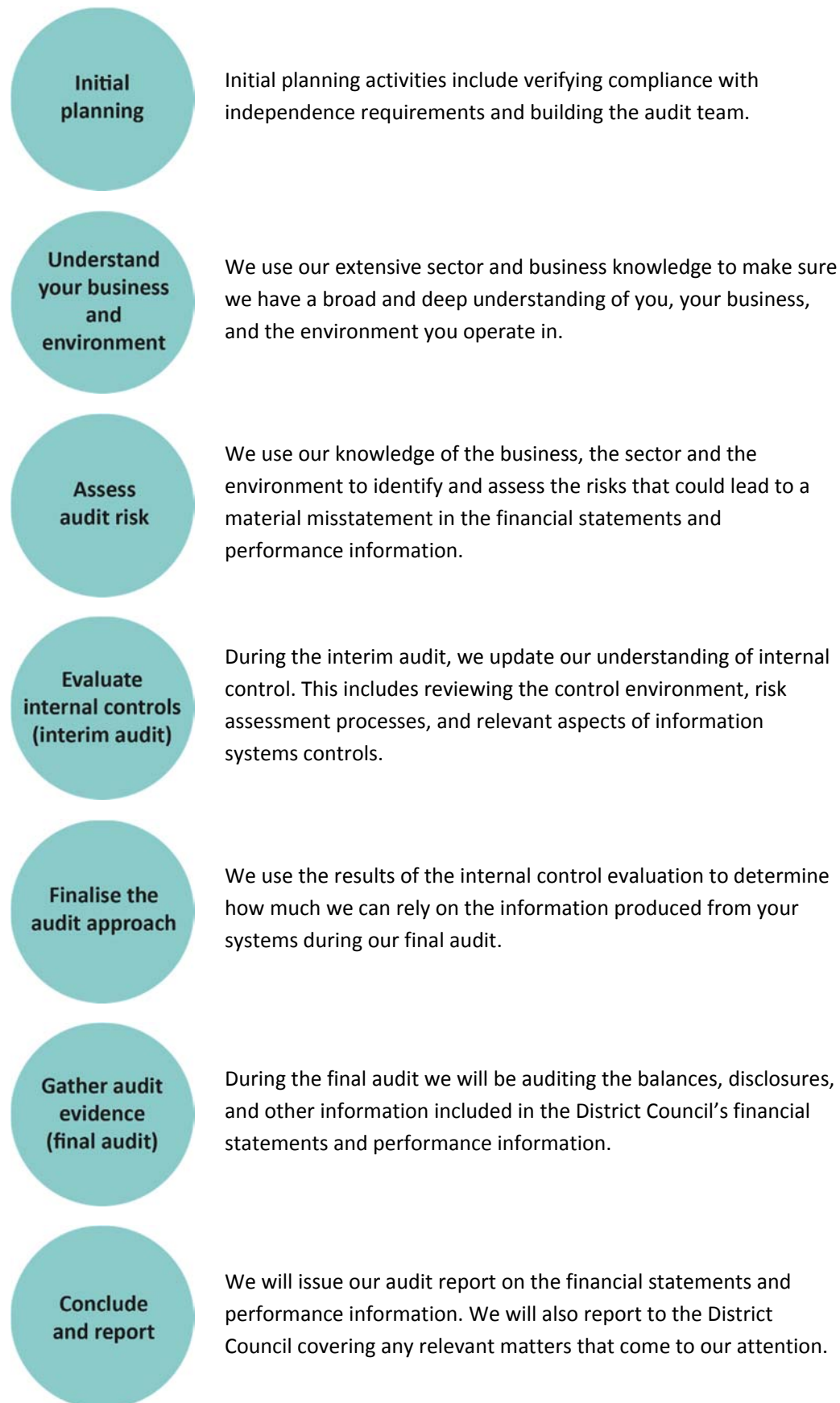
Our responsibility

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

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

The Auditor-General has published useful information on fraud that can be found at oag.govt.nz/reports/fraud-reports.

Our audit process



Materiality

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

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

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

Accounting standards also require the Council and management to consider materiality in preparing the financial statements. IFRS Practice Statement 2, *Making Materiality Judgements*, provides guidance on how to make materiality judgements from a financial statements preparer's perspective.

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

Misstatements

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

We will ask for each misstatement to be corrected, other than those that are clearly trivial. Where management does not wish to correct a misstatement we will seek written representations from representatives of the District Council that specify the reasons why the corrections will not be made.

Professional judgement and professional scepticism

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

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

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

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

How we consider compliance with laws and regulations

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

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

Wider public sector considerations

A public sector audit also examines whether:

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

Reporting protocols

Communication with management and the District Council



We will meet with management and the District Council throughout the audit.
We will maintain ongoing, proactive discussion of issues as and when they arise to ensure there are “no surprises”.

Reports to governors



We will provide a draft of all reports to governors to management for discussion/clearance purposes. In the interests of timely reporting, we ask management to provide their comments on the draft within 10 working days. Once management comments are received the report will be finalised and provided to the District Council.

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

The report to governors will form the basis of a letter to the Minister, which will be cleared with Management by the OAG Sector Manager, Sarah Markley.

Audit logistics

Our team



Our senior audit team members are:

Athol Graham

Director

Leon Pieterse

Engagement Quality Control Director

Warren Auths

Audit Manager

Nikita Hanright

Assistant Manager

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

Timetable



Our proposed timetable is:

23 April 2018	Interim audit begins
11 May 2018	Draft interim management report issued (if required)
27 August 2018	Draft financial statements available for audit (including notes to the financial statements) with actual year-end figures
27 August 2018	Final audit begins
14 September 2018	Final financial statements available, incorporating all the amendments agreed to between us
21 September 2018	Verbal audit clearance given
19 September 2018	Annual report available, including any Chair's and Chief Executive's overview or reports
27 September 2018	Audit opinion issued
27 September 2018	Draft final detailed management report issued

Expectations



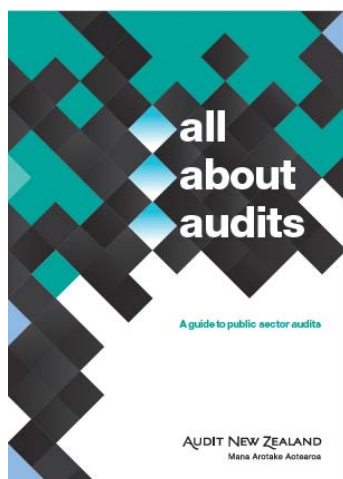
For the audit process to go smoothly for both you and us, there are expectations that each of us need to meet.

Our respective responsibilities are set out in our Audit Engagement Letter dated 8 June 2017.

We expect that:

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

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



Health and safety



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

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

We expect you to provide a work environment for our audit staff that minimises or, where possible, eliminates risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment where required. We also expect management to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.

Level 6, 280 Queen Street
PO Box 1165, Auckland 1140, New Zealand
www.auditnz.govt.nz



Memo

To: / Location: Delyse Henwood / Whangarei District Council

From: / Location: Phil Fisher & Josie Goddard / PwC

Date: 11 June 2018

Subject: Annual tax update

Introduction

The Tax Risk Governance Framework was adopted by Council as a pro-active step towards identifying and managing tax risk to maintain Council's low risk profile. As part of the Tax Governance Framework, we have prepared this annual tax update as a report to Council's Audit and Risk Committee (AR Committee) on progress made during the year.

This memorandum provides:

- A summary of the tax advice Council has sought from PwC during the period 1 July 2017 to 31 May 2018.
- Commentary on tax matters currently being addressed as at 11 June 2018.
- A more general update on the wider tax environment which may affect Council, albeit kept to a high-level – refer **Appendix A**.

Tax Advice – period ended 31 May 2018

For the most part, the tax compliance of Council has been 'business as usual' for much of the year with the various tax returns (income tax, GST, PAYE, FBT, etc.) being filed on time and without any concerns being raised.

The main area of focus for the year, aside from ad-hoc queries, has been a review of property transactions, and the GST treatment applied thereto. This is an ongoing project, with additional information being sought from Council's lawyers to clarify certain matters.

Aside from this, Council:

- Commissioned PwC to present a half day condensed session of the local government tailored 'tax update' training, held at Council on 4 May 2018. These training sessions not only ensure that personnel are aware of recent and forthcoming developments, but also provide a refresher of fundamental tax principles that underpin all tax risk management and compliance.
- Subscribed to PwC's online Indirect Tax Policies and Guides;
- Subscribed to PwC's Tax Helpdesk facility; and
- Adopted PwC's GST on property guide.



Tax matters currently being addressed

Council has been progressing with its tax risk strategy, which demonstrates that Council is taking a proactive approach in assessing its overall tax compliance and managing its tax risk effectively. We attach at **Appendix B**, an update of Council's tax strategy.

Council and PwC are also in the process of drafting a voluntary disclosure to be submitted to Inland Revenue in respect of:

- GST that was not returned on the sale of rubbish bags; and
- FBT on group life insurance that Council has for its employees.

Further, Council is working with PwC to finalise the review of property transactions to ensure that the historical position is correct, and that property transactions are treated correctly prospectively. The output of this review is likely to be:

- A voluntary disclosure to correct the historic GST output and GST input tax position; and
- A specific GST training on property transactions for those involved in the process of buying and selling property, and not just the finance team.

It should be noted that the GST treatment applying to property transactions is a complex area, and one where we see the greatest level of non-compliance in the local government sector. In part, this is due to the nature of the transactions undertaken by local authorities, which are typically not 'vanilla' purchases or sales.

Other relevant matters

A couple of other relevant points of note that could impact Council include:

- The Department of Internal Affairs issued a paper on Better Local Government Services. The discussion in this paper was converted into draft legislation, contained in the Local Government Act 2002 Amendment Bill (No. 2) 2016 (the Bill).

In essence, this paper proposed changes to the legislation that would enable the Local Government Commission to require local authorities to establish substantive or multiply owned CCOs – in particular, relating to the provision of water and transport services.

The proposed changes had a number of impacts, and of note, potentially adverse income tax compliance consequences¹. Submissions were prepared² requesting that any substantive CCOs were exempt from income tax.

Following Select Committee hearings, an update has been made to the Bill (i.e. per Section CW 39B of the Income Tax Act 2007) which now provides local authorities with an ability to allow certain CCOs to elect whether to be subject to income tax or not. The Bill has yet to be enacted but we do not expect there to be any further amendments to this particular proposed Section CW39B of the ITA 2007.

¹ Even if the impact did not lead to additional income tax becoming payable, there was a potential for 'trapped' tax losses and at the very least, a degree of additional tax compliance obligations.

² The primary submission has been prepared by SOLGM, and PwC has provided SOLGM with the section on tax submissions to the Bill.



- Inland Revenue has been active in the Local Government sector over the last couple of years and in the last 18 months, notified six local authorities that they are considering undertaking an audit of their tax compliance. This is part of the Inland Revenue's general interest in encouraging organisations to be tax compliant, and is part of their interest in the wider public sector. One of the standard questions when Inland Revenue review any organisation is whether there has been an independent assessment of tax compliance, and if so, to request any reports issued.

Inland Revenue's ongoing internal transformation will have likely caused disruption in this area. As such, an audit is not necessarily imminent and indeed may never occur, but one cannot discount the possibility that it may. As such is timely to have in place a Tax Governance Framework and Strategy to ensure that tax risk management is front of mind.

- Inland Revenue put forward a proposal to amend the Income Tax Act 2007 to remove the ability for Councils to be part of an income tax consolidated group. Although a remedial change, submissions made meant the proposed legislative amendment was withdrawn. However, partly as a consequence of how the situation unfolded, it was noted that the withdrawal of the proposed change was subject to a wider review of local government taxation by Inland Revenue policy officials.

Council's tax figures

Council is largely exempt from income tax, with the main exception being income from CCOs. However, Council has significant tax obligations, particularly in relation to GST and PAYE. To illustrate this, in the 12 months ending 31 March 2018, Council has accounted for circa:

<i>Tax</i>	<i>12 month period ending</i>	<i>Amount</i>
GST output tax	31 March 2018	\$21,331,153.41
GST input tax	31 March 2018	\$14,863,592.42
PAYE & ACC	31 March 2018	\$5,874,969.82
FBT	31 March 2018	\$44,500.59

Council also has tax losses of \$3,252,099 available to carry forward to the 2018 income year.

Conclusion

Council was an early adopter of the tax risk management framework and the development of a tax risk management strategy. This has been effective since its implementation, and it is timely to now update this. Accordingly, the proposed strategy as outlined in Appendix B, should be considered and Council should affirm that this is how it would like to proceed.

The adoption of the Framework and the Strategy will ensure that complacency does not arise amongst the finance team, senior leadership team or those with oversight for audit and risk.



Appendix A

Wider tax developments

With the Labour Government now settling into its role we are witnessing a change in direction towards a focus on social change in tax decision making. This will inevitably influence decisions that are made at the local government level and we have already seen changes to various pieces of legislation requiring decision making to take into account the social values. We expect this to continue and we are particularly interested in the impact for local government.

Aside from this ongoing 'direction of travel', other recent tax legislation and/or Inland Revenue practice developments include:

- The effects of the overhaul of the rules for schedular withholding payments that have been in action from 1 April 2017. These changes have meant that:
 - Contractors that undertake schedular activities have the option of choosing their own withholding rate, and council's should expect to see people electing their own rate going forward (with a minimum of 10% for resident contractors and 15% for non-resident).
 - Contractors that do not undertake a schedular activity can request the withholding tax be deducted by the engaging party.
- Inland Revenue have been particularly interested in overseas payments, such as allowances and reimbursements made to overseas based employees, and whether organisations are taxing these effectively.
- There has previously been some confusion about the tax treatment when employers take out group life insurance policies. Inland Revenue's view is that the following tax treatment should be applied:
 - The employer is allowed a deduction for premiums paid, but these premiums are subject to FBT.
 - Amounts paid out on the policy are not income to the employer or employee (unless they are income under sCA1(2), with a possible exemption under sCW34.
- Historically we have supported organisations issuing a combined tax invoice and credit or debit note in respect of supplies where GST adjustments are upfront. Inland Revenue has raised the question whether this is allowed and have responded in QB18/06 that a registered person may only issue a combined tax invoice and credit or debit note if each relates to a different supply of goods and services, but not if they relate to the same supply.
- Sick leave is becoming more common across local authorities where staff are able to deposit surplus sick leave into a 'bank' for other colleagues in need. The requirements for accounting for sick leave are set out in PBE IPSAS39 Employee Benefits.

In brief, the consideration for sick leave banking is that employees who use in excess of their yearly entitlement will be more likely to have further sick leave entitlements and therefore likely that the liability that may need to be recognised could be higher.



- Inland Revenue's business transformation process is entering its third stage, being the better administration of PAYE. The proposed changes that are part of the PAYE transformation present a significant change in payroll reporting, affecting all employers. The new rules will not be mandatory until 1 April 2019, and employers could choose to voluntarily apply them from 1 April 2018. We anticipate the potential need for extensive work to be undertaken by payroll providers, Inland Revenue, and payroll practitioners to ensure the relevant systems and procedures have been updated, and appropriate testing has been undertaken, well before 'go-live'.

To summarise the key changes:

- Pay day reporting – Employers in the default 'Online Group' category will be required to provide payroll information to Inland Revenue in electronic form, and using a prescribed form of electronic communication, within two working days following each payday.
- Payment dates remain unchanged - Despite the change to payday reporting, employers may choose to pay PAYE (and related deductions) to Inland Revenue on a payday basis, or maintain the status quo in terms of payment (i.e., either once or twice monthly).
- Employee information - There are changes to provide for "near real-time" sharing of employee information from the employer to Inland Revenue. This will enable Inland Revenue to mitigate subsequent errors, such as the incorrect tax code being used or incorrect deductions occurring.
- Payroll subsidies - the subsidy will remain for two more years, but will only be available to a narrower group of employers.
- Other - There are also a number of specific rules around the reporting of out-of-cycle payments, schedular payments, employee share scheme benefits and shadow payroll amounts.

At this stage, we recommend:

- That you talk to your payroll team or payroll software provider and determine whether there is a plan in place regarding the payroll transformation and ensure that there is at least one individual responsible for monitoring PAYE transformation developments, and providing periodic updates to the Finance team and Audit and Risk Committee or Human Resources. We can help assist with this.

Other tax developments

- Land Transport Management (Regional Fuel Tax) Amendment Bill introduced a mechanism under which regional fuel taxes can be established to provide a way for regions to fund transport infrastructure programmes that would otherwise be delayed or not funded. The bill proposes that regional councils will have the ability to apply to have a regional fuel tax in their region if certain criteria are met.
- The Tax Working Group is now established and is working on reviewing a wide range of tax issues. The Group is made up of a diverse group of individuals and we look forward to seeing what recommendations are made. The Group has issued its first discussion document and submissions closed on 30 April 2018. PwC made a submission to the group and is closely monitoring the findings of the group to ensure any topical issues will be communicated to our clients.



- A review of the Commissioner's mileage rates has resulted in an increase in cost for petrol and diesel fuel vehicles in the 2017 income year. Additionally, mileage rates for hybrid and electric cars have now been introduced. Employer's may use the following rates as a reasonable estimate of costs when reimbursing employees for business related travel using their private vehicles:
 - Petrol and diesel fuel vehicles – 73 cents per km
 - Hybrid vehicles – 73 cents per km
 - Electric vehicles – 81 cents per km

Inland Revenue released a draft operational statement EDO203 on both the use of kilometre mileage rates for business deductions for income tax paying entities and also the use of mileage rates for reimbursing employees where they are required to use their own vehicle for work related travel. The main proposed change relates to the calculation of reimbursement amounts to take into account the engine size of the vehicle the employee uses leading to a more complicated calculation than currently exists. The draft statement will replace OS 09/01 and submissions closed on 30 April 2018.

- Corrective treatment for lump-sum holiday pay on termination, to ensure this is taxed as extra-pay from 1 April 2016. The correct calculation of holiday pay; this is something all employers need to be mindful of. The commissioner's statement in CS 17/02 provides guidance on how a backdated remedial payment of holiday pay is to be treated for tax purposes.
- Inland Revenue has now issued a public ruling BR Pub17/02 Goods and services tax – traffic enforcement activities by local authorities. Previously PwC worked with the sector to secure this as a private ruling. This move will greatly reduce the costs and administrative for local authorities. In summary the ruling sets out the Commissioner's view that traffic infringement fees (commonly arising from parking offences) retained by local authorities under section 141 of the Land Transport Act 1998 are not subject to GST. However input tax deductions are still available to the extent that goods and services are used in traffic law enforcement services or in making taxable supplies.
- A clarification on FBT in relation to licenced car-parks, allowing these to fall within the 'on-premises' exemption where Council has 'substantially exclusive use' of the car park.
- Interpretation Statement 17/07 was released on 29 August 2017 providing increased certainty in understanding FBT obligations for motor vehicles.
- Interpretation statement 17/08 Compulsory zero-rating of land rules (general application) was released. The Interpretation Statement provides a general overview of the compulsory zero-rating of land (CZR) rules, including practical examples of how the CZR rules work and a flowchart at the end. The statement's focus is on helping vendors and purchasers get it right from the start, before a transaction including land settles.
- Recent changes to the interest rates applicable to use of money interest applying to under-paid and over-paid tax, including a reduction in interest:
 - Charged from 8.27% to 8.22% from 8 May 2017.
 - Paid from 1.62% to 1.02% from 8 May 2017



Case Law update

We provide below a summary of several tax cases over the year that have relevance or interest to the sector.

Queenstown Airport v CIR – Court of Appeal

Subject: Depreciation

All airport runways in New Zealand are required to have Runway End Safety Areas (RESAs) to act as a safety area in case of an early landing or late take-off.

Due to Queenstown Airport's (QA) runway having a steep drop off immediately at one end of its runway, it spent around \$8.7m constructing a RESA. QA later sought to deduct depreciation on this structure. The Commissioner did not allow these deductions as RESAs did not form part of the depreciable land improvements list in Schedule 13 of the Act.

The decision

The Court of Appeal upheld the High Court's decision and found in favour of the Commissioner. The Court did not accept QA's contention that the RESA was an integral part of the depreciable runway, drawing the distinction that runway surfaces needed to be replaced every 5-10 years at a cost of \$10 million, whereas the RESAs expected life was 120 years and only required \$19,000 of maintenance yearly.

QA's argument that the construction of the RESA was an 'improvement' to the existing depreciable runway was also not accepted. The Court also held a key fact was that the RESA was not available for use by aircraft other than for use of safety reasons in an emergency.

Thus, QA was denied a deduction for depreciation of the RESA.

While the particular asset that is in question here is relatively unique, the Court of Appeal in its analysis provides a good summary and guidance on how the depreciation regime apply. Specifically, the following points were made in relation to section EE 6(1):

- The reference to normal circumstances refers to circumstances that might ordinarily be expected to affect the value of the relevant asset over time. Abnormal circumstances, of which an earthquake might be one, are excluded from consideration.
- The assessment is ordinarily made at the time the relevant deduction is sought. Necessarily, this will involve a prediction of future events.
- The test is objective in the sense that it would not be sufficient for a taxpayer to believe that the asset might deteriorate over time and therefore decline in value. There must be a reasonable basis for that expectation.
- The expression "might reasonably be expected to decline in value" sets a relatively low threshold. So long as there is a reasonable prospect that the asset might decline in value in the future, that is sufficient.

It is not necessary that the asset is actually used, only that it is available for use. Full citation: *Queenstown Airport Corporation Limited v CIR* [2047] NZCA 20.



Y&P NZ Limited v Wang – Court of Appeal

Subject: Compulsory zero-rating on sale of land for GST purposes Y&P NZ Limited entered into agreement to sell four properties to the Mr Wang and Ms Zhang for “\$2.34m + GST (if any)”. At the time of entry into the agreement, the purchasers were not GST registered and thus 15% would be due in addition to the sale price. A day before settlement the purchasers became GST registered, and called the vendor’s lawyer to inform them of this fact. The vendor’s lawyer then proceeded to provide amended settlement statements zero-rating the transactions and requested the purchasers GST numbers.

On the day of settlement, the vendor argued that zero-rating did not apply as a clause in the contract required all changes to be made at least two days prior to settlement in writing, which was not provided by the purchasers.

The purchasers however argued that there had been a waiver of the two-day notice in writing provision when the vendors provided the amended settlement statements with zero-rated GST, together with a request for the GST numbers.

Due to the disagreement of the GST treatment, the sale was not completed. The vendors gave notice to cancel the agreements while the purchasers were seeking specific performance. The purchasers were also successful in obtaining caveats to protect their positions.

The decision

The Court of Appeal held that the amended settlement statements, together with the request for GST numbers acted as a waiver of the contractual requirement for written notice at least two days before settlement.

However, the Court commented that vendors are not able to contract out of the written notice requirement under section 78F of the Goods and Services Tax Act 1985 (GSTA) for compulsory zero-rating to apply. This is on the basis that the provision is for the protection of New Zealand’s tax base and not for the benefit of the vendor.

The Court further noted that the requirements of compulsory zero-rating under section 11(1)(mb) of the GSTA is to be tested at the date of settlement and the legislative requirement is that written notice can be given by or on settlement. The Court’s view was that the purchasers would have been able to meet the statutory requirement to provide written notice of their GST status if they had been given the opportunity to do so.

Ultimately, the Court held that the sale of properties should be zero-rated and the appeal was denied. The caveats remained.

Full citation: Y&P NZ Limited v Wang [2017] NZCA 280

YL NZ Investment Ltd v Ling – High Court

Subject: GST registration

Ling sold a property to YL NZ Investment Ltd (YL NZ) for \$3.5m inclusive of GST under an agreement dated 21 December 2015. The parties used the agreement for sale and purchaser of real estate approved by the Real Estate Institute of New Zealand and the Auckland District Law Society, ninth edition 2012(2) (the ADLS Agreement). Clause 14 of the agreement dealt with zero-rating. YL NZ was GST registered. However, Ling gave a warranty under clause 14.1 of the sale and purchase agreement that she was not GST registered.



Subsequent to settlement, Inland Revenue turned down YL NZ's claim for a second-hand input tax credit on the basis that Ling was liable to be registered for GST at the time of settlement, even though she was not actually GST registered at the time. In September 2016, IR registered Ling for GST with effect from May 2015. Due to this retrospective effect, the agreement was zero-rated and as a result YL NZ could not obtain their input tax refund – worth around \$366,000. YL NZ took Ling to Court alleging breach of warranty.

The decision

The Court held that although Ling was not GST registered, she was clearly carrying out a taxable activity in the purchase and re-sale of the property, and thus was liable to be forcibly registered by Inland Revenue.

As the ADLS agreement used by the parties had used terminology from the GSTA, the Court held that the word 'registration' in the agreement would also include vendors who were liable to be registered (as per the definition of 'registered person' in the GSTA). Where the ADLS agreement asks for confirmation of the vendor's GST status, the question not only asks whether the vendor is actually GST registered but also extends to whether the vendor is liable to be registered for GST.

On this basis, Ling was held to have breached the warranty in clause 14.1, and therefore was ordered to pay YL NZ the \$366,000 plus interest.

Full citation: YL NZ Investment Limited v Ling [2017] NZHC 1793



Appendix B

Whangarei District Council Tax risk management strategy

Tax services	Financial year ending 30/06/2017	Financial year ending 30/06/2018	Proposed future strategy		
			Financial year ending 30/06/2019	Financial year ending 30/06/2020	Financial year ending 30/06/2021
Tax helpdesk facility	✓	✓	✓	✓	✓
Access to online taxation policies	✓	✓	✓	✓	✓
Tax compliance reviews undertaken					
• GST				✓	
• PAYE, withholding taxes			✓		
• FBT					✓
• GST on property transactions		✓			
Income tax return independently reviewed	✓	✓	✓	✓	✓
Tax disclosure notes independently reviewed	✓	✓	✓	✓	✓
Tax agency – income tax	✓	✓	✓	✓	✓
External advice sought on major tax issues	✓	✓	✓	✓	✓
Tax training provided to staff			As required		

4.4 Health and Safety Report

Meeting: Audit and Risk Committee
Date of meeting: 27 June, 2018
Reporting officer: Desarae Williams, Health and Safety (H&S) Manager

1 Purpose

To provide the Audit and Risk Committee with information on key health and safety (H&S) risks, updates and measures in place to mitigate those risks at the Whangarei District Council workplace.

2 Recommendation/s

That the Audit and Risk Committee notes the information presented in the report and its attachment.

3 Background

Elected members have significant influence over our workplace and are obliged to:

- Apply due diligence to ensure the Council is meeting legal health and safety obligations.
- Ensure that health and safety risks have been identified and are being suitably mitigated.
- Be confident that Council is providing a safe workplace for workers.

This report provides key information that addresses these matters at a governance level.

4 Discussion

Risks

Attachment one of this report shows the top ten H&S risks at the Whangarei District Council workplace. There has been no significant change in the risks since the last report.

One of the key learnings under discussion in the health and safety community over this last quarter has been that there will always be the possibility of human error where work is being undertaken. Our role with health and safety risks, is to accept this and allow workers to 'fail safely', with emphasis on elimination, substitution, design and engineering as solutions.

Risk 1. Threat and aggression risks: There have been several incidents involving threats to Walton Plaza staff since the last report. These include two events involving threats from Work and Income clients where the whole building has gone into a lockdown. During the last recent event, it became apparent to us that if we go into a lockdown, we must remain in a lockdown, until officially advised. Some of our staff left by the back door during the last event, placing themselves at unknown risk. We intend to mitigate this in future incidents by monitoring exits using signage and communication. There have also been other incidents involving personal threat events from other tenant's clients both in or outside of the building.

CCTV cameras and panic alarms have been installed at our branch libraries, reducing the risk to remote workers.

Risk 2. Traffic related risks: no change of significance.

Risk 3. Stress and fatigue: no change of significance.

Risk 4. Contractor management: many of our contractors are now going through the recertification process under the Site Wise prequalification requirements.

Risk 5. Slips and trips: no change of significance.

Risk 6. Falling from height: no change of significance.

Risk 7. Roller incidents: no change of significance.

Risk 8. Confined spaces: no change of significance.

Risk 9. Ergonomic risks: no change of significance.

Risk 10. Earthquake compliance: no change of significance.

An area of risk, not in the top ten, we have been working on in the last quarter is the risk of a major chlorine leak. We have been steadily reviewing these situations at the water treatment sites, where bulk chlorine is stored. We have undertaken table top drills and identified any weak points in our processes. We have also met with the NZ Fire Service about undertaking reconnaissance missions on our sites, so they become more familiar with the site set up. All Water Staff have recently attended Breathing Apparatus training as part of a preventative and response requirement. The purchase of a shut off valve for each bulk chlorine tank (cost about \$12,000 each), will dramatically reduce the possibility of a major leak and this will be provided for in future capital budgets.

Work has also been done to ensure compliance following the implementation of the new Hazardous Substances Regulations, with workers being trained, chemical inventories checked and established, hazardous substances audits, provision of current Safety Data Sheets, review of storage, signage and information. We have also eliminated the storage of a vast number of chemicals or reduced quantities held. Chemical spill drills also pick up issues.

Injuries

Statistics are shown for the third quarter of the 2017-18 financial year below. The trend arrow relates to the previous quarter. While the upwards arrow might appear negative, the increased reporting of incidents, minor injuries and pain and discomfort reflects a good reporting culture. The number of medical injuries has also increased. One of the more traditional measures of success indicates a decrease in both lost time injuries and WorkSafe NZ notifiable events in comparison to previous years.

Injury Type	Employee Jan - March	Contractor Jan - March	Public Jan - March	Totals YTD to 31/3/17	Trend Since last quarter
Injury event to WorkSafe NZ	0	0	0	0	Same
Lost Time Injury (injury needing days off)	0	1	0	3	↓
Medical Treatment Injury (visited doctor or physio)	3	12	5	35	↑
Occupational health exposure	0	0	0	0	Same
Minor injuries (First Aid)	0	20	0	56	↑
Pain and Discomfort	22	5	0	58	↑
Incidents	18	47	0	116	↑

Table 1: Council workplace injuries 1 October – 31 March, 2018

The lost time injury above relates to an Armourguard contractor who fell off the deck and broke his wrist when visiting a private dwelling.

Table 2 below, shows incidents reported over last four years, including this financial year to date totals.

Incident Type	2013- 2014	2014- 2015	2015- 16	2016- 2017	1/7/17 to 31/3/18 YTD	Trend since previous year
Injury notifiable to WorkSafe NZ	3	6	2	3	0	↓
Lost Time Injuries	13	14	7	11	8	↓
Medical Treatment Injuries	37	19	46	51	62	↑
Occupational health exposure	0	0	0	11	2	↓
Minor Injuries	40	46	74	127	129	↑
Pain and Discomfort	9	18	84	109	122	↑
Incidents	137	116	382	283	232	↓

Table 2: Council workplace injuries over last five financial years

One of the areas we collect data is where contractors have been found to have breached legislation by WorkSafe NZ. Two contractors escaped with warnings this quarter after failing to be able to produce or observing a traffic management plan (TMP). This was the second incident of a similar nature within a short space of time and our contractors have been advised to always have a TMP with them. WorkSafe NZ then asked us to provide evidence as to how we manage our contractors in this regard, which we duly did. In another incident, another of our contractors workers was observed creating concrete dust. The worker was individually fined \$500 after an investigation by WorkSafe NZ, the company was found to be not at fault.

Legislative Compliance

The new Asbestos Regulations came into effect on April 1, 2018. This changed who could undertake asbestos related work and how. There is a lot of misinformation about the requirements, but a key change requires organisations to have an Asbestos Management Plan which we already have in place. We have reviewed our signage as this is also one of the requirements. We maintain an asbestos register and associated documentation, which contains specific details about council owned properties which are either known to have or are suspected to have asbestos. Since the last report, the old Balance building, which was known to have asbestos is now completely removed eliminating the risk and hazard. We have been working proactively with WorkSafe NZ during this project and had no issues.

One of the health and safety legislative areas under review is the area of worker engagement, with information being issued about changing the current Health and Safety at Work Act to accommodate more of this 'engagement'. What this may mean is unclear, but the following points were discussed at a recent EMA briefing to demonstrate why this is needed.

There are many tasks done in the organisation.

- Leaders may have an overview of the desired end result, but may not have direct knowledge of how or what is done to achieve this.
- Managers may know a certain task is to be accomplished to achieve the objective, but now have specific details on how it is done.
- Team Leaders may have specific knowledge and awareness about a necessary task, who does it and what is required to achieve the direct result, with some knowledge of how it 'should' be done.
- Workers who do the task, may or may not know, the correct way to do the task, but may undertake it, in quite a different way to how the procedure states and how the Team Leader believes it is actually done.

The workers are the people most at risk of injury so it is the workers we must engage with to understand the risks they face and how and why they deviate from a procedure. Once we understand this we can more effectively make our work people safe. We have had several examples of high risks identified over this calendar year that only a worker would have known about. These were identified during unrelated conversations despite many more formal opportunities to come forward with this information. One risk involved a crush hazard in the theatre and one involved the release of an inergen gas system in an area previously not recognised as being a risk which would affect others working in the area. When these are identified, it is important to do something about them and quickly. This generally creates a culture where these risks get reported in a timelier way.

Training

Table 3, below, shows a summary of training undertaken since the last report.

Internal	External
<ul style="list-style-type: none"> • Several emergency evacuation training for Forum North based people • Various fire warden trainings and refreshers 	<ul style="list-style-type: none"> • First Aid (Lifecare) • Site Safe passports • Chemical handling • First moves manual handling (AIM) • Dog behavior awareness • Car Control • Confined Space Refreshers • Breathing Apparatus • Health and Safety Representative training, level1 • Height safety and fall arrest • Elevated Work platform

Table 3: Summary of health and safety training undertaken March 12 – June 11th, 2018

Emergency Systems

There is an annual schedule of emergency drills for all sites and all types of emergencies for the coming year. So far in this quarter we have done drills on; emergency evacuation, first aid events, chemical spills, receipt of suspicious mail and parcels, armed robbery, dealing with aggressive customers and panic alarms.

Audits and Monitoring

A schedule of internal and external health and safety system audits and monitoring is also in place. This quarter we have done;

- Internal workplace inspections at several locations, which mainly pick up physical hazards
- External machinery guarding audits at two sites
- Internal reviews of how our staff are undertaking required contractor monitoring
- Health and safety systems audits of some high-risk contractors
- External security audits at branch libraries

As mentioned in the last report, we still need to decide how to replace the now defunct ACC Workplace Safety Management Practices (WSMP) accreditation audit. In the last report, it was stated our accreditation will run out in August 2019, but this was corrected at the previous Audit and Risk meeting, as being August 2018 this year.

There are six options to consider;

1. Do nothing.
2. Aim to comply with the new international health and standard, ISO 45001, which is an international standard, with the disadvantage it is not specific to our legislation.

3. Aim to comply with the AS/NZS 45001 standard under development, which if on track should be available in November 2018 and be audited against this. This will be compliant to NZ legislation. This will require high auditing costs and compliance funding.
4. Aim to comply to the OHSAS 18001, a European health safety and environment standard, but this will be phased out in 2021.
5. Aim to continue complying to the current AS/NZS4801, which was what the old ACC WSMP audits were based on, but this standard will be discontinued in 2021.
6. Have a SafePlus assessment (this is a WorkSafe NZ and ACC developed assessment tool, using external auditors, involving the interviewing people in the Council, from the Mayor and councilors, to leaders, workers, contractors and even volunteers). This aims to check how far through the organisation health and safety is embedded. Several selected risks are identified and followed through thoroughly by the auditors, including a compulsory health risk. Organisations undertaking this tend to have reached a high level of safety maturity.

While this decision has not been formally made, we are leaning towards the last option.

Culture

Something to celebrate, during the recent staff survey (our korero) the question: *Health safety and wellbeing of people in our organisation is appropriately addressed in our systems, processes and work environment* was our third highest scoring question. Also, the benchmark data showed the score was slightly above other councils and organisations. A less formal survey, undertaken amongst some staff while waiting for their flu vaccine reported similar results.

Worker Participation

We have formed several subcommittees involving Health and Safety Reps to review significant hazards.

Elections a third of the Health and Safety Representatives (H&S Rep) took place, with all standing members being re-nominated. Two new H&S Reps have received the necessary training.

Judith Collett, our Roding H&S Rep was nominated for the best H&S Rep of the year in the recent national Safeguard health and safety awards. She came in as a finalist of three and attended the celebratory awards dinner.

5 Significance and engagement

The decisions or matters of this report do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via report publication on the website.

6 Attachment

Top Ten Health and Safety Risks, June 2018.

Attachment 1: Ten highest perceived health and safety risks in Whangarei District Council ‘workplaces’

#	Risk Description	Cause of the Risk	Consequence / impact of an event happening	Inherent Risk Rating	Controls in Place	Residual Risk Rating	Future Controls	Future Risk Rating
1	Aggression from members of public. <i>This includes Aggression from WINZ and CYFs clients at Walton Plaza.</i>	Workers out in field coming across aggressive people, aggressive people coming into council. Includes the aggressive customers Walton Plaza tenants, affecting our workplace.	Worksafe notifiable injury	Critical	<ul style="list-style-type: none"> • Security procedures in place • Regular training sessions on what to do in lock down or restricted access events. • Personal safety and armed robbery training provided • Monthly H&S & Security meetings held with other tenants • Planned drills, which expose holes in systems • Audits of high risk areas • CCTV and panic button installed 	High		
2	Traffic, pedestrian and driving hazards	Other people driving badly, pedestrians walking out in front of vehicles, errors of judgement made. Fatigue risks when driving. Maintenance risks. Also risk to workers when	One Worksafe notifiable injury or potentially many fatalities	Critical	<ul style="list-style-type: none"> • Driver assessments • Licence checks • Driver – car control training being provided for high use fleet drivers • Driver checklists implemented • Driver inductions 	High		

#	Risk Description	Cause of the Risk	Consequence / impact of an event happening	Inherent Risk Rating	Controls in Place	Residual Risk Rating	Future Controls	Future Risk Rating
		crossing roads from traffic – particularly Walton Street.						
3	Workplace stress and fatigue	Work overload, bullying, unreasonable behaviours, unresolved conflict. This can be compounded by out of work issues	WorkSafe NZ notifiable injury	Critical	<ul style="list-style-type: none"> EAP (Employee Assistance Programme) system available Encouragement to early report and resolve issues Policies in place giving guidance Fatigue management processes in place and monitoring 	High	Note: the staff review has reportedly made a number of staff anxious or overwhelmed.	
4	Contractors creating risks in the workplace	Contractors injuring themselves and others when undertaking council work or while at council workplaces/ This is especially risky if they are uncertified (H&S) contractors	Multiple fatalities WorkSafe NZ Prosecution	Critical	<ul style="list-style-type: none"> Good initial health and safety appraisal system – we are moving to a prequalification requirement of being SiteWise approved to 50% or more, within stated timeframes Tight asbestos removal controls Annual review of existing contractors Monitoring processes Contractors informed of requirements and standards, with regular communication to contractors 	Medium		

#	Risk Description	Cause of the Risk	Consequence / impact of an event happening	Inherent Risk Rating	Controls in Place	Residual Risk Rating	Future Controls	Future Risk Rating
					<ul style="list-style-type: none"> • Council staff trained in requirements • Contractor Management policy in place • Permit to Work system in place • Lockout system in place • Induction of contractors 			
5	Slips and trips	Slippery surfaces, unrecognised trip hazards, people not paying attention	WorkSafe NZ notifiable injury	High	<ul style="list-style-type: none"> • Encouragement of reporting and resolving the risk as soon as possible 	Medium		
6	Work at heights (WAH)	Falling	Worksafe NZ notifiable injury	High	<ul style="list-style-type: none"> • Training • Permits to work • WAH reviews and audits • Procedures • Handrails • Use of scaffolding • Use of Elevated work platforms • Assessments of risk and plans to work safely • Supervision 	Medium		
7	Roller related accidents	Wrong roller type used, camber and slant of road, roller driving technique, driver fatigue or boredom or	Worksafe notifiable injury	High	<ul style="list-style-type: none"> • Training • Standard operating procedures – our larger contractors have recently shared theirs with others • Review of the issue with contractors 	Medium		

#	Risk Description	Cause of the Risk	Consequence / impact of an event happening	Inherent Risk Rating	Controls in Place	Residual Risk Rating	Future Controls	Future Risk Rating
		inattention, lack of trained workers			<ul style="list-style-type: none"> • Use of correct rollers • Use of radios on worksites 			
8	Confined space entries (CSE)	Unmitigated risk into confined spaces including lack of; training, certified people, procedures, air monitoring, supervision, permits etc.	Multiple fatalities WorkSafe NZ Prosecution	High	<ul style="list-style-type: none"> • Requirement to use CSE permit to work and suitable procedures • CSE policy • Trained staff • Air & gas monitoring • Rescue plans • Monitoring • Supervision • Notification to our contractors about our standards and requirements 	Medium		
9	Manual handling and ergonomic risks	Staff unaware of risk or requirements or taking the unnecessary risk	Lost time injury	High	<ul style="list-style-type: none"> • Manual handling training • Lifting equipment • Use of two people to lift heavy items • Storage controls • Monitoring and supervision 	Medium		
10	Seismic risk at Kioreroa road Admin Building, Whau Valley Water treatment building and Forum North	Lack of compliance to new earthquake building standards, although not enforceable till 2025	Multiple fatalities (But note – very low probability)		Nil		Building new Water plant. One building concept – so staff not in at risk area. Remedial action at Waste plant	Eliminated

4.5 Risk Register June 2018 Update

Meeting: Audit and Risk Committee
Date of meeting: 27 June 2018
Reporting officer: Emily Thompson (Audit and Risk Analyst)

1 Purpose

To provide a current snapshot of risks across the Council.

2 Recommendation

That the Audit and Risk Committee notes the report outlining the current risks to the Council.

3 Background

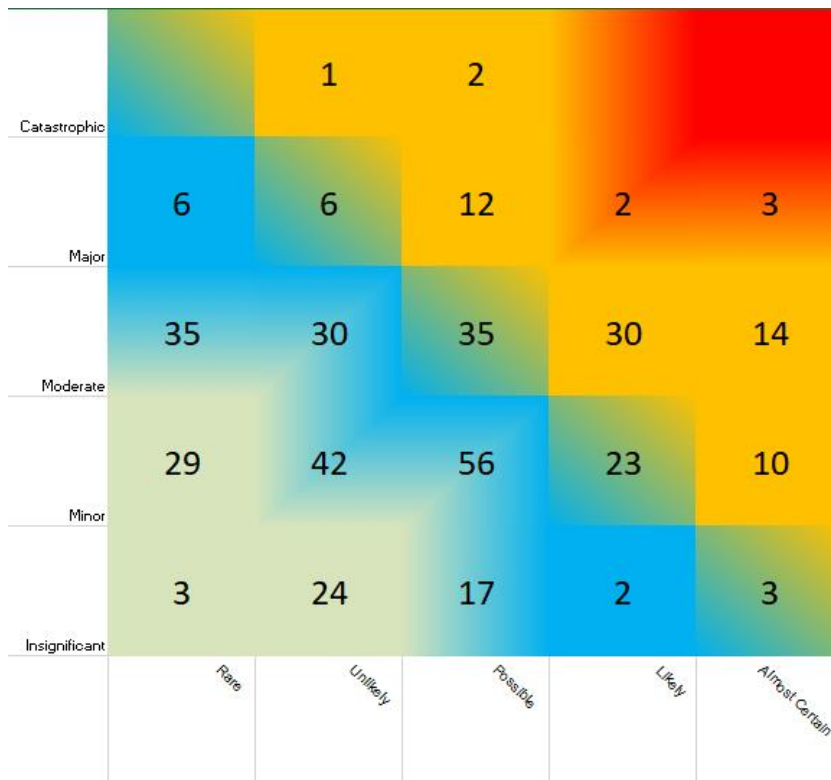
Whangarei District Council adopted the Risk Management Framework in April 2016. Initial workshops were completed shortly afterwards to identify key risks to the organisation, which were reported to the Audit and Risk Committee until September 2017.

All departments that have been involved with a risk workshop now have a risk register that is updated regularly. The audit and risk analyst continues to work with departments to help them identify and articulate risks across their departments.

4 High level risk information

This is the second round of reporting that has been completed from risk registers that were available to the audit and risk analyst by the end of May.

All of the departmental risk registers were collated into an overall master sheet, identifying 385 risks across the organisation. All of the risks are relevant but many are managed at a department level as part of our business as usual processes.

Graph One: Risk overview June 2018

The graph above shows the spread of risk across the organisation, after controls. This comes directly from the consolidated departmental risk registers following the initial workshops. Changes since the last report show that the trend in risk scores is downwards with less risks in the top row.

Some of the department risks, that resulted in a 'Critical' rating following the application of current controls, have been raised to the Strategic Leadership Team for awareness and consideration. They are identified as the risks in the red area of the graph and are also outlined below in Table One as our 'key department risks' within Council.

Table One: Key Departmental Risks

Department	Risk summary	Mitigation plan
Building Compliance	Swimming pool register audits overdue, and numerous pools in the District not compliant with legislation.	This issues is being actively managed across the Planning and Development Group.
Data and records management	That we are not managing data and records in line with requirements under various pieces of legislation including public records and privacy.	Work has started to improve awareness of privacy requirements, staff acknowledge there is more work to complete in this area.

Department	Risk summary	Mitigation plan
Water Services	Failure of supply. Specific concerns around supply to high volume user and / or failure to supply due to contamination of water source.	Staff constantly review risks around water sources and are currently looking at options and alternatives for the single high profile supply line to our high volume users.
ICT	Ongoing Cyber Threat or internal intrusion by staff affecting systems and data across the organisation leading to reputation damage, data loss and operational impact across all departments.	The threat remains high however daily monitoring is in place and regular updates to Anti-Virus software is scheduled and managed by the ICT department.
Roading	Development contributions are insufficient for the growth we are seeing across the District. This leads to increase cost of ensuring service and infrastructure provision for our growing population.	Currently having to accept the risk as we have no other criteria to determining development contributions.
District Development	Potential misalignment of property management requirements and strategic property revenue plan. Leading to loss in revenue collections and inconsistencies in lease negotiations.	Reviewing current process to highlight and correct this misalignment
District Plan	District plan review is occurring in increments, leading to potential for failure to meet legal obligations and increased costs for Council	Investigating options to undertake a full and timely review.
Waste & Drainage	Vested assets are inherited by Council as part of the understanding with developers, however they sometimes do not meet the expected Levels of Service for the asset and fail prematurely leading to premature renewal or expensive maintenance above budget.	Currently all sites are visited during construction but only proportion of assets can be inspected. Investigating the introduction of hold points in construction to allow for appropriate inspection of assets.

The risks were also categorised to identify trends across departments which lead to potential strategic concerns for the Council. These risks have been presented to both the Operational Leadership Team and the Strategic Leadership Team (SLT).

The current organisational strategic risks are shown in Table Two below. These have not changed since the report provided in March 2018.

Table Two: Strategic Risks

Area	Risk	Mitigation
Data sets	Data sets across all systems and databases in Council are not currently aligned and interactive. This leads to lack of visibility of knowledge across management teams. Specific risk around GIS skill set within council	Current work on Trilogy part 2, and focus in multiple departments on development of better datasets to improve modelling and knowledge.
Staffing	Recruitment and retention of staff in public sector in Whangarei, with specific concerns around specialist roles, contract termination clauses and loss of organisational knowledge.	Limited. We can only employ people who live or are willing to move to Whangarei. The direction of the District and its development is helping to encourage skills into the area.
Regional growth	Growth of region is faster than identified in current NZ stats data. Leading to lack of budget on development of core infrastructure and amenities to support the population.	Monitor and work with facts as they are identified.
Rates	Complexity of the current rates system could lead to complications in protecting revenue for Council.	Options under the LTP to review how we allocate and collect rates
Elections	That a local or government level of elections changes the nature of Council business.	Limited. Until changes occur we are not able to respond. However known changes will be managed on an individual basis.
Way of working	Due to increase in the use of social media as a rate payer's communication tool, there is a risk that Council is not meeting the needs of the ratepayers in timely response to their concerns. This includes infrastructure real time maintenance information as well as 24/7 social media presence.	External facing departments are investigating ways to improve mobile working for infrastructure teams (to provide real-time information) and how staff can support the rise in social media communications coming into Council.
Litigation	Due to the increasingly litigious environment there is a potential for increase cases being brought against Council. Some are appropriate however some are not.	Limited. Litigations brought against Council are being dealt with on a case by case basis with external legal support provided as required.

5 Significance and engagement

The decisions or matters of this report do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via report publication on the website.

4.6 Policy Register Status Update June 2018

Meeting: Audit and Risk Committee
Date of meeting: 27 June 2018
Reporting officer: Emily Thompson (Audit and Risk Analyst)

1 Purpose

To update the status of the internal and external policies via the policy register.

2 Recommendation/s

That the Committee notes the status of the current internal and external policy register.

3 Background

The Audit and Risk Committee has a responsibility to monitor the reviewing and updating of policies across Council. This includes both internal policies and external policies.

The policies are currently updated by the operational owner when policies are due for review. The work on Kete continues to will provide a central register to allow reviews to be managed as part of a workflow process.

This is being overseen by the Audit and Risk Analyst and the Strategy Team.

4 Discussion

The current policy register is attached and shows:

- 54 External polices, with some currently due for review
- 14 Internal Policies with the Fraud policy currently overdue for review, but in progress.

It is likely that progress on the monitoring and receiving of these policies will be available at the next Audit and Risk Committee Meeting.

5 External Policies – report on overdue reviews

Alfresco Dining Policy and Town Basin Control of Activities Policy

These reviews have been deferred as they will be incorporated in the overall review of Council's bylaws that regulate trading and events in public places. This programme of work will commence in 2018.

Appointments to Council Organisations Policy and Fraud, Dishonesty and Corruption Control Policy

These reviews have been deferred until a new Democracy and Assurance Manager has been appointed and will be incorporated into their work programme for 2018/2019.

Arts Culture and Heritage Policy

The review of this policy has started. Council is collaborating with Creative Northland on this review, which is expected to be completed by September 2018.

Board Venue Policy

The review of this policy has started and is expected to be completed by the end of 2018.

Bus shelters – Smoke free policy

The review of this policy has been deferred.

Class 4 Gambling Venue Policy

The review of this policy has started and is expected to be completed by the end of 2018.

Dangerous, Insanitary and Earthquake Prone Buildings Policy

The review of this policy was delayed to fully understand the implications of the 2017 changes to the Building Act 2004. This work has now been completed and the review is scheduled to be finalised by the end of 2018.

Fees Policy - Tree Protection - District Plan

An item on this matter will be presented to the Planning and Development Committee scoping meeting before the end of 2018.

Pressure Sewer Policy

This Policy review is included in the Department's 2018/2019 work programme.

Retirement Villages

The review of this policy will be incorporated into the Community Development Department's development of the Community Property Strategy and will be reported back to the Community Development Committee as part of that process.

River Management Policy

The review for this Policy is in train and the outcomes will be reported back to the Infrastructure Committee for consideration by July 2018.

Water Revenue Policy

The review of this policy has started and is expected to be completed by the end of 2018.

6 Significance and engagement

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via Agenda publication on the website.

7 Attachment

Council Policy Status Report.xls

Record Number	Policy Title	Main focus (Internal/External)	Owner Department	Department Manager	Date First Adopted	Last Review Date	Next Review Date	Links to WDC Bylaws	Associated Legislation (if applicable)	Legislative Review Period (if applicable)
POLICY0082	Accessibility Policy	External	Community Development	Jonny Gritt	1/11/2014	1/11/2014	1/11/2019		No associated legislation	No legislative review period
POLICY0017	Alfresco Dining Policy	External	Health & Bylaws	Renier Mussle	13/02/2013	13/02/2013	1/07/2017	Public Places Bylaw 2014, Hawkers, Mobile Shops, Stands and Stalls Bylaw 2005	No associated legislation but linkages to three WDC Bylaws	No legislative review period
POLICY0018	Appointments to Council Organisations Policy	External	Democracy & Assurance	Jason Marris	9/08/2003	1/07/2003	30/09/2017		Local Government Act 2002: Section 58	No legislative review period
POLICY0019	Arts Culture and Heritage Policy	External	Community Development	Jonny Gritt	1/04/2009	1/04/2009	1/10/2017		No associated legislation	No legislative review period
POLICY0131	Asset Management Policy	Internal	Infrastructure Development	Dom Kula	9/12/2016	9/12/2016	9/12/2019			
POLICY0020	Backflow Prevention Policy and Code of Practice	External	Water Services	Andrew Venmore	1/06/2012	1/06/2015	1/06/2020	Water Supply Bylaw	Health (Drinking Water) Amendment Act 2007	No legislative review period
POLICY0021	Board Venue Policy	External	Health & Bylaws	Renier Mussle	24/04/2013	24/04/2013	1/09/2017		Racing Act 2003	3 yearly
POLICY0022[v1]	Building over Public Sewers Policy	External	Waste & Drainage	Andrew Carvell	10/06/2015	10/06/2015	1/06/2020		No associated legislation	No legislative review period
POLICY0024	Bus shelters – Smoke free policy	External	Roading	Jeffrey Devine	11/12/2013	11/12/2013	1/05/2018		No associated legislation	No legislative review period
POLICY0025	Camping Ground Exemption Policy	External	Health & Bylaws	Renier Mussle	20/06/2002	1/11/2015	1/11/2020		Camping Ground Regulations 1985	No legislative review period
POLICY0026	Civic Honours Awards	External	Community Development	Jonny Gritt	16/06/2005	22/06/2016	1/06/2021		No associated legislation	No legislative review period
POLICY0027	Class 4 Gambling Venue Policy	External	Health & Bylaws	Renier Mussle	24/04/2013	24/04/2013	1/09/2017		Gambling Act 2003	3 yearly
POLICY0028	Coastal Erosion Protection Policy	External	Parks & Recreation	Sue Hodge	10/02/2010	9/09/2015	1/07/2019		No associated legislation	No legislative review period
POLICY0030	Community Facilities - Operating and Maintenance	External	Parks & Recreation	Sue Hodge	1/09/2015	1/09/2015	1/07/2019		No associated legislation	No legislative review period
POLICY0031[v1]	Community Funding Policy	External	Community Development	Jonny Gritt	27/05/2015	27/05/2015	1/05/2021		No associated legislation	No legislative review period
POLICY?	Community Garden Policy	External	Parks & Recreation	Sue Hodge	12/04/2018	NA	1/03/2023	Public Places Bylaw	NA	No legislative review period
POLICY0032	Community Libraries - Services	External	Library Department	Paula Ulrich	27/05/2015	27/05/2015	28/05/2020		No associated legislation	No legislative review period
POLICY0034	Council Owned Sports Parks, Playgrounds and Neighbourhood Reserves – Smoke Free Policy	External	Parks & Recreation	Sue Hodge	28/07/2010	9/09/2015	1/07/2019		No associated legislation	No legislative review period
POLICY0035	Dangerous, Insanitary and Earthquake Prone Buildings Policy	External	Building Control	Paul Cook	1/12/2012	1/12/2012	1/12/2017		Building Act 2004: Sections 131-132A	5 yearly
POLICY0037	Disposal of Crown Owned Reserves where Management is vested in Council	External	Parks & Recreation	Sue Hodge	5/06/2002	1/10/2015	1/07/2019		No associated legislation	No legislative review period
POLICY0038	Dog Management Policy	External	Health & Bylaws	Renier Mussle	1/03/2013	1/03/2013	1/03/2023	Dog Management Bylaw 2013	Dog Control Act 1996	10 yearly (maximum)
POLICY0089	Fees Policy - Tree Protection - District Plan	External	District Plan	Melissa McGrath	1/12/1991	1/04/2015	1/07/2018		District Plan under the RMA	No legislative review period
POLICY0039	Fire Control Recovery	External	Infrastructure Projects and Support	Dom Kula	9/09/2015	9/09/2015	1/09/2020	Fires In the Open Air Bylaw 2015	Forest and Rural Fires Act 1977	No legislative review period
POLICY0040	Forests - Recreational Use	External	Parks & Recreation	Sue Hodge	27/09/1995	1/08/2015	1/07/2019	Public Places Bylaw 2014, Hawkers, Mobile Shops, Stands and Stalls Bylaw 2005	No associated legislation	No legislative review period
POLICY0041	Fraud Dishonesty and Corruption Control Policy	Internal	Democracy & Assurance	Jason Marris	1/08/2008	12/03/2018	12/03/2021		NA	No legislative review period
POLICY0042	Independent Qualified Persons	Internal	Building Control	Paul Cook	21/10/1993	1/07/2015	1/07/2019		Building Act 2004: Sections 7, 108,109 and 110	No legislative review period
POLICY0129	Land Development Stabilisation Policy	External	Waste & Drainage	Andrew Carvell	10/05/2018	NA	1/12/2021	NA	NA	No legislative review period
POLICY0044	Leases (Parks & Recreation)	External	Parks & Recreation	Sue Hodge	22/03/1999	1/03/1999	1/07/2019		No associated legislation	No legislative review period
POLICY0045	Leasing Sportsfields to Clubs	External	Parks & Recreation	Sue Hodge	17/04/2003	1/08/2015	1/07/2019		No associated legislation	No legislative review period
POLICY0046	Liability for Damage Caused by Manhole Covers and Footpaths	Internal	Roading	Jeffrey Devine	23/07/2003	15/09/2016	1/09/2021		No associated legislation	No legislative review period

Record Number	Policy Title	Main focus (Internal/External)	Owner Department	Department Manager	Date First Adopted	Last Review Date	Next Review Date	Links to WDC Bylaws	Associated Legislation (if applicable)	Legislative Review Period (if applicable)
POLICY0048	Liquor Licensing Policy	External	Health & Bylaws	Renier Mussle	1/08/2010	1/01/2014	1/01/2020		Made under Sale of Liquor Act 1989 now Sale and Supply of Alcohol Act 2012	Review period is 6 years for Local Alcohol Policy once it has passed through provisional stage and operative.
POLICY0049	On Road Parking Restrictions	External	Roading	Jeffrey Devine	10/03/2010	1/11/2015	1/11/2020		No associated legislation	No legislative review period
POLICY0050[v2]	Pensioner Housing Policy	External	Community Development	Jonny Gritt	25/03/2015	8/06/2017	1/06/2022		Residential Tenancies Act 1986	No legislative review period
POLICY0051	Performance Bond Policy	External	RMA Consents	Murray McDonald	1/11/2002	1/08/2015	1/08/2018		Resource Management Act 1991	No legislative review period
POLICY0052	Policy for undertaking enforcement action under the Building Act 2004	Internal	Building Control	Paul Cook	8/02/2012	1/06/2015	1/06/2018		Building Act 2004: Sections 85,86,100-110,116B,128A,168,199,225,364,365,367,368,369371D,379 and 380.	No legislative review period
POLICY0053[v2]	Policy for Variations and Plan Changes	Internal	District Plan	Melissa McGrath	11/03/2015	11/03/2015	1/03/2018		Resource Management Act 1991	No legislative review period
POLICY0054	Policy On Elected Members Allowances And Recovery Of Expenses	Internal	Democracy & Assurance	Jason Marris	1/09/2013	25/05/2016	1/05/2019		Local Government Act 2002: Schedule 7, clause 6	No legislative review period
POLICY0056	Pressure Sewer Policy	External	Waste & Drainage	Andrew Carvell	1/05/2012	1/05/2012	1/11/2017		No associated legislation	No legislative review period
POLICY0057	Private-Charitable Organisations - Transfer of Title	External	Parks & Recreation	Sue Hodge	27/03/1991	1/08/2015	1/07/2019		No associated legislation	No legislative review period
POLICY0086	Procurement Policy	Internal	Finance	Rich Kerr	25/03/2015	1/03/2015	31/03/2018		No associated legislation	No legislative review period
POLICY0058	Property – Sale of Reserve Land	Internal	Parks & Recreation	Sue Hodge	1/09/2009	9/09/2015	1/07/2019		Under review	No legislative review period
POLICY0078	Property Policy	Internal	Property Department	Mike Hibbert	1/03/2014	1/03/2016	1/03/2018		No associated legislation	No legislative review period
POLICY0079	Psychoactive Substances Policy	External	Community Development	Jonny Gritt	1/06/2014	1/06/2014	1/06/2019		Psychoactive Substances Act	5 Yearly
POLICY0080	Rates Remission and Postponement Policies (including Maori Freehold land)	External	Finance	Rich Kerr	17/03/2016	17/03/2016	30/06/2018		Local Government Act 2002: Sections 102 (3) and 108	Annually
POLICY0033	Release of Confidential Items		Democracy & Assurance	Jason Marris	19/12/2007	N/A	N/A		Local Government Official Information and Meetings Act 1987	No legislative review period
POLICY0059	Retirement Villages	External	Community Development	Jonny Gritt	1/08/2015	1/08/2015	1/08/2017		No associated legislation	No legislative review period
POLICY0060[v1]	Revenue and Financing Policy	External	Finance	Rich Kerr	1/06/2012	1/07/2015	30/06/2018		Local Government Act 2002: Section 102 (2)	No legislative review period
POLICY0061	River Management Policy	External	Waste & Drainage	Andrew Carvell	23/08/2000	1/05/2015	1/06/2017		No associated legislation	No legislative review period
POLICY0124	Road Closure Policy for Motor Vehicle Events	External	Venues & Events Whangarei	Gary Parker-Nance	24/08/2016	1/08/2016	1/08/2019	Public Places Bylaw 2014	No associated legislation	No legislative review period
POLICY0063	Road Encroachment Licences for Permanent Structures	External	Roading Department	Jeffrey Devine	27/10/1999	1/11/2015	1/11/2020		No associated legislation	No legislative review period
POLICY0064	Road Naming Policy	External	RMA Consents	Murray McDonald	8/07/2009	1/09/2015	1/09/2018		Local Government Act	No legislative review period
POLICY0065	Rural Fire	External	Infrastructure Development	Dom Kula	11/11/2015	11/11/2015	1/11/2020	Fires In the Open Air Bylaw 2015	Forest and Rural Fires Act 1977	No legislative review period
POLICY0119	Sensitive Expenditure Policy	Internal	Democracy & Assurance	Jason Marris	27/07/2016	27/07/2016	1/07/2019		No associated legislation	No legislative review period
POLICY0066	Service Connections – Water	External	Water Services	Andrew Venmore	28/05/2003	1/11/2015	1/10/2020		No associated legislation	No legislative review period
POLICY0081	Significance and Engagement Policy	External	Democracy & Assurance	Jason Marris	28/09/2017	28/09/2017	1/06/2020		Local Government Act 2002: Section 76AA	No legislative review period
POLICY0067	Spray Use	External	Parks & Recreation	Sue Hodge	14/12/1993	1/02/2016	1/09/2019		No associated legislation	No legislative review period
POLICY0069	Strategic Seal Extension Policy	External	Roading	Jeffrey Devine	23/07/2003	1/11/2015	1/11/2020		No associated legislation	No legislative review period
POLICY0070	Structures on Coastal Reserves	External	Parks & Recreation	Sue Hodge	1/04/2014	31/03/2014	1/07/2019	Public Places Bylaw 2014	No associated legislation	No legislative review period
POLICY0087	Tax Governance Framework	Internal	Finance	Rich Kerr	1/12/2014	1/12/2014	1/11/2019		No associated legislation	No legislative review period

Record Number	Policy Title	Main focus (Internal/External)	Owner Department	Department Manager	Date First Adopted	Last Review Date	Next Review Date	Links to WDC Bylaws	Associated Legislation (if applicable)	Legislative Review Period (if applicable)
POLICY0071	Town Basin Control of Activities Policy	External	Venues & Events Whangarei	Gary Parker-Nance	23/08/1995	1/03/2015	1/03/2018	Public Places Bylaw 2014, Hawkers, Mobile Shops, Stands and Stalls Bylaw 2005	pdate for C	No legislative review period
POLICY0072	Traffic Constraints Policy (Slow Streets)	External	Roading	Jeffrey Devine	23/07/2003	1/11/2015	1/11/2020		No associated legislation	No legislative review period
POLICY0036	Transitional Development Contributions Policy	External	RMA Consents Department	Murray McDonald	24/06/2015	24/06/2015	30/06/2018		Local Government Act: Sections 102 and 106	3 yearly
POLICY0088	Treasury Risk Management Policy (Including the Liability Management Policy and Investment Policy)	Internal	Finance	Rich Kerr	22/04/2015	2/04/2015	23/04/2018		Local Government Act 2002: Section 102 (2), 104 and 105	3 yearly
POLICY0073	Tree Policy	External	Parks & Recreation	Sue Hodge	1/08/1991	31/07/1991	1/07/2019		No associated legislation	No legislative review period
POLICY0074	Uncompleted Works Bonds Policy	External	RMA Consents	Murray McDonald	13/04/2011	1/02/2016	1/02/2019		Resource Management Act 1991	No legislative review period
POLICY0075	Water Conservation	External	Water Services Department	Andrew Venmore	11/11/2015	1/10/2015	1/10/2020		No associated legislation	No legislative review period
POLICY0076	Water Revenue Policy	External	Water Services	Andrew Venmore	28/05/2003	1/05/2015	1/06/2018		Local Government (Rating) Act 2002	No legislative review period
POLICY0077	Youth Policy	External	Community Development	Jonny Gritt	1/05/2013	8/02/2017	1/02/2022		No associated legislation	No legislative review period

4.7 ICT Disaster Recovery Report

Meeting: Audit and Risk Committee
Date of meeting: 27 June 2018
Reporting officer: Lynette Wharfe (ICT Project Manager)

1 Purpose

To provide the committee with the ICT Disaster Recovery test exercise report following the undertaking of the exercise in April 2018.

2 Recommendation

That the Committee acknowledge the report and the prioritisations of the recommendations identified.

3 Background

The implementation of Trilogy Stage 1 in late 2016 has brought about many changes that directly affect the way our ICT systems now function. Based on these changes there was a need identified to update and test the organisation's ability to recover critical ICT systems in the event of an incident or disaster.

The objective for the disaster recovery exercise is to confirm that our ICT critical systems are available for use as detailed in the WDC ICT Disaster Recovery and Business Continuity Plan (DR and BC Plan).

4 Discussion

The ICT Team operate a DR and BC Plan that provides detailed response plans that enable critical systems to operate in the event of a disaster or disruption to service. Plans include scenarios from cyber based breaches, power outages, natural disasters through to internal sabotage.

One of the key elements of the DR and BC Plan is the ability to failover systems to a remotely located site, with the ability to fail back after the event or incident has ended.

The exercise to test this key element was conducted over a weekend, which was preceded by several months of pre-planning and "trial" failover and recovery exercises. The systems that were moved as part of the exercise were re-confirmed by the Strategic Leadership Team and Operational Leadership Team as the critical business systems.

The exercise completed successfully, with no loss of data or business interruptions. There are however further recommendations contained in the report which will assist the ICT team to manage the recovery process better. It should also be noted that while the DR and BC Plan addresses recovery and continuity from a technical perspective, it does not address the business planning that is required from each functional business unit to manage processes in the event of an incident or disaster. As mentioned previously reported to this committee, it is essential that each part of the organisation is prepared with their own plans in place.

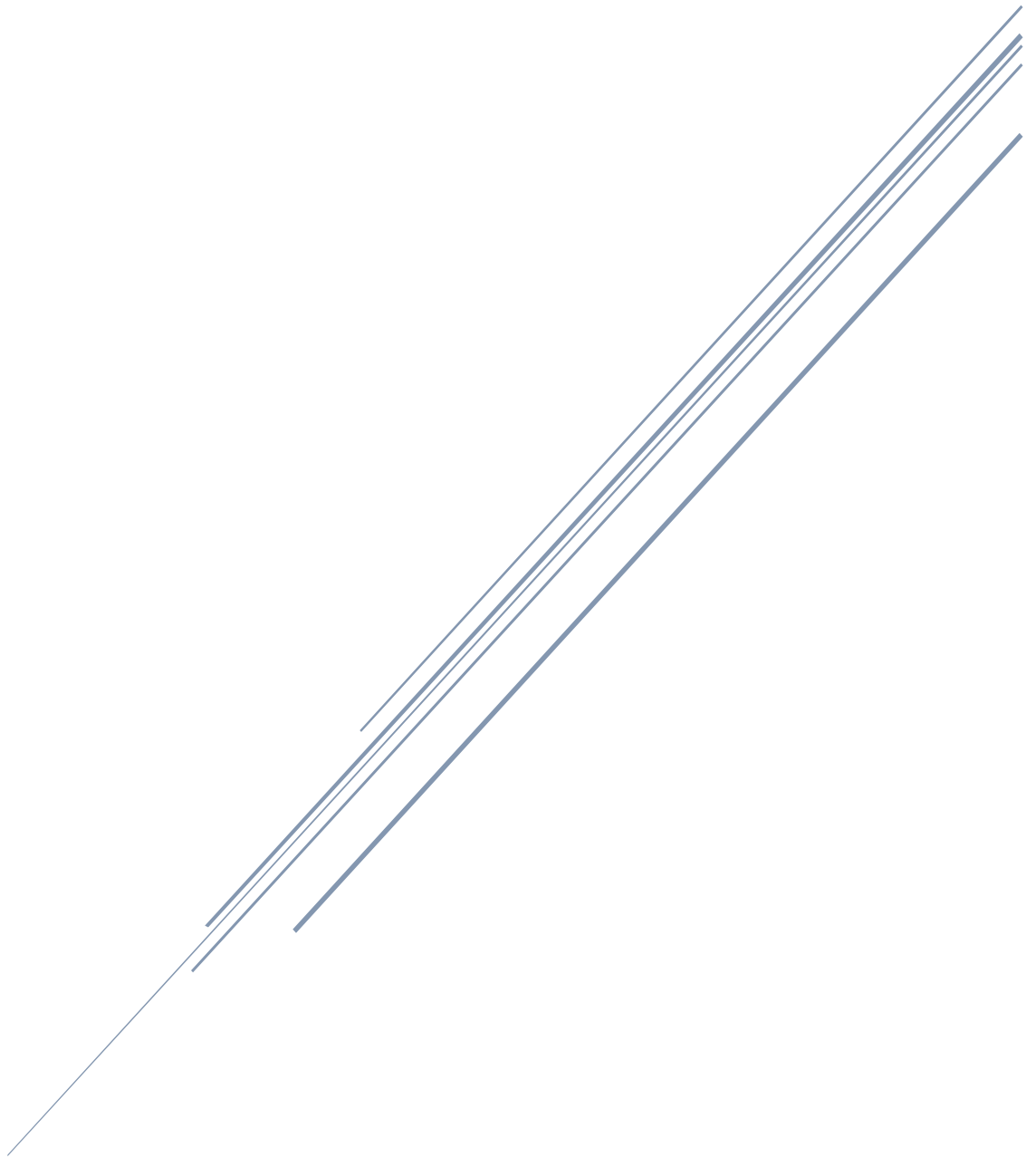
5 Significance and engagement

The decisions or matters of this agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via agenda publication on the website.

6 Attachment

Disaster Recovery Exercise Brief and recommendations

DISASTER RECOVERY EXERCISE BRIEF AND RECOMMENDATIONS.DOCX



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Overview

Part of the remit of ICT is to provide a level of disaster recovery for ICT services. The aim of which is to return identified services and applications to an approved level of functionality in the event of a disaster or emergency. With the Trilogy program making sweeping changes across the ICT stack, the Disaster Recovery Plan (DRP) now needs to be updated to cover the new systems and processes.

A suggested level of service has been developed, several workshops, and a test run have been undertaken migrating service delivery from the Whangarei based Northcloud production site, and the Auckland based Orbit disaster recovery site. An overview of the sites can be found in Appendix A – Network sites diagram.

The test run was undertaken on the 14th and 15th of April 2018. Services that were initially running in Whangarei were moved to Auckland, tested for functionality by key business users, migrated back to Whangarei once successfully tested, and then re-tested again by the key business users. The full timeline of technical steps undertaken is in Appendix B - Actual failover timeline.

During the test run several risks and issues were identified, and some changes have been identified to increase our resilience and recoverability during, and following a disaster.

Despite the issues that occurred, the processes of failover and failback was successful, and the level of understanding around the ICT disaster recovery process in the tested scenario, and to a lesser extent many other scenarios, has greatly increased. The ICT Disaster Recovery Plan does wholly look from the ICT perspective, and this plan should in no way be considered as a full business continuity plan for the whole organisation, or any individual business unit. Each business unit should have its own resiliency & continuity plans in place that include scenarios where there are no ICT functions available for extended periods of time.

The intent of this document is to confirm that the plan, as previously agreed to with OLT and SLT, provided an adequate level of operational ability within the desired recovery timeframe. And that the testing undertaken has proven the process sufficiently, and the organisation accepts the plan as being current.

Applications covered in the DR plan and testing

The “Recovery Order” below covers the major systems that ICT supports today in a disaster recovery plan. The Recovery Time Objectives (RTO) are based on expected timeframes to undertake the steps required to recover the item, plus any previously required steps. It effectively states how long, after a disaster is declared within ICT, that specific systems or applications will be unavailable for use. For the test run, these were the items failed over to Auckland, and then back to Whangarei.

Category	Applications	Infrastructure	Records	Recovery Order	Desired RTO
Minimum Operating Environment	Applications – Priority Modules <ul style="list-style-type: none"> Active Directory/File Systems/Logon Email – MS Outlook/Exchange Telephony (excluding Zeacom) Kete (Read only) WDC Website Technology One GIS 	Internet Connectivity Voice Systems active Mobile Voice – Active	Active Records Access – Manual	1. Switching Infrastructure 2. Active Directory 3. File storage 4. Email flow 5. Technology One 6. WDC Website 7. Kete priority content (Read) 8. GIS	1 hour 2 hours 2 hours 2 hours 2 hours 8 hours 4 hours
Desirable Operating Environment (Event or Incident Outage >7Days)	Applications – 2nd Level Modules <ul style="list-style-type: none"> Kete priority content (Read/Write capable) Asset management – Hansen QLIMS (laboratory database) Library – Sirsi Dynix Print functionality 	Internet Connectivity Voice Systems active Mobile Voice – Active	Active Records Access - Manual	9. Kete (write) 10. Hansen 11. Skype 4 Business 12. QLIMS 13. Library	8 hours* 8 hours 8 hours 12 hours 12 hours

* Note

It is desired to have Kete write capable at eight hours, this is indicative timing. There is a decision point within the ICT DR Plans between INSRT Controller and SLT [ICT DR - Power Outage Steps](#). Is this event long term? Is it deemed a necessity to create new documents or edit existing? Is the business just requiring access to information? These questions will be considered when making this decision to proceed to write mode.

When in write mode, there are some constraints when undertaking the failback to Whangarei site. These constraints may impact on the availability of Prod Kete to the end user.

- There are no backups in place at DR site during an event
- A full backup of DR Kete would be required for restoring to Whangarei, time consuming
- Kete Prod at Whangarei would be offline for this restore to be completed. Either all Kete Prod offline or a phased content area approach.
- A full indexing would be required to be run across Prod, which presently takes near 40 - 72 hours (search functionality enabling of Kete)

Timings

Whilst running the failover test from the primary site (Northcloud, located in Whangarei) to running services from the disaster site (Orbit Data Centre in Albany), the following time differences from the plan were established. The complete timeline is in Appendix B - Actual failover timeline.

Application	Desired Recovery Time	Actual Recovery Time	Mitigation
email flow	2 hours	3 ½ hours	Largely caused due to two key simultaneous changes being made. Plan updated to ensure changes are made consecutively.
File storage	2 hours	3 ½ hours	Largely caused due to two key simultaneous changes being made. Plan updated to ensure changes are made consecutively.

Both above issues were affected by two network changes at the perimeter being undertaken at the same point in time. The changes, when run consecutively, take about 10 minutes, however when run concurrently they took closer to 30 minutes, causing a further delay in the subsequent tasks that pushed the two above services over their desired RTO time. The plan has been adjusted to reflect this issue. All other systems were recovered within the desired window of time.

Kete

During the test event, there was a compressed window of time to what there would be during a live event as the process would normally be to fail over, and then remain operating out of the DR site until such a time as the disaster is over and sufficient services are confirmed as able to be gracefully, and carefully, restored to Whangarei. Under the test scenario all services had to be failed down, and back up within 48 hours.

To ensure the window of time was sufficient for failing over to Auckland and then back to Whangarei, only a subset of the Kete databases were used. Although the standard collections are replicated down to the disaster recovery site, the larger archived databases are not. In an event, these databases hold important property and other information. This introduces a risk that needs further investigation and as such has been raised as a high priority item of concern for mitigation in section items identified.

Tested Kete Priorities

The below table shows the collections that were failed over as part of this test. These collections were confirmed with OLT prior to the test.

Site Collection Title	URL	Content Database	Size (GB)	Priority
Building Consent	https://kete.wdc.govt.nz/ws/bldcons	SP_PROD_Content_B	84.98	P1
Building Control	https://kete.wdc.govt.nz/ws/bldctl	SP_PROD_Content_B	1.69	P1
Customer Relationship Management	https://kete.wdc.govt.nz/ws/crm	SP_PROD_Content_CRM	20.51	P1
Emergency Management	https://kete.wdc.govt.nz/ws/emer	SP_PROD_Content_B	0.06	P1
Finance Management	https://kete.wdc.govt.nz/ws/finmgt	SP_PROD_Content_FinancialMgt	19.35	P1
IT Services	https://kete.wdc.govt.nz/ws/itserv	SP_PROD_Content_C	2.4	P1
LIMs	https://kete.wdc.govt.nz/ws/lims	SP_PROD_Content_B	7.45	P1
Mailroom	https://kete.wdc.govt.nz/ws/mailroom	SP_PROD_Content_Mailroom	9.18	P1
Public Health Monitoring	https://kete.wdc.govt.nz/ws/pubhlth	SP_PROD_Content_B	0.01	P1
Record Central	https://kete.wdc.govt.nz/ws/recordcentral	SP_PROD_Content_B	0.34	P1
Resource Consents	https://kete.wdc.govt.nz/ws/rescons	SP_PROD_Content_A	57.3	P1
Roading and Transportation	https://kete.wdc.govt.nz/ws/road	SP_PROD_Content_Roading	15.18	P1
Search	https://kete.wdc.govt.nz/site/search	SP_PROD_Content_Search	0.01	P1
SPAdmin	https://kete.wdc.govt.nz/site/spadmin	SP_PROD_Templates	0.02	P1
Stormwater	https://kete.wdc.govt.nz/ws/storm	SP_PROD_Content_C	6.79	P1
Wastewater	https://kete.wdc.govt.nz/ws/waswat	SP_PROD_Content_Wastewater	23.87	P1
Water Quality Monitoring	https://kete.wdc.govt.nz/ws/qual	SP_PROD_Content_A	0.04	P1
Water Supply	https://kete.wdc.govt.nz/ws/water	SP_PROD_Content_A	5.66	P1
Water Supply Reticulation	https://kete.wdc.govt.nz/ws/wsret	SP_PROD_Content_A	1.74	P1
Water Treatment	https://kete.wdc.govt.nz/ws/treat	SP_PROD_Content_A	0.38	P1
Records Manager	https://kete.wdc.govt.nz/rm	SP_PROD_RM_Site	0	P1.5
Alchemy Archive - Engineering Reports	https://kete.wdc.govt.nz/archive/alcEngRpts	SP_PROD_Archive_ALCHEMY_B	2.05	P2
Alchemy Archive - Plans	https://kete.wdc.govt.nz/archive/alcplans	SP_PROD_Archive_ALCHEMY_B	48.53	P2
Alchemy Archive - Property Files	https://kete.wdc.govt.nz/archive/alcprop	SP_PROD_Archive_ALCHEMY_A	348.11	P2

Items identified

The below table lists the discovered issues during the test event. These issues have been allocated to the responsible party as identified in the responsibility column and, where required, adjusted in the plan.

Issue	Function / Service	Description	Mitigation	Responsibility	Priority
Archive data not available in AKL	Kete	The archive databases (TRIM, Alchemy and Backscan) are not available in AKL. These are required during an emergency.	Further design changes required. Could house replica copy in AKL, or primary copy.	ICT Operations / Information Leadership	High
Kete Search function	Kete	Search functionality not available for an extended period.	Could backup search database and import into DR. Could duplicate index into DR using script. Information leadership to provide options.	Information Leadership	High
Slow network performance at Walton Plaza	Network / Internet	There was a noticeable lag when operating out of Walton Plaza during event. No lag from Forum North.	Further investigation required. Possible routing issue.	Northcloud / ICT Operations	High
ICT resource skill set		ICT operations has one Senior Engineer with the skills to cover all tasks required of ICT within a disaster recovery situation	Repeated exposure to the plan, and steps, for all ICT operations team members. During the event, the ICT duty resource and INSRT Controller discuss moving those items on the plan required from ICT operations to NorthCloud. <ul style="list-style-type: none"> Tasks under Northcloud control for event Covered under the existing NorthCloud support contract. Agreed documentation sharing process be developed between NorthCloud and ICT Operations.	Northcloud /ICT Operations	High
Datamart not in DR(AKL)	Kete	The datamart provides T1, Hansen and GIS searches within Kete, and meta data.	Create backup and recovery structure around the datamart. Brendon / Shane – Line item DR Plan manual process. Shane Ball will review iNcompass project documentation for how this has been configured with Michelle MacDonald and Leanne Clark to establish seamless process.	Information Leadership	Medium
DR site permissions	Kete	The Kete Farm Administrator did not have appropriate permission to manage some hubs.	Need rights to be audited and rectified where applicable.	Information Leadership	Medium

Remote device connectivity	Network / Internet	One device did not automatically failover to the backup remote access server. Potential that others are affected.	Workaround resolved issue, but not practical under some emergencies. Further investigation required.	Northcloud /ICT Operations	Medium
Intercity Bus (website) failed	Network / Internet	The intercity site access is tied to our primary IP address, which is changed during a large-scale event.	Requires further investigation to see if a firewall rule can open this path up.	ICT Operations	Medium

Table Continued

Issue	Function / Service	Description	Mitigation	Responsibility	Priority
Production Kete URL	Kete	Production URL is still available. Staff may accidentally use it.	Add step in plan to disable URL once DR site is up.	Information Leadership	Low
Adobe Indesign links are hard coded	Kete	The links within Indesign are hard coded to point to the production Kete, meaning they don't function in a disaster.	Potential to stand up a DNS referral for Kete. Otherwise advise publishing staff if/when we failover.	ICT Operations	Low
DMZARR redirect rule	Kete	DMZARR - Redirect rule for DR Kete website http to https	Users may type incorrect URL, http when is https.	ICT Operations	Low
DR not accessible externally	Kete	Kete - URL is not visible to external users	Potential for users to be relocated away from WDC buildings	Information Leadership / ICT Operations	Low
Remote access for Enghouse limited	Telephony	Remote access via Virsae degraded.	Performance loss may have been caused by BGP/Firewall concurrency issue. Further investigation required.	Northcloud	Low
Remote access for Enghouse	Telephony	Only one path for access to Virsae. If ISP down, no remote access.	Second port available on server. ROI/BC required to determine value vs cost.	ICT operations	Low
Desk phones didn't discover DR service	Telephony	The auto-failover of desk phones didn't function correctly. Phones took too long to find the DR server and black listed it.	Phones need to be manually rebooted during an event.	ICT Operations	Low
Change log polling failed	Kete	"ChangeLogLastChangeToken" did not update and caused the poller with T1 to fail	Required manual intervention. Necessitates T1/Kete knowledge for all large-scale events. Require more trained staff. Shane to provide this in detail within his instruction sheet for this DR Step. Link to be in the DR Plan.	Shane Ball	Completed
GIS REST services failed	GIS	DNS not pointing to DR servers for ArcGIS servers.	DNS entry required updating	ICT Operations	Completed
Folder names not visible in IE11	Kete	Under Internet Explorer folder names aren't visible. Works fine in Chrome.	DR Plan step to be refined, Group policy is to be refreshed manually	Shane Ball	Completed

ISP Failover delay	Network / Internet	Failover from Vodafone to Spark took an excessive time	Was caused by simultaneous firewall task. Tasks need to be run consecutively in plan	ICT Operations	Completed
Citrix access failure	Remote access	DNS not pointing to DR servers for Citrix remote access servers	DNS entry required updating on NetScaler	ICT Operations	Completed
IT Afterhours phone number	Telephony	Number used did not provide identification function to United Security	Change queue destination	ICT Operations	Completed

Recommendations

Identified Issues

1. *Archive Data not available in Auckland* - Although the Kete databases were successfully restored within the desired timeframe, the availability of the larger databases is a concern.

To restore the Alchemy, TRIM Property, and Backscan databases within the current desired timeframe, a copy of those databases will need to exist within the Disaster Recovery site, which is presently not the case. Should a disaster scenario occur where there is no network connection between the primary (WHG) and Disaster Recovery (AKL) site, there will be no way to restore the larger databases within the window, and there is currently no SLA to have copies of those databases transferred or transported to AKL. Depending on the scenario, this would likely take several days.

It is recommended to keep a backup or replicated copy of these databases within the AKL site. Information Leadership have been consulted and a plan will be developed to improve the resilience of those databases.

2. *Datamart not in DR* - Currently there is not a copy of the data mart in the DR environment. The data mart is required to ensure proper functioning of Hub page searches for Property, Application, Customer and Assets (note that this does not affect as-built search functionality). It is also required to display data out of TechOne on hub page search results and to allow easy tagging of Property ID, Customer ID and Asset ID against documents in various document libraries.

For this functionality to be available in DR, we need to first restore a copy of the Data Mart into DR SQL (a backup is already available in DFSR at our DR site) and then update all links to the data mart to point to DR instead of Production (these are hard coded links). A script will need to be developed by Information Leadership to update these links.

3. *Kete search function* - The lack of search ability within Kete. At present, there is no backup process for the search database that exists within Kete. As such, once the workspace and document databases are restored into the Disaster Recovery site, a full content crawl and re-index is required before full search functionality is returned. A full crawl is expected to take several days. This results in users only being able to find documents that they have specifically kept links to in their favourites or if they know where in the workspace to navigate too

To implement search into the DR environment two possible changes could to be made:

- Implementing dual indexing from the DR site
- Back up the Search Service Application and its databases, then restore into DR.

Information Leadership has been consulted to ascertain the best options for items one to three. These options are to outline effort, risk, impact and cost.

4. *Slow network performance Walton Plaza* - A potential issue with performance from the Walton Plaza L2 network to the Auckland IaaS data centre was identified during DR testing. NorthCloud is investigating this and working with the Carrier to implement a solution
5. *ICT Resource skill set* – ICT operations has one Senior Engineer with the skills to cover all tasks required of ICT within a disaster recovery situation. If on the off chance that this resource is not

available for such an event, it is recommended that the ICT resource and INSRT Controller have a discussion around moving those items on the plan required from ICT operations to NorthCloud.

This would need to be addressed by way of these tasks being advised to Northcloud are in their control for event under the existing NorthCloud support contract. Documentation for these tasks are provided to NorthCloud prior to the closure of the DR Project. A process is agreed between NorthCloud and ICT Operations to ensure that they are kept abreast of any changes for these tasks.

Process

6. *Kete Write mode decision* – Initially business will only be able to read documents within Kete. No documents can be created, saved or existing documents edited in Kete.

The steps that will be followed in an event (ICT DR Plan), has a decision point to upgrade Kete to enable write mode (creation, save and edit) at Auckland. It is recommended that the INSRT Controller is constantly evaluating the possible duration of the disaster event and discussing with SLT representatives to decide the appropriate time to action the Kete write mode step.

A timeframe cannot be put on this decision, as it is dependent on the event e.g. The INSRT Controller may know at the time of initiating ICT DR Plan process, that this will be long term and discuss with SLT to get an approval to proceed straight to write mode.

7. *ICT Recovery Process* - A process is to be followed by way of all documentation for ICT disaster recovery to be saved into Kete [DR - ICT BAU](#) and reviewed monthly by ICT Operations for any document modifications. Changed documents are to be reprinted, replaced within the ICT Disaster Recovery folder. NorthCloud and any other vendors identified involved within ICT disaster recovery procedures are to be notified of any changes. All license keys and credentials are stored in \\mgmt01\E\$ presently, these are also to be moved to [DR - ICT BAU](#). A copy of KeePASS (security passwords) is to be kept on a DR USB within the ICT Disaster Recovery folder.

The DR ICT Folder is to be carried by the ICT Operations on call staff member outside of normal business hours.

8. *Future testing* - Regular testing, and continued maintenance, of the plan is crucial for ensuring effectiveness. An ICT focused disaster recovery test should be undertaken annually. The scenario on which the test is based, should be workshopped prior to the test being undertaken. The scenario should vary from previous scenarios and be pertinent based on technology and risk at that point in time.

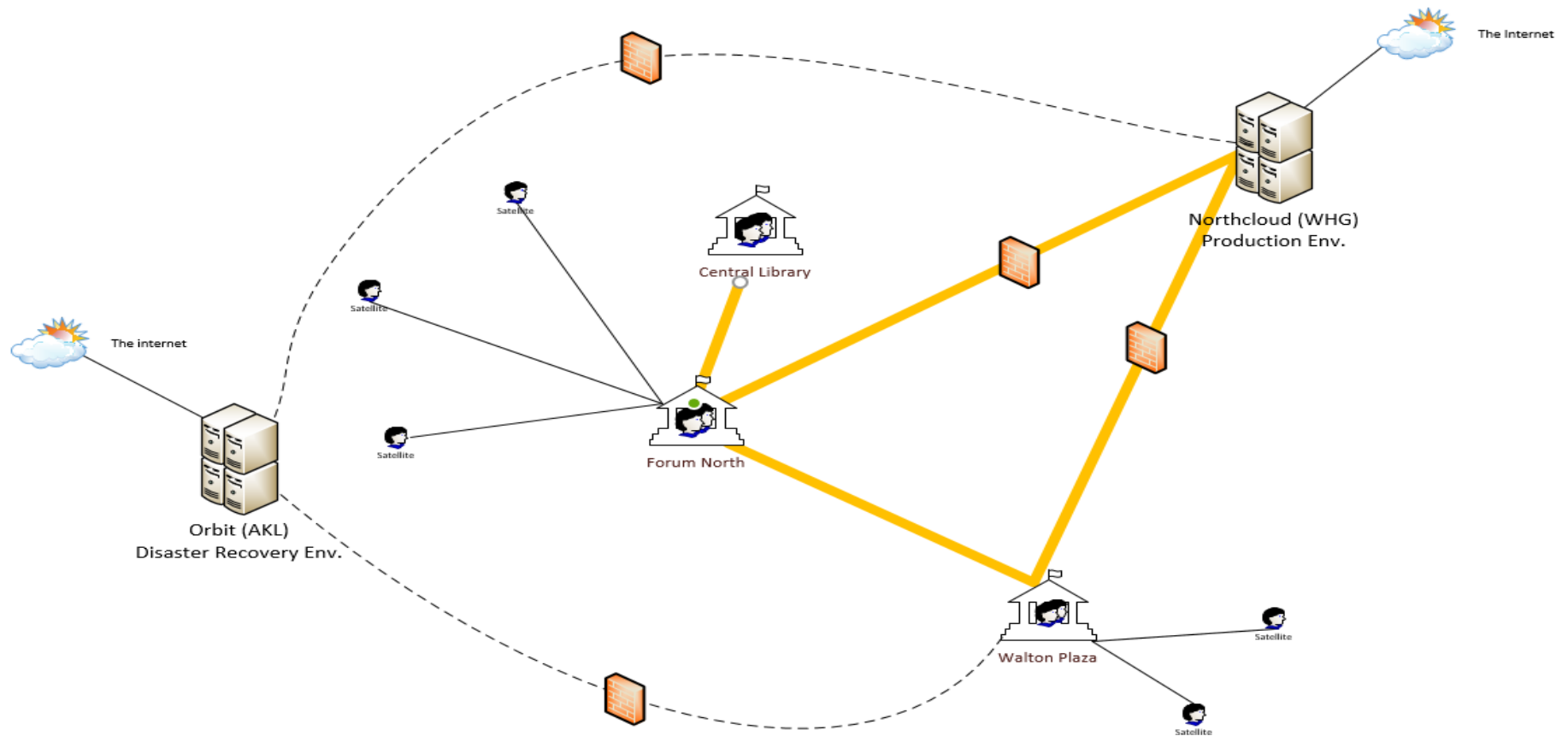
The ICT Operations team shall use this scheduled testing to review the ICT Disaster Recovery Plan with the Enterprise Architect to ensure all parties are aware of any changes and that ICT diagrams are current along with any tasks and procedures to be carried out in all disaster recovery plans.

9. *Future Projects* - All future projects, whether initiated within ICT or any other business unit, with technical changes need to incorporate a review and if necessary alteration to the Disaster Recovery Plan.

Disclaimer

Each other business unit should undertake their own disaster recovery testing, the ICT DR plan shall not be considered as the DR plan for any other business unit.

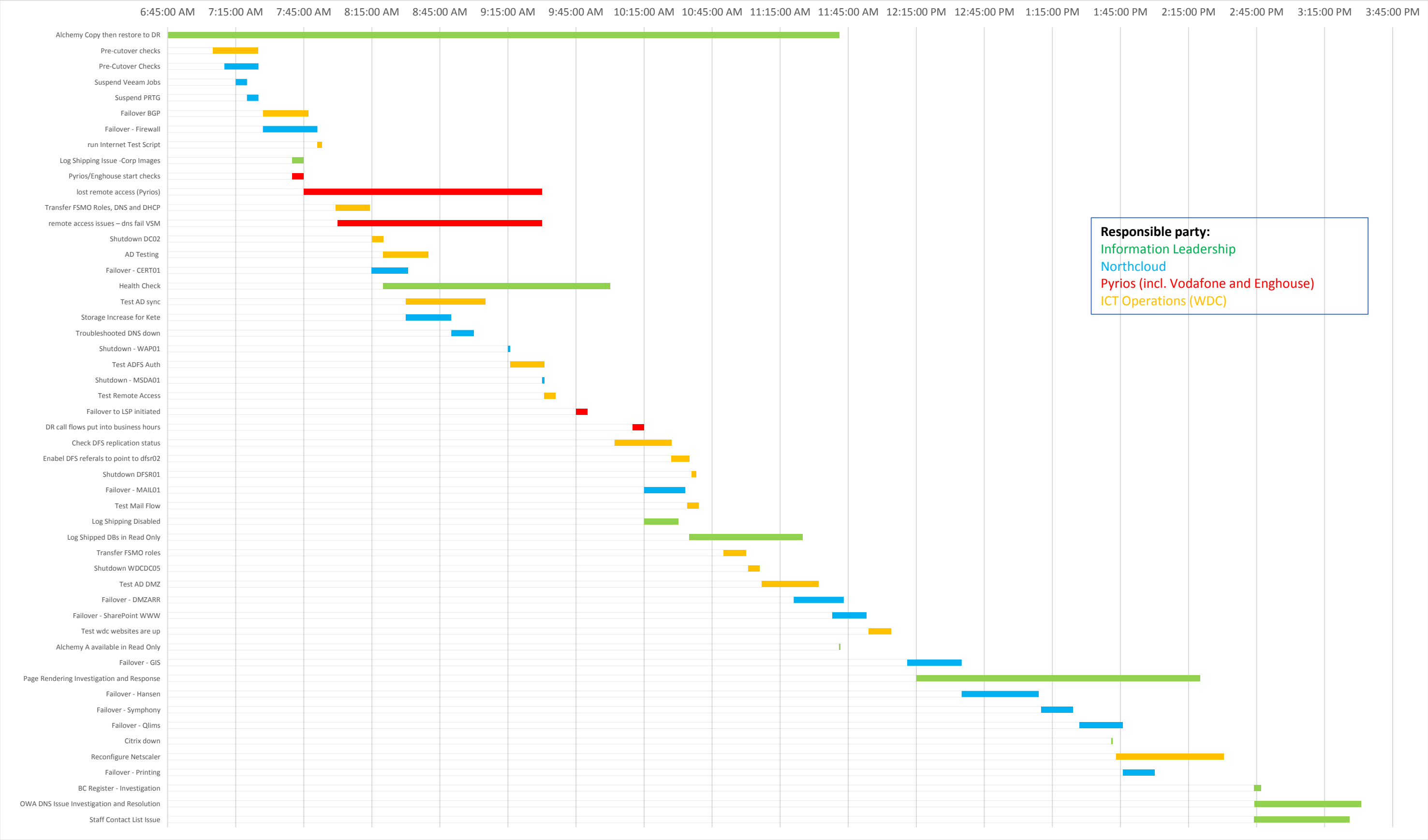
Appendix A – Network sites diagram



The core purpose of the DR plan is to migrate/move applicable services and applications from the production site (Northcloud) to the disaster recovery site (Orbit), to return to a minimal operating standard.

Appendix B - Actual failover timeline

Below shows the timeline of technical events undertaken during the failover process.



4.8 Internal Audit Action Update

Meeting: Audit and Risk Committee
Date of meeting: 27 June 2018
Reporting officer: Emily Thompson (Audit and Risk Analyst)

1 Purpose

To provide the committee with an update on the status of previous internal audit actions.

2 Recommendation

That the Committee notes this report and the status of the internal audit actions.

3 Background

The internal action log provides an update on progress against recommendations made during any previous internal audits. These are monitored internally as they progress to completion.

4 Significance and engagement

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via Agenda publication on the website.

5 Attachment

Internal Audit Update June 2018

Audit	Date of Audit	Audit report Reference	Title	Internal Audit Key Finding (summary as detailed in report)	Status	IA Recommendation (Summary as detailed in report)	Management Commitment	Action (extracted from management comment)	Owner	Due date	Update	Status
Open Purchase Orders	2017-01-31	4.4	Timing of receipting	The procurement procedures manual specifies purchase orders are to be receipted when goods/ services are received. However in practice this is infrequently occurring.	Low	<p>We recommend the procurement procedures manual is amended to relax the requirement for purchase orders to be receipted within 2 days of completion of work. This could be adjusted to 'purchase orders are to be receipted within the earlier of 20 working days or receipt of supplier invoice'. Doing so would be more fitting with current business practice and be more realistic to adhere to.</p> <p>An alternative is to leave the procurement procedures manual as it is, and reinforce the need to receipt purchase orders within 2 days of completion of work. There is no automated control to ensure this is completed, so adherence would need to be self-policed with some form of monitoring control to ensure it is occurring.</p>	We agree with the recommendation to relax the requirement for purchase orders to be receipted within 2 days of completion of work and will do so as part of a key procurement policy documents review and update.	Update the procedures manual to remove this constraint that we (as Council) are not achieving. This will be as part of the overall procurement review.	Finance Team	Dec-17	Awaiting start of Business support manager to lead a procurement review council wide. Start date Jan 18. June 18 update - Business Support Manager now in place, and is reviewing the procurement processes. This has included an internal audit for the procurement process across Council which is included in the June 18 Audit and Risk Committee agenda.	Open
Open Purchase Orders	2017-01-31	4.1	Invoice Paid Twice	We identified one instance of a supplier invoice being paid twice during the 2016 calendar year. .	High	<p>We recommend finance team management and the systems accountant review system controls within TechOne. This should be done in a test environment to accurately document what details can be entered into TechOne without an application error occurring. We recommend TechOne is configured to allow an invoice number be applied to the respective supplier on one occasion only.</p> <p>The circumstances of the identified exception should be reviewed to understand the rationale for adjusting the order by one cent. That is; to determine if this was a deliberate attempt to circumvent controls, or simply to facilitate administration of the payment</p>	<p>We will review the system controls within TechOne and investigate whether amendments can be made to improve the current controls.</p> <p>We have looked into the exception and the original purchase was incorrectly amended. We note that there were two copies of the invoice which were in different formats. After further investigation we can confirm that TechOne was not manually overridden. If a purchase order is raised as exclusive of GST, it is a common occurrence that the final inclusive invoice amount can vary by 1 cent due to rounding. When the purchase order is matched to the invoice, the accounts payable staff can then amend the purchase order details in order to align to the invoice. In this situation, there appears to have been a rounding discrepancy between the PO and the invoice. This 1 cent difference was overlooked and not amended at the time of matching the PO to the invoice. The system therefore allowed the payment to occur as the transaction was not recognised as a duplicate due to the differing amounts.</p>	<p>Review System controls in TechOne to see if any amendments can be made to the current controls.</p> <p>We intend to communicate with Tech One to see if this issue has been encountered by other user sites before and if there is a compensating control.</p> <p>We will look at what reports/queries we can run prior to payables runs to check for potential double payments.</p> <p>We will also look at what further training can be provided to payables staff.</p>	Finance Team	Jun-18	<p>We have looked into the exception and the original purchase was incorrectly amended. We note that there were two copies of the invoice which were in different formats. After further investigation we can confirm that TechOne was not manually overridden.</p> <p>This will be progressed after the payables automation project is complete.</p>	Open
Payroll Audit	16/11/2017	4.2	Monitoring changes to personnel master data	There is no monitoring of changes to the personnel master data. We recommend compensating controls are used in the interim until the point where monitoring reports are available for use.	High	<p>Implication: No automated monitoring of changes to master data creates a risk that inaccurate or dishonest changes are not detected by the Council. This risk is heightened due to there being weaknesses in preventative controls to access master data as documented in point 4.1 of this report. Key risks that are currently not monitored, via the system or reporting, are unauthorised changes to the employee bank accounts and the use of fictitious employees.</p> <p>Recommendations: 1. We understand this point has been raised previously by external auditors, and progress is being made between the Council and TechOne to build reporting that will enable monitoring of master data changes. We recommend the following reports are written, and that there is a monthly review of the reports performed by the P&C Team Leader as this person is not involved with payrun processing:</p> <ul style="list-style-type: none"> * Bank account changes * New starters * Terminations * Pay rate changes * PAYE and Kiwisaver rate changes * User name login to payroll module in TechOne (search for inappropriate login) <p>2. There is an opportunity to use compensating controls in the interim until the new TechOne reports are ready for use. During our work we established there are standard 'audit reports' available in TechOne that may be of use – such as bank account changes. The format of the reports are not user friendly, however with filter of data it is possible to detect changes to bank accounts. We recommend the P&C</p>	<p>Management accepts these comments and is looking to TechOne to provide regular reporting of data for review by the team.</p> <p>P&C Team Leader and ICT are to review interim options to review this data. It is expected to include exception reporting, bank account changes across a period of time (possibly last 4 payruns).</p>	<p>1. HR and ICT to arrange interim report for review</p> <p>2. ICT to work with TechOne to set up regular reporting that can be automatically produced every payroll.</p>	P&C - Marie Notton	Feb–48 Sept - 18	<p>People & Capability now use an interim report as standard practice, therefore the risk has been addressed.</p> <p>Plans remain in place to automate this process and the due date has been extended to Sept 18 to allow for this to be addressed.</p>	Open
Payroll Audit	16/11/2017	4.3	Review of payrun prior to payment	The is an opportunity to enhance the effectiveness of the payrun review prior to payment. We recommend an analytic review for payrun anomalies is performed by the P&C Team Leader.	Medium	<p>Implications: There is a lack of effective analytic review of payroll amounts prior to the authorisation of the payment which creates a risk that erroneous or inappropriate payments are made. We acknowledge there is monthly HR and payroll reporting to Group managers which includes overtime paid and sick leave statistics, and on a quarterly cycle Group managers access reporting that includes salary paid vs budget by department. This review is retrospective and at a high level.</p> <p>Recommendations: A detailed review of employee payments should be performed by a senior staff member who has adequate knowledge of staffing levels, movements, etc and then by someone who is removed from the payrun process. We recommend the following changes are made: 1. The P&C Team Leader performs a detailed review of planned employee payments prior to payment. This could take the form of a report that shows at an employee level - gross pay, leave paid, overtime and allowances for the current fortnight compared to the previous 4 fortnights and to the contracted pay rate for the respective employee. 2. Following the P&C Team Leader review, one of the two Senior Financial Accountant follows the existing control of reviewing the payrun reconciliation to ensure balances are supported by payroll reports, however there should be no expectation of the finance team to identify anomalies in the payrun at a detailed employee level.</p>	This will require further discussion within Council to identify roles and responsibilities for P&C Team Leader and the Finance function to ensure appropriate checks are completed. The expectation is that we will hold a session with all stakeholder parties to identify intent of checks and confirm who should complete them.	<p>1. P&C and Finance Team to discuss and confirm the process to create a 2 tier check for payments. (Finance to provide 'sanity check' rather than detailed review).</p> <p>2. ICT to be engaged to provide a automated comparison report for the teams to use.</p>	P&C - Jenny Antunovich	Apr-18	<p>1. People & Capability Team leader and the People & Capability Department Manager are now manually reviewing these payments regularly. This addresses the risk.</p> <p>2. Work continues to progress to an automated process.</p>	Open
Payroll Audit	16/11/2017	4.4	Documentation of pay run process and continuity risk	There is no documentation of payroll processes and staff cover to process to cover a payrun is limited. We recommend documenting the payroll process in a set of work instructions. Another staff member to be trained in payroll processes in the event staff cover is needed.	Medium	<p>Implications: Payroll processes including the fortnightly payrun are critically important to Council operations and there would be widespread implications if the process was interrupted due to a lack of staff cover.</p> <p>Recommendations: 1. We recommend work instructions for payroll processes are completed immediately. These should include all practical steps that needs to be taken to perform key payroll processes including the processing of the fortnightly payrun. 2. While the P&C Manager is cover when one of the administrator is on leave, our recommendation is that another staff member from the HR Group should be trained to process pay in the event both administrators are away from work. We do not recommend this staff member is given ongoing access to the payroll system, but rather is granted access in the event it is needed.</p>	Work has already started on creating formal payroll processes that can be followed by any member of the P&C or Finance team, should the need arise. It is expected that this will be completed by the end of 2017.	P&C team to develop payroll operating procedures so that in the absence of the payroll staff another member of the team can complete the payroll process. This will build on the checklist that already exists.	P&C - Jenny Antunovich/ Marie Notton	Dec–47 Sept - 18	In progress	Open

Audit	Date of Audit	Audit report Reference	Title	Internal Audit Key Finding (summary as detailed in report)	Status	IA Recommendation (Summary as detailed in report)	Management Commitment	Action (extracted from management comment)	Owner	Due date	Update	Status
Payroll Audit	16/11/2017	4.5	Documentation of payroll policies	There is no documented policy or principles for the payroll function. We recommend a payroll policy document is developed to address the overall objective and responsibilities of the payroll function.	Low	<p>Implications: The implication of the payroll policy not being documented is a lack of clarity of the Councils responsibility and intent with regard to the payroll function.</p> <p>Recommendations: We recommend that a payroll policy is developed to reference the overall objective of the payroll function and address the following responsibilities:</p> <ul style="list-style-type: none"> * Duty as an responsible employer to pay all employees accurately, on time and in accordance with employment agreements. * Compliance with applicable legislation * Compliance with income tax and IRD requirements * Security of payroll data * Description of the payroll function * Description of current calculation used to determine fortnightly payment * Segregation of duties * Reference to the location of instructional documentation and delegated authorities 	Council agree that there is a need to have an overarching document relating to all payroll processes. This will be reviewed in line with an internal policy review that has just begun and is expected to continue through the first half of 2018. It may result in an alternate name to 'policy' but the principles of payroll will be included as detailed above.	P&C team to develop payroll process/ policy document for adoption. It has been agreed that it will include the details mentioned by the internal auditors and will be approved by the SLT(OLT via delegation)	P&C - Jenny Antunovich	April—18 Sept - 18	In progress	Open
Open Purchase Orders	2017-01-31	4.2	Compliance with key policies and procedures	Sample testing identified a number of instances of non-compliance of procurement policies and procedures.	Medium	<p>Introduce monitoring controls to detect non-compliance where preventative controls are limited or non-existent. Recommendations regarding the monitoring environment as a whole are detailed in point 4.3 of this report.</p> <p>The degree of non-compliance that we identified suggests there is a need for management to identify the root causes of staff not adhering to policies and procedures. Depending on the nature of underlying causes it may be worth considering:</p> <ul style="list-style-type: none"> • If current policies and procedures are practical in the context of the business environment. • If staff are sufficiently knowledgeable of purchase order policies and procedures. 	<p>In terms of monitoring, a report comparing the purchase order date against the invoice date is discussed in 4.3(Monitoring Controls) as is the introduction of cyclical spot checks. More targeted communication will occur to parties not adhering to the process.</p> <p>Financial services will become more stringent with rejecting invoices that do not have valid purchase order numbers included on the invoice.</p> <p>There are a number of instances in dealing with council business which mean it is difficult to set up a purchase order ahead of receiving an invoice so we will consider if the current policies need to be adjusted.</p>	<p>1. review communication of process to financial staff (PO before invoice)</p> <p>2. Empower financial services to reject invoices that do not have a valid PO stated on the invoice.</p> <p>3. review of current policies to ensure that they can be adhered to by Council</p>	Finance Team	Dec-17	Finance staff are empowered to reject invoices with no Purchase Order number. There is an upcoming payables automation project which will automatically receipt invoices in TechOne, this will improve the process. This will also free up time for accounts payable administration team to focus on training and support across Council to improve compliance with this process.	Closed
Open Purchase Orders	2017-01-31	4.3	Monitoring controls	The monitoring control environment is limited, which results in non-compliance of some policies and procedures remaining undetected.	Medium	<p>We understand a TechOne report is currently being written which will compare purchase order date to invoice date. Finance team management have informed us this is a work in progress due to time constraints and as a result of major projects that are ongoing.</p> <p>Further monitoring controls should also be considered. For example, a monthly 'spot check' programme could be introduced to review compliance of key policies and procedures which don't have preventative controls. A finance team member (with no procurement responsibilities) could select 10x purchase orders raised during the period and review for:</p> <ul style="list-style-type: none"> • The supplier invoice containing a valid purchase order number • Adequate detail in the purchase order narration • Purchase order is raised before goods/ services are received (NB – this won't be necessary once the automated report mentioned by management is in use). <p>An active monitoring control environment, if implemented effectively, will provide the following benefits:</p> <ul style="list-style-type: none"> • Identify instances of non-compliance and when investigated should identify the root cause of staff behaviour. • If all staff are made aware that procurement policy and procedural compliance is now being monitored this may serve to alter staff behaviour going forward. 	<p>As part of implementing the new purchase to pay process a compliance report was introduced to identify purchase orders created after invoice date. Concerns that the output of this report is not necessarily correct mean that further work needs to be done although this has had to wait while the Trilogy Project took precedence. Work will be done on the compliance report early in 2017 to ensure that the report can be relied upon.</p> <p>Further to the above, the Internal Audit Rolling Plan will cover key components of the procurement expenditure accounting cycle through the annual auditing of sensitive expenditure and probity reviews of discretionary expenditure; inclusive of CAAT's on relevant and related data sets.</p>	<p>The report is in place and is being run. Feedback has been provided to all department managers identifying staff involved in purchasing who are not following the purchasing process or not doing so in a timely manner. This report will be run and sent out on a monthly basis.</p> <p>Communications on the need to follow the purchasing process have also been sent to all staff involved in purchasing including department managers and group managers.</p> <p>Discussion on following the process has also been had at the department manager monthly meeting.</p>	1. Finance Team 2. Governance - Emily T	Ongoing	<p>1. Compliance reports are provided to department managers on a monthly basis. This continues, but the finance team continue to look at opportunities to improve the process.</p> <p>2. Internal Audit Plan includes appropriate processes and will continue to develop.</p> <p>This is an ongoing action, therefore it will be removed to the risk register for continuing monitoring.</p>	Closed
Open Purchase Orders	2017-01-31	4.5	Open Purchase order review	Purchase orders open longer than 12 months are being communicated with staff with request made for action. However there is no mention of this policy in the procurement manual.	Low	We recommend the procurement manual is updated to make reference to the expectation of purchase orders not being open longer than 12 months.	The key procurement documents being policy and manual are in the midst of a review and update. The manual will be updated to set expectations for the acceptable length of time purchase orders are open.	<p>Update Procedures manual to include reference to the PO's being open for an acceptable length of time.</p> <p>Ensure that there is a process to close PO's that go beyond this timeframe.</p> <p>As part of the overall procurement review.</p> <p>We are sending regular alerts to staff listing old open PO's older than 6 months.</p>	Finance Team	Mar-18	Awaiting start of Business support manager to lead a procurement review council wide. Start date Jan 18. June 18 update - Business Support Manager now in place, and is reviewing the procurement processes. This has included an internal audit for the procurement process across Council which is included in the June 18 Audit and Risk Committee agenda.	Closed
Discretionary Expenditure	2017-06-30	4.2	Procedures - Travel Booking Forms	Completed travel booking travel forms are not being filed in a consistent manner, and in some instances forms cannot be located at all. This creates a risk around lack of transparency and also potential inefficiencies.	Medium	Recommendation is that an internal procedure is written which specifies how travel booking forms are retained. This policy needs to be communicated to all staff and departments.	We agree with the findings. We will develop an internal procedure for the creation and retention of travel booking forms attached to the purchase order for the travel in TechOne.	Develop an internal procedure for the creation and retention of travel booking forms. (ideally TechOne) Communicate process to all staff.	Finance Team	Dec-17	Under review. All travel booking forms are sent to the travel booking firm for confirmation of the request including PO numbers. All PO's follow same sign off process as the travel booking form.	Closed
Discretionary Expenditure	2017-06-30	4.4	Whistle Blowing Policy and Procedure	Opportunity for Improvement (OFI) - We reviewed policies and procedures in respect of whistle blowing at the Council. It was found there is a policy which has been in place for a number of years, and management have identified the policy is due to be updated internally.	Low	OFI - We recommend that when the policy is updated the opportunity is taken to: 1. Consider if the current avenues for staff to raise issues (whistle blowing) is appropriate in the context of today's operating environment; and 2. Internal communications are used to promote the policies to generate awareness. i.e. training.	We agree with the comments. The Policy is due to be reviewed this year and we will take note of the recommendations for inclusion within the revised policy.	Opportunity for Improvement - No Action required. Note: Policy in question is current under review with the Governance Team.	Governance - Jason Marris (Emily T and Rebecca R)	Feb-18	Note: No formal need to follow up as OFI only. New policy approved in March 18 and presented to Audit and Risk Committee.	Closed
Discretionary Expenditure	2017-06-30	4.1	Polices - Meals and Air Points	Two instances of Council policy not following OAG guidance: 1. No dollar limit set for meals when travelling; and 2. Air Points accrued as a result of Council travel are retained by staff member.	Low	Recommendation is that management consider these exceptions and document the decision to remain with the current policy or to amend.	<p>1. In the course of business Council staff travel to various locations mainly in NZ but also overseas. There are variations in costs for meals at these locations so it is challenging to provide a workable dollar range and consequently council believes the policy is adequate in its current format. All expense claims are signed off by either department or group managers and also reviewed by finance prior to reimbursing.</p> <p>4.1 Policies – Meals and Air Points 7 June 2017</p> <p>2. Travelling by council staff from Whangarei can be logistically challenging and frequently requires travel in personal time. Consequently, council is comfortable allowing staff to earn loyalty rewards as a form of compensation for the inconvenience.</p>	None required - Management comment covers the recommendation	N/A	Dec-17		Closed

Audit	Date of Audit	Audit report Reference	Title	Internal Audit Key Finding (summary as detailed in report)	Status	IA Recommendation (Summary as detailed in report)	Management Commitment	Action (extracted from management comment)	Owner	Due date	Update	Status
Payroll Audit	16/11/2017	4.1	Access to Master Data via Tech One	Access level to payroll master data needs to be reviewed and action taken to restrict access.	High	Implication: One of the underlying principles of the Privacy Act 1993 is that the storage and security of personal information shall be protected by reasonable safeguards to prevent unauthorised access, use and modification of information. There is weakness is the current preventative control environment with regard to personnel master data files and payroll reporting which creates a risk of inappropriate access to information. Recommendations: With regard to ICT team access, we recommend immediate action is taken to configure ICT TechOne access to restrict the ability to access personnel master data files, and view payroll details.	Council intend to action this point and discussions have already begun between P&C and ICT to identify options to minimise access to the payroll information in TechOne. It is the intention of management that once options are identified they will be reviewed and the best options will be progressed.	1. HR to arrange meeting with ICT to reduce the access to payroll information across the ICT department. 2. options will be confirmed and the most appropriate will be implemented	ICT - Jo Wheat-Connelly/ P&C - Jenny Antunovich	Feb-18	This has now been resolved and appropriate protocols are in place.	Closed
Payroll Audit	16/11/2017	4.6	Leave record keeping	The recording of leave is dependent on the employee submitting a leave request, which is then approved in TechOne by their assigned approver and the accrued leave balance is updated in TechOne. There is no process in place to ensure that leave is indeed submitted by the staff.	Low	Implication: There is a risk that leave balances are overstated as there is no process to follow-up if an employee forgets or neglects to submit the leave. Recommendations: We recommend a process is put in place to capture sick days taken in a central register. At the end of the payrun fortnight the payroll administrator then reviews to ensure that all staff sick days from the register have been included in sick leave records for the fortnight. The HR/ payroll team should consider the most effective and efficient design of this process. For example release a policy that requires the person who has been told of a staff member taking sick leave must email the payroll team, then the payroll team update the central register.	Council used to have an 'away today' central list, managed by the call centre, however with IT changes this became impractical. Council moved to a personal responsibility approach where staff were responsible for all leave requests and this is approved by 1-up approval. Council will remind all staff and managers that they are responsible for completing leave requests in line with time away from work with particular attention to Annual Leave and sick leave. Note: All Sick Leave and annual leave excesses are reported to SLT monthly and into the OLT every quarter so that managers can see the trends of any leave that is in the system (both positive and negative).	Unsure if there are any action to take. Re publicise the need for managers to ensure staff are recording leave when they take it (annual leave specifically)	P&C - Jenny Antunovich	Apr-18	JA presented into OLT the need to ensure correct capture of leave for staff across the organisation. Initial actions have been completed and this will now move to the risk register for the People & Capability department.	Closed
Payroll Audit	16/11/2017	4.7	Access to payroll reporting	We recommend current availability of payroll information is reviewed to ensure a balance is found between staff have information available to perform their role; and payroll confidentiality within the organisation.	Low	Implication: Potentially unnecessary access to payroll information. Recommendations: Payroll reporting should only be accessible to staff to the extent that is necessary for them to fulfil their work responsibilities. For example, budgeting accountants should be able to see payroll reporting for the Group they are responsible for but not payroll reporting for other Groups or the finance team. We recommend the P&C Manager, Team Leader P&C and Manager of Finance work together to establish how the presentation of payroll reporting can be adjusted and determine the best location for storing this information such as a password required shared folders.	Council recognise that this presents some concern to some areas, however Council is also aware that there is a need within some roles to have access to this data. Council will consider the practicalities of using password protection on electronic files that are shared between departments. There is limited options beyond password protection as the majority of access is considered to be reasonable for the staff involved.	Meeting with Finance and HR to consider practicalities of the sharing of data and ensuring confidentiality.	Finance Team P&C - Jenny Antunovich	Apr-18	This issue has been resolved. No further action required.	Closed

RESOLUTION TO EXCLUDE THE PUBLIC

That the public be excluded from the following parts of proceedings of this meeting.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, 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 as follows:

1.	The making available of information would be likely to unreasonably prejudice the commercial position of persons who are the subject of the information. {Section 7(2)(c)}
2.	To enable the council (the committee) to carry on without prejudice or disadvantage commercial negotiations. {(Section 7(2)(i))}.
3.	To protect the privacy of natural persons. {Section 7(2)(a)}.
4.	Publicity prior to successful prosecution of the individuals named would be contrary to the laws of natural justice and may constitute contempt of court. {Section 48(1)(b)}.
5.	To protect information which is the subject to an obligation of confidence, the publication of such information would be likely to prejudice the supply of information from the same source and it is in the public interest that such information should continue to be supplied. {Section 7(2)(c)(i)}.
6.	In order to maintain legal professional privilege. {Section 2(g)}.
7.	To enable the council to carry on without prejudice or disadvantage, negotiations {Section 7(2)(i)}.

Resolution to allow members of the public to remain

If the council/committee wishes members of the public to remain during discussion of confidential items the following additional recommendation will need to be passed:

Move/Second

"That _____ be permitted to remain at this meeting, after the public has been excluded, because of his/her/their knowledge of Item _____.

This knowledge, which will be of assistance in relation to the matter to be discussed, is relevant to that matter because _____.

Note:

Every resolution to exclude the public shall be put at a time when the meeting is open to the public.