



Notice of the Ordinary meeting of

Audit and Risk Subcommittee

Kōmiti Iti mō te Tātari Kaute me te Tūraru

Date:	Thursday 21 May 2020
Time:	Commencing at the conclusion of the Governance and Finance Committee meeting
Location:	via Zoom

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. Confirmation of Minutes**

5.1 18 February 2020

7 - 13

Document number M6695

Recommendation

That the Audit and Risk Subcommittee

- 1. Confirms the minutes of the meeting of the Audit and Risk Subcommittee, held on 18 February 2020, as a true and correct record.***

6. Chairperson's Report**7. Audit NZ: Audit Plan for year ending 30 June 2020 and Audit Proposal Letter****14 - 41**

Document number R14857

Recommendation

That the Audit and Risk Subcommittee

- 1. Receives the report Audit NZ: Audit Plan for year ending 30 June 2020 and Audit Proposal Letter (R14857) and its attachments (A2376650 and A2381428); and***

2. ***Notes the Subcommittee can provide feedback on the Audit Proposal Letter to Audit New Zealand if required and the Mayor will sign the letter once the Subcommittee's feedback has been incorporated.***

8. COVID-19: Assessment of Financial Risk to Annual Plan 2020/21 42 - 46

Document number R17017

Recommendation

That the Audit and Risk Subcommittee

1. ***Receives the report COVID-19: Assessment of Financial Risk to Annual Plan 2020/21 (R17017) and its attachment (A2372220).***

9. Health Safety and Wellbeing Report, COVID-19 Response, April 2020 47 - 60

Document number R16993

Recommendation

That the Audit and Risk Subcommittee

1. ***Receives the report Health Safety and Wellbeing Report, COVID-19 Response, April 2020 (R16993) and its attachment (A2380485).***

10. Internal Audit Quarterly Progress Report to 31 March 2020 61 - 65

Document number R14817

Recommendation

That the Audit and Risk Subcommittee

1. ***Receives the report Internal Audit Quarterly Progress Report to 31 March 2020 (R14817) and its attachment (A2365059).***

11. Draft Internal Audit Plan for year to 30 June 2021 66 - 73

Document number R14816

Recommendation

That the Audit and Risk Subcommittee

- 1. Receives the report Draft Internal Audit Plan for year to 30 June 2021 (R14816) and its attachment (A2357411).***

12. Reserves Contributions for Unit Titles – Final Report

Note: This report will be circulated under separate cover.

CONFIDENTIAL BUSINESS

12. 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:***

Item	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Particular interests protected (where applicable)
1	Audit and Risk Subcommittee Meeting - Public Excluded Minutes - 18 February 2020	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">• Section 7(2)(a) To protect the privacy of natural persons, including that of a deceased person• Section 7(2)(g) To maintain legal professional privilege

Item	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Particular interests protected (where applicable)
2	Reserves Contribution for Unit Titles – Breakdown of Discrepancies Note: This report will be circulated under separate cover	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"> • Section 7(2)(g) To maintain legal professional privilege
3	Quarterly Update On Debts - 31 March 2020	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"> • Section 7(2)(a) To protect the privacy of natural persons, including that of a deceased person • Section 7(2)(g) To maintain legal professional privilege



Minutes of a meeting of the Audit and Risk Subcommittee

Held in the Council Chamber, Civic House, 110 Trafalgar Street, Nelson

On Tuesday 18 February 2020, commencing at 2.00p.m.

Present: Mr J Peters (Chairperson), Her Worship the Mayor R Reese, Mr J Murray (Deputy Chairperson), Councillor J Edgar and Councillor R Sanson

In Attendance: Chief Executive (P Dougherty), Group Manager Corporate Services (N Harrison) and Governance Adviser (E Stephenson)

Apologies : Nil

1. Apologies

2. Confirmation of Order of Business

There was no change to the order of business.

3. Interests

There were no updates to the Interests Register and no interests with items on the agenda were declared.

4. Public Forum

4.1 Sue Grey, Brook Valley Community Group - Legal Proceedings

Sue Grey, representing the Brook Valley Community Group, was present to talk about the Group's legal proceedings. Supporting information was tabled (A2342297).

Ms Grey noted there were different views on the matter. She reiterated that the Group's only debt was court costs and clarified that the Group was requesting that Council withdraw its application to wind-up the Group and undertake an enquiry on lessons learned.

Attachments

- 1 A2342297 - Brook Valley Community Group public forum supporting information

5 Chairperson's Report

The Chairperson, Mr John Peters, welcomed members to the first subcommittee meeting of the triennium. He noted that the Audit NZ report to be received at this meeting was largely positive and congratulated staff.

Mr Peters said that he was pleased to see future focus in areas that the Subcommittee had been interested in. He raised the issue of the current significant risk of Covid-19, the coronavirus.

Resolved AR/2020/001

That the Audit and Risk Subcommittee

1. Receives the Chairperson's Report .

Murray/Sanson

Carried

6. Internal Audit Quarterly Progress Report to 31 December 2019

Document number R13707, agenda pages 7 - 10 refer.

Internal Audit Analyst, Lynn Anderson, presented the report.

Manager Business Improvement, Arlene Akhlaq, answered questions regarding asset registers and gap analysis.

Group Manager Corporate Services, Nikki Harrison, answered questions regarding accounting systems.

Resolved AR/2020/002

That the Audit and Risk Subcommittee

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

Murray/Sanson

Carried

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

Document number R13708, agenda pages 11 - 16 refer.

Internal Audit Analyst, Lynn Anderson, presented the report and answered questions.

Health and Safety Adviser, Malcolm Hughes, answered questions regarding Council's response to the emerging coronavirus risk.

Resolved AR/2020/003

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).***

Her Worship the Mayor/Sanson

Carried

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

Document number R13718, agenda pages 17 - 44 refer.

Manager Business Improvement, Arlene Akhlaq, presented the report and answered questions regarding earthquake-prone buildings and fire risk on reserves.

In response to a question, Chief Executive, Pat Dougherty, confirmed that Council did have a duty of care to people using public buildings and it was subsequently confirmed that notices were required to be displayed on them.

Resolved AR/2020/004

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).***

Murray/Sanson

Carried

9. Health, Safety and Wellbeing Report, July to December 2019

Document number R13724, agenda pages 45 - 58 refer.

Health and Safety Adviser, Malcolm Hughes, answered questions on the report.

Mr Hughes answered questions regarding marina hardstand risks and discussion took place regarding the need to improve monitoring and enforce conditions at the Marina and on Elected Members' due diligence and site visits.

The following health and safety site visits were noted:

- Councillor Noonan - the Maitai Bridge works
- Mr John Murray, Forestry Advisory Group Chair; Group Manager Infrastructure, Alec Louverdis; and Independent Forestry Expert, Peter Gorman - a forestry site visit on 10 September 2019.

Resolved AR/2020/005

That the Audit and Risk Subcommittee

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

Edgar/Sanson

Carried

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

Document number R13731, agenda pages 59 - 95 refer.

In response to a question, Group Manager Corporate Services, Nikki Harrison, confirmed that the GST audit actions would be reported through the Annual Tax Review.

Resolved AR/2020/006

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.

Edgar/Sanson

Carried

11. Exclusion of the Public

Resolved AR/2020/007

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:***

Sanson/Her Worship the Mayor

Carried

Item	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Particular interests protected (where applicable)
1	Quarterly Update On Debts - 31 December 2019	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"> • Section 7(2)(a) To protect the privacy of natural persons, including that of a deceased person • Section 7(2)(g) To maintain legal professional privilege
2	Quarterly Update on Legal Proceedings	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"> • Section 7(2)(g) To maintain legal professional privilege

Item	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Particular interests protected (where applicable)
3	Internal Audit - Investigation into the Calculation of Reserves Contributions	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"> • Section 7(2)(a) To protect the privacy of natural persons, including that of a deceased person • Section 7(2)(g) To maintain legal professional privilege

The meeting went into confidential session at 3.30p.m. and resumed in public session at 5.26p.m.

RESTATEMENTS

It was resolved while the public was excluded:

	CONFIDENTIAL: Quarterly Update On Debts - 31 December 2019
	<p><i>That the Audit and Risk Subcommittee</i></p> <p>3. <i>Agrees that the Report (R13726) and its attachment (A2216183) remain confidential at this time.</i></p>

	CONFIDENTIAL: Quarterly Update on Legal Proceedings
	<p><i>That the Audit and Risk Subcommittee</i></p> <p>2. <u>Agrees</u> that the Report (R13737) and its attachment (A2333508) remain confidential at this time.</p>

	CONFIDENTIAL: Internal Audit - Investigation into the Calculation of Reserves Contributions
	<p><i>That the Audit and Risk Subcommittee</i></p> <p>3. <u>Agrees</u> that the report Internal Audit - Investigation into the Calculation of Reserves Contributions (R13745) remain confidential at this time.</p>

There being no further business the meeting ended at 5.26p.m.

Confirmed as a correct record of proceedings:

_____ Chairperson _____ Date

Audit NZ: Audit Plan for year ending 30 June 2020 and Audit Proposal Letter

1. Purpose of Report

- 1.1 To provide the subcommittee with the Audit Plan from Audit NZ for the year ending 30 June 2020.
- 1.2 To provide the subcommittee with the Audit Proposal Letter for the 2020, 2021 and 2022 financial years and ask for any feedback before the letter is signed by the Mayor.

2. Recommendation

That the Audit and Risk Subcommittee

- 1. Receives the report Audit NZ: Audit Plan for year ending 30 June 2020 and Audit Proposal Letter (R14857) and its attachments (A2376650 and A2381428); and***
- 2. Notes the Subcommittee can provide feedback on the Audit Proposal Letter to Audit New Zealand if required and the Mayor will sign the letter once the Subcommittee's feedback has been incorporated.***

2. Background

- 2.1 The Audit Plan (Attachment 1) sets out the audit arrangements and covers:
 - Audit risks and issues, both specific focus areas for council and areas of interest for all local authorities
 - Group audit

Item 7: Audit NZ: Audit Plan for year ending 30 June 2020 and Audit Proposal Letter

- Audit process
 - Reporting protocols
 - Audit logistics
 - Expectations
- 2.2 The Audit Proposal letter sets out the proposed audit fees and audit hours covering the years 30 June 2020, 2021 and 2022 agreed with the Office of the Auditor General (Attachment 2). Section 6 of this letter outline the reasons for the proposed increase in audit fees. The Auditor General has decided that for the 30 June 2020 audit, audit fees are to be held to a 1.5% increase over the agreed fee for the 30 June 2019 audit.
- 2.3 There is no Audit Engagement letter to be signed this year as there have been no changes in circumstances since it was signed after being brought to the subcommittee meeting on 26 June 2018.
- 2.4 John Mackey, the appointed auditor, will be in attendance at this subcommittee meeting to answer any questions that may arise

Author: Clare Knox, Manager Finance

Attachments

Attachment 1: A2376650 - NCC Audit Plan 2020 final [↓](#)

Attachment 2: A2381428 - 2020-22 Audit Proposal Letter [↓](#)

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Audit plan

Nelson City Council

For the year ending 30 June 2020

A2376650

Audit plan

I am pleased to present our audit plan for the audit of Nelson City Council (the City Council) for the year ending 30 June 2020. The purpose of this audit plan is to discuss:

Audit risks and issues	2
Group audit	6
Our audit process	7
Reporting protocols	10
Audit logistics	11
Expectations	13

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

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

Our work improves the performance of, and the public's trust in, the public sector. Our role as your auditor is to give an independent opinion on the financial statements and performance information. We also recommend improvements to the internal controls relevant to the audit.

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

Yours sincerely



John Mackey
Appointed Auditor
29 April 2020

Audit risks and issues

Focus areas



Based on the planning work and discussions that we have completed to date, we set out in the table below the main audit risks and issues. These will be the main focus areas during the audit.

Audit risk/issue	Our audit response
COVID-19 pandemic	
<p>On 11 March 2020, the World Health Organisation declared the outbreak of coronavirus (COVID-19) a pandemic. The New Zealand Government has taken steps deal with the spread of COVID-19 which has included significant restrictions on the movement and interaction of people within New Zealand.</p> <p>This has and will have potentially significant effects on individuals, communities, the economy, businesses, the wider public sector and each public sector entity.</p> <p>It is important that the City Council considers the impact on the individual aspects of its operations and the information included in the annual report.</p> <p>We expect the City Council to complete an assessment of the impact of the COVID-19 pandemic on its operations and any effect this has on the financial and performance information included in the annual report, including any additional disclosures which may need to be included.</p> <p>This assessment may also include the effect of the COVID-19 pandemic on matters such as revenue recognition, valuation of assets, the provision for doubtful debts, and the use of the going concern assumptions for the City Council and group.</p>	<p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> continue to review with management the impact of the COVID-19 pandemic on the City Council and its control environment; review the City Council's impact assessment of the COVID-19 pandemic on the financial statements and performance information and determine the effect on our audit approach; and assess the completeness and accuracy of disclosures in the annual report relating to the COVID-19 pandemic. <p>Given the restrictions on travel that currently apply and are likely to continue at different levels, the carrying value of the City Council's investment in Nelson Airport Limited will be a key audit focus.</p> <p>Where we identify new audit risks or issues related to the COVID-19 pandemic are identified we will advise you of these separately.</p>
Property, plant and equipment revaluations and fair value assessments	
<p>Infrastructural assets and other revalued assets need to be revalued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value. The relevant accounting standard is PBE IPSAS 17, <i>Property, Plant and Equipment</i>.</p> <p>The City Council is also required to assess, under accounting standards, <i>PBE IPSAS 21, Impairment of</i></p>	<p>For infrastructure assets, and any other asset classes that are revalued, we will:</p> <ul style="list-style-type: none"> obtain copies of the valuation reports prepared by the valuers and discuss the valuation process with them, with a focus on the assumptions adopted;

Item 7: Audit NZ: Audit Plan for year ending 30 June 2020 and Audit Proposal Letter:
Attachment 1

Audit risk/issue	Our audit response
<p><i>Non-Cash-Generating Assets and PBE IPSAS 26, Impairment of Cash-Generating Assets</i>, at each balance date, whether there are indicators of impairment. If there are then it needs to perform a formal impairment assessment and account for any impairment identified.</p> <p>Management advise that that the City Council will revalue its infrastructure assets effective 30 June 2020. The revaluation represents a risk to the City Council because the estimate involves expert judgements and assumptions which are subject to inherent uncertainty. The risks have increased as a result of the impacts of the COVID-19 pandemic.</p> <p>The Council revalued its land assets at 30 June 2019. The adverse impacts of the COVID-19 pandemic means that the valuations may have declined materially by 30 June 2020.</p> <p>For those assets that will not be revalued, we expect that the City Council to perform a comprehensive analysis to determine whether there is a significant variance between the fair value as at 30 June 2020 and the carrying value that would trigger the need for the City Council to revalue or impair its assets. This is particularly relevant for buildings, which the City Council does not revalue.</p> <p>We suggest that these assessments are preformed early so any required valuations can be performed and audited to avoid delays later in the process.</p>	<ul style="list-style-type: none"> • review the valuation methodology to ensure it complies with generally accepted accounting practice; • test the validity of the assumptions adopted and whether they have been applied consistently; • test the integrity of the underlying data used for the valuation; and • ensure that the City Council has correctly accounted for the revaluation in the financial statements in accordance with the accounting standard. <p>Any revaluation adjustments should be completed as soon as possible, after the revaluation date, to ensure discrepancies are resolved promptly.</p> <p>For the asset classes that are not revalued this year, we will review the robustness of management's assessments as to why there is no material difference between the fair value and the carrying value of these assets.</p> <p>We will assess the appropriateness of management's assessment as to whether there are indicators of impairment.</p> <p>Where there are indicators of impairment, we will review the Council's impairment assessment to ensure that any impairment is correctly accounted for in compliance with the accounting standards.</p>
New set of group accounting standards	
<p>The City Council has a range of entities that are accounted for in the City Council's financial statements. This year is the first year the City Council is required to adopt a new set of group accounting standards. The City Council needs to determine what impact the new accounting standards will have on the recognition, measurement and disclosure of these entities in the City Council's financial statements. This should also include considerations as to whether any entities, not previously recognised as controlled, are required to be assessed as "controlled" and included in the financial statement under the new accounting standards.</p>	<p>We will:</p> <ul style="list-style-type: none"> • review the City Council's assessment and discuss with the management the results; • determine whether the City Council has accounted for its associates and joint ventures (JVs) in a way that is consistent with the new standard including any restatements on adoption; and • verify that the disclosures have been correctly included in the financial statements.

Item 7: Audit NZ: Audit Plan for year ending 30 June 2020 and Audit Proposal Letter:
Attachment 1

Audit risk/issue	Our audit response
Rates	
<p>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.</p> <p>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.</p>	<p>We will consider the City Council's compliance with those aspects of the LGRA that potentially materially impact on the financial statements. This means we will focus 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 will review a sample of differentially set and/or targeted rates to assess whether the matters and factors used are consistent with the LGRA.</p> <p>Our review of compliance with legislation is completed for the purposes of expressing our audit opinion. It is not, and should not be seen, as a comprehensive legal review. This is beyond the scope of the audit, and our expertise as auditors. The City Council has the ultimate responsibility for ensuring that it complies with applicable laws and regulations.</p>
Debenture Trust Deed	
<p>Local authorities are able to secure borrowings using any security (including future rates revenue). A debenture trust deed provides the benefit of the security, through a trustee, to the lender.</p> <p>The City Council's Debenture Trust Deed requires us to provide an independent assurance report on matters stated in clause 12.2.6 of the Trust Deed.</p>	<p>We will agree with the City Council separate terms of engagement for the Debenture Trust Deed.</p>
The risk of management override of internal controls	
<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls. Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to treat this as a risk on every audit.</p>	<p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> • testing the appropriateness of selected journal entries; • review of accounting estimates for indications of bias; • evaluation of any unusual or one-off transactions, including those with related parties; • evaluation of significant transactions that are outside the normal course of business or those that appear to be unusual given our understanding of the City Council and its environment; and

Item 7: Audit NZ: Audit Plan for year ending 30 June 2020 and Audit Proposal Letter:
Attachment 1

Audit risk/issue	Our audit response
	<ul style="list-style-type: none">review of any changes in the City Council's accounting policies.

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

Fraud risk

Misstatements in the financial statements and performance information can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action is intentional or unintentional. In considering fraud risk, two types of intentional misstatements are relevant – misstatements resulting from fraudulent reporting, and misstatements resulting from misappropriation of assets.

The primary responsibility for the prevention and detection of fraud and error rests with the Council, with assistance from management. We will discuss the following questions with you:

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

Our responsibility

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

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

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

Group audit



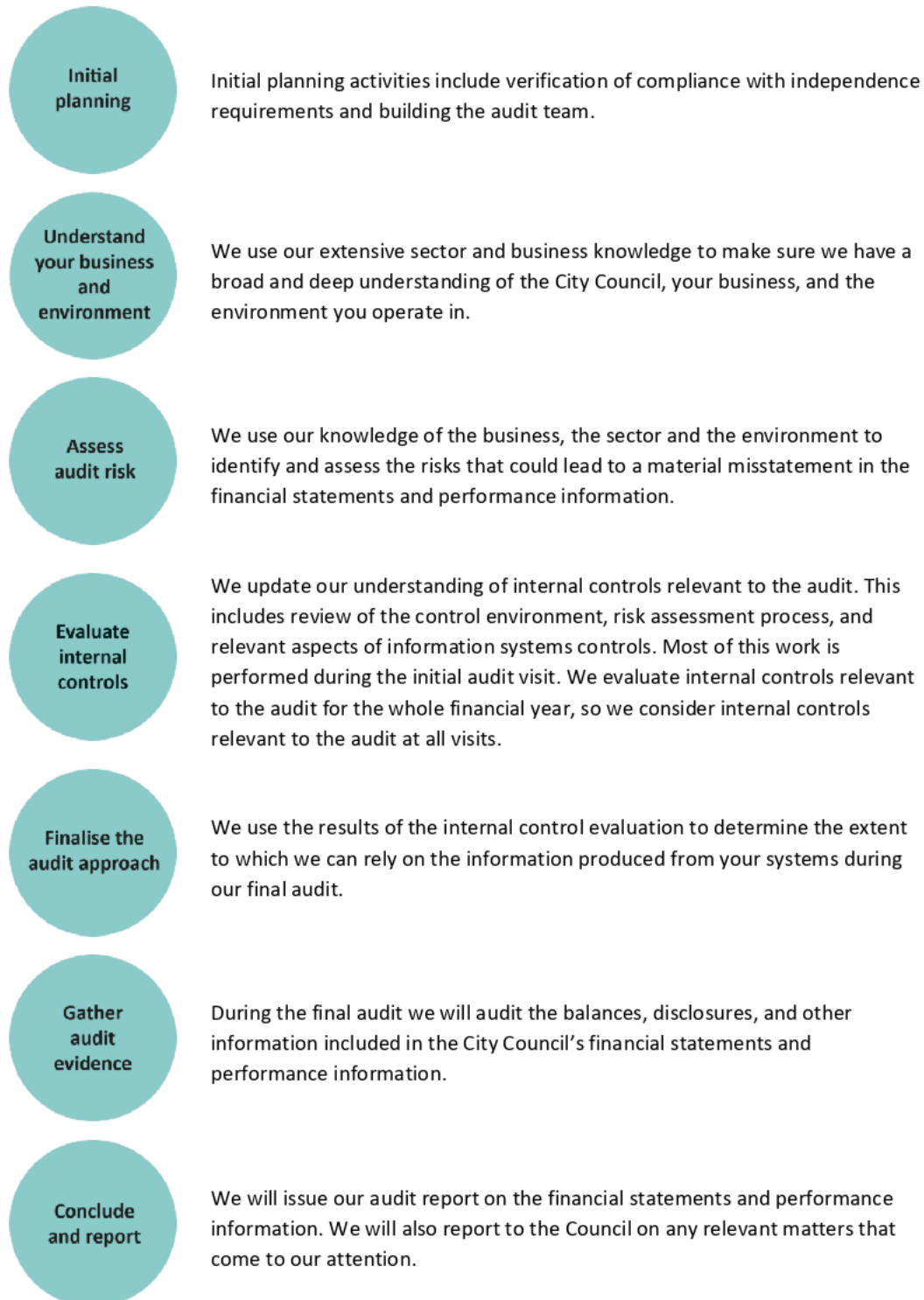
The group comprises:

- Port Nelson Limited
- Nelson Airport Limited
- Nelmac Limited
- Tasman Bays Heritage Trust
- Bishop Suter Art Gallery
- The Nelson Civic Trust
- Nelson Regional Development Agency

Our auditor's report covers the group as a whole. Our audit approach is developed to ensure we have sufficient information to give an opinion on the group. In designing our group audit approach, we considered the structure of the group and identified the entities which are included in the group financial statements. Each entity is referred to as a component. We have assessed the risks of material misstatement and have identified our approach for each component. The table below shows the work planned for each significant component.

Significant components identified
<ul style="list-style-type: none"> Port Nelson Limited Nelson Airport Limited Nelmac Limited
Work to be performed
<p>These will be audited by a different Appointed Auditor from Audit New Zealand.</p> <p>Group instructions will be issued to the component auditor that will specify information we require.</p> <p>The significant audit risk relevant to these components is the risk of management override of internal controls.</p> <p>More information on this audit risk can be found in the Audit Risks and Issues section above.</p> <p>The audit work on these components will be a full financial statement and performance report audit.</p> <p>Any assessed risk related to the COVID-19 pandemic, which the component auditor needs to be aware of, will be communicated in group audit instructions. We will also ask all component auditors to communicate any additional risks relating to the COVID-19 pandemic, which we need to be aware of, and the proposed audit response. We will report any significant internal control deficiencies to the Council and management of the group. This will include any deficiencies identified by the group engagement team or brought to our attention by the component auditor. We will communicate deficiencies related to:</p> <ul style="list-style-type: none"> group-wide internal control; or internal controls at each component. <p>We will also communicate any fraud identified by the group engagement team or brought to our attention by the component auditor.</p>

Our audit process



Enhancing year-end processes

The year-end financial statement close out process and the preparation of the annual report requires a large number of resources to be committed to complete it effectively. This diverts the attention of your staff away from the current financial year and focuses them on past events. We want the audit process to run smoothly and we will work with management to achieve this through bringing forward the timing of audit procedures where possible.

Materiality

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

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

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

Accounting standards also require the Council and management to consider materiality in preparation of the financial statements. IFRS Practice Statement 2, *Making Materiality Judgements*, provides guidance as to how to make materiality judgements from a financial statements preparer's perspective. Although this guidance is primarily aimed at for-profit entities, the same principles can be applied by public benefit entities.

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

Misstatements

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

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

Professional judgement and professional scepticism

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

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

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

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

How we consider compliance with laws and regulations

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

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

Wider public sector considerations

A public sector audit also examines whether:

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

Reporting protocols

Communication with management and the Council



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

We understand that Clare Knox is our key contact for the audit. We will regularly update Clare on progress throughout the audit, and any issues or delays encountered. We expect this information will be shared with management and Council as appropriate.

Reports to the Council



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

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

Audit logistics

Our team



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

Our senior audit team members are:

John Mackey	Appointed Auditor
Andrew Clark	Engagement Quality Review Director
Anna Jones	Audit Manager
Dieter Rohm	Information Systems Auditor

The Engagement Quality Review (EQR) Director forms an important part of our internal quality assurance process to maintain and enhance the quality of your audit. The EQR Director is an experienced Audit Director who has sufficient and appropriate experience to objectively evaluate the judgements made by the audit team. He is independent from the day to day audit field work, and so can provide an independent challenge to the audit team on their judgements. The EQR will work with your Appointed Auditor and the audit team, but will not have direct contact with you.

Timetable



Our proposed timetable is:

	Date
Interim audit begins	28 April 2020
Draft financial statements available for audit (including notes to the financial statements with actual year-end figures).	4 September 2020
Final audit begins.	7 September 2020
Draft performance information available for audit.	7 September 2020
Final financial statements and performance information available, incorporating all amendments agreed to between us.	25 September 2020
Annual report available, including Mayor and Chief Executive's overview or reports.	28 September 2020
Report to trustees of debenture trust deed available for audit.	28 September 2020
Verbal audit clearance given.	19 October 2020
Audit opinion issued.	by 31 October 2020
Draft final detailed report to the Council issued.	by 31 October 2020

Our proposed timetable is subject to change due to the potential impact arising from the COVID-19 pandemic. There is a distinct possibility that due to COVID-19 pandemic, there may be disruptions that will require changes to the proposed timetable for both yourselves and the audit team. We will maintain open dialogue with you when any disruptions occur, and when potential changes to the timetable are known.

Expectations



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

Our respective responsibilities are set out in our audit engagement letter.

We expect that:

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

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



Health and safety

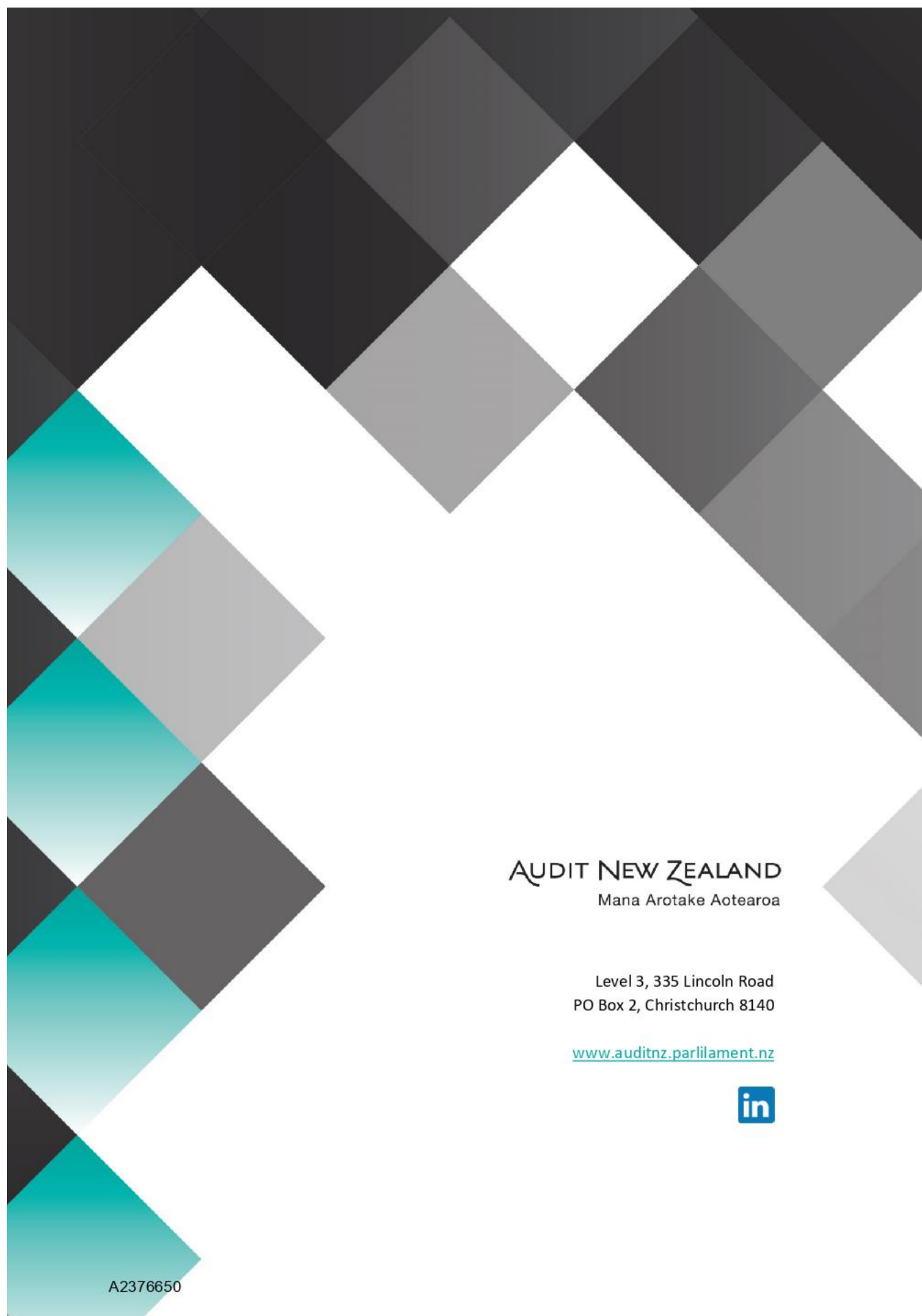


The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff.

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

We expect you to provide a work environment for our audit staff that minimises or, where possible, eliminates risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment where required.

We also expect management to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advices of emergency evacuation procedures and how to report any health and safety issues.





AUDIT NEW ZEALAND
Mana Arotake Aotearoa

7 May 2020

Level 3, 335 Lincoln Road
Addington
PO Box 2, Christchurch 8140

Rachel Reese
Mayor
Nelson City Council
PO Box 645
Nelson 7040

Ref: Ref.: EN/LCA/4-0008.
Copy: Director Auditor Appointments
Office of the Auditor-General
PO Box 3928
Wellington 6140

Dear Rachel

Proposal to conduct the audit of Nelson City Council on behalf of the Auditor-General for the 2020, 2021 and 2022 financial years

1 Introduction

The Auditor-General proposes to appoint me to carry out the audit of your organisation for the next three years. As required by the Office of the Auditor-General (OAG), I set out below information relating to the audit for the three financial years ending 30 June 2020, 2021 and 2022. The purpose of this proposal is to provide information on:

- the statutory basis for the audit and how audit fees are set;
- the entities covered by this proposal;
- key members of the audit team;
- the hours we plan to spend on the audit and reasons for any change in hours;
- our proposed fees for the audit for the financial years ending 30 June 2020, 2021 and 2022 and reasons for any change;
- assumptions relating to the proposed audit fees, including what we expect of your organisation;
- what the OAG overhead charge provides;
- certification required by the Auditor-General; and
- our commitment to conduct the audit in accordance with the Auditor-General's Auditing Standards.

2 Statutory basis for the audit and how audit fees are set

The audit of your organisation is carried out under Section 15 of the Public Audit Act 2001 (the Act), which states that “the Auditor General must from time to time audit the financial statements, accounts, and other information that a public entity is required to have audited”.

Fees for audits of public entities are set by the Auditor General under section 42 of the Act. The Act requires the Auditor-General to make sure that audit fees are “reasonable” for both the auditors who complete the audits for the Auditor-General, and for each of the entities audited. The Auditor-General wrote to your Council recently letting you know that he has carefully considered the matter of annual audit fees for all Councils who do not currently have a contract in place. He has decided that for the 30 June 2020 audit, audit fees are to be held to a 1.5% increase over the agreed fee for the 30 June 2019 audit. This attempts to balance the very real cost pressures that your Council and his Office currently face. The Auditor-General also noted that he expects that there will be a range of effects of the COVID-19 pandemic that may require additional audit work, and that auditors will need to discuss recovery of costs for that with Councils in due course, once these costs are known.

The Auditor-General also advised that for a number of years there has been a significant and growing under recovery of audit fees across much of the local government sector, for a range of reasons. As Parliament has indicated that it expects the cost of annual audits under the Act (including an OAG Audit Standards and Quality Support fee) to be funded by public entities, this is clearly not a sustainable position. It is also potentially creating a very real risk to maintaining consistent audit quality over time, which has been raised by audit regulatory bodies here and overseas.

Audit fees will, in the future, need to be increased to reflect the real costs. These increases will vary depending on the reasonableness of the current fee. So for the subsequent years of the contract, 2021 and 2022, your Council and I will in, due course, have the opportunity to discuss those real costs, and endeavour to reach agreement about reasonable fees that can be recommended to the Auditor-General for approval. The Auditor General, with assistance from the OAG, will directly set audit fees, but only if we fail to reach agreement.

To ensure that the level of audit effort required (and the reasons for it) are visible to your Council, this proposal includes an estimate of the total hours and indicative cost required to complete an efficient and quality audit of your Council (this is set out in sections 5 and 6). We expect to incur these hours in 2020, although the constrained fees will clearly not reflect the full cost of them.

3 Entities covered by this proposal

This proposal covers the audit of Nelson City Council.

Item 7: Audit NZ: Audit Plan for year ending 30 June 2020 and Audit Proposal Letter: Attachment 2

4 Key members of the audit team

Appointed Auditor	John Mackey
Engagement Quality Reviewer (EQR)	Andrew Clark
Audit Manager	Anna Jones

5 Estimated audit hours

We estimate that the following hours will be required to carry out the 30 June 2020 audit (compared to the budgeted hours set out in your last APL and actual data from the previous financial year):

Audit team member	2019 budget	2019 actual *	2020
Appointed Auditor	65	62	85
EQR Director	0	11	15
Audit Manager	100	191	130
Other CA qualified staff	230	534	440
Non CA qualified staff	330	472	335
Other specialists	22	76	25
Total audit hours	747	1,346	1,030

***Note** – actual hours are all hours incurred. These hours have not been adjusted to eliminate any hours that were due to auditor inefficiencies.

5.1 Reasons for changes in audit hours

The major reasons for the changes in hours for your organisation's audit are:

Reasons for changes in audit hours compared to estimated audit hours set out in previous APL:	2020
Changes to financial reporting standards which result in additional audit work. <ul style="list-style-type: none"> Impact of accounting standards IPSAS 34-38 - NCC has a range of entities within its group structure, ie. JVs, subsidiaries, and associates, which will all be impacted by these new standards. 	15

Item 7: Audit NZ: Audit Plan for year ending 30 June 2020 and Audit Proposal Letter:
Attachment 2

Reasons for changes in audit hours compared to estimated audit hours set out in previous APL:	2020
Changes within the entity, or in its environment – such as changes in the entity's activity, systems, risk profile, or complexity, which have resulted in a change to the size or complexity of the audit:	
<ul style="list-style-type: none"> Sensitive expenditure – All councils operate in an environment where ratepayers and other stakeholders expect high levels of ethical behaviour and want more transparency as to how this is managed. This means they need robust policies and processes in areas such as fraud, bribery and corruption, and sensitive expenditure. They also need to demonstrate that they manage these areas effectively. The increased sensitivity and risk in these areas, which is also reflected in the OAG briefs to auditors, has flowed through to our audit and the work we do. In particular, we will now undertake additional testing of the Chief Executive's and Mayor's expenses every year. 	15
<ul style="list-style-type: none"> Asset valuations – funding challenges, combined with greater community awareness and expectations over the resilience and performance of core assets, have increased the importance of, and risks associated with, Council's asset related practices such as continually improving its asset condition information and developing more advanced management practices. These in turn increase the complexity of Council's asset revaluations and fair value assessments. Fifty percent of both Nelson Regional Sewerage Business Unit's (NRSBU's) and Nelson-Tasman Regional Landfill Business Unit's (NTRLBU's) valuations also form part of Nelson City Council's financial statements. Our hours and fees are based on infrastructure asset classes being revalued annually and land every three years for the City Council, and every five years for NRSBU and NTRLBU. We will charge separately for any additional revaluations we are required to audit. 	30
<ul style="list-style-type: none"> Rates – Recent court cases have highlighted the risks Council faces with its rating processes. Seemingly minor procedural or documentation errors have the potential to undermine Council's major revenue stream. Council's increased risks have impacted on our approach to auditing rates, and we now perform more testing on both individual rates and the information held in the RID. 	15
<ul style="list-style-type: none"> Estimations and judgements – significant accounting estimations, accruals and judgements, for example, landfill aftercare costs and employee entitlements, are significant to the Council's financial statements and present a risk of material misstatement. As Council's knowledge of the underlying issues improves, these estimations and judgements become more complex and present a higher risk, which increases our required audit response. 	20

Item 7: Audit NZ: Audit Plan for year ending 30 June 2020 and Audit Proposal Letter:
Attachment 2

Reasons for changes in audit hours compared to estimated audit hours set out in previous APL:	2020
<ul style="list-style-type: none"> Non-financial reporting – in the light of recent events, including natural disasters, the results of the Havelock North water enquiry, and the impacts of climate change, ratepayers and other stakeholders focus on local authorities' core services has increased. This has increased our assessment of risk in these areas which in turn has increased both the number of measures we identify as material and the level of testing we perform. In addition, the mandatory performance measures present a heightened risk to Council's reporting due to the range of interpretation and non-compliance issues that have been identified across the sector in recent years. 	30
<ul style="list-style-type: none"> Consolidations – the Council has a "mixed group" for financial reporting purposes which means it has significant entities which report under the NZ IFRS (for profit) framework. As the Council itself reports under the PBE IPSAS framework, its "consolidation" process is now more complicated as a result of the adjustments required to bring the group accounting into line with accounting under PBE IPSAS. In addition, a new committee NTRLBU has been established since the previous APL. 	20
Increase in the number and/or duration of meetings – this includes meetings held with the Finance team, Council, and the Audit and Risk Committee which were not included in the previous APL.	20
Additional hours required to complete an efficient and quality audit of your Council – We have reviewed the number of hours required to complete our audit of the City Council. Following this review, we estimate that we require between 18 and 19 onsite staff weeks to complete our audit to an efficient standard. The previous APL was based on 13-14 weeks of onsite staff weeks. The hours required to complete the City Councils audit for the last three years were 1,432; 1,134 and 1,346 respectively. This shows that the hours in our previous audit proposal letter did not fully reflect the work required.	103
EQR hours – The audit now meets the OAG criteria to have an EQR Director on the engagement.	15
Total change in audit hours	283

6 Proposed audit fees

Our proposed fees for the 2020 audit (compared to budgeted and actual data from the previous financial year) is:

Structure of audit fees	2019 budget fees	2019 actual fees charged (*)	2020
	\$	\$	\$
Net audit fee	122,788	122,788	124,630
OAG Audit Standards and Quality Support fee	11,512	11,512	11,685
Total audit fee (excluding disbursements)	134,300	134,300	136,315
Estimated disbursements	16,000	24,060	18,000
Total billable audit fees and charges	150,300	158,360	154,315
GST	22,545	23,754	23,147
Total (including GST)	172,845	182,114	177,462

* **Note** – 2019 actual audit fees charged were \$122,788, compared to our 2019 audit costs of \$233,285. These costs have not been adjusted to eliminate any matters arising from auditor inefficiencies.

The estimated cost of an efficient audit on a full recovery basis for your Council in 2020 is in the range of \$170,000 to \$186,000, that is, about \$178,000 or 43% more than the 2019 fee. Over time we expect that the audit fee charged will more fairly reflect our actual costs of performing the audit. We acknowledge that the likely increase is significant, and would need to be phased in over time.

The audit fees allow for the audit team to carry out specific tasks identified in the OAG Sector Brief and for the OAG Audit Standards and Quality Support fees. As set out in section 2, these fees have been held at a 1.5% increase over the agreed audit fee for 2019.

We have also estimated the reasonable cost of disbursements (including travel and accommodation where necessary). Disbursement costs are indicative only and will be charged on an actual and reasonable basis.

7 Assumptions relating to our audit fee

You are responsible for the production of your financial statements and anything else that must be audited. Our proposed audit fees are based on the assumption that:

- you will provide to us, in accordance with the agreed timetable, the complete information required by us to conduct the audit;
- your staff will provide us with an appropriate level of assistance;
- your organisation's annual report (including financial statements and statements of service performance) will be subject to appropriate levels of quality review by you before being submitted to us for audit;
- your organisation's financial statements will include all relevant disclosures;
- we will review up to two sets of draft annual reports, one printer's proof copy of the annual report, and one copy of the electronic version of the annual report (for publication on your website);
- there are no significant changes to the structure and/or scale of operations of the entities covered by this proposal (other than as already advised to us);
- there are no significant changes to mandatory accounting standards or the financial reporting framework that require additional work (other than as specified in tables 5.1 and 6.1);
- there are no significant changes to mandatory auditing standards that require additional work other than items specifically identified in the tables above; and
- there are no significant changes to the agreed audit arrangements that change the scope of, timing of, or disbursements related to, this audit.

If the scope and/or amount of work changes significantly, including as a result of the effects of the COVID-19 pandemic, we will discuss the issues and potential recovery of costs with you and the OAG at the time. In order to minimise additional auditor time on the potential effects of COVID-19 on your financial statements and service performance information, the Council should ensure that it considers those potential effects as early as possible and discusses them with the appointed auditor to ensure "no surprises" to either party.

7.1 Exclusions

The proposed hours set out in section 5.1, and our fees do not include the potential impact of the following, which may affect your entity in 2020, 2021, and/or 2022, as we are unable to assess their impact at this time:

- The future impact of changes to accounting standards, including:
 - *NZ IFRS 16, Leases* - unwinding its impacts on consolidation;

- *NZ IFRS 9, Financial instruments* – should the Council early adopt; and
- *PBE FRS 48, Service Performance Reporting*; and
- Changes to auditing standards including; NZ AS 1, ISA (NZ) 315 and ISA (NZ) 540.
- The Government’s three waters review, including its announcement of a Crown Entity to regulate drinking water.
- Any future impact on the Council’s reporting due to the re-introduction of the four well-beings into the Local Government Act in May 2019.
- The Productivity Commission’s review of local government funding and financing.
- The impacts of future growth within the Council’s area.
- The impacts of any new initiatives or funding sources related to either the Provincial Growth Fund or the Housing Infrastructure Fund.

8 What the OAG Audit Standards and Quality Support fees cover

Parliament has indicated that it expects the cost of annual audits under the Public Audit Act (including an OAG Audit Standards and Quality Support fees) to be funded by public entities.

The OAG Audit Standards and Quality Support fees partially fund a range of work that supports auditors and entities, including:

- development and maintenance of auditing standards;
- technical support for auditors on specific accounting and auditing issues;
- ongoing auditor training on specific public sector issues;
- preparation of sector briefs to ensure a consistent approach to annual audits;
- development and maintenance of strategic audit plans; and
- carrying out quality assurance reviews of all auditors, and their audits and staff on a regular (generally, three-year) cycle.

Appointed Auditors are required to return the OAG Audit Standards and Quality Support fees portion of the total audit fee, to the OAG.

9 Certifications required by the Auditor-General

We certify that:

- the undertakings, methodology, and quality control procedures that we have declared to the OAG continue to apply;
- our professional indemnity insurance policy covers this engagement; and
- the audit will be conducted in accordance with the terms and conditions of engagement set out in the audit engagement agreement and schedules.

10 Conclusion

As the Appointed Auditor, I am committed to providing you and the Auditor-General with the highest level of professional service. I intend to work with you, the OAG, and the Auditor-General in a partnership environment to resolve any issues that may arise.

If you require any further information, please do not hesitate to contact me.

Please counter-sign this letter (below) to confirm that you, and the governing body of your organisation, agree with its contents. This letter will then form the basis for a recommendation to the Auditor-General on the audit fee that should be set. The schedules of audit hours and fees will also be incorporated into my audit engagement agreement with the Auditor-General to carry out the audit of your organisation as the agent of the Auditor-General.

Yours sincerely



John Mackey
Appointed Auditor
Audit New Zealand

Item 7: Audit NZ: Audit Plan for year ending 30 June 2020 and Audit Proposal Letter:
Attachment 2

I accept the audit fees for the audit of the 2020 financial year as stated above.

Full name:	<u>Rachel Reese</u>	Position:	<u>Mayor</u>
Authorised signature:	<u></u>	Date:	<u></u>
Entity name:	<u>Nelson City Council</u>		

Actions to take when agreement has been reached:

- 1 Make a copy of this signed proposal and keep it for your file.
- 2 Send the original to:
John Mackey
Audit New Zealand
PO Box 2
Christchurch 8140

REPORT R17017

COVID-19: Assessment of Financial Risk to Annual Plan 2020/21

1. Purpose of Report

- 1.1 To present a high level analysis of the financial risks associated with setting the rates for the 2020/21 year during the COVID-19 crisis.

2. Recommendation

That the Audit and Risk Subcommittee

- 1. Receives the report COVID-19: Assessment of Financial Risk to Annual Plan 2020/21 (R17017) and its attachment (A2372220).***

3. Background

- 3.1 At the Council meeting on 23 April 2020, a report was considered about the effects of setting the 2020/21 rates increase to zero. There were questions from elected members regarding the potential worst case, best case and the base case scenarios for the Annual Plan. The base case scenario will form the basis of the Annual Plan deliberations report.
- 3.2 Whatever scenario is included in the Annual Plan, the reality is that the results across a number of areas are almost certain to be different – it is still too early to understand the COVID-19 impacts and how this will affect our budgets. Staff are still working on the potential impacts on work programmes and any further budget implications will be brought to the Annual Plan deliberations.
- 3.3 The Local Government Sector COVID-19 Financial Implications Report 2 – Alert Level Scenarios, Assumptions and Updated Analysis report was released on 4 May 2020. The report confirms there will be highly variable impacts on different types of councils, but key overall findings are revenues for 2020/21 are likely to be 2.3% – 11% less than pre-COVID-19 forecasts. This projected impact is lower than the first report, which indicated potential revenue reductions ranging between 15% and 20%.

Item 8: COVID-19: Assessment of Financial Risk to Annual Plan 2020/21

- 3.4 Overall Council base case scenario reflects a reduction in revenue of approximately 3%. Council receives a large proportion (67%-70%) of its operating revenue from rates income.

4. Discussion

Resource Consent and Building Consent Fees

- 4.1 In the base case scenario, the volume of resource consents is estimated to drop by 20% and together with an assumption of deferring the proposed fee increase (currently out for consultation) until 1 September 2021 this results in reduced income of \$239,000 from the Draft Annual Plan. There are associated savings in contractor costs of \$65,000.
- 4.2 Building consent volumes are also estimated to reduce by 20% and together with an assumption of deferring the proposed fee increase (currently out for consultation) until 1 January 2021 this reduces income by \$675,000. There are associated savings in contractor and training costs of \$170,000.
- 4.3 Officers have also modelled the impact of a 35% drop in revenue (worst case) and a 5% drop in revenue (best case) in Attachment 1 and the associated savings in contractor costs.

Parking and Infringement Income

- 4.4 Under the base case scenario, there is an expectation that there will be ongoing subdued CBD activity and the anticipated shortfall in parking revenue is \$329,000 – about 50% of the budgeted income.
- 4.5 Officers have also modelled the impact of a 60% drop in revenue (worst case) and a 40% drop in revenue (best case) in Attachment 1.
- 4.6 The volume of enforcement activity is estimated to drop by 30% resulting in reduced infringement income of \$174,000. There are associated savings in contractor costs of \$40,000.
- 4.7 Officers have also modelled the impact of a 40% drop in revenue (worst case) and a 20% drop in revenue (best case) in Attachment 1.

Council's commercial revenue

- 4.8 Council earns revenue from leases and licenses and dividends from Council Controlled Trading Organisations (CCTOs).
- 4.9 It is too early to forecast the potential impact on Council's commercial revenue and a provision of \$2.1 million has been made as a reduction in overall commercial revenue (35% reduction). Officers will be working on refining the potential impacts on dividends prior to the deliberations meeting.
- 4.10 Officers have also modelled the impact of a 47% drop in revenue (worst case) and a 28% drop in revenue (best case) in Attachment 1.

Item 8: COVID-19: Assessment of Financial Risk to Annual Plan 2020/21

Additional savings since 23 April 2020 report

- 4.11 Attachment 1 includes other net savings of approximately \$313,000 in operating income and expenses which need to be worked through in detail to ensure there are no impacts on levels of service. With the drop in interest rates from COVID-19 crisis the assumed interest rate has also been recalculated at 0.7% less leading to a \$625,000 saving.

Council debt levels

- 4.12 To bring the proposed overall increase in rates revenue down to zero it is proposed to not rates fund and instead staff are recommending a draw down against the Disaster Recovery Fund. The proposed contribution to the Disaster Fund in 2020/21 was \$1.150m. Drawing down against the Fund would require borrowing, as the fund is overdrawn as a result of Nelson experiencing several emergencies in recent years. The balance of the Fund as at 30 June 2021 was projected to be \$659,000 overdrawn.
- 4.13 Using the base case scenario, bringing the rates increase to zero will at this stage require an additional \$3m to be drawn down (borrowed) from the Disaster Recovery Fund taking the projected balance at 30 June 2021 to \$3.6m deficit.
- 4.14 This will have an overall impact on Council debt of \$3m taking the projected debt at 30 June 2021 to \$116m (compared to the Long Term Plan 2018-28 of \$139m and Draft Annual Plan pre COVID-19 of \$109m).
- 4.15 With the increase in debt drawdown from the Disaster Recovery Fund combined with the reduction in revenue sources the debt to total revenue ratio will be approximately 101% as at 30 June 2021 versus the limit of 150% (worse case 103% and best case 99%). The Long Term Plan 2018-28 had a projected debt to total revenue ratio of 117.4% and the Draft Annual Plan 2020/21 (pre COVID-19) of 90%.
- 4.16 Projected debt includes movements required to bring the increase in rates revenue down to zero only. It does not account for any rating deficit in the current year, which if it occurred would be debt funded. The current year forecast has been delayed to give staff time to understand the implications of the timing of Alert levels on work programmes and is being updated for the deliberations meeting.

<u>Debt Ratios (as at 30 June 2021)</u>	Draft Annual Plan	Scenario 1 Worst Case	Scenario 2 Base Case	Scenario 3 Best Case
Projected Net Debt	108,900	117,122	115,985	115,025
Debt Affordability Benchmark (quantified limit 150%)	90%	103%	101%	99%
Balanced Budget Benchmark (benchmark 100%)	97%	93%	94%	95%

Item 8: COVID-19: Assessment of Financial Risk to Annual Plan 2020/21

- 4.17 It will likely take a three to four year period to fully recover from the impacts of COVID-19 which will require ongoing use of the Disaster Recovery Fund to offset lower revenue – both rating and from other sources. This will ensure Council can maintain services and capital spending to support the economic recovery in our region.

5. Conclusion

- 5.1 This report presents a high level analysis of the financial risks associates with setting the rates for the 2020/21 year during the COVID-19 crisis.
- 5.2 Under the scenarios presented, the financial risks are manageable due mainly to the strong financial position of the Council and relatively low debt burden.

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

Attachments

Attachment 1: A23772220 - rates scenarios for Annual Plan 2020/21 [↓](#)

Rate Detail as at 12 May 2020	Scenario 1 - Worst Case	Scenario 2 - Base Case	Scenario 3 - Best Case
Description	000s	000s	000s
<u><i>Income</i></u>			
Building Consent Fee reduction (percent volume reduction)	1,036 (35%)	675 (20%)	314 (5%)
Resource Consent Fee reduction (percent volume reduction)	419 (35%)	239 (20%)	60 (5%)
Parking Income (percent volume reduction)	395 (60%)	329 (50%)	263 (40%)
Parking Regulation (percent volume reduction)	232 (40%)	174 (30%)	116 (20%)
Council commercial revenue (percent reduction)	2,840 (47%)	2,100 (35%)	1,720 (28%)
<i>Total Revenue Reduction</i>	<i>4,922</i>	<i>3,517</i>	<i>2,473</i>
<u><i>Expenditure</i></u>			
Interest expense movement due to reduction in interest rate	(625)	(625)	(625)
Interest and depreciation resulting from projected 2019/20 capital underspend	(220)	(220)	(220)
Estimated interest and depreciation on proposed footpath funding	153	153	153
Staff Costs	(1,003)	(1,003)	(1,003)
Staff Training and Travel - 50%	(300)	(300)	(300)
Members Training and Catering - 50%	(33)	(33)	(33)
Council supported and administered events (47% of budget)	(549)	(549)	(549)
Event Funding	(245)	(245)	(245)
Emergency Fund for community groups	200	200	200
Parking Survey	(70)	(70)	(70)
Freedom Camping	(23)	(23)	(23)
Wastewater	(70)	(70)	(70)
Stormwater	(20)	(20)	(20)
Water Supply	(50)	(50)	(50)
Building Consents (percent volume reduction)	(340) (35%)	(170) (20%)	(140) (5%)
Resource Consent (percent volume reduction)	(150) (35%)	(65) (20%)	(25) (5%)
Parking Regulation (percent volume reduction)	(53) (40%)	(40) (30%)	(26) (20%)
Other net savings identified since 23rd April council report	(313)	(313)	(313)
<i>Total Expense Reduction</i>	<i>(3,711)</i>	<i>(3,443)</i>	<i>(3,359)</i>
<u><i>Other Items</i></u>			
Growth in the rating base (reduce from .8% to .6%)	155	155	155
Total Proposed Rates Reduction to get to 0%	(2,756)	(2,756)	(2,756)
Disaster recovery fund - drawdown required	(4,122)	(2,985)	(2,025)
Rate Summary			
Proposed Rates Increase per Draft Annual Plan	3.7%	3.7%	3.7%
Outstanding Changes to Draft Annual Plan	(97)	(97)	(97)
Dollar Reduction required to achieve a 0% Rates Increase	2,756	2,756	2,756
Debt Summary			
Net Debt as at 30 June 2021 per Draft Annual Plan	108,900	108,900	108,900
Additional Debt Funding for rates	4,122	2,985	2,025
Potential Debt Funding for CBD Footpath widening	4,100	4,100	4,100
Revised Net Debt as at 30 June 2021	117,122	115,985	115,025
Emergency Response Fund Summary			
Projected Fund Loan Balance as at 30 June 2021 per Draft Annual Plan	659	659	659
Additional debt funded withdrawal	4,122	2,985	2,025
Revised Fund Loan Balance as at 30 June 2021 (included in total debt)	4,781	3,644	2,684

REPORT R16993

**Health Safety and Wellbeing Report, COVID-19
Response, April 2020**

1. Purpose of Report

- 1.1 To provide the subcommittee with an overview of health, safety and wellbeing matters in regard to the COVID-19 response.

2. Summary

- 2.1 In late January 2020 the Novel Corona virus later named COVID-19 was identified as a potential risk to Council and a scaled response initiated. Council's full Incident Management Team was established on 20 March, six days prior to the Government lockdown of all non-essential workplaces and activities.
- 2.2 This report and the attachment, COVID-19 Activities and Controls Overview (A2380485) provides an overview of Council's response with a particular focus on health, safety and wellbeing of staff, contractors and customers.

3. Recommendation

That the Audit and Risk Subcommittee

- 1. Receives the report Health Safety and Wellbeing Report, COVID-19 Response, April 2020 (R16993) and its attachment (A2380485).***

4. Background

- 4.1 Elected members, as 'Officers' under the Health and Safety at Work Act 2015 (HSWA), are expected to undertake due diligence on health and safety matters.
- 4.2 Health and safety reports that include lead and lag data in regard to Council's key health and safety risks are provided to the Audit and Risk subcommittee quarterly. Due to the COVID-19 Response these data

Item 9: Health Safety and Wellbeing Report, COVID-19 Response, April 2020

reports for the period January to March 2020 are delayed and will be included with the April to June data as a six monthly report.

- 4.3 The Audit and Risk Subcommittee has requested a report covering health, safety and wellbeing in regard to Councils Response to COVID-19.

5. Discussion

Response Planning

- 5.1 COVID-19 was identified as a potential risk to Council in late January. Initial preparation work focused primarily on promoting good hygiene habits, and reassuring staff with a focus on preparation without panic. By mid-February weekly updates on the international situation and potential impacts on Council were being provided to the Senior Leadership Team and key staff were involved in briefings from NMDHB.
- 5.2 Council's business continuity priorities were found to be current in the context of a potential pandemic and business unit skeletal continuity plans had been reviewed in January as a scheduled review. Council's pandemic business continuity plan based on the stages of pandemic as outlined in the National Pandemic Plan 2017 underwent a significant review with input from business units responsible for delivering essential services.
- 5.3 On 20 March, Council's Incident Management Team for the COVID-19 Response (IMT) was established with Alec Louverdis leading the response as Incident Manager. On 21 March a new national COVID-19 alert level system was announced with New Zealand moving immediately to alert level 2. On 23 March the transition to alert level 3 followed by level 4 at midnight on 25 March was announced. By 24 March Council staff were working from home with very few exceptions.
- 5.4 Early planning based on the stages of pandemic had a significant focus on maintaining essential services if a significant proportion of the workforce was unable to work due to illness caused by the pandemic. The introduction of the alert system and the rapid escalation in alert levels provided assurance that the measures introduced by the Government would prevent widespread illness.
- 5.5 Operational planning shifted to focus on delivering business as usual as far as practicable with all staff working from home. A new planning document was developed that aimed to eventually provide an overview of all Council activities and control measures through each of the alert levels. The attachment, COVID-19 Activities and Controls Overview (A2380485) is an abridged version of this document prepared for the Audit and Risk Subcommittee.
- 5.6 In some areas the attachment provides a high level of detail regarding COVID-19 controls, this is provided as an indication of specific controls for activities of particular interest, however planning to an even greater

Item 9: Health Safety and Wellbeing Report, COVID-19 Response, April 2020

level of detail is contained in business unit and contractor planning documents.

- 5.7 A Covid-19 Local Government Response Unit (LGRU) has been established and is providing guidance on Council services and operations through each of the alert levels. Finalised guidance from both the LGRU, central government, and industry bodies is often provided with only short timeframes before it is required to be implemented as New Zealand moves down through the alert levels. This requires response planning to be flexible and results in ongoing changes to the planning documents.

Ergonomics While Working from Home

- 5.8 Previous decisions to improve organisational resilience and ongoing support from Council's IT team ensured that the majority of Council staff were able to work effectively from home as soon as possible. To improve the ergonomics of workstations, staff were encouraged to take monitors and keyboards home so they would not need to work for extended periods using only a laptop computer. A few staff were able to be provided with folding cardboard desks Council had been trialling, and many others improvised very functional workstations from household items.
- 5.9 It was identified that the change to working from home would increase the likelihood of discomfort, pain or injury (DPI). Staff were reminded of reporting procedures and provided documents and tips for self-assessment of workstation setups. Very few cases of DPI have been reported since staff have been working from home. Virtual workstation assessments are able to be provided, and in most cases discomfort has been able to be resolved by just having a discussion about how a person is working.

Staff Wellbeing

- 5.10 A number of factors relating to COVID-19 and the working from home situation have been identified as having a potential negative impact on staff wellbeing. Managers are encouraged to check in regularly with their team members and People and Capability business partners also maintain regular contact with teams focusing on wellbeing. Regular internal communications keep staff informed and include information to help with managing causes of stress that emerge as a result of COVID-19 and a new way of working.
- 5.11 A working from home survey sent to all staff after one week at Alert Level 4 had a response rate of 67%, with 94% of those who responded answering either Somewhat Agree (23%), Agree (50%), or Strongly Agree (21%) to the statement "Overall, I'm feeling good about working remotely." This indicates that while there are potential negative impacts, the actual outcome has been generally good for most, and very positive for around one in five employees. This is likely to be a reflection of the strong relationships within many teams, the range of organisational

Item 9: Health Safety and Wellbeing Report, COVID-19 Response, April 2020

support mechanisms available, and good technology infrastructure for most staff.

- 5.12 Council uses Workplace Support to provide a counselling service for staff. For the period 1 January to 31 March 2020, 20 in depth support sessions were reported which includes formal counselling and in-depth onsite or phone conversations. This number is consistent with the average for the previous three quarterly periods. When available, data for the April to June quarter will provide further insight into the uptake of counselling services in regard to the impacts of COVID-19 on staff wellbeing.
- 5.13 With Workplace Support counsellors unable to attend workplaces for their normal proactive visits and informal discussions, they have been actively phoning staff. A focus of these calls has been the corporate management team who are under significantly increased workloads managing the COVID-19 response with teams working remotely. This approach also provides counsellors with insight into other staff that may benefit from a proactive call.
- 5.14 Although detailed data reports have not been prepared, sick leave data for March show lower levels of sick leave taken than for the same period in previous years. A similar pattern is particularly evident in national influenza data which shows considerably lower numbers of cases than at the same time in previous years. Influenza vaccinations have been provided to approximately 100 staff in two sessions and further flu vaccination sessions will be scheduled as soon as our provider can obtain adequate supplies of vaccine.

Safe Return to Workplaces

- 5.15 The safe return to workplaces as alert levels decrease is a significant undertaking. At alert level 3 a small number of staff who were unable to work effectively from home returned to Council workplaces. Site visits and remote work by Council staff also resumed. To communicate required controls to staff and contractors a number of COVID-19 specific procedures were developed, these include; complete a site visit or any offsite work, manage contractors during pandemic, record contacts for contact tracing, return to workplace safely, vehicle use during pandemic and respond to a suspected case of COVID-19.
- 5.16 In addition to the procedures, considerable work has been required to prepare workplaces both from a building compliance perspective and COVID-19 controls. This included the provision of signage, sanitizer stations, cleaning product and reconfigured meeting rooms. A contact recording E-form was developed using existing software tools and is in use by staff who attend workplaces.
- 5.17 The transition to alert level two includes the re-opening of customer facing services such as libraries, Founders Heritage Park and the Customer Service Centre as well as a larger number of staff returning to workplaces. To manage risks related to the customer interface requires detailed planning and preparation, often with limited, detailed guidance

and no established standards in regard to good practice. Further information regarding these controls can be found in the relevant section of the attachment, COVID-19 Activities and Controls Overview (A2380485) and business unit specific plans.

Workplace Self-certification

- 5.18 A workplace self-certification process was referred to in Government briefings leading up to the transition to alert level three. The Audit and Risk Subcommittee requested an update on Council's involvement in this process. Council officers have been unable to locate any information in regard to a formal self-certification process.
- 5.19 There is a safe business declaration poster available on the covid19.govt.nz website for businesses to display to assure customers that key COVID-19 controls of; physical distancing, correct hygiene practices, contact tracing, and contactless payment and delivery/collection are in place. The intended approach at Council public facing workplaces is that instead of displaying this generic poster, specific information is provided regarding expectations of customers in regard to each of these controls using a variety of media that includes: external communications, posters, physical barriers, floor markings and verbal instructions from staff.
- 5.20 There is guidance available from industry bodies and WorkSafe on what is required in COVID-19 risk management plans. Councils approach to planning for return to workplaces has been internally reviewed against the WorkSafe 'COVID-19 safety plan template'. Contractor COVID-19 safety plans are reviewed against relevant industry templates. A comprehensive template prepared for the construction industry has been found to be particularly useful across a broad range of contracts.
- 5.21 Council requires COVID-19 safety plans from all contractors before they recommence Council work. Reviews of these plans are completed in the 'Improvements' health and safety management system. A sample of these reviews has shown that contractors have a good understanding of COVID-19 requirements, and a high level of commitment to providing adequate plans. Ongoing site supervision will monitor the effectiveness of contractor's controls.

6. Conclusion

- 6.1 Councils preparation and planning both in general organisational resilience and COVID -19 specific work has ensured a response that has enabled a high level of service delivery through lockdown and minimised the negative impacts on Council.
- 6.2 Working remotely has presented challenges and risks that need ongoing consideration to manage. However it has also highlighted opportunities in regard to future ways of working and shown a highly resilient organisation.

Item 9: Health Safety and Wellbeing Report, COVID-19 Response, April 2020

- 6.3 Although a considerable drain on resources, Council staff and contractors have a high level of engagement with ensuring COVID-19 safe work practices are followed as they return to workplaces.
- 6.4 The ongoing impacts of COVID-19 and the resulting economic downturn are significant, and need to be considered in the context of direct and indirect health, safety and wellbeing, risks to staff.

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

Attachments

Attachment 1: COVID-19 Activities and Controls Overview (A2380485) [↓](#)

COVID-19 - Activities and Controls Overview - For AR Subcommittee - May2020 (A2380485)

Alert Level Guide				
	Alert level 4 - Eliminate Likely that disease is not contained	Alert level 3 - Restrict Heightened risk that disease is not contained	Alert level 2 - Reduce The disease is contained, but the risk of community transmission remains.	Alert level 1 - Prepare Disease is contained in New Zealand.
COVID-19 Risk Assessment	<ul style="list-style-type: none"> Community transmission is occurring Widespread outbreaks and new clusters 	<ul style="list-style-type: none"> Community transmission might be happening New clusters may emerge but can be controlled through testing and contact tracing. Health Act (COVID-19 Alert Level 3) Order 2020 in effect from 11:59pm on 27th April 2020 Region means the area of the Civil Defence Emergency Management Group (under the Civil Defence Emergency Management Act 2002) of which the relevant territorial authority is a member 	<ul style="list-style-type: none"> Household transmission could be occurring. Single or isolated cluster outbreaks. 	<ul style="list-style-type: none"> COVID-19 is uncontrolled overseas. Isolated household transmission could be occurring in New Zealand.
Government Directed Measures (can be applied locally or nationally)	<ul style="list-style-type: none"> People instructed to stay at home (in their bubble) other than for essential personal movement Safe recreational activity is allowed in local area Travel is severely limited All gatherings cancelled and all public venues closed Businesses closed except for essential services (e.g. supermarkets, pharmacies, clinics, petrol stations) and lifeline utilities Educational facilities closed Rationing of supplies and requisitioning of facilities possible Reprioritisation of healthcare services 	<ul style="list-style-type: none"> People instructed to stay home in their bubble other than for essential personal movement – including to go to work, school if they have to or for local recreation Physical distancing of two metres outside home (including on public transport), or one metre in controlled environments like schools and workplaces People must stay within their immediate household bubble, but can expand this to reconnect with close family / whānau, or bring in caregivers, or support isolated people. This extended bubble should remain exclusive Schools (years 1 to 10) and Early Childhood Education centres can safely open, but will have limited capacity. Children should learn at home if possible. People must work from home unless that is not possible Businesses can open premises, but cannot physically interact with customers. Low risk local recreation activities are allowed Public venues are closed (e.g. libraries, museums, cinemas, food courts, gyms, pools, playgrounds, markets) Gatherings of up to 10 people are allowed but only for wedding services, funerals and tangihanga Healthcare services use virtual, non-contact consultations where possible Inter-regional travel is highly limited (e.g. for essential workers, with limited exemptions for others) People at high risk of severe illness (older people and those with existing medical conditions) are encouraged to stay at home where possible, and take additional precautions when leaving home. They may choose to work. 	<ul style="list-style-type: none"> Physical distancing of 1 metre outside home (including on public transport). Gatherings of up to 100 people indoors and 500 outdoors allowed while maintaining physical distancing and contact tracing requirements. Sport and recreation activities are allowed if conditions on gatherings are met, physical distancing is followed and travel is local. Public venues can open but must comply with conditions on gatherings, and undertake public health measures. Health services operate as normally as possible. Most businesses open, and business premises can be open for staff and customers with appropriate measures in place. Alternative ways of working encouraged, eg remote working, shift-based working, physical distancing, staggering meal breaks, flexible leave. Schools and Early Childhood Education centres open, with distance learning available for those unable to attend school eg self-isolating. People advised to avoid non-essential inter-regional travel. People at high risk of severe illness (older people and those with existing medical conditions) are encouraged to stay at home where possible, and take additional precautions when leaving home. They may choose to work. 	<ul style="list-style-type: none"> Border entry measures to minimise risk of importing COVID-19 cases. Intensive testing for COVID-19. Rapid contact tracing of any positive case. Self-isolation and quarantine required. Schools and workplaces open, and must operate safely. Physical distancing encouraged. No restrictions on gatherings. Stay home if you're sick, report flu-like symptoms. Wash and dry your hands, cough into your elbow, don't touch your face. No restrictions on domestic transport – avoid public transport or travel if you're sick.

Nelson City Council Overview				
Indicative Time at Alert Level	Alert Level Four 5 weeks	Alert Level Three 2 weeks - 2 months (Reviewed 11 May)	Alert Level Two 3 - 12 months	Alert level one
Local Situation	Community transmission likely in Nelson All educational institutions are closed All businesses closed except for essential services People instructed to stay at home	All cases in Nelson linked to confirmed cases Community transmission possible in Nelson Some schools closed (all closed until 29 April) Public venues and cinemas closed Robust spread controls and tracking required for return to workplaces Some cafes/restaurants open for takeaways only Some shops open for contact-less retail Many construction projects resume Many contractors will be able to return to work and will be working under Alert Level Three COVID-19 health and safety plans	Isolated cases in Nelson possible, Community transmission very unlikely Regional increases in alert level possible Most businesses operating Most face to face Council services can resume Outdoor events of up to 500 and indoor events of up to 100 may proceed with distancing More sporting activities can occur where distancing can be maintained Widespread practice of good spread controls reliant on commitment of community	Very few or no local cases No restrictions on events Business as Usual with controls in place
Elected members programme (Governance)	Remote Council Meetings only (zoom) Committee meetings cancelled Some remote workshops (zoom)	Remote Council Meetings, hearings, and some workshops	Revised program of meetings, hearings and workshops with controls in place <ul style="list-style-type: none"> • Distancing controls in place • Remote attendance available Vulnerable members encouraged to participate remotely	Full program of meetings, hearings and workshops with controls in place
Council Work Programme	Majority of Council staff working effectively from home Essential Services continue Disruption to work programme relating to supplier and contractor lockdown	Some disruption to work programme relating to overhead of working under Alert Level 3 (AL3) controls Customer face to face services unable to be delivered	Almost full service delivery with Alert level 2 (AL2) risk management practices in place Increased remote delivery of services, and remote meetings over pre COVID-19 levels	Full service delivery with Alert level 1 (AL1) risk management practices in place
Impacts on Staff	All staff instructed to stay at home Some staff unable to do normal work from home are re-deployed to assist wider response Some staff seconded to CDEM Essential work outside home on case by case basis Possibility of severe illness within staff group or close relatives Increased likelihood of wellbeing impacts as result of reduced connection with colleagues and stress associated with COVID-19 Increased likelihood of discomfort, pain or Injury (DPI) due to sub optimal workstation setup Increased workload on corporate management team and key advisers	All staff working from home who can do so effectively Staff Unable to work effectively from home return to Workplace Some staff re-deployed to assist wider response Some staff seconded to CDEM Possibility of severe illness within staff group or close relatives Increased likelihood of wellbeing impacts as result of reduced connection with colleagues and friends; stress associated with the impacts of COVID-19; and possible financial stress within families. High potential for DPI due to sub optimal workstation setup for extended period	At least 50% of staff working from home, teams split between home and office. Staff in self isolation working from home Increased Likelihood of wellbeing impacts as result of dealing with change at work and in the community; stress associated with the impacts of COVID-19; and possible financial stress within families Some staff still required to support CDEM response	Business as usual with controls in place Increase in remote work over pre COVID-19 levels Ongoing wellbeing impacts as result of dealing with change at work and in the community; stress associated with the impacts of COVID-19; and possible financial stress Increased likelihood of dealing with security incidents due to COVID-19 impacts wellbeing impacts on community

Staff Impacts - Health, Safety and Wellbeing Controls	BU managers/team leaders checking in with staff regularly		BU managers/team leaders checking in with staff regularly	Business as Usual with awareness of ongoing COVID -19 impacts Reviewed flexible working arrangements policy
	Regular all staff communications		Regular all staff communications	
	All staff briefings by ZOOM with CE		All staff briefings by ZOOM with CE	
	Working from home wellbeing survey completed in week prior to Easter		Workplace support counselling service making proactive calls to staff and workplace visits	
	Workplace support counselling service making proactive calls to staff		Links provided to wellbeing and ergonomics resources	
	Links provided to wellbeing and ergonomics resources		Workstation assessments available for those in workplace or at home	
	Virtual workstation assessments available			
	Pandemic leave policy implemented			
	Redeployment opportunities to maintain engagement for those unable to do normal work from home			
Response Management Incident management team (IMT) Includes executive team and response advisers	IMT makes decisions regarding essential services and closures in alignment with available guidance and TDC position	I IMT makes decisions regarding services and closures in alignment with available guidance and TDC position	IMT remain in place as required	IMT stood down
	IMT to meet frequently remotely (twice daily in earliest stages of response frequency reducing as appropriate)	IMT to meet regularly remotely	Workers possibly exposed to COVID-19 identified and required to self-isolate	COVID-19 response reviewed to identify areas for improvement in future response
	IMT update to all staff initially daily then 3 times per week	Regular all staff updates from SLT	Expectation of staff to follow contact recording process	Workers possibly exposed to COVID-19 identified and required to self-isolate
	BU managers/team leaders checking in with staff regularly	BU managers/team leaders to check in with staff regularly – including those working at Civic House	Organisational expectation that service levels and productivity are returning to near normal over time	Staff travel minimised and register maintained
	Planning for transition to lower alert levels	SLT messaging to all staff about priorities/ projects that must continue – even when working from home	BU managers supported to manage teams split between home and work premises	Clear messaging of hygiene protocols and requirement to stay home if sick
	Working from home wellbeing survey	Strict health and safety protocols and expectations for staff who have to attend physical workplaces	Enhanced well-being support package in place	Identify staff with immunity to COVID-19
		Workers possibly exposed to COVID-19 identified and required to self-isolate	Pandemic leave policies in place	
		Planning for transition to lower alert levels	No work related travel unless essential	

Vulnerable Staff Vulnerable staff are those over 70 years of age, or those with underlying health conditions	Work from home only	Work from home except in exceptional circumstances Take additional precautions when leaving home. Avoid situations where there is risk of exposure to COVID-19.	Encouraged to stay at home where possible, and take additional precautions when leaving home. May return to work and this is to be managed on case by case basis. Avoid situations where there is risk of exposure to COVID-19.	Most will return to work Avoid situations where there is risk of exposure to COVID-19.
Civic House	Only essential visits to Civic House with BU manager approval No cleaning of building Normal checks by security contractor BWOFF processes suspended Heating and fresh air system shut down Access records monitored	Return of some staff unable to work effectively from home to Civic House Limited number of other staff able to access building for specific tasks Contractor access to building for maintenance and compliance activities Controls in Place include: <ul style="list-style-type: none">• 2m distancing where possible (1m minimum)• Very low occupancy to optimise distancing• Minimise movement between work areas• Strategically places sanitizer stations• Additional cleaning and product available for self-cleaning of high touch surfaces• Extensive signage regarding hygiene and distancing• Max 2 persons per lift car (1 where practicable)• Return to work procedure includes 'well for work' flow chart• Close management of contractor access• Meeting rooms reconfigured to support distancing• Staff contact recording process	Many staff working from home where practicable and appropriate Vulnerable staff may return on a case by case basis Staff in self-isolation work from home Controls Include: <ul style="list-style-type: none">• Physical distancing of 1 metre minimum• Reduced occupancy to support distancing• Meeting rooms reconfigured to support distancing• Two persons per lift car• Registration of all visitors to Civic House using 'who's on location' (WoL) or CSC sign in with COVID-19 specific questions• Increased cleaning of high touch surfaces• Hand sanitizer readily available and strategically placed• Increased messaging of hygiene protocols• Return to work procedure includes 'well for work' flow chart• Staff contact recording process	Working from home where staff can be effective, at higher levels than pre COVID-19 Staff with cold/flu symptoms to stay at home Hand washing and cough etiquette promoted Hand sanitizer available in key locations with permanent stations Distancing maintained where practicable

Customer service Centre (CSC)	<p>CSC closed</p> <p>Call centre and online services provided remotely by staff working from home</p> <p>Support of CDEM by taking welfare calls</p> <p>Mail collection and scanning at Civic House by identified staff member</p>	<p>CSC closed</p> <p>Call centre and online services provided remotely by staff working from home</p> <p>Support CDEM by taking welfare calls</p> <p>Mail collection and scanning at Civic House by identified staff member</p>	<p>Remote services encouraged including rates rebates</p> <p>CSC open with comprehensive controls:</p> <ul style="list-style-type: none"> Controlled entry limited to 5 customers at a time Visitors must register for contact tracing Sanitiser station at entrance Additional cleaning Pay-wave and no cash (TBC) Protective screens at counter 1 way customer foot traffic in CSC <p>No vulnerable workers in public facing roles</p>	CSC open with AL1 controls
Libraries	<p>Libraries closed</p> <p>APNK wi-fi not provided</p> <p>Re-deployment of under-utilised staff</p> <p>Planning for increased services with controls at lower alert levels</p> <p>Library as Venue for Council staff essential worker flu vaccinations</p> <p>On-line services delivered</p>	<p>Libraries closed</p> <p>Limited access to staff as venue for Council staff flu vaccinations</p> <p>Resume Home delivery with additional controls:</p> <ul style="list-style-type: none"> No vulnerable workers doing deliveries Contactless delivery Minimal staff involved in processing Physical distancing maintained throughout process 72hr quarantine of returned books <p>Plan for other service delivery options going forward</p> <p>Resume APNK free wi-fi service for those in vicinity</p> <p>Re-deployment of under-utilised staff</p> <p>On-line services delivered</p>	<p>On-line service delivery promoted</p> <p>Home delivery with additional controls</p> <p>Carefully managed library opening with controls including:</p> <ul style="list-style-type: none"> Managed numbers Activities and programmes cancelled Screens at counters Comprehensive messaging Sanitizer stations Proactive management of distancing throughout Reconfiguration of key areas to improve distancing options 72hr quarantine of returned books Reduced opening hours <p>No vulnerable workers in public facing roles</p>	<p>Full service delivery with AL1 risk management practices in place</p> <p>Careful consideration of vulnerable worker roles</p>
Heritage Facilities	All heritage facilities closed	<p>Heritage houses closed</p> <p>Windmill closed to public</p> <p>Venues closed</p> <p>Founders Heritage Park displays closed</p> <p>Founders playground closed</p> <p>Book fair donations not accepted</p> <p>Maintenance staff working on site when required</p> <p>Founders tenants and contractors access recorded</p> <p>Tenants who can meet AL3 requirements able to open for contactless business</p> <p>Toilets open for tenants with increased cleaning</p>	<p>Heritage houses closed as volunteers are vulnerable workers</p> <p>Founders Windmill open with controls in place</p> <p>Book fair donations accepted and books quarantined for 72 hours.</p> <p>Playground open with warning signage as cleaning not practicable</p> <p>Toilets open with increased cleaning</p> <p>Tenants able to open businesses with controls</p> <p>Staff able to work on site if distancing can be ensured</p> <p>Venues and events restricted in accordance with govt. guidance (less than 100 people indoors) COVID-19 safety plan required for all events and venue hires</p>	<p>Full service delivery with AL1 risk management practices in place</p> <p>Venues open and events may proceed with suitable controls in place.</p>
Council Events	Events cancelled	Events cancelled	<p>Events of up to 500 people outdoors or 100 people indoors may proceed with good controls in place</p> <p>COVID-19 safety plan must be provided with event safety plans</p> <p>Event risks to be carefully considered on a case by case basis</p>	<p>Full service delivery with AL1 risk management practices in place</p> <p>Large events considered on a case by case basis in alignment with updated guidance</p>

Volunteer Programs (on Council land)	All programmes suspended	Volunteer groups working on Council land by approval only with a COVID-19 safety plan in place	Volunteer groups working on Council land by approval only with a Covid-19 safety plan in place	Volunteer groups working on Council land as per standard agreements and safety plans
Parks and Facilities	<p>Facilities Closed: Play grounds, Public Venues, Community Halls, Swimming pools, Stake Parks, Exercise equipment, Drinking fountains, Tennis courts, Most gated carparks, Some Public toilets, Trails to Mountain biking, Marina (closed to public with restricted access to berth holders), Hardstand, Wharfs and jetties, Camping Grounds Public camp sites (with the exception of temporary accommodation for homeless), Community BBQs, All Council-owned sports facilities</p> <p>Parks and Facilities open: Cemeteries with restrictions for funerals, Walking tracks, Marina access restricted to berth holders, Parks (with messaging re social distancing)</p> <p>All non-essential works stopped</p> <p>Some facilities requisitioned by CDEM</p> <p>Premier sports ground essential maintenance occurring (approved just before AL3)</p>	<p>Facilities Closed: Play grounds, Public venues, Community halls, Swimming Pools, Skate Parks, Exercise equipment, Drinking fountains, Camping Grounds & Public camp sites (with the exception of temporary accommodation for homeless), Community BBQs, All Council-owned sports facilities, Some Public toilets</p> <p>Facilities open: Cemetery grounds, MTB tracks on Council land, Park Gates open, Walking tracks, Tennis courts, Codgers MTB Hub, Golf Course with COVID-19 safety plan, Brook camp (with distancing and hygiene controls, capacity may be restricted by CDEM use for homeless. No new campers accepted),</p> <p>Maintenance of parks and facilities</p> <p>Scheduled maintenance and capital programme for all facilities</p> <p>Contract supervision with focus on good COVID-19 controls</p> <p>Trafalgar Pavilion and Green-meadows centre open for provision of welfare services</p>	<p>All Council facilities Open subject to effective COVID -19 safety plans that include:</p> <ul style="list-style-type: none"> • Distancing • Contact recording • Cleaning • Maximum numbers for gatherings <p>Cafes at Council facilities may open in accordance with COVID-19 safety plan in place</p> <p>Swimming pools open (restricted numbers 100, planning requires careful consideration)</p> <p>Trafalgar Centre and community halls open with restricted numbers (100)</p> <p>Public planting days may proceed with maximum of 100 people and a COVID-19 safety plan in place</p> <p>Freedom camping sites re-open</p>	Full service delivery with AL1 risk management practices in place
Council Vehicles (Including E-bikes)	<p>Minimal use for essential work only</p> <p>Avoid shared use of vehicles</p> <p>Essential maintenance and WOF to continue</p> <p>Cleaning product in vehicles for high touch surfaces</p>	<p>Single user of each vehicle and E-bike where practicable</p> <p>Driver cleans all high touch surfaces (keys, steering wheel, hand brake, gear stick and EV charging plugs) after use</p> <p>Increased use of private vehicles supported for essential site visits</p> <p>Fleet vehicle grooming occurring</p> <p>Use of own helmet on E-bikes</p>	<p>One person at a time in each vehicle to maintain 1m physical distancing requirements, except where second person is required for safety purposes.</p> <p>Sharing of vehicles permitted with careful cleaning of high touch surfaces between each user</p> <p>Use of private vehicles supported for essential site visits</p> <p>Use of own helmet on E-bikes recommended</p>	<p>More than one person per vehicle is permitted if well</p> <p>Use of fleet vehicles is preferred over use of private cars as per vehicle use policy</p> <p>AL1 hygiene controls</p>
Site Visits & Remote work:	<p>Only for Essential services where cannot be completed remotely (very little occurred at AL4)</p> <p>Building inspections, River monitoring and Environmental inspections Limited (EIL) have COVID-19 safety plans in place for essential work at AL4</p>	<p>Prioritise carefully to minimise contact with others</p> <p>Avoid use of shared vehicles</p> <p>Maintain 2m distance, 1m in own workplace</p> <p>Record all contacts</p> <p>Ensure site or workplace visited has AL3 provisions in place which meet Council requirements before visiting</p> <p>Ensure that visiting Council staff are familiar with site or workplace requirements</p> <p>Where services are necessary that cannot be conducted remotely and require more than one staff member - a work group will be created where staff work in pairs/teams</p> <p>Ensure all other Health and safety requirements are met including lone worker controls in place</p>	<p>Maintain 1m physical distancing minimum</p> <p>One person per vehicle where practicable</p> <p>Record all contacts using web form or BU specific alternative</p> <p>Ensure site has AL2 provisions in place which meet Council requirements before visiting,</p> <p>Ensure that that visiting Council staff are familiar with site requirements put in place by site manager</p> <p>Where services are necessary that cannot be conducted remotely and require more than one staff member - a work group will be created where staff work in pairs/teams</p> <p>Ensure all other Health and safety requirements are met including lone worker controls in place</p>	Full service delivery with AL1 risk management practices in place

Contractor Health and Safety Management	Only essential services or work from home occurring Suspension of some Contracts Pandemic management plans provided by essential service contractors	Many contracts resume Contractor Covid-19 risk management plans reviewed by Council contract managers for contractors returning to workplaces at AL3	Almost Full service delivery with AL2 risk management practices in place Contractor Covid-19 risk management plans reviewed by Council contract managers for those returning to work at AL2	Full service delivery with AL 1 risk management practices in place
Drinking water, storm water and wastewater services	Staff working from home so far as reasonably practicable Contractors continue to operate water and wastewater treatment facilities and reticulation network Essential maintenance to continue Increased risk of blockages due to high use of disposable wipes Contractor plans reviewed to ensure spread prevent and business continuity controls in place Water catchment reserves closed to public	Majority of desk based work from home Site visits for contract supervision with physical distancing and COVID-19 risk management practices Majority of contractor work including non-urgent preventative maintenance to resume Avoid activities that interrupt domestic supplies where possible Meter reading suspended Water catchment reserves re-open to public on case by case basis. Hunting is not permitted in the water reserves Mountain biking trails in the water reserves open	Full service delivery with AL2 risk management practices in place Meter reading resumes	Full service delivery with AL 1 risk management practices in place
Solid Waste	Essential service Residential kerbside rubbish and recycling collected Recycling not sorted Transfer station closed Landfill operational essential work only	Residential kerbside rubbish and recycling collected Recycling not sorted Landfill operational The Pascoe Street Transfer Station will reopen for green-waste and refuse only. Payments will be contactless and cash will not be accepted. The re-use shop and the public drop-off will remain closed.	Full service delivery with AL2 risk management practices in place Rubbish and recycling collected Recycling sorted Transfer station open with COVID-19 risk management practices in place Landfill operational Consider COVID-19 related risks in waste minimisation programmes E.g. reusable coffee cups, manual waste sorting	Full service delivery with AL 1 risk management practices in place
Public Transport	Reduced bus services with controls: <ul style="list-style-type: none"> For essential and emergency workers only No payment Distancing from drivers Additional cleaning Vulnerable drivers not working Total mobility for essential travel	Reduced bus services with controls: <ul style="list-style-type: none"> Accessing local services and businesses, Going to work and school (only for those that have to) Low-risk recreation in local area To support extended bubble arrangements Travelling to permitted gatherings Total mobility with COVID-19 controls	Full service delivery with AL2 risk management practices in place The normal timetable will resume Distancing controls still in place to ensure a minimum of 1m physical distancing Face to face community road safety and TDM education resumed. Group size < 10 or as governed by schools	Full service delivery with AL 1 risk management practices in place
Roading	Pedestrian signals on automatic Essential safety related traffic signal and street lighting maintenance only Essential safety related road maintenance only	Pedestrian signals on automatic where practicable and extra cleaning at busier intersections Programmed maintenance renewals of traffic signals street lighting resumes Programmed roading network maintenance/renewals	Full service delivery with AL2 risk management practices in place Extra cleaning of traffic light buttons Programmed roading network maintenance/renewals Footpath widening in CBD	Full service delivery with AL 1 risk management practices in place

Capital Projects	Construction projects deemed non-essential at AL4 settings and work suspended	Construction projects recommence with COVID-19 return to work safety plans in place at: <ul style="list-style-type: none"> • Saxton Creek, • Isel Park/Main Road Stoke culvert • Annesbrook Drive water main renewal, • Paddy's Knob • Tahunanui shared path 	Full service delivery with AL2 risk management practices in place.	Full service delivery with AL1 risk management practices in place
Public Engagement	Continuation of all plan making which can be provided by staff working remotely at home Virtual hearings for resource consents with remote appearances	Continuation of all RMA plan making which can be provided by staff working remotely at home Virtual hearings for plan changes Virtual hearings for resource consents Targeted remote consultation and engagement with key stakeholders	On-line and remote engagement and consultation with wider community Targeted small group consultation with physical distancing and registration for contact tracing Plan change hearings business as usual with improved controls and minimum 1m physical distancing Physical meetings and hearings resumed where gathering restrictions can be met and can operate safely Arrangements will made for vulnerable participants to participate remotely (e.g. people aged 70 and over) If hearings cannot be held safely they may be held remotely	Full service delivery with AL1 risk management practices in place
Legal	Legal advice provided to assist with Council response including: <ul style="list-style-type: none"> • Contract management • Rent relief under leases • Decision making processes under the LGA 02. Official Information Requests extended to 8 weeks	Continue to provide or facilitate legal advice as required on issues arising under AL3	Continue to provide or facilitate legal advice as required on issues arising under AL2	Business as usual with AL1 risk management practices in place

REPORT R14817

Internal Audit Quarterly Progress Report to 31 March 2020

1. Purpose of Report

- 1.1 To update the Audit and Risk Subcommittee on the internal audit activity for the quarter to 31 March 2020.

2. Background

- 2.1 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.
- 2.2 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.

3. Recommendation

That the Audit and Risk Subcommittee

- 1. Receives the report Internal Audit Quarterly Progress Report to 31 March 2020 (R14817) and its attachment (A2365059).***

4. Summary

- 4.1 Activity during the quarter focused primarily on internal audits. One audit was completed and two others are well underway with completion anticipated within the next few weeks.
- 4.2 The remaining audit for 2019-2020 is Information Management Maturity. The priority for this piece of work will be reconsidered in due course.

Item 10: Internal Audit Quarterly Progress Report to 31 March 2020

- 4.3 During the quarter the Draft Annual Internal Audit Plan for 2020-21 was completed. Following the Covid-19 outbreak it has been reconsidered and may need to remain a dynamic document as risks emerge and internal audit's role in the recovery evolves. The Draft Plan is reported on separately.
- 4.4 A quality assurance self-assessment for the internal audit activity was completed during the quarter. As this is not a current priority, this will be reported on at the next Audit and Risk Subcommittee meeting.
- 4.5 In the business improvement realm, planned progress on the development and implementation of a consolidated contracts database is behind schedule due to competing priorities for resources. Further, as there is an IT systems change freeze until 2 June 2020, increased priorities relating to the impact and recovery from the COVID-19 outbreak and end-of-year activities, the implementation date has been extended to the first quarter of 2020-2021.
- 4.6 There are no further updates for the other business improvements included in the Annual Internal Audit Plan for 2019-2020 due to the reporting officer's redeployment to help with the Emergency Management response planning.
- 4.7 The Audit and Risk Subcommittee requested an update on whether the recommendations from the Crowe Horwath 2016 audit on Members' Interests had been implemented. Officers reported back to the subcommittee meeting on 13 February 2018 confirming that the HIGH recommendations had been actioned. Staff can report that the remaining recommendations were completed by July 2018. Improvements implemented included: the Procurement Policy requires that officers consider members' interests during any procurement; elected members who are creditors are identified as such; Finance monitors all payments against elected members; there is an improvement Members' Interests Register; all newly elected members are made aware of their responsibilities with respect to their interests during induction training.

Author: Lynn Anderson, Internal Audit Analyst

Attachments

Attachment 1: A2365059 - Internal Audit Quarterly Progress Report to 31 March 2020 [↓](#)

Progress Report to 31 March 2020 for Audit Risk Subcommittee

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	<p>Review completed and report presented to the Senior Leadership Team together with management response.</p> <p>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.</p> <p>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.</p> <p>Q3 2019/20 progress: No progress to report - the SLT strategic session has been put on hold</p>
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	<p>Development of framework identifying key fraud risk areas across Council has commenced</p> <p>Q3 2019/20 progress: Fraud framework and assessment completed and Inherent risks identified for each; currently confirming controls with business unit managers for those that were considered high risk so that testing can identify if the controls are adequate and working as intended. Completion is anticipated during Q4</p>
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	<p>Officers in the process of going to market for a new Point of Sale (PoS) system. This audit on hold until new system procured and embedded</p> <p>Q3 2019/20 progress: FOR YOUR INFORMATION ONLY - This audit has been replaced by the Information Management Maturity audit below as the PoS will not be embedded this financial year</p>
Internal Audit Analyst	Information Management Maturity	To establish compliance with mandatory requirements and to identify current risks (excludes GIS and records retention)	Poor decision-making based on incomplete information; inability to substantiate decisions made which could lead to legal action	Not yet started
Internal Audit Analyst	Allocated	See Public Excluded report	See Public Excluded report	Q3 2019/20 progress: Audit completed - report attached

Progress Report to 31 March 2020 for Audit Risk Subcommittee

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	Q3 2019/20 progress: Research into the use and benefits of data analytics is underway to help inform where these could be used for internal audit purposes at Council. Decision has been made not to proceed with a new procurement but instead to utilise existing software. Work to identify areas where data analytics will provide the most benefit to Council is in progress with completion anticipated during Q4
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Progress Report to 31 March 2020 for Audit Risk Subcommittee

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>Q1 & 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.</p> <p>[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]</p> <p>Q3 2019/20 progress: Issues relating to Microsoft pricing changes which will have significantly increased the cost of the proposed solution have now been resolved. Development has recommenced but further delays are expected due to IT having higher priorities. The goal is to have a simple consolidated database for non-capital projects contracts with core contract management workflows by the end of Q4 but this timeframe may have to be extended</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>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</p> <p>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.</p> <p>Q3 2019/20 progress: We do not have an update at this time due to the reporting officer's redeployment to help with the Covid-19 Civil Defence response</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>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.</p> <p>Q2 2019/20 progress - no significant progress to report. Work is unlikely to progress during Q3 due to other priority work, and staff changes</p> <p>Q3 2019/20 progress: We do not have an update at this time due to the reporting officer's redeployment to help with the Covid-19 Civil Defence response</p>

Draft Internal Audit Plan for year to 30 June 2021

1. Purpose of Report

- 1.1 To approve the Draft Annual Internal Audit Plan (Plan) to 30 June 2021.

2. Recommendation

That the Audit and Risk Subcommittee

- 1. Receives the report Draft Internal Audit Plan for year to 30 June 2021 (R14816) and its attachment (A2357411).***

Recommendation to the Governance and Finance Committee

That the Governance and Finance Committee

- 1. Approves the Draft Annual Internal Audit Plan for the year to 30 June 2021 (A2357411).***

3. Background

- 3.1 The Internal Audit Charter approved by Council on 15 October 2015 requires *that at least annually, the Audit, Risk and Finance Subcommittee consider the Annual Internal Audit Plan.*
- 3.2 The Internal Audit Charter clause 8.2 requires the Plan *to respond to changes in the business.*
- 3.3 Management continues to assess how to allocate the internal audit resource to provide most benefit to the organisation. This report reflects Management's view ***at the time of writing.***

4. Composition of Plan

- 4.1 The Draft Internal Audit Plan attached (A2357411) was compiled following discussions with Senior Management and the preferences

Item 11: Draft Internal Audit Plan for year to 30 June 2021

indicated by the members of the Audit and Risk Subcommittee at an informal meeting held on 16 April 2020. As a result, there is a strong emphasis in the Plan on potential impacts from the COVID-19 event.

- 4.2 In these unusual times, the impacts on Council from COVID-19 are uncertain and as such the composition of any approved Plan may need subsequent changes. A generous allowance has been made for four adhoc audits, the topics of which will be driven by the changing environment or at the direction of the Subcommittee. Note that under the Internal Audit Charter cl. 8.2 *any significant deviation from the approved internal audit plan will be considered by Audit and Risk after seeking guidance (if appropriate) from the Chief Executive and if necessary the Council.*

Impact of the Volume of Audits on the Organisation

- 4.3 On 8 September 2019 Council approved a portion of business improvement to be included in the 2019/20 Plan. This was on the basis that it be reconsidered at 30 June 2020.
- 4.3.1 Management still considers that the volume of internal audits should not take scarce organisational resources away from performing other key responsibilities, which may have higher consequences to the organisation than those of the risks found from an audit. This is particularly pertinent in the current uncertain environment.
- 4.3.2 With this in mind a portion of time, albeit smaller than last year, is allocated to business improvement work in this Draft Plan. The Plan allows for 54% of the internal audit resource to be put to performing internal audits directly connected with the COVID-19 event, and another 15% to developing internal audit-related data analytics. Just 12% is allocated to other improvements outside the internal audit activity, with the balance of time set aside for administrative purposes.

Impact of Covid-19 on Existing Controls

- 4.4 Existing controls have been developed on a business-as-usual scenario. Changes to working practices and organisation arrangements in response to COVID-19, introduce a range of new or enhanced risk areas and have the potential to substantially disrupt the existing system of core internal controls.
- 4.4.1 Data analytics can be used to look for potential fraud and other indicators that controls may not be working as intended. These reduce the effort required for manual checking and increase the volume of data able to be tested.
- 4.4.2 The possibility of engaging an external contractor to provide such data analysis services during 2020/21 was considered, but it was felt that the cost could not currently be justified. In preference,

Item 11: Draft Internal Audit Plan for year to 30 June 2021

data analytics will be developed in-house using available tools and resources. The Chair and Deputy Chair support this decision.

- 4.4.3 The proposed Plan includes the development of data analytics modelling relating to procurement to enable investigation and ongoing testing of key procurement controls. There is an increased need for investigation into this area of enhanced risk.

Procurement Costs Associated with the Internal Audit Activity

- 4.5 Nelson's and Council's financial impact relating to the COVID-19 outbreak will be significant. Council must be able to show that it is spending prudently to maintain public confidence.
 - 4.5.1 In recent years, Council has approved a spending budget of \$40,000 for internal audit. This has been allocated to the use of external consultants where particular subject expertise has been required or where there have been limited internal resources to accomplish audits included in Plans.
 - 4.5.2 The proposed Plan for 2020/21 includes a contingency of \$25,000 for an external consultant. As the impact of COVID-19 may change internal audit focus areas, there is uncertainty as to whether even this reduced cost will prove necessary.

Quality Assurance/Improvements to Internal Audit Activity

- 4.6 The Internal Audit Charter (clauses 10.1 & 10.2) requires that the internal audit activity maintains a quality assurance and improvement programme
 - 4.6.1 The Internal Audit Self-Assessment, which is reported separately to this meeting of the Subcommittee, confirms that there is currently no formal internal audit quality assurance and improvement programme in place. The recommendation from that review was that this should be developed and implemented during 2020/21.
 - 4.6.2 Time had been set aside for this purpose in the 2020/21 Plan, however this has now been replaced with an allowance for two additional adhoc audits. If there is excess capacity, work on the initial development of the quality assurance and improvement programme will begin.

5. Options to Consider

Option 1

Item 11: Draft Internal Audit Plan for year to 30 June 2021

- 5.1 Approve the Draft Internal Audit Plan, which provides for more audits than last year, and allocates a reasonable amount of time for areas to be targeted as and when they arise in response to the changing environment. It also provides for some internal audit improvement initiatives, and the continuation of the centralised contracts register development. This is the recommended option.

Option 2

- 5.2 Approve an alternative Internal Audit Plan which provides for internal audits only based entirely on the COVID-19 event and its impacts.

Option 1: Approve Draft Internal Audit Plan	
Advantages	<ul style="list-style-type: none"> • Downstream impact on the organisation is considered (estimated to be an organisational total of one week per audit) • Key risks in key areas are targeted thus minimising unnecessary disruption to the organisation • Enables the development of data analytics which will aid internal audit efficacy and have flow-on advantages in other areas of Council where manual testing is currently occurring • The Draft Plan can be altered as the impact from COVID-19 evolves • Continuity with the development of a centralised contracts register and contract management database
Risks and Disadvantages	<ul style="list-style-type: none"> • There may be some control weaknesses in areas which could have been reviewed by internal audit if no planned business improvement work occurs • Delay with the establishment of a quality assurance and improvement programme for internal audit
Option 2: Provide for Internal Audits only in the Draft Internal Audit Plan	
Advantages	<ul style="list-style-type: none"> • Council may gain greater knowledge of areas across the organisation where there have been systems or control failures due to COVID-19 • The Draft Plan can be altered as the impact from COVID-19 evolves
Risks and Disadvantages	<ul style="list-style-type: none"> • While control weaknesses are likely to be identified from any internal audit, the ability to

Item 11: Draft Internal Audit Plan for year to 30 June 2021

	<p>treat these is limited due to scarce resources throughout the organisation.</p> <ul style="list-style-type: none">• Disruption from audits should be kept to a minimum in this uncertain environment• Delay with the development of data analytics for improving the efficacy of internal audit• Delay with the establishment of a quality assurance and improvement programme for internal audit
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Author: Lynn Anderson, Internal Audit Analyst

Attachments

Attachment 1: A2357411 - DRAFT Internal Audit Plan to 30 June 2021 [↓](#)

Important considerations for decision making
1. Fit with Purpose of Local Government This decision will help to ensure the resources available in internal audit contribute optimally to internal auditing, its improvement, and other business improvements that will help give confidence that Council will be able to meet its responsibilities effectively and efficiently.
2. Consistency with Community Outcomes and Council Policy This report supports the community outcome that Council provides leadership, which includes the responsibility for protecting finances and assets, and to have an infrastructure which is efficient and effective.
3. Risk It is more likely that Council may not meet its responsibilities effectively and efficiently if this recommendation is not accepted: scarce resources may be taken away from performing other key responsibilities which may have higher consequences to the organisation than responding to an internal audit finding.
4. Financial impact This decision will fit within existing budgets.
5. Degree of significance and level of engagement This matter is of low significance because it does not directly impact financial decisions, or the levels of services provided. Therefore no consultation is required.
6. Climate Impact There has been no specific climate change impact considered in the preparation of this report.
7. Inclusion of Māori in the decision making process No engagement with Māori has been undertaken in preparing this report.
<ul style="list-style-type: none">• Delegations <p>The Audit and Risk Subcommittee has the following delegations to consider the Annual Internal Audit Plan and the resourcing for this each year.</p> <p><i>Areas of Responsibility:</i></p> <ul style="list-style-type: none">• <i>Internal audit</i>

Item 11: Draft Internal Audit Plan for year to 30 June 2021

Powers to Recommend to the Governance and Finance Committee:

- *Any matters within the areas of responsibility or such other matters referred to it by the Council*

DRAFT Annual Internal Audit Plan to 30 June 2021 for Audit and Risk Subcommittee

AUDITS						
Responsible	Audit Topic	Audit Objective	What could go Wrong?	Days		
				88	54%	
Internal Audit Analyst	Organisational internal controls during and post-lockdown	Review and map key risk internal controls for business critical functions following changes to working practices and other new organisational arrangements in response to COVID-19	Changes to systems access and other established controls including change controls which may delete their effectiveness leading to an increase in the potential for fraud or for decisions to be made outside delegated authority. There is a possibility that Council will be exposed to moderate legal breach or reputational damage.		24	
Internal Audit Analyst	(Quarter 3-4) Effectiveness of crisis management response and business disruption planning & management	Identify and report on the root causes for any areas where the Covid-19 response was not prompt, or comprehensive, in preparation for and during the lockdown period from 23 March 2020. This will relate to areas such as: effectiveness of the IMT; the continuous provision of essential services; communications - internal & external; customer service; access to and security of IT systems; staff wellbeing; supply chain assessment; liquidity/cashflow management; relevance, completeness and management of resultant high risks identified; planning for moving to Level 3	Council fails to consider or respond to threats that had not been previously identified; Council fails to deliver essential services continuously to the agreed level of service; staff become sick or resign; IT loss of service interruption; confusion or incomplete information for staff or the public leading to loss of revenue, productivity, or increased health & safety risk; inability to complete projects once NZ is out of lockdown period; unable to pay creditors or staff due to insufficient liquidity		24	
Internal Audit Analyst/External Consultant	Contingency time & cost (\$25,000) allowance	Adhoc	Unknown		10	
Internal Audit Analyst	Contingency time allowance	Adhoc	Unknown		10	
Internal Audit Analyst	Contingency time allowance	Adhoc	Unknown		10	
Internal Audit Analyst	Contingency time allowance	Adhoc	Unknown		10	
AUDIT FUNCTIONALITY DEVELOPMENT/BUSINESS IMPROVEMENT						
	Topic	Work Proposed	What could go Wrong?	44		27%
Internal Audit Analyst	Data analytical profiling and analysis across controls for purchasing where inherent high risk area identified in formal fraud risk assessment 2019-2020	To analyse comprehensive data including trends to evaluate the quality of data and the effectiveness of the control environment through exploring invoices, payments, purchase orders and supplier master file data To provide the basis for ongoing testing in this area using data analytics modelling	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		24	
Internal Audit Analyst	Contract Management System	Systematically develop database (including cleanse data and fill data gaps where possible); add functionality; increase use with aim for completeness and accuracy; develop procedures and provide training in use.	Inaccurate or incomplete contract information and contract management may lead to financial and reputational loss and less than optimal procurement outcomes		20	
ADMINISTRATION				30		19%
				Total days allowed for in Plan		162 100%
				Available		160
				Variance (days)		-2 Shortfall