



Notice of the Ordinary meeting of

## Audit and Risk Subcommittee

### *Kōmiti Iti mō te Tātari Kaute me te Tūraru*

Date:	Tuesday 18 February 2020
Time:	2.00pm
Location:	Council Chamber Civic House 110 Trafalgar Street, Nelson

## Agenda

### *Rārangi take*

**Chairperson**

Mr John Peters

**Members**

Her Worship the Mayor Rachel Reese

Cr Judene Edgar

Mr John Murray

Cr Rachel Sanson

**Quorum 3**

**Pat Dougherty  
Chief Executive**

Nelson City Council Disclaimer

Please note that the contents of these Council and Committee agendas have yet to be considered by Council and officer recommendations may be altered or changed by the Council in the process of making the formal Council decision. For enquiries call (03) 5460436.

### **Areas of Responsibility**

- Council's Treasury policies
- Council's Annual Report
- Audit processes and management of financial risk
- Monitoring organisational risks, including debtors and legal proceedings
- Internal audit
- Health and Safety
- Any matters raised by Audit New Zealand or the Office of the Auditor-General

### **Powers to Decide**

- None

### **Powers to Recommend to Governance and Finance Committee**

- To write off outstanding accounts receivable or remit fees and charges of amounts over the Chief Executive's delegated authority
- Any matters within the areas of responsibility or such other matters referred to it by the Council

### **Powers to Recommend to Council**

- Adoption of Council's Annual Report

For the Terms of Reference for the Audit and Risk Subcommittee please refer to document A1437349.

**1. Apologies**

Nil

**2. Confirmation of Order of Business****3. Interests**

3.1 Updates to the Interests Register

3.2 Identify any conflicts of interest in the agenda

**4. Public Forum****5. Chairperson's Report****6. Internal Audit Quarterly Progress Report to 31 December 2019****7 - 10**

Document number R13707

Recommendation

***That the Audit and Risk Subcommittee***

- 1. Receives the report Internal Audit Quarterly Progress Report to 31 December 2019 (R13707) and its attachment (A2278558).***

**7. New and Outstanding Significant Risk Exposures and Control Issues Identified from Internal Audits - 31 December 2019** **11 - 16**

Document number R13708

Recommendation

***That the Audit and Risk Subcommittee***

- 1. Receives the report New and Outstanding Significant Risk Exposures and Control Issues Identified from Internal Audits - 31 December 2019 (R13708) and its attachment (A2316401).***

**8. Key Organisational Risks Report - 01 July to 31 December 2019** **17 - 44**

Document number R13718

Recommendation

***That the Audit and Risk Subcommittee***

- 1. Receives the report Key Organisational Risks Report - 01 July to 31 December 2019 (R13718) and its attachment (A2332487).***

**9. Health, Safety and Wellbeing Report, July to December 2019** **45 - 58**

Document number R13724

Recommendation

***That the Audit and Risk Subcommittee***

- 1. Receives the report Health, Safety and Wellbeing Report, July to December 2019 (R13724) and its attachment (A2323649).***



**10. Letter from Audit NZ on Annual Report for year ending 30 June 2019**

**59 - 95**

Document number R13731

Recommendation

***That the Audit and Risk Subcommittee***

- 1. Receives the report Letter from Audit NZ on Annual Report for year ending 30 June 2019 and its attachment (A2320712); and**
- 2. Notes Audit New Zealand's responses on the Annual Report for year ending 30 June 2019.**

**CONFIDENTIAL BUSINESS**

**Exclusion of the Public**

Recommendation

***That the Audit and Risk Subcommittee***

- 1. Excludes the public from the following parts of the proceedings of this meeting.**
- 2. 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:**

<b>Item</b>	<b>General subject of each matter to be considered</b>	<b>Reason for passing this resolution in relation to each matter</b>	<b>Particular interests protected (where applicable)</b>
<b>1</b>	<b>Quarterly Update On Debts - 31 December 2019</b>	Section 48(1)(a)  The public conduct of this matter would be likely to result in disclosure of information for which good reason exists under section 7	The withholding of the information is necessary: <ul style="list-style-type: none"><li>• Section 7(2)(a) To protect the privacy of natural persons, including that of a deceased person</li><li>• Section 7(2)(g)</li></ul>

<b>Item</b>	<b>General subject of each matter to be considered</b>	<b>Reason for passing this resolution in relation to each matter</b>	<b>Particular interests protected (where applicable)</b>
			To maintain legal professional privilege
<b>2</b>	<b>Quarterly Update on Legal Proceedings</b>	<p>Section 48(1)(a)</p> <p>The public conduct of this matter would be likely to result in disclosure of information for which good reason exists under section 7</p>	<p>The withholding of the information is necessary:</p> <ul style="list-style-type: none"> <li>• Section 7(2)(g) To maintain legal professional privilege</li> </ul>
<b>3</b>	<b>Internal Audit - Investigation into the Calculation of Reserves Contributions</b>	<p>Section 48(1)(a)</p> <p>The public conduct of this matter would be likely to result in disclosure of information for which good reason exists under section 7</p>	<p>The withholding of the information is necessary:</p> <ul style="list-style-type: none"> <li>• Section 7(2)(a) To protect the privacy of natural persons, including that of a deceased person</li> <li>• Section 7(2)(g) To maintain legal professional privilege</li> </ul>

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## **Internal Audit Quarterly Progress Report to 31 December 2019**

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### **1. Purpose of Report**

- 1.1 To update the Audit and Risk Subcommittee on the internal audit activity for the quarter to 31 December 2019.

### **2. Summary**

- 2.1 While the first half of the financial year has been dominated by business improvement initiatives, a number of internal audits in the Plan are currently underway. The focus for the second half of the year will be on these and the other audits included in the Plan. At the time of this report, officers expect the Plan to be on target by year end.

Current activity includes one investigation which, due to legal advice and privacy grounds, is briefly outlined under Public Excluded.

### **3. Recommendation**

***That the Audit and Risk Subcommittee***

- 1. Receives the report Internal Audit Quarterly Progress Report to 31 December 2019 (R13707) and its attachment (A2278558).***

### **4. Background**

- 4.1 Under Council's Internal Audit Charter approved by Council on 15 November 2018, the Audit and Risk Subcommittee requires a periodic update on the progress of internal audit activities relative to any current Internal Audit Plan approved by Council.
- 4.2 The current Internal Audit Plan (the Plan) for the year to 30 June 2020 was approved by Council on 8 August 2019. The Plan provides for two planned audits, with an allowance for a further two unplanned audits. As well, it provides for a contribution towards business improvement work programmes.

## Item 6: Internal Audit Quarterly Progress Report to 31 December 2019

- 4.3 The Audit and Risk Subcommittee indicated at their meeting of 25 June 2019 that the unplanned audit topics should be decided by the end of the calendar year.

### **5. Discussion**

- 5.1 The review of the performance management system from the 2018-2019 Plan was finalised and presented to the Senior Leadership Team during this reporting period. A number of areas for improvement were identified with risk ratings assessed as medium or low.
- 5.2 While the two planned audits in the Plan are yet to be completed half way through the financial year, more of the internal audit resource effort will be directed towards audits for the second half of the year.
- 5.3 Of the two unplanned audits in this year's Plan, one has been allocated at the request of management and with the support of the Chair, Audit and Risk Subcommittee. This is well underway.
- 5.4 The final unplanned audit is an adjunct to the planned formal fraud risk assessment audit. This piece of work will use the findings from the fraud risk assessment to help identify and evaluate which of these areas would benefit from the use of data analytics, particularly with respect to fraud detection. The primary purpose of the work is to inform the decision as to whether to proceed with a suitable cost-effective procurement of a data analytics product, and thus improve the ability to identify fraudulent activity and reduce risk across the organisation.
- 5.5 Progress relating to the business improvement programme of work included in the Plan has, to some extent, been impacted by staffing changes during the reporting period. That said, there have been some real gains made and staff resourcing needs are expected to be met in the first half of 2020.

**Author:** Lynn Anderson, Internal Audit Analyst

### **Attachments**

Attachment 1: A2278558 - Report on Progress of Internal Audits - 31 December 2019 [↓](#)

## Progress Report to 31 December 2019 for Audit, Risk and Finance

### Annual Audit Plan - 2019-20 (Approved 8 August 2019)

INTERNAL AUDITS				
Responsible	Audit Topic	Audit Objective	What could go Wrong?	Progress
From 2018/19				
External	Performance Management	Evaluate the effectiveness of the current system of managing employee performance. Locate data that demonstrates the realisation of benefits such as improved employee satisfaction, performance, development, and buy-in of strategic objectives	Council's delivery of its objectives can be affected by underperforming or dissatisfied staff, and may not guide the organisation towards continuous improvement	Review completed and report presented to the Senior Leadership Team together with management response. The review was based on a maturity model with a rating from 1 - 5. Overall it was found that the current system had a rating between 2 & 3 (developing and progressing). In particular this was due to its focus on KPI achievement above organisational competencies, behaviours, capabilities and individual development. The Senior Leadership Team are scheduled to meet in February/March 2020 to agree on the ideal purpose for the performance management system - what it should achieve and deliver for Council (it was noted in the report that this should closely align to the goal to lift Council performance). Following senior management agreement, the report recommended that improvements or a redesign of the system should be prioritised.
2019/20				
Internal Audit Analyst	Formal Fraud Risk Assessment	To confirm or update the initial assessment in 2015 of areas throughout council considered at most risk from fraud/bribery/corruption - in order to inform future internal audits and to provide focus for self-reviews of key controls	Key areas where inappropriate activity could be occurring may not have sufficient controls or visibility. It is possible this could result in moderate financial loss and/or major negative public reaction	Development of framework identifying key fraud risk areas across Council has commenced
Internal Audit Analyst	Founders Control Environment	To evaluate the effectiveness of the control environment at Founders to determine how much reliance can be placed on operations and internal controls	Financially not significant, but poor financial management procedures and oversight can lead to unexplained transactions with resultant moderate negative public reaction likely	Officers in the process of going to market for a new Point of Sale system. This audit on hold until new system procured and embedded
Internal Audit Analyst	Allocated	See Public Excluded report	See Public Excluded report	In progress
Internal Audit Analyst	Data Analytics assessment	Using findings from the formal fraud risk assessment above, evaluate where data analytics could be beneficially and cost-effectively utilised for fraud detection and thus reduce fraud risk across Council. Inform decision whether to proceed with procurement of data analytics product	Ineffective detection methods could lead to financial loss, reduction in staff morale and reputational damage	Not started

### Progress Report to 31 December 2019 for Audit, Risk and Finance

BUSINESS IMPROVEMENT				
	Topic	Work Proposed	What could go Wrong?	Progress
Internal Audit Analyst	Integration of Contract Management and Accounting Information systems	Contribute to the project to develop and integrate MagiQ's contract management module with its existing financial system to help management contract risk and contractor performance	Poor visibility of contracts and of contractor performance across Council may lead to financial and reputational loss	<p>Q4 2018/19 progress: A simple single organisational register has been created which is providing improved visibility of contracts outside Capital Projects. The latter are recorded and identifiable in a separate database. Two alternative options have been identified for contract management and these will be evaluated in Q1 2019-2020, with a business case and final decision anticipated by the end of the quarter. Officers are currently working with Council's accounting system software provider to determine the feasibility of incorporating contract numbers within purchase orders which could provide the desirable link with the financial system.</p> <p><b>Q1 &amp; Q2 2019/20 progress: Development on a consolidated organisational contract register, with core contract management workflow features, is beginning in Q2 2019/20, and is expected to be ready for testing in February 2020.</b></p> <p><b>[Note: Council's accounting system software provider has advised that contract numbers cannot be integrated within purchase orders. Other methods for how to achieve the linkage of contract and financial data will be explored at a later date]</b></p>
Internal Audit Analyst	Asset Management	This may include assisting with a review of all work in progress and reviews in the asset management space with a view to obtaining an overall picture of council's current asset management maturity. This would help inform the Senior Leadership Team's decision of the top three-five focus areas specific to council for business improvement in 2019. This work may also/instead include an evaluation of organisational risk from the quality and completeness of current source data which informs asset planning, decision-making and resource allocation; assessment of information gaps from International Infrastructure Management guidelines (IIM) and provision of recommendations to the Senior Leadership Team for business improvements to reduce risk to the level acceptable to management	The asset information does not flow between systems and therefore does not fully inform asset management planning and resource allocation. It is therefore likely that council is sub-optimally managing its assets and more reactive work is occurring. This could lead to service, reputational and financial loss	<p>Q4 2018/19 progress: Documentation of existing asset registers is in progress and an initial assessment of organisational requirements for asset management and planning has begun. This will be explored further in Q1 and Q2 2019-2020.</p> <p><b>Q1 2019/20 progress: the initial assessment of organisational requirements continues. A project to complete an initial set of improvements relating to asset records in the Parks and Facilities activity is being initiated</b></p> <p><b>Q2 2019/20 - a draft report has been completed and recommendations from this report will be reviewed and prioritised during Q3. An exercise is planned for Q3 to start benchmarking various aspects of our asset management practice with similar sized local authorities. Further work is needed to better understand where most value is to be gained from improvements in our asset management practice.</b></p>
Internal Audit Analyst	Project Management	Review status of recommendations from prior external reviews/audits, evaluate gaps and recommend improvements in order to achieve Senior Leadership's agreed level of project management maturity	Poor project management systems, controls and performance may lead to service, reputational and financial loss	<p>Q4 2018/19 progress: This work was scoped but has not been completed during Q4. The work is assigned with a delivery date of 31 July 2019.</p> <p><b>Q1 2019/20 progress: the status recommendations from prior external reviews/audits have been reviewed. The majority of recommendations have been implemented. An outstanding recommendation from Audit New Zealand to implement benefit realisation and post-implementation review upon the completion of significant projects is included in the business improvement programme of work for 2019-20.</b></p> <p><b>Q2 2019/20 progress - no significant progress to report. Work is unlikely to progress during Q3 due to other priority work, and staff changes</b></p>

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## **New and Outstanding Significant Risk Exposures and Control Issues Identified from Internal Audits - 31 December 2019**

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### **1. Purpose of Report**

- 1.1 To update the Subcommittee on new or outstanding risk exposures following internal audits included in the Internal Audit Plan to 30 June 2020.

### **2. Recommendation**

***That the Audit and Risk Subcommittee***

- 1. Receives the report New and Outstanding Significant Risk Exposures and Control Issues Identified from Internal Audits - 31 December 2019 (R13708) and its attachment (A2316401).***

### **2. Background**

- 2.1 Under section 9.1 of the Internal Audit Charter, the Audit and Risk Subcommittee and the Governance Committee are to be informed of internal audit results where appropriate.
- 2.2 Under section 9.4, the Audit and Risk Subcommittee requires a periodic update of any significant risk exposures and control issues identified from internal audits completed.
- 2.3 At its 8 August 2019 meeting, Council approved that the Internal Audit Plan to 30 June 2020 should include a strong focus on business improvement. As a result, during the six months to 31 December 2019 only one internal audit was finalised, from which no new significant risks were identified.
- 2.4 The attachment (A2316401), *New and Outstanding Significant Risk Exposures and Control Issues Identified from Internal Audits*, shows five

Item 7: New and Outstanding Significant Risk Exposures and Control Issues  
Identified from Internal Audits - 31 December 2019

high risks outstanding from the previous report presented to the Audit, Risk and Finance Subcommittee meeting of 27 August 2019. Of these, two are about to reduce to a medium risk. Details of progress in Quarter 1 & 2 are shown **in red** for each action included in the 27 August 2019 report.

### **3. Conclusion**

- 3.1 There are five ongoing high risks identified from internal audits, two which are soon to reduce to medium. Good progress has been made with the remaining three high risks to achieve the improvements necessary but it will take time to reduce the level of risk for each of these. As the Business Improvement Team have these on their work programme as a matter of priority, it is considered that the organisation is attending to the risks prudently.

**Author:** Lynn Anderson, Internal Audit Analyst

### **Attachments**

Attachment 1: A2316401 - Summary of New or Outstanding Significant Risk Exposures and Control Issues - 31 December 2019 [↓](#)



## Summary of New or Outstanding Significant Risk Exposures and Control issues Identified from Internal Audits - 31 December 2019

Audit	Audit Findings	Impact	Rating	Recommendations	Progress
Business Continuity Planning	<p>(1) There was a Business Impact Analysis (BIA) performed in 2009 as part of an IT Disaster Recovery Plan but this is outdated and the order of priority could be flawed. There is no clearly defined BIA review period;</p> <p>(2) There is no defined Crisis Management Plan or structure which can lead to the selection of inappropriate recovery strategies and misuse of resources and support;</p> <p>(3) There is no defined Crisis Management Team which can lead to confusion and uncertainty during an event;</p> <p>(4) Business continuity planning should be standardised throughout the organisation to ensure consistency and simplicity. A plan was found for Payroll but it was limited and lacked critical components. Other business units may have similar strategies but these were not sighted</p> <p>(5) While members of an Incident Management Team (IMT) have been identified, their roles and responsibilities are not clearly defined or included in an Incident Management Plan (this finding considered a duplication).</p>	In the event of a large disruptive event (for example an earthquake) this often results in large scale loss of key services such as water supply, waste. While there is a low likelihood of these events occurring, Council's ability to respond rests to a considerable extent in its preparedness for this.	Medium	<p>(1) Conduct Council wide BIAs;</p> <p>(2) Develop a Crisis Management Plan or structure;</p> <p>(3 &amp; 5) Establish Crisis Management Team roles and responsibilities;</p> <p>(4) Develop standardised business continuity planning framework</p>	<p><b>Q1 &amp; Q2 progress: The structure for managing business continuity has been embedded across both the Incident Management Team and the wider organisation. The framework for practice, review and improvement in this area has been agreed with the Senior Leadership Team, and implemented. The recommendations are considered complete. Risks related to business continuity are now included and being managed through Council's risk management framework.</b></p> <p><b>NOTE - This action will be removed from future reports as the risk rating is now considered MEDIUM and will be managed as part of business as usual.</b></p>
Water Contamination Prevention	The Maitai Dam Emergency Action Plan is being developed by an external engineering contractor. In the DRAFT document, Clause 5.9.2 states that given the potential impact classification the dam (and to ensure industry guidelines are met) a full scale exercise involving the Police and Civil Defence Emergency Management should be undertaken at no more than 10 year intervals. While it is considered that the risk of dam failure from sabotage is low, there are other risks (e.g. an extreme earthquake event which damages the dam) that should be considered. A full training exercise has not been carried out since the dam was constructed but this will be performed - currently proposed before the end of September 2018. Council's external engineering contractor is to provide a failure modes effects analysis for the dam and a site specific (dam) seismic assessment will be received within the next three months. <b>Note - this information may affect the risk rating of this finding</b>	In the event of an extreme event which damages the Maitai Dam and causes flooding, Council may not have an adequate response plan, leading to an extended delay to resuming services or possible loss of life	High (reduction to Medium subject to flowchart entry in EPM)	<p>a) Proceed as planned with finalisation of Maitai Emergency Action Plan and supporting data which will inform the vulnerability of the Maitai Dam to sabotage or seismic activity.</p> <p>b) Proceed with planning for a full scale exercise within the next three months following development of the finalised Maitai Dam Emergency Action Plan.</p>	<p>Q4 2018-19 progress: Final report has been received from the engineers. Planning for a multi-agency workshop to be held before the end of the calendar year 2019 has commenced. Note: Although the engineers' report shows that the likelihood of a major seismic event damaging the dam is very low, there are other failures that were identified in the report. The impact of these could be major or extreme with respect to Council's reputation, or major environmental damage. While the likelihood is very low (unlikely), the risk is still considered high. The action will therefore remain in this report until the above workshop has been held and there is a reasonable level of confidence that the Emergency Action Plan is fit-for-purpose and has been tested to the satisfaction of officers. Additional activities to reduce the other identified risks is outside the scope of this report.</p> <p><b>Q1 &amp; Q2 2019-20 progress: Multi-agency workshops have been held with scenarios for sudden and gradual failure. The consultant engineers are finalising the Emergency Action Plan; meanwhile officers are adding flowcharts to the current Emergency Procedures Manual (EPM) to match the Plan. A briefing on the Maitai Dam Emergency Action Plan will take place immediately following the Infrastructure Committee meeting on 20 February 2020.</b></p> <p><b>NOTE - Once these flowcharts are entered, the risk rating will change to MEDIUM pending a public awareness programme with FENZ.</b></p>

Summary of New or Outstanding Significant Risk Exposures and Control issues Identified from Internal Audits - 31 December 2019

Audit	Audit Findings	Impact	Rating	Recommendations	Progress
Procurement & Contract Management	<p>Engineering contracts based on NZS3910 or NZS3917 have not yet been updated to comply with risk minimisation aligned to Council’s new templates. The general technical specifications are out of date, are contradictory, and inefficient. A decision to determine the best form for all engineering contracts to ensure the risk to Council is acceptable, has yet to be made.</p> <p>Challenges remain around how best to record new (and existing) Council contracts without a reliable system or repository. In particular we found that the visibility of contracts relating to the highest value of spend at Council was low. We note that work is in progress to ensure that all contracts will be saved in the document management system.</p> <p>At the time of the audit we confirmed that buyer generated tax invoices (which are generally Council's largest contracts) were still not able to be recorded in the electronic purchase order system.</p>	<p>Continued use of NZS3910 may compromise Council's ability to recover costs on a poor quality construction project;</p> <p>Without the ability to find contracts, or a reliable contracts register for infrastructure contracts it is difficult to have oversight over their existence, their management or whether there is financial loss through paying for services more than once</p>	High	<p>Within an agreed period, proceed with the decision whether to upgrade Council’s forms for NZS3910 contracts in order to minimise risk to Council;</p> <p>Remind Officers of storage procedures for contracts;</p> <p>Proceed with the development/integration of a contract management system (currently a MagiQ module) which allows the measurement and management of the performance of contracts and contractors, and enhances auditing;</p> <p>Complete project to incorporate contracts in the purchase order system</p>	<p><b>Q1 &amp; Q2 2019-20 progress:</b></p> <p><b>NZS3910:</b> The decision was made to update NZS3910 to align with Council's contract template set. All technical amendments have been resolved and have been incorporated into Council's contract template set. Further amendments may be necessary in the future.</p> <p><b>CONTRACT STORAGE:</b> A contract management system is being tested which will eventually include all Council contracts, including construction contracts. Until the organisation-wide system is operational, information about construction contracts will continue to be accessed through existing databases and mechanisms. All payments under contracts are now processed through the electronic purchase order system. Until the updated NZS3910 template is embedded, officers recommend that the rating for this audit finding stays as High.</p>

## Summary of New or Outstanding Significant Risk Exposures and Control issues Identified from Internal Audits - 31 December 2019

Audit	Audit Findings	Impact	Rating	Recommendations	Progress
Control Environment	The audit found there is generally a low level of risk maturity across Council. Business Unit risk registers vary in their completeness and review and there is no central risk register for Senior Management and Council to have oversight. Further, Clause 6.2 of the Risk Management Policy is not being applied consistently across Council "The Chief Executive is responsible for ensuring that this policy is actioned across the organisation in a consistent manner and specifically that appropriate risk management is applied to all forms of planning and decision making. This includes allocating sufficient resources".	Officers who have not yet been persuaded of the benefits of the new risk based approach, or that the risk framework is too time consuming, not practical, or cannot be applied in all situations may limit their responsibilities for identifying and managing risk. Where there is no visible Council-wide risk register, previously identified risks may not be shared and Council may be exposed unnecessarily to reputational, legal or financial risks	High	a) The Senior Leadership Team should formally address their concerns relating to the current Risk Management Policy and its implementation. The outcome should be an agreed approach that is clearly driven by this Team.  b) A review which considers whether the change management procedures for risk management implementation, and for those used generally across the organisation, are best fit for Council.	<b>Q1 &amp; Q2 2019-20 progress: Development of a more usable risk framework for managers which is focussed on Council's priority services and activities is in progress. A software tool to support risk management has been identified, with a trial planned to start during Q3 2019-20 (note this is later than previously advised). The priority focus for the short term is the implementation of the risk management tool, which is key to gaining both better visibility of risk across the organisation and improving risk management practice. The planned risk management maturity benchmarking exercise was reviewed and it is considered that the organisation will get better value from conducting a benchmarking exercise following implementation of an improved risk framework and tools. The risk rating for this audit finding will remain at High for the timebeing.</b>
Monitoring & Management of Contractor Performance	It was found that there is a highly variable approach to the identification and management of contract risks, and that there was not the appropriate level of resource applied to contracts that present a significant risk to Council. The benefit of including risk information in a contract register, is the ability to monitor contract performance on a risk basis by focusing on the highest risk contracts.  There is an inconsistent approach to managing contracts at the Council. Each business unit is responsible for managing its own contract registers that are used to store key contract information. The registers do not include key contract performance or contract risk information that can drive performance monitoring and reporting. In addition, there are no Council wide registers where the Council can easily identify how many contracts there are and the total value.	This may result in poor performance not being identified and appropriately reported to decision makers. This may also mean that high risks are not actively monitored which could have greater impacts on Council related to quality, cost, lost income, delays, penalties, or reputational damage.  When contract registers are not complete or accurate there is limited oversight on the existence of contracts or contract performance. It increases the likelihood of fraud when a complete view of contracts is not understood at an organisational level. Moreover, there is a risk that if contract performance information (contract obligations, standards, key performance indicators) is not summarised, then key performance requirements may not be	High	Council should incorporate a contract risk framework in their policies and procedures. Contracts should be assessed at a contract level (i.e. large, complex, high public profile). This should then drive the level of monitoring and reporting requirements. Additionally, the framework should describe the criteria for identifying contract risks. The risk rating should then drive the level of performance requirements.  The Council should have processes to ensure all contracts and key contract data are recorded centrally and have been accurately and completely recorded. The best way to achieve this is through an integrated contract management system. At a minimum, the Council needs to implement a process where every business unit records consistent information that can be consolidated into a Council wide contract register. The level of information recorded would depend on the contract risk.	<b>Q1 &amp; Q2 2019-20 progress: An outline work programme is being developed to address the risks identified. The programme consists of three core work streams, which are intended to deliver improvements to existing frameworks: 1) contract risk management stream - to include guidance, processes, and tools needed to effectively identify, assess and manage contract risk; 2) contract management skills stream - to build the practical and soft skills so that contract and contractor performance management is a consistent standard across the organisation; 3) existing critical contracts stream - a "one-off" piece of work to find and fill contract risk gaps across the contracts that deliver Council's most critical core services.</b>
Monitoring & Management of Contractor Performance	With the lack of organisational wide systems there is a reliance on staff effectively performing their roles. At a Group level competency is assessed through performance reviews, however contract management skills and attributes are not explicitly addressed. There is no formal process for assessing staff contract management competence.	It is likely that not all staff are competent to effectively manage contracts. This may lead to risks not being appropriately identified and managed or non-performance not identified. This could result in cost over- runs, legal risks or service delivery outcomes not being achieved.	High CLOSED	The Council should have a robust process which ensures contract managers are competent to perform their roles. This would normally include; clear job descriptions, competency matrices, development plans, trainings and regular performance reviews.	<b>FOR YOUR INFORMATION ONLY - The most practical remedial action is to ensure that job descriptions are fit for purpose for all new recruits and that contract management skills, where relevant, forms part of the annual performance review process. Further, as noted above, contract management skills will be developed across the organisation. THIS ACTION HAS BEEN CLOSED</b>

Summary of New or Outstanding Significant Risk Exposures and Control issues Identified from Internal Audits - 31 December 2019

Audit	Audit Findings	Impact	Rating	Recommendations	Progress
Council-Owned Property & Facilities Maintenance	There is no link between the financial system and the asset systems used at the Council. Further, assets are not consistently set up in the asset systems and the financial system. As a result of limited asset information and the fact that the asset management systems are not aligned with the financial system, the asset management plans are not accurately informed and therefore not as directional and as detailed as they could be. This could lead to sub-optimal asset management and additional costs from reactive maintenance. This also results in a requirement for annual maintenance programmes to be separately developed based on the limited information available.	It is not currently possible to effectively identify the costs associated with individual assets. This may result in the Council failing to make effective decisions on the maintenance or replacement of assets through analysis of associated costs. Any manual process to gather maintenance data is not an efficient use of time, and increases the likelihood of Council's assets not being effectively managed.	High	1. Investigate the possibility of linking and aligning the asset management system with the financial system to enable analysis of the actual cost of each asset.  2. Ensure staff is held accountable by performing regular checks to ensure that all teams have effectively updated their asset registers on a periodic basis.	Q1 & Q2 2019-20 progress: Council does not yet have cost-effective options for linking its asset management systems with the core financial system. Future options to be investigated will therefore most likely be based on data extraction and analytics, rather than linking or integration between the systems directly. Whilst current asset management processes may not be optimal, they are somewhat effective for budgeting purposes with respect to asset maintenance and asset replacement at the portfolio level. Some short term work is underway to improve condition assessments and the completeness of recording information against property and facilities assets, however pending a more structured and holistic plan, the risk rating remains High.
Library Cash Collection Processes	Library Management require upskilling in their understanding and application of financial management tools and techniques.	Inadequate oversight of financial transactions or misinterpretation of financial information may lead to unusual transactions being missed or to possible loss of revenue.	High CLOSED	Recommend Accounting 101 training is undertaken by libraries management staff, financial reporting and oversight improved.	FOR YOUR INFORMATION ONLY - Management are satisfied that the concerns relating to oversight and financial skill levels have been resolved. THIS ACTION HAS BEEN CLOSED

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## **Key Organisational Risks Report - 01 July to 31 December 2019**

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### **1. Purpose of Report**

- 1.1 To provide information to the Audit and Risk Subcommittee on the key organisational risks through to end of quarter two 2019-20. This report covers risk management progress through both quarter one and quarter two 2019-20. Future reports to the Subcommittee will be on a quarterly basis, covering the preceding quarter.

### **2. Recommendation**

***That the Audit and Risk Subcommittee***

- 1. Receives the report Key Organisational Risks Report - 01 July to 31 December 2019 (R13718) and its attachment (A2332487).***

### **3. Background**

- 3.1 This report includes information on risks to achieving Council's priorities for the Long Term Plan 2018-28 (section 5), and the key organisational risks that could impact Council's wider ability to deliver core functions and services (section 6). Risks related to specific assets, activities, or projects, are reported on a quarterly basis to the relevant Committee, and are summarised at section 7 of this report. In addition, section 7 provides a brief summary from each Group Manager on emerging risks for their areas of responsibility.
- 3.2 The attachment to this report describes each risk in more detail, including the existing controls and planned risk treatments.

### **4. Risk Management Practice**

- 4.1 Risk management improvement activities for the remainder of 2019-20 include:
- A trial of a risk management software tool is planned to begin in late February. The intent of using this software is to enable

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consolidation of risk recording, to provide more effective risk ownership and visibility, and to provide more efficient reporting on risk. A decision will be made by the end of March to proceed, or not, with full implementation.

- Test the feasibility of a revised risk management structure and related processes. An outline structure has been drafted with the aim of ensuring risk management activity has a priority focus on Council's core service delivery objectives.

- 4.2 A risk maturity benchmarking exercise was previously anticipated for completion during 2019-20. This is rescheduled for next financial year, as more value will be gained by benchmarking after completing the planned improvement activities noted at section 4.1.

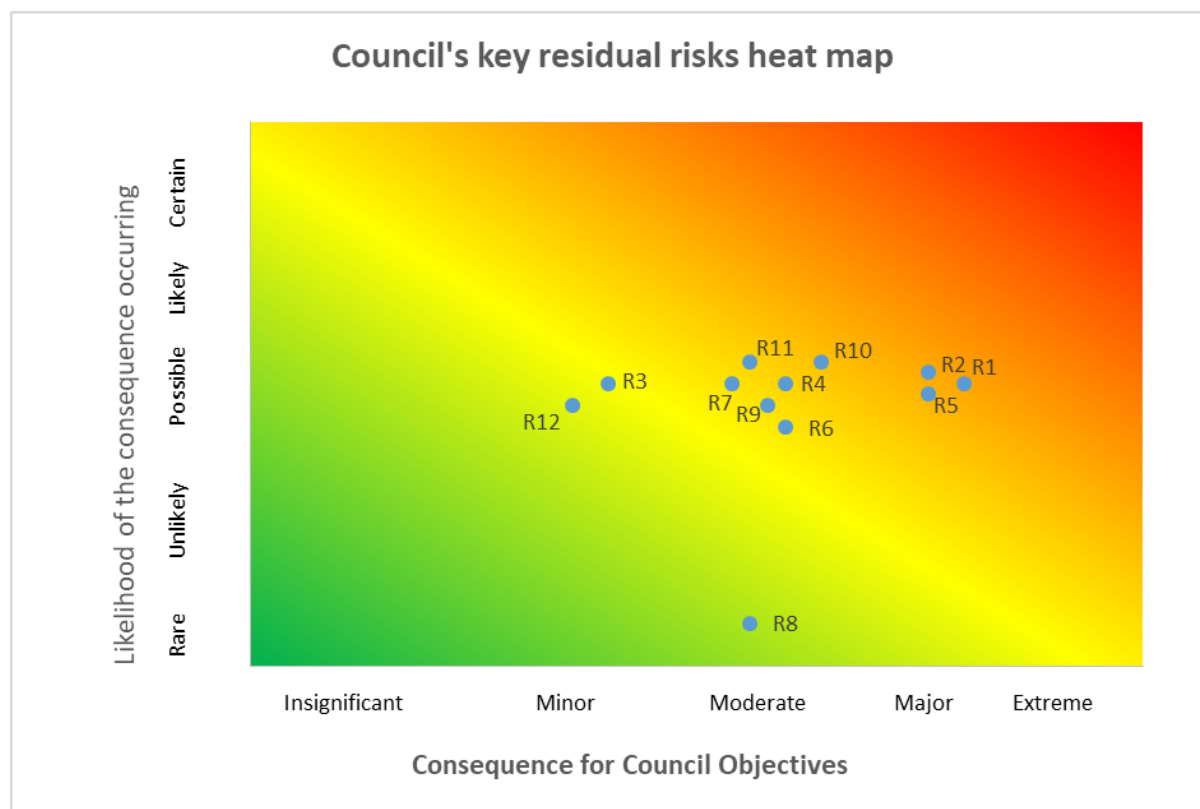
### 5. Risks to Achieving Council Long Term Plan Top Priorities

- 5.1 Updated information to end of quarter two is summarised below, with further detail on the risk areas, their controls and treatments set out in attachment one.
- 5.2 **Priority area Infrastructure (Risk 1).** There have been no reported exceptions to the risk controls. The next review dates for the planned treatments have been set, though it should be noted that the planned treatments are for delivery over the medium to long term. The risk rating remains at High, with no risk movement during quarters one and two 2019-20.
- 5.3 **Priority area Environment (Risk 2).** The risk profile was reviewed as planned, with no changes to the risk profile. The risk rating remains at High, with no risk movement during quarters one and two 2019-20.
- 5.4 **Priority area CBD Development (Risk 3).** Some risk treatments were established and/or completed during quarter two. The risk profile was reviewed and as the assessment of likelihood has reduced in two consequence areas, the overall risk rating has moved from High to Medium.
- 5.5 **Priority area Lifting Council Performance (Risk 4).** The recent review of this risk identified a need to reflect Council's performance goals, such as key performance indicators for the capital expenditure programme, staff survey results, and staff turnover. These areas will be incorporated into the risk controls, and planned risk treatments, during quarter three 2019-20. Whilst the wider Civic House refurbishment project is on hold, some localised improvements in physical working environment have been completed, including renewal of older office furniture, refreshing office layouts, and the relocation of some teams to better suit their working needs. The risk rating remains at Medium, with no risk movement during quarters one and two 2019-20.



## 6. Key Organisational risks

- 6.1 At end of quarter two, the known key risk areas for the four Long Term Plan top priorities, and the eight key organisational risks, are as summarised in the heat map, and table below. Brief updates are provided for the eight key organisational risk areas, with further detail in attachment one.



ID	Risk Area	Rating	Owner
1	Council priority area: Infrastructure	High	Group Manager Infrastructure
2	Council priority area: Environment	High	Group Manager Environmental Management
3	Council priority area: CBD Development	Medium	Chief Executive
4	Council priority area: Lift Council Performance	Medium	Chief Executive
5	Lifeline service failure from natural hazards and similar events	High	Group Manager Infrastructure

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ID	Risk Area	Rating	Owner
6	Illness, injury or stress from higher hazard work situations	Medium	Group Manager Corporate Services
7	Loss of service performance from ineffective contracts and contract management	Medium	Chief Executive
8	Compromise of Council service delivery from information technology failures	Low	Group Manager Corporate Services
9	Compromised decision making and public information from incomplete and difficult to access records	Medium	Group Manager Strategy and Communications
10	Council work compromised by loss of and difficulties in replacing skilled staff	Medium	Manager People and Capability
11	Legal liability and reputation loss from inadequate consideration of the law in decision making	Medium	Group Manager Strategy and Communications
12	Loss of public trust in the organisation	Medium	Group Manager Strategy and Communications

**6.2 Lifeline service failure from natural hazards and similar events (Risk 5).** The risk profile for this area will be reviewed following the update of the Maitai Emergency Action Plan. Risk treatments related to the organisation's major disruption response capability have been completed. The first of the table top business continuity exercises was held in October 2019, and was effective in providing experience of initial response action planning and decision making, as well as identifying improvements to increase the organisation's ability to continue business operations. The risk rating remains at High, with no risk movement during quarters one and two 2019-20.

**6.3 Illness, injury or stress from higher hazard work situations (Risk 6).** Previously, the residual risk rating in this area was revised to High after taking into consideration public spaces and events provided by Council, in light of the attacks in Christchurch. Since then, officers have completed the majority of the planned risk treatments, and as such the residual risk rating has been reviewed and is now considered to be Medium. Council has invested (and continues to invest) in safety training for officers. "Crowded places" processes have been incorporated into Council practice, and have been used as needed for risk assessments related to large gatherings, Bay Dreams 2020 and the Santa Parade being the most recent examples. The health and safety management system was replaced during quarter two, with positive results. The risk movement during quarters one and two 2019-20 is from High to Medium.



- 6.4 **Loss of service performance from ineffective contracts and contract management (Risk 7).** Risk treatments are underway, with progress being made on the development of a contracts database. Revisions to the template set for civil engineering construction contracts have been completed. The risk rating remains at Medium, with no risk movement during quarters one and two 2019-20.
- 6.5 **Compromise of Council service delivery from information technology failures (Risk 8).** A number of planned treatments were completed over quarters one and two, with the remainder either well underway or almost complete. Risk controls have been reviewed and are considered to remain effective. The overall residual risk is now assessed as Low. An additional treatment was implemented during quarter two, to protect against spoofing attacks on Council email addresses. The risk movement during quarters one and two 2019-20 is from Medium to Low.
- 6.6 **Compromised decision making and public information from incomplete and difficult to access records (Risk 9).** The risk profile was reviewed during quarter two as planned, there are no changes to report. The risk rating remains at Medium, with no risk movement during quarters one and two 2019-20.
- 6.7 **Council work compromised by loss of and difficulties in replacing skilled staff (Risk 10).** The implementation of risk treatments continues. Controls have been reviewed and are considered to remain effective. The risk rating remains at Medium, with no risk movement during quarters one and two 2019-20.
- 6.8 **Legal liability and reputation loss from inadequate consideration of the law in decision making (Risk 11).** The effect of previously completed treatments was reviewed during quarter two. The planned treatments are now largely completed and in place as controls. It is expected that all planned treatments will be concluded by the end of June 2020. It is unlikely that the overall risk rating can be reduced further in a cost effective manner, however the risk owner is satisfied that, taking into account the controls that are in place, the risk is at a tolerable level. The risk will next be formally reviewed at the end of June 2020, to confirm if controls remain effective, or if further treatments are required. The risk rating remains at Medium, with no risk movement during quarters one and two 2019-20.
- 6.9 **Loss of public trust in the organisation (Risk 12).** Progress on risk treatments continues, and the residual risk rating has been reviewed. Whilst it is unlikely that further reduction in the residual risk rating can be achieved, the risk owner is satisfied that the risk is at a tolerable level, considering the level of effective controls that are in place. The risk rating remains at Medium, with no risk movement during quarters one and two 2019-20.

## **7. Risk Areas for Each Group**

- 7.1 **Infrastructure Group:** The key risks being reported to the Infrastructure Committee relate to delivery of the capital programme. The key areas that most impact delivery are projects that require land negotiations and resource consents. Unknown market fluctuations during tendering, and the potential inability to attract tenderers, could result in increased costs, and re-phasing of projects where construction is unable to start at the expected time.
- 7.2 **Community Services Group:** The use of Council reserves could be impacted as Council seeks to mitigate the impact from the elevated fire risks over the summer period. Other emerging risks and issues include the staff departures in the Events team (impact is being assessed), and the impact for Council of homelessness.
- 7.3 **Environmental Management Group:** Staff resources in critical areas are the main concern, and the ability to recruit for vacant positions in a competitive and constrained skills market. The likely impacts of this are: delays to timeframes for the Nelson Plan; the potential for budgetary overspend as a result of increased use of consultants; impact on ability to complete remediation of general non-compliances advised by the last IANZ assessment (Building Consent Authority). Processing timeframes for building consents are less likely to be impacted.
- 7.4 **Strategy and Communications Group:** No new emerging risks to report at this time.
- 7.5 **Corporate Services Group:** No new emerging risks to report at this time.

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### **Attachments**

Attachment 1: Key organisational risks report quarters 1 and 2 - July to December 2019 (A2332487) [↓](#)

## **Council Risk Profile - Key Organisational Risks: Quarters One and Two 2019-20**

Key organisational risks report quarters 1 and 2 – July to December 2019 (A2332487)

## Overview

### The purpose of this document

This document provides a profile of the key risks which the Council faces at the overall organisation level. Following good practice in corporate risk reporting, key risks are described from two perspectives;

- The effect of uncertainties on the Council's key objectives as set out in the organisation's long term plan – four key risk areas
- The effect of uncertainties on areas of Council operation which affect the overall capacity of the organisation to deliver on its objectives – currently eight risk areas

### Omitted areas:

This report does not provide an update on risks to the organisation's overall expenditure programme, as these are adequately reported on in other more detailed reports regularly provided to the Governance and Finance Committee. This report also does not consider the appropriateness of levels of insurance cover carried by the Council, as a type of risk control. The Council carries insurance on assets and several types of liability cover against the actions of its employees, but not contractors, who are expected to provide such cover as part of any contract.

### Risk Profile

The following pages (one for each key risk area) set out:

- A summary of the nature of each risk area including the relevant part of the Council's objectives, the uncertain events considered and the consequent estimated level of risk using the Council's risk criteria – the green box on each page. As is normal risk management practice, levels are based on the largest consequence likelihood pair for the events considered.
- The assigned risk owner and the last update to the information for the risk area
- A diagrammatic representation of the current estimated level of residual risk (i.e. after considering controls), an indication of any risk movement over the reported quarter, and the intended effect of treatments or further actions to manage (usually reduce) risk levels - the pale blue box on the top right of each page
- A description of actions in place (controls) or proposed (treatments) to manage the risk including the intended effects of, likely timeframe and accountabilities for each action – the yellow box on each page.

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1. Council priority area: Infrastructure														
Assigned risk owner:			Group Manager Infrastructure					Last update: December 2019						
Residual risk identification and assessment								Residual risk rating map						
Council objectives:	To provide and maintain water supply, wastewater and stormwater management systems, transport infrastructure and solid waste disposal to meet the current and reasonably foreseeable needs of the Nelson Community							Likelihood	Almost Certain	Medium	Medium	High	Very High	Very High
Uncertain events considered:	Extreme natural hazard events (extreme weather, seismic events, large scale energy system failure) Service demand increases faster than projected Infrastructure component fails earlier than projected life								Likely	Medium	Medium	High	High	Very High
Consequences			Likelihood		Assessed risk level				Possible	Low	Medium	Medium	High	High
Major loss of Council infrastructure services to the Nelson community			Possible		High				Unlikely	Very Low	Low	Medium	Medium	High
Moderate level health impact on residents and visitors			Possible		Medium				Rare	Very Low	Very Low	Low	Medium	Medium
Moderate level impact on Council reputation			Likely		High									
								Risk Movement in reporting period: None Treatments are intended: To reduce both likelihood and consequences						
MANAGING THE RISK														
Controls – what we have in place:					Treatments – what we are planning									
Description	Accountability	Effect of control		Description	Expected effect	Timetable	Next review							
Infrastructure planning	Group Manager Infrastructure	Improves resilience of infrastructure components reducing consequences		Actions from regional lifeline review – ongoing programme of stream flood protection work, wastewater pump station upgrades and water supply network enhancements/replacements	Increased flood protection (modelling, design and construction)	Modelling work completed awaiting decision on priorities for action	April 2020							
Asset management plans for each network	Group Manager Infrastructure	Planned asset upgrading or replacement, reduces consequences		Reduced inflow and infiltration to wastewater system	Increased resilience of supply for water  Ongoing reduction of wastewater system overflows Increased pump station capacity	Water supply option investigations undertaken in 2018-19, pipeline replacements commenced Investigations re inflows commenced – will continue during 2019-20 year One pump station upgrade is completed Second pump station upgrade at design stage								
30 year infrastructure strategy	Group Manager Infrastructure	Long term improvement of infrastructure resilience		Improved cycling and walking facilities, upgrading local roading, including bridges, retaining walls etc., CBD bus terminus and parking upgrades	Encourage and provide for cycling and walking and improved traffic flows	Planning stage throughout 2019–20 Implementation stages 2020-24	April 2020							
Asset management information systems to track infrastructure item status	Group Manager Infrastructure	Provides data for decisions about infrastructure asset renewal, replacement etc.		Earthquake Prone Building Legislation implementation – identify and provide protection for strategic routes	Identification and enhanced protection of most significant transport routes	Over a 5 year period from amendment date	April 2020							
Utilities performance monitoring and response	Group Manager Infrastructure	Identifies areas of service for upgrade, repair etc., to be executed		Execution of Nelson Tasman Waste Management and minimisation plan	Reduced environmental and health impacts from waste	Progressively over six years from now Current focus of reducing waste by 10% per person in progress	June 2020							

Key organisational risks report quarters 1 and 2 – July to December 2019 (A2332487)

2. Council priority area: Environment													
Assigned risk owner:		Group Manager Environmental Management			Last update: January 2020								
Residual risk identification and assessment					Residual risk rating map								
Council objectives:	To respond to adaptation and mitigation issues associated with climate change within Nelson. To deliver environmental outcomes within Council’s capital projects, existing infrastructure and business case development. To effectively manage biosecurity risks across marine, freshwater and terrestrial domains. To enhance Nelson’s biodiversity in the freshwater and terrestrial domains. To manage land and soil resources. To maintain and enhance air quality, water quality, and water quantity To deliver effective and efficient regulatory services which manage environmental and built effects.				Likelihood	Almost Certain	Medium	Medium	High	Very High	Very High		
						Likely	Medium	Medium	High	High	Very High		
						Possible	Low	Medium	Medium	High	High		
						Unlikely	Very Low	Low	Medium	Medium	High		
						Rare	Very Low	Very Low	Low	Medium	Medium		
Uncertain events considered:	There is no drive or commitment (including financial) to act on environmental enhancement initiatives or statutory regulatory standards. Inability to deliver because of staff resourcing issues. Biosecurity failure causes pest species upsurge. Council investment decisions with inadequate environmental considerations. Natural hazard events causing disruption and impact				Likelihood	Insignificant Minor Moderate Major Extreme							
						Consequence							
Consequences			Likelihood	Assessed risk level									
Major damage to Nelson biophysical environment			Unlikely	Medium									
Major impact on Council reputation			Possible	High									
Major environmental impact from infrastructure damage on the natural environment			Possible	High									
Moderate legal impact from breach of and not giving effect to legislation or statutory plans			Unlikely	Medium				Risk Movement in reporting period: None Treatments are intended: to reduce both consequences and likelihood					
MANAGING THE RISK													
Controls – what we have in place:						Treatments – what we are planning							
Description		Accountability		Effect of control		Description		Expected effect		Timetable		Next review	
Legislative requirements to manage air quality, water quality and quantity, land management, forestry management, biosecurity (marine, freshwater and terrestrial) and biodiversity		Group Manager Environmental Management Group Manager Infrastructure		All environmental domains meet statutory requirements. Non-regulatory programmes deliver across the domains including eco-advice and warmer healthier homes		CEMARS carbon emissions monitoring and reduction programme for the community		Programme for measuring and promoting the reduction of greenhouse gas emissions by the community		Development of reduction programme is underway		May 2020	
Resource consenting and building consenting		Group Manager Environmental Management Group Manager Infrastructure		Statutory compliance with legislation and plans to manage the natural and physical environment		Business cases to include assessment of environmental impacts		Council projects achieve improved environmental results		Being established for new business cases		June 2020	
CEMARS carbon emissions monitoring		Group Manager Infrastructure		To provide baselines and data for future planning of emission reductions for Council operations.		Climate Change policy for the Council (Group Manager Strategy and Communications leads)		Will provide some high level objectives to guide Council decision making		Policy development is currently on hold, pending development of a community-led regional strategy		June 2020	
Adaptive pathways work on adaptation for Council		Group Manager Environmental Management		Confirm responses in areas likely to be impacted by climate change		Response to national biosecurity strategy and national policy statement on biosecurity		Implementation and response will improve weed and pest management and incursion response capability		National documents still being developed, expected to be finalised during 2019-20 year		March 2020	
Weed and pest management, Council contracted and coordination of community programmes		Group Manager Environmental Management Group Manager Community Services		Control or reduce levels of existing pests and weeds, identification and where required action on potential incursions of new pest species									
River and stream enhancement programmes (e.g. Healthy Streams)		Group Manager Environmental Management Group Manager Infrastructure		Improved water and habitat quality in rivers and streams, and management of water quantity for ecological flows									

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	Group Manager Community Services						
Natural hazard advice to property owners (e.g. via LIM)	Group Manager Environmental Management	Understanding of natural hazard impact by landowners					
Biodiversity improvement programmes e.g. Nelson Nature	Group Manager Environmental Management	Delivery of protection of significant natural areas, and enhanced species management					



3. Council priority area: City Centre Development										
Assigned risk owner:			Chief Executive		Last update: January 2020					
Residual risk identification and assessment				Residual risk rating map						
Council objectives:	To maintain and enhance the Nelson central business district so it provides the commercial, cultural and city residence centre for Te Tau Ihu by; <ul style="list-style-type: none"><li>using public (Council) investment in land and infrastructure to encourage private investment in the city centre – including managing the effects of climate change</li><li>delivering quality public spaces to attract more people for longer to the city centre</li><li>creation of visible precincts to attract business to use the city centre as a regional centre</li><li>increasing directly or indirectly the supply of residences in the city centre</li></ul>			Likelihood	Almost Certain	Medium	Medium	High	Very High	Very High
Uncertain events considered:	Decrease of city centre commercial activity City centre core infrastructure services failure or loss of city centre land use through climate change precipitated events (e.g. flooding) Cultural activities move from Nelson city centre Decline in city centre residential numbers				Likely	Medium	Medium	High	High	Very High
					Possible	Low	Medium	Medium	High	High
					Unlikely	Very Low	Low	Medium	Medium	High
					Rare	Very Low	Very Low	Low	Medium	Medium
Consequences			Likelihood		Assessed risk level					
Loss of trust and confidence in Council from decreasing city centre activity			Possible	Medium						
Moderate service failure from non-availblity of city centre residences			Possible	Medium						
Loss of city centre services from infrastructure services failure			Unlikely	Low						
Minor service failure from decreased public space quality or availablity			Unlikely	Low	Risk Movement in reporting period: High to Medium Treatments are intended: To reduce both consequences and their likelihood					

MANAGING THE RISK						
Controls – what we have in place:			Treatments – what we are planning			
Description	Accountability	Effect of control	Description	Expected effect	Timetable	Next review
Council provided waste collection & street cleaning	Group Manager Infrastructure	Enhanced CBD liveability	Investigation into new bus exchange	Improved transport connectedness	The investigation is part of the Public Transport review, with recommendations due October 2020	November 2020
Council provides funding support for Uniquely Nelson	Group Manager Environmental Management	Primary role of Uniquely Nelson is to is to promote the city centre to encourage greater visitation, thereby increasing retail spend into the Nelson economy	Engagement of key stakeholders to understand future needs (for commercial and residential use)	Better definition of objectives	Work progressing well and will be ongoing through to the Nelson Plan notification date	September 2020
City Development team established to coordinate developments to benefit city centre across Council	Group Manager Environmental Management	Provides resources and focus on city centre development activities (e.g. transport, property management, infrastructure development etc.)	Update of parking facilities and services	Improved accessibility for city centre	Improvements include the renewal of parking meters and launch of a parking app, for completion by end of 2019-20	July 2020
Nelson City Events Strategy (adopted May 2018)	Group Manager Community Services Group Manager Strategy and Communications	Supports events that are aligned with the Economic and Community funding streams and their objectives of providing economic value, and supporting community wellbeing, our sense of identity and creating a partnership between the community and Council	Input to Nelson plan so the plan enables high quality commercial/ residential develop in city centre	Allow residential and commercial city centre development	Ongoing through to the Nelson Plan notification date	September 2020
City centre focus group formed	Group Manager Environmental Management	Inform city centre stakeholders of possible actions	Transition of Upper Trafalgar Street to a pedestrian mall	Improved pedestrian amenity and business use of city centre space	Completed	n/a



City centre specific infrastructure upgrades	See under infrastructure above	See under infrastructure above					
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4. Council priority area: Lift Council Performance										
Assigned risk owner:		Chief Executive			Last update: January 2020					
Residual risk identification and assessment				Residual risk rating map						
Council objectives:	To maintain and develop the organisation’s capacity to respond to community need by: <ul style="list-style-type: none"><li>Providing a single integrated information base about the state of and expenditure on assets needed to deliver services (e.g. transport, water supply, wastewater management etc.) to the Nelson community</li><li>Streamlining the management of contracts and contractors to obtain best value from expenditure on contracts and contractors</li><li>Integrating existing systems so that information is internally linked to enable improved organisation and governance understanding of and response to uncertainties</li></ul>			Likelihood	Almost Certain	Medium	Medium	High	Very High	Very High
Uncertain events considered:	Lack of clarity of Council requirements Assets replaced while substantial service life remains Council systems slow or fail to work (people, record keeping, IT, Council decision making etc.)				Likely	Medium	Medium	High	High	Very High
					Possible	Low	Medium	Medium	High	High
					Unlikely	Very Low	Low	Medium	Medium	High
					Rare	Very Low	Very Low	Low	Medium	Medium
Consequences			Likelihood		Assessed risk level			Insignificant Minor Moderate Major Extreme		
Minor level overspend on contract			Likely	Medium			Consequence			
Minor level financial loss from contracted work not delivered or not delivered fully			Possible	Medium						
Moderate level service failure from suboptimal contract delivery			Unlikely	Medium						
Moderate trust and confidence loss from project delays or slow responding systems			Possible	Medium			Risk Movement in reporting period: None Treatments are intended: To reduce consequences and their likelihood			
MANAGING THE RISK										
Controls – what we have in place:				Treatments – what we are planning						
Description	Accountability	Effect of control		Description	Expected effect	Timetable	Next review			
Systematic contract and contractor management procedures	All business units using contractor’s services	Clear specification of contract requirements, legally defensible process for procurement		Refurbishment of Civic House to meet modern workplace standards	Improved workspaces to enable more efficient working and make the organisation more attractive to staff with the required expertise	Localised and minor improvements continue throughout 2019-20  Plan and timetable for wider refurbishment to be confirmed	May 2020			
Customer service standards and procedures	All business unit managers	Customer services managed in a timely and effective manner		Increased staffing levels, and review of organisational structure from time to time	Increased capacity in key organisational areas to improve performance	Funding agreed in Long Term Plan during 2018-19 and further adjusted through the Annual Plan 2019-20	March 2020			
				Build staff capability for iwi partnerships	Improved Council ability to work with iwi	Increased advisory capacity (completed)  Continuing throughout 2019-20: Training in Te Reo and Kaupapa Maori Developing processes and guidance for staff	June 2020			
				Update of asset management and asset recording systems	Improved decision making about when asset maintenance and replacement is required	Investigations into overall state of asset management systems completed. No identified need at this stage to replace systems  Develop wider plan to ensure overall data quality and completeness – to be scheduled	June 2020			

Insignificant

Minor

Moderate

Major

Extreme

Consequence

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						Local improvements to identify and close data gaps are in progress for two asset groups (Utilities, and Council facilities) continue throughout 2019-20	
				Update of contractor management and contract monitoring including integration with financial systems	Improved efficiency in contract expenditures	Development of a contracts database with basic workflow to ensure monitoring and review of contract, and to increase management oversight, Testing during quarter three 2019-20, and implementation during quarter four	August 2020
				Revisions to procurement policy and related processes	Improved efficiency and effectiveness of Council procurement	Development of new policy and processes is in progress Policy approval process is planned for quarter 4 2019-20	June 2020
				Improved collaboration resources	More efficient meetings Improved ability to work collaboratively with external parties	Provision of a quiet working space within Civic House for ad-hoc use – completed during quarter two 2019-20.  “Smartboards” installed in meeting rooms – completed during quarter one 2019-20.  “Zoom” meeting technology implementation – completed, with further staff familiarisation and adoption through 2019-20  Innovation room meeting space – installed during quarter two 2019-20, minor remaining items to be completed during quarter three 2019-20.	June 2020

5. Organisational risk area: Lifeline service failure from natural hazards and similar events													
Assigned risk owner:			Group Manager Infrastructure				Last update: December 2019						
Residual risk identification and assessment							Residual risk rating map						
Council objectives:	To provide and maintain water supply, wastewater and stormwater management systems, transport infrastructure and solid waste disposal to meet the current and reasonably foreseeable needs of the Nelson community						Likelihood	Almost Certain	Medium	Medium	High	Very High	Very High
Uncertain events considered:	Incidences of severe weather, earthquakes, major fires, tsunami or major electricity or telecommunications failures							Likely	Medium	Medium	High	High	Very High
Consequences		Likelihood		Assessed risk level		Possible		Low	Medium	Medium	High	High	
Major loss of services to the nelson community		possible		High		Unlikely		Very Low	Low	Medium	Medium	High	
Moderate level environmental damage		possible		Medium		Rare		Very Low	Very Low	Low	Medium	Medium	
Moderate level health impact		possible		Medium				Insignificant	Minor	Moderate	Major	Extreme	
Moderate level impact on council reputation		likely		High		Risk Movement in reporting period: none Treatments are intended: To reduce consequence							

MANAGING THE RISK						
Controls – what we have in place:			Treatments – what we are planning			
Description	Accountability	Effect of control	Description	Expected effect	Timetable	Next review
Civil defence planning and management	Manager Emergency Management	Improves response systems reducing consequence	Implement learnings from the 2018 test of the organisation's major disruption response capability	Increase the organisational capability to respond and reduce consequences (e.g. reducing delays in restoring services after events)	Completed	n/a
Insurance/risk sharing	Group Manager Corporate Services	Provides resources by funding recovery				
Earthquake strengthening of buildings and structures (e.g. bridges)	Group Managers Community Services, and Infrastructure	Improves resilience of structures reducing consequences				
Structural engineer in building unit	Manager Building Consent Authority	Improved structural assessments of building consents	Use results from lifting Council performance (see above) to improve asset planning and delivery of results from contracting	Improved resilience of infrastructure components (e.g. roads, water systems etc.)	To be established (depends on above items under lifting Council performance)	To be confirmed
Data/IT systems backup and recovery	Manager Customer and Information Services	Continued customer service, data access etc. reducing consequences	Development of the Maitai Emergency Action Plan	Reduce the impact of an extreme event	Dam Breach Analysis report completed. Emergency action plan update scheduled for first half of 2019-20	December 2019
Business unit disruption response objectives and plans (reviewed 6 monthly)	Business Unit Managers	Increased speed of response to event reducing consequences				
Lifeline improvements in AMPs	Group Manager Infrastructure	Improved resilience in networks (e.g. stormwater system)				
Two "table top" business continuity exercises per year for the immediate IMT	Manager Business Improvement	Improves organisational responsiveness and continuous improvement of related systems and processes				

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6. Organisational Risk area: Illness, injury or stress from higher hazard work situations																
Assigned risk owner:				Group Manager Corporate Services					Last update: January 2020							
Residual risk identification and assessment								Residual risk rating map								
Council objectives:		Those at Council workplaces, whether staff, contractors, Council members or visitors to remain safe (including retaining good health) while working on Council duties or on Council premises.						Likelihood	Almost Certain	Medium	Medium	High	Very High	Very High		
Uncertain events considered:		Work related accidents and incidents Work pressures leading to health effects including stress related impacts Violence and offensive behaviour by Council customers and members of the public (considering recent terror attacks)							Likely	Medium	Medium	High	High	Very High		
Consequences			Likelihood			Assessed risk level			Possible	Low	Medium	Medium	High	High		
Loss of life from workplace accident			Unlikely			Medium			Unlikely	Very Low	Low	Medium	Medium	High		
Staff, contractor, or other Council personnel loss of short term capacity			Likely			Medium			Rare	Very Low	Very Low	Low	Medium	Medium		
Multiple staff, contractor or other Council personnel fatally injured while working			Rare			Medium										
								Insignificant					Minor	Moderate	Major	Extreme
								Consequence								
								Risk Movement in reporting period: High to Medium Treatments are intended: Reduce consequence/likelihood								
MANAGING THE RISK																
Controls – what we have in place:							Treatments – what we are planning									
Description		Accountability		Effect of control			Description		Expected effect		Timetable		Next review			
Comprehensive H&S management system		Manager Business Improvement		Incorporates H&S management into all Council work			Improved and expanded training for staff		Improved H&S standards in the following critical areas: Motor vehicle operation Dealing with difficult customers		Completed		n/a			
Incident reporting and analysis		Incident reporting – all Council staff Incident analysis - Manager Business Improvement		Improved H&S procedures based on experience												
Visible ownership of H&S at organisational leadership levels		Council and Senior Leadership Team		Increases awareness of H&S good practices			Replacement of the H&S management system		Simplified tools which will help increase staff reporting of H&S related matters, leading to improved organisational visibility of H&S trends and areas of risk		Completed		n/a			
Mandatory training as relevant to role in the organisation		Manager Business Improvement		H&S skills and knowledge relevant to role maintained												
Emergency plans maintained and tested		Manager Business Improvement and Manager Customer and Information Services		Readiness to respond correctly to emergencies			Conduct terrorism vulnerability assessments for Council venues		Improved understanding of venue specific terrorism related risks, and identify potential physical security improvements.		By June 2020		June 2020			
Use of communications technology for keeping contact with remote workers		Business Unit Managers		Improved information about whereabouts and individual safety												
Physical security improvements for vulnerable areas		Business Unit Managers		Reduces likelihood and consequence of violent or offensive public behaviour			Implement specific terrorism related risk assessment process for large gatherings.		Improved security where required for large gatherings.		Completed		n/a			
Safety in design implemented in design for Council assets		Manager Transport and Solid Waste, Manager Utilities, Manager Parks and Facilities		Inherent safety in asset design												

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7. Organisational Risk area: Loss of service performance from ineffective contracts and contract management													
Assigned risk owner:				Chief Executive					Last update: January 2020				
Residual risk identification and assessment							Residual risk rating map						
Council objectives:	To provide the expected service to the Nelson community through effective and efficient contracting (including contract supervision) for services, works, consultancy advice and other specialist services						Likelihood	Almost Certain	Medium	Medium	High	Very High	Very High
Uncertain events considered:	Incomplete or inadequate specification of services required Contracting which does not assign liability to the party which manages the risk Insufficient supervision of contractors to reasonably assure services are delivered to the specified standard Lack of information about contract requirements							Likely	Medium	Medium	High	High	Very High
Consequences						Likelihood		Possible	Low	Medium	Medium	High	High
						Unlikely		Very Low	Low	Medium	Medium	High	
						Rare		Very Low	Very Low	Low	Medium	Medium	
								Insignificant	Minor	Moderate	Major	Extreme	
							Consequence						
Major loss of Council services						Unlikely	Medium						
Minor level overspend on contract						Likely	Medium						
Local level loss of trust and confidence (negative reaction and comment)						Possible	Medium						
Civil action against Council taken but not successful						Possible	Medium						
							Risk Movement in reporting period: None Treatments are intended: Reduce consequences/likelihood						
MANAGING THE RISK													
Controls – what we have in place:						Treatments – what we are planning							
Description	Accountability	Effect of control		Description	Expected effect	Timetable	Next review						
Use of standardised templates for procurement and service provision agreements	All contract writers	Contract risks allocated to the party able to manage them		Review and update of contractual tools for large civil construction contracts and civil engineering maintenance contracts	Contractual requirements, roles and responsibilities appropriately specified in future contracts. Legally defensible contracts for civil construction and maintenance	Completed	n/a						
Procurement training for all contract writers plus support & coaching	Manager Business Improvement	Clear specification of contract requirements, legally defensible process for procurement		Review and update of procurement policy	Potential to incorporate improved contract management policy elements, to support future contractual arrangements that are more effective for Council	Draft updated policy in progress	April 2020						
Reviews of contractor performance	Business Unit Managers	Improved surety that contractor delivers what is required		Consolidate contract information into a single information repository	Enables organisational-level monitoring of contract review dates. Provides the ability to more easily identify where to prioritise contractual effort, and to identify if contractual gaps exist	Scoping of work - completed Majority of existing data consolidated into a single data repository Evaluation of suitable information repository scheduled for quarter one 2019-20 – completed Database in development, with testing expected during quarter three 2019-20	March 2020						
Obligation to follow Council procedures built in to contracts where required	All contract writers	Contractors meet Council standards including health and safety, interactions with the public etc.											
Continuous improvement of contract specification	Manager Business Improvement	Improved contract letting performance											
Ongoing improvement of contract supervision procedures and practice	Business Unit Managers	Reduction of contractor substandard delivery, cost overruns and delays											
				Plan improvements in contract management and contractor performance management	Ensures that contractual arrangements provides services to the community, efficiently and effectively	Procedure for contract monitoring and performance management drafted Development of action plan to improve contractor	April 2020						

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						management scheduled for quarter four 2019-20	
				Plan integration of contractual information with financial and asset information	The scope and benefits of this integration are still to be evaluated	Investigation into feasible option in progress, continued through quarter one 2019-20  No practicable options currently exist for integration of systems. Options for data warehousing and analytics to be investigated once contracts database is fully implemented	June 2020

8. Organisational Risk area: Compromise of Council service delivery from information technology failures													
Assigned risk owner:			Group Manager Corporate Services				Last update: January 2020						
Residual risk identification and assessment							Residual risk rating map						
Council objectives:	To maintain the organisation’s information technology systems (including computer services and telecommunications) operating continuously and securely						Likelihood	Almost Certain	Medium	Medium	High	Very High	Very High
Uncertain events considered:	Equipment and software failures Electricity supply interruptions Cyber attacks Human errors							Likely	Medium	Medium	High	High	Very High
Consequences	Likelihood	Assessed risk level	Possible	Low	Medium	Medium		High	High				
			Unlikely	Very Low	Low	Medium		Medium	High				
			Rare	Very Low	Very Low	Low		Medium	Medium				
Moderate loss of Council services to the Nelson Community	Rare	Low	Insignificant	Minor	Moderate	Major		Extreme					
Local level negative reaction or comment	Rare	Low	Consequence										
			Risk Movement in reporting period: Medium to Low Treatments are intended: Maintain residual risk at Low										
MANAGING THE RISK													
Controls – what we have in place:			Treatments – what we are planning										
Description	Accountability	Effect of control	Description	Expected effect	Timetable	Next review							
Replacement of hardware and operating systems	Manager Customer and Information Services	Maintain currency of systems to enable security and computer system performance	Removal of dependency on bespoke systems (largely software)	Improved maintainability of IT services required for Council functioning	As opportunities arise – currently approaching completion, with testing of the last remaining area likely during quarter three 2019-20. It is expected that this treatment will be fully completed by the end of the current financial year	April 2020							
Full offsite data backup at secure location	Manager Customer and Information Services	Council information copied against local system failure											
Redundant components in IT system	Manager Customer and Information Services	Allows continued operation in the event of component failure	IT strategic planning cycle – looks 3 years ahead	Planning for systems to match Council needs	3 year cycle – current strategic plan update completed	June 2020							
Annual recovery testing	Manager Customer and Information Services	Assurance that offsite back-ups function as intended											
Least number of vendors/ systems to meet Council needs	Manager Customer and Information Services	Simplicity of systems to decreases maintenance effort	Evaluate and if required undertake cyber security training for all Council system users	Improved security against system access by unauthorised persons	Cyber security training for all staff – completed quarter one 2019-20	n/a							
Multiple telephone service providers	Manager Customer and Information Services	Redundancy in the event of failures											
Multiple back-ups of electricity supply (UPS, and on site generator)	Manager Customer and Information Services	Operating security in the event of electricity supply failure	Firewall upgrade	Greater protection of Council held data from cyber – attack	Completed quarter one 2019-20	n/a							
Ability to work off-site, for most staff	Manager Customer and Information Services	IT systems and services largely available in the event Civic House unusable	Evaluation of value of cyber insurance	(uncertain) monetary compensation for cost of cyberattack on Council systems	Evaluation of value for money completed, cyber insurance will not be pursued. It is unlikely this will change in the future.	April 2020							
Annual testing of “switch over” to an alternate site, and defences from cyber-attack	Manager Customer and Information Services	Continued provision and operation of IT systems											



Two factor authentication login implemented for system administrators	Manager Customer and Information Services	Improved security against system access by unauthorised persons			An annual review is prudent, and this will be implemented as a risk control during quarter three 2019-20	
Regular ongoing cyber security and phishing testing	Manager Customer and Information Services	Eliminate, or minimise, "human" vulnerabilities	Ongoing testing of operation from alternate site (outside Nelson) and defences from cyber-attack.	Improved ability to respond to major disruptions and to cyber-attack	Most recent test was completed in December 2019 and systems performed successfully.  Annual testing is now implemented as a risk control  Treatment completed	n/a

9. Organisational Risk area: Compromised decision making and public information from incomplete and difficult to access records													
Assigned risk owner:			Group Manager Strategy and Communications				Last update: January 2020						
Residual risk identification and assessment							Residual risk rating map						
Council objectives:	To maintain records of Council business and provide public information in compliance with legislation and the reasonable expectations of the public and government.						Likelihood	Almost Certain	Medium	Medium	High	Very High	Very High
Uncertain events considered:	Mixed electronic and paper based recording so records not found Information required not recorded Advice completed with poor or incomplete information Use of uncontrolled areas (e.g. “the cloud”) for storing public records							Likely	Medium	Medium	High	High	Very High
Consequences	Likelihood	Assessed risk level	Possible	Possible	Low	Medium		Medium	High	High			
			Unlikely	Unlikely	Very Low	Low		Medium	Medium	High			
			Rare	Rare	Very Low	Very Low		Low	Medium	Medium			
Ambiguities or omissions in advice to a decision maker			Possible										
Minor level (i.e. short term or small number affected ) failure of Council service to the public			Possible										
Minor level failure in relationship with iwi			Possible										
Minor level service loss to those wanting accesses to records			Possible										
							Risk Movement in reporting period: None Treatments are intended: To reduce likelihood for most consequences						
MANAGING THE RISK													
Controls – what we have in place:				Treatments – what we are planning									
Description	Accountability	Effect of control		Description	Expected effect	Timetable	Next review						
Quality assurance and sign off procedures	All staff with delegations Manager Governance and Support Services	Recorded information correct and complete		Continuously improve hardcopy records management	Improved compliance with records management legislation and accessibility of hardcopy information	In progress –reviewing offsite archives management against alternatives. Investigating electronic reference system for hardcopy archives	May 2020						
Specification of record keeping requirements in Council procedure library	Business Unit Managers	Clear and consistent direction on what and how to record Council information		Provide for specific records reading space for public use	Improved and more secure public access to records (currently a customer services meeting room is being used)	In progress – Investigating use of redeveloped Elma Turner library for this, Consultant’s report with recommendations due early in the financial year 2020-21	August 2020						
Records management policy and strategy	Manager Governance and Support Services	Compliance with government records related legislation		Establish archives storage and access facility	Improved security of and access to hardcopy records	Investigating as part of improved hardcopy records management.	May 2020						
Specialist records staff (archivist and records support)	Manager Governance and Support Services	Expert advice and records system operation				Timing delayed to accommodate priority relocation of archives onsite within Civic House							
Use of GIS data accuracy input checking protocols	Manager Customer Services and IT	Assurance of accuracy of spatial data for Council business											
Structure of Council document management system configuration matches Council business	Manager Governance and Support Services	High level of records management system usability		Review Council use of cloud systems so that documents are managed in compliance public record legislation	Management of electronic records in compliance with public records legislation	Investigation reveals that cloud based records can be managed by Council document management system – will require upgrade of current software	June 2020						
All hardcopy record listed to national retrieval standard	Manager Governance and Support Services	Records accessible by specialist records management staff to make available to records users				This is a longer term project involving multiple areas across Council. No significant progress expected before the next review date							

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10. Organisational Risk area: Council work compromised by loss of and difficulties in replacing skilled staff													
Assigned risk owner:			Manager People and Capability				Last update: December 2019						
Residual risk identification and assessment						Residual risk rating map							
Council objectives:	To maintain sufficient staff expertise and numbers to enable the organisation to carry out all its functions efficiently and effectively					Likelihood	Almost Certain	Medium	Medium	High	Very High	Very High	
Uncertain events considered:	Loss of experienced staff to other employers or leaving the workforce Market shortage of staff with the required knowledge and skills Training required to make new staff productive in the Council’s environment						Likely	Medium	Medium	High	High	Very High	
<b>Consequences</b>					Likelihood		Possible	Low	Medium	Medium	High	High	
					Unlikely		Very Low	Low	Medium	Medium	High		
					Rare		Very Low	Very Low	Low	Medium	Medium		
										Insignificant	Minor	Moderate	
					Consequence								
Locally focussed criticism of Council actions					Possible	Medium	Risk Movement in reporting period: None Treatments are intended: To reduce likelihoods						
MANAGING THE RISK													
Controls – what we have in place:						Treatments – what we are planning							
Description	Accountability	Effect of control		Description	Expected effect	Timetable	Next review						
Council procedures documented in procedure library	Manager Business Improvement	Enables new staff or staff working in new area to execute work consistent with Council needs quickly		Implementation of software tool to support project planning and tracking	Web-based repository of up to date project information – reduces dependency on individual staff as all information easily available from a single source. More efficient use of staff time.	Implementation of tool for Capital Projects business unit – partially completed, remaining implementation in progress	June 2020						
Improved file management structure	Manager Governance and Support Services	Enables staff to access correct up to date information to undertake Council business											
Notice periods for staff leaving and handover procedures	Manager People and Capability	Reduces loss of knowledge during staff transitions											
Succession planning	Business Unit Managers	Provides capability for staff to step up when senior staff leave		Review of current policies to aid retention of older workers	Improved retention of experienced staff	Policy changes to be implemented as appropriate Complete identification of any further policy changes needed throughout quarters three and four	July 2020						
Staff climate surveying and workplace support	Manager People and Capability	Up to date information about workplace culture to help inform workplace improvements											
Wellness programme	Manager People and Capability	Help staff maintain work life balance		Review of the pay structure	More competitive pay rates to enable attracting and retaining staff.	Pay structure has been reviewed, with changes implemented regarding progression from new employee through to mid-point of salary scale  Completed	n/a						
Use of contractors with an understanding of Council business	Business Unit Managers	Capacity to fill gaps temporarily when staff leave											
Business plans to estimate capacity demands on staff	Business Unit Managers	Matching of staff to workload		Update of leadership capability framework	Reduce staff turnover by improving the organisation’s working environment	Content development and format concluding during quarter three Implementation beginning during quarter four	June 2020						
Standard templates in place for project definition, planning, tracking	Manager Business Improvement	Project execution less dependent on current staff knowledge											

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Networking opportunities for staff	Business Unit Managers	Develop skills and knowledge of existing staff		Additional staff resources allocated to key areas	Reduce stress and employee dissatisfaction; increase ability to balance workloads	In progress through current Long Term Plan years 1 to 3	June 2020
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11. Organisational Risk area: Legal liability and reputation loss from inadequate consideration of the law in decision making													
Assigned risk owner:			Group Manager Strategy and Communications				Last update: January 2020						
Residual risk identification and assessment						Residual risk rating map							
Council objectives:	To make all decisions and exercise all its functions in compliance with the law, including legislation, regulation and common law					Likelihood	Almost Certain	Medium	Medium	High	Very High	Very High	
Uncertain events considered:	Insufficient knowledge of the applicable law when making or advising a decision Legal agreements made without consideration (or adequate consideration) of the parties’ ability to control risks to the objectives sought						Likely	Medium	Medium	High	High	Very High	
Consequences			Likelihood		Assessed risk level		Possible	Low	Medium	Medium	High	High	
Ambiguous or incomplete information base for decision			Unlikely		Medium		Unlikely	Very Low	Low	Medium	Medium	High	
Local level criticism of Council actions			Possible		Medium		Rare	Very Low	Very Low	Low	Medium	Medium	
Moderate level of financial loss to Council (e.g. contract failure)			Rare		Low								
Successful legal action against Council			Rare		Medium		Risk Movement in reporting period: None Treatments are intended: To maintain residual risk at Medium						
MANAGING THE RISK													
Controls – what we have in place:				Treatments – what we are planning									
Description	Accountability	Effect of control		Description	Expected effect	Timetable	Next review						
Process for assessing the need for legal review prior to public consultation	Senior Leadership Team	Legally sound proposals for consultation (such as consultation documents and by-law proposals)		Review and update of contractual tools for large civil construction contracts and civil engineering maintenance contracts	Contractual requirements, roles and responsibilities appropriately specified in future contracts. Legally defensible contracts for civil construction and maintenance	Completed and ready for live use	n/a						
Induction of all staff includes basics of key legal obligations	Manager People and Capability	General awareness of Council’s legal operating environment											
Use local government wide good practice guidelines	Business Unit Managers	Council follows local government standardised good practice		Development of enhanced tools for briefing tracking and reporting on legal advice	More effective and efficient provision and monitoring of legal advice	“LawVu” tool implemented for the internal legal team. Implementation to all Council officers, and the external legal panel planned for Q3 2019-20	March 2020						
Procedures in place for operational tasks that require specific legal compliance	Business Unit Managers	Improved compliance for these Council activities; mitigation of legal risk											
Documented previous legal advice available for all staff	Senior Legal Adviser	Ability to learn from the Council’s past actions		Conduct of in-house training for staff on local government specific legal requirements	Improved staff knowledge of legal requirements for the Council’s work	Training sessions begun on an ad-hoc basis, more structured programme being developed	June 2020						
Required minimum levels of knowledge for inspection/enforcement contractors	Manager Consents and Compliance	Compliance actions, where taken, are legally compliant											
In attendance at Senior Leadership Team peer review of decision making reports to Committee and Council	Senior Legal Adviser	Likelihood of compliance failure considered in decision											
In-house legal capacity – internal legal team, and weekly drop-in clinic for officers	Group Manager Strategy and Communications	Access to legal advice reduces likelihood of compliance failure											



12. Organisational Risk area: Loss of public trust in the organisation												
Assigned risk owner:			Group Manager Strategy and Communications				Last update: January 2020					
Residual risk identification and assessment						Residual risk rating map						
Council objectives:	To maintain trust and confidence in the Council by providing accurate information about the state of Council work and service delivery					Likelihood	Almost Certain	Medium	Medium	High	Very High	Very High
Uncertain events considered:	Promulgation of incorrect information about Council activities through both traditional and social media channels Unbalanced comment by opinion leaders						Likely	Medium	Medium	High	High	Very High
Consequences		Likelihood		Assessed risk level			Possible	Low	Medium	Medium	High	High
Local level negative comment and reaction to Council decisions or actions		Possible		Medium			Unlikely	Very Low	Low	Medium	Medium	High
National level negative comment and reaction to Council decisions or actions		Unlikely		Medium			Rare	Very Low	Very Low	Low	Medium	Medium
								Insignificant	Minor	Moderate	Major	Extreme
						Consequence						
						Risk Movement in reporting period: None Treatments are intended: To provide effective risk controls						
MANAGING THE RISK												
Controls – what we have in place:					Treatments – what we are planning							
Description	Accountability	Effect of control		Description	Expected effect	Timetable	Next review					
Monitor media and provide information to staff and public including managing relationships with media outlets	Manager Communications	Provides accurate information and enables rapid response to misinformation Ensures staff have correct information about Council actions		Improved reporting on risk to Committees and Committee Chairs	Provides early information to Committee Chairs, and reports formally to Committees on risks within the Committees areas of responsibility	Implementation in progress - largely complete	March 2020					
Communications and engagement plans for all significant projects	Business Unit Managers, with support from Manager Communications	Provides early accurate information about Council actions		Development of a Communications and Engagement Strategy, with governance oversight of implementation	Metrics for communications and engagement (test of effectiveness) to identify gaps in communication and enable improved public understanding and perception	Strategy document adopted by Council – completed	May 2020					
Customer surveys	Business Unit Managers	Monitoring of customer perceptions of Council actions				Implementation not yet complete due to staff changes						
Staff induction training	Manager People and Capability	Staff understand the importance of clear communication										
Social media presence to reduce spread of incorrect information	Manager Communications	Reduces criticism based on incorrect information		Implement modern online tool for community engagement and public feedback	Increased opportunity for the community to give views to Council Improved accessibility to information on current and upcoming Council projects and initiatives	Implementation during quarter three 2019-20	March 2020					
Councillor Code of Conduct and Council Standing Orders	Council	Sets clear expectations of Council and Councillor conduct										
Councillor Interest register	Councillors (Manager Governance to maintain)	Clarity on non-Council interests of Councillors										
Media Policy	Manager Communications	Sets requirements and expectations for staff										
Conflict of Interest policy	Manager People and Capability	Sets requirements and expectations for staff										
Contracts post-October 2016 require contractors to	Business Unit Managers	Prevents contractors speaking on behalf of Council without permission										

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direct media inquiries to Council				
Community Engagement Manager role in Infrastructure Group	Group Manager Infrastructure	Anticipate public information and community engagement needs, plan and deliver community engagement		

**Risk Matrix – Consequences x Likelihood**

CONSEQUENCES					LIKELIHOOD of the given consequence occurring			
Insignificant(1)	Minor (2)	Moderate (3)	Major (4)	Extreme (5)	Descriptor	Qualitative guidance statement	Indicative Probability range %	Indicative frequency range (years)
Medium (5)	Medium (10)	High (15)	Very High (20)	Very High (25)	Almost certain (5)	The consequence can be expected in most circumstances OR A very low level of confidence/information	>90%	>1 occurrence per year
Medium (4)	Medium (8)	High (12)	High (16)	Very High (20)	Likely (4)	The consequence will quite commonly occur OR A low level of confidence/information	20% - 90%	Once per 1-5 years
Low (3)	Medium (6)	Medium (9)	High (12)	High (15)	Possible (3)	The consequence may occur occasionally A moderate level of confidence/information	10% - 20%	Once per 5-10 years
Very Low (2)	Low (4)	Medium (6)	Medium (8)	High (10)	Unlikely (2)	The consequence may occur only infrequently A high level of confidence/information	2% - 10%	Once per 10 - 50 years
Very Low (1)	Very Low (2)	Low (3)	Medium (4)	Medium (5)	Rare (1)	The consequence may occur only in exceptional circumstances A very high level of confidence/information	<2%	Less than once per 50 years

**Residual Risk Tolerance**

Risk Level	Description and Action	Authority for continued tolerance	Timing for implementing action	Obligation to promptly advise including advising treatments
Very High	Not normally tolerable, immediate intervention to reduce risk	Full Council on advice from CE	Immediate if possible but no more than one month	Full Council using best practicable means
High	Not normally tolerable, initiate action as soon as practicable to reduce risk below High	SLT or Group Manager (Council at CE discretion)	As soon as practicable but no more than 2 months	SLT or accountable Group Manager (Council at CE discretion)
Medium	Normally tolerable, frequently review to look for opportunities to further reduce risk where practicable	Business Unit Manager	At least within one quarter	Accountable Group Manager
Low	Acceptable risk, routine review for low cost actions to reduce risk further	No specific authority required	Routine review period (e.g. 3- 6 monthly)	None
Very Low	Acceptable risk, no specific actions to reduce further	No specific authority required	Only if incidental to another action	None

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## **Health, Safety and Wellbeing Report, July to December 2019**

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### **1. Purpose of Report**

- 1.1 To provide the subcommittee with a report of health, safety and wellbeing data collected over the period July to December 2019.
- 1.2 To update the subcommittee on key health and safety risks, including controls and treatments.

### **2. Summary**

- 2.1 Notable incidents for this period were a library customer dying as a result of a serious medical event while in Stoke Library and a boat owner's contractor receiving spinal injuries after falling 2.2m from a vessel on the Marina hardstand.
- 2.2 Security incidents reported for this period include a high number of incidents at Elma Turner Library (ETL).
- 2.3 Council's key risk 'Customer aggression threatening the health & safety of those who work for and with Council' was previously assessed as high and is now assessed as medium.

### **3. Recommendation**

***That the Audit and Risk Subcommittee***

- 1. Receives the report Health, Safety and Wellbeing Report, July to December 2019 (R13724) and its attachment (A2323649).***

### **3. Background**

- 3.1 Elected members, as 'Officers' under the Health and Safety at Work Act 2015 (HSWA), are expected to undertake due diligence on health and

## Item 9: Health, Safety and Wellbeing Report, July to December 2019

safety matters. Council's Health and Safety Governance Charter states that Council will receive quarterly reports regarding the implementation of health and safety. Council has delegated the responsibility for health and safety to the Audit and Risk Subcommittee.

- 3.2 This report covers two quarters as no report was provided to the subcommittee following the July to September 2019 quarter.
- 3.3 Health, safety and wellbeing performance data reports provide an overview based on key lead and lag indicators. Where a concerning trend is identified more detail is provided in order to better understand issues and implement appropriate controls.
- 3.4 Reporting on key health and safety risks provides further depth and detail to the health and safety risks reported in the organisational risk report.

## **4. Discussion**

### **4.1 Data Reports**

- 4.1.1 35 Security incidents were reported at libraries for this period, the majority of these at ETL. Following a significant increase in these incidents during July a security contractor was engaged for 30 hours per week as an interim control. The incidents primarily related to the behaviour of intoxicated customers or those with mental health issues.
- 4.1.2 Having a security guard on the premises resulted in library staff needing to deal with difficult and potentially dangerous customers on a far less frequent basis. The security contractor has now been replaced by an employee (safety officer) on a six month fixed term trial. The safety officer is better able to take an approach more suited to a public library than the contracted security guards. An upcoming review of security at Libraries will provide advice on the ongoing need for the safety officer.
- 4.1.3 There are still frequent security incidents occurring however they are far more effectively managed than previously. It is also believed that levels of reporting have improved in regard to security incidents at libraries. The PSA has acknowledged the proactive approach taken by Council in regard to the safety of staff at ETL.
- 4.1.4 The number of over-speed events for the period as recorded by the ERoad in vehicle monitoring system has continued to trend downwards. The low rate of over speed events (0.4 per 100km travelled) is a good indicator of improved driver safety. Some of the continuing improvement in this rate can be attributed to the recently upgraded in-vehicle hardware that now provides real time information to drivers.

### **4.2 Incidents of note**

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- 4.2.1 There was a fatality at Stoke Library in early July as a result of a customer medical event. Staff actions in responding to this incident were commendable. Support for staff involved was provided following the incident and library staff have since received refresher training in resuscitation including AED use.
- 4.2.2 A significant near miss occurred when an elevated levels of hazardous landfill gas was detected at a manhole in Founders Heritage Park during routine maintenance work. Temporary fencing has been erected around the manhole while options for a more permanent solution such as venting are considered. Improvements have been made to procedures for routine monitoring and action in the event of detecting landfill gas.
- 4.2.3 A boat owner's contractor received spinal injuries after falling 2.2m from a vessel on the Marina hardstand while descending an access ladder. Increased monitoring of safe ladder use has been implemented and safer height access equipment is to be purchased. This incident was not a result of Council work however it did occur at a Council controlled workplace and overlapping duties under HSWA apply to Council and the marina management contractor (NELMAC). The incident is currently being investigated by WorkSafe.

### 4.3 **Proactive Safety**

- 4.3.1 Previous quarterly reports showed data for proactive safety or assurance activities as totals for all event types. These reports indicated an ongoing decline in totals reported but did not provide meaningful insight onto safety culture due to changes in the way activities were recorded over time.
- 4.3.2 The report data provided in this report identifies some of the most important proactive staff safety activities and by showing performance against clear targets we can focus on driving improvement in these key areas.

### 4.4 **Contractor Health and Safety**

- 4.4.1 Due to variations in contractor activity and the health and safety risks involved in the work is not practicable at present to establish meaningful targets for contractor health and safety management activities.
- 4.4.2 The Pie chart provided shows that contractor monitoring activity is occurring in key areas. As contract management systems are further improved contracted work where health and safety oversight is not adequate will be more readily identified.

#### **4.5 Due Diligence Activities**

- 4.5.1 SLT members reported completing nine safe work observations during this period.
- 4.5.2 Councillor Skinner participated in a safe work observations at the Riverside Pool and Waahi Taakaro Golf Course.
- 4.5.3 A Safe work observation completed by Roger Ball at Founders Heritage Park was commended by Council's Health and Safety Committee not only for the quality of the safe work observation in following up on previously identified hazards, but also for the innovative way heritage team staff had effectively managed the risks.

#### **4.6 Key Health and Safety Risk Update**

- 4.6.1 Council's key risk 'Customer aggression threatening the health & safety of those who work for and with Council' was previously assessed as high and is now assessed as medium.
- 4.6.2 This risk was assessed as high when the National terrorism threat level was raised to high following the Christchurch Mosque shootings in March 2019. Council's overall security risk level was assessed as remaining high when the National threat level was lowered to medium. Staff now have an improved understanding of terrorism threat assessments and security incidents at libraries are better controlled, this results in this risk now being assessed as medium.
- 4.6.3 All other key health and safety risks are assessed to remain as medium risks.
- 4.6.4 Where new treatments have been planned or have been implemented as controls since the last report this is indicated by red text in the attachment.
- 4.6.5 Where possible timeframes are indicated for treatments.

**Author: Malcolm Hughes, Health and Safety Adviser**

#### **Attachments**

Attachment 1: Health Safety and Wellbeing Report, July to December 2019 (A2323649) [↓](#)

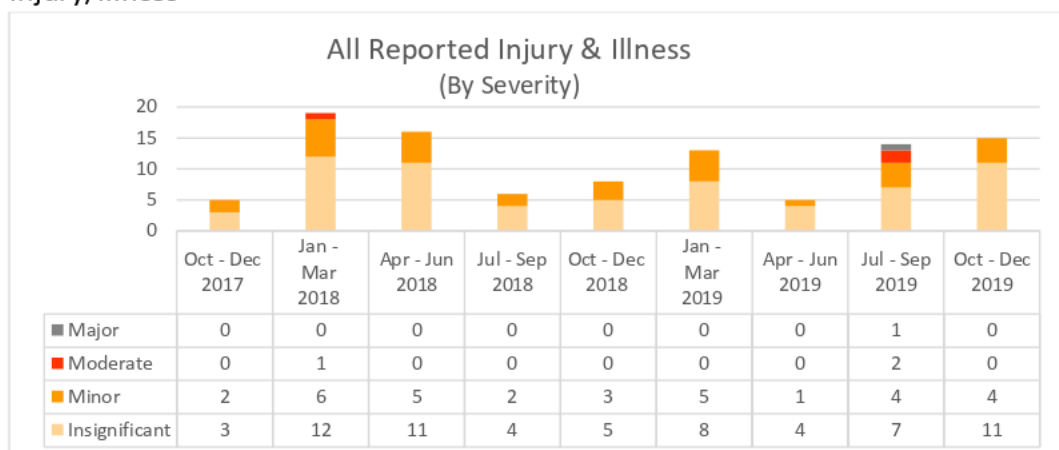


## Health, Safety and Wellbeing Report

### October – December 2019

#### Section 1 - Health, Safety and Wellbeing Performance Data

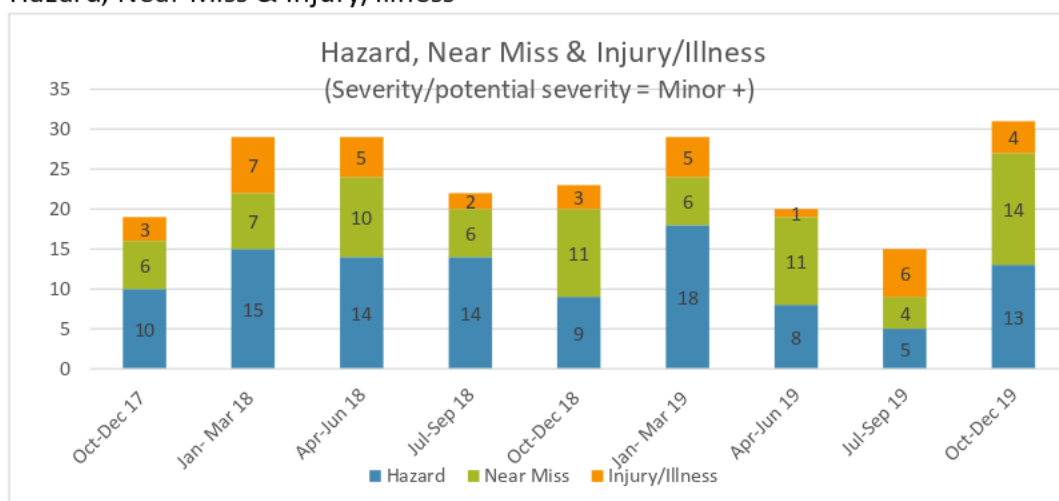
##### 1.1 Injury/Illness



A major severity incident occurred in July when a library customer died as a result of a serious medical event while in Stoke Library.

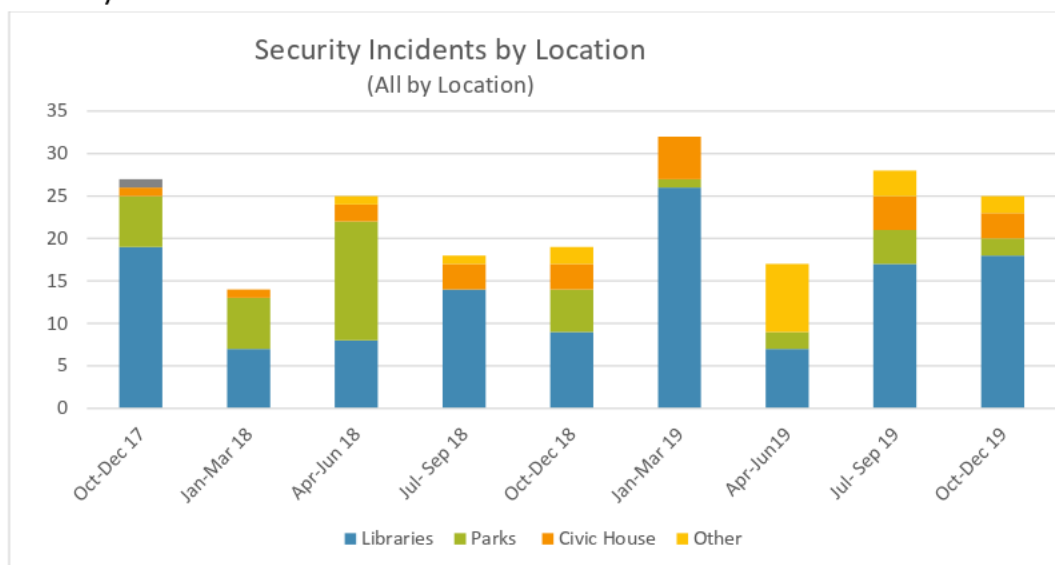
The moderate severity incidents were a contractor fracturing her ankle during a community tree planting and a person sustained spinal injuries when he fell 2.2m from a vessel on the Marina Hardstand.

##### 1.2 Hazard, Near Miss & Injury/Illness



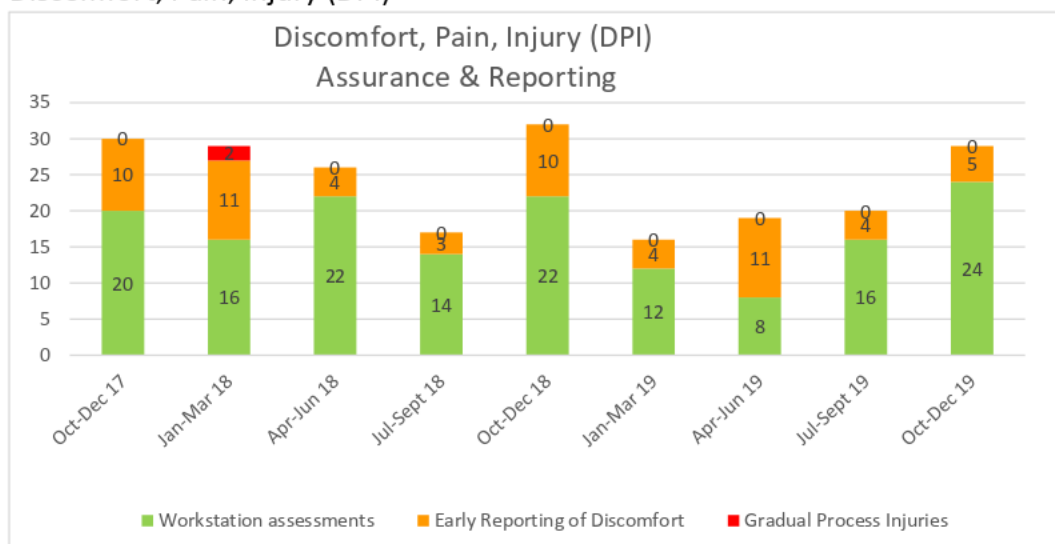
This chart is intended to show how lead indicators (hazard reports) impact on lag indicators (Near miss, Injury or illness incidents). If hazards are reported and proactively managed less incidents will occur. Near miss incidents for this period included; elevated levels of landfill gas identified at Founders Heritage Park and a disoriented person driving in a crowded Isel Park during the Bloom festival.

### 1.3 Security



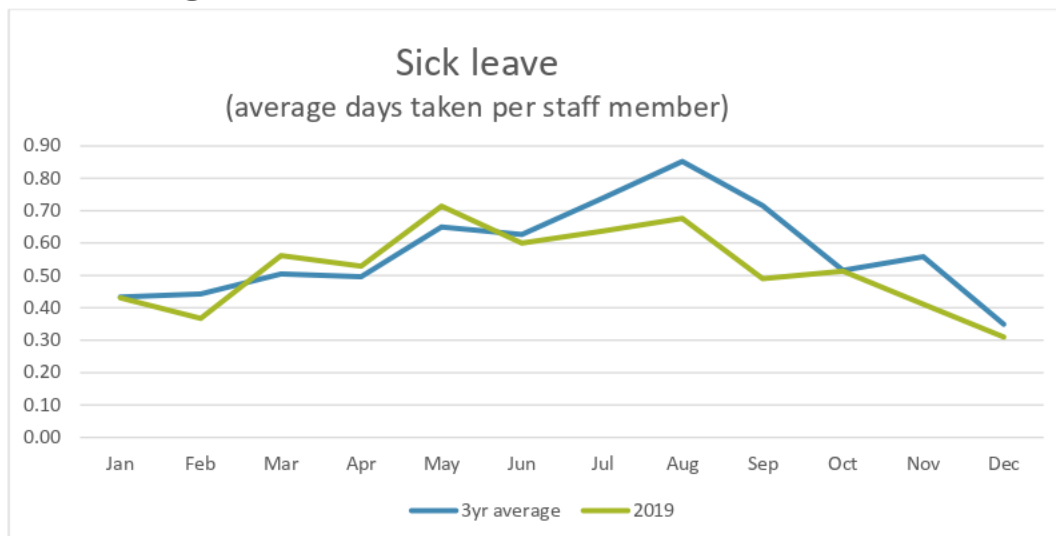
The majority of the library security incidents occurred at Elma Turner Library (ETL). A significant spike in these incidents during July resulted in a security contractor being engaged at ETL for several months. Safety officers have now been employed at ETL on a fixed term trial basis. This is providing reassurance for other library staff and has contributed to positive feedback from the PSA about Council's proactive approach to staff safety. Other security incidents included a chair being thrown at an enforcement officer in the customer service centre.

### 1.4 Discomfort, Pain, Injury (DPI)



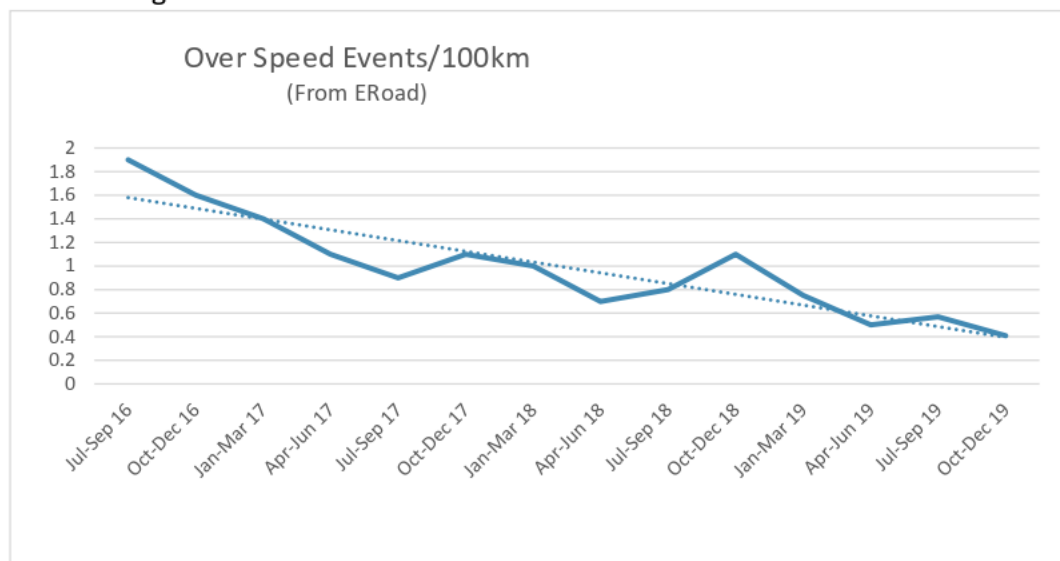
Workstation assessments are an important tool in preventing discomfort, early reporting of discomfort is key to preventing pain and Injury (DPI). The data shows that adequate early intervention is effective at preventing gradual process injuries. Poor reporting of workstation assessments completed in the first half of 2019 for new starters is believed to be the cause of the low numbers over this period.

## 1.5 Staff Wellbeing



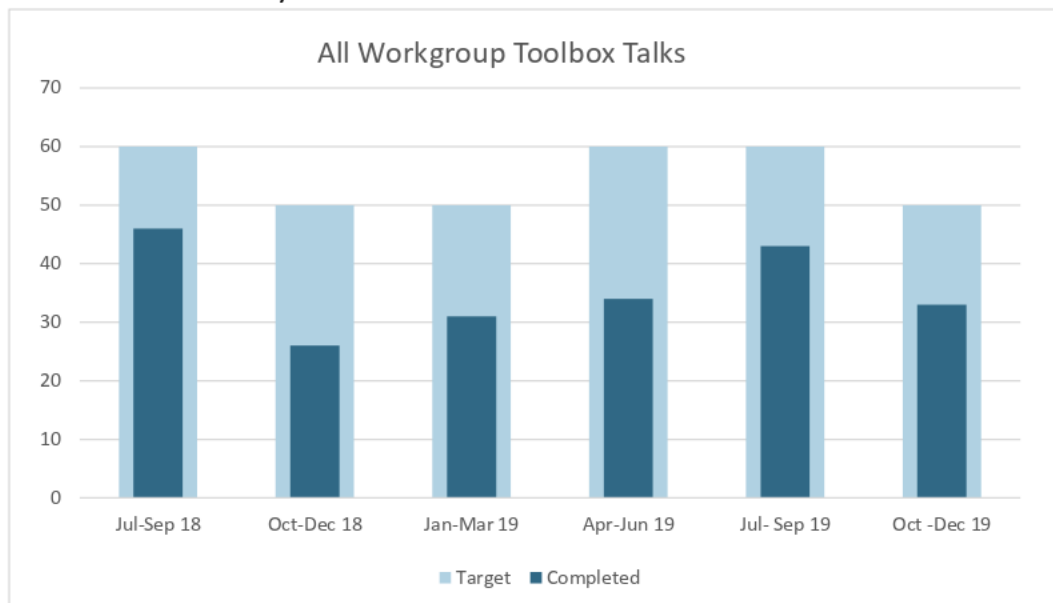
The average number of sick days taken by staff each month gives some indication of staff wellbeing when compared with the average for the same month in previous years. Low numbers of sick days being taken are not always a positive indicator as staff are encouraged to stay away from work when they have an illness that could spread to others.

## 1.6 Safe Driving

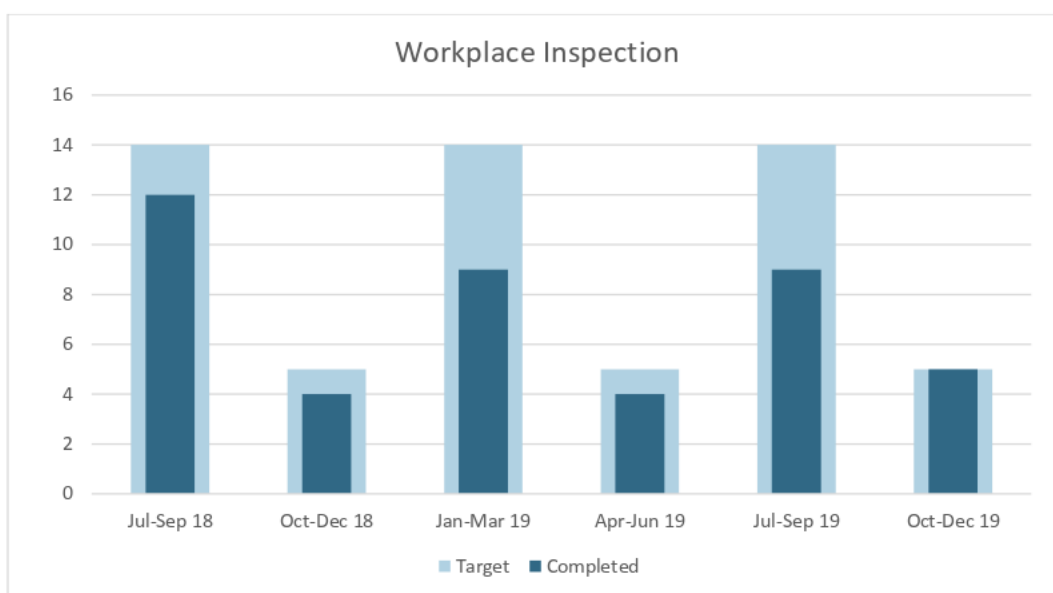


The ERoad in vehicle monitoring system provides data on when drivers are exceeding the speed limit by 10kmph or more. A continuing decrease in over speed events remains a positive indicator of improved driver safety. A recent contributing factor to the continual decrease is the upgraded hardware in most vehicles that shows the current speed limit and advises when over-speed occurs.

## 1.7 Proactive Staff Safety



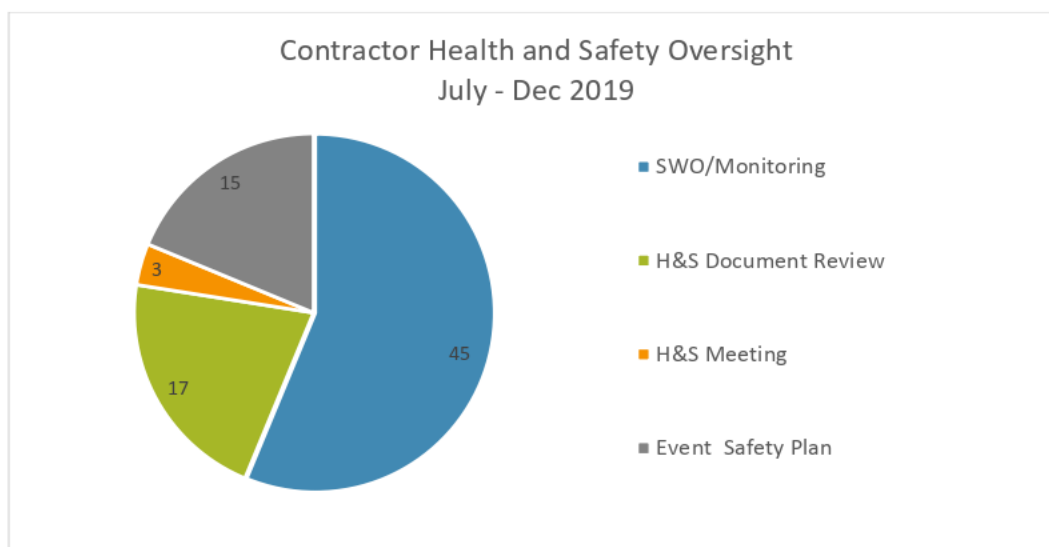
Toolbox talks (TBTs) are required to be completed by all workgroups. The agenda for this monthly health and safety meeting includes a number of standing items and a monthly feature topic that often includes important health and safety updates or reminders. Follow up with those workgroups who are not submitting TBTs is underway, in some cases the meeting has been held but the minutes have not been saved correctly.



Workplace inspections are scheduled quarterly in areas used by the public and every six months in staff areas. In most cases these are now completed by the health and safety representative in the work area. Increased monitoring and follow up in regard to this important lead indicator is intended to result in all required workplace inspections being completed.



## 1.8 Contractor Health And Safety Management



SWO/Monitoring – Contractor workplace visits or inspections that have a specific focus on H&S

H&S Document Review – A safety plan or contractor pre-qualification is received and reviewed

H&S Meeting – A focused meeting with a contractor about Health and Safety matters

Event H&S Plan – A safety plan for a Council run event or venue hire

## 1.9 Senior Leader Due Dilligence

The following safe work observations have been reported for this period:

- Riverside Pool – Roger Ball and Cr Skinner
- Nelson North Waste Water Treatment Plant – Nikki Harrison, Nicky McDonald
- Marina and Hardstand – Roger Ball
- River Monitoring – Pat Dougherty, Clare Barton
- Nelson North Waste Water Treatment Plant – Alec Louverdis
- Waahi Taakaro Golf Course – Roger Ball and Cr Skinner
- Founders Heritage Park – Roger Ball
- Tantragee Water Treatment Plant - Alec Louverdis
- Maitai Dam - Alec Louverdis

## Section 2 - Key Health and Safety Risks

### 2.1 Insufficient oversight of contractors to meet Council's duties as a PCBU that has influence and control over the work

**Why do we see this as a risk?** Under the Health and Safety at Work Act 2015 Council has responsibilities for ensuring the health and safety of workers and others in situations where it contracts work to be done. If these responsibilities are not adequately met any injury or illness as a result of contracted work may lead to Council being prosecuted along with the contractor. Most of Council's particularly hazardous work or work that may put the public at risk is completed by contractors.

#### Managing the risk

Council manages this risk by having a comprehensive contractor health and safety management plan and process's in place.

##### Controls – What we have in place

- Contractors are required to demonstrate a level of health and safety competence through a pre-qualification process
- Standardised contract templates with clear health and safety requirements are in use for all new contracts
- There is a process for review of contract specific health and safety plans
- Contractor work is monitored with a specific focus on health and safety
- There is a process for reviewing contractor health and safety performance
- Procurement training that includes Contractor health and safety is delivered to key staff
- Asbestos management plans for Council assets are provided to contractors

##### Treatments - What we are planning

- A comprehensive contracts data base that will improve efficiency of monitoring contractor health and safety requirements

**Risk Owner** Chief Executive

**Residual Risk Rating** Medium (6)

#### Risk Map

Likelihood	Almost Certain	Medium	Medium	High	Very High	Very High
	Likely	Medium	Medium	High	High	Very High
	Possible	Low	Medium	Medium	High	High
	Unlikely	Very Low	Low	Medium	Medium	High
	Rare	Very Low	Very Low	Low	Medium	Medium
		Insignificant	Minor	Moderate	Major	Extreme
		Impact				

**Risk Movement** None

**Last updated:** January 2020

## 2.2 Customer aggression threatening the health & safety of those who work for and with Council

**Why do we see this as a risk?** Council's objective is to have all those who work for us safe at work.

Council staff, elected representatives, contractors and volunteers can be threatened and abused while carrying out duties at Council facilities or in the field, leading to work stress and fatigue. Those who have a public interface (e.g. Customer Service centre, contracted staff, public events, libraries) experience aggression on a regular basis.

### Managing the risk

Council is working on reviewing and managing the risk through best practice H&S management systems and continuous improvement.

#### Controls - What we have in place

- Crime prevention through environmental design (CPTED) is considered in design of all new Council facilities
- CCTV surveillance in key Council workplaces including CCTV system upgrade at all libraries
- Improved physical security in many workplaces as a result of security reviews
- Difficult customer training provided for staff in high exposure roles
- Minimum cash holdings
- Risk assessments are completed for Council meetings and large events
- Workplace support available to manage post incident trauma
- Proactive use of security guards when indicated by increased risk
- Police advised of all large gatherings such as citizenship ceremonies (March 2019)
- Bomb Threat and lockdown procedures practiced
- **Terrorism threat and vulnerability assessment tools used in major event and venue risk assessments**

#### Treatments - What we are planning

- **External security review for libraries and Founders Heritage Park (February 2020)**

**Risk Owner** Chief Executive

**Residual Risk Rating** Medium (9)

#### Risk Map

Likelihood	Almost Certain	Medium	Medium	High	Very High	Very High
	Likely	Medium	Medium	High	High	Very High
	Possible	Low	Medium	Medium	High	High
	Unlikely	Very Low	Low	Medium	Medium	High
	Rare	Very Low	Very Low	Low	Medium	Medium
		Insignificant	Minor	Moderate	Major	Extreme
		Impact				

**Risk Movement** Down from high (10) to medium (9)

**Last Updated:** January 2020

## 2.3 Staff becoming unwell as a result of either or both the stresses of the role or the sedentary nature of their work

**Why do we see this as a risk?** Staff are exposed to workstation associated risks of discomfort, pain and injury through much of their work. Work related stress is identified was higher than acceptable by 48% of staff who responded to the 2017 staff survey. Subsequent surveys have shown year on year improvement.

### Managing the risk

Risks associated with workplace stress are managed by a range wellbeing initiatives that go above and beyond mandatory requirements. Council manages Discomfort, Pain and injury (DPI) risks through best practice systems focused on prevention.

#### Controls - What we have in place

- Workstation assessments are provided for all new employees
- Early reporting of discomfort procedure is in place and further workstation assessments or other actions completed as required
- Training and systems for the prevention of book-handling injuries for library staff
- Wellbeing at Work Oranga Mahi training for staff and accreditation achieved
- Working well together' policy in place with training provided
- Wellness team ensures there remains a focus on worker wellbeing over and above mandatory health and safety requirements in a workplace
- Regular communications and involvement in initiatives to improve mental health awareness
- Workplace Support – wellbeing services available to all staff
- Additional staffing resource allocated to key areas

#### Treatments - What we are planning

- Review of focus areas for wellness team

**Risk Owner** Chief Executive

**Residual Risk Rating** Medium (6)

#### Risk Map

Likelihood	Almost Certain	Medium	Medium	High	Very High	Very High
	Likely	Medium	Medium	High	High	Very High
	Possible	Low	Medium	Medium	High	High
	Unlikely	Very Low	Low	Medium	Medium	High
	Rare	Very Low	Very Low	Low	Medium	Medium
		Insignificant	Minor	Moderate	Major	Extreme
		Impact				

**Risk Movement** None

**Last Update:** January 2020

## 2.4 The nature of field work when alone and/or in remote an isolated locations exposes workers to a higher likelihood of injury

**Why do we see this as a risk?** The nature of some field operations exposes workers (including contractors, council staff and volunteers) to the increased likelihood of accidents impacting on the objective to keep our people safe. Lone workers (such as building inspectors parking staff etc.), and workers undertaking hazardous tasks, (river work, forestry activities, working at heights, confined spaces, or with asbestos or hazardous substances) are particularly exposed.

### Managing the risk

Council manages this risk by having general procedures and specific guidance to support task specific risk assessments for lone work and work in remote and isolated locations.

#### Controls - What we have in place

- Lone Worker Policy and procedures
- On the job and formal risk assessment procedures
- Lone work is avoided where risk is significantly increased by working alone E.g. There is no longer single staffing at Nellie Nightingale Library
- Communication devices such as cell-phones, two way radios and personal locator beacons are provided as required
- Vehicle tracking technology is in all Council vehicles

#### Treatments - What we are planning

- Improve communication capability for lone or remote and isolated workers in areas without effective cell-

**Risk Owner** Chief Executive

**Residual Risk Rating** Medium

#### Risk Map

Likelihood	Almost Certain	Medium	Medium	High	Very High	Very High
	Likely	Medium	Medium	High	High	Very High
	Possible	Low	Medium	Medium	High	High
	Unlikely	Very Low	Low	Medium	Medium	High
	Rare	Very Low	Very Low	Low	Medium	Medium
		Insignificant	Minor	Moderate	Major	Extreme
		Impact				

**Risk Movement** None

**Last Update:** January 2020

## 2.5 That staff or others are injured as a result of driving or travelling in a vehicle while at work

**Why do we see this as a risk?** Driving or travelling in a motor vehicle is the one workplace situation many staff are exposed to where a single error by a staff member or an unknown person could result in a serious injury or fatality.

### Managing the risk

Council manages this risk through improved awareness, focused competent drivers and safe well maintained vehicles

#### Controls - What we have in place

- A vehicle use policy that addresses safe vehicle use
- Vehicle purchasing policy with a focus on higher safety ratings
- In vehicle monitoring that includes real time location and records over-speed events (ERoad)
- Comprehensive vehicle inspection and maintenance schedule
- Ongoing communications regarding safe driving
- Driver training provided as required
- Upgraded in vehicle monitoring hardware installed in most vehicles

#### Treatments - What we are planning

- Trial Implementation of vehicle rollover and impact alert system when available for ERoad

**Risk Owner** Chief Executive

**Residual Risk Rating** Medium (8)

#### Risk Map

Likelihood	Almost Certain	Medium	Medium	High	Very High	Very High
	Likely	Medium	Medium	High	High	Very High
	Possible	Low	Medium	Medium	High	High
	Unlikely	Very Low	Low	Medium	Medium	High
	Rare	Very Low	Very Low	Low	Medium	Medium
		Insignificant	Minor	Moderate	Major	Critical
		Impact				

**Risk Movement** None

**Last Update:** January 2020

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**REPORT R13731**

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**Letter from Audit NZ on Annual Report for year ending  
30 June 2019**

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**1. Purpose of Report**

- 1.1 To provide the letter to the Council on the audit for the year ending 30 June 2019 from Audit NZ.

**2. Recommendation**

***That the Audit and Risk Subcommittee***

- 1. Receives the report Letter from Audit NZ on Annual Report for year ending 30 June 2019 and its attachment (A2320712); and***
- 2. Notes Audit New Zealand's responses on the Annual Report for year ending 30 June 2019.***

**2. Discussion**

- 2.1 Audit New Zealand (Audit NZ) issued an unmodified audit opinion on 31 October 2019 for the financial year ending 30 June 2019. This means that it was satisfied that the financial statements fairly reflected Council's activities for the year and its financial position at the end of the financial year.
- 2.2 After the audit is completed, Audit NZ issues a management letter to Council outlining the findings of the audit.
- 2.3 In the letter to Council received on 6 January 2020 (Attachment 1) Audit NZ comment on the matters raised in the Audit Plan letter including:
- Valuation of infrastructure assets
  - Procurement, contract and project management
  - The risk of management override of internal controls.

Item 10: Letter from Audit NZ on Annual Report for year ending 30 June 2019

2.4 Other matters arising from the audit include:

- Reporting on the City Council Activities (Service performance)
- Findings from the NZ Transport Agency Investment Audit report
- Carrying value and useful lives of property, plant and equipment – non infrastructural assets

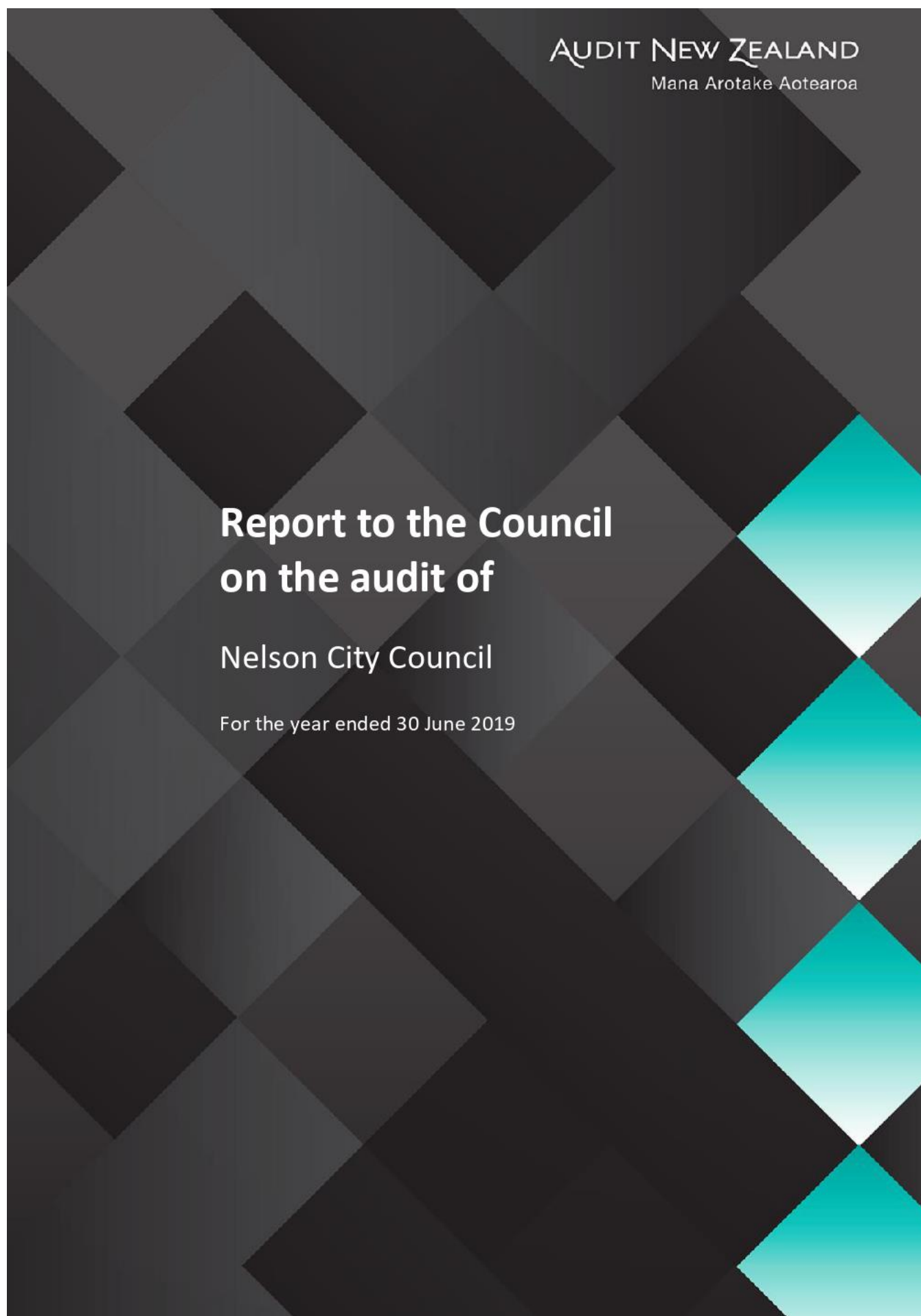
2.5 Officers accept the comments raised by Audit NZ and will work towards addressing these matters prior to the 2019/20 Annual Report.

**Author: Nikki Harrison, Group Manager Corporate Services**

### **Attachments**

Attachment 1: A2320712 - Letter to Council on the audit of the Annual Report for the year ending 30 June 2019 [↓](#)





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## Key messages

We have completed the audit for the Nelson City Council (the City Council) and group for the year ended 30 June 2019.

This report sets out our findings from the audit and draws attention to areas where the City Council and group are doing well and where we have made recommendations for improvement.

### Audit opinion

We issued an unmodified audit opinion for the City Council and group on 30 October 2019. This means we were satisfied that the financial statements and performance information fairly reflects the activities for the year and its financial position at the end of the year.

The financial statements and performance information are free from material misstatements, including omissions. There were no significant misstatements identified during the audit that have not been corrected.

### Matters identified during the audit

#### The City Council revalued their infrastructure assets during the year

The City Council revalues its infrastructure assets annually. The valuations resulted in a positive revaluation movement of approximately \$40.8 million.

Management completed an in-house indexation process using rates and advice provided by the independent experts, Opus. We reviewed the valuation methodology and assessed the various estimates and assumptions applied, including the underlying drivers for the increase in fair values. We were satisfied the approach taken by the City Council was reasonable and the fair values appropriately recorded and disclosed in the financial statements.

The independent experts made some recommendations which we consider reasonable to enhance the current process and should be incorporated by the City Council during 2019/20. Further detail on these recommendations are included in section 3.1 below.

#### Actual renewals and capital expenditure forecast

We carried out a high level review of NCC's procurement, contract management and project management practices with a particular focus on gaining an understanding as to why the City Council consistently under-delivers on its planned capital programme.

We understand that there are a variety of reasons as to why the budgets are not being spent as planned, including factors that are outside of the Council's control. However it is important that Council mitigates the external factors so far as possible and also clearly reports its position so that there is full visibility of the extent to which the planned programme is being achieved.

We made recommendations to consider addressing the above areas to help ensure programmed spend is achieved so far as possible and that those charged with governance are provided with information that assists their understanding of progress against the capex programme. Further detail on these recommendations are included in section 3.2 below.

#### **Statement of service performance**

We assessed the completeness and accuracy of performance information (Council activities) included in the annual report and how well the overall “performance story” is communicated.

We communicated improvements to the City Council and the suggested updates to the non-financial reporting disclosures was adequately incorporated into the annual report. Further detail on these recommendations are included in section 5.1 below.

We were satisfied that the service performance measures outlined and reported on in the annual report is reasonable.

#### **Procurement and contract management**

As part of our value added services we performed a broader risk assessment over the City Council’s procurement and contract management practices. The results of our assessment is reported in section 7 of this report. Within the report we provide areas where the City Council could further improve on its procurement and contract management practices.

#### **Adoption of new accounting standard**

For-profit companies must apply a new accounting standard, NZ IFRS 16 Leases, in preparing their 30 June 2020 financial statements. This standard is another significant change and we encourage the City Council to consider the impact on the group in a timely manner. Further information about this new standard is provided in Appendix 2.

#### **Thank you**

We would like to thank the Council, management and staff for their assistance during the audit. In particular we would also like to acknowledge the smooth transition during the year with Margie French taking on the responsibility for the first time to prepare the annual financial statements.

Jacques Coetzee  
Appointed Auditor

[Date]

## 1 Recommendations



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

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

### 1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
<p><b>Procurement, contract and project management</b></p> <p>To support achieving programmed spend we have identified areas of improvement the City Council should consider. The recommendations are captured broadly under the following headings:</p> <ul style="list-style-type: none"> <li> <p><b>Use of Government Electronic Tender Service (GETS)</b></p> <p>The City Council identify for each procurement what the most appropriate means is to obtain an optimal outcome in terms of approaching potential suppliers.</p> </li> <li> <p><b>Budget management of capital expenditure</b></p> <p>Recommendations regarding improving the accuracy of budget phasing, rightsizing the programme of works, refining the calculation and use of contingencies and the using of “spare” budget.</p> </li> <li> <p><b>Basis for reporting capital expenditure against budget</b></p> <p>The subsequent changes in the timing of projects or variations in cost should be reflected in forecast capex rather than adjusting the approved budget figure against which actual spend is compared.</p> </li> <li> <p><b>Monitoring of actual capex against budgets</b></p> <p>Some areas where there is potential to improve the information provided so that City Council is provided with a clear understanding of how capex is tracking against the approved programme.</p> </li> </ul> <p>Further detail are provided in section 3.2 of the report.</p>	<p>3.2</p> <p>3.2.1</p> <p>3.2.2</p> <p>3.2.3</p> <p>3.2.4</p>	Necessary

Recommendation	Reference	Priority
<b>Reporting on the City Council Activities (Service performance)</b> To enhance the “performance story” of the City Council we have made recommendations for further consideration. The recommendations are captured under 4 key areas which are: <ul style="list-style-type: none"> <li>• Usefulness and wording of measures</li> <li>• Setting of targets</li> <li>• Implementing QA processes</li> </ul>	4.1	Necessary
<b>Findings from the NZ Transport Agency Investment Audit report</b> Implement the recommendations made by NZTA to improve the District Council’s management of its roading assets.	4.2	Beneficial
<b>GST compliance review</b> The City Council implement the action plan and monitor it to ensure compliance to relevant legislation and make use of possible savings as highlighted by the review.	4.3	Necessary
<b>Carrying value and useful lives of property, plant and equipment – non infrastructural assets</b> Management should perform a detailed review of the estimated value of assets at the end of their life as well as the current life cycles of all assets. These should also be reviewed at least annually at reporting date as required by the accounting standards to ensure compliance and prevent any misstatement of assets.	4.4	Necessary

## 1.2 Status of previous recommendations

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

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open		4		4
Implemented or closed		3	2	5



## 2 Our audit report

### 2.1 We issued an unmodified audit report



We issued an unmodified audit report on the City Council and group's financial and performance information on 31 October 2019. This means we were satisfied that the financial statements and statement of service performance present fairly the City council and group's activity for the year and its financial position at the end of the year.

In forming our audit opinion, we considered the following matters and the matters in sections three and four of our report.

### 2.2 Corrected misstatements

We identified various misstatements and disclosure deficiencies that was communicated to management and subsequently corrected. We can provide further detail of these if required. We acknowledge that the quality is improving every year, however, it is our expectation that the annual report is peer reviewed prior to it being presented for audit to limit corrections and support the delivery of an efficient audit.

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



Management is required to provide information for audit relating to the annual report of the City Council. This includes the draft annual report with supporting working papers. We provided a listing of information we required to management on 3 September 2019.

Information was provided on time, however there were some instances where we had to go back to management as the information provided were not always complete. The finance team and support staff assisted the audit team with these requests and their queries in a timely manner and would like to thank them for the assistance provided.

We are also pleased to note an ongoing improvement in the overall process and would like to acknowledge the investment made by management in this area.

### 3 Matters raised in the Audit Plan



In our Audit Plan of 7 May 2019, we identified the following matters as the main audit risks and issues:

#### 3.1 Valuation of Infrastructure assets

The City Council revalues its infrastructural assets annually. Management completed an in-house indexation process using rates and advice provided by the independent experts, Opus. The revaluation gain on these assets totalled \$40.8 million.

We performed procedures to satisfy ourselves with the findings of the experts in evaluating the assets. We adequately considered the qualifications of the experts in determining the amounts and disclosures used in the financial statements. We considered and assessed the significant assumptions used by the experts in making accounting estimates, including fair value accounting estimates, and are satisfied that these are reasonable.

We assessed the fair values to be appropriately recorded and disclosed in the financial statements.

Opus was also engaged to verify that the methodology and supporting data used to prepare the valuations is in accordance with the accounting standards and with NZ local authority asset management practice (NZ Infrastructure Asset Management Manual and Valuation and Depreciation Guidelines). They were also required to provide a statement on the accuracy, correctness and compliance with the Office of the Auditor General's guidelines for infrastructure accounting.

The independent expert recommended standard industry practices to the City Council to continue to maintain, develop and improve the asset component register. This can be achieved by incorporating the following practises:

- Ensuring construction dates are applied to those components of large value, as the construction date input is one of the most sensitive inputs to the valuation system. Where default dates are being used, these need to be of a realistic nature.
- Where assets are replaced or upgraded, these changes must also be accurately recorded in the relevant asset tables.
- Improve the City Council's valuation report to help better explain the changes since the previous valuation valuations
- Review the classification and lives between trunk and reticulation for water supply pipes. Trunk mains tend to have a diameter of over 300mm and therefore on average a longer life. However, this doesn't appear to be the case for this valuation. A review of this should be undertaken before the next valuation.

We support these practices and recommend management to adopt the recommendations made by the independent expert.

#### **Management comment**

*Opus recommendations noted and will be incorporated in the next revaluation exercise.*

### **3.2 Procurement, contract and project management**

#### **Delivery of capital works programme**

We have carried out a high level review of the City Council's procurement, contract management and project management practices with a particular focus on the City Council's planned capital programme.

We are pleased to note that the City Council is taking positive steps to ensure that appropriate frameworks and processes are in place for procurement, contract management and project management. To this end four audits and external reviews have been carried out over the last two years.

We encourage that the findings from these reviews continue to be addressed by the City Council as appropriate.

We identified areas that the City Council should consider addressing to help ensure programmed spend is achieved so far as possible. Also refer to section 7 of this report on our view on priorities for strengthening the City Council's control over procurement and contract management. Those charged with governance should also be provided with information that assists their understanding of progress against the capex programme.

#### **1.1.1. Use of Government Electronic Tender Service (GETS)**

Historically the City Council has used both GETS and/or Tenderlink when going out to the market to procure goods and services. However we understand that all business units have been instructed to only use GETS in accordance with the Government Rules of Sourcing (GRoS) when purchasing goods or services valued at more than \$100,000.

In this instance it appears that the City Council has misinterpreted that application of the GRoS for local authorities is mandatory rather than "encouraged". In addition the \$100,000 threshold set by the GRoS applies only to goods or services or refurbishment work. For new construction works a significantly higher threshold applies (\$10 million to 30 June 2019). Please also refer to section 9 of this report.

The City Council should consider whether imposing the Government Rules of Sourcing related to the use of GETS for all procurements over \$100,000 is appropriate especially for lower value capital works. For capital works/purchases with a total value less than the threshold, it may be more effective/efficient for NCC to use alternative methods of approaching the market such as direct sourcing, grouping several smaller projects together

and letting as a single package of work, obtaining quotes outside of GETS (i.e. direct approach to potential suppliers) or advertising on Tenderlink.

We **recommend** that the City Council identify for each procurement what the most appropriate means is to obtain an optimal outcome in terms of approaching potential suppliers.

#### **Management comment**

*Council has updated its existing processes to reflect use of GRoS as guidelines. A wider review and revision of Council's procurement processes, which incorporates the Audit NZ recommendation, is currently in progress.*

*Updated minimum thresholds for direct purchase, closed and open competitive procurement methods are being developed for inclusion in Council's revised procurement policy, which is on track for approval and live use by June 2020.*

#### **1.1.2. Budget management of capital expenditure**

Capex budgets are derived primarily from the results of asset management planning. However, we understand that the timing of required works tends to be allocated by financial years and the requirement to have each project approved via the annual plan process prior to proceeding with work. This results in many projects being stop-start in nature.

We **recommend** that the City Council considers:

- Improving the accuracy of budget phasing both in-year and between years and where possible remove the delineation between budget year and activity that is currently occurring,
- rightsizing the programme of works to a realistic level i.e. what can actually be delivered rather than what should be delivered in a perfect world,
- refining the calculation and use of contingencies; in particular changing the current practice where contingencies are viewed as belonging to a project that are not released until the project is completed; and
- whether using "spare" budget elsewhere within an activity rather than being released back to the business for reallocation to the highest priority projects is an optimal use of funds.

#### **Management comment**

*Transitioning to the new project management system (Project online) will address most of these recommendations. A decision to release savings in budgets to another activity is an option but is a decision for full Council and result in delays of 6-9 weeks - staff are focussed on managing at an activity level to deliver the program of work – with reallocations*

*reported through quarterly reporting to the committees.. Improved phasing in the Long Term Plan (LTP) will be a focus.*

### 1.1.3. Basis for reporting capital expenditure against budget

There is a risk that the true level of underspend is not being reported to the City Council as the budget established and approved at the start of the year is not reported on thereafter. For example the budget as reported in the Quarterly Report for March 2018 (\$44.3m) is not the same as that approved by Council at the start of the financial year in the LTP (\$51.5m). Furthermore we noted that budgeted capex reported in the March 2018 Quarterly Report (\$44.3m) was lower than that shown in the Quarterly Report for December 2018 (\$44.4m) but higher than that in the corresponding report for September 2018 (\$42.0m).

It is important that there is visibility of how actual spend compares to the budgeted amount as approved by the City Council upon which rates were struck. The City Council should clearly state what budget was approved for capital expenditure as rates have been set based on that level of spend. Specific items omitted from the capex budget shown in the Quarterly Report should be clearly identified so that users of the information can understand the basis upon which comparisons between actual and budget are being made.

We **recommend** that subsequent changes in the timing of projects or variations in cost should be reflected in forecast capex rather than adjusting the approved budget figure against which actual spend is compared.

#### Management comment

*Noted – we will report against both the Annual Plan budget and the budget approved via subsequent resolutions and transfers.*

### 1.1.4. Monitoring of actual capex spend against budgets

Our review of capex reporting has identified some areas where there is potential to improve the information provided so that the City Council is provided with a clear understanding of how capex is tracking against the approved programme. These include:

- ensuring that there is clarity as to what the approved budget is and reflecting variations in phasing as changes in forecast rather than changing the approved budget (as discussed above).
- inclusion of high level financial information for each project in the Project Health Summary such as the total budget, approved budget for the current year, actual and budgeted YTD spend and forecast annual spend for the current year. This would enable users of the report to get more context about the relative size of projects particularly for those showing as red or orange status for quality, time and/or budget.



The amounts shown in the Project Health Summary should agree in total to the headline figures presented elsewhere in the report and for each project consistent with the information in individual project sheets.

- Expanding upon the financial information in individual project sheets so that readers can tell how spend prior to the current year compared to budget and also what the total budget for the project is.
- Ensure that commentary in the project sheets for individual projects is sufficient for readers to understand how the project is progressing especially where the overall health status is either red or orange. This includes including sufficient information about the risks and issues that exist and action being taken to address them.
- The City Council should review the content of the Project Health Summary and individual project sheets to determine where the level of detail provided could be enhanced to ensure Council has a good understanding of progress against the approved capex budget.

#### Management comment

*Generally agree with recommendations – the project sheets are evolving in nature and Project Online software should help to improve reporting and give a better picture of projects over their whole life. Use of reporting fields will be reviewed but once a budget change has been approved under the appropriate delegations – it is the approved budget for the project manager to manage to at that point in time – a forecast is potentially different.*

### 3.3 The risk of management override of internal controls

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls, due to the unpredictable way in which such override could occur, it results in a risk of material misstatement due to fraud. The risk is mitigated by the size and simplicity of the organisation which provide transparency and the board is aware of this risk and takes account of it in its scrutiny of financial information presented by management.

We completed audit procedures on journal entries and considered significant transactions outside the normal course of business for the City Council. We assessed the accounting treatment for identified transactions fitting the criteria as reasonable. We utilised computer aided audit-tools for journal testing, to focus on journals based on risk factors. Based on our journals testing at year end, we confirmed that journals were appropriately prepared and there were no issues with the accuracy or level of support for journals.

We found no indications of management override that would result in a material misstatement in the financial statements due to fraud.

## 4 Other matters arising from the audit

### 4.1 Reporting on the City Council Activities (Service performance)

Service performance measures outlined in the 2018-28 LTP provided a reasonable base for the council to report its service performance. This includes mandatory performance measures, which the council will need to be able to measure and report against for the year ending 30 June 2019.

We were satisfied that the service performance measures outlined in the 2018-28 LTP provided a reasonable base for the council to report its service performance. Various iterations of the annual report and necessary changes to non-financial reporting disclosures in the annual report were required as a result from the audit.

We assessed the completeness and accuracy of performance information (Council activities) included in the annual report and how well the overall “performance story” is communicated.

During the audit of the performance information we had various iterations of the annual report, where after management made the necessary changes to the performance information reported on in the annual report. We identified the following areas of improvement to be considered by management to enhance the performance reporting and processes of the City Council:

- Sufficient quality control processes should be adopted to ensure reported results are supported to reduce the number of discrepancies identified.
- We identified that for some service performance measures (e.g. “Average quality of ride on a sealed local road network, measured by smooth travel exposure” and “water supply – resolution of urgent call-outs: from the time notification is received to the time service personnel confirm resolution of the fault or interruption”), robust processes are not in place to collect and maintain data so that the target can be reported against in the annual report.
- Performance measures, excluding those mandatory measures as prescribed by the Department of Internal Affairs (DIA), should be reviewed to ensure that they are relevant, reliable, understandable and comparable.
- Consider opportunities to further complement the reported results with narrative that gives the reader an enhanced “performance story”.

#### Management comment

*The 2018/19 Annual Report was the first report against the new performance measures included in the latest LTP and was in effect the “stress test” for the measures in the Plan. The positive result of achieving almost 75% of the performance measures was offset by a number of measures that could not be reported on due to system changes to improve*

services and/or an intention to use higher quality information. Unfortunately these changes did not take into account the reporting requirements. In response to this we have introduced new checks to pick up possible problems before changes are made, including more robust checking of performance measures in the quarterly reports. The performance measures for the next Long Term Plan 2021-2031 will be reviewed carefully to ensure that the data can be collected consistently through the three year term, and to ensure that they SMART measures. Your comments on providing an enhanced "performance story" have been noted and emphasises that we are missing an opportunity to engage with the community on the quality work that Council delivers, as well as the challenges of providing a wide range of services to a high standard.

#### 4.2 Findings from the NZ Transport Agency Investment Audit report

We received the NZTA audit report to the City Council for Monitoring Investment Performance. NZTA indicated that the City Council has areas for improvement, particularly in regards to their procurement procedures and the Mobility and Super Gold Schemes.

We **recommend** that the City Council follow up and implement NZTAs recommendations to improve the Council's management of its roading assets.

##### Management comment

The NZTA audit findings went to Infrastructure meeting in May 2019 and recommendations for improvements have been actioned. However, for correction, there were no areas of improvement noted for Total Mobility and Super Gold Scheme.

#### 4.3 GST compliance review

An independent expert, PwC, performed a GST compliance review for the City Council. From the report they highlighted specific instances of GST non-compliance or opportunities for savings. Furthermore, the report include an action plan for the City Council to implement/record its decisions on all of the various matters raised in the report.

We **recommend** the City Council implement the action plan and monitor it to ensure compliance to relevant legislation and make use of possible savings as highlighted by the review.

##### Management comment

GST audit and planned actions presented to Audit & Risk August 2019. Action points from the review have either been actioned or are in the process of being actioned.

#### 4.4 Carrying value and useful lives of property, plant and equipment – non infrastructural assets

PBE IPSAS 17, *Property, Plant and Equipment*, requires that the useful life of an asset shall be reviewed at least each annual reporting date. This is to ensure that the balances related



to the assets of the City Council are presenting fairly its useful life and associated residual value.

From our audit procedures and from discussions with management we noted that currently this is not occurring in line with the requirement of the accounting standard, as such, currently, the City Council is not in compliance with the accounting standard.

We reviewed the balances of non - infrastructural assets, with particular focus given to the depreciation rates and closing values of assets. We noted a number of assets that were depreciated to nil value, even though these assets were still being utilised by the City Council.

Our findings are indicative of the need for management to perform a detailed review of the assets held by the City Council in order to reassess the useful lives, residual values and associated depreciation expense allocated to these assets.

**We recommend** a formal process / detailed review of the estimated value of assets at the end of their life as well as the current life cycles of all assets. These useful life and associated residual value of assets should also be reviewed at least annually at reporting date as required by the accounting standards to ensure compliance and prevent any misstatement of assets.

**Management comment**

*This recommendation will be investigated further prior to the next audit to understand materiality and resource implications.*

## 5 Other areas of audit interest for all local authorities

### 5.1 Rates

Rates are the City Council's primary funding source. Compliance with the Local Government (Rating) Act 2002 (LGRA) in rates setting and collection is critical to ensure that rates are validly set and not at risk of challenge.

The City Council should have appropriate processes in place. Where issues or concerns arise, it should seek legal advice, to ensure compliance with legislation of its rates and rating processes. We reviewed City Council's process with requirements of the Local Government Act 2002 and assessed whether there is potential material impact on the financial statements.

We focused our review on the parts of the rates setting process that present the highest risk, namely the consistency and completeness of the rates resolution and the Funding Impact Statement (FIS). We reviewed sample of differentially set and targeted rates to assess whether the matters and factors used are consistent with the Local Government Act 2002.

We have not identified issues through our review of compliance with legislation, for the purposes of expressing our audit opinion.

### 5.2 Local government elections

In terms of the Local Government Act 2002, section 98 and 99A requires the City Council to prepare an Annual Report and a Pre-election report during an election year.

With the elections taking place during October 2019, there was an underlying risk that the content of certain publications could contain information which could be seen as electioneering, or that resources are used, or perceived as being used, to give electoral advantage.

From our audit work conducted, discussions with management and review of the pre-election report, we did not identify any matters which could be perceived as being used to give electoral advantage.

The annual report and summary annual report were released after the elections and as such did not have an impact on the elections.

### 5.3 Elected members – remuneration and allowance

We have assessed the City Council's compliance with the requirement to disclose the remuneration of each member of the local authority in the annual report against the relevant Local Government Elected Members Determination and any amendment to that Determination.

We confirmed the payments are within the Determination set by the Authority.

#### **5.4 Legislative reporting disclosures**

We confirmed that the disclosures required by Schedule 10 of the Local Government Act and the Local Government (Financial Reporting and Prudence) Regulations 2014 have been appropriately included in the City Council's annual report.

We considered compliance with laws and regulations that directly affects the financial statements or general accountability. We did not identify any breaches of legislation during our audit testing of these laws and regulations. Our audit did not cover all the City Council's requirements to comply with laws and regulations.

#### **5.5 Conflicts of interest**

During the audit we remained alert for conflicts of interest. We did not identify any conflicts of interest during our final audit.

#### **5.6 Probity and transparency**

Under our audit mandate, we are required to be alert for and review matters of effectiveness and efficiency, waste, and a lack of probity or financial prudence.

The City Council has appropriate sensitive expenditure related policies in place. Based on our review we found that transactions had a justifiable business purpose, were moderate, and made transparently.

#### **5.7 Debenture Trust Deed**

We agreed separate terms of engagement for the Debenture Trust Deed audit with the District Council.

This audit was completed on 29 November 2019. We have no issues to report from our debenture trust deed audit.

## 6. Public sector audit



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

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

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

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

We have not identified any matters that would like to bring to your attention.

## 7. Helping you to understand your risks: procurement and contract management

### Why it matters

Procurement and contract management carry high risk in terms of costs, public and political profiles, reputation, and performance. Delivering services well depends on doing procurement and contract management well.

### Understanding your risks

We have used our sector expertise, and recognised best practice, to develop a standardised risk assessment tool to analyse your local authority's procurement and contract management risks. We have included the sector context by displaying your position compared to other entities in the sector<sup>1</sup>.

### What do we mean by procurement and contract management?

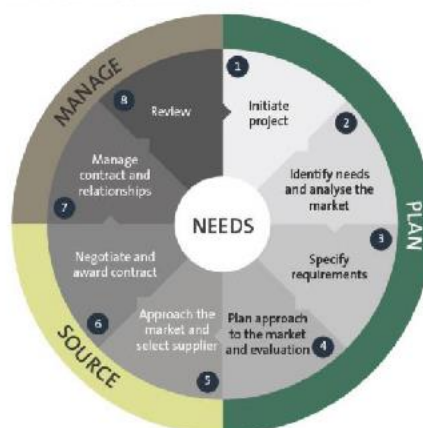
Procurement is the overarching term used to describe all the business processes associated with purchasing goods and services. Procurement is much more than "buying something" – it includes all the processes involved in acquiring goods and services from a third party. Effective contract management helps ensure goods and services are delivered well, to specification, and in full. Both go together to ensure public value is realised.

### The Auditor-General's work programme – Procurement

The Office of the Auditor-General is part way through its work programme on Procurement. Earlier this year performance auditors visited 22 local authorities in the Waikato, Bay of Plenty, Canterbury, and Wellington Regions to talk about how local authorities in those regions carry out procurement. This audit identified some challenges that local authorities need to respond to so that procurement can continue to support the delivery of infrastructure and services to local areas. This will be particularly important with the significant growth that is forecast in many areas.

The Office of the Auditor-General plans to publish its findings by the end of 2019. It will be important for each local authority to consider the Auditor-General's findings in order to determine priorities for further improving or developing the approach to procurement.

Figure 2  
The eight-stage life cycle of procurement



Source: (Recoloured from) the Ministry of Business, Innovation and Employment.

<sup>1</sup> This analysis is limited to entities audited by Audit New Zealand only.

How do we assess risk?

Our assessment tool considers risk from two angles:

- The risk in the environment. This is the inherent risk. It is influenced by complexity, instability, change, delivery of critical services, interdependencies, and reliance on third parties. Size, strategic direction, and the nature of services are also important.
- The effectiveness of management systems and processes. This is control risk and covers the main aspects of good practice that we would expect to be applied. Effective management systems and processes mitigate aspects of inherent risk and reduce the risk of something going wrong.

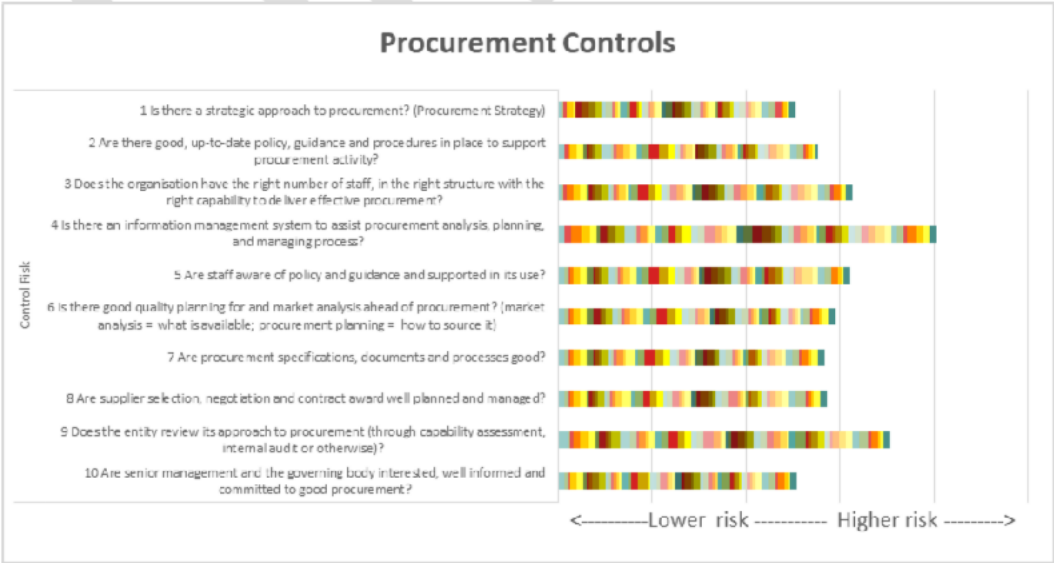
The risk assessment process we have undertaken is based on the design of the controls only. We have not performed testing to ensure the controls are operating effectively.

What are the assessments telling us?

Procurement is particularly important for local authorities, in which investment in developing, renewing and maintaining infrastructure is typically outsourced to private sector providers. In addition, many local authorities have entered into alliances, partnerships or other collaborative arrangements to support service delivery. With continued pressure on rates and other sources of funding, the need to achieve good value for money remains an important consideration. However, many local authorities have told us that they aim to use their spend to deliver other benefits, such as supporting the local economy.

Common areas of risk across local government

In the graph below we have summed the risk rating we assessed for each of ten procurement controls across all the local authorities we audit.

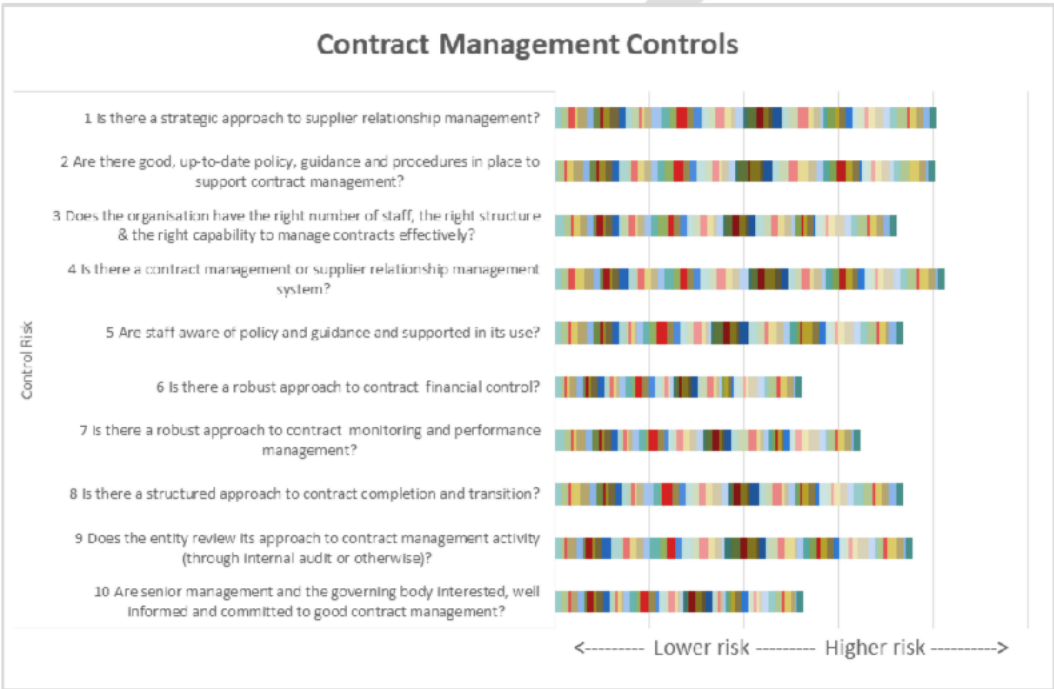




Two areas stand out across local government as priorities for improvement:

- Ensuring there is an appropriate information management system so that staff can analyse procurement spend, plan and manage procurement processes, and keep good records.
- Being open to continuous improvement through reviewing procurement practices and capability.

The graph below shows a similar analysis for contract management controls. Overall this indicates that contract management controls are weaker than those covering the purchasing stage of the procurement cycle. We encourage all local authorities to consider whether their approach to contract management is as clearly defined, well-resourced and implemented as it needs to be.



Three aspects of contract management might provide a focus for this consideration:

- Assessing whether there is a strategic approach to supplier relationship management.
- Making sure there are good, up to date policies, guidance and procedures in place to help staff manage contracts effectively.
- Ensuring there is an appropriate contract management system in place.

Each grey dot in the graphs below represents a local authority mapped according to our assessment of its inherent and control risk.



Local authorities uses a range of procurement approaches and have a significant number of contracts for a diverse range of goods and services. Levels of inherent risk vary widely depending on the size of local authorities, as well as the extent of and approach to outsourcing.

The City Council has medium levels of inherent risk for both procurement and contract management.

There is little the City Council can do to reduce its level of inherent risk. However, it can strengthen its systems and processes to bring down the overall level of risk. In our view the controls for procurement and contract management are at a medium risk level. In our view the council could strengthen its contract management systems and processes, to bring the overall level of risk down into the low risk category overall.

**Our view on priorities for strengthening the City Council’s control over procurement and contract management**

We expect up to date policy, procedures and guidance to form a sound basis for controlling contract management. Policy needs to be regularly updated to make sure it continues to comply with the good practice promoted by the Government Procurement Rules.



In our view, the area we believe would make the most difference to strengthening the City Council's controls would be ensuring there is a fit-for-purpose contract management or supplier relationship management system, which might involve:

- putting in place a functional contract management system in place to capture key information on all contracts;
- making links to the FMIS / payment system to help staff manage contracts;
- storing documentation electronically in easily accessible ways (original agreement, record of contract progress claims and payments, monitoring and inspection or meeting records, relevant correspondence, records of any variations or claims, producer statements and/or guarantees, completion certificates);
- maintaining appropriate physical security and disaster recovery arrangements in place for contracts and associated information;
- allowing contract information to inform or be integrated with budget setting and monitoring; and
- making links between performance information, payments and contract renewal decisions.

Refer to section 3.2 of this report for other areas identified for improvement.

#### **Continuing focus on risk for 2019/20**

As part of our 2019/20 audit we will consider procurement-related risks during our audit planning, based on our knowledge of your local authority, your pattern of spend and the range of contracts you have in place.

## 8 Key changes to the Government Rules of Sourcing



As from 1 October 2019, the new Government Procurement Rules (the Rules) come into force. The Rules are a revision of the previous third edition of the Government Rules of Sourcing and were approved by Cabinet in May. Much of the content is consistent with the third edition with some re-numbering of Rules. The new Rules and a table of rule changes can be found in this link [Table of Rule Changes](#). Entities should watch out for a few important changes noted below:

### **Government Procurement Charter**

The new rules include a Charter for the first time. The Charter sets out the Government's expectations of how agencies should conduct their procurement activity to achieve public value. The Charter applies even when the Rules do not. Nelson City Council will need to demonstrate how they are meeting these expectations in their procurement activity.

### **Broader outcomes**

The new Rule 16 outlines a number of secondary benefits that it is seeking from the way in which procurement is conducted in the public sector. These secondary benefits relating to the costs and benefits to society, the environment and the economy are required to be considered (where appropriate) along with the whole of life costs of the procurement.

To maximise the effects of these priorities, the Government will be designating some contracts or sectors where the outcomes must be prioritised. These will be published at [www.procurement.govt.nz](http://www.procurement.govt.nz).

### **Procurement planning**

A new Rule 15 includes guidance and expectations related to procurement planning. Rule 22 has been amended so that significant procurement plans must be submitted to the Ministry of Business, Innovation, and Employment for review on request

### **Threshold changes**

The thresholds for when the Rules apply (contained in Rules 6 and 7) have been taken out of the Rules document and will now be found at [www.procurement.govt.nz](http://www.procurement.govt.nz). We understand this is to facilitate changes in the thresholds as necessary, without a full change to the GPS. The immediate change is to the threshold for new construction works, which reduces from \$10 million in the current edition to \$9 million.

We encourage procurement staff to understand the changes, and prepare for their implementation by considering the changes that are required to Nelson City Council's procurement policies, procedures and practices.

## Appendix 1: Status of previous recommendations

### Open recommendations

Recommendation	First raised	Status	Management comments
<b>Necessary</b>			
<b>Lack of system restriction/controls to prevent any unauthorised data editing for call out time measures</b>			
Introduce a process to monitor and track all changes or edits to records for the "resolution of call-outs - median time" data.	2017-18	<b>In progress</b> Management is yet to identify an approach to completely lock out the staffs' access. They think this will be difficult with the current system, and are currently investigating different options.	<b>In progress</b> Management has identified an approach whereby all track changes are logged and stamped in Councils Asset Management System (Infor). A random selection of Work Orders will be internally audited each year to verify these track changes were justifiable.  These improvements will be implemented on 22 January 2020 when Infor is updated.
<b>Reliance on third party to ensure payment is correct at different sites</b>			
The City Council obtains a transaction listing from third parties and a member of the finance team reconciles that with bank statements. However there is no process in place to ensure that the third party listing is complete.  We recommended management investigate opportunities to ensure that third parties provide complete listings of the receipts they collect on behalf of the City Council.	2016-17	<b>In progress</b> Changes are made as contracts are renewed with the inclusion of clauses around effective cash management as a priority.	<b>In progress</b> Requirement included in contract & RFT templates.  Golf Club, Festivals Ticketing, Bus Ticketing contracts and processes all require full listings.  Parking Revenue contract is being retendered to include requirement (in 2020 post installation of new parking meters).  Proposal for POS system for the Transfer Station – Solid Waste team requesting budget.  Venues, halls and sports facilities - CLM provide a full listing of all bookings which invoicing is generated from.

Recommendation	First raised	Status	Management comments
			<p>Nelmac – Marina – separate reconciled bank account with transaction listings</p> <p>NCC Founders &amp; Brook Camp installing new POS systems, with automated reporting available.</p> <p>NCC Historic Houses – all eftpos with online access</p>
<b>Contract management system</b>			
We recommended management implement an integrated contract management system. This will allow the City Council to better monitor the performance of contractors and manage project delays on an organisation-wide basis. It will also enable the City Council to make more informed decisions regarding contract renewals.	2015-16	<p><b>In progress</b></p> <p>MagiQ advised that contract numbers cannot be integrated within purchase orders so alternative options have been explored. Development on a consolidated organisational contract register with core contract management workflow features has begun and is expected to be ready for testing in February 2020. In the meantime, a simple single register has been created to improve visibility of contracts outside Capital Projects (which remain in Clicky).</p>	<p><i>Note that Council is also in the course of implementing improved resources and tools for the management, monitoring and reporting of projects</i></p>
<b>Water Charge Data Management System</b>			
We recommended the process be automated and investigate system changes to enable historic reporting of the volumes supplied throughout the financial year and record the volumes charged per rating category.	2016-17	<p><b>In progress</b></p> <p>Module review deferred due to resourcing issues. Investigation on Data Analytics software being investigated by Business Improvement Team, which may solve the reporting issue.</p>	<p>Internal Data Analytics now available through IT Team.</p> <p>Initial finance data work outside the water area, while data warehouse is in it's infancy. Water module data will be included over the next 12 months, with steps made towards meaningful reporting.</p> <p>Module review on the workplan with MagiQ however dates have not been set.</p>

**Implemented or closed recommendations**

Recommendation	First raised	Status
<b>Necessary</b>		
<b>Valuation of infrastructure assets</b> Implement the recommendations made by the valuer to enhance the current valuation process and the reliability of the database.	2017-18	Recommendations from the valuer and in the Audit NZ governance report are actions that were reviewed and are already undertaken and are part of our on-going process.
<b>Approval of staff time charged to capital projects</b> Formalise the review of time charged to capital projects to ensure the accuracy and classification of staff time recorded.	2017-18	Staff time is now signed off by the project manager to ensure the accuracy and classification of time recorded.
<b>Project Management</b> We recommended management: <ul style="list-style-type: none"> <li>implement realisation and post-implementation reviews upon the completion of significant projects; and</li> <li>develop a project management policy.</li> </ul>	2015-16	Project Management Policy approved by Senior Leadership Team 27 May 2019.  Benefits/implementation review is in the Business Improvement plan for 2019/20.
<b>Beneficial</b>		
<b>Financial statements preparation process</b>		
Formalise the processes and procedures for the consolidation process to reduce potential risks, including: <ul style="list-style-type: none"> <li>creating a separate master spreadsheet file where all data is managed and collected; and</li> <li>where possible, consideration be given towards an automated process through consolidation software.</li> </ul>	2017-18	The City Council continues to assess the effectiveness of its processes around this.  Consolidation improved from the prior year and we will continue to work with management to improve the reporting process.
<b>Related Party Processes</b>		
Formalise an in-house company search at year end to obtain comfort that all interest are disclosed and all related party transactions are reported.	2017-18	The Manager for Governance and Support Services has completed a company search of all Councillors, Senior Leadership Team and their close family members in the interim. A follow up search was

Councillors and key management personnel should be encouraged to disclose all interests held.		conducted for year-end for any changes during the year. We will encourage management to implement the practice on an annual basis.
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## Appendix 2: Adoption of new accounting standards

### NZ IFRS 16 Leases

Some key facts about NZ IFRS 16:

- Applies to for-profit entities with reporting periods that commence on or after 1 January 2019.
- Replaces NZ IAS 17 *Leases*, and lease related interpretations.
- Lessees will no longer apply the finance and operating lease distinction. Lessees will need to recognise most leases on the statement of financial position as a lease liability and “right to use” asset. The lease liability and right to use asset will generally be initially recognised at the present value of the lease payments. The asset will then be depreciated over the term of the lease while an interest expense recognised on the lease liability based on the discount rate determined at the commencement of the lease. Recognition exemptions are available for low value and short-term leases.
- For lessees, significant judgement may need to be exercised when determining the lease term for a lease with renewal and termination options.
- Lessors continue to apply the finance and operating lease distinction.

### Mixed group issues

This is applicable as “for profit” entities, including Nelson Airport, Port Nelson and Nelmac (full subsidiaries of the City Council), are consolidated into the City Council.

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

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

We encourage management to engage early in the financial year with its “for-profit” subsidiaries and implement appropriate systems and processes to accurately capture and report on the requirements of any new accounting standards and adequately consider the “mixed group” reporting issues on the City Council and group.

## Appendix 3: Useful publications



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

Description	Where to find it
<b>Public accountability: A matter of trust and confidence</b>	
<p>Public accountability is a cornerstone of our system of government. Knowledge on what the public is getting for their taxes and rates, how well that is being spent, and the integrity of the overall system are the basics of public accountability.</p> <p>This discussion paper is the first phase in a programme of work about the future of public accountability.</p> <p>The next phase of our research on public accountability will build on what we have learned here and focus on how well the current public accountability system is positioned to respond to the challenges and opportunities the public sector faces. This research will inform what the Auditor-General's Office does to improve trust and promote value in the public sector.</p>	<p>On OAG's website under 2019 publications.</p> <p>Link: <a href="#">public-accountability</a></p>
<b>Post implementation reviews</b>	
<p>The OAG have recently completed a review of Auckland Council's post implementation review process. While many aspects of the report are specific to Auckland Council, it documents the process that Auckland Council uses, and includes a post implementation review checklist.</p>	<p>On the OAG's website under publications.</p> <p>Link: <a href="#">Post-implementation review process</a></p>
<b>Inquiry into Waikato District Health Board's procurement of services from HealthTap</b>	
<p>Findings of the inquiry into the decision of Waikato District Health Board in 2015, to enter into a contract with the United States-based company HealthTap Inc to provide "virtual care" services through an online service.</p> <p>There are important lessons about a good procurement process that can be learned and applied to other procurements in the public sector – in particular, when seeking to be innovative.</p> <p>Innovation in the public sector is important. It can lead to new and better services for the public and more efficient ways to deliver current services. However, when public organisations seek to innovate, it is all the more important to respect the disciplines of good procurement. Innovative service delivery and good procurement practice are not mutually exclusive.</p>	<p>On OAG's website under 2019 publications.</p> <p>Link: <a href="#">inquiry-waikato-dhb</a></p>



Description	Where to find it
<b>Inquiry into procurement of work by Westland District Council at Franz Josef</b>	
<p>This report concerns a decision of the Westland District Council to carry out work at Franz Josef to protect the town's wastewater treatment plant from flooding. The work was carried out on an urgent basis and resulted in the construction of a new 700-metres-long stopbank on the bank of the Waiho River.</p> <p>This report identifies numerous examples of poor decision-making and poor procurement practice. They include the lack of any proper risk analysis or consideration of alternative options, the failure to seek expert advice on either the immediacy of the flood risk or whether building a stopbank was the right response, an inadequate planning and procurement process for a project of this type and scope, an apparent disregard for legislated decision-making requirements, and a failure to consult those affected by the work until the work was already under way.</p>	<p>On OAG's website under 2019 publications.</p> <p>Link: <a href="#">westland-dc-procurement</a></p>
<b>Water reports</b>	
<p>A number of reports on water have been released:</p> <ul style="list-style-type: none"> <li> <b>Crown investment in freshwater clean-up</b> <p>The OAG examined how the Ministry for the Environment administered four Crown freshwater clean-up funds for improving lakes, rivers, streams, and wetlands. Our primary objective was to assess whether Crown funding was being used effectively to improve freshwater quality.</p> </li> <li> <b>Observations on Waikato River Authority's freshwater restoration operations</b> <p>The OAG looked at the operational approach of the Waikato River Authority to restoring and protecting the Waikato and Waipā Rivers for additional insight into how different entities manage Crown funds.</p> </li> <li> <b>Managing freshwater quality: Challenges and opportunities</b> <p>The OAG published a report on how effectively Waikato Regional Council, Taranaki Regional Council, Horizons Regional Council, and Environment Southland managed the effects of land use on freshwater quality in their regions. We found that the effectiveness of the four regional councils' approaches was variable. In this report, we assess the progress they have made since 2011.</p> </li> </ul>	<p>On OAG's website:</p> <p>Link: <a href="#">freshwater-clean-up</a></p> <p>Link: <a href="#">wra-freshwater-restoration</a></p> <p>Link: <a href="#">freshwater-quality</a></p>

Description	Where to find it
<b>Good practice</b>	
<p>The OAG's website has been updated to make it easier to find good practice guidance. This includes resources on:</p> <ul style="list-style-type: none"> <li>• audit committees;</li> <li>• conflicts of interest;</li> <li>• discouraging fraud;</li> <li>• good governance;</li> <li>• service performance reporting;</li> <li>• procurement;</li> <li>• sensitive expenditure; and</li> <li>• severance payments.</li> </ul>	<p>On the OAG's website under good practice.</p> <p>Link: <a href="#">Good practice</a></p>
<b>Tax matters</b>	
<p>As the leading provider of audit services to the public sector, we have an extensive knowledge of sector tax issues. These documents provide guidance and information on selected tax matters.</p>	<p>On our website under publications and resources.</p> <p>Link: <a href="#">Tax Matters</a></p>
<b>Earthquake accounting matters</b>	
<p>The OAG's website includes earthquake accounting matters which will be relevant to the City Council.</p>	<p>On our website under publications and resources.</p> <p>Link: <a href="#">Earthquake accounting</a></p>
<b>Reporting fraud</b>	
<p>The OAG have released data from 2012-2018 on fraud in public entities. This includes how the fraud was detected, the type of fraud and the methods and reasons for the fraud. The graphs show the high-level sector, and this can be broken down further into sub-sectors by opening the spreadsheets available.</p>	<p>On the OAG's website under data.</p> <p>Link: <a href="#">Reporting Fraud</a></p>
<b>Client substantiation file</b>	
<p>When you are fully prepared for an audit, it helps to minimise the disruption for your staff and make sure that we can complete the audit efficiently and effectively.</p> <p>We have put together a tool box called the Client Substantiation File to help you prepare the information you will need to provide to us so we can complete the audit work that needs to be done. This is essentially a tool box to help you collate documentation that the auditor will ask for.</p>	<p>On our website under publications and resources.</p> <p>Link: <a href="#">Client Substantiation File</a></p>

## Appendix 4: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect all instances of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the City council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to our audit of the audited information and our report on the disclosure requirements, we have audited the City Council's 2018-28 amended long-term plan, and performed a limited assurance engagement related to the City Council's debenture trust deed. Other than these engagements, we have no relationship with, or interests in, the City Council or its subsidiaries and controlled entities.</p>
Fees	<p>The audit fee for the year is \$134,300, as detailed in our Audit Proposal Letter.</p> <p>Other fees charged in the period are \$4,500, for the assurance review of the Debenture Trust Deed. No other fees have been charged.</p>
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the City Council or its subsidiaries that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the City Council or its subsidiaries during or since the end of the financial year.</p>

