



Notice of the Ordinary meeting of

Audit and Risk Subcommittee

Kōmiti Iti mō te Tātari Kaute me te Tūraru

| | |
|-----------|--|
| Date: | Tuesday 11 August 2020 |
| Time: | 1.00p.m. |
| Location: | Council Chamber, Civic House 110 Trafalgar Street, Nelson |

Agenda

Rārangi take

Chairperson

Mr John Peters

Members

Her Worship the Mayor Rachel Reese

Cr Judene Edgar

Mr John Murray

Cr Rachel Sanson

Quorum 2

**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 21 May 2020

8 - 14

Document number M9879

Recommendation

That the Audit and Risk Subcommittee

- 1. Confirms the minutes of the meeting of the Audit and Risk Subcommittee, held on 21 May 2020, as a true and correct record.***

6. Chairperson's Report**15 - 16**

Document number R18151

Recommendation

That the Audit and Risk Subcommittee

- 1. Receives the report Chairperson's Report (R18151).***

7. Audit New Zealand - Audit Engagement Letter 17 - 31

Document number R18115

Recommendation

That the Subcommittee

- 1. Receives the report Audit New Zealand - Audit Engagement Letter (R18115) and its attachment (A2409696); and***
- 2. Notes that following feedback from the Audit and Risk Subcommittee, Her Worship the Mayor will sign the Audit Engagement letter to Audit NZ.***

8. Annual Tax Update 32 - 83

Document number R14819

Recommendation

That the Audit and Risk Subcommittee

- 1. Receives the report Annual Tax Update (R14819) and its attachments (A2415912, A2358418 and A2417124).***

9. Interim Audit Report for the year ending 30 June 2020 84 - 108

Document number R14821

Recommendation

That the Audit and Risk Subcommittee

- 1. Receives the report Interim Audit Report for the year ending 30 June 2020 (R14821) and its attachment (A2414826); and***
- 2. Notes the suggested responses to the recommendations (as per A2414826).***

10. Health, Safety and Wellbeing Report, January to June 2020 **109 - 126**

Document number R18135

Recommendation

That the Audit and Risk Subcommittee

- 1. Receives the report Health, Safety and Wellbeing Report, January to June 2020 (R18135) and its attachment (A2404161).***

11. Key Organisational Risks Report - 01 January to 30 June 2020 **127 - 158**

Document number R14813

Recommendation

That the Audit and Risk Subcommittee

- 1. Receives the report Key Organisational Risks Report - 01 January to 30 June 2020 (R14813) and its attachment (A2415845).***

12. New and Outstanding Significant Risk Exposures and Control Issues Identified from Internal Audits - 30 June 2020 **159 - 162**

Document number R14818

Recommendation

That the Audit and Risk Subcommittee

- 1. Receives the report New and Outstanding Significant Risk Exposures and Control Issues Identified from Internal Audits - 30 June 2020 (R14818) and its attachment (A2417196).***

13. Internal Audit - Quarterly Progress Report to 30 June 2020 **163 - 168**

Document number R18111

Recommendation

That the Audit and Risk Subcommittee

- 1. Receives the report Internal Audit - Quarterly Progress Report to 30 June 2020 (R18111) and its attachment (A2408483).***

14. Bad Debt Writeoff - Year Ending 30 June 2020 169 - 171

Document number R14820

Recommendation

That the Audit and Risk Subcommittee

- 1. Receives the report Bad Debt Writeoff - Year Ending 30 June 2020 (R14820).***

Recommendation to Governance and Finance Committee

That the Governance and Finance Committee

- 1. Approves the balance of \$20,462.37 excluding GST owing by Concrete & Metals Ltd be written off as at 30 June 2020.***

CONFIDENTIAL BUSINESS

15. 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 - 21 May 2020 | <p>Section 48(1)(a)</p> <p>The public conduct of this matter would be likely to result in disclosure of information for which good reason exists under section 7.</p> | <p>The withholding of the information is necessary:</p> <ul style="list-style-type: none"> • 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 • Section 7(2)(h) To enable the local authority to carry out, without prejudice or disadvantage, commercial activities |
| 2 | Quarterly Update On Debts - 30 June 2020 | <p>Section 48(1)(a)</p> <p>The public conduct of this matter would be likely to result in disclosure of information for which good reason exists under section 7</p> | <p>The withholding of the information is necessary:</p> <ul style="list-style-type: none"> • 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 |
| 3 | Internal Audit Report - Transfer Station Kiosk | <p>Section 48(1)(a)</p> <p>The public conduct of this matter would be likely to result in disclosure of information for which good reason exists under section 7</p> | <p>The withholding of the information is necessary:</p> <ul style="list-style-type: none"> • Section 7(2)(a) To protect the privacy of natural persons, including that of a deceased person |
| 4 | Quarterly update on legal proceedings | <p>Section 48(1)(a)</p> <p>The public conduct of this matter would be likely to result in disclosure of information for which good reason exists under section 7</p> | <p>The withholding of the information is necessary:</p> <ul style="list-style-type: none"> • Section 7(2)(g) To maintain legal professional privilege |



Minutes of a meeting of the Audit and Risk Subcommittee

Held via Audio-visual (Zoom)

On Thursday 21 May 2020, commencing at 4.14p.m.

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

In Attendance: Chief Executive (P Dougherty), Group Manager Environmental Management (C Barton), Group Manager Corporate Services (N Harrison), Governance Adviser (E-J Ruthven), and Governance Support (K McLean)

Apologies : Nil

1. Apologies

There were no 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.

Her Worship the Mayor subsequently declared an interest in relation to discussion regarding item 2 on the confidential agenda, Reserves Contributions for Unit Titles – Breakdown of Discrepancies.

4. Public Forum

4.1 Scott Syndicate Development Company Ltd - The Calculation of Reserve Contribution for Unit Title Developments

Mr Craig Dennis spoke on behalf of Scott Syndicate Development Company Ltd. He noted his concerns regarding the financial contribution methodologies in relation to the Bett Carpark and Malthouse Lane developments he had been involved with. He emphasised equity and fairness principles, and the need for different parties to be treated in the

same manner with regards to financial contributions related to developments.

Mr Dennis also spoke about the 2018 updates to the Development Contributions Policy. He explained that changes to the Policy acted as a disincentive for inner city developments, aside from those at the highest end of the market.

5. Confirmation of Minutes

5.1 18 February 2020

Document number M6695, agenda pages 7 - 13 refer.

Resolved AR/2020/012

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.***

Murray/Edgar

Carried

Attendance: Councillor Sanson left the meeting at 4.30p.m.

6. Chairperson's Report

Mr Peters gave a verbal Chairperson's Report.

He noted that risk factors now included the Covid-19 pandemic and its consequences, and spoke about the financial health and resilience of Council and the Nelson community. He emphasised the need for continued prudent financial oversight and high standards of governance as Council responded to the Covid-19 pandemic.

Resolved AR/2020/013

That the Audit and Risk Subcommittee

- 1. Receives the verbal Chairperson's Report.***

Peters/Murray

Carried

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

Document number R14857, agenda pages 14 - 41 refer.

Manager Finance, Clare Knox, presented the report, and Auditor John Mackey, from the Office of the Auditor-General, joined the meeting.

Mr Mackey spoke about how the audit process would be affected as a result of Covid-19. He answered questions regarding the challenges in establishing valuations, given the uncertainties arising from Covid-19, the likely timeframe for the Council's audit process this year, and the proposed audit fee increase. He undertook to provide further advice regarding mitigating and managing construction contract risks, particularly with regards to Crown Infrastructure Fund projects.

Attendance: Councillor Sanson returned to the meeting at 4.55p.m.

Ms Knox answered further questions regarding how Council Controlled Organisations were identified in the Annual Report.

Resolved AR/2020/014

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

Sanson/Murray

Carried

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

Document number R17017, agenda pages 42 - 46 refer.

Group Manager Corporate Services, Nikki Harrison, presented the report. She answered questions regarding the proposed deferral of fee increases, the proposed drawdown on the Disaster Recovery Fund, how the best and worst case scenario and base case assumptions were reached, rates collection, and Council's borrowing facilities.

Resolved AR/2020/015

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).***

Edgar/Sanson

Carried

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

Document number R16993, agenda pages 47 - 60 refer.

Health and Safety Adviser, Malcolm Hughes, presented the report. He answered questions regarding Council's health and safety obligations and support available in relation to officers and elected members working from home, the extensive hours worked by some officers during the Covid-19 lockdown, and the consequential risks of exhaustion, and mental health risks in relation to COvid-19.

The Subcommittee requested a vote of thanks be recorded to Council's Health and Safety officers for work undertaken during the Covid-19 pandemic.

Resolved AR/2020/016

That the Audit and Risk Subcommittee

- 1. Receives the report Health Safety and Wellbeing Report, COVID-19 Response, April 2020 (R16993) and its attachment, COVID – 19 Activities and Controls Overview (A2380485); and***
- 2. Records a vote of thanks to Council's Health and Safety officers for the work undertaken during the Covid-19 pandemic.***

Sanson/Edgar

Carried

10. Internal Audit Quarterly Progress Report to 31 March 2020

Document number R14817, agenda pages 61 - 65 refer.

Internal Audit Analyst, Lynn Anderson, presented the report. She answered questions regarding audit and business improvement work undertaken, and Manager Governance and Support Services, Mary Birch, answered questions regarding Elected Members' declarations of interests.

Resolved AR/2020/017

That the Audit and Risk Subcommittee

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

Edgar/Sanson

Carried

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

Document number R14816, agenda pages 66 - 73 refer.

Internal Audit Analyst, Lynn Anderson, presented the report. She noted that the reference in paragraph 4.6.1 to a self-assessment being presented to this meeting should refer to the next Subcommittee meeting.

Ms Anderson answered questions regarding the proposed plan, taking into account the uncertainties created by Covid-19.

Resolved AR/2020/018

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).***

Murray/Sanson

Carried

Recommendation to Governance and Finance AR/2020/019

That the Governance and Finance Committee

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

Murray/Sanson

The meeting was adjourned from 6.02p.m until 6.07p.m.

13. Reserves Contributions for Unit Titles - Final Report

Document number R16954, late items agenda pages 4 - 13 refer.

Internal Audit Analyst, Lynn Anderson, presented the report. She answered questions regarding the valuation process for quantifying Council's loss of reserve contributions, how the error in calculations was able to occur over a number of years, and changes in practice to ensure the error would not occur again in the future.

Resolved AR/2020/020

That the Audit and Risk Subcommittee

- 1. Receives the report Reserves Contributions for Unit Titles - Final Report (R16954) and its attachment (A2369193).***

Her Worship the Mayor/Edgar

Carried

14. Exclusion of the Public

Resolved AR/2020/021

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/Edgar

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 | 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 |
| 2 | Reserves Contributions for Unit Titles - Breakdown of Discrepancies | 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 • Section 7(2)(h) To enable the local authority to carry out, without prejudice or disadvantage, commercial activities |
| 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 | 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) |

| Item | General subject of each matter to be considered | Reason for passing this resolution in relation to each matter | Particular interests protected (where applicable) |
|------|---|---|---|
| | | good reason exists under section 7 | To maintain legal professional privilege |

The meeting went into public excluded session at 6.25p.m. and resumed in public session at 7.03p.m.

RESTATEMENTS

It was resolved while the public was excluded:

| | |
|----------|---|
| 1 | PUBLIC EXCLUDED: Reserves Contributions for Unit Titles - Breakdown of Discrepancies |
| | <p><i>That the Audit and Risk Subcommittee</i></p> <p>2. <u>Agrees</u> that the report Reserves Contributions for Unit Titles – Breakdown of Discrepancies (R16985); and its attachment (A2346183) remain confidential at this time.</p> |

| | |
|----------|--|
| 2 | CONFIDENTIAL: Quarterly Update On Debts - 31 March 2020 |
| | <p><i>That the Audit and Risk Subcommittee</i></p> <p>2. <u>Agrees</u> that the Report (R16960) and its attachment (A2216183) remain confidential at this time.</p> |

There being no further business the meeting ended at 7.04p.m.

Confirmed as a correct record of proceedings:

_____ Chairperson _____ Date

Chairperson's Report

1. Purpose of Report

- 1.1 In accordance with 5.2.2 of Council's Delegations Register, to report back to the Committee on a matter within its areas of responsibility, that was considered directly by Council, at its 25 June 2020 meeting.
- 1.2 This report is for information only.

2. Recommendation

That the Audit and Risk Subcommittee

- 1. Receives the report Chairperson's Report (R18151).***

3. Discussion

- 3.1 The Audit and Risk Subcommittee's areas of responsibility include Council's Treasury policies.
- 3.2 However, because of timing, the matter was considered by Council, in accordance with the Delegations Register, as below:
 - 5.5.2 *On the recommendation of the Chief Executive, and with the agreement of the Chair of the relevant committee, subcommittee or subordinate decision-making body and Mayor, matters within the area of responsibility of a particular committee, subcommittee or subordinate decision-making body may be considered directly by Council instead. If this occurs, the Chair of the relevant committee, subcommittee or subordinate decision-making body will report to the following meeting of the committee, subcommittee or subordinate decision-making body regarding the reason for doing so, and the outcome of the matter at the Council meeting.*

Item 6: Chairperson's Report

3.3 The 25 June 2020 Council meeting resolved:

Resolved CL/2020/001

That the Council

1. *Receives the report Nelson Plan: Additional Funding (R18069); and*
2. *Approves unbudgeted expenditure of \$135,500 to progress the Draft Nelson Plan in 2019/2020.*

McGurk/Sanson

Carried

Author: John Peters, Chairperson – Audit and Risk Subcommittee

Attachments

Nil

Audit New Zealand - Audit Engagement Letter

1. Purpose of Report

- 1.1 To provide the subcommittee with the Audit Engagement Letter for the years ending 30 June 2020, 2021 and 2022 and ask for any feedback before the letter is signed by Her Worship the Mayor.

2. Recommendation

That the Subcommittee

- 1. Receives the report Audit New Zealand - Audit Engagement Letter (R18115) and its attachment (A2409696); and***
- 2. Notes that following feedback from the Audit and Risk Subcommittee, Her Worship the Mayor will sign the Audit Engagement letter to Audit NZ.***

3. Discussion

- 3.1 The Audit Engagement letter (Attachment 1) covers the years 30 June 2020, 2021 and 2022 and sets out the terms of the audit engagement and the respective responsibilities of the council and Audit New Zealand.
- 3.2 This letter is required to be signed by Her Worship the Mayor to confirm that the details of the audit match Council's understanding of the arrangements.
- 3.3 The letter, dated 18 June 2020, was not received from Audit New Zealand in time for the previous Subcommittee Meeting on 21 May 2020 and therefore was not included along with the Audit Proposal Letter and Audit Plan.

4. Options

- 4.1 The options are to provide feedback to Audit NZ prior to Her Worship the Mayor signing the letter or not.

Author: Clare Knox, Manager Finance

Attachments

Attachment 1: A2409696 - Audit NZ - Audit Engagement Letter [↓](#)



AUDIT NEW ZEALAND
Mana Arotake Aotearoa

18 June 2020

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

Rachel Reese
Mayor
Nelson City Council
PO Box 645
Nelson 7040

Dear Rachel

Audit Engagement Letter

This audit engagement letter is sent to you on behalf of the Auditor-General who is the auditor of all “public entities”, including Nelson City Council (the council), under section 14 of the Public Audit Act 2001 (the Act). The Auditor-General has appointed me, John Mackey, using the staff and resources of Audit New Zealand, under sections 32 and 33 of the Act, to carry out the annual audits of the council’s financial statements and performance information. We will be carrying out these annual audits on the Auditor-General’s behalf for the years ending 30 June 2020 to 2022.

This letter outlines:

- the terms of the audit engagement and the nature, and limitations, of the annual audit; and
- the respective responsibilities of the governing body (the council) and me, as the Appointed Auditor, for the financial statements and performance information.

The objectives of the annual audit are:

- to provide an independent opinion on the council’s financial statements and performance information; and
- to report on other matters that come to our attention as part of the annual audit (typically those matters will relate to issues of financial management and accountability).

We will carry out the audit in accordance with the Auditor-General’s Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board (collectively the Auditing Standards). The Auditing Standards require that we comply with ethical requirements, and plan and perform the annual audit to obtain reasonable assurance about whether the council’s financial statements and performance information are free from material misstatement. The

Auditing Standards also require that we remain alert to issues of concern to the Auditor-General. Such issues tend to relate to matters of financial management and accountability.

The council's responsibilities

Our audit will be carried out on the basis that the council, as the governing body, acknowledges that it has responsibility for:

- preparing the financial statements and performance information in accordance with any applicable legal requirements and financial reporting standards;
- having such internal control as determined necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error; and
- providing us with:
 - access to all information relevant to preparing the financial statements and performance information such as records, documentation, and other information;
 - all other information, in addition to the financial statements and performance information, to be included in the annual report;
 - additional information that we may request from the council for the purpose of the audit;
 - unrestricted access to council members and employees that we consider necessary; and
 - written confirmation concerning representations made to us in connection with the audit;

In addition, the council is responsible for:

- the preparation of the summary financial statements and summary performance information;
- making the audited summary financial statements and summary performance information readily available to the intended users of that information; and
- including our audit report on the summary financial statements and summary performance information in any document that contains that information and that indicates that we have reported on that information.

The council's responsibilities extend to all resources, activities, and entities under its control. We expect that the council will ensure:

- the resources, activities, and entities under its control have been operating effectively and efficiently;

- it has complied with its statutory obligations including laws, regulations, and contractual requirements;
- it has carried out its decisions and actions with due regard to minimising waste;
- it has met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector in that it has carried out its decisions and actions with due regard to probity; and
- its decisions and actions have been taken with due regard to financial prudence.

We expect the council and/or the individuals within the council with delegated authority, to immediately inform us of any suspected fraud, where there is a reasonable basis that suspected fraud has occurred – regardless of the amount involved. Suspected fraud also includes instances of bribery and/or corruption.

The council has certain responsibilities relating to the preparation of the financial statements and performance information and in respect of financial management and accountability matters. These specific responsibilities are set out in Appendix 1. Appendix 2 contains some additional responsibilities relating to the health and safety of audit staff. We expect members of the council to be familiar with those responsibilities and, where necessary, have obtained advice about them.

The council should have documented policies and procedures to support its responsibilities. It should also regularly monitor performance against its objectives.

Our responsibilities

Carrying out the audit

We are responsible for forming an independent opinion on whether the financial statements of the council:

- present fairly, in all material respects:
 - its financial position; and
 - its financial performance and cash flows for the financial year;
- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards.

We are also responsible for forming an independent opinion on whether the performance information of the council:

- presents fairly, in all material respects, the performance for the financial year, including:
 - its performance achievements as compared with the intended levels of service for the financial year; and
 - its actual revenue and expenses as compared with the forecasts included in the Long-Term Plan and Annual Plan for the financial year; and

- complies with generally accepted accounting practice in New Zealand.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements and performance information. How we obtain this information depends on our judgement, including our assessment of the risks of material misstatement of the financial statements and performance information, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements and performance information.

We do not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with the Auditing Standards.

During the audit, we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the council's internal controls. However, we will communicate to you in writing about any significant deficiencies in internal control relevant to the audit of the financial statements and performance information that we identify during the audit.

During the audit, the audit team will:

- be alert for issues of effectiveness and efficiency – in particular, how the council and the management have carried out their activities;
- consider laws and regulations relevant to the audit;
- be alert for issues of waste – in particular, whether the council obtained and applied the resources of the council in an economical manner, and whether any resources are being wasted;
- be alert for issues of a lack of probity – in particular, whether the council and the management have met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector; and
- be alert for issues of a lack of financial prudence.

Our independence

It is essential that the audit team and Audit New Zealand remain both economically and attitudinally independent of the council; including being independent of management personnel and members of the council). This involves being, and appearing to be, free of any interest that might be regarded, whatever its actual effect, as being incompatible with the objectivity of the audit team and the Audit New Zealand.

To protect our independence, specific limitations are placed on us in accepting engagements with the council other than the annual audit. We may accept certain types of other engagements, subject to the requirements of the Auditing Standards. Any other engagements must be the subject of a separate written arrangement between the council and me or Audit New Zealand.

Reporting

We will issue an independent audit report that will be attached to the financial statements and performance information. This report contains our opinion on the fair presentation of the financial statements and performance information and whether they comply with the applicable reporting requirements. The audit report may also include comment on other financial management and accountability matters that we consider may be of interest to the addressee of the audit report.

In addition, we will issue an audit report that will be attached to the summary financial statements and summary performance information. This audit report will contain an opinion that provides the same level of assurance as the audit report on the full financial statements and full performance information.

We will also issue a management letter that will be sent to the council. This letter communicates any matters that come to our attention during the audit that, in our opinion, are relevant to the council. Typically, those matters will relate to issues of financial management and accountability. We may also provide other management letters to the council from time to time. We will inform the council of any other management letters we have issued.

Please note that the Auditor-General may publicly report matters that are identified in the annual audit, in keeping with section 21 of the Public Audit Act 2001.

Next steps

Please acknowledge receipt of this letter and the terms of the audit engagement by signing the letter in the space provided and returning a copy to me. The terms will remain effective until a new Audit Engagement Letter is issued.

If you have any questions about the audit generally, or have any concerns about the quality of the audit, you should contact me as soon as possible. If, after contacting me, you still have concerns, you should contact the Director of Auditor Appointments at the Office of the Auditor-General on (04) 917 1500.

If you require any further information, or wish to discuss the terms of the audit engagement further before replying, please do not hesitate to contact me.

Yours faithfully



John Mackey
Audit Director
On behalf of the Auditor-General

Item 7: Audit New Zealand - Audit Engagement Letter: Attachment 1

I acknowledge the terms of this engagement and that I have the required authority on behalf of the council.

Signature:

Name:

Title: Date:

Appendix 1: Respective specific responsibilities of the council (the governing body) and the Appointed Auditor

| Responsibilities of the council | Responsibility of the Appointed Auditor |
|---|---|
| Responsibilities for the financial statements and performance information | |
| <p>You are required by legislation to prepare financial statements and performance information in accordance with legal requirements and financial reporting standards.</p> <p>You must also ensure that any accompanying information in the annual report is consistent with that reported in the audited financial statements and performance information.</p> <p>You are required by legislation to prepare the financial statements and performance information and provide that information to us before the statutory reporting deadline. It is normal practice for you to set your own timetable to comply with statutory reporting deadlines. To meet the reporting deadlines, we are dependent on receiving the financial statements and performance information ready for audit and in enough time to enable the audit to be completed. "Ready for audit" means that the financial statements and performance information have been prepared in accordance with legal requirements and financial reporting standards, and are supported by proper accounting records and complete evidential documentation.</p> | <p>We are responsible for carrying out an annual audit, on behalf of the Auditor-General. We are responsible for forming an independent opinion on whether the financial statements:</p> <ul style="list-style-type: none"> • present fairly, in all material respects: <ul style="list-style-type: none"> ◦ the financial position; and ◦ the financial performance and cash flows for the financial year; • comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards. <p>We are also responsible for forming an independent opinion on whether the performance information:</p> <ul style="list-style-type: none"> • presents fairly, in all material respects, the performance for the financial year, including: <ul style="list-style-type: none"> ◦ the performance achievements as compared with the intended levels of service for the financial year; and ◦ the actual revenue and expenses as compared with the forecasts included in the Long-Term Plan and Annual Plan for the financial year. • complies with generally accepted accounting practice in New Zealand. <p>We will also read the other information accompanying the financial statements and performance information and consider whether there are material inconsistencies with the audited financial statements and performance information.</p> |

| Responsibilities of the council | Responsibility of the Appointed Auditor |
|---------------------------------|--|
| | <p>Materiality is one of the main factors affecting our judgement on the areas to be tested and on the timing, nature, and extent of the tests and procedures performed during the audit. In planning and performing the annual audit, we aim to obtain reasonable assurance that the financial statements and performance information do not have material misstatements caused by either fraud or error. Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence the audit report addressee's overall understanding of the financial statements and performance information.</p> <p>If we find material misstatements that are not corrected, they will be referred to in the audit opinion. The Auditor-General's preference is for you to correct any material misstatements and avoid the need for them to be referred to in the audit opinion.</p> <p>An audit also involves evaluating:</p> <ul style="list-style-type: none"> • the appropriateness of accounting policies used and whether they have been consistently applied; • the reasonableness of the significant accounting estimates and judgements made by those charged with governance; • the appropriateness of the content and measures in any performance information; • the adequacy of the disclosures in the financial statements and performance information; and • the overall presentation of the financial statements and performance information. <p>We will ask you for written confirmation of representations made about the financial statements and performance information. In particular, we will seek confirmation that:</p> <ul style="list-style-type: none"> • the adoption of the going concern basis of accounting is appropriate; • all material transactions have been recorded and are reflected in the financial statements and performance information; |

| Responsibilities of the council | Responsibility of the Appointed Auditor |
|--|---|
| | <ul style="list-style-type: none"> all instances of non-compliance or suspected non-compliance with laws and regulations have been disclosed to us; and uncorrected misstatements noted during the audit are immaterial to the financial statements and performance information. <p>Any representation made does not in any way reduce our responsibility to perform appropriate audit procedures and enquiries.</p> <p>We will ensure that the annual audit is completed by the reporting deadline or, if that is not practicable because of the non-receipt or condition of the financial statements and performance information, or for some other reason beyond our control, as soon as possible after that.</p> <p>The work papers that we produce in carrying out the audit are the property of the Auditor-General. Work papers are confidential to the Auditor-General and subject to the disclosure provisions in section 30 of the Public Audit Act 2001.</p> |
| Responsibilities for the accounting records | |
| <p>You are responsible for maintaining accounting and other records that:</p> <ul style="list-style-type: none"> correctly record and explain the transactions of Nelson City Council; enable you to monitor the resources, activities, and entities under your control; enable the council's financial position to be determined with reasonable accuracy at any time; enable you to prepare financial statements and performance information that comply with legislation (and that allow the financial statements and performance information to be readily and properly audited); and are in keeping with the requirements of the Commissioner of Inland Revenue. | <p>We will perform sufficient tests to obtain reasonable assurance as to whether the underlying records are reliable and adequate as a basis for preparing the financial statements and performance information.</p> <p>If, in our opinion, the records are not reliable or accurate enough to enable the preparation of the financial statements and performance information and the necessary evidence cannot be obtained by other means, we will need to consider the effect on the audit opinion.</p> |

| Responsibilities of the council | Responsibility of the Appointed Auditor |
|---|---|
| Responsibilities for accounting and internal control systems | |
| <p>You are responsible for establishing and maintaining accounting and internal control systems (appropriate to the size of the council), supported by written policies and procedures, designed to provide reasonable assurance as to the integrity and reliability of financial and performance information reporting.</p> | <p>The annual audit is not designed to identify all significant weaknesses in your accounting and internal control systems. We will review the accounting and internal control systems only to the extent required to express an opinion on the financial statements and performance information.</p> <p>We will report to you separately, on any significant weaknesses in the accounting and internal control systems that come to our notice and that we consider may be relevant to you. Any such report will provide constructive recommendations to assist you to address those weaknesses.</p> |
| Responsibilities for preventing and detecting fraud and error | |
| <p>The responsibility for the prevention and detection of fraud and error rests with you, through the implementation and continued operation of adequate internal control systems (appropriate to the size of the council) supported by written policies and procedures.</p> <p>We expect you to formally address the matter of fraud, and formulate an appropriate policy on how to minimise it and (if it occurs) how it will be dealt with. Fraud also includes bribery and corruption.</p> <p>We expect you to consider reporting all instances of actual, suspected, or alleged fraud to the appropriate law enforcement agency, which will decide whether proceedings for a criminal offence should be instituted. We expect you to immediately inform us of any suspected fraud where you, and/or any individuals within the council with delegated authority have a reasonable basis that suspected fraud has occurred – regardless of the amount involved.</p> | <p>We design our audit to obtain reasonable, but not absolute, assurance of detecting fraud or error that would have a material effect on the financial statements and performance information. We will review the accounting and internal control systems only to the extent required for them to express an opinion on the financial statements and performance information, but we will:</p> <ul style="list-style-type: none"> • obtain an understanding of internal control and assess its ability for preventing and detecting material fraud and error; and • report to you any significant weaknesses in internal control that come to our notice. <p>We are required to immediately advise the Office of the Auditor-General of all instances of actual, suspected, or alleged fraud.</p> <p>As part of the audit, you will be asked for written confirmation that you have disclosed all known instances of actual, suspected, or alleged fraud to us.</p> <p>If we become aware of the possible existence of fraud, whether through applying audit procedures, advice from you, or management, or by any other means, we will communicate this to you with the expectation that you will consider whether it is appropriate to report the fraud to the appropriate law enforcement agency. In the event that you do not report the fraud to the appropriate law enforcement agency, the Auditor-General will consider doing so, if it is appropriate for the purposes of protecting the interests of the public.</p> |

| Responsibilities of the council | Responsibility of the Appointed Auditor |
|--|---|
| Responsibilities for compliance with laws and regulations | |
| <p>You are responsible for ensuring that Nelson City Council has systems, policies, and procedures (appropriate to the size of the council) to ensure that all applicable legislative, regulatory, and contractual requirements that apply to the activities and functions of the council are complied with. Such systems, policies, and procedures should be documented.</p> | <p>We will obtain an understanding of the systems, policies, and procedures put in place for the purpose of ensuring compliance with those legislative and regulatory requirements that are relevant to the audit. Our consideration of specific laws and regulations will depend on a number of factors, including:</p> <ul style="list-style-type: none"> the relevance of the law or regulation to the audit; our assessment of the risk of non-compliance; the impact of non-compliance for the addressee of the audit report <p>The way in which we will report instances of non-compliance that come to our attention will depend on considerations of materiality or significance. We will report to you and to the Auditor-General all material and significant instances of non-compliance.</p> <p>We will also report to you any significant weaknesses that we observe in internal control systems, policies, and procedures for monitoring compliance with laws and regulations.</p> |
| Responsibilities to establish and maintain appropriate standards of conduct and personal integrity | |
| <p>You should at all times take all practicable steps to ensure that your members and employees maintain high standards of conduct and personal integrity. You should document your expected standards of conduct and personal integrity in a "Code of Conduct" and, where applicable, support the "Code of Conduct" with policies and procedures.</p> <p>The expected standards of conduct and personal integrity should be determined by reference to accepted "Codes of Conduct" that apply to the public sector.</p> | <p>We will have regard to whether you maintain high standards of conduct and personal integrity – particularly in matters relating to financial management and accountability. Specifically, we will be alert for significant instances where members and employees of the council may not have acted in accordance with the standards of conduct and personal integrity expected of them.</p> <p>The way in which we will report instances that come to our attention will depend on significance. We will report to you and to the Auditor-General all significant departures from expected standards of conduct and personal integrity that come to our attention during the audit.</p> |

| Responsibilities of the council | Responsibility of the Appointed Auditor |
|---|---|
| | <p>The Auditor-General, on receiving a report from us, may, at his discretion and with consideration of its significance, decide to conduct a performance audit of, or an inquiry into, the matters raised. The performance audit or inquiry will be subject to specific terms of reference, in consultation with you. Alternatively, the Auditor-General may decide to publicly report the matter without carrying out a performance audit or inquiry.</p> |
| Responsibilities for conflicts of interest and related parties | |
| <p>You should have policies and procedures to ensure that your members and employees carry out their duties free from bias.</p> <p>You should maintain a full and complete record of related parties and their interests. It is your responsibility to record and disclose related-party transactions in the financial statements and performance information in accordance with generally accepted accounting practice.</p> | <p>To help determine whether your members and employees have carried out their duties free from bias, we will review information provided by you that identifies related parties, and will be alert for other material related-party transactions. Depending on the circumstances, we may enquire whether you have complied with any statutory requirements for conflicts of interest and whether these transactions have been properly recorded and disclosed in the financial statements and performance information.</p> |
| Responsibilities for publishing the audited financial statements on a website | |
| <p>You are responsible for the electronic presentation of the financial statements and performance information on Nelson City Council's website. This includes ensuring that there are enough security and controls over information on the website to maintain the integrity of the data presented.</p> <p>If the audit report is reproduced in any medium, you should present the complete financial statements, including notes, accounting policies, and any other accountability statements.</p> | <p>Examining the controls over the electronic presentation of audited financial statements and performance information, and the associated audit report, on your website is beyond the scope of the annual audit.</p> |

Appendix 2: Health and safety of audit staff

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

Annual Tax Update

1. Purpose of Report

- 1.1 To advise the Subcommittee of Council's tax activities over the prior year and provide some context for the current tax environment.

2. Recommendation

That the Audit and Risk Subcommittee

- 1. Receives the report Annual Tax Update (R14819) and its attachments (A2415912, A2358418 and A2417124).***

2. Background

- 2.1 The Tax Risk Governance Framework was adopted by Council in May 2017 as a proactive step towards identifying and managing tax risk to maintain its low risk profile. This Annual Tax Update has been prepared as part of that framework.
- 2.2 This report provides:
- A summary of the tax advice that Council has sought during the period 1 July 2019 to 30 June 2020
 - Commentary on tax matters currently being addressed as at 30 June 2020
 - A more general high level update on the wider tax environment as it might affect Council
 - An overview of the PAYE compliance evaluation undertaken in the last financial year
 - An overview of the FBT compliance evaluation undertaken in May 2019
- 2.3 The Annual Tax Update report from Council's tax advisors (PWC), the PAYE compliance evaluation and FBT compliance evaluation are included with this report as attachments 1, 2 and 3 respectively.

Tax Advice received and matters addressed to 30 June 2020

- 2.3 For the most part, the tax compliance of Council has been 'business as usual' for much of the year with the various tax returns (GST, PAYE, FBT, etc) being filed on time and without any concerns being raised.
- 2.4 That said, it is appropriate to comment on the following areas where assistance has been provided to Council:
- A PAYE compliance evaluation was completed in August 2019.
 - A FBT compliance evaluation was performed in the May 2019 financial year and the report was finalised in July 2019.
 - A voluntary disclosure was made to the Inland Revenue regarding a specific issue identified during the PAYE evaluation.
 - A voluntary disclosure was made in relation to GST on Brook Camp accommodation.
- 2.5 As per the tax risk strategy adopted by Council in 2017, a comprehensive PAYE compliance evaluation was undertaken in August 2019. The finalised report (Attachment 2) can be summarised as follows:
- Council has a high level of PAYE compliance. The payroll risk areas often seen at other organisations and targeted by Inland Revenue in investigations do not appear to be significant risks for Council.
 - The principal risk areas are MyIR account reconciliations, KiwiSaver employer contributions and Pay data which are discussed in further detail in Appendix One - Summary of Findings.
 - There were 13 areas of focus identified in Appendix One - Summary of Findings and recommendations were made for action to maximise efficiency and risk reduction. Six of the recommendations have already been completed, three require no action and the remaining four are in progress.
- 2.6 As per the tax risk strategy adopted by Council in 2017, a FBT compliance evaluation was undertaken in May 2019 with the finalised report (Attachment 3) sent in July 2019 which can be summarised as follows:
- Council has a high level of FBT compliance.
 - The principal risk areas are Rewards and Recognition, De Minimis Exemption (the de-minimis exemption threshold for FBT is \$300 per quarter per employee or \$22,500 per employer at Group Level) and Motor Vehicles, which are discussed in further detail in Appendix One - Summary of Findings.

Item 8: Annual Tax Update

- There were 21 areas of focus identified in Appendix One - Summary of Findings and recommendations were made for action to maximise efficiency and risk reduction. One of the recommendations has already been completed, eleven require no action and the remaining nine are in progress.
- 2.7 Officers have committed to remaining up to date with tax issues in the sector and have attended tax updates as provided by SOLGM and PWC, as well as a refresher overview of indirect taxes and specific training aimed at officers new to the sector provided by PWC.
- 2.8 Finally, it is noted that Council has continued to obtain support via:
- Subscribing to PwC's online Indirect Tax Policies and Guides;
 - Maintaining a Tax Risk Governance Framework; and
 - Adhering to a Tax Risk Management Strategy.

Tax Strategy

- 2.9 Page 6 of the Annual Tax Update (Attachment 1) outlines work planned for the 2019/20 financial year compared with work done. It has been a more active year than anticipated illustrating that officers are mindful of retaining Council's low risk tax profile and seek to address risks before they crystallise.
- 2.10 Page 7 sets out work planned for the 2020/21 financial year and up to 2023/24, including a review of Council systems in relation to IRD's payday reporting readiness and a tax technology and automation assessment.

Other relevant matters

- 2.11 Pages 9 to 10 of Attachment 1 itemise COVID-19 related income tax, tax administration and social assistance proposals relevant to Council.
- 2.12 Pages 11 to 13 of Attachment 1 summarise other tax developments during the period. Of particular interest or relevance to Nelson City Council:
- From 1 July 2019, dividends derived by local authority from a CCO will no longer be excluded income for income tax purposes.
 - The criteria for self-correction of errors has been replaced with monetary and materiality thresholds, being equal to or less than the lower of \$10,000 of tax; and 2% of GST output tax.
- 2.13 Page 14 of Attachment 1 gives an overview of sector specific developments. Of particular interest or relevance to Nelson City Council:
- It is understood that there are a total of 802 'shovel ready' projects on the list for government consideration. Depending on

Item 8: Annual Tax Update

the project, there is an inevitability that tax considerations will exist.

- Taumata Arowai – The Water Services Regulator Bill establishes the agency that will act as independent regulator of drinking water and the evolution of how Three Waters are managed.

Council's tax figures

2.14 Generally Council is exempt from income tax with the main exception being income from CCTOs. However, Council has significant tax obligations in relation to GST and PAYE in particular. The quantum is highlighted in this section.

2.15 In the 12 months ending 31 March 2020, Council has accounted for:

| | Tax | 12 month period ending | Amount |
|------|----------------|------------------------|--------------|
| | GST output tax | 31 March 2020 | \$19,925,066 |
| | GST input tax | 31 March 2020 | \$15,238,824 |
| 2.16 | PAYE & ACC | 31 March 2020 | \$7,288,093 |
| | FBT | 31 March 2020 | \$23,323 |

Council also acts as agent for the Nelson Regional Sewerage Business Unit, Nelson Tasman Regional Landfill Business Unit and Nelson Tasman Civil Defence and Emergency Management. The numbers above exclude these entities.

3. Conclusion

3.1 Council formally adopted the Tax Governance Framework on 18 May 2017 and the Tax Risk Management Strategy on 14 December 2017. These form a solid foundation for managing tax risk.

3.2 The Tax Risk Management Strategy is a simple tool to ensure that tax risk is being identified and managed appropriately while providing the Subcommittee with a quick visual tool to see the steps Council has taken to manage tax risk and the forward looking strategy.

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

Author: Clare Knox, Manager Finance

Attachments

Attachment 1: A2415912 Tax - PWC - Annual Tax Review 2020 [↓](#)

Attachment 2: A2358418 Tax - PWC - PAYE Compliance Evaluation [↓](#)

Attachment 3: A2417124 Tax - PWC - FBT Compliance Evaluation [↓](#)

Nelson City Council Annual Tax Update Year to 30 June 2020

By Phil Fisher & Annabel Duncan
June 2020



A2415912

1

Report: Tax Annual Update to the Audit and Risk Committee

A2415912

Tax Governance & Tax Risk Management

Introduction

Nelson City Council (Council) adopted its Tax Governance Framework in May 2017. It was a proactive step towards identifying and managing tax risk in order to maintain Council's low risk profile.

A Tax Risk Management Strategy was established at the time of the Tax Governance Framework being introduced, and has now been operational for 3 full years. Council has shown its commitment to managing tax risk by not only achieving its strategy as set, but exceeding it in some areas. Having a tax risk management strategy, and continuing with this, is even more important in times of disruption, and with the recent Covid-19 events the nature of the tax advice and support been obtained by local government clients including Nelson City Council, has highlighted the value of the tax governance framework.

As part of the Tax Governance Framework, we have prepared this annual tax update as a report to Council's Audit and Risk Committee (Committee) on progress made during the period up to 30 June 2020.

This memorandum provides:

- A summary of the more substantive tax advice Council has sought from PwC during the period 1 July 2019 to 30 June 2020.
- Commentary on tax matters currently being addressed as at 30 June 2020.
- A more general update on the wider tax environment which may affect Council, albeit kept to a high-level – refer Appendix A.

Context

Council is largely exempt (not completely) from income tax. However, Council pays significant amounts of indirect taxes including:

| Tax Type | 12 months to 31 March 2020* | 12 months to 31 March 2019* |
|-----------------------|--|--|
| GST Output tax paid | \$19,925,066 | \$17,683,809 |
| GST Input tax claimed | \$15,238,824 | \$14,100,591 |
| PAYE | \$7,288,093 | \$6,143,558 |
| FBT | \$23,323 | \$13,090 |

**Aligning to the standard "tax year" for comparability with prior year.*

Significant work undertaken in Year to 30 June 2020

In accordance with Council's Tax Governance Framework, it is appropriate to report to the audit and risk committee on significant tax issues that arose throughout the year.

Council set a Tax Risk Management Strategy for the year ended 30 June 2020, details of which can be seen in Section 2. Council has been proactive in achieving its planned strategy.

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

Relevant tax work undertaken throughout the year included:

- A PAYE compliance evaluation which was completed August 2019
- A voluntary disclosure to Inland Revenue regarding a specific issue identified during the PAYE evaluation.
- Following the 10 Year Tax Planning report commissioned in October 2018 Council requested further tax advice on the Group income tax efficiency, and specifically the potential to utilise tax loss offsets or subvention payments to offset Nelmac's taxable income. The overall effect of this to reduce the income tax cost across the Group.

To support the ongoing tax risk management, Council:

- Attended the 2 yearly PwC Local Government Tax Training attended by Councils from the Marlborough, Tasman and West Coast regions.
- Commissioned PwC to provide tailored tax training in house with Tasman District Council.
- Continued to subscribe and actively use PwC's online Indirect Tax Policies and Guides.
- Maintained its subscription to PwC's "GST on Property Guide" specific to Local Authorities to mitigate the risks associated with GST and property transactions.
- Sought assistance on a number of ad hoc queries to strengthen their business decisions with confirmation of the potential impact of the relevant tax issues.
- Received assistance with completion and filing of their income tax return for year ended 30 June 2019.
- Commissioned PwC to provide an annual tax update.

2

Report: Tax Strategy Year to 30 June 2020

A2415912

Tax Risk Management Strategy

Progress against strategy FY 30 June 2020

| Tax services | Planned Work 30/06/2020 | Actual Work Done 30/06/2020 |
|---|-------------------------|-----------------------------|
| Tax helpdesk facility | ✓ | ✓ |
| Access to online taxation policies | ✓ | ✓ |
| Tax Function Evaluation | ✓ | |
| Tax compliance reviews | | |
| • GST | | |
| • PAYE/withholding taxes | ✓ | ✓ |
| • Payroll Analyser data analytics testing | ✓ | |
| • FBT | | ✓ |
| Income tax – group tax efficiency review actions instigated | ✓ | ✓ |
| Income tax return independently reviewed | ✓ | ✓ |
| Tax disclosure notes independently reviewed | | |
| Tax agency – income tax | ✓ | ✓ |
| External advice sought on major tax issues | | |
| • Tax technology & automation assessment | ✓ | |
| • Tax training provided to staff | ✓ | ✓ |
| – Inhouse tailored indirect tax training with Tasman DC | | |
| – Attendance at Top of the South and West Coast Local Government Tax Training | | |

Tax Strategy

Current proposed strategy to 30 June 2024

| | | | | | Proposed future strategy | | |
|--|--------------|--------------|--------------|--------------|--------------------------|--------------|--------------|
| Tax services | 30 June 2018 | 30 June 2019 | 30 June 2020 | 30 June 2021 | 30 June 2022 | 30 June 2023 | 30 June 2024 |
| Access to tax helpdesk facility | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Access to online tax policies | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Independent tax evaluations: | | | | | | | |
| • Tax function efficiency assessment | | | | | | | |
| • Payday reporting readiness Phase 1 | | | ✓ | | | | |
| • Payday reporting readiness Phase 2 | | | | ✓ | | | |
| • GST | | | ✓ | | | | ✓ |
| • FBT | | ✓ | | | | ✓ | |
| • Income tax return independently reviewed | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| • Tax disclosure notes independently reviewed | | | | ✓ | ✓ | ✓ | ✓ |
| • Tax agency – income tax | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Annual report to Audit and Risk Committee on tax risk management | ✓ | ✓ | ✓ | ✓ | ✓ | | |
| External advice sought on major issues | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Tax technology & automation assessment | | | | ✓ | | ✓ | |
| Tax training provided to staff | As required | As required | As required | As required | As required | As required | As required |

Strictly private and confidential

PwC |

A2415912 April 2020
1

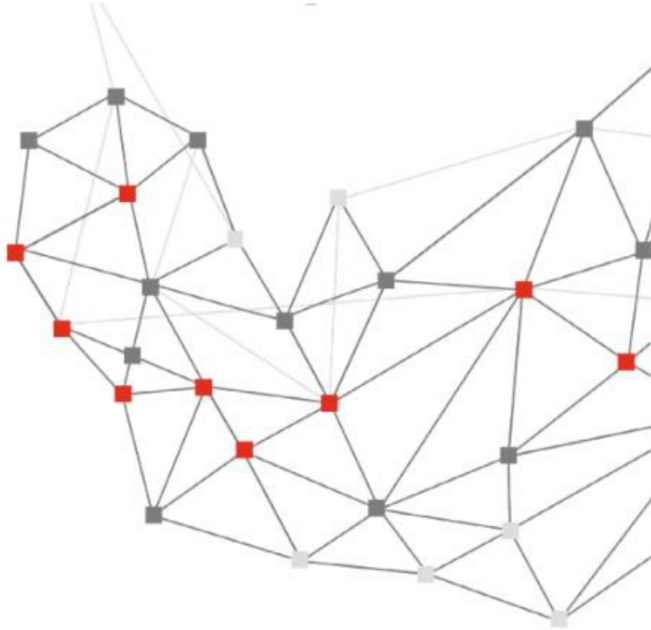
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Report: Tax Developments

A2415912

COVID-19 Related Income Tax Developments

A brief overview of COVID-19 tax developments.



COVID-19 Response (Taxation and Social Assistance Urgent Measures) Bill was enacted on the 25th of March 2020. The income tax, tax administration and social assistance proposals relevant to Council include:

- **Restoring depreciation deductions for non-residential buildings:** Depreciation deductions at 2% diminishing value will be re-introduced for commercial and industrial buildings from the 2021/22 income year. The depreciation deductions will be available to all sectors and will apply to both new and existing buildings on a permanent basis.
- **Increasing the low-value asset threshold:** An immediate income tax deduction will be available for more low-value assets to encourage spending. As a temporary measure, assets costing up to \$5,000 will be eligible for deduction in the current year for the 2020/21 income year. From the 2021/22 income year, the existing \$500 threshold for an immediate deduction will be increased to \$1,000 on a permanent basis.
- **Increasing the provisional tax threshold:** The current threshold of residual income tax of \$2,500 will be increased to \$5,000 from the 2020/21 tax year, meaning that less businesses will need to front the cash to meet their provisional tax obligations.
- **Enabling Inland Revenue to remit UOMI for taxpayers affected by COVID-19:** Businesses who are adversely affected by COVID-19 and who can demonstrate the inability to pay tax by the due date may be eligible for a UOMI write-off. The relief will apply to all tax payments including provisional tax, PAYE and GST due on or after 14 February 2020.
- **Greater information sharing allowed:** Inland Revenue will be allowed to share information with other Government departments to assist those agencies in their response to the COVID-19 outbreak.
- **GST on COVID-19 related payments:** The Goods and Services Tax (Grants and Subsidies) Amendment Order 2020 added the COVID-19 wage subsidy and leave payment to the schedule of non-taxable grants and subsidies in the Goods and Services Tax (Grants and Subsidies) Order 1992 from 24 March 2020. However, as the wage subsidy and leave payments have been paid out from 17 March 2020, the Bill proposes that GST will not apply to payments of COVID-19 wage subsidy and leave payments from 17 March 2020 until the Amendment Order came into force.

COVID-19 Non-Income Tax Developments (continued)

A brief overview of COVID-19 tax developments.

Whilst of less direct relevance to Council, but useful information for Council's interactions with businesses in the City, are the following additional COVID-19 changes:

- There has been a relaxation of the tax loss carry-forward rules by allowing a "same or similar" business test that will allow tax losses to be carried forward despite a major change in the shareholding of a company. The current 49% continuity of shareholding requirement will be supplemented by a "same or similar" business test, similar to the approach already taken in Australia. This allows a company to carry forward its tax losses despite a major shareholding change as long as it stays in the same or similar business after the shareholding change. The proposed change is intended to apply from the 2020/21 income year.
- The urgently enacted COVID-19 Response (Taxation and Other Regulatory Urgent Measures) Act 2020 gives effect to a number of tax changes previously announced by the Government, including:
 - A temporary tax loss "carry-back" scheme allows businesses that anticipate incurring tax losses in 2020 or 2021 to carry those tax losses back to 2019 or 2020 and, to the extent of the tax effect on the losses, get an immediate refund. This temporary scheme will be replaced by a permanent tax loss carry-back scheme in due course that will apply to later years.
 - The Commissioner of Inland Revenue has been granted temporary administrative discretionary powers to modify dates, timeframes, and procedural requirements in tax legislation. This allows Inland Revenue to respond quickly and flexibly to businesses struggling to meet tax deadlines as a result of COVID-19. These powers are to apply for 18 months, although this can be extended by Order in Council.
 - A legislative framework for a new loan scheme administered by Inland Revenue for small businesses affected by COVID-19. The scheme will provide interest free loans of up to \$100,000 for a year to businesses employing 50 or fewer full-time equivalent employees. The loan will be interest free if it is paid back within a year.

In addition to income tax developments, there have been a number of other COVID-19 tax developments:

- Inland Revenue released Determination EE002 on 29 April 2020 regarding payments to employees for working from home costs during the COVID-19 pandemic. This Determination is a temporary response and applies to payments made for the period 17 March 2020 to 17 September 2020.
- The Determination is intended to remove the difficulty around determining what a reasonable amount to reimburse may look like, and provides some safe harbours. It also refers to Determination EE001 which provides guidance in relation to telecommunication costs. No evidence is required in making the following payments to employees during the period that they are required to work from home. These are all per employee:
 - Up to \$400 one-off for the purchase of furniture or equipment
 - Up to \$5 per week for telecommunication usage plans (eg phone and internet)
 - Up to \$15 per week for other expenditure (eg electricity)
- In response to COVID-19, the New Zealand Government introduced a Wage Subsidy Scheme in March 2020 (that has been continually revised). Employers, including sole traders and the self-employed upon application, may be eligible for a wage subsidy paid by the Ministry of Social Development (MSD) if they have been affected by COVID-19.

We provided an email to Council regarding this. Whilst we note that local authorities are not excluded from claiming the Wage Subsidy, there are a number of criteria to be considered; many of which have a high degree of subjectivity.

We also note that during the recent Budget, an extension to the original Wage Subsidy was provided. This became available from 10 June 2020, although we note that the criteria is more stringent.

Other Tax Developments

A brief overview of relevant tax developments

Other relevant points of note that potentially impact Council include:

- Inland Revenue's continued mantra to strongly 'encourage' public sector organisations to be tax compliant. One of the standard questions when Inland Revenue review any organisation is whether there has been an independent assessment of tax compliance, and if so, to request any reports issued. We are aware of several Local Authorities who have received Risk Review Questionnaires from Inland Revenue recently. These are usually a pre-cursor to an Inland Revenue Investigation; although we note the progress of some of these where audits had commenced have been delayed due to COVID-19.
- Inland Revenue's ongoing business transformation has caused disruption to usual services. Clients are noting refunds automatically being swept from one tax type to meet a tax payment in another account. This is sometimes occurring prior to a due date. This is frustrating and time consuming to rectify often requiring multiple communications with Inland Revenue. We encourage clients to ensure all MyIR account balances are reconciled as a final step in the compliance process and at least monthly. Recent discussions with senior Inland Revenue staff confirmed that they will be moving to increasing use of data analytics of tax returns submitted particularly in the payroll and GST areas. We have already seen evidence of the power of this with Inland Revenue cross checking payroll filings for wage subsidy reconciliations. We have developed a suite of data analytical tools that can check the payroll tax calculations along with providing a range of other insights over the workforce than can be useful as organisations increasingly focus on ensuring they have the appropriate staffing levels, there is pay equity etc.
- Mileage rates are set by Inland Revenue and published on their website. Due to COVID-19, Inland Revenue have been unable to review the present rates and advised that the 2018-2019 kilometre rates should be used for the time being. <https://www.ird.govt.nz/income-tax/income-tax-for-businesses-and-organisations/types-of-business-expenses/claiming-vehicle-expenses/kilometre-rates-for-business-use-of-vehicles-2018-2019-income-year>
- Operational Statement OS 19/05: "Employer-provided travel from home to a distant workplace – income tax (PAYE) and fringe benefit tax." was released in January 2020. This statement is intended to clarify and simplify the tax rules around employer-provided travel to distant workplaces.
- Inland Revenue released the final version of Determination EE001: "Employee use of telecommunications tools and usage in their employment" in December 2019. With a view to reducing business compliance costs, the determination provides employers with the option of applying certain percentages to make an allocation between business use and private use for usage plans related to telecommunications tools such as laptops and mobile phones.
- GST on low value (under \$1,000) imported goods rules applied from 1 December 2019. GST will now apply at 15% on what will be known as "distantly taxable goods" and offshore sellers, marketplaces and re-deliverers who exceed the GST threshold (NZD\$60,000) will be required to register for GST.

Other Tax Developments

A brief overview of relevant tax developments

Other broader tax developments include:

- Inland Revenue's prescribed interest rate has reduced from 5.26% to 4.50% 1 July 2020.
- Inland Revenue's use of money interest rates have been updated, effective from 8 May 2020. The debit rate has decreased from 8.35% to 7.00% and the credit rate has decreased from 0.81% to 0.00%.
- Government introduced the Taxation (Annual Rates for 2020-2021, Feasibility Expenditure and Remedial Matters) Bill. The bill includes tax deductions for feasibility expenditure on new investments, tightening of the land tax rules for habitual buying and selling of land, purchase price allocation requirements for parties to agree on when buying and selling businesses, income tax treatment of leases subject to NZ IFRS 16 and remedial changes to GST.
- From 1 July 2019 a local authority who is a member of a Tax Consolidated Group will no longer receive all of the benefits of being in a Tax Consolidated Group. Whilst local authorities will remain eligible to be members of Consolidated Tax Groups, from 1 July 2019 dividends derived by a local authority from a CCO that is member of a Consolidated Tax Group will no longer be excluded income for income tax purposes ie such dividends will have to be included in the calculation of taxable income of the Consolidated Tax Group. Effectively this means that dividends paid by a CCO to a local authority will be subject to income tax post 1 July 2019, although imputation credits can be attached to those dividends. Other non-dividend income such as interest, rental income, management fees etc that are paid between the tax CCO and parent local authority will continue to be 'ignored' where a consolidated tax group exists. This is potentially a 'temporary' change, with a more fulsome review of local authority taxation to be undertaken by Inland Revenue.
- To obtain an income tax donation credit, donations must now be to organisations that are either donee organisations or those listed in Schedule 32 of the Income Tax Act 2007. This potentially has significant relevance to local authorities that tend to be significant donors in the local community.. [QB 19/10](#) was also released clarifying the requirements of a donee organisation to establish and maintain a fund under s LD 3(2)(c) of the Income Tax Act 2007. The consultation reference for this item was PUB00337.
- IRD Numbers will now be required on all property transactions [Supplementary Order Paper \(SOP\) No 248](#) to the Taxation (Annual Rates for 2019-20, GST Offshore Supplier Registration, and Remedial Matters) Bill (114-2). The SOP includes a proposal that will require all buyers and sellers of property to provide their IRD number as part of the transaction process. Previously, those buying or selling a main home did not have to provide an IRD number.
- Regulations have been issued providing for how errors in an employer's employment income information for a payday may be corrected. Tax Administration (Correction of Errors in Employment Income Information) Regulations 2019 (LI 2019/62) were notified on 28 March 2019.
- [IS 19/01: Income tax — application of schedular payment rules to non-resident directors' fees](#) The Interpretation Statement considers the situations in which tax must be withheld from directors' fees paid to non-residents. This includes a discussion of when directors' fees paid to non-residents are considered to have a New Zealand source. The Interpretation Statement then goes on to consider when and how much tax must be withheld and paid to the Commissioner, if withholding is required from directors' fees paid to a non-resident.
- Research and Development tax credit scheme introduced. The 15% tax credit is available from the beginning of the 2019/20 income year for income tax payers.

Other Tax Developments (continued)

A brief overview of relevant tax developments

Other broader tax developments include:

- The criteria for self-correction of errors in later income tax, FBT or GST returns been replaced with a combination of a monetary threshold and materiality threshold. Taxpayers now have the option of correcting an error in a subsequent return, provided it is not material and the purpose isn't to delay the payment of tax, when the error results in a difference of tax to pay that is equal to or less than the lower of:
 - \$10,000 of tax; and
 - 2% of the taxpayers annual gross income, or GST output tax.
- Commissioners statement 20/01: GST on insurance payouts received by third parties - A specific rule in the GST Act deems payments under a contract of insurance received by a GST registered person in relation to a loss incurred in the course or furtherance of their taxable activity as being subject to GST. The Commissioner's Statement clarifies that this rule applies to third-party recipients of such payments – not just when the payment is received by the insured party.
- Standard Practice statement 19/04 : Late filing penalties - For annual tax returns, the late filing penalty is \$500 where net income exceeds \$1,000,000. The Commissioner will provide, publicly or directly, 30 days written notice before imposing a late filing penalty.
- COV 20/04: Variation in relation to extension of time for writing off bad debts – The variation extends the time by which a debt must be written off as bad in order for a deduction to be available in the 2020 income year

Local Government Relevant Matters

An overview of sector specific developments

Local Government relevant matters

- Across the local government client base, there have been an increasing number of requests for assistance in relation to Provincial Growth Fund and Infrastructure Finance Fund opportunities. The common 'theme' is that no two funding proposals are the same, and often the practicalities of the project require working through. With COVID-19, we do note that there is an indication that some of the projects where funding announcements have previously been made, will now be deferred and possibly cancelled.
- Linked to the above, there is anticipation over the 'shovel ready' projects currently being considered. We understand that there are 802 projects on the list for consideration, and that there will be an expectation that once approval is granted, activity occurs quickly. Again, depending on the project, there is an inevitability that tax considerations will exist.
- Urban Development Bill was presented and is currently at Second Reading stage after being reported back by the Select Committee. Whilst focussed on social housing, it did appear to provide Kainga Ora with similar powers to those of a territorial authority. The suggestion was that this Bill would accelerate the build of social housing, with Kainga Ora involving the local authorities in the process. How this will work in practice, if the legislation is passed, will be interesting.
- Other significant infrastructure spend announcements from Government include roading, rail, major reshaping the health system, further investment in schools and \$1.3 billion focused on nature jobs which we believe will be of benefit to the wider Nelson Tasman region.
- Taumata Arowai - The Water Services Regulator Bill - this establishes the agency that will act as independent regulator of drinking water (and a few other roles in the stormwater/wastewater space). However, likely to be more impactful is the evolution of how Three Waters are managed, and whether this is completely 'stripped away' from local authorities. We expect further clarity on this within the next few weeks, based on the intel we are hearing.
- PwC undertook some research recently into urbanisation. Whilst focussed around the 6 largest centres in New Zealand, it is an interesting read and provides some food for thought. A further article in the New Zealand Herald discussing the comparison in discretionary income between Auckland and Napier after factoring in housing and transport costs is also worth noting. Links below.

https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=12148026

<https://www.pwc.co.nz/insights-and-publications/2019-publications/citiesinstitute.html>

- Local Government Funding Inquiry - The Productivity Commission released their draft (and rather lengthy!) report – the briefer summary can be found at the following link. The Department of Internal Affairs conducted workshops with over 60 councils to review the operation of the Local Government Financial Management System and were intending to feed the insights from those workshops into their response. With the unfolding COVID19 situation, consideration of the funding opportunities and models for local authorities will be more relevant than ever, but the answers may not lie within the Commission's report!

<https://www.productivity.govt.nz/inquiry-content/3819?stage=3>

- Tax Policy invited us to an open discussion on the tax framework for local government. We expect it to be some time before any conclusions are reached, and legislative changes enacted, but their review is consistent with their previously signalled review of the income tax legislation as it applied to local government.

Thank you

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Nelson City Council PAYE compliance evaluation

*Strictly private
and confidential*

March 2020

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Private & Confidential

Victoria Harper
Accounting and Property Services Manager
Nelson City Council
110 Trafalgar Street
Nelson

10 March 2020

PAYE compliance evaluation

Dear Victoria

We report on Nelson City Council's (Council) PAYE compliance.

This report has been prepared for the purpose of providing an evaluation of Council's PAYE compliance and should not be relied upon for any other purpose.

This report is strictly confidential, unless described in the contract or as expressly agreed by us in writing. We accept no liability to anyone else in connection with this report and it may not be provided to anyone else, unless otherwise agreed.

Yours sincerely

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This document is a tax advice document and should be kept confidential. It is not required to be disclosed to Inland Revenue. Inland Revenue can request disclosure of "tax contextual information".

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Abbreviations

| | |
|---------|---------------------------------|
| ITA | Income Tax Act 2007 |
| Council | Nelson City Council |
| PAYE | Pay-As-You-Earn Tax |
| PwC | PricewaterhouseCoopers |
| CEA | Collective Employment Agreement |
| IEA | Individual Employment Agreement |
| GST | Goods and Services Tax |
| WT | Withholding Tax |
| ERA | Employment Relations Act 2000 |

1. Executive summary

This report summarises the core findings of the areas covered by this tax compliance evaluation where we consider there to be scope for further improvement. Our findings are set out at **Appendix One**. In addition, we also provide comment at **Appendix Three** on payments for hurt and humiliation under section 123(1)(c)(i) of the ERA, and at **Appendix Four** on allowances and reimbursements.

The findings contained within the report were discussed with Helene Bolton and Victoria Harper at our exit meeting 6 August 2019. We commend Council on its commitment to meeting its PAYE tax compliance obligations and ensuring it is managing its tax risk appropriately.

Overall, we consider that Council has a high level of PAYE compliance. The payroll risk areas often seen at other organisations and targeted by Inland Revenue in investigations do not appear to be significant risks for Council. This is a testament to a systemised process Council has in place along with good team backup and support to ensure consistency. Notwithstanding the high level of compliance by Council, there are some areas which require attention.

The principal risk areas are:

- **MyIR account reconciliations** – As part of their ongoing transformation, Inland Revenue’s new system is automatically sweeping payment amounts into different tax types. This is sometimes occurring prior to a payment due date, resulting in great frustration for clients trying to rectify their IR accounts after the fact. As Council has experienced, this can result in difficulties in reconciling accounts. We recommend that Council perform manual reconciliations of accounts on a monthly basis to ensure that the accounts listed match Council’s records.
- **KiwiSaver employer contributions** – We noted on occasion an inconsistency in the employer contributions to KiwiSaver where the employee elected an employee contribution rate higher than 3%. We recommend some further investigation into this issue to ensure this is an intended outcome.
- **Pay data** – We have obtained Council’s pay data and performed a number of tests. These recalculations relate to redundancy payments, lump sum payments and allowance payments. Whilst comparing the data with our own calculations of the tax treatment that we would expect to see, we identified a number of small discrepancies between our calculations and the pay data. We recommend that Council undertakes the Stage two: Payroll Analytics, as this will provide Council with an entity wide overview. The aim of this stage is to provide Council with comparable data across the organisation.

The above points are discussed in further details in the summary of findings at **Appendix One**.

Action plan

We include, as part of **Appendix One**, an action plan for Council to implement/record its decisions on all of the various matters raised in this report.

Whilst a high level review cannot be expected to replicate an Inland Revenue investigation exactly, Council should reflect positively on having taken the proactive step of instigating this review and obtaining a clear, independent view of those areas that it should address to facilitate tax compliance.

2. *Scope of evaluation*

The scope of our PAYE compliance evaluation was set out in our proposal dated 25 July 2019. Briefly, the aim of the evaluation was to provide Council with an overall assessment of tax compliance in respect of PAYE which involved:

- Ascertaining Council's areas of risk, and to provide practical recommendations to mitigate any risks identified.
- Providing management with an independent assessment of Council's level of tax compliance; and
- Identifying any area of non-compliance by Council, and provide recommendations as to how this should best be addressed.

The initial on-site review was undertaken over two days in August 2019, and subsequent further testing took place offsite. The approach taken for the evaluation was to interview key staff and examine certain key documentation, together with the tax treatment applied to a variety of transactions undertaken by Council. The documents selected and employees interviewed were based on our knowledge of the current areas of tax on which the Inland Revenue is focusing, and our experience gained from our close involvement with the public sector, and the problematic issues that can arise.

As agreed, the culmination of the evaluation is the following report, providing an overview of Council's compliance with existing tax legislation, our recommendations for policy and process improvements, where appropriate, and our comments on tax opportunities/risks identified.

We would like to convey our appreciation of the assistance and open co-operation provided by Council's personnel throughout the course of the review.

Appendix One – Summary of findings

| Area of focus | Our observation | Our recommendation | Action taken |
|-------------------------------------|---|--|--|
| PAYE Processes | | | |
| Key person risk | <p>The Payroll Officer has primary responsibility for processing the payroll. The Payroll Officer is supported by Team Leader Revenue where the Payroll Officer is unable to complete the payroll procedures. Team Leader Revenue performs the payroll procedures every 6 weeks to ensure that they are kept up to date and they can competently undertake the payroll process.</p> <p>The Payroll Officer is knowledgeable and proactive in their role and documentation exists to support the payroll process from start to finish.</p> | <p>Council has increased team resilience and reduced key person risk by ensuring that other personnel can cover this role where circumstances dictate that the Payroll Officer cannot perform their duties. Due to the serious nature of payroll we commend Council on ensuring that key person risk is reduced.</p> | <p>BCP system in place with Fusion5 to reduce key person risk.</p> <p>Additional officer to be trained in payroll over 2020 to provide second backup option reducing key person risk further.</p> |
| Payroll procedures | <p>Council has a payroll checklist for reference when carrying out payroll procedures.</p> | <p>Council should ensure that these payroll procedures are being followed and are regularly reviewed and kept up to date for changes in payroll reporting.</p> | <p>Procedures and processes including checklists are reviewed at least annually through Promapp reviews.</p> <p>IRD communication is reviewed by multiple staff to ensure changes are captured in reviews.</p> |
| MyIR account reconciliations | <p>Council expressed concern that Inland Revenue's new transparent accounts are causing issues when reconciling the payroll account.</p> <p>Earlier in the year Inland Revenue transferred an amount from Council's GST account to Council's PAYE account in order to satisfy an amount owing at period end. This caused issues for Council in the short term as the GST account no longer reflected what Council had recorded for GST.</p> <p>Inland Revenue's ongoing internal transformation has caused disruption to usual services. Clients are noting that refunds are automatically being swept from one tax type to meet a tax payment in another account. This is sometimes occurring prior to a due date. This can be frustrating and time consuming to rectify and often requires multiple communications with Inland Revenue.</p> | <p>We encourage Council to ensure all MyIR account balances are reconciled as a final step in the compliance process each month.</p> | <p>Additional step to be added to end of month processes by 31 March 2020.</p> |

| Area of focus | Our observation | Our recommendation | Action taken |
|------------------------------|---|---|---|
| Withholding tax | <p>Council makes schedular payments to a number of contractors for services performed.</p> <p>Council also makes payments to both companies and individuals for their services as external appointments to Council committees and panels.</p> <p>Withholding tax is required to be withheld for all payments that are schedular payments as set out in Schedule 4 of the ITA and includes payments made for services provided by a member of a committee.</p> <p>We undertook a sample test of AP invoices and identified a number of instances where we considered WT should have been withheld. Upon further testing all instances had WT where it was warranted.</p> <p>We undertook a sample test of 3 committee member invoices. Of these only 1 was subject to WT and this was deducted appropriately. The other two were invoiced from limited liability companies and WT was appropriately <i>not</i> deducted.</p> <p>Overall the WT testing provided comfort that Council has good practices in place for achieving compliance with WT rules.</p> | <p>We commend Council on its WT compliance and encourage it to maintain vigilance in this area.</p> | <p>No action required.</p> |
| Committee members GST | <p>We noted the two committee members (see above) who invoiced from a limited liability company for their services both charged GST.</p> <p>Provided in both instances the members had to either remit their fee to an employer (and the invoice was from that employer) or they accepted the office in the course of their existing taxable activity in that field, then they are eligible to charge GST. We understand that this is the case for both of the instances identified.</p> | <p>We recommend that Council carefully considers any incoming committee members when they first take up the role to ensure compliance.</p> <p>We note the same approach cannot be taken by elected members.</p> | <p>No PAYE action required.</p> <p>Governance Team requesting advice from LGNZ to determine if independent committee members must invoice in their own name vs a company.</p> |

| Area of focus | Our observation | Our recommendation | Action taken |
|------------------------------|---|---|---|
| Elected members | | | |
| Tax code declarations | <p>The activity of performing elected member services is subject to WT.</p> <p>Whilst on site we reviewed all current elected members (at the time) IR330 or IR330C Tax Code Declaration forms. We identified two situations where the elected member had the incorrect pay code of M as opposed to WT.</p> <p>We tested pay data relating to elected members and confirmed that payments were being taxed at the WT rate of 33%. Whilst the tax code is correct, Council is required to hold a valid tax code declaration for each elected member.</p> <p>We note that IR330C's may not have existed when the elected members completed their tax code forms; however, to be making payments in the technically correct position, elected members should update the tax codes on the IR330C to WT.</p> | <p>Council should now hold a new IR330C's for all incoming elected members following the 2019 election.</p> <p>We note that Councillors can elect a rate of withholding to reflect their marginal tax rate within the IR330C form, so the actual rate applied can differ from the 33% default rate.</p> | <p>Review of all Councillors IR330C documentation by 31 March 2020.</p> |

| Area of focus | Our observation | Our recommendation | Action taken |
|--------------------------------|--|--------------------|--------------|
| Allowances and benefits | | | |
| Allowances | <p>Council provided the following list of non-taxable allowances:</p> <ul style="list-style-type: none"> • Meal PSA • Meal WageI • Meal WageC • Meal Indiv • Mileage • Mileage-El • CRMileage • CRMileg-El • Bike Adv • NT Misc • Con/NTMisc • LoantoEMP • Comm MemNT • NT Settlement <p>If Inland Revenue were to undertake an investigation it would ask Council to provide support for the non-taxable position of each of these.</p> <p>Where it is a clear reimbursement for business expenditure incurred by the employee in the course of their duties then a non-taxable setting is appropriate.</p> <p>We comment on particular non-taxable allowances below.</p> | | |

| Area of focus | Our observation | Our recommendation | Action taken |
|------------------------|---|--|--|
| Meal Allowances | <p>Overtime meal reimbursements and allowances are treated as non-taxable when an employee is required to work more than 2 hours overtime.</p> <p>The CEA allows certain staff a meal allowance where overtime is worked. We understand that in practise only library staff utilise this allowance when they are called in to work on a day that they would not ordinarily work and they are asked to work longer than originally expected. It seems this is a very rare occurrence however it could lead to the allowance being taxable if it is treated as non-taxable and paid when less than 2 hours of overtime has been worked by an employee.</p> <p>We were not able to determine from our testing whether the meal allowance was provided after 2 hours of overtime was worked due to insufficient information.</p> | <p>We recommend that Council undertakes a sample check of how often this allowance is paid and what supporting information is available to confirm that a tax free meal allowance is paid only when more than 2 hours of overtime is worked. This will assist in validating whether there is an exposure in this area.</p> <p>It would also be valuable to highlight the tax issue to the union when re-negotiating the CEA to ensure the clause it drafted in line with expectations.</p> | <p>Review of Timefiler, transaction code and agreements to be completed by 30 June 2020.</p> <p>Tax issue to be shared with P&C team for PSA negotiations.</p> |
| Mileage rates | <p>Mileage reimbursements are appropriately flagged as non-taxable as long as mileage is reimbursed in line with Inland Revenue guidelines.</p> <p>Inland Revenue released OS19/04a and OS19/04b which updated the mileage rates used in the two tier system. The most noticeable change is the move in the Tier one rate from 76 cents to 79 cents for the first 14,000 km travelled. Mileage rates are set by Inland revenue and published on their website.</p> <p>The updated rates can be found here: https://www.ird.govt.nz/topics/income-tax/day-to-day-expenses/vehicle-running-costs/kilometre-rates-for-business-use-of-vehicles-2018-2019-income-year</p> <p>Council makes mileage reimbursements to Councillor's and employees required to use a private vehicle for work purposes. While Council was initially unaware of the recent change in rates, as soon as we discussed it on site the new rates were implemented promptly.</p> <p>Council appropriately relies on updates from tax advisors regarding these changes or from their own technical reading.</p> | <p>We recommend Council continue to stay up to date on changes to mileage rates through its continued reading and by staying connected to tax advisors by receiving updates and attending training as appropriate.</p> <p>We note that it is now an annual 'event' for Inland Revenue to publish its approved mileage rate – typically released about July/August.</p> | <p>Calendar reminders set for Payroll Officer, Creditors Officer and Manager Accounting Services.</p> |

| Area of focus | Our observation | Our recommendation | Action taken | | | | |
|--|--|---|--|------------|-------|--|---|
| Bike Adv Loan to EMP | <p>We understand that Council has recently implemented an electric bicycle incentive for employees. We understand that this was either to be implemented under a salary advance or an interest free loan to the employee.</p> <p>We note that the “Bike Adv” pay code is set as non-taxable which indicates that Council will be treating these amounts as subject to FBT under an interest free loan arrangement.</p> <p>Alternatively, if the salary advance option was the chosen method, we would expect to see this as a taxable advance; as a salary advance is essentially bringing forward the employee’s salary and it is still subject to PAYE when paid.</p> <p>This code was not used during the period of pay data that was reviewed so were not able to ascertain while on site whether this code had been used for the electric bicycle scheme. It follows that if it was used for the scheme (i.e. the advances were paid out tax free then do they show in the FBT return as low or no interest loans).</p> | <p>We recommend that Council run a report to see if this pay code has been used for salary advances and, if so, whether it considers that it is appropriately noted as non-taxable.</p> | <p>Review transaction codes, and staff agreement against tax advice.</p> | | | | |
| NT Misc Con/NTMisc Comm MemNT NT Settlement | <p>NTMisc was used twice in the period under review. We were not able to ascertain what these payments related to in order to ascertain whether the NT treatment was appropriate. Details of pay periods and amounts are shown below.</p> <table><tr><td>1/07/2018</td><td>34.9</td></tr><tr><td>23/09/2018</td><td>729.5</td></tr></table> <p>Con/NTMisc - we did not identify any instances of this code being used during the period under review.</p> <p>Comm MemNT - we understand that this pay code relates to the elected member communications allowance. As such this is appropriately tagged as non-taxable.</p> <p>NT Settlement - We did not identify any instances of this code being used. However, we do urge caution before paying any non-taxable settlement payments; we recommend tax sign-off Tax advice is sought. We have provided some further comments on this issue under the heading s123 ERA payments.</p> | 1/07/2018 | 34.9 | 23/09/2018 | 729.5 | <p>We recommend Council look at both instances of the use of NTMisc and confirm whether the treatment was appropriate.</p> | <p>Review of NT codes to be completed 30 June 2020.</p> |
| 1/07/2018 | 34.9 | | | | | | |
| 23/09/2018 | 729.5 | | | | | | |

| Area of focus | Our observation | Our recommendation | Action taken |
|--------------------------------------|--|---|---|
| Hurt and humiliation payments | <p>We were advised that Council has not made any tax free payments under section 123(1)(c)(i) of the ERA for hurt and humiliation, to departing employees over the past four years.</p> <p>Inland Revenue places a large focus on these payments and has a high bar to meet in order to appropriately make these payments tax free.</p> | <p>If Council were to consider making a tax free payment under s123(1)(c)(i) of the ERA in the future, it should ensure it meets Inland Revenue's expectations. We set out a summary of these expectation at Appendix Three.</p> | <p>Update processes to document this.</p> |
| Availability allowance | <p>Council pays an availability allowance to one employee. This employee works at Brook Valley Camp and their services may be required 24 hours a day, 7 days a week. To compensate the employee for this inconvenience Council pays \$36 per day.</p> <p>We have reviewed the payroll data and confirmed that the allowance is correctly subject to tax.</p> <p>We have not considered any non-tax employment law implications of such a payment.</p> | <p>No further action required in relation to tax.</p> | <p>No action required.</p> |
| Lump Sum payments | <p>We have conducted sample tests on the payroll data provided by Council. We have performed recalculations of payslips relating to lump sum payments on the basis of how we would expect lump sum payments to be calculated.</p> <p>We found minor immaterial discrepancies across the tests conducted between our tax calculation and the calculation in the payroll data.</p> | <p>We recommend that Council undertake Stage Two of the PAYE compliance evaluation.</p> <p>This stage was discussed in our exit meeting and details of which are included in our proposal. The second stage of the evaluation is focused on data analytics, utilising our payroll analyser tool.</p> <p>Data analytics would be useful in identifying any errors in employee pay codes and underpayments/overpayments to employees and Inland Revenue.</p> <p>Data analytics would extrapolate our findings in the manual testing that we have done and determine the extent of the differences calculated at a Council-wide level.</p> | <p>To be considered.</p> |

| Area of focus | Our observation | Our recommendation | Action taken |
|-------------------------------|---|---|--|
| Superannuation schemes | <p>There are a small number of employees at Council who are members of two schemes. These schemes include SuperEasy (Local Government KiwiSaver scheme provider) and the default scheme of the employee's choice.</p> <p>As required by legislation, Council meets the minimum employer contributions required. On occasion, Council will allocate their employer contributions to both the employees default KiwiSaver and SuperEasy.</p> <p>Council has a low exposure to KiwiSaver disputes with employees as Council contributes the minimum requirements (3%) towards the employees default scheme before making contributions (if any) to the SuperEasy fund.</p> <p>We note that Council has two employment agreements in place. One is a total remuneration agreement in which Council meets the mandatory 3% statutory contribution and one is a base agreement in which Council will match an employee's contribution up to 5%. These rates were sighted in the pay data we reviewed.</p> | <p>We recommend that Council perform, at a minimum, an annual sample test of KiwiSaver deductions and ensure that they match the employees chosen deduction rate, and where Employer contributions are at a rate higher than the minimum contribution, that these are consistent with policy and employment agreements.</p> | <p>Review to be completed on KiwiSaver percentage vs Agreement Type by 30 June 2020.</p> |

Appendix Two Key personnel

| Person | Title |
|-------------------|--|
| Cam Fraei | Team Leader Revenue |
| Victoria Harper | Accounting & Property Services Manager |
| Helene Bolton | Payroll Officer |
| Stephanie Vincent | Manager People & Capability |
| Tracey Hughes | Senior Accountant |
| Jitka Marigold | Creditors Officer |

Appendix Three – Hurt and Humiliation payments

Inland Revenue has expressed its view that the following four factors must be present for a tax-free payment made under section 123 of the ERA to be considered genuine.

- **The existence of a personal grievance**
To be genuine compensation for hurt or humiliation suffered, there must first be evidence of a personal grievance being raised by the employee. What constitutes ‘evidence’ is not prescribed, but we would ordinarily expect an employer to have a written grievance from the employee or records of the conversation where an employee claimed they had a grievance.
- **Fair and reasonable**
The employee must have a genuine personal grievance that justifies a compensatory payment. The question that must be answered is whether the actions of the employer were fair and reasonable. If the employer acted in a fair and reasonable way; for example, the performance management of the employee (in terms of section 103A of the ERA), there would have been no “unjustified dismissal” or “unjustified actions” on the part of the employer, and there would be no genuine personal grievance (in terms of sections 103 of the ERA).
- **Quantum**
Inland Revenue will look at whether the quantum of the payment is appropriate to the personal grievance and ‘suffering’ of the individual. Inland Revenue will consider this in light of court awarded amounts, and will want to be satisfied that the hurt and humiliation payment is in addition to, and not substitute for, other statutory entitlements due to the employee.
- **Documentation**
Inland Revenue will consider whether sufficient evidence of hurt or humiliation exists to substantiate a genuine payment under section 123 of the ERA. This is typically where we see the hurt and humiliation payments challenged by Inland Revenue (i.e. there is not enough evidence on file to prove that a payment is genuine).

The reason Inland Revenue thinks the treatment of these payments is important, is due to the impact on KiwiSaver, social assistance etc., if the payment is supposed to be taxable. We note that Inland Revenue is now insisting that a payment incorrectly treated as tax free must not only be grossed up for tax, but also employee and employer KiwiSaver contributions and reassessed on the individual employee’s employment income record. This in turn has the potential for further, likely negative, interactions with the employee/former employee.

Appendix Four – Allowances and Reimbursements

Overarching principles

The income tax legislation permits an allowance to be paid tax-free where it represents an actual or reasonable reimbursement of a business related cost. It is noted that:

- The expenditure must have been incurred or paid by the employee because the employee is performing an obligation required by their employment or service;
- The employee derives employment income through their performance of the obligation; and
- The expenditure is necessary in the performance of the obligation.

It is accepted that an employer can make a reasonable estimate of the expenditure likely to be incurred by an employee, or a group of employees, for which a reimbursement is required.

In addition to this general principle, there are specific provisions that apply to the provision of meals, relocation payments, clothing and additional transport costs.

We set out some of these below.

CW 17C Payments for overtime meals and certain other allowances

An amount that an employer pays to or on behalf of an employee for a meal for the employee when the employee is working overtime is exempt income of the employee only if—

- the employee has worked at least 2 hours' overtime on the day of the meal; and
- either:
 - the employee's employment agreement provides payment for overtime hours worked; or
 - the employer has an established policy or practice of paying for overtime meals.

The amount paid must be:

- the actual cost to the employee, and for an overtime meal referred above, with documentation required for amounts over \$20 per meal; or
- a reasonable estimate of the expenditure likely to be incurred by the employee or a group of employees for whom an amount is payable.

Overtime, for a person and a day, means time worked for an employer on the day beyond the person's ordinary hours of work as set out in their employment agreement.

CW 17CB Payments for certain work-related meals

When the employment duties of an employee require them to work away from their employer's workplace, expenditure that the employer incurs for or on behalf of the employee for a meal for the employee is exempt income of the employee. For these purposes, expenditure includes a reimbursement payment or a meal allowance.

A meal includes—

- food and drink that the employee consumes as part of a working meal arranged as part of or as an alternative to a formal meeting for business discussions;
- food and drink that the employee consumes at a conference or training course;
- light refreshments in the form of snack foods such as biscuits and fruit, or liquid refreshments such as tea, coffee, water, or similar refreshments, provided for the employee, but only if:
 - their employment duties require them to be away from their employment base for most of the day; and
 - the employer would normally provide the refreshments to the employee on the day; and
 - it is not practicable for the employer to provide the refreshments on the day.

A meal also includes food and drink that the employee consumes when their employment duties require them to travel in the performance of those duties.

The maximum period applying to meal expenditure incurred when an employee is required to work away from the employers workplace is 3 months.

pwc.co.nz

Nelson City Council FBT tax compliance evaluation

*Strictly private
and confidential*

Discussion paper

July 2019

pwc



Tracey Hughes
Senior Accountant
Nelson City Council
110 Trafalgar Street
Nelson 7010

26 July 2019

Fringe Benefit Tax compliance evaluation

Dear Tracey

We report on Nelson City Council's (Council's) FBT compliance.

This report has been prepared for the purpose of providing an assessment of Council's FBT compliance and should not be relied upon for any other purpose.

As this is a draft report, the comments herein are subject to amendment or withdrawal. Our definitive findings and conclusions will be those set out in the final report.

This report is strictly confidential, unless described in the contract or as expressly agreed by us in writing. We accept no liability (including for negligence) to anyone else in connection with this report and it may not be provided to anyone else.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Phil Fisher'.

Phil Fisher
Partner

Phil Fisher

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This document is a tax advice document and should be kept confidential. It is not required to be disclosed to Inland Revenue. Inland Revenue can request disclosure of "tax contextual information".

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Abbreviations

| | |
|---------|------------------------|
| Council | Nelson City Council |
| FBT | Fringe Benefit Tax |
| PwC | PricewaterhouseCoopers |

1. Executive summary

This report summarises the core findings of the areas covered by this tax compliance evaluation where we consider there to be scope for further improvement. It also briefly summarises the aspects of Council's operations where the correct FBT treatment is being applied.

The findings contained within the report were discussed with the Finance team at our exit meeting on 30 May 2019. Overall, Council has a high level of FBT compliance. In summary, the principal risk areas are:

Rewards and Recognition – Council operates in the realm of public scrutiny and accordingly has also determined that maintaining a 'low' tax risk status is appropriate. Hence, there is a general directive from Council that there is an expectation that FBT exposure is minimised.

Accordingly, discussion should occur between members of the Finance team and business unit leaders around providing fringe benefits to staff to ensure there is consensus on the approach to staff Rewards and Recognition. Further, the Finance team should look to raise awareness amongst budget holders of the FBT consequences that their spending decisions can have.

De Minimis Exemption – Council has not been returning FBT on unclassified benefits (eg vouchers or gifts for events such as births, deaths and marriages, or leaving). Inland Revenue requires taxpayers to monitor this expenditure and if it is under certain thresholds¹ a de minimis exemption can be applied. Council has been applying the de minimis exemption to date, however, it has not been tracking this expenditure on a per person basis. In addition to this, Council has been using the GST exclusive amount to determine that the overall total was under \$22,500. We recommend in the report practical changes to be implemented to ensure Council can support its FBT position.

Motor Vehicles – Council currently has a number of motor vehicles and these constitute the greatest component of Council's FBT liability. Council staff have been made aware of the work-related vehicle exemption and also that any time that Council makes the vehicle *available* to the employee for private use FBT will apply. Council have been proactive in this area by issuing notes to drivers and setting up forms to monitor private use. However, there were indications that additional private use was occurring in instances where staff take a vehicle home on the night prior to attending a meeting the following day. While a majority of these events are captured by the requirement to get a manager approval prior to taking the vehicle, we recommend that booking procedures are modified to track any other instances of this type of usage.

Action plan

We include, as **Appendix One**, an action plan for Council to implement/record its decisions on all of the various matters raised in this report. Please note that certain more minor matters identified during the review can also be found in that appendix.

Whilst a high-level process review cannot be expected to replicate an Inland Revenue investigation exactly, Council should reflect positively on having taken the proactive step of instigating this high-level review of its FBT calculations and obtaining a clear, independent view of those areas that it should address to facilitate on-going tax compliance.

¹ There are two components to the de minimis threshold, being that unclassified benefits are less than \$300 per employee per quarter *and* less than \$22,500 for all employees for the current quarter and the 3 preceding quarters. Amounts are GST inclusive.

2. Scope of evaluation

The scope of our FBT compliance evaluation was set out in our proposal dated 22 May 2019. Briefly, the aim of the project was to provide the Finance team with an overall assessment of Council's tax compliance in respect of FBT, and involved:

- Identifying any material instances of non-compliance, drawing on our experience in undertaking FBT compliance reviews across other organisations;
- Ensuring that Council's current policies and procedures facilitate tax compliance; and
- Enabling Council to demonstrate to Inland Revenue that it has taken reasonable care in managing its taxation affairs.

The initial on-site work was undertaken on 29 May 2019. The approach taken for the project was to interview key staff (as outlined in **Appendix Two**) and examine certain key documentation, together with the tax treatment applied to fringe benefits provided to Council staff. The documents selected and employees interviewed were based on our knowledge of the current areas of tax on which the Inland Revenue is focusing, and our experience gained from our close involvement with local authorities and other large complex organisations, of the problematic issues that can arise.

As agreed, the culmination of the evaluation is the following report, providing an overview of Council's compliance with existing FBT legislation, our recommendations for policy and process improvements, where appropriate, and our comments on tax opportunities/risks identified.

We would like to convey our appreciation of the assistance and open co-operation provided by Council's personnel throughout the course of the project.

Appendix One - Summary of findings

| Area of focus | Our observation | Our recommendation | Action taken by Council |
|-------------------------|--|---|-------------------------|
| General and FBT Returns | | | |
| 1. Tax policies | <p>In the event of a FBT risk review or audit, Inland Revenue would ask whether Council has a set of FBT policies.</p> <p>Council currently:</p> <ul style="list-style-type: none">Has an internal directive that Fringe benefits should be kept to a minimum and FBT exposure should be minimised in line with ratepayer expectations.Currently subscribes to the PwC online tax policies relating to FBT (and other indirect taxes).Has a specific policy relating to motor vehicle usage. <p>These actions are appropriate for an organisation with a low tolerance for tax risk.</p> | <p>We commend Council on ensuring that it has an FBT policy framework in place and there was evidence that staff were aware of the online tax policies and were using them as a point of reference.</p> | |

| Area of focus | Our observation | Our recommendation | Action taken by Council |
|---------------------------------|--|---|--|
| 2. FBT procedures | <p>Council has a succinct documented FBT procedure. It is primarily focused on the preparation of the calculation and does not extend to the review process. We noted however that there was evidence of sufficient review occurring, it is just not documented.</p> <p>We have noted a number of discrepancies in client MyIR accounts as IR's new system sweeps credits from other tax types to meet any amounts owing. With this in mind we recommend that Council introduce a new step to its procedure that ensures the MyIR FBT account is reconciled as a final step in the quarterly process.</p> <p>We noted the Financial Accountant undertakes a number of reviews and checks (eg location of vehicles overnight on a daily basis). These checks are not written into any procedural document and are unlikely to be undertaken unless the Financial Accountant is present.</p> | <p>We recommend that Council include the full process including the review steps and payment sign off.</p> <p>We also recommend that an additional step is included that checks the FBT myIR account to ensure the payment is reconciled to the return.</p> <p>We recommend that Council reflect on the procedure document annually to ensure that any changes in process are included.</p> | <p>Agree.</p> <p>Shows in the balance sheet when the reversing journal is done. We intend to introduce an independent check as well.</p> |
| 3. Review of FBT returns | The FBT return is prepared by the Financial Accountant and reviewed by the Management Accountant. | No action required. | |
| 4. Key person risk | <p>The Financial Accountant has a good understanding of the FBT rules and has developed strategies to ensure that Council captures and returns FBT when required.</p> <p>A number of people within the Finance team have had responsibility for preparing the FBT return over the years and would be able to complete it if the Financial Accountant was not available. However it was noted that any leave etc. would be planned around when FBT was due.</p> <p>Accordingly, we assessed the key person risk to be moderate given other team members would be able to complete FBT tasks if required.</p> | No action required | |

| Area of focus | Our observation | Our recommendation | Action taken by Council |
|--|---|---|---|
| 5. Workpapers | <p>Council has developed a FBT calculation workbook to guide the quarterly return process. The workbook is rolled over each month and updated.</p> <p>Rolling over the workbook from quarter-to-quarter is not considered to be best practice as it creates a risk that data is not updated appropriately. However we consider this risk to be relatively low given the review processes and materiality when considering the amount of FBT being calculated quarterly.</p> | No action required. ² | We will introduce an additional step to check formulae. |
| 6. Training | Members of the Finance team with a connection to the FBT process recently participated in a FBT compliance webinar. Additionally the Finance team also commissioned an in-house training on indirect taxes to discuss their specific questions. | We commend Council on the commitment to professional development and encourage the Council staff to continue with this proactive approach to seeking training where relevant. | |
| 7. Knowledge, communication and awareness | <p>The Financial Accountant responsible for overseeing the FBT obligations of Council is knowledgeable about FBT rules. One challenge identified was in the awareness of FBT rules across the wider business. In particular, budget holders not being aware of the potential FBT implications of their decisions. This is particularly relevant when considering unclassified benefits.</p> <p>It is important that when individuals throughout the business are considering providing non-cash benefits to employees on behalf of Council that the relevant information is provided to the Finance team so the tax implications can be known and advised upon.</p> | <p>After due consideration has been given to the staff benefits and rewards scheme (as discussed below), we recommend the Finance team consider the exact format and way in which information is to be provided by the budget holders. Pro-active discussions with the Finance team should ensure that any benefits are provided in the most tax efficient manner, and support overall FBT compliance.</p> <p>Further, we recommend that the Finance team undertake an FBT awareness program throughout the business to mitigate risk of non-cash benefits being provided without the Finance team's knowledge.</p> | |

² There are a number of automation tools being introduced to help eliminate the use of spreadsheets and support greater accuracy in the calculation of FBT. However, given Council's overall policy in relation to the provision of benefits, and the limited number of benefits provided, the cost of such tools is not justified.

| Area of focus | Our observation | Our recommendation | Action taken by Council |
|-----------------------------|---|--|---|
| 8. GST on FBT return | The FBT workpaper includes a journal entry that includes GST on FBT. It was confirmed to us that this journal goes to the FBT accrual and does not impact the GST balance sheet account nor does it impact the GST return. | No action required. | |
| Benefits provided | | | |
| 9. Insurance | We understand that Council does not provide any insurance benefits to employees. | No action required. | |
| 10. Motor vehicles | <p>Council have a number of motor vehicles that are made available for private use on occasion. These include:</p> <ul style="list-style-type: none"> • 1 full private use vehicle provided to the Mayor • 3 commuter vehicles provided to Senior Leadership Team members. <p>In both instances FBT is returned when the vehicles are available for private use.</p> <p>The Financial Accountant monitors private usage on these vehicles daily using the GPS software linked to each vehicle. This review is based on the individual's working knowledge of employees known addresses.</p> <p>In the last year Council performed an internal review of its motor vehicles which led to voluntary disclosure being made to Inland Revenue. The main finding of the internal review was a discrepancy in how the exempt days were calculated.</p> <p>Council drafted the voluntary disclosure itself and after numerous communications with Inland Revenue was able to secure all the reassessments as requested.</p> <p>Council has also developed a declaration sheet for each user to submit, stating how the vehicle is used. We considered this documents to be a good tool in ascertaining exempt days accurately.</p> | <p>We recommend that an annual review of the calculation is performed to ensure it is calculating as anticipated.</p> <p>We also recommend that the steps involved in the daily GPS checks are recorded so that other team members can perform them if required. Alternatively, the GPS checks could be performed quarterly using the data available from the system and automating the checks to eliminate the risk of human error.</p> | <p>Agree with overall comments, however current constraints of ERoad system system do not allow for easy use or recording of data.</p> <p>If ERoad system updates we will revisit this.</p> |

| Area of focus | Our observation | Our recommendation | Action taken by Council |
|--|--|---|-------------------------|
| 11. Work related motor vehicles | <p>Council has a number of work related motor vehicles that meet the requirements of the definition including:</p> <ul style="list-style-type: none"> • Not a car (not designed principally for the carriage of people) • Permanent and prominent signage • Not available for private use. <p>These vehicles are typically parked in the locked carpark near the Council building at night and on weekends.</p> <p>There was one exception where a building inspector is able to take his work vehicle home throughout the week.</p> <p>Inland Revenue considers home to work travel to be private in nature. In order for this vehicle to maintain its work related vehicle status it cannot be available for private use unless that use is “necessary” and a “condition of employment”.</p> <p>In our experience, proving to Inland Revenue’s standard that it is necessary for an employee to take a vehicle home is difficult. In absence of any information that supports the necessity of this employee to take their vehicle home, we recommend that Council return FBT on any day when the vehicle is available for private use³ (i.e. any day it is taken home).</p> | <p>Council is aware of the work-related exemption for motor vehicles. We recommend that the single instance of the vehicle taken home is reviewed and Council considers what steps need to be taken to ensure FBT is returned if appropriate.</p> | |

³ Whilst from a business perspective, it may be practical for the building inspector to take a vehicle to undertake inspections on their way to and from work, this would unlikely pass the Inland Revenue’s test of “necessary”.

| Area of focus | Our observation | Our recommendation | Action taken by Council |
|-----------------------------------|---|---|---|
| 12. Motor vehicles general | <p>A number of other motor vehicle issues were raised during the course of the review, we cover these briefly below:</p> <ul style="list-style-type: none"> In limited instances employees take a vehicle home the night prior to a meeting if it makes geographical, economical or health and safety sense. Council is not able to easily monitor this type of private usage, however it is aware that it occurs occasionally. Council was unsure of the cost value of some vehicles attained in older periods. Council also expressed concern in the method of determining the cost price in relation to accessories added to motor vehicles. <p>When determining the cost price of a vehicle for determining the taxable value for the FBT calculation the value should include the GST inclusive amount of all costs incurred when the vehicle is first commissioned by Council e.g. the on road costs, towbar etc. If further minor modifications are made to vehicle at a later date for example a roof rack is added, we do not consider that the cost price needs to be updated. However, if the modification is substantial then this point should be reconsidered at the time.</p> | <ul style="list-style-type: none"> We recommend that Council introduces a step in the booking system that requires employees to state whether a vehicle is taken home the night before or after it is required for a work purpose. We recommend that Council check the fixed asset register as this will determine the original cost price of the vehicle. The cost price of the vehicle will not include the cost of business accessories fitted to the motor vehicle at the time of purchase or any time after. Business accessories must be required for and relate solely to the business operations to which the vehicle is used. They include radios, tow bars and certain roof racks. | <p>We have looked into this and it is not possible currently. We have a “tag” on the booking system reminding the employee and a reminder note by the key storage.</p> <p>This has been done.</p> |

| Area of focus | Our observation | Our recommendation | Action taken by Council |
|--------------------------------------|--|--|-------------------------|
| Unclassified benefits | | | |
| 13. Rewards & Recognition | <p>Business Unit Managers at Council frequently reward staff with vouchers and other gifts.</p> <p>Expenditure of this type is coded to the rewards and recognition code, however the Finance team does not have adequate information to determine who rewards and gifts are given to.</p> <p>Historically Council has relied on the de minimis exemption and not returned FBT on this type of unclassified benefit.</p> <p>FBT is a self-assessment regime. As such the onus is on Council to track the value of unclassified benefits given to each employee to ensure it does not breach the thresholds of \$300 per employee per quarter and \$22,500 for all employees for this quarter and the preceding four quarters. If it breaches either of these thresholds, FBT must be returned on those unclassified benefits.</p> <p>Without the details recorded in the line descriptions as to whom the rewards are being allocated to it is impossible for the Finance team to determine if the \$300 limit has been reached per employee.</p> <p>We noted that the total of this code for the most recent four quarters was \$20,441 exclusive of GST. The value of the benefit should be calculated on a GST inclusive basis. While many of the rewards may be vouchers that would unlikely have GST included in the purchase price, we are of the view that with GST added, Council would likely breach the de minimis threshold.</p> <p>This is unsurprising given the original intent of the de minimis exemption was to minimise the compliance burden for smaller employers (approximately 20 employees or less). For a larger workforce such as Council's it is unusual for the de minimis rule to apply.</p> | <p>As mentioned above, we recommend that Council considers whether its directive that FBT is not tolerable is in line with current rewards and recognition practices.</p> <p>If the rewards and recognition practices are determined to be appropriate then we recommend that the Finance team set up a protocol for line descriptions of unclassified benefits. Eg. What, Who, Why. This will enable the Finance team to easily track the value of benefits being allocated to each employee.</p> <p>We also recommend that awareness of this issue is raised with the business unit managers to encourage more detailed information being communicated to the Finance team.</p> <p>Further, we recommend that Council consider whether it may have a historical exposure in terms of applying the de minimis exemption. If so, it may wish to consider whether it is appropriate to submit a voluntary disclosure.</p> <p>In light of these comments Council should monitor its unclassified benefits and, if in excess of the thresholds, include them in the FBT return going forward.</p> | |

| Area of focus | Our observation | Our recommendation | Action taken by Council |
|--|--|--|-------------------------|
| 14. De minimis exemption | <p>As discussed above Council is likely to exceed the de minimis thresholds and is unlikely to be able to apply the de minimis exemption going forward.</p> <p>The de minimis rule in section RD 45 provides that for the purposes of determining whether the de minimis exemption applies all unclassified benefits provided by an employer to its employees should be considered. It also confirms that “employer” for the purposes of this section includes persons associated with the employer. The test of association for Council for FBT purposes is a company with 50% common ownership or control.</p> <p>The relevance of this is that if one entity in a group with 50% common ownership breaches the de minimis thresholds then all companies in that common ownership would not be able to apply the de minimis exemption.</p> <p>Council has already determined that it is unlikely to be able to continue to apply the de minimis exemption going forward. However, it may have a roll on effect to other group entities such as Nelmac, Nelson Airport and Port Nelson.</p> | We recommend that Council notifies its associated entities that they may be unable to apply the de minimis exemption for this reason and they may wish to seek tax advice if they are currently relying on this exemption. | |
| 15. Other unclassified benefits | <p>Council currently provide staff with a number of other small items. We comment on these below.</p> <p>Re-usable tote bags and drink bottles as part of their climate change initiative. If provided by Council these would be considered an unclassified benefit and should be included in the FBT unclassified benefit tracking.</p> <p>Emergency bags: new staff members are provided with an emergency bag to be located at their desk. We consider that these packs are provided to manage a workplace health and safety risk and would therefore be exempt from FBT. If the packs are intended to be taken home by the employee then an FBT liability may arise.</p> | We recommend that the Finance team remains vigilant when it sees this type of item being offered to employees. | |

| Area of focus | Our observation | Our recommendation | Action taken by Council |
|--------------------------------|--|--|-------------------------|
| 16. Molesworth relay | <p>Council employees have the option of attending the Molesworth relay (a sporting event). We understand that participants contribute towards the event entry fee, transport, fuel, accommodation and meals. Council then makes a contribution towards the entry fee and this amount is reimbursed to the participants. The amount may not necessarily reimburse for the full amount of the entry fee.</p> <p>Where Council makes a reimbursement for a private benefit to employees it is typically subject to PAYE. If Council were to pay the Molesworth Relay event entry fee directly to the event organisers this would be subject to FBT.</p> | We recommend that Council review this arrangement and decide whether it will reimburse the employees through payroll or pay the event entry fee on behalf of employee participants and include the amount in the FBT return. | |
| 17. Health and wellness | <p>As part of a wellness initiative Council offered yoga wellness sessions. The first session would be complimentary and subsequent sessions would be paid for by the employee.</p> <p>If Council were to subsidise or provide free yoga sessions these would be subject to FBT unless they are provided on Council premises in which case the on premise exemption would apply.</p> | No action required. | |
| 18. Flu injections | Council also provide flu injections to employees on premises. Inland Revenue has confirmed that whether flu injections are provided on premise or off premise they are exempt from FBT under the health and safety exemption. | No action required. | |
| 19. Car parks | Council provides car parking to a number of senior staff in a Council owned carpark adjacent to the Council building. As Council owns and manages the car park this benefit is exempt from FBT under the on premises exemption. | No action required. | |

| Area of focus | Our observation | Our recommendation | Action taken by Council |
|----------------------------|---|---------------------|-------------------------|
| 20. Staff discounts | Council employees have access to a number of corporate discounts. These discounts are offered to a variety of corporate groups and as such are not considered to be a fringe benefit. | No action required. | |
| 21. Training costs | Council pays for training and professional memberships when relevant to an employee's role. These are business related expenses and FBT does not apply. | No action required. | |

Appendix Two - Key personnel

| Person | Title |
|-------------------|---|
| Margie French | FBT preparer/ Tax Manager/ Financial Accountant |
| Victoria Harper | Accounting & Property Services Manager |
| Andrew Bishop | Accountant |
| Stephanie Vincent | Manager People & Capability |
| Tracey Hughes | Senior Accountant |

Interim Audit Report for the year ending 30 June 2020

1. Purpose of Report

- 1.1 To provide the Interim Audit Report to the Subcommittee for the year ending 30 June 2020 from Audit New Zealand.

2. Recommendation

That the Audit and Risk Subcommittee

- 1. Receives the report Interim Audit Report for the year ending 30 June 2020 (R14821) and its attachment (A2414826); and***
- 2. Notes the suggested responses to the recommendations (as per A2414826).***

3. Discussion

- 3.1 In April 2020, Audit New Zealand carried out an interim audit for the year ending 30 June 2020 on the Council's internal controls and the overall control environment. The interim audit was done remotely due to COVID-19 and the Interim Audit Report was issued on 18 June 2020 (Attachment 1).
- 3.2 There were two issues requiring urgent attention, regarding an assessment of the impact of COVID-19 and the implications on the annual report and a transition assessment for the new group accounting standards, which are already in progress by Council officers.
- 3.3 The Audit New Zealand Interim Audit Report also contains a section on previous recommendations made and an update on the status of these recommendations. Officers are working to resolve these issues as soon as practical, while weighing up the relative priority to other business improvement initiatives and internal audit actions.

4. Options

- 4.1 That the Subcommittee notes the matters raised in the Interim Audit Report for Nelson City Council for the year ending 30 June 2020 and the manner in which officers propose to address them.

Author: Clare Knox, Manager Finance

Attachments

Attachment 1: A2414826 - Audit - Audit New Zealand - Interim Audit Report [↓](#)

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Report to the Council on the interim audit of

Nelson City Council

For the year ending 30 June 2020

A2414826

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Key messages

We have completed our interim audit for the year ending 30 June 2020. This report sets out our findings from the interim audit.

The primary purpose of our interim audit was to update our knowledge of Nelson City Council's (the Council's) financial systems and control environment, and gain an understanding of the issues facing the Council.

Audit progress to date

During our interim audit, we:

- updated our understanding and assessment of the Council's control environment and internal controls (including progress on legislative compliance);
- reviewed the key systems that support the Council's performance information reporting;
- updated our assessment of the significant audit risks and our areas of audit focus and commenced our associated audit work; and
- followed up on the progress with the recommendations that we made in previous audits.

Based on our audit work completed to date, the overall control environment remains effective for the purposes of our audit.

Interim audit and timeliness of information received

We undertook the interim audit during the period when New Zealand was in lockdown as a result of emergency Alert Level 4. This meant our audit was required to be completed remotely by the Council and Audit New Zealand. We received all information in a timely manner and would like to thank the finance team, and support staff, who provided information and assisted the audit team with their queries while working remotely.

A small number of documents were not available as they are held in hard copy form in the Council's offices. These documents relate to our review of cash receipting and credit card expenditure. We will complete this testing at our final audit.

We will continue to work closely with management to enhance the process and support the delivery of an efficient and quality audit.

Significant issues identified during the audit

We did not identify any significant new issues during our interim audit.

Assessment of your control environment

The control environment reflects the overall attitudes, awareness and actions of those involved in decision-making in the organisation. It encompasses the attitude towards the development of accounting and performance estimates, and its external reporting philosophy, and is the context in which the accounting system and control procedures operate. Management, with the oversight of those charged with governance, need to establish and maintain a culture of honesty and ethical behaviour through implementation of policies, procedures and monitoring of controls. This provides the basis to ensure that the other components of internal control can be effective.

We performed a high level assessment of the control environment, risk management process, and monitoring of controls relevant to financial and service performance reporting.

Our findings are included within section 2 of this report.

Internal controls

We reviewed the internal controls, in your information systems and related business processes, for your key financial and non-financial information systems. Internal controls are the policies and processes that are designed to provide reasonable assurance as to the reliability and accuracy of financial and non-financial reporting, as well as compliance with significant legislative requirements.

These internal controls are designed, implemented and maintained by the Council and management. Internal control is important to minimise the risk of either fraud or misstatement occurring. The responsibility for the effective design, implementation and maintenance of internal control rests with the Council. We also updated our understanding of key performance measures and relevant controls.

COVID-19 Pandemic

On 11 March 2020, the World Health Organisation declared the outbreak of coronavirus (COVID-19) a pandemic. This will have significant impacts on the Council's operations as well as its financial and non-financial performance. It will also result in additional reporting risks.

It is important that the Council considers the impact on the individual aspects of its operations and that the information is included in the annual report. We discuss this matter further in section 3.1.

Thank you

We thank management and staff, especially Clare Knox, for their assistance during the course of the audit performed in challenging circumstances.



John Mackey
Appointed Auditor
18 June 2020

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1 Recommendations



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

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

1.1 New recommendations

The following table summarises our recommendations and their priorities.

| Recommendation | Reference | Priority |
|---|-----------|------------|
| Complete an assessment of the impact of the COVID-19 pandemic, including the implications this may have on the annual report. | 3.1 | Urgent |
| Complete a transition assessment for the new "group" accounting standards. | 4.1 | Urgent |
| Review policies in a timely manner. | 2.2.2 | Beneficial |

1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous recommendations. Appendix 1 sets out the status of previous year's recommendations in detail.

| Priority | Priority | | | |
|---|----------|-----------|------------|-------|
| | Urgent | Necessary | Beneficial | Total |
| Open recommendations | – | 4 | – | 4 |
| Implemented or closed recommendations | – | 1 | – | 1 |
| Matters that will be followed up during our final audit visit | – | 2 | – | 2 |
| Total | – | 7 | – | 7 |

2 Assessment of internal control



The Council, with support from management, is responsible for the effective design, implementation, and maintenance of internal controls. Our audit considers the internal control relevant to preparation of the financial statements and the service performance information. We review internal controls relevant to the audit to design audit procedures that are appropriate in the circumstances. Our findings related to our normal audit work, and may not include all weaknesses for internal controls relevant to the audit.

2.1 Control environment

The control environment reflects the overall attitudes, awareness and actions of those involved in decision-making in the organisation. It encompasses the attitude towards the development of accounting and performance estimates and its external reporting philosophy, and is the context in which the accounting system and control procedures operate. Management, with the oversight of the Council, need to establish and maintain a culture of honesty and ethical behaviour through implementation of policies, procedures and monitoring controls. This provides the basis to ensure that the other components of internal control can be effective.

We performed a high level assessment of the control environment, risk management process, and monitoring of controls relevant to financial and service performance reporting. We considered the overall attitude, awareness, and actions of the Council and management to establish and maintain effective management procedures and internal controls.

We consider that a culture of honesty and ethical behaviour has been created. The elements of the control environment provide an appropriate foundation for other components of internal control.

2.2 Internal controls

Internal controls are the policies and processes that are designed to provide reasonable assurance as to the reliability and accuracy of financial and non-financial reporting. These internal controls are designed, implemented and maintained by the Council and management.

We reviewed the internal controls, in your information systems and related business processes. This included the controls in place for your key financial and non-financial information systems.

We reviewed the internal controls in place in the following areas:

- Revenue/accounts receivable
- Expenditure/accounts payable

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- Payroll
- Property plant and equipment, intangible assets and biological assets
- Cash and bank
- Related parties
- Journals
- Legislative compliance
- Debt management
- General ledger reconciliations
- Systems in place to support key non-financial performance measures.

During our visit, we also updated our understanding of the performance measures reported by Council, and its progress in the financial year to date, in achieving the set targets.

Overall, we found the Council has design-effective controls. Where we tested controls, we found that operationally-effective internal controls were in place. The controls in each system are capable collectively to prevent or detect, and correcting material misstatements.

Due to the inherent risk with journal entries, we will undertake further detailed testing over the entire journal population, including year-end journals, during our final audit.

We identified the following area where the Council's systems and processes could be improved.

2.2.1 Review of policies in a timely manner

We noted that some policies were past their review dates. They include - Employee Conflicts of Interest Policy (due for review June 2019), Leave Management Policy (due for review May 2019), and Procurement Policy (due for review 1 October 2019). Timely review of policies is important to ensure policies are consistent with the City Council's current processes and systems, and to ensure they align with good practice.

Recommendation

- Review all policies regularly in line with review dates set.

Management comment

Agree. As per Nelson City Council's current processes and systems, policies are reviewed and updated in a timely manner. The Procurement Policy was reviewed by the Procurement

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Steering Committee in September 2019 and an updated version is scheduled to be effective on 1 October 2020. The Employee Conflicts of Interest Policy and Leave Management Policy are currently in the process of being reviewed and updated versions should be available later in the year.

3 Other matters identified



We identified the following other matter during the course of the audit.

3.1 COVID-19 pandemic

Finding

On 11 March 2020, the World Health Organisation declared the outbreak of coronavirus (COVID-19) a pandemic. This will have significant effects on the Council's operations, financial, and non-financial performance. It will also result in the additional reporting risks.

It is important to emphasise the risks resulting from COVID-19 are likely to have an impact on the audit report this year. The Office of the Auditor-General (OAG) issued a communication, to all Appointed Auditors on Wednesday 10 June 2020, that it expects a general COVID-related emphasis of matter (EoM) paragraph to be included in the audit report for all entities with 31 March and 30 June 2020 year-ends. This applies regardless of the impact that COVID-19 pandemic has had on the entity. This communication also includes comments on disclosure expectations for financial statements and performance information.

This means at a minimum, all audit reports will include a general reference to the COVID-19 pandemic. For many entities, other matters will also need to be referred to in their audit reports beyond a general COVID EoM paragraph.

OAG's expectations as to what should be disclosed in the notes to the financial statements, and the performance information, include:

- General disclosure on the COVID-19 pandemic and any resultant impact on the entity during the alert levels. If there was no impact on the entity, it would be helpful for the reasons why the entity was not impacted, to be disclosed.
- Disclosure as to how the entity's financial and non-financial performance has changed due to the COVID-19 pandemic.
- Disclosure on the key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of adjustments to assets and liabilities within the next financial year (as required by Public Sector PBE and For-profit accounting standards). Auditors need to ensure that an entity's disclosures appropriately recognise the current high degree of uncertainty as a result of the COVID-19 pandemic.

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- Disclosure on any non-adjusting subsequent event for matters, that occurred after 31 March or 30 June 2020, before the opinion is signed, as applicable.

We are developing a series of Bulletins in response to COVID-19. These are intended to provide high-level guidance to those with responsibilities for the preparation of financial statements, performance information, or annual reports. The first Bulletin covers guidance for preparers of financial statements on the implications of the COVID-19 emergency response, for revaluations of property, plant and equipment, and investment property. The second bulletin will cover potential implications of COVID-19 on non-financial reporting. A link to these bulletins is included 'Useful Publications' below.

We expect the 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. This assessment may also include the effect on matters such as revenue recognition, valuation of assets, non-financial performance information and the provision for doubtful debts.

Recommendations

- Complete an assessment of the impact of the COVID-19 pandemic, including the implications this may have on the annual report.
- Prepare a COVID-19 pandemic impact note, to be included in the notes to the financial statements, that covers the expected disclosures.

Management Comment

Agree. A preliminary assessment of the impact of COVID-19 has been completed comprising discussions with Business Unit Managers and reports to the Senior Leadership Team. We have identified areas which pose the most risk and will continue to assess these areas and include notes to reflect the impact on each, if any.

3.2 Information systems audit

As part of our 2020 audit, we performed an IT General Controls review (ITGC). This review consisted of two parts. The first, was a high-level assessment on IT Governance effectiveness. We considered the overall attitude, awareness, and actions of the IS Group Manager and IS Management to establish and maintain effective management procedures and internal controls.

We did not identify any significant deficiencies in internal control with the City Council's IT governance process.

The second part was an assessment as to the design effectiveness of Activity Level controls. These control areas cover the City Council's ability to manage risk and include the following areas: *Manage Security Services, Manage Changes, Change Acceptance and Transitioning, Manage Service Requests and Incidents, Manage Continuity, Manage Availability and*

Capacity, and Manage Suppliers. We also reviewed the operation of Activity Level controls for *Manage Security Services*, and *Manage Changes*.

Overall, we are satisfied activity controls have remained design effective for all areas and operationally effective for *Manage Security Services* and *Manage Changes*. As a result, we can place reliance on them for audit purposes.

4 Adoption of new accounting standards



4.1 New “group” accounting standards

Public benefit entities must apply the new “group” accounting standards, PBE IPSAS 34 *Separate Financial Statements*, PBE IPSAS 35 *Consolidated Financial Statements*, PBE IPSAS 36 *Investments in Associates and Joint Ventures*, PBE IPSAS 37 *Joint Arrangements*, and PBE IPSAS 38 *Disclosure of Interest in Other Entities*, when preparing their 30 June 2020 financial statements.

Management is responsible to perform the necessary transition work to successfully implement these new standards. Areas of focus with the transition include:

- assessment as to whether the revised control definition and guidance result in an entity being assessed as controlled, under PBE IPSAS 35, for those entities previously assessed as not controlled under prior standards. For example, trusts established by the Council that support the Council to achieve its objectives;
- determination as to whether a joint arrangement is categorised as a joint venture or joint operation. (for example Nelson Regional Sewerage Business Unit, the Nelson Tasman Regional Landfill Business Unit and Nelson Tasman Combined Civil Defence Organisation will need to be assessed as part of this change). Joint ventures must be accounted for using the equity method;
- update of the “group” accounting policies and “group” related disclosures in the financial statements. PBE IPSAS 38 generally requires additional disclosure of interests in other entities than the previous standards;
- implement changes to systems and processes that may be necessary to support changes in accounting practices; and
- regular update of relevant parties including your auditor and audit committee.

The transition to these new standard may require significant judgement for some arrangements and may be particularly time consuming for those entities with a large number of potentially controlled entities. It is important that management substantially complete its transition work on these new standards well in advance of the final audit.

Recommendations

- Substantially complete transition work prior to the final audit visit.

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- Prepare pro-forma financial statements so that revised group-related disclosures can be agreed.
- Share the transition plan and transition work with the audit team early in the audit process so we can agree issues and adjustments in a timely manner.

Management Comment

Agree. Nelson City Council is in the process of completing transition work and will share with the audit team as early as possible to ensure we are aligned on issues and necessary adjustments.

4.2 NZ IFRS 16 Leases

Key facts:

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

Mixed group issues

This is applicable as “for profit” entities, including Nelson Airport, Port Nelson and Nelmac are consolidated into the Council.

The amounts recognised in the Council’s financial statements need to be determined using the Council’s accounting policies.

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

Recommendations

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- Engage early in the financial year with the “for-profit” subsidiaries and associates.
- Implement appropriate systems and processes to accurately capture and report on the requirements of any new accounting standards.
- Adequately address the “mixed group” reporting issues on the Council and group.

Management Comment

Agree. Nelson City Council is planning on engaging early with subsidiaries and associates in order to accurately report on the requirements of NZ IFRS 16.

5 Useful publications



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

| Description | Where to find it |
|--|---|
| COVID-19 Impact on public sector reporting | |
| <p>We are developing a series of Bulletins in response to COVID-19.</p> <p>The first Bulletin covers guidance for preparers of financial statements on the implications of the COVID-19 emergency response, for revaluations of property, plant and equipment, and investment property; and</p> <p>Bulletin two: Implications of COVID-19 emergency for service performance reporting – guidance for preparers of performance information.</p> <p>At the moment one other documents is in development.</p> <p>Bulletin three: Implications of COVID-19 emergency for financial reporting – guidance for preparers of financial statements.</p> | <p>On our website under good practice.</p> <p>Link: COVID-19 Bulletins</p> |
| Model financial statements | |
| <p>Our model financial statements reflect best practice we have seen to improve financial reporting.</p> | <p>On our website under publications and resources.</p> <p>Link: Model Financial Statements</p> |
| Tax matters | |
| <p>As the leading provider of audit services to the public sector, we have an extensive knowledge of sector tax issues. These documents provide guidance and information on selected tax matters.</p> | <p>On our website under publications and resources.</p> <p>Link: Tax Matters</p> |

| Description | Where to find it |
|--|---|
| Client substantiation file | |
| <p>When you are fully prepared for an audit, it helps to minimise the disruption for your staff and make sure that we can complete the audit efficiently and effectively.</p> <p>We have put together a tool box called the Client Substantiation File to help you prepare the information you will need to provide to us so we can complete the audit work that needs to be done. This is essentially a tool box to help you collate documentation that the auditor will ask for.</p> | <p>On the OAG's website under publications and resources.</p> <p>Link: Client Substantiation File</p> |
| Good practice | |
| <p>The OAG's website has been updated to make it easier to find good practice guidance. This includes resources on:</p> <ul style="list-style-type: none"> • good governance; • service performance reporting; • procurement; • sensitive expenditure; and • severance payments. | <p>On the OAG's website under good practice.</p> <p>Link: Good practice</p> |
| Post-implementation reviews | |
| <p>The OAG have recently completed a review of Auckland Council's post-implementation review process. While many aspects of the report are specific to Auckland Council, it documents the process that Auckland Council uses, and includes a post-implementation review checklist.</p> | <p>On the OAG's website under publications.</p> <p>Link: Post-implementation review process</p> |
| Reporting fraud | |
| <p>The OAG have released data from 2012-2018 on fraud in public entities. This includes how the fraud was detected, the type of fraud and the methods and reasons for the fraud. The graphs show the high-level sector, and this can be broken down further into sub-sectors by opening the spreadsheets available.</p> | <p>On the OAG's website under data.</p> <p>Link: Reporting Fraud</p> |

Appendix 1: Status of previous recommendations

Open recommendations

| Recommendation | First raised | Status |
|--|--------------|---|
| Necessary | | |
| Procurement, contract and project management | | |
| <p>Procurement, contract and project management</p> <p>To support achieving programmed spend we have identified areas of improvement the City Council should consider. The recommendations are captured broadly under the following headings:</p> <ul style="list-style-type: none"> Use of Government Electronic Tender Service (GETS) <p>The City Council identify for each procurement what the most appropriate means is to obtain an optimal outcome in terms of approaching potential suppliers.</p> Budget management of capital expenditure <p>Recommendations regarding improving the accuracy of budget phasing, rightsizing the programme of works, refining the calculation and use of contingencies, and the using of "spare" budget.</p> Basis for reporting capital expenditure against budget | 2018-19 | <p>Some progress</p> <p>Management Comment</p> <p><i>Council has updated its existing processes to reflect use of GRoS as guidelines. A wider review and revision of Council's procurement processes, which incorporates the Audit NZ recommendations, is currently in progress.</i></p> <p><i>Updated minimum thresholds for direct purchase, closed and open competitive procurement methods are being developed for inclusion in Council's revised procurement policy. Due to COVID-19 restrictions, the approval and live use of the policy is now scheduled for September 2020.</i></p> <p><i>Transition to the new project management system (Project Online), will address most of the recommendations. Staff are working hard for Project Online to be used for all infrastructure projects from Q4 2019/20. Improved phasing in the Long Term Plan (LTP) will be a focus</i></p> |

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| Recommendation | First raised | Status |
|--|--------------|---|
| <p>The subsequent changes in the timing of projects or variations in cost should be reflected in forecast capital expenditure (capex) rather than adjusting the approved budget figure against which actual spend is compared.</p> <ul style="list-style-type: none"> Monitoring of actual capex against budgets <p>Improve the information provided so that City Council is provided with a clear understanding as to how capex is tracking against the approved programme.</p> | | <p><i>Noted – we will report against both the Annual Plan budget and the budget approved via subsequent resolutions and transfers.</i></p> <p><i>Project Online software should help to improve reporting and give a better picture of projects over their whole life. Use of reporting fields will be reviewed. Once a budget change has been approved, under the appropriate delegations, it is the approved budget for the project manager to manage to at that point in time. A forecast is potentially different.</i></p> |
| Reliance on third party to ensure payment is correct at different sites | | |
| <p>The City Council obtains a transaction listing from third parties and a member of the finance team reconciles that with bank statements. However there is no process in place to ensure that the third party listing is complete.</p> <p>Investigate opportunities to ensure that third parties provide complete listings of the receipts they collect on behalf of the City Council.</p> | 2016-17 | <p>Some progress</p> <p>Management Comment</p> <p><i>Changes are made as contracts are renewed with the inclusion of clauses for effective cash management as a priority.</i></p> <p><i>Requirement included in contract and RFT templates.</i></p> <p><i>Golf Club, Festivals Ticketing, Bus Ticketing contracts and processes all require full listings.</i></p> <p><i>Parking Revenue – new software for transaction recording now in place (Ezicom), tender for collection of coins due at the end of 2020.</i></p> <p><i>Proposal for POS system for the Transfer Station – Solid Waste team has requested budget provision.</i></p> <p><i>Venues, halls and sports facilities - CLM provide a full listing of all bookings which invoicing is generated from.</i></p> |

| Recommendation | First raised | Status |
|---|--------------|--|
| | | <p><i>Nelmac – Marina – separate reconciled bank account with transaction listings.</i></p> <p><i>NCC Founders POS system is due to go live by the end of July 2020.</i></p> <p><i>Brook Camp POS system is live, providing detailed transaction reporting.</i></p> |
| Contract management system | | |
| Implement an integrated contract management system. This will allow the City Council to better monitor the performance of contractors and manage project delays on an organisation-wide basis. It will also enable the City Council to make more informed decisions on contract renewals. | 2015-16 | <p>Some progress</p> <p>Management Comment</p> <p><i>In the prior year, MagiQ advised that contract numbers cannot be integrated within purchase orders so alternative options have been explored. Development, on a consolidated organisational contract register with core contract management workflow features, has begun and tested in February 2020 and it was decided that it was not viable. A new project has been initiated with a refreshed scope and the intention of implementing a contracts database by December 2020. In the meantime, a simple single register is being used to improve visibility of contracts outside Capital Projects (which remain in Clicky).</i></p> <p><i>Note that Council is also in the course of implementing improved resources and tools for the management, monitoring and reporting of projects.</i></p> |
| Water Charge Data Management System | | |
| Automate the process and investigate system changes to enable historic reporting of the volumes supplied throughout the | 2016-17 | <p>Some progress</p> <p>Management Comment</p> |

| Recommendation | First raised | Status |
|---|--------------|--|
| financial year, and record the volumes charged per rating category. | | <p><i>Internal Data Analytics is now available through IT Team.</i></p> <p><i>Some initial finance data work has commenced.</i></p> <p><i>Review of water module is still on the work plan with MagiQ. However, dates have not been set. This will occur after data analytics/reporting work has been completed.</i></p> |

Matters to be followed up during final audit

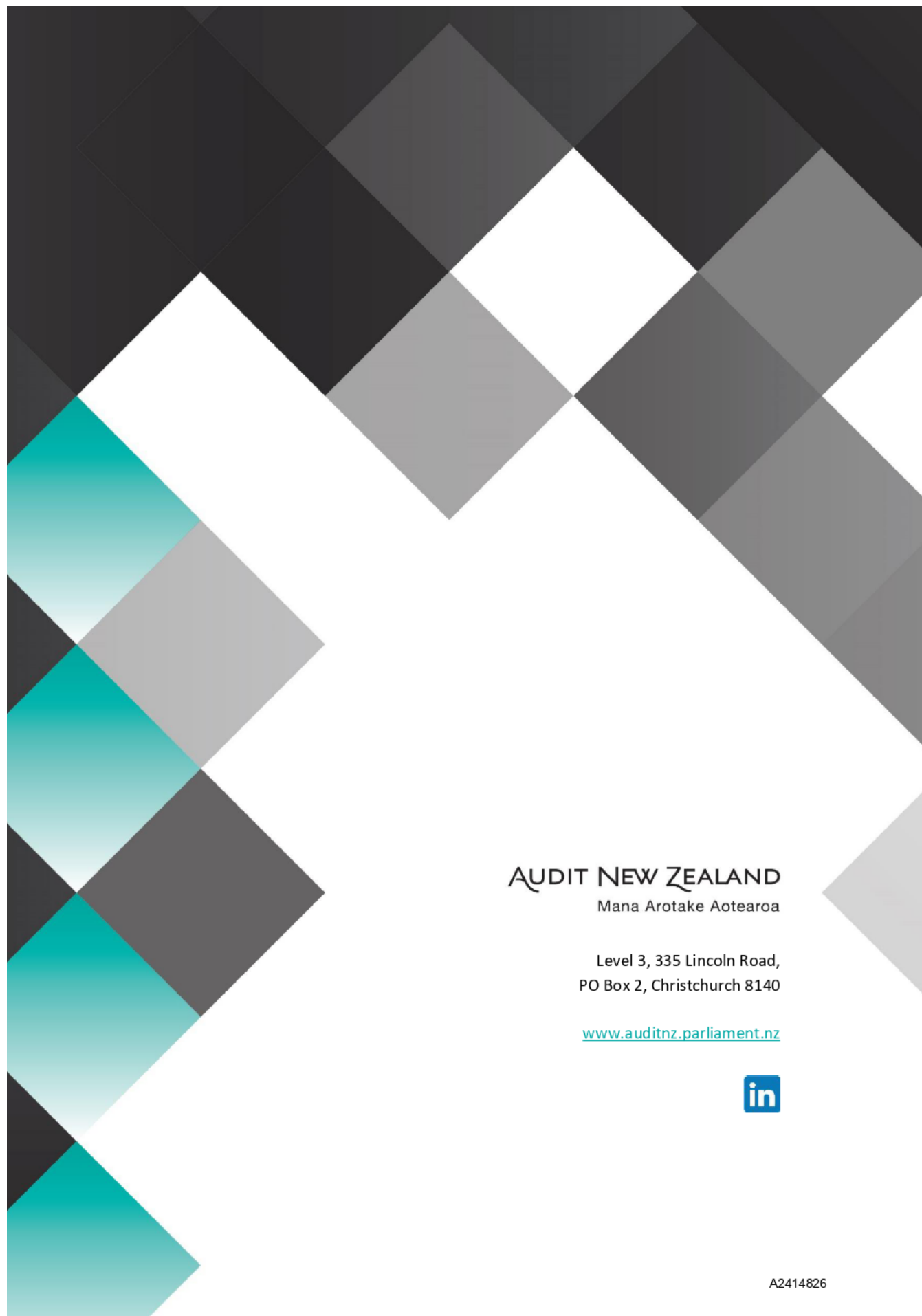
| Recommendation | First raised |
|--|--------------|
| <p>Carrying value and useful lives of property, plant and equipment – non infrastructural assets</p> <p>Management perform a detailed review of the estimated value of assets at the end of their life as well as the current life cycles of all assets. They should also be reviewed at least annually at reporting date as required by the accounting standards to ensure compliance and prevent any misstatement of the value of these assets.</p> | 2018-19 |
| <p>Reporting on the City Council Activities (Service performance)</p> <p>To enhance the “performance story” of the City Council, we made recommendations, captured under four key areas, which are:</p> <ul style="list-style-type: none"> • Usefulness and wording of measures • Setting of targets • Implementation of QA processes | 2018-19 |

Implemented or closed recommendations

| Recommendation | First raised | Status |
|---|--------------|--|
| <p>GST compliance review</p> <p>Implement the action plan and monitor it to ensure compliance to relevant legislation and make use of possible savings as highlighted by the review.</p> | 2018-19 | GST audit and planned actions presented to Audit & Risk Committee in August 2019. Action points from the review were actioned in January 2020. |

Appendix 2: Disclosures

| Area | Key messages |
|--|---|
| Our responsibilities in conducting the audit | <p>We carry out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our audit engagement letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p> |
| Auditing standards | <p>We carry out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining systems of controls for detecting these matters.</p> |
| Auditor independence | <p>We are independent of the Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>To date, other than the audit, we have no relationship with, or interests in, the Council or its subsidiaries or associates.</p> |
| Fees | <p>The audit fee for the year is \$136,315.</p> <p>To date, no other fees have been charged in this period.</p> |
| Other relationships | <p>To date, we are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the Council or its subsidiaries that is significant to the audit.</p> <p>We are not aware of any situations to date where a staff member of Audit New Zealand has accepted a position of employment with the Council, or its subsidiaries or associates, during or since the end of the financial year.</p> |



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Health, Safety and Wellbeing Report, January to June 2020

1. Purpose of Report

- 1.1 To provide the subcommittee with a report on health, safety and wellbeing data collected over the period January to June 2020
- 1.2 To update the subcommittee on key health and safety risks, including controls and treatments.

2. Summary

- 2.1 A notable incident for this period was a contractor's worker falling from the marina wharf while relaunching a vessel.
- 2.2 Additional data has been provided regarding the COVID-19 response in the wellbeing section of the attachment.
- 2.3 There has been no change in the assessed risk ratings of key health and safety risks since the previous report.

2. Recommendation

That the Audit and Risk Subcommittee

- 1. Receives the report Health, Safety and Wellbeing Report, January to June 2020 (R18135) and its attachment (A2404161).***

3. Background

- 3.1 Elected members, as 'Officers' under the Health and Safety at Work Act 2015 (HSWA), are expected to undertake due diligence on health and safety matters. Council's Health and Safety Governance Charter states that Council will receive quarterly reports regarding the implementation of health and safety. Council has delegated the responsibility for health and safety to the Audit and Risk Subcommittee.

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- 3.2 This report covers a six month period as no report was provided to the subcommittee following the January to March 2020 quarter due to Council's COVID-19 response. However a COVID-19 specific report was provided to the subcommittee in May 2020.
- 3.3 Health, safety and wellbeing performance data reports provide an overview based on key lead and lag indicators. Where a concerning trend is identified more detail is provided in order to better understand issues and implement appropriate controls.
- 3.4 Reporting on key health and safety risks provides further depth and detail to the health and safety risks reported in the organisational risk report.

4. Discussion

4.1 Incidents of note

- 4.1.1 Injury and illness incidents of note are outlined in the attachment.
- 4.1.2 The most significant of these in regard to potential consequences was when a contractor's worker fell from the wharf at the marina while relaunching a vessel. Once the vessel had been lowered into the water from the travel-lift the worker was manoeuvring it along the wharf using a long aluminium boat hook. The boat hook slipped causing the worker to over balance and trip, falling onto the roof of the vessel several metres below. This resulted in a shoulder dislocation requiring 10 days off work. The contractor has completed an investigation and identified a number of remedial actions to prevent a reoccurrence, these primarily relate to staff training and risk assessment process for retrieval and launching of vessels. Further improvements are being made to the facility to reduce this risk.

4.2 Security Incidents

- 4.2.1 A higher than average number of security incidents reported at the Elma Turner Library occurred in the January to March period as also occurred in 2019. However this year a large number of the reported incidents occurred in areas surrounding the library rather than in the library itself. It has been reported by staff that Police are now more responsive to these incidents, many including the consumption of alcohol in a liquor ban area.
- 4.2.2 During April there were a number of security incidents reported at the Brook Valley Holiday Park involving customers sent there during the alert level 4 lockdown.

4.3 Lead Indicators

- 4.3.1 Hazard near miss and incident data in the attachment shows relatively low levels of hazard and near miss reporting for this period. This will be an area for staff to focus on as Health and Safety priorities are

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rebalanced following the significant focus on Covid-19 controls since February.

- 4.3.2 A significant Hazard was identified regarding the support for the ceiling grid containing heavy plaster ceiling tiles on level 6 of Civic house during January. This resulted in staff needing to relocate for several days while urgent remedial work was completed. Further work is planned throughout Civic House to manage the risk of heavy ceiling tiles falling in an earthquake.
- 4.3.3 Low numbers of workstation assessments completed for January to March is possibly due to variation in demand. Workstation assessments can be requested proactively by any staff member at any time however they generally occur for new starters, when the workstation changes or as a result of an early report of discomfort. Those workstation assessments completed as a result of an early report of discomfort are recorded as such and not as a separate workstation assessment.
- 4.3.4 A decrease in numbers of workstation assessments completed is to be expected for April and May with most staff working from home. Self-assessment information was provided to staff and remote support for discomfort was provided when requested.

4.4 **Safe Driving**

- 4.4.1 An increase in over speed events per 100km travelled for April has been investigated further. No individual has shown a concerning number of overspeed events. Most of April was the level 4 lockdown with minimal distance travelled by most fleet vehicles. Overspeed events occurred in vehicles driven by those providing essential services. Busy work schedules and low traffic volumes are not considered an excuse for speeding but do help to explain how it occurred during lockdown.
- 4.4.2 During June 16 staff completed either advanced driver training or 4wd training, this training was with a new provider and was very well received. It is proposed to deliver more of this training in the coming year with the addition of safe driving seminars for most staff who drive regularly while working for Council.

4.5 **Staff Wellbeing**

- 4.5.1 A working from home survey sent to all staff after one week at Alert Level Four 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." A second survey was completed during the last week of alert level two at a time when approximately 25% of staff had returned to the workplace. This showed an increase in the level of agreement across all statements except for two relating to connection with teams and discussion of wellbeing at team meetings, this is understandable considering it was a transition stage with most teams split between home and the workplace.

Item 10: Health, Safety and Wellbeing Report, January to June 2020

4.5.2 Sick leave data shows a considerable reduction in sick leave taken since February when compared to the average in the same month for the past four years. A decrease in respiratory illness circulating in the general population and Council staff due to COVID-19 controls and the increased working from home have been identified as the cause of this. Ministry of Health data from their weekly flutracking survey shows that influenza like symptoms reported nationally follows a somewhat consistent pattern to the sick days taken by Council staff for each month.

4.5.3 Increased workloads and additional challenges as a result of the response to COVID-19 have been discussed previously. To provide some perspective on this data has been included in the attachment showing some of additional work that was directly related to management of the COVID-19 response. Although not specifically reflected in the available data at this point, there is anecdotal evidence of cumulative fatigue among staff that could have ongoing impacts on wellbeing.

4.6 **Contractor Health and Safety**

4.6.1 The increase in Safe work observations (SWOs) reported for January to March is a good indicator of improved uptake of the new health and safety database 'Improvements' and shows that Council is monitoring the health and safety of contractors work. The decrease for the most recent quarter is due to less work occurring during the COVID-19 response and a focus on COVID-19 controls. If the contractor Pandemic plan reviews shown in the COVID-19 response chart were included in this data the contractor H&S document reviews for April to June would be considerably higher than the previous quarter.

4.7 **Due Diligence Activities**

4.7.1 SLT members reported completing two safe work observations during this period.

4.7.2 The Audit and Risk Subcommittee attended a workshop and received a health and safety report on the COVID-19 response.

4.8 **Key Health and Safety Risk Update**

4.8.1 All of Council's key health and safety risks are assessed to remain as medium risks.

4.8.2 Where new treatments have been planned or have been implemented as controls since the last report this is indicated by red text in the attachment.

4.8.3 Where possible timeframes are indicated for treatments.

Item 10: Health, Safety and Wellbeing Report, January to June 2020

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

Attachments

Attachment 1: A2404161 - Health, Safety and Wellbeing Report, January - June 2020 [↓](#)

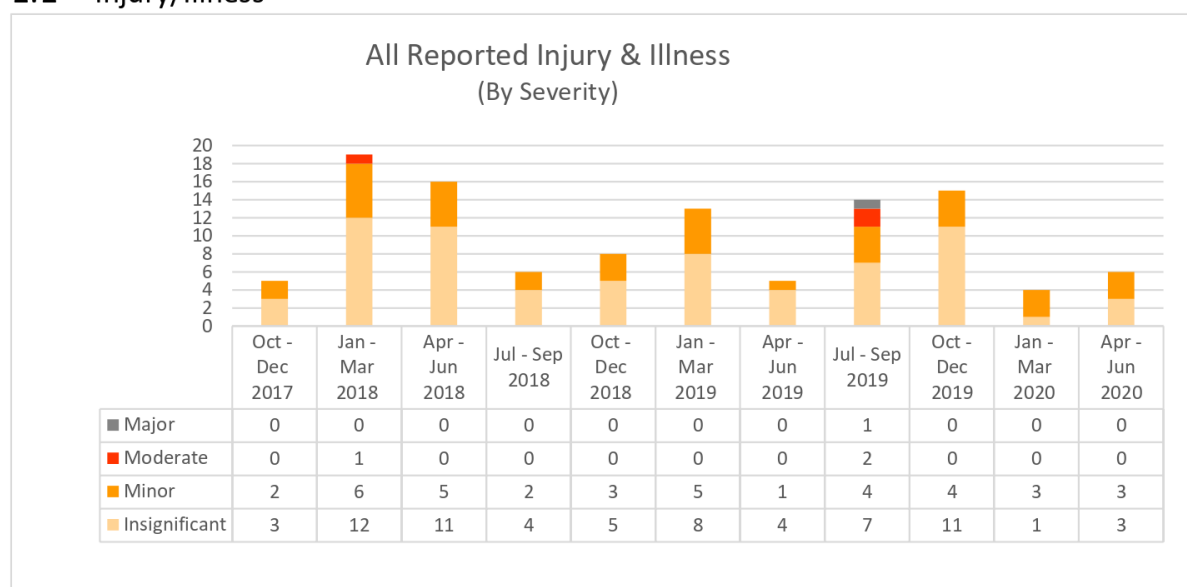


Health, Safety and Wellbeing Report

January – June 2020

Section 1 - Health, Safety and Wellbeing Performance Data

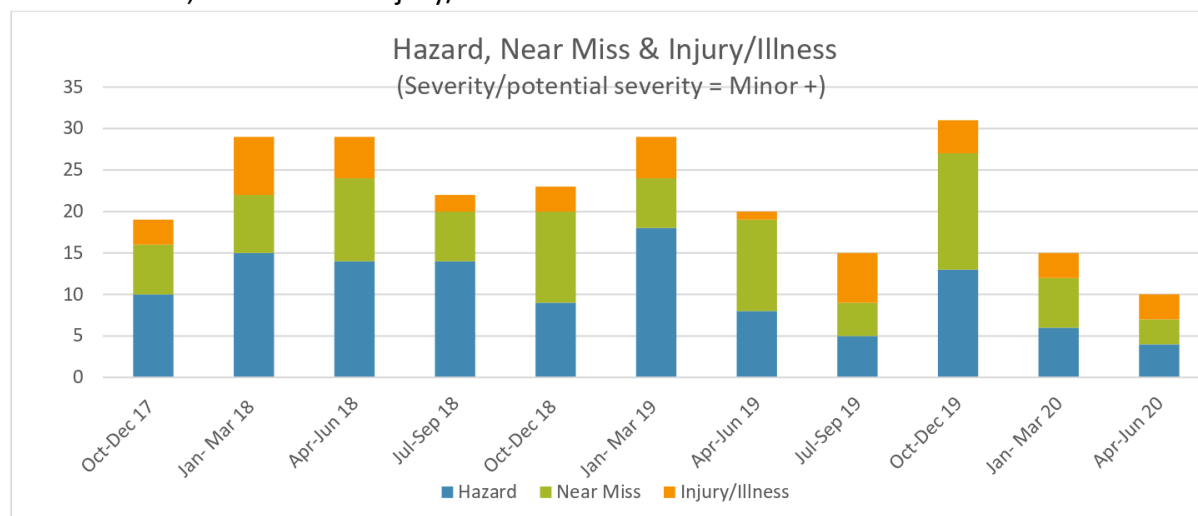
1.1 Injury/Illness



Injury or illness incidents of note for this period include:

- A train derailment on the ground level track of the Tahunanui model railway resulted in minor injuries to a passenger. This is not Council work but occurs on Council land and Council has some regulatory responsibility under the amusement device regulations. This train remains out of service while suitable safety improvements are developed.
- Two incidents of customers experiencing medical events and requiring assistance from staff, one at Elma Turner Library, the other at the Customer Service Centre.
- A contractor fell from the wharf at the marina onto a vessel while relaunching it using the travel lift. This resulted in a shoulder dislocation and 10 days off work. NELMAC has completed an investigation and identified a number of remedial actions to prevent a reoccurrence, these primarily relate to staff training and the risk assessment process for retrieval and launching of vessels. Further improvements are being made to the facility to reduce this risk.
- Three gradual process injuries 2 of which occurred as a result of book handling in Libraries, these incidents are still under investigation. Although books in libraries are generally not heavy, the high number of repetitive actions required when handling books is a significant body stressor that requires ongoing risk management. A possible factor contributing to all these incidents is the increased workload during the transition back to workplaces after the Alert level 4 lockdown.

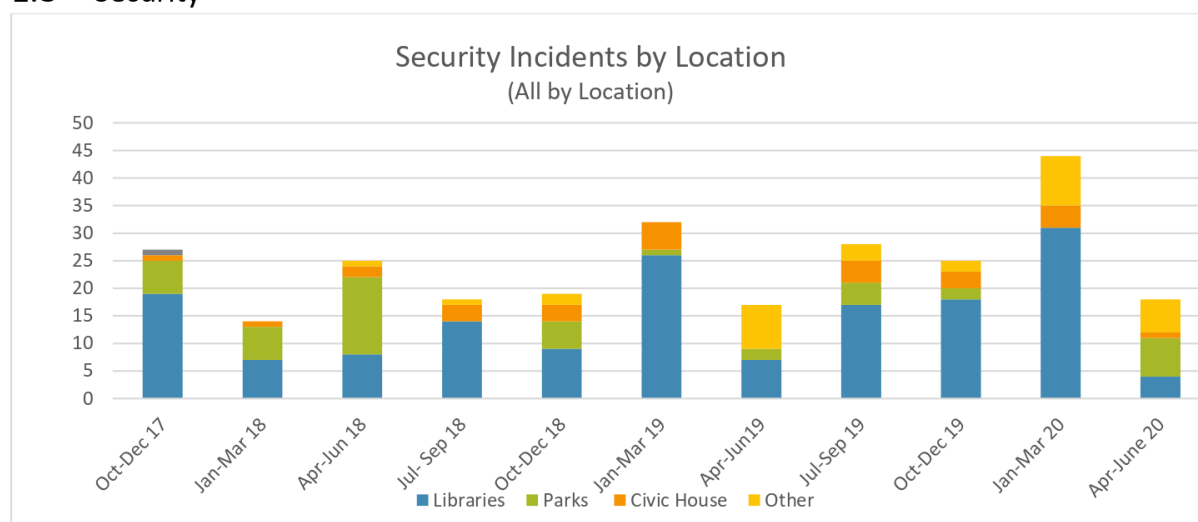
1.2 Hazard, Near Miss & Injury/Illness



This chart is intended to show how lead indicators (hazard reports) impact on lag indicators (Near miss, Injury or illness incidents). If hazards and near misses are reported and controls implemented less incidents will generally occur. A significant near miss for this period occurred when a large masonry wall adjacent to the Elma Turner Library was demolished while the potentially affected area of the library was still occupied. There had been considerable consultation between the building owner and their contractors with Library management prior to and during the demolition work, however in this case a worker on the project did not follow the agreed process and demolished the wall prior to the arranged time, putting staff and customers in the children's section of the library at risk. No damage to the library occurred as a result of this incident however the noise and vibration was alarming for staff and customers.

A significant Hazard was identified with the support for the ceiling grid on level 6 of Civic House during January resulting in staff on this floor needing to relocate for several days while urgent remedial work was completed. Further work is planned throughout Civic House to manage the risk of heavy ceiling tiles falling in an earthquake.

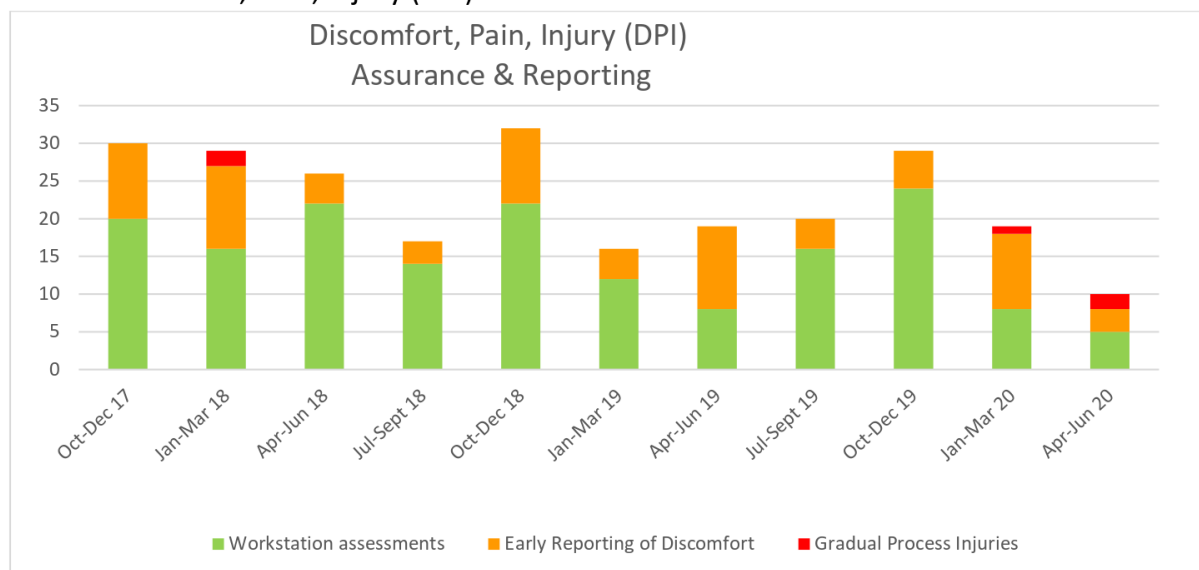
1.3 Security



Many of the library security incidents reported for January to March relate to the consumption of alcohol in liquor ban areas adjacent to Elma Turner Library, with Police improving their responsiveness to this issue staff have increased their reporting. The majority of the parks incidents were reported in April and relate to behaviour of customers sent there during the alert level 4 lockdown.

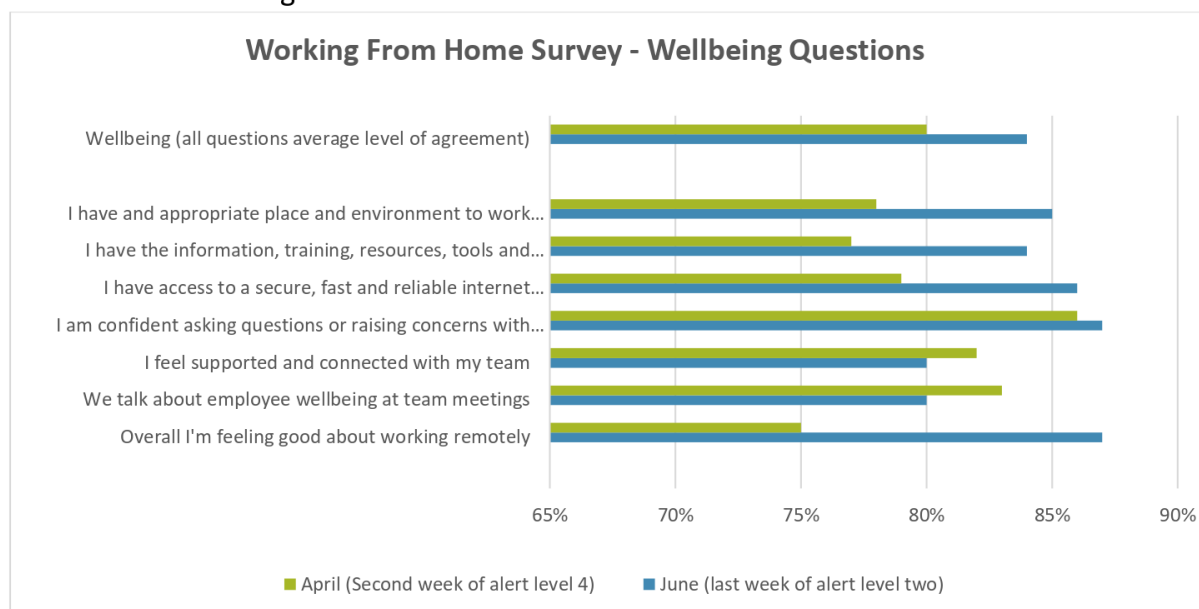
Health Safety and Wellbeing Report - Jan - Jun 2020 (A2404161)

1.4 Discomfort, Pain, Injury (DPI)



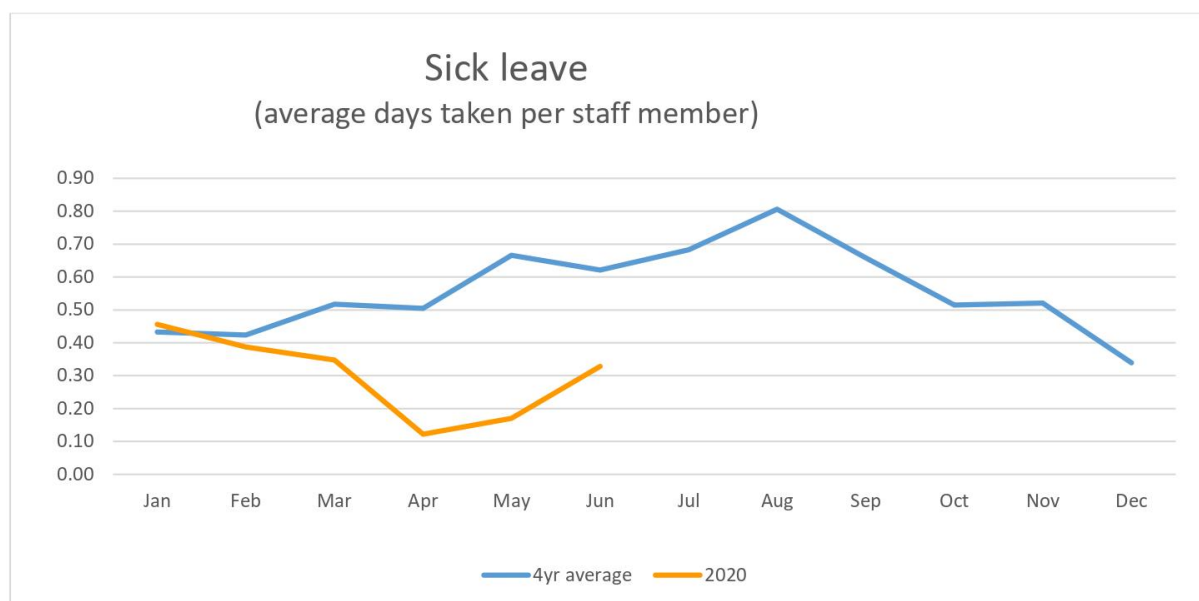
Workstation assessments are an important tool in preventing discomfort, early reporting of discomfort is key to preventing pain and Injury (DPI). The data shows that adequate early intervention is effective at preventing gradual process injuries. The three gradual process injuries since January as discussed in the injury/illness section are unlikely to be a direct result of the decrease in workstation assessments as two of the three injuries reported are a result of book handling at libraries. A number of controls are in place to reduce book handling injuries at libraries and ongoing monitoring is required to ensure they are effective. There does need to be a renewed focus on encouraging staff to request workstation assessments at the earliest sign of discomfort or when there is a change to their workstation.

1.5 Staff Wellbeing

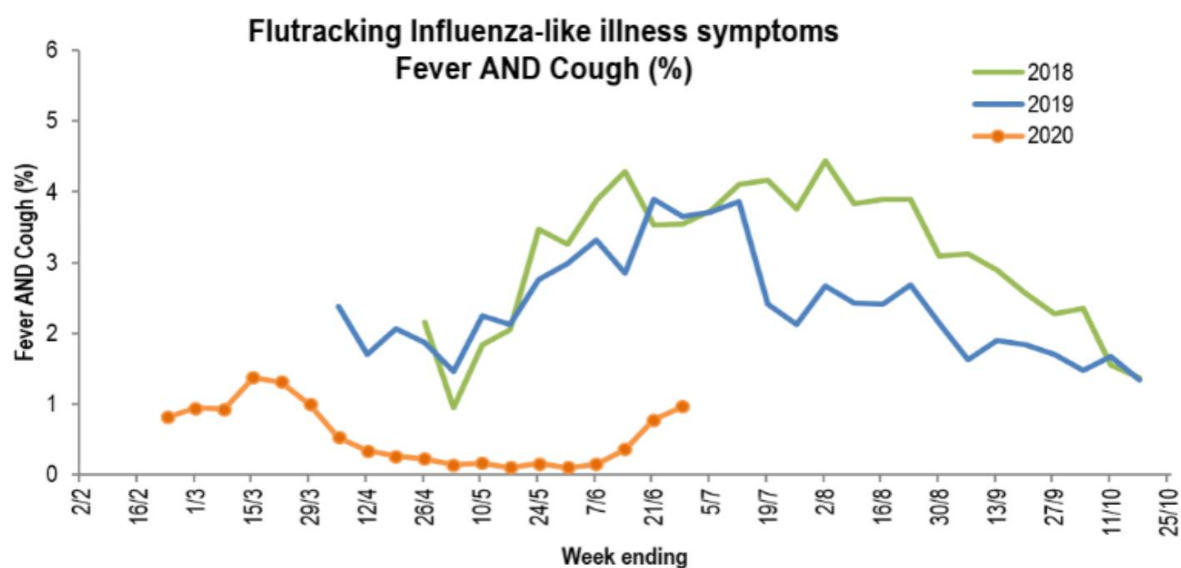


A working from home survey with a significant focus on staff wellbeing was completed early during the alert level 4 lockdown, this survey was repeated during the last week of alert level two at a time when approximately 25% of staff had returned to the workplace. For the first survey staff were required to identify themselves so that those experiencing significant problems could be provided with assistance, the second survey was completed anonymously.

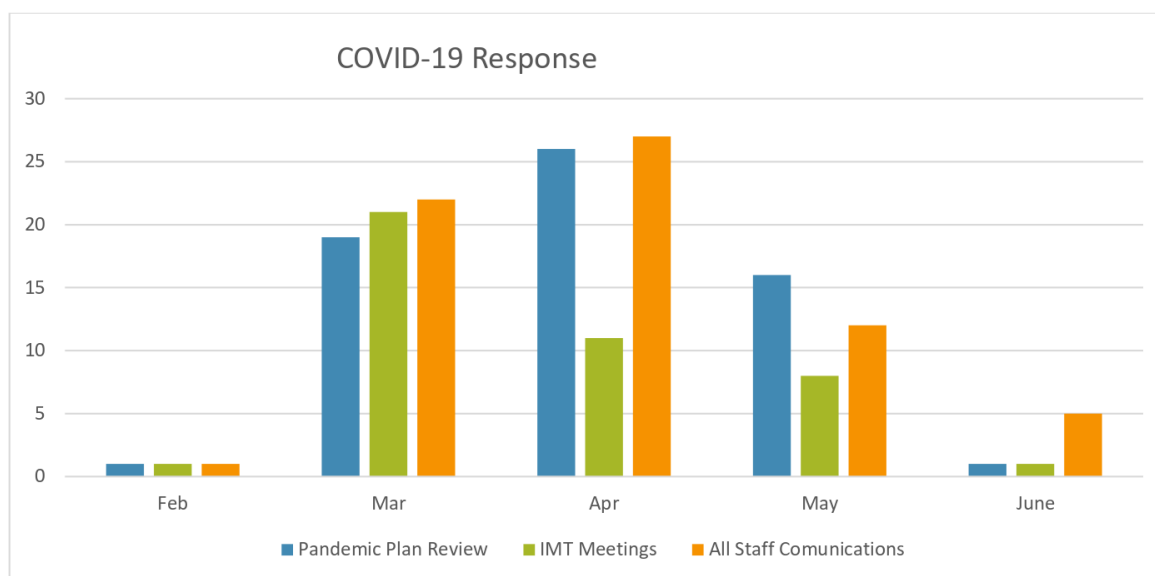
Health Safety and Wellbeing Report - Jan - Jun 2020 (A2404161)



The average number of sick days taken by staff each month gives some indication of staff wellbeing when compared with the average for the same month in previous years. For 2020 COVID-19 has significantly impacted the number of sick days taken. A decrease in respiratory illness circulating in the general population and Council staff due to COVID-19 controls and the increased working from home has resulted in less sick leave being taken.



This chart shows data from the Ministry of Health (MoH) weekly flutracking survey, and shows that to some extent Council sick leave data is consistent with national influenza symptom data.



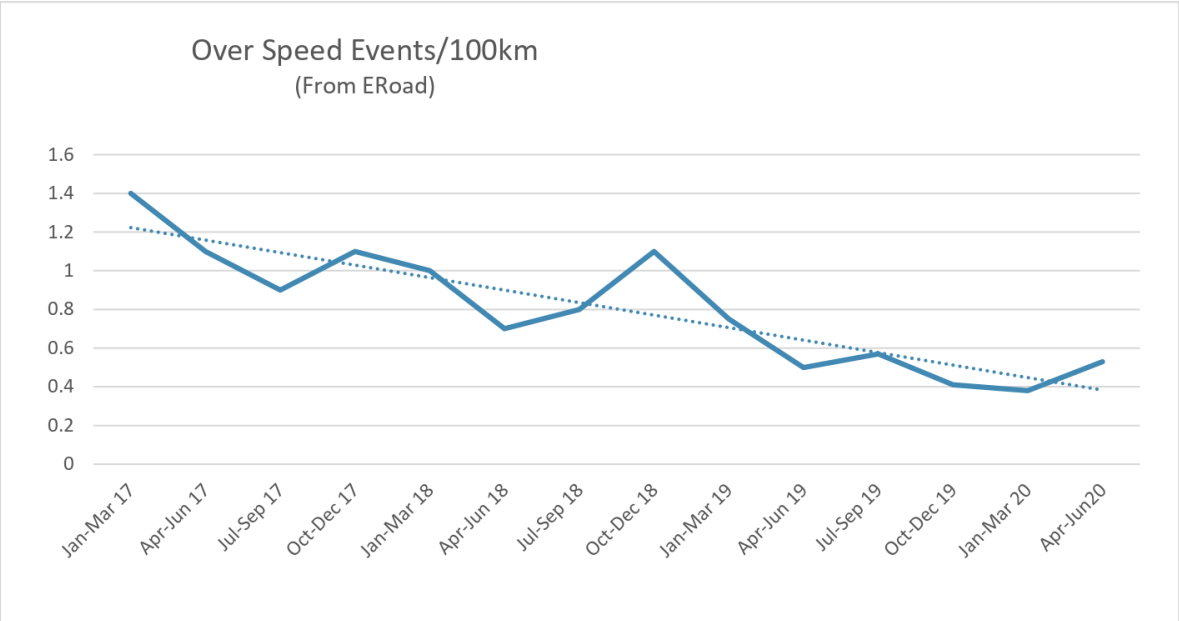
This chart shows some of the additional work that was directly related to management of the COVID-19 response.

Pandemic Plan Reviews have been recorded in the 'Improvements' health and safety data base, those completed in March related primarily to pandemic plans for Council business units and contractors providing essential services. Those completed in April and May were focused on appropriate COVID-19 controls for the relevant alert level as an increasing number of staff and contractors returned to workplaces and services resumed. It is now expected that suitable COVID-19 controls for the current alert level are integrated into all safety plans.

IMT Meetings shows all Incident management team (IMT) meetings completed or SLT meetings where a significant agenda item or items related to health, safety and wellbeing aspects of the COVID-19 response. In addition to these internal meetings there was also a large number of stakeholder briefings and additional meetings regarding the response attended by senior members of the IMT.

All Staff Communications includes IMT updates and emails to all staff related to COVID-19 from the Incident Manager, Chief Executive, Manager Customer and Information Services, Manager People and Capability or the Health and Safety Adviser. Each of these not only required considerable work from those contributing but a large amount of management and refinement from the internal communications adviser. Not included in these totals are a number of further COVID-19 related all staff communications from other staff including the Fleet Manager and the Health and Safety Systems Adviser.

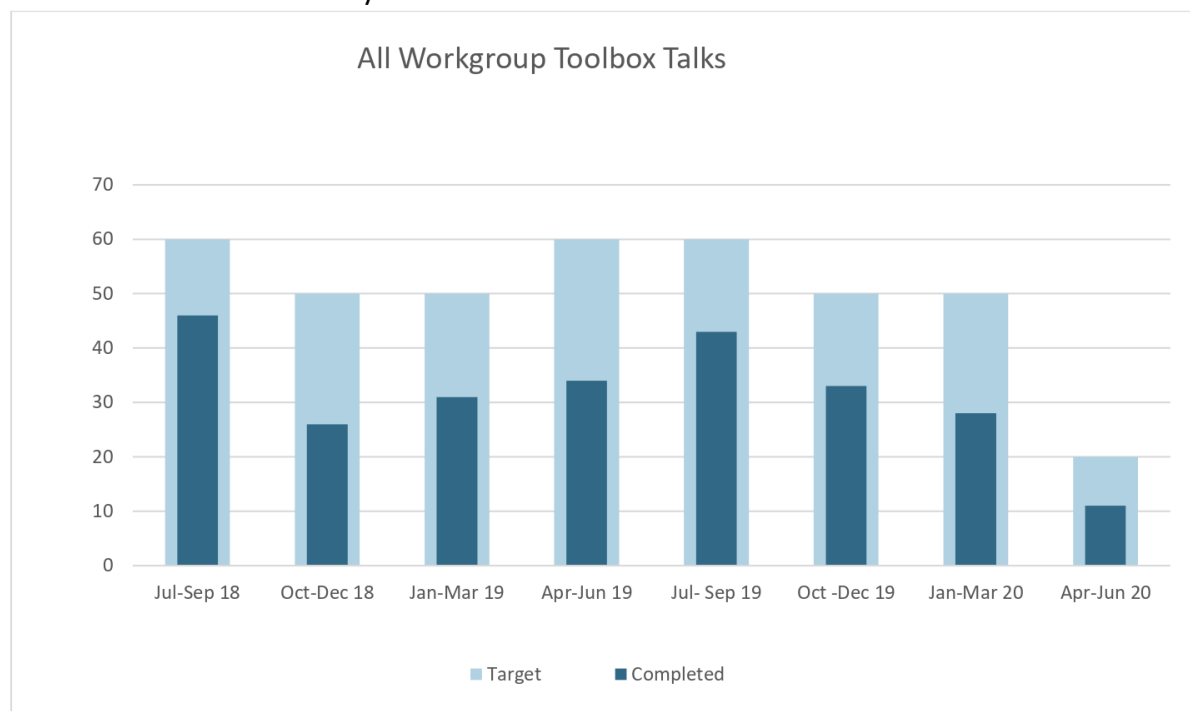
1.6 Safe Driving



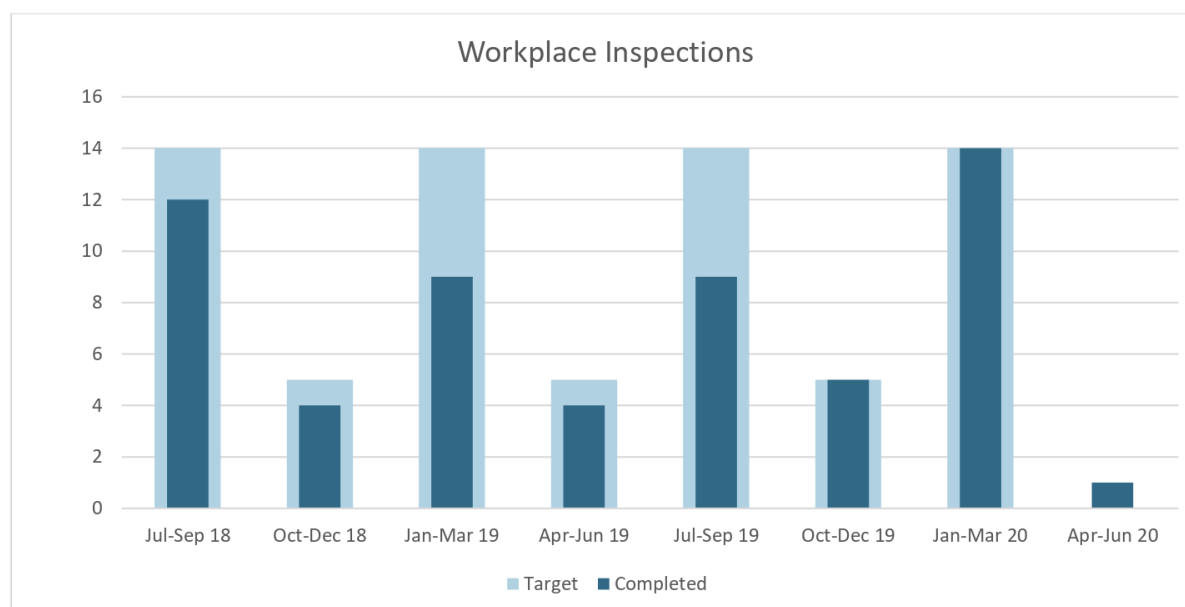
The ERoad in vehicle monitoring system provides data on when and where drivers exceed the speed limit by 10kmph or more. A decrease in over speed events over time is a positive indicator of improved driver safety. An increase in over speed events per 100km travelled for April has been investigated further. No individual has shown a concerning number of overspeed events. Most of April was the level 4 lockdown with minimal distance travelled by most fleet vehicles. Overspeed events occurred in vehicles driven by those providing essential services. Busy work schedules and low traffic volumes are not considered an excuse for speeding but do help to explain how it occurred during lockdown.

During June 16 staff completed either advanced driver training or 4wd training, this training was with a new provider and was very well received. It is proposed to deliver more of this training in the coming year with the addition of safe driving seminars for most staff who drive regularly while working for Council.

1.7 Proactive Staff Safety



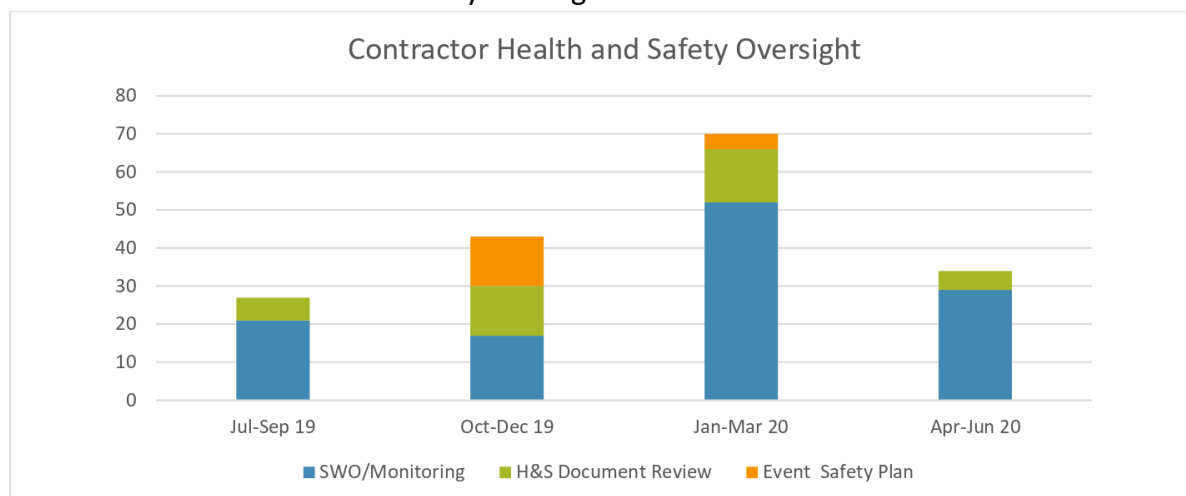
Toolbox talks (TBTs) are required to be completed monthly by all workgroups. The agenda for this monthly health and safety meeting includes a number of standing items and a monthly feature topic that often includes important health and safety updates or reminders. The change in the target for the April to June quarter is because no agenda was provided to workgroups for April or May.



Workplace inspections are scheduled quarterly in areas used by the public and every six months in staff only areas. In most cases these are now completed by the health and safety representative in the work area. Increased monitoring and follow up in regard to this important lead indicator has resulted in all required workplace inspections being completed for this calendar year. Workplace inspections originally scheduled for April have been rescheduled for July.

Health Safety and Wellbeing Report - Jan - Jun 2020 (A2404161)

1.8 Contractor Health And Safety Oversight



SWO/Monitoring – Contractor workplace visits or inspections that have a specific focus on H&S, the increase for January to March is a good indicator of improved uptake of the new health and safety database ‘Improvements’ and shows that Council is monitoring the health and safety of contractor work. The decrease for the most recent quarter is due to less work occurring during the COVID-19 response and a focus on COVID-19 controls which were recorded under pandemic management over this period.

H&S Document Review – A safety plan or contractor pre-qualification is received and reviewed. As noted above specific pandemic management safety plans over this period were recorded in the pandemic management portfolio and are reported in section 1.5 Wellbeing – COVID-19 Response

Event H&S Plan – A safety plan for a Council run event or venue hire. The variation numbers of these completed is due to the seasonal nature of many events and the fact that many events were cancelled as a result of COVID-19.

1.9 Senior Leader Due Diligence

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

- Pat Dougherty – Nayland Pool
- Roger Ball – Elma Turner Library, COVID-19 controls and planning

Section 2 - Key Health and Safety Risks

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

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

Managing the risk

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

Controls – What we have in place

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

Treatments - What we are planning

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

Risk Owner Chief Executive

Residual Risk Rating Medium (6)

Risk Map

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

Risk Movement None

Last updated: July 2020

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

Why do we see this as a risk? Council's objective is to have all those who work for us safe at work. Council staff elected representatives, contractors and volunteers can be threatened and abused while carrying out duties at Council facilities or in the field, leading to work stress and fatigue. Those who have a public interface (e.g. Customer Service centre, contracted staff, public events, libraries) experience aggression on a regular basis.

Managing the risk

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

Controls - What we have in place

- Crime prevention through environmental design (CPTED) is considered in design of all new Council facilities
- CCTV surveillance in key Council workplaces including CCTV system upgrade at all libraries
- Improved physical security in many workplaces as a result of security reviews
- Difficult customer training provided for staff in high exposure roles
- Minimum cash holdings
- Risk assessments are completed for Council meetings and large events
- Workplace support available to manage post incident trauma
- Proactive use of security guards when indicated by increased risk
- Police advised of all large gatherings such as citizenship ceremonies (March 2019)
- Terrorism threat and vulnerability assessment tools used in major event and venue risk assessments
- **External security review for libraries and Founders Heritage Park completed (February 2020)**

Treatments - What we are planning

- **Follow up to security reviews at Libraries and Founders Heritage Park**

Risk Owner Chief Executive

Residual Risk Rating Medium (9)

Risk Map

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

Risk Movement None

Last Updated: July 2020

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

Why do we see this as a risk? Staff are exposed to workstation associated risks of discomfort, pain and injury through much of their work. Work related stress has been identified as higher than acceptable in staff surveys. These surveys have shown year on year improvement since 2017.

Managing the risk

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

Controls - What we have in place

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

Treatments - What we are planning

- Introduce a Council Wellbeing framework 'Oranga Tonutanga' to all staff (July 2020)

Risk Owner Chief Executive

Residual Risk Rating Medium (6)

Risk Map

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

Risk Movement None

Last Update: July 2020

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

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

Managing the risk

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

Controls - What we have in place

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

Treatments - What we are planning

- Improve communication capability for lone or remote and isolated workers in areas without effective cell-phone coverage (September 2020)

Risk Owner Chief Executive

Residual Risk Rating Medium (6)

Risk Map

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

Risk Movement None

Last Update: July 2020

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

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

Managing the risk

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

Controls - What we have in place

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

Treatments - What we are planning

- Trial Implementation of vehicle rollover and impact alert system when available for ERoad
- Provide improved driver training for Council drivers (underway)

Risk Owner Chief Executive

Residual Risk Rating Medium (8)

Risk Map

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

Risk Movement None

Last Update: July 2020

Key Organisational Risks Report - 01 January to 30 June 2020

1. Purpose of Report

- 1.1 To provide information to the Audit and Risk Subcommittee on the key organisational risks through to end of quarter four 2019-20. This report covers risk management progress through both quarter three and quarter four 2019-20.

2. Recommendation

That the Audit and Risk Subcommittee

- 1. Receives the report Key Organisational Risks Report - 01 January to 30 June 2020 (R14813) and its attachment (A2415845).***

3. Background

- 3.1 This report includes information on risks to achieving Council's priorities for the Long Term Plan 2018-28 (section 5), and the key organisational risks that could impact Council's wider ability to deliver core functions and services (section 6). Risks related to specific assets, activities, or projects, are reported on a quarterly basis to the relevant Committee, and any significant items are summarised at section 7 of this report. In addition, section 7 provides a brief summary from each Group Manager on emerging risks for their areas of responsibility.
- 3.2 The attachment to this report describes each risk in more detail, its existing controls and planned risk treatments.
- 3.3 Note that the demands on staff time to respond to the COVID-19 emergency has impacted the ability to complete some planned risk treatments.

4. Risk Management Practice

- 4.1 During quarter three, a trial of software to support risk management was conducted, with positive results, and software licences were purchased

Item 11: Key Organisational Risks Report - 01 January to 30 June 2020

during quarter four. A project to implement the risk management software across the organisation was initiated towards the end of quarter four. The advantages for Council are: consolidation of risk recording into a central repository; more effective risk ownership and visibility, and more efficient reporting on risk.

- 4.2 During quarter four, Council's risk management processes were reviewed and updates completed to rationalise these processes.
- 4.3 A review and refresh of the key organisational risks for 2019-20 was scheduled for quarter four; this work was delayed and has been rescheduled for quarter one 2020-21.
- 4.4 The main focus for risk management improvement activities for quarter one 2020-21 is to complete configuration of the risk management software and begin a phased rollout across the organisation.
- 4.5 At the SOLGM Risk Management Forum in February 2020, the World Economic Forum's Global Risk Report, published 15 January 2020, was presented. The report presents how key focus areas for risk management are changing globally and nationally, and is publicly available on the World Economic Forum's website. The risk trends are summarised below for information.
 - 4.5.1 Over last 10 years the biggest risk concerns globally have changed from mostly economic to mostly environmental. In 2010, of the top 5 most likely risks, three were economic, one was geopolitical and one was societal; in 2020 the top 5 most likely risks were all environmental. These top 5 global risks, in terms of likelihood are: extreme weather; climate action failure; natural disasters; biodiversity loss; and human-made environmental disasters.
 - 4.5.2 Similarly, in 2010, of the top 5 most impactful risks, four were economic, and one was societal; in 2020, three are environmental, with one societal and one geopolitical. These top 5 global risks, in terms of impact are: climate action failure; weapons of mass destruction; biodiversity loss; extreme weather; and water crises.
 - 4.5.3 In the World Economic Forum's report Regional Risks for Doing Business, published 01 October 2019, the top 5 risks for New Zealand were: natural disasters; cyberattacks; failure of critical assets; failure of urban planning; and extreme weather.

5. Risks to Achieving Council Long Term Plan Top Priorities

- 5.1 Updated information to the end of quarter four is summarised below, with further detail on the risk areas, their controls and treatments set out in attachment one.
- 5.2 **Priority area Infrastructure (Risk 1).** There have been no reported exceptions to the risk controls. Some project and operational level work

Item 11: Key Organisational Risks Report - 01 January to 30 June 2020

was delayed due to COVID-19 alert level restrictions, and as such treatment review dates have been adjusted. Treatments are being incorporated into the relevant draft Activity Management Plans (AMPs) being presented to Council during quarter two 2020-21. A review of the overall consequences and likelihood for this priority area has been scheduled for quarter one 2020-21; until then the risk rating remains at High, with no risk movement to report during quarters three and four 2019-20.

5.3 **Priority area Environment (Risk 2).** The residual risk rating remains at High, with no risk movement during quarters three and four 2019-20.

5.4 **Priority area City Centre Development (Risk 3).** New and improved parking meters were implemented during June 2020; at the time of writing this report, it is too early to assess the impact of this treatment on the risk rating. All other risk treatments are in progress. The impact from COVID-19 on retail, tourism and hospitality businesses may result in decreased city centre commercial activity, which could slow down Council's ability to achieve its objectives for the city centre development. There was no risk movement during quarters three and four 2019-20, and the overall residual risk rating remains at Medium.

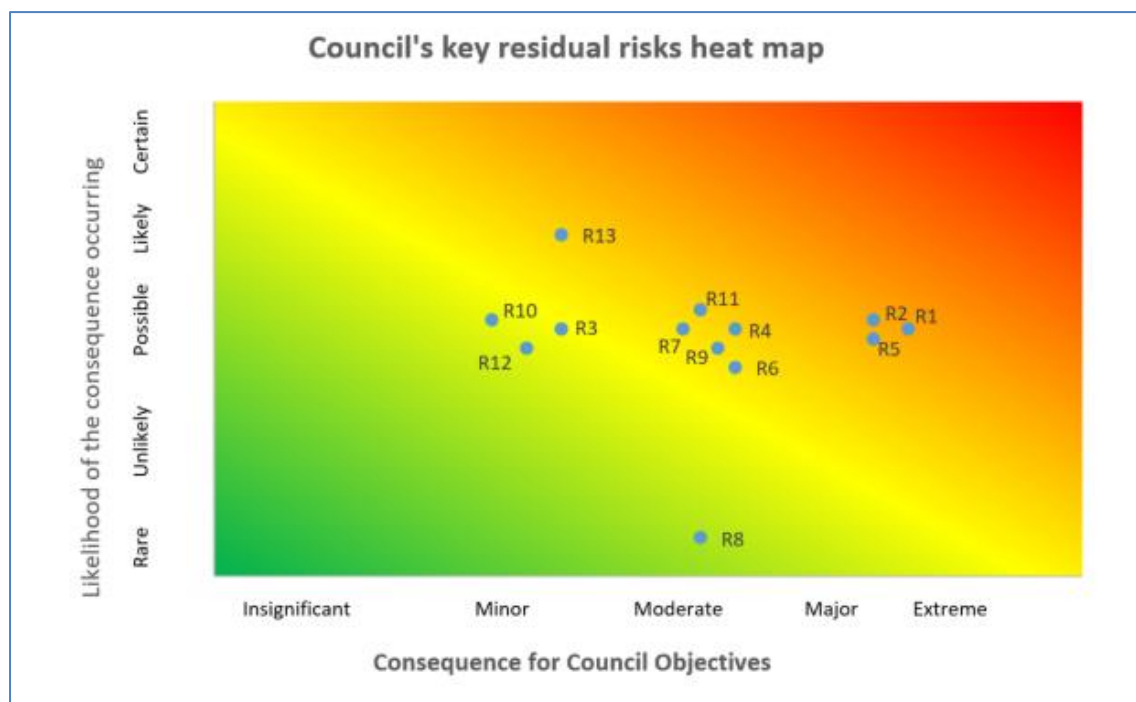
5.5 **Priority area Lifting Council Performance (Risk 4).** A variety of collaboration tools and facilities have been completed as planned – smartboards in meeting rooms, widespread rollout of zoom meeting technology, and development of the innovation workspace. Some staff recruitment was put on hold during the COVID-19 event, as was staff training in Te Reo, and these treatments will now be reviewed in September 2020. Te Kāhui Whiria, Māori Partnerships Team has made strong progress in developing processes and guidance for staff, with the implementation of a service request process for cultural guidance and advice, a weekly cultural clinic drop-in session, and ongoing promotion of Te Ao Māori resources to support staff development and understanding of te reo Māori me ōnā tikanga. The risk rating remains at Medium, with no risk movement during quarters three and four 2019-20.

6. Key Organisational risks

6.1 A new risk has been identified, relating to the potential for a significant future increase of COVID-19 cases to disrupt delivery of Council services.

6.2 At the end of quarter four, the known key risk areas for the four Long Term Plan top priorities, and nine key organisational risks, are as summarised in the heat map, and table below. Updates are provided below for the nine key organisational risk areas, with further detail in attachment one.

Item 11: Key Organisational Risks Report - 01 January to 30 June 2020



| ID | Risk Area | Rating | Owner |
|----|--|--------|---|
| 1 | Council priority area: Infrastructure | High | Group Manager Infrastructure |
| 2 | Council priority area: Environment | High | Group Manager Environmental Management |
| 3 | Council priority area: City Centre Development | Medium | Chief Executive |
| 4 | Council priority area: Lift Council Performance | Medium | Chief Executive |
| 5 | Lifeline service failure from natural hazards and similar events | High | Group Manager Infrastructure |
| 6 | Illness, injury or stress from higher hazard work situations | Medium | Group Manager Corporate Services |
| 7 | Loss of service performance from ineffective contracts and contract management | Medium | Chief Executive |
| 8 | Compromise of Council service delivery from information technology failures | Low | Group Manager Corporate Services |
| 9 | Compromised decision making and public information from incomplete and difficult to access records | Medium | Group Manager Strategy and Communications |

Item 11: Key Organisational Risks Report - 01 January to 30 June 2020

| ID | Risk Area | Rating | Owner |
|----|---|--------|---|
| 10 | Council work compromised by loss of and difficulties in replacing skilled staff | Medium | Manager People and Capability |
| 11 | Legal liability and reputation loss from inadequate consideration of the law in decision making | Medium | Group Manager Strategy and Communications |
| 12 | Loss of public trust in the organisation | Medium | Group Manager Strategy and Communications |
| 13 | Disruption to Council service delivery due to significant increase in COVID-19 cases | Medium | Chief Executive |

- 6.3 **Lifeline service failure from natural hazards and similar events (Risk 5).** The remaining updates to the Maitai Dam Emergency Action Plan were completed during quarter four. A new risk treatment is underway, to ensure Council has the contractual ability to require emergency out of hours operation of the transfer station. The overall risk profile for this risk is scheduled for review during quarter one 2020-21, and this review will aim to resolve areas of overlap with other risks; until then, the risk rating remains at High, with no risk movement to report during quarters three and four 2019-20.
- 6.4 **Illness, injury or stress from higher hazard work situations (Risk 6).** The health, safety and wellbeing aspects of the recent COVID-19 event which required prolonged working from home for all staff, has been monitored and reported by Council's Health and Safety Advisor throughout the event. The remaining planned treatment could not be completed due to COVID-19 alert level restrictions, and the terrorism vulnerability assessments for key Council venues will now be rescheduled to complete by December 2020. Officers are exploring options to continue providing a level of driver safety training to all staff who drive for work; this has been an effective risk mitigation over the last year however there may be a more cost effective option for delivering this training. There was no risk movement during quarters three and four 2019-20, and so the overall risk rating remains at Medium.
- 6.5 **Loss of service performance from ineffective contracts and contract management (Risk 7).** Delivery of the work programme in this area has been impacted by previous staff vacancies, and diverting resources to the COVID-19 response. The contract management system being investigated during previous quarters was not a feasible solution; alternative solutions are now being assessed against prioritised requirements. A project to increase contract management consistency and staff skills will now be initiated during Q2 2020-21 once implementation of the contract management system is underway. Additional legal support advising on procurement and contracting matters is now available to staff. The risk rating remains at Medium, with no risk movement during quarters three and four 2019-20.

- 6.6 **Compromise of Council service delivery from information technology failures (Risk 8).** Risk controls have been reviewed and are considered to remain effective. Additional protections to further mitigate cyber-attacks are being brought forward for implementation. There is a robust incident management process triggered each time a cyber security threat arises. The overall residual risk rating remains at Low and as such, there is no risk movement during quarters three and four 2019-20.
- 6.7 **Compromised decision making and public information from incomplete and difficult to access records (Risk 9).** An "Information Asset Register" has been drafted to collate information about hardcopy archives in a format which is structured, and useable for most staff, however the eventual electronic reference system for hardcopy archives has been put on hold whilst a staff vacancy is filled, as have some other treatments. A temporary public reading space has been created in the archive processing area, which provides an improved service and privacy for customers. Improvements to the security and access to onsite hardcopy records have been completed, resulting in secure archive rooms, improved environmental controls, reduced exposure to some hazards and safer manual handling for staff (space and shelving quality). Plans are underway to address gaps in records management of information in cloud-based repositories; the need for improvements in this known area of risk was further highlighted in a recently completed internal audit. The risk rating remains at Medium, with no risk movement during quarters three and four 2019-20.
- 6.8 **Council work compromised by loss of and difficulties in replacing skilled staff (Risk 10).** Due to improved processes, technology, and information accessibility, our ability to replace staff in most roles has increased. With planned risk treatments either complete or well underway, the likelihood of some consequences has reduced, and these have been updated in the detailed risk profile. There are some local pockets within Council where recruitment and retention of qualified and skilled staff is more problematic. Whilst the short term impact of COVID-19 is favourable for Council recruitment, officers think it prudent to maintain the risk management response in line with a Medium residual risk rating. The risk rating therefore remains at Medium, with no risk movement during quarters three and four 2019-20.
- 6.9 **Legal liability and reputation loss from inadequate consideration of the law in decision making (Risk 11).** At the end of quarter two, the "LawVu" tool was being used by the internal Legal Services team. The planned implementation to other key officers, and the external legal services panel, has been completed during quarter three. The development of a structured training programme for staff, to ensure more awareness and knowledge across the organisation on local government specific legal requirements, has also been completed as planned, during quarter four. This training programme will be further developed to include content on relevant policies and procedures. A Legal Adviser has joined the team part-time to strengthen the Legal Services team's provision of legal advice on procurement and contractual

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matters. The risk rating remains at Medium, with no risk movement during quarters three and four 2019-20. The risk owner remains satisfied that the residual risk is at a tolerable level.

- 6.10 **Loss of public trust in the organisation (Risk 12).** As previously reported, whilst it is unlikely that further reduction in the residual risk rating can be achieved, the risk owner is satisfied that the risk is at a tolerable level, considering the level of effective controls that are in place. The risk rating remains at Medium, with no risk movement during quarters three and four 2019-20.
- 6.11 **Disruption to Council service delivery due to significant increase in COVID-19 cases (Risk 13).** This is a new risk that will remain in place for the foreseeable future, and relates to the impact on delivery of Council services. Whilst the impact to the provision of critical core services such as water and wastewater is considered insignificant, the recent COVID-19 restrictions have shown that there would be a moderate impact on Council's ability to provide community facilities.

7. Risk Areas for Each Group

- 7.1 **Infrastructure Group:** COVID-19 implications for Infrastructure are being reported to each meeting of the Infrastructure Committee - services are now operating as usual, and officers continue to resolve the remaining time and financial impacts on project delivery. The suspension of construction work during alert levels four and three has created additional pressure on project delivery and local contractors; a streamlined procurement approach has been implemented to help mitigate the impact on project timeframes, however the impact on market pricing for new work is unknown. This streamlined procurement approach will remain in place through to the end of June 2021.
- 7.2 **Community Services Group:** No new emerging risks to report at this time.
- 7.3 **Environmental Management Group:** Council has requested that the Audit and Risk Subcommittee has oversight of risks related to the Nelson Plan - the key risk being managed is a financial risk. A Governance Liaison Group comprising Mayor Reese, Cllr McGurk and Cllr Fulton is in place. Quarterly project level reporting to the Environment Committee is being established, and is expected to be in place by December 2020.
- 7.4 **Strategy and Communications Group:** No new emerging risks to report at this time.
- 7.5 **Corporate Services Group:** No new emerging risks to report at this time.

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Author: **Arlene Akhlaq, Manager Business Improvement**

Attachments

Attachment 1: A2415845 - Key organisational risks report Quarters 3 and 4 -
January to June 2020 [↓](#)

Council Risk Profile - Key Organisational Risks: Quarters Three and Four 2019-20

Key organisational risks report Quarters 3 and 4 – January to June 2020 (A2415845)

Overview

The purpose of this document

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

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

Omitted areas:

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

Risk Profile

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

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

Key organisational risks report Quarters 3 and 4 – January to June 2020 (A2415845)

| 1. Council priority area: Infrastructure | | | | | | | | | | |
|--|--|--|-----------------------------------|--|---|--|----------------|--------|-----------|-----------|
| Assigned risk owner: | | Group Manager Infrastructure | | | Last update: July 2020 | | | | | |
| Residual risk identification and assessment | | | | Residual risk rating map | | | | | | |
| Council objectives: | To provide and maintain water supply, wastewater and stormwater management systems, transport infrastructure and solid waste disposal to meet the current and reasonably foreseeable needs of the Nelson Community | | | Likelihood | Almost Certain | Medium | Medium | High | Very High | Very High |
| Uncertain events considered: | Extreme natural hazard events (extreme weather, seismic events, large scale energy system failure) Service demand increases faster than projected Infrastructure component fails earlier than projected life | | | | Likely | Medium | Medium | High | High | Very High |
| Consequences | | Likelihood | Assessed risk level | | Possible | Low | Medium | Medium | High | High |
| Major loss of Council infrastructure services to the Nelson community | | Possible | High | | Unlikely | Very Low | Low | Medium | Medium | High |
| Moderate level health impact on residents and visitors | | Possible | Medium | | Rare | Very Low | Very Low | Low | Medium | Medium |
| Moderate level impact on Council reputation | | Likely | High | | | | | | | |
| | | | | | Insignificant Minor Moderate Major Extreme | | | | | |
| | | | | | Consequence | | | | | |
| | | | | Risk Movement in reporting period: None Treatments are intended: To reduce both likelihood and consequences | | | | | | |
| MANAGING THE RISK | | | | | | | | | | |
| Controls – what we have in place: | | | Treatments – what we are planning | | | | | | | |
| Description | Accountability | Effect of control | | Description | Expected effect | Timetable | Next review | | | |
| Infrastructure planning | Group Manager Infrastructure | Improves resilience of infrastructure components reducing consequences | | Actions from regional lifeline review – ongoing programme of stream flood protection work, wastewater pump station upgrades and water supply network enhancements/replacements | Increased flood protection (modelling, design and construction) | Modelling work completed awaiting decision on priorities for action | September 2020 | | | |
| Asset management plans for each network | Group Manager Infrastructure | Planned asset upgrading or replacement, reduces consequences | | Reduced inflow and infiltration to wastewater system | Increased resilience of supply for water Ongoing reduction of wastewater system overflows Increased pump station capacity | Water supply pipeline replacements continue into 2020-21 Investigations re inflows will continue into 2020-21 One pump station upgrade is completed Second pump station upgrade at design stage | | | | |
| 30 year infrastructure strategy | Group Manager Infrastructure | Long term improvement of infrastructure resilience | | Improved cycling and walking facilities, upgrading local roading, including bridges, retaining walls etc., CBD bus terminus and parking upgrades | Encourage and provide for cycling and walking and improved traffic flows | Planning stage throughout 2019–20 Implementation stages 2020-24 | September 2020 | | | |
| Asset management information systems to track infrastructure item status | Group Manager Infrastructure | Provides data for decisions about infrastructure asset renewal, replacement etc. | | Earthquake Prone Building Legislation implementation – identify and provide protection for strategic routes | Identification and enhanced protection of most significant transport routes | Over a 5 year period from legislation amendment date | September 2020 | | | |
| Utilities performance monitoring and response | Group Manager Infrastructure | Identifies areas of service for upgrade, repair etc., to be executed | | Execution of Nelson Tasman Waste Management and minimisation plan | Reduced environmental and health impacts from waste | Current focus of reducing waste by 10% per person in progress Draft Activity Management Plan provides more information – due in October 2020 | November 2020 | | | |
| | | | | | | | | | | |

| 2. Council priority area: Environment | | | | | | | | | | | |
|---|--|---|---------------------|--|--|---|-----------------|--------|------|-----------|-----------|
| Assigned risk owner: | | Group Manager Environmental Management | | | Last update: July 2020 | | | | | | |
| Residual risk identification and assessment | | | | | Residual risk rating map | | | | | | |
| Council objectives: | To respond to climate change adaptation within Nelson, in accordance with the Dynamic Adaptive Pathways approach. To effectively manage biosecurity risks across marine, freshwater and terrestrial domains. To enhance Nelson’s biodiversity in the freshwater and terrestrial domains. To manage land and soil resources. To maintain and enhance air quality, water quality, and water quantity To deliver effective and efficient regulatory services which manage environmental and built effects. | | | | Likelihood | Almost Certain | Medium | Medium | High | Very High | Very High |
| | Uncertain events considered: | There is no drive or commitment (including financial) to act on environmental enhancement initiatives or statutory regulatory standards. Inability to deliver because of staff resourcing issues. Biosecurity failure causes pest species upsurge. Council investment decisions with inadequate environmental considerations. Natural hazard events causing disruption and impact Government led changes that need to be given effect to | | | | Likely | Medium | Medium | High | High | Very High |
| Possible | | Low | Medium | Medium | | High | High | | | | |
| Unlikely | | Very Low | Low | Medium | | Medium | High | | | | |
| Rare | | Very Low | Very Low | Low | | Medium | Medium | | | | |
| Consequences | | Likelihood | Assessed risk level | | | Insignificant Minor Moderate Major Extreme | | | | | |
| Major damage to Nelson biophysical environment | | Unlikely | Medium | | Consequence | | | | | | |
| Major impact on Council reputation | | Possible | High | | | | | | | | |
| Major environmental impact from infrastructure damage on the natural environment | | Possible | High | | | | | | | | |
| Moderate legal impact from breach of and not giving effect to legislation or statutory plans | | Unlikely | Medium | | Risk Movement in reporting period: None Treatments are intended: to reduce both consequences and likelihood | | | | | | |
| MANAGING THE RISK | | | | | | | | | | | |
| Controls – what we have in place: | | | | Treatments – what we are planning | | | | | | | |
| Description | Accountability | Effect of control | | Description | Expected effect | Timetable | Next review | | | | |
| Legislative requirements to manage air quality, water quality and quantity, land management, forestry management, biosecurity (marine, freshwater and terrestrial) and biodiversity | Group Manager Environmental Management Group Manager Infrastructure | All environmental domains meet statutory requirements. Non-regulatory programmes deliver across the domains including eco-advice and warmer healthier homes | | Climate Change policy for the Council (led by Group Manager Strategy and Communications) | Will provide some high level objectives to guide Council decision making | Policy development is currently on hold, pending development of a community-led regional strategy | September 2020 | | | | |
| Resource consenting and building consenting | Group Manager Environmental Management | Statutory compliance with legislation and plans to manage the natural and physical environment | | Response to national biosecurity strategy and national policy statement on biosecurity | Implementation and response will improve weed and pest management and incursion response capability | National documents still being developed, expected to be finalised during 2020-21 year | March 2021 | | | | |
| CEMARS carbon emissions monitoring | Group Manager Strategy and Communications | To provide baselines and data for future planning of emission reductions for Council operations. | | Business cases to include assessment of environmental impacts | Council projects achieve improved environmental results | Being established for new business cases | June 2021 | | | | |
| Adaptive pathways work on adaptation for Council | Group Manager Environmental Management | Confirm responses in areas likely to be impacted by climate change | | Development of an Emissions Reduction Action Plan (led by Group Manager Strategy and Communications) | Reduce emissions from NCC operational activities | To be confirmed through the Long Term Plan 2021-31 | To be confirmed | | | | |
| Weed and pest management, Council contracted and coordination of community programmes | Group Manager Environmental Management Group Manager Community Services | Control or reduce levels of existing pests and weeds, identification and where required action on potential incursions of new pest species | | | | | | | | | |

| | | | | | | | |
|--|--|---|--|--|--|--|--|
| River and stream enhancement programmes (e.g. Healthy Streams) | Group Manager Environmental Management Group Manager Infrastructure Group Manager Community Services | Improved water and habitat quality in rivers and streams, and management of water quantity for ecological flows | | | | | |
| Natural hazard advice to property owners (e.g. via LIM) | Group Manager Environmental Management | Understanding of natural hazard impact by landowners | | | | | |
| Biodiversity improvement programmes e.g. Nelson Nature | Group Manager Environmental Management | Delivery of protection of significant natural areas, and enhanced species management | | | | | |

| 3. Council priority area: City Centre Development | | | | | | | | | | |
|---|--|---|-----------------|--|--|--|----------------|--------|-----------|-----------|
| Assigned risk owner: | | | Chief Executive | | Last update: July 2020 | | | | | |
| Residual risk identification and assessment | | | | Residual risk rating map | | | | | | |
| Council objectives: | To maintain and enhance the Nelson central business district so it provides the commercial, cultural and city residence centre for Te Tau Ihu by; <ul style="list-style-type: none">using public (Council) investment in land and infrastructure to encourage private investment in the city centre – including managing the effects of climate changedelivering quality public spaces to attract more people for longer to the city centrecreation of visible precincts to attract business to use the city centre as a regional centreincreasing directly or indirectly the supply of residences in the city centre | | | Likelihood | Almost Certain | Medium | Medium | High | Very High | Very High |
| Uncertain events considered: | Decrease of city centre commercial activity City centre core infrastructure services failure or loss of city centre land use through climate change precipitated events (e.g. flooding) Cultural activities move from Nelson city centre Decline in city centre residential numbers | | | | Likely | Medium | Medium | High | High | Very High |
| | | | | | Possible | Low | Medium | Medium | High | High |
| | | | | | Unlikely | Very Low | Low | Medium | Medium | High |
| | | | | | Rare | Very Low | Very Low | Low | Medium | Medium |
| Consequences | | Likelihood | | | Assessed risk level | | | | | |
| Loss of trust and confidence in Council from decreasing city centre activity | | Possible | | Medium | | | | | | |
| Moderate service failure from non-availability of city centre residences | | Possible | | Medium | | | | | | |
| Loss of city centre services from infrastructure services failure | | Unlikely | | Low | | | | | | |
| Minor service failure from decreased public space quality or availalbity | | Unlikely | | Low | | Risk Movement in reporting period: None Treatments are intended: To reduce both consequences and their likelihood | | | | |
| MANAGING THE RISK | | | | | | | | | | |
| Controls – what we have in place: | | | | Treatments – what we are planning | | | | | | |
| Description | Accountability | Effect of control | | Description | Expected effect | Timetable | Next review | | | |
| Council provided waste collection & street cleaning | Group Manager Infrastructure | Enhanced CBD liveability | | Investigation into new bus exchange | Improved transport connectedness | Part of the Public Transport review, recommendations due October 2020 | November 2020 | | | |
| Council provides funding support for Uniquely Nelson | Group Manager Environmental Management | promote the city centre to encourage greater visitation, thereby increasing retail spend into the Nelson economy | | Engagement of key stakeholders to understand future needs (for commercial and residential use) | Better definition of objectives | Work progressing well and will be ongoing through to the Nelson Plan notification date | September 2020 | | | |
| City Development team coordinate developments to benefit city centre across Council | Group Manager Environmental Management | Provides resources and focus on city centre development activities (e.g. transport, property management, infrastructure development etc.) | | Update of parking facilities and services | Improved accessibility for city centre | Improvements include the renewal of parking meters and launch of a parking app - completed | n/a | | | |
| Nelson City Events Strategy (adopted May 2018) | Group Manager Community Services Group Manager Strategy and Communications | Supports events that are aligned with the Economic and Community funding streams and their objectives of providing economic value, and supporting community wellbeing, our sense of identity and creating a partnership between the community and Council | | Input to Nelson plan so the plan enables high quality commercial/ residential develop in city centre | Allow residential and commercial city centre development | Ongoing through to the Nelson Plan notification date | September 2021 | | | |
| City centre focus group formed | Group Manager Environmental Management | Inform city centre stakeholders of possible actions | | | | | | | | |
| City centre specific infrastructure upgrades | See under infrastructure above | See under infrastructure above | | | | | | | | |

Key organisational risks report Quarters 3 and 4 – January to June 2020 (A2415845)

| 4. Council priority area: Lift Council Performance | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|--|---|---|--|----------------|--------|------|-----------|-----------|--------|--------|--------|------|------|-----------|----------|-----|--------|--------|------|------|----------|----------|-----|--------|--------|------|------|----------|----------|-----|--------|--------|--|
| Assigned risk owner: | | | Chief Executive | | Last update: July 2020 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Residual risk identification and assessment | | | | Residual risk rating map | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Council objectives: | To maintain and develop the organisation’s capacity to respond to community need by: <ul style="list-style-type: none">Providing a single integrated information base about the state of and expenditure on assets needed to deliver services (e.g. transport, water supply, wastewater management etc.) to the Nelson communityStreamlining the management of contracts and contractors to obtain best value from expenditure on contracts and contractorsIntegrating existing systems so that information is internally linked to enable improved organisation and governance understanding of and response to uncertainties | | | <div>Likelihood</div> <table><tr><td>Almost Certain</td><td>Medium</td><td>Medium</td><td>High</td><td>Very High</td><td>Very High</td></tr><tr><td>Likely</td><td>Medium</td><td>Medium</td><td>High</td><td>High</td><td>Very High</td></tr><tr><td>Possible</td><td>Low</td><td>Medium</td><td>Medium</td><td>High</td><td>High</td></tr><tr><td>Unlikely</td><td>Very Low</td><td>Low</td><td>Medium</td><td>Medium</td><td>High</td></tr><tr><td>Rare</td><td>Very Low</td><td>Very Low</td><td>Low</td><td>Medium</td><td>Medium</td></tr></table> <div>Insignificant Minor Moderate Major Extreme</div> <div>Consequence</div> | Almost Certain | Medium | Medium | High | Very High | Very High | Likely | Medium | Medium | High | High | Very High | Possible | Low | Medium | Medium | High | High | Unlikely | Very Low | Low | Medium | Medium | High | Rare | Very Low | Very Low | Low | Medium | Medium | |
| Almost Certain | Medium | Medium | High | | Very High | Very High | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Likely | Medium | Medium | High | | High | Very High | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Possible | Low | Medium | Medium | | High | High | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Unlikely | Very Low | Low | Medium | | Medium | High | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Rare | Very Low | Very Low | Low | | Medium | Medium | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Uncertain events considered: | Lack of clarity of Council requirements Assets replaced while substantial service life remains Council systems slow or fail to work (people, record keeping, IT, Council decision making etc.) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Consequences | | Likelihood | Assessed risk level | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Minor level overspend on contract | | Likely | Medium | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Minor level financial loss from contracted work not delivered or not delivered fully | | Possible | Medium | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Moderate level service failure from suboptimal contract delivery | | Unlikely | Medium | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Moderate trust and confidence loss from project delays or slow responding systems | | Possible | Medium | | Risk Movement in reporting period: None Treatments are intended: To reduce consequences and their likelihood | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| MANAGING THE RISK | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Controls – what we have in place: | | | Treatments – what we are planning | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Description | Accountability | Effect of control | Description | Expected effect | Timetable | Next review | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Systematic contract and contractor management procedures | All business units using contractor’s services | Clear specification of contract requirements, legally defensible process for procurement | Refurbishment of Civic House to meet modern workplace standards | Improved workspaces to enable more efficient working and make the organisation more attractive to staff with the required expertise | Localised and minor improvements throughout 2019-20 - completed Plan and timetable for wider refurbishment on hold, pending Council decision on future of Civic House | September 2020 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Customer service standards and procedures | All business unit managers | Customer services managed in a timely and effective manner | Increased staffing levels, and review of organisational structure from time to time | Increased capacity in key organisational areas to improve performance | Funding agreed in Long Term Plan during 2018-19 and further adjusted through the Annual Plan 2019-20 - completed Recruitment of the additional staff roles is a treatment included with Risk 10 | n/a | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | Build staff capability for iwi partnerships | Improved Council ability to work with iwi | Increased advisory capacity (completed) Training in Te Reo and Kaupapa Maori – continuing into 2020-21 Developing processes and guidance for staff – in implementation stages | September 2020 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | Update of asset management and asset recording systems | Improved decision making about when asset maintenance and replacement is required | Consideration of an asset management systems improvement plan is in progress | September 2020 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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| | | | | | | | |
|--|--|--|--|--|---|---|-----------------|
| | | | | | | Local improvements to identify and close data gaps are in progress for two asset groups (Utilities, and Council facilities) and will now continue into 2020-21 | |
| | | | | Update of contractor management and contract monitoring including integration with financial systems | Improved efficiency in contract expenditures | Development of a contracts database with basic workflow to ensure monitoring and review of contract, and to increase management oversight – during quarters one and two 2020-21 | August 2020 |
| | | | | Revisions to procurement policy | Improved efficiency and effectiveness of Council procurement | Development of new policy in progress. Policy is scheduled for Council review in September 2020 | October 2020 |
| | | | | Improvements to procurement procedures and supporting tools | Improved efficiency and effectiveness of Council procurement | In progress – scheduled to complete by October 2020 | November 2020 |
| | | | | Improved collaboration resources | More efficient meetings Improved ability to work collaboratively with external parties | Completed during quarters three and four 2019-20 | n/a |
| | | | | Identify risks to achieving the 2020-21 KPIs for the capital expenditure programme, staff survey results, and staff turnover | Reduce risk likelihood | To be confirmed | To be confirmed |

| 5. Organisational risk area: Lifeline service failure from natural hazards and similar events | | | | | | | | | | |
|---|--|------------------------------|---------------------|---|------------------------|----------|----------|--------|-----------|-----------|
| Assigned risk owner: | | Group Manager Infrastructure | | | Last update: July 2020 | | | | | |
| Residual risk identification and assessment | | | | Residual risk rating map | | | | | | |
| Council objectives: | To provide and maintain water supply, wastewater and stormwater management systems, transport infrastructure and solid waste disposal to meet the current and reasonably foreseeable needs of the Nelson community | | | Likelihood | Almost Certain | Medium | Medium | High | Very High | Very High |
| Uncertain events considered: | Incidences of severe weather, earthquakes, major fires, tsunami or major electricity or telecommunications failures | | | | Likely | Medium | Medium | High | High | Very High |
| Consequences | | Likelihood | Assessed risk level | | Possible | Low | Medium | Medium | High | High |
| Major loss of services to the nelson community | | possible | High | | Unlikely | Very Low | Low | Medium | Medium | High |
| Moderate level environmental damage | | possible | Medium | | Rare | Very Low | Very Low | Low | Medium | Medium |
| Moderate level health impact | | possible | Medium | | | | | | | |
| Moderate level impact on council reputation | | likely | High | Risk Movement in reporting period: None Treatments are intended: To reduce consequence | | | | | | |

| MANAGING THE RISK | | | | | | | |
|--|---|--|-----------------------------------|---|---|--|--------------|
| Controls – what we have in place: | | | Treatments – what we are planning | | | | |
| Description | Accountability | Effect of control | | Description | Expected effect | Timetable | Next review |
| Civil defence planning and management | Manager Emergency Management | Improves response systems reducing consequence | | Implement learnings from the 2018 test of the organisation’s major disruption response capability | Increase the organisational capability to respond and reduce consequences (e.g. reducing delays in restoring services after events) | Completed | n/a |
| Insurance/risk sharing | Group Manager Corporate Services | Provides resources by funding recovery | | | | | |
| Earthquake strengthening of buildings and structures (e.g. bridges) | Group Managers Community Services, and Infrastructure | Improves resilience of structures reducing consequences | | | | | |
| Structural engineer in building unit | Manager Building Consent Authority | Improved structural assessments of building consents | | Development of the Maitai Emergency Action Plan | Reduce the impact of an extreme event | Dam Breach Analysis report completed. Emergency action plan update scheduled for first half of 2019-20 – completed | n/a |
| Data/IT systems backup and recovery | Manager Customer Technology Experience | Continued customer service, data access etc. reducing consequences | | Incorporate contractual provisions for emergency out of hours operation at the transfer station | Reduce likelihood and impact of environmental damage, and council reputation | Procurement of new service provider and contractual arrangements – through to September 2020 | October 2020 |
| Business unit disruption response objectives and plans (reviewed 6 monthly) | Business Unit Managers | Increased speed of response to event reducing consequences | | | | | |
| Lifeline improvements in AMPs | Group Manager Infrastructure | Improved resilience in networks (e.g. stormwater system) | | | | | |
| Two “table top” business continuity exercises per year for the immediate IMT | Manager Business Improvement | Improves organisational responsiveness and continuous improvement of related systems and processes | | | | | |
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| 6. Organisational Risk area: Illness, injury or stress from higher hazard work situations | | | | | | | | | | | | |
|---|--|--|----------------------------------|---|--|---|------------------------|---|----------|------------------|-----------|---------------|
| Assigned risk owner: | | | Group Manager Corporate Services | | | | Last update: July 2020 | | | | | |
| Residual risk identification and assessment | | | | | | Residual risk rating map | | | | | | |
| Council objectives: | Those at Council workplaces, whether staff, contractors, Council members or visitors to remain safe (including retaining good health) while working on Council duties or on Council premises. | | | | | Likelihood | Almost Certain | Medium | Medium | High | Very High | Very High |
| Uncertain events considered: | Work related accidents and incidents Work pressures leading to health effects including stress related impacts Violence and offensive behaviour by Council customers and members of the public | | | | | | Likely | Medium | Medium | High | High | Very High |
| Consequences | | Likelihood | | Assessed risk level | | | Possible | Low | Medium | Medium | High | High |
| Loss of life from workplace accident | | Unlikely | | Medium | | | Unlikely | Very Low | Low | Medium | Medium | High |
| Staff, contractor, or other Council personnel loss of short term capacity | | Likely | | Medium | | | Rare | Very Low | Very Low | Low | Medium | Medium |
| Multiple staff, contractor or other Council personnel fatally injured while working | | Rare | | Medium | | | | | | | | |
| | | | | | | Risk Movement in reporting period: None Treatments are intended: Reduce consequence/likelihood | | | | | | |
| MANAGING THE RISK | | | | | | | | | | | | |
| Controls – what we have in place: | | | | | | Treatments – what we are planning | | | | | | |
| Description | | Accountability | | Effect of control | | Description | | Expected effect | | Timetable | | Next review |
| Comprehensive H&S management system | | Manager Business Improvement | | Incorporates H&S management into all Council work | | Conduct terrorism vulnerability assessments for key Council venues (the Trafalgar Centre, Trafalgar Park, and Saxton Field) | | Improved understanding of venue specific terrorism related risks, and identify potential physical security improvements | | By December 2020 | | December 2020 |
| Incident reporting and analysis | | Incident reporting –Manager Business Improvement | | Improved H&S procedures based on experience | | | | | | | | |
| Visible ownership of H&S at organisational leadership levels | | Council and Senior Leadership Team | | Increases awareness of H&S good practices | | | | | | | | |
| Mandatory training as relevant to role in the organisation | | Manager Business Improvement | | H&S skills and knowledge relevant to role maintained | | | | | | | | |
| Emergency plans maintained and tested | | Manager Business Improvement and Manager Customer Technology Experience | | Readiness to respond correctly to emergencies | | | | | | | | |
| Use of communications technology for keeping contact with remote workers | | Business Unit Managers | | Improved information about whereabouts and individual safety | | | | | | | | |
| Physical security improvements for vulnerable areas | | Business Unit Managers | | Reduces likelihood and consequence of violent or offensive public behaviour | | | | | | | | |
| Safety in design implemented in design for Council assets | | Manager Transport and Solid Waste, Manager Utilities, Manager Parks and Facilities | | Inherent safety in asset design | | | | | | | | |
| Implement specific terrorism related risk assessment process for large gatherings | | | | Improved security where required for large gatherings. | | | | | | | | |

| 7. Organisational Risk area: Loss of service performance from ineffective contracts and contract management | | | | | | | | | | | | | |
|---|--|---|--|--|---|---|--------------------------|------------------------|----------|--------|--------|-----------|-----------|
| Assigned risk owner: | | | | Chief Executive | | | | Last update: July 2020 | | | | | |
| Residual risk identification and assessment | | | | | | | Residual risk rating map | | | | | | |
| Council objectives: | To provide the expected service to the Nelson community through effective and efficient contracting (including contract supervision) for services, works, consultancy advice and other specialist services | | | | | | Likelihood | Almost Certain | Medium | Medium | High | Very High | Very High |
| Uncertain events considered: | Incomplete or inadequate specification of services required Contracting which does not assign liability to the party which manages the risk Insufficient supervision of contractors to reasonably assure services are delivered to the specified standard Lack of information about contract requirements | | | | | | | Likely | Medium | Medium | High | High | Very High |
| Consequences | | Likelihood | | Assessed risk level | | Possible | | Low | Medium | Medium | High | High | |
| Major loss of Council services | | Unlikely | | Medium | | Unlikely | | Very Low | Low | Medium | Medium | High | |
| Minor level overspend on contract | | Likely | | Medium | | Rare | | Very Low | Very Low | Low | Medium | Medium | |
| Local level loss of trust and confidence (negative reaction and comment) | | Possible | | Medium | | | | | | | | | |
| Civil action against Council taken but not successful | | Possible | | Medium | | Risk Movement in reporting period: None Treatments are intended: Reduce consequences/likelihood | | | | | | | |
| MANAGING THE RISK | | | | | | | | | | | | | |
| Controls – what we have in place: | | | | | Treatments – what we are planning | | | | | | | | |
| Description | Accountability | Effect of control | | Description | Expected effect | Timetable | Next review | | | | | | |
| Use of standardised templates for procurement and service provision agreements | All contract writers | Contract risks allocated to the party able to manage them | | Review and update of procurement policy | Potential to incorporate improved contract management policy elements, to support future contractual arrangements that are more effective for Council | Draft policy scheduled for Council adoption quarter one 2020-21 | October 2020 | | | | | | |
| Procurement training for all contract writers plus support & coaching | Manager Business Improvement | Clear specification of contract requirements, legally defensible process for procurement | | Consolidate contract information into a single information repository | Enables organisational-level monitoring of contract review dates. Provides the ability to more easily identify where to prioritise contractual effort, and to identify if contractual gaps exist | Scoping of work - completed Majority of existing data consolidated into a single data repository Evaluation of suitable solution scheduled for quarter one 2020-21 Solution implementation estimated for quarter two 2020-21 | October 2020 | | | | | | |
| Reviews of contractor performance | Business Unit Managers | Improved surety that contractor delivers what is required | | Plan improvements in contract management and contractor performance management | Ensures that contractual arrangements provides services to the community, efficiently and effectively | Procedure for contract monitoring and performance management drafted Initiation of project to improve contractor management now scheduled from end of quarter two 2020-21 | December 2020 | | | | | | |
| Obligation to follow Council procedures built in to contracts where required | All contract writers | Contractors meet Council standards including health and safety, interactions with the public etc. | | | | | | | | | | | |
| Continuous improvement of contract specification | Manager Business Improvement | Improved contract letting performance | | | | | | | | | | | |
| Ongoing improvement of contract supervision procedures and practice | Business Unit Managers | Reduction of contractor substandard delivery, cost overruns and delays | | | | | | | | | | | |

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| | | | | Plan integration of contractual information with financial and asset information | The scope and benefits of this integration are still to be evaluated | No practicable options currently exist for integration of systems. Options for data warehousing and analytics to be investigated once contracts database is fully implemented | February 2021 |
| | | | | | | | |

| 8. Organisational Risk area: Compromise of Council service delivery from information technology failures | | | | | | | | | | | | | |
|--|--|---|----------------------------------|--|---|--|--|----------------|--|--------|--------|-----------|-----------|
| Assigned risk owner: | | | Group Manager Corporate Services | | | | Last update: July 2020 | | | | | | |
| Residual risk identification and assessment | | | | | | | Residual risk rating map | | | | | | |
| Council objectives: | To maintain the organisation’s information technology systems (including computer services and telecommunications) operating continuously and securely | | | | | | Likelihood | Almost Certain | Medium | Medium | High | Very High | Very High |
| Uncertain events considered: | Equipment and software failures Electricity supply interruptions Cyber attacks Human errors | | | | | | | Likely | Medium | Medium | High | High | Very High |
| Consequences | | Likelihood | Assessed risk level | | | Possible | | Low | Medium | Medium | High | High | |
| | | | | | | Unlikely | | Very Low | Low | Medium | Medium | High | |
| | | | | | | Rare | | Very Low | Very Low | Low | Medium | Medium | |
| Moderate loss of Council services to the Nelson Community | | | Rare | | | Low | | | | | | | |
| Local level negative reaction or comment | | | Rare | | | Low | | | | | | | |
| | | | | | | | | | | | | | |
| | | | | | | | | | Risk Movement in reporting period: Medium to Low Treatments are intended: Maintain residual risk at Low | | | | |
| MANAGING THE RISK | | | | | | | | | | | | | |
| Controls – what we have in place: | | | | | | Treatments – what we are planning | | | | | | | |
| Description | Accountability | Effect of control | | | Description | Expected effect | Timetable | | Next review | | | | |
| Replacement of hardware and operating systems | Manager Customer Technology Experience | Maintain currency of systems to enable security and computer system performance | | | Removal of dependency on bespoke systems (largely software) | Improved maintainability of IT services required for Council functioning | As opportunities arise – currently approaching completion, with testing of the last remaining area to be scheduled | | September 2020 | | | | |
| Full offsite data backup at secure location | Manager Customer Technology Experience | Council information copied against local system failure | | | | | | | | | | | |
| Redundant components in IT system | Manager Customer Technology Experience | Allows continued operation in the event of component failure | | | IT strategic planning cycle – looks 3 years ahead | Planning for systems to match Council needs | 3 year cycle – current strategic plan update completed | | n/a | | | | |
| Annual recovery testing | Manager Customer Technology Experience | Assurance that offsite back-ups function as intended | | | | | | | | | | | |
| Least number of vendors/ systems to meet Council needs | Manager Customer Technology Experience | Simplicity of systems to decreases maintenance effort | | | Implementation of Multi-Factor Authentication technology | Reduce risk consequence | Implementation during quarter one 2020-21 | | September 2020 | | | | |
| Multiple telephone service providers | Manager Customer Technology Experience | Redundancy in the event of failures | | | | | | | | | | | |
| Multiple back-ups of electricity supply (UPS, and on site generator) | Manager Customer Technology Experience | Operating security in the event of electricity supply failure | | | | | | | | | | | |
| Ability to work off-site, for most staff | Manager Customer Technology Experience | IT systems and services largely available in the event Civic House unusable | | | | | | | | | | | |
| Annual testing of “switch over” to an alternate site, and defences from cyber-attack | Manager Customer Technology Experience | Continued provision and operation of IT systems | | | | | | | | | | | |

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| Two factor authentication login implemented for system administrators | Manager Customer Technology Experience | Improved security against system access by unauthorised persons | | | | | |
| Regular staff level cyber security and phishing testing | Manager Customer Technology Experience | Eliminate, or minimise, “human” vulnerabilities | | | | | |
| Regular cyber security awareness and training for staff | Manager Customer Technology Experience | | | | | | |
| | | | | | | | |

| 9. Organisational Risk area: Compromised decision making and public information from incomplete and difficult to access records | | | | | | | | | | | | | |
|---|--|---|---|---|---|--|--------------------------|----------------|----------|--------|--------|-----------|-----------|
| Assigned risk owner: | | | Group Manager Strategy and Communications | | | | Last update: July 2020 | | | | | | |
| Residual risk identification and assessment | | | | | | | Residual risk rating map | | | | | | |
| Council objectives: | | To maintain records of Council business and provide public information in compliance with legislation and the reasonable expectations of the public and government. | | | | | Likelihood | Almost Certain | Medium | Medium | High | Very High | Very High |
| Uncertain events considered: | | Mixed electronic and paper based recording so records not found Information required not recorded Advice completed with poor or incomplete information Use of uncontrolled areas (e.g. “the cloud”) for storing public records | | | | | | Likely | Medium | Medium | High | High | Very High |
| Consequences | | Likelihood | | Assessed risk level | | Possible | | Low | Medium | Medium | High | High | |
| | | | | | | Unlikely | | Very Low | Low | Medium | Medium | High | |
| | | | | | | Rare | | Very Low | Very Low | Low | Medium | Medium | |
| | | | | | | Insignificant Minor Moderate Major Extreme | | | | | | | |
| Consequence | | | | | | | | | | | | | |
| Ambiguities or omissions in advice to a decision maker | | Possible | | Medium | | Risk Movement in reporting period: None Treatments are intended: To reduce likelihood for most consequences | | | | | | | |
| Minor level (i.e. short term or small number affected) failure of Council service to the public | | Possible | | Medium | | | | | | | | | |
| Minor level failure in relationship with iwi | | Possible | | Medium | | | | | | | | | |
| Minor level service loss to those wanting accesses to records | | Possible | | Medium | | | | | | | | | |
| MANAGING THE RISK | | | | | | | | | | | | | |
| Controls – what we have in place: | | | | Treatments – what we are planning | | | | | | | | | |
| Description | Accountability | Effect of control | | Description | Expected effect | Timetable | Next review | | | | | | |
| Quality assurance and sign off procedures | All staff with delegations Manager Governance and Support Services | Recorded information correct and complete | | Continuously improve hardcopy records management | Improved compliance with records management legislation and accessibility of hardcopy information | Review of offsite archives management against alternative options - completed Timing of implementation of alternative offsite archives management to be confirmed Investigating electronic reference system for hardcopy archives – started but currently on hold | October 2020 | | | | | | |
| Specification of record keeping requirements in Council procedure library | Business Unit Managers | Clear and consistent direction on what and how to record Council information | | Provide for specific records reading space for public use | Improved and more secure public access to records | In progress – Investigating use of redeveloped Elma Turner library for this, Consultant’s report with recommendations due early in the financial year 2020-21 | October 2020 | | | | | | |
| Records management policy and strategy | Manager Governance and Support Services | Compliance with government records related legislation | | Establish archives storage and access facility | Improved security of and access to hardcopy records | Investigating as part of improved hardcopy records management An improved onsite archives and storage facility has been established – treatment completed Remaining tasks related to evaluating on site storage requirements will continue as part of the hardcopy records management review | n/a | | | | | | |
| Specialist records staff (archivist and records support) | Manager Governance and Support Services | Expert advice and records system operation | | | | | | | | | | | |
| Use of GIS data accuracy input checking protocols | Manager Customer Technology Experience | Assurance of accuracy of spatial data for Council business | | | | | | | | | | | |

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| Structure of Council document management system configuration matches Council business | Manager Governance and Support Services | High level of records management system usability | | Review Council use of cloud systems so that documents are managed in compliance public record legislation | Management of electronic records in compliance with public records legislation | Investigation reveals that cloud based records can be managed by Council document management system – will require upgrade of current software | October 2020 |
| All hardcopy record listed to national retrieval standard | Manager Governance and Support Services | Records accessible by specialist records management staff to make available to records users | | | | Initial technology upgrade tentatively scheduled for September 2020; timeframe for remaining configuration and implementation to be confirmed | |
| | | | | | | | |

| 10. Organisational Risk area: Council work compromised by loss of and difficulties in replacing skilled staff | | | | | | | | | | | | |
|---|--|---|--|--|--|--|--|--|--------|---------------|-----------|-----------|
| Assigned risk owner: | | | Manager People and Capability | | | | Last update: July 2020 | | | | | |
| Residual risk identification and assessment | | | | | | Residual risk rating map | | | | | | |
| Council objectives: | | To maintain sufficient staff expertise and numbers to enable the organisation to carry out all its functions efficiently and effectively | | | | Likelihood | Almost Certain | Medium | Medium | High | Very High | Very High |
| Uncertain events considered: | | Loss of experienced staff to other employers or leaving the workforce Market shortage of staff with the required knowledge and skills Training required to make new staff productive in the Council’s environment | | | | | Likely | Medium | Medium | High | High | Very High |
| Consequences | | Likelihood | Assessed risk level | | Possible | | Low | Medium | Medium | High | High | |
| | | | | | Unlikely | | Very Low | Low | Medium | Medium | High | |
| | | | | | Rare | | Very Low | Very Low | Low | Medium | Medium | |
| | | | | | Insignificant Minor Moderate Major Extreme | | | | | | | |
| Consequence | | | | | | | | | | | | |
| | | | | | | Risk Movement in reporting period: None Treatments are intended: To maintain effective controls | | | | | | |
| MANAGING THE RISK | | | | | | | | | | | | |
| Controls – what we have in place: | | | | | | Treatments – what we are planning | | | | | | |
| Description | | Accountability | Effect of control | | | Description | Expected effect | Timetable | | Next review | | |
| Council procedures documented in procedure library | | Manager Business Improvement | Enables new staff or staff working in new area to execute work consistent with Council needs quickly | | | Implementation of software tool to support project planning and tracking | Web-based repository of up to date project information – reduces dependency on individual staff as all information easily available from a single source. More efficient use of staff time. | Implementation of tool for Capital Projects business unit – completed during quarters three and four 2019-20 | | n/a | | |
| Improved file management structure | | Manager Governance and Support Services | Enables staff to access correct up to date information to undertake Council business | | | | | | | | | |
| Notice periods for staff leaving and handover procedures | | Manager People and Capability | Reduces loss of knowledge during staff transitions | | | | | | | | | |
| Succession planning | | Business Unit Managers | Provides capability for staff to step up when senior staff leave | | | | | | | | | |
| Staff climate surveying and workplace support | | Manager People and Capability | Up to date information about workplace culture to help inform workplace improvements | | | Review of current policies to aid retention of older workers | Improved retention of experienced staff | Complete identification of any further policy changes needed throughout quarters three and four 2019-20 – completed Implementing policy changes during quarters one and two 2020-21 | | December 2020 | | |
| Wellbeing framework | | Manager People and Capability | Enhanced ability to attract and retain staff – maintain risk likelihood at Unlikely | | | | | | | | | |
| Use of contractors with an understanding of Council business | | Business Unit Managers | Capacity to fill gaps temporarily when staff leave | | | | | | | | | |
| Business plans to estimate capacity demands on staff | | Business Unit Managers | Matching of staff to workload | | | Update of leadership capability framework | Reduce staff turnover by improving the organisation’s working environment | Content development and format completed during quarter three 2019-20. Implementation beginning during quarter one 2020-21 – previously delayed due to COVID-19 | | October 2020 | | |
| Standard templates in place for project definition, planning, tracking | | Manager Business Improvement | Project execution less dependent on current staff knowledge | | | | | | | | | |
| | | | | | | Additional staff resources allocated to key areas | Reduce stress and employee dissatisfaction; increase ability to balance workloads | In progress through current Long Term Plan: • Year one recruitments – completed • Year two recruitments – completed | | March 2021 | | |

Key organisational risks report Quarters 3 and 4 – January to June 2020 (A2415845)

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|---|-------------------------------|--|--|--|--|---|--|
| | | | | | | • Year three recruitments – beginning quarter three 2020-21 | |
| Networking opportunities for staff | Business Unit Managers | Develop skills and knowledge of existing staff | | | | | |
| Adequate staff resourcing of Council operations | Manager People and Capability | Minimise stress and employee dissatisfaction; balanced workloads for staff | | | | | |

| 11. Organisational Risk area: Legal liability and reputation loss from inadequate consideration of the law in decision making | | | | | | | | | | | | | |
|---|--|--|---|---|--|---|---|----------------|----------|----------|--------|-----------|-----------|
| Assigned risk owner: | | | Group Manager Strategy and Communications | | | | Last update: July 2020 | | | | | | |
| Residual risk identification and assessment | | | | | | | Residual risk rating map | | | | | | |
| Council objectives: | To make all decisions and exercise all its functions in compliance with the law, including legislation, regulation and common law | | | | | | Likelihood | Almost Certain | Medium | Medium | High | Very High | Very High |
| Uncertain events considered: | Insufficient knowledge of the applicable law when making or advising a decision Legal agreements made without consideration (or adequate consideration) of the parties’ ability to control risks to the objectives sought | | | | | | | Likely | Medium | Medium | High | High | Very High |
| Consequences | | | Likelihood | | Assessed risk level | | | Possible | Low | Medium | Medium | High | High |
| Ambiguous or incomplete information base for decision | | | Unlikely | | Medium | | | Unlikely | Very Low | Low | Medium | Medium | High |
| Local level criticism of Council actions | | | Possible | | Medium | | | Rare | Very Low | Very Low | Low | Medium | Medium |
| Moderate level of financial loss to Council (e.g. contract failure) | | | Rare | | Low | | | | | | | | |
| Successful legal action against Council | | | Rare | | Medium | | Risk Movement in reporting period: None Treatments are intended: To maintain residual risk at Medium | | | | | | |
| MANAGING THE RISK | | | | | | | | | | | | | |
| Controls – what we have in place: | | | | | Treatments – what we are planning | | | | | | | | |
| Description | Accountability | Effect of control | | Description | Expected effect | Timetable | Next review | | | | | | |
| Process for assessing the need for legal review prior to public consultation | Senior Leadership Team | Legally sound proposals for consultation (such as consultation documents and by-law proposals) | | Further development of the staff training programme to include relevant policies and procedures | Maintain, possibly reduce, risk likelihood through improved staff knowledge of legal requirements for Council’s work and how use of Council’s policies and procedures support compliance with these requirements | Development and implementation by June 2021 | December 2020 | | | | | | |
| Induction of all staff includes basics of key legal obligations | Manager People and Capability | General awareness of Council’s legal operating environment | | | | | | | | | | | |
| Use local government wide good practice guidelines | Business Unit Managers | Council follows local government standardised good practice | | Increase staff awareness about the process and timeframe for useful legal review of reports | Maintain, possibly reduce, risk likelihood through increased advance planning and notice for requiring legal services | Communications, and procedural changes throughout 2020-21 | December 2020 | | | | | | |
| Procedures in place for operational tasks that require specific legal compliance | Business Unit Managers | Improved compliance for these Council activities; mitigation of legal risk | | | | | | | | | | | |
| Documented previous legal advice available for all staff | Senior Legal Adviser | Ability to learn from the Council’s past actions | | | | | | | | | | | |
| Required minimum levels of knowledge for inspection/enforcement contractors | Manager Consents and Compliance | Compliance actions, where taken, are legally compliant | | | | | | | | | | | |
| In attendance at Senior Leadership Team peer review of decision making reports to Committee and Council | Senior Legal Adviser | Likelihood of compliance failure considered in decision | | | | | | | | | | | |
| In-house legal capacity – internal legal team, and weekly drop-in clinic for officers | Group Manager Strategy and Communications | Access to legal advice at an early stage reduces likelihood of compliance failure | | | | | | | | | | | |
| Use of “LawVu” system for managing and reporting on provision of legal advise | Legal Services Team | Effective and efficient provision and monitoring of legal advice | | | | | | | | | | | |

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| Structured training programme for staff on local government specific legal requirements | Legal Services Team | Improved staff knowledge of legal requirements for the Council's work | | |
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| 12. Organisational Risk area: Loss of public trust in the organisation | | | | | | | | | | | | | |
|---|--|--|---|--|---|--|--|----------------|---------------|----------|----------|-----------|-----------|
| Assigned risk owner: | | | Group Manager Strategy and Communications | | | | Last update: July 2020 | | | | | | |
| Residual risk identification and assessment | | | | | | | Residual risk rating map | | | | | | |
| Council objectives: | To maintain trust and confidence in the Council by providing accurate information about the state of Council work and service delivery | | | | | | Likelihood | Almost Certain | Medium | Medium | High | Very High | Very High |
| Uncertain events considered: | Promulgation of incorrect information about Council activities through both traditional and social media channels Unbalanced comment by opinion leaders | | | | | | | Likely | Medium | Medium | High | High | Very High |
| Consequences | | | Likelihood | | Assessed risk level | | | Possible | Low | Medium | Medium | High | High |
| Local level negative comment and reaction to Council decisions or actions | | | Possible | | Medium | | | Unlikely | Very Low | Low | Medium | Medium | High |
| National level negative comment and reaction to Council decisions or actions | | | Unlikely | | Medium | | | Rare | Very Low | Very Low | Low | Medium | Medium |
| | | | | | | | | | Insignificant | Minor | Moderate | Major | Extreme |
| | | | | | | | Consequence | | | | | | |
| | | | | | | | Risk Movement in reporting period: None Treatments are intended: To provide effective risk controls | | | | | | |
| MANAGING THE RISK | | | | | | | | | | | | | |
| Controls – what we have in place: | | | | | | | Treatments – what we are planning | | | | | | |
| Description | Accountability | Effect of control | | Description | Expected effect | Timetable | Next review | | | | | | |
| Monitor media and provide information to staff and public including managing relationships with media outlets | Manager Communications | Provides accurate information and enables rapid response to misinformation Ensures staff have correct information about Council actions | | Improved reporting on risk to Committees and Committee Chairs | Provides early information to Committee Chairs, and reports formally to Committees on risks within the Committees areas of responsibility | Implementation in progress - largely complete | September 2020 | | | | | | |
| Communications and engagement plans for all significant projects | Business Unit Managers, with support from Manager Communications | Provides early accurate information about Council actions | | Development of a Communications and Engagement Strategy, with governance oversight of implementation | Metrics for communications and engagement (test of effectiveness) to identify gaps in communication and enable improved public understanding and perception | Strategy document adopted by Council – completed | September 2020 | | | | | | |
| Customer surveys | Business Unit Managers | Monitoring of customer perceptions of Council actions | | | | Implementation timeframe to be confirmed | | | | | | | |
| Staff induction training | Manager People and Capability | Staff understand the importance of clear communication | | | | | | | | | | | |
| Social media presence to reduce spread of incorrect information | Manager Communications | Reduces criticism based on incorrect information | | | | | | | | | | | |
| Councillor Code of Conduct and Council Standing Orders | Council | Sets clear expectations of Council and Councillor conduct | | | | | | | | | | | |
| Councillor Interest register | Councillors (Manager Governance to maintain) | Clarity on non-Council interests of Councillors | | | | | | | | | | | |
| Media Policy | Manager Communications | Sets requirements and expectations for staff | | | | | | | | | | | |
| Conflict of Interest policy | Manager People and Capability | Sets requirements and expectations for staff | | | | | | | | | | | |
| Contracts post-October 2016 require contractors to direct media inquiries to Council | Business Unit Managers | Prevents contractors speaking on behalf of Council without permission | | | | | | | | | | | |

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| Community Engagement Manager role in Infrastructure Group | Group Manager Infrastructure | Anticipate public information and community engagement needs, plan and deliver community engagement | | |
| "Shape Nelson" online community engagement tool | Manager Communications | Increased opportunity for the community to give views to Council Improved public accessibility to information on current and upcoming Council initiatives | | |

| 13. Organisational Risk area: Disruption to Council service delivery due to significant increase in COVID-19 cases | | | | | | | | | | | | | |
|--|--|---|-----------------|---|--|------------------------|--|----------------|----------|----------|--------|-----------|-----------|
| Assigned risk owner: | | | Chief Executive | | | | Last update: July 2020 | | | | | | |
| Residual risk identification and assessment | | | | | | | Residual risk rating map | | | | | | |
| Council objectives: | To provide Council services as per the levels of service agreed with ratepayers through the Long Term Plan | | | | | | Likelihood | Almost Certain | Medium | Medium | High | Very High | Very High |
| Uncertain events considered: | The New Zealand government escalate to alert level two, three, or four Council staff unable to work due to contracting COVID-19 | | | | | | | Likely | Medium | Medium | High | High | Very High |
| Consequences | | | Likelihood | | Assessed risk level | | | Possible | Low | Medium | Medium | High | High |
| Minor loss of Council services and community facilities to the Nelson community | | | Likely | | Medium | | | Unlikely | Very Low | Low | Medium | Medium | High |
| Information for decision making may have had insufficient analysis to support rapid decision making | | | Possible | | Medium | | | Rare | Very Low | Very Low | Low | Medium | Medium |
| Moderate level of community complaints | | | Possible | | Medium | | | | | | | | |
| | | | | | | | | Insignificant | Minor | Moderate | Major | Extreme | |
| | | | | | | | | Consequence | | | | | |
| | | | | | | | Risk Movement in reporting period: n/a – new risk Treatments are intended: To reduce consequences | | | | | | |
| MANAGING THE RISK | | | | | | | | | | | | | |
| Controls – what we have in place: | | | | | | | Treatments – what we are planning | | | | | | |
| Description | Accountability | Effect of control | | Description | Expected effect | Timetable | Next review | | | | | | |
| Established channels of public communication | Group Manager Strategy and Communications | Keep public informed in a timely manner, to reduce likelihood of confusion and complaints about Council services and community facilities | | Lessons learned debrief from business continuity measures during COVID-19 emergency | Reduce likelihood and consequence | To be confirmed | To be confirmed | | | | | | |
| Technology enables staff to work from non-Council workplaces | Group Manager Corporate Services | Continuity of many Council services for ratepayers | | “Post COVID” review and update of local Business Unit continuity plans | Reduce consequence – likely more creative solutions to | July to September 2020 | October 2020 | | | | | | |
| Contractual arrangements for continuity of services in place with key contractors | Group Manager Corporate Services | Continuity of Council services for ratepayers | | | | | | | | | | | |
| Established roles and protocols for decision making and managing business continuity across the organisation | Chief Executive | Continuity of Council services for ratepayers | | | | | | | | | | | |
| Council procedures documented and up to date | Group Manager Corporate Services | Continuity of Council services for ratepayers | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |

Risk Matrix – Consequences x Likelihood

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

Residual Risk Tolerance

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

Key organisational risks report Quarters 3 and 4 – January to June 2020 (A2415845)

New and Outstanding Significant Risk Exposures and Control Issues Identified from Internal Audits - 30 June 2020

1. Purpose of Report

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

2. Recommendation

That the Audit and Risk Subcommittee

- 1. Receives the report New and Outstanding Significant Risk Exposures and Control Issues Identified from Internal Audits - 30 June 2020 (R14818) and its attachment (A2417196).***

2. Background and Discussion

- 2.1 Under section 9.1 of the Internal Audit Charter, the Audit and Risk Subcommittee and the Governance and Finance Committee are to be informed of internal audit results where appropriate.
- 2.2 Under section 9.4, the Audit and Risk Subcommittee requires a periodic update of any significant risk exposures and control issues identified from internal audits completed.
- 2.3 This report covers the six month period from 1 January 2020 to 30 June 2020, rather than just for the latest quarter, as the report for the quarter to 31 March 2020 was not presented to the Subcommittee meeting held on 21 May 2020 due to the impact of COVID-19.
- 2.4 The attachment (A2417196), New and Outstanding Significant Risk Exposures and Control Issues Identified from Internal Audits, shows five high risks outstanding from the previous report presented to the Audit,

Item 12: New and Outstanding Significant Risk Exposures and Control Issues
Identified from Internal Audits - 30 June 2020

and Risk Subcommittee meeting of 18 February 2020. Of these, one has been removed as the risk is no longer considered high.

- 2.5 There are no new high risks from internal audits to report.
- 2.6 Details of progress in Quarter 3 & 4 are shown **in red** for each action included in the 18 February 2020 report.
- 2.7 As noted in the Internal Audit Quarterly Report, progress on addressing some of the high risks identified in the previous report has been somewhat slowed by staff vacancies and the impact of COVID-19, which saw some key staff reassigned to the COVID-19 response.

Author: Lynn Anderson, Internal Audit Analyst

Attachments

Attachment 1: A2417196 - New and Outstanding Significant Risks and Control Issues Identified from Internal Audits [↓](#)

Summary of New or Outstanding Significant Risk Exposures and Control issues Identified from Internal Audits - 30 June 2020

| Audit | Audit Findings | Impact | Rating | Recommendations | Progress |
|-----------------------------------|---|---|--------|--|---|
| Water Contamination Prevention | The Maitai Dam Emergency Action Plan is being developed by an external engineering contractor. In the DRAFT document, Clause 5.9.2 states that given the potential impact classification the dam (and to ensure industry guidelines are met) a full scale exercise involving the Police and Civil Defence Emergency Management should be undertaken at no more than 10 year intervals. While it is considered that the risk of dam failure from sabotage is low, there are other risks (e.g. an extreme earthquake event which damages the dam) that should be considered. A full training exercise has not been carried out since the dam was constructed but this will be performed - currently proposed before the end of September 2018. Council's external engineering contractor is to provide a failure modes effects analysis for the dam and a site specific (dam) seismic assessment will be received within the next three months. Note - this information may affect the risk rating of this finding | In the event of an extreme event which damages the Maitai Dam and causes flooding, Council may not have an adequate response plan, leading to an extended delay to resuming services or possible loss of life | Medium | a) Proceed as planned with finalisation of Maitai Emergency Action Plan and supporting data which will inform the vulnerability of the Maitai Dam to sabotage or seismic activity. b) Proceed with planning for a full scale exercise within the next three months following development of the finalised Maitai Dam Emergency Action Plan. | FOR YOUR INFORMATION ONLY - THIS ITEM WILL BE REMOVED AS THE RISK IS NOW MEDIUM (procedure has been updated to reflect changes to Emergency Action Plan) |
| Procurement & Contract Management | Engineering contracts based on NZS3910 or NZS3917 have not yet been updated to comply with risk minimisation aligned to Council's new templates. The general technical specifications are out of date, are contradictory, and inefficient. A decision to determine the best form for all engineering contracts to ensure the risk to Council is acceptable, has yet to be made. Challenges remain around how best to record new (and existing) Council contracts without a reliable system or repository. In particular we found that the visibility of contracts relating to the highest value of spend at Council was low. We note that work is in progress to ensure that all contracts will be saved in the document management system. At the time of the audit we confirmed that buyer generated tax invoices (which are generally Council's largest contracts) were still not able to be recorded in the electronic purchase order system. | Continued use of NZS3910 may compromise Council's ability to recover costs on a poor quality construction project; Without the ability to find contracts, or a reliable contracts register for infrastructure contracts it is difficult to have oversight over their existence, their management or whether there is financial loss through paying for services more than once | High | Within an agreed period, proceed with the decision whether to upgrade Council's forms for NZS3910 contracts in order to minimise risk to Council; Remind Officers of storage procedures for contracts; Proceed with the development/integration of a contract management system (currently a MagiQ module) which allows the measurement and management of the performance of contracts and contractors, and enhances auditing; Complete project to incorporate contracts in the purchase order system | Q1 & Q2 2019-20 progress: NZS3910: The decision was made to update NZS3910 to align with Council's contract template set. All technical amendments have been resolved and have been incorporated into Council's contract template set. Further amendments may be necessary in the future. CONTRACT STORAGE: A contract management system is being tested which will eventually include all Council contracts, including construction contracts. Until the organisation-wide system is operational, information about construction contracts will continue to be accessed through existing databases and mechanisms. All payments under contracts are now processed through the electronic purchase order system. Until the updated NZS3910 template is embedded, officers recommend that the rating for this audit finding stays as High. Q3 & Q4 2019-20 progress: Early test results from the proposed contract management system were not favourable; the software requirements have been reviewed and with more feasible priority requirements. Solutions are being assessed against the priority requirements. Use of the updated NZS3910 template for construction work is not yet embedded, and as such the audit finding remains rated as High. |

Summary of New or Outstanding Significant Risk Exposures and Control issues Identified from Internal Audits - 30 June 2020

| Audit | Audit Findings | Impact | Rating | Recommendations | Progress |
|---|--|---|--------|---|---|
| Control Environment | The audit found there is generally a low level of risk maturity across Council. Business Unit risk registers vary in their completeness and review and there is no central risk register for Senior Management and Council to have oversight. Further, Clause 6.2 of the Risk Management Policy is not being applied consistently across Council "The Chief Executive is responsible for ensuring that this policy is actioned across the organisation in a consistent manner and specifically that appropriate risk management is applied to all forms of planning and decision making. This includes allocating sufficient resources". | Officers who have not yet been persuaded of the benefits of the new risk based approach, or that the risk framework is too time consuming, not practical, or cannot be applied in all situations may limit their responsibilities for identifying and managing risk. Where there is no visible Council-wide risk register, previously identified risks may not be shared and Council may be exposed unnecessarily to reputational, legal or financial risks | High | a) The Senior Leadership Team should formally address their concerns relating to the current Risk Management Policy and its implementation. The outcome should be an agreed approach that is clearly driven by this Team. b) A review which considers whether the change management procedures for risk management implementation, and for those used generally across the organisation, are best fit for Council. | Q1 & Q2 2019-20 progress: Development of a more usable risk framework for managers which is focussed on Council's priority services and activities is in progress. A software tool to support risk management has been identified, with a trial planned to start during Q3 2019-20 (note this is later than previously advised). The priority focus for the short term is the implementation of the risk management tool, which is key to gaining both better visibility of risk across the organisation and improving risk management practice. The planned risk management maturity benchmarking exercise was reviewed and it is considered that the organisation will get better value from conducting a benchmarking exercise following implementation of an improved risk framework and tools. The risk rating for this audit finding will remain at High for the timebeing. Q3 & Q4 2019-20 progress: A risk management maturity self assessment exercise is scheduled for Q1 2020-21. Risk management processes have been rationalised to make them more understandable and accessible for staff. The trial of the risk management tool was completed, and a project has been initiated to implement the tool throughout August to December 2020. Staff training in risk management will run alongside training in use of the risk management tool, as a managed change project. Until this project is complete, the risk rating for this audit finding will remain at High. |
| Monitoring & Management of Contractor Performance | It was found that there is a highly variable approach to the identification and management of contract risks, and that there was not the appropriate level of resource applied to contracts that present a significant risk to Council. The benefit of including risk information in a contract register, is the ability to monitor contract performance on a risk basis by focusing on the highest risk contracts. There is an inconsistent approach to managing contracts at the Council. Each business unit is responsible for managing its own contract registers that are used to store key contract information. The registers do not include key contract performance or contract risk information that can drive performance monitoring and reporting. In addition, there are no Council wide registers where the Council can easily identify how many contracts there are and the total value. | This may result in poor performance not being identified and appropriately reported to decision makers. This may also mean that high risks are not actively monitored which could have greater impacts on Council related to quality, cost, lost income, delays, penalties, or reputational damage. When contract registers are not complete or accurate there is limited oversight on the existence of contracts or contract performance. It increases the likelihood of fraud when a complete view of contracts is not understood at an organisational level. Moreover, there is a risk that if contract performance information (contract obligations, standards, key performance indicators) is not summarised, then key performance requirements may not be | High | Council should incorporate a contract risk framework in their policies and procedures. Contracts should be assessed at a contract level (i.e. large, complex, high public profile). This should then drive the level of monitoring and reporting requirements. Additionally, the framework should describe the criteria for identifying contract risks. The risk rating should then drive the level of performance requirements. The Council should have processes to ensure all contracts and key contract data are recorded centrally and have been accurately and completely recorded. The best way to achieve this is through an integrated contract management system. At a minimum, the Council needs to implement a process where every business unit records consistent information that can be consolidated into a Council wide contract register. The level of information recorded would depend on the contract risk. | Q1 & Q2 2019-20 progress: An outline work programme is being developed to address the risks identified. The programme consists of three core work streams, which are intended to deliver improvements to existing frameworks: 1) contract risk management stream - to include guidance, processes, and tools needed to effectively identify, assess and manage contract risk; 2) contract management skills stream - to build the practical and soft skills so that contract and contractor performance management is a consistent standard across the organisation; 3) existing critical contracts stream - a "one-off" piece of work to find and fill contract risk gaps across the contracts that deliver Council's most critical core services. Q3 & Q4 2019-20 progress: Delivery of the work programme has been impacted by staff vacancies, and diverting resources to the COVID-19 response. Some improvements in this area will be incorporated into the risk management change project, however a project to increase contract management consistency and staff skills will now be initiated during Q2 2020-21 once implementation of the contracts database is underway. There is therefore no change to the risk rating at this stage |
| Council-Owned Property & Facilities Maintenance | There is no link between the financial system and the asset systems used at the Council. Further, assets are not consistently set up in the asset systems and the financial system. As a result of limited asset information and the fact that the asset management systems are not aligned with the financial system, the asset management plans are not accurately informed and therefore not as directional and as detailed as they could be. This could lead to sub-optimal asset management and additional costs from reactive maintenance. This also results in a requirement for annual maintenance programmes to be separately developed based on the limited information available. | It is not currently possible to effectively identify the costs associated with individual assets. This may result in the Council failing to make effective decisions on the maintenance or replacement of assets through analysis of associated costs. Any manual process to gather maintenance data is not an efficient use of time, and increases the likelihood of Council's assets not being effectively managed. | High | 1. Investigate the possibility of linking and aligning the asset management system with the financial system to enable analysis of the actual cost of each asset. 2. Ensure staff is held accountable by performing regular checks to ensure that all teams have effectively updated their asset registers on a periodic basis. | Q1 & Q2 2019-20 progress: Council does not yet have cost-effective options for linking its asset management systems with the core financial system. Future options to be investigated will therefore most likely be based on data extraction and analytics, rather than linking or integration between the systems directly. Whilst current asset management processes may not be optimal, they are somewhat effective for budgeting purposes with respect to asset maintenance and asset replacement at the portfolio level. Some short term work is underway to improve condition assessments and the completeness of recording information against property and facilities assets, however pending a more structured and holistic plan, the risk rating remains High. Q3 & Q4 2019-20 progress: No change in this area. Staff are scoping overall improvements to the main asset management system. |
| | | | | | |

REPORT R18111

Internal Audit - Quarterly Progress Report to 30 June 2020

1. Purpose of Report

- 1.1 To update the Audit and Risk Subcommittee on the internal audit activity for the quarter to 30 June 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 30 June 2020 (R18111) and its attachment (A2408483).***

4. Summary

- 4.1 For the second quarter in a row, activity focused primarily on internal audits. That enabled two planned audits to be completed while the final audit for 2019-2020 is well underway. An additional audit which had not been provided for in the Plan was also performed during the quarter.
- 4.2 Other related activity completed in the last two quarters included a quality assurance self-assessment for the internal audit activity.

Item 13: Internal Audit - Quarterly Progress Report to 30 June 2020

- 4.3 Fraud awareness training, including conflicts of interest, was also upgraded and can now be accessed online on demand. Completion of the training programme and its effectiveness can be monitored digitally.
- 4.4 In the business improvement realm, there has been some progress relating to the consolidated contracts database, minimal progress relating to asset management improvements at the organisational level, and robust progress relating to improving project management processes and related support for staff. Progress has been somewhat slowed by staff vacancies and the impact of COVID-19, which saw some key staff reassigned to the COVID-19 response, and an IT systems change freeze through to 2 June 2020. Following the COVID-19 event, it is important to avoid overloading the organisation with change initiatives.

Author: Lynn Anderson, Internal Audit Analyst

Attachments

Attachment 1: A2408483 - Internal Audit Progress Report to 30 June 2020 [↓](#)

Progress Report to 30 June 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? | |
| 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. The review was based on a maturity model with a rating from 1 - 5. Overall it was found that the current system had a rating between 2 & 3 (developing and progressing). In particular this was due to its focus on KPI achievement above organisational competencies, behaviours, capabilities and individual development. The Senior Leadership Team are scheduled to meet in February/March 2020 to agree on the ideal purpose for the performance management system - what it should achieve and deliver for Council (it was noted in the report that this should closely align to the goal to lift Council performance). Following senior management agreement, the report recommended that improvements or a redesign of the system should be prioritised.</p> <p>Q3 2019/20 progress: No progress to report - the SLT strategic session has been put on hold</p> <p>Q4 2019/20 progress: SLT have discussed the purpose, goals outcomes they want from the performance management framework; the context in which KPIS are set; and the link to lifting Council performance. The next steps are to update framework documentation and develop a plan around the transition and support required to implement.</p> |

Progress Report to 30 June 2020 for Audit Risk Subcommittee

| 2019/20 | | | | |
|------------------------|---------------------------------|---|---|---|
| Responsible | Audit Topic | Audit Objective | What could go Wrong? | |
| 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> <p>Q4 2019/20 progress: Review completed and report presented to Senior Leadership Team together with management response. The report was sectioned into 1) the control environment; and 2) fraud scheme identification.</p> <p>Control Environment: Risk ratings of findings from assessment 1) Control environment - High - 0; Medium - 9 We found that Council has high expectations of its staff for effective fraud risk management; Issues identified included: a) awareness training - these have since been addressed through an online training programme which is accessible on demand and which has an improved system for evidencing participation; b) additional support tools would aid managers to review their fraud risks - the incorporation of these risks in the new risk management system will make them more visible; c) the increased development of data analytics would vastly improve the volume and reliability of fraud risk testing - it is planned to develop these as part of the 2020/21 internal audit plan.</p> <p>Fraud Schemes Identified: Risk ratings (inherent risk - that is, without any internal controls in place) of findings from assessment 2) Fraud schemes - High - 18 ; Medium - 54. Testing to verify the adequacy of controls for the HIGH inherent risks from fraud schemes identified will form part of the internal audit plan during the first two quarters of 2020/21.</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 | <p>Q3 2019/20 progress: Not yet started</p> <p>Q4 2019/20 progress: This is well underway and will be completed in Q1 2020/21.</p> |
| Internal Audit Analyst | Allocated | Public Excluded | Public Excluded | <p>Q3 2019/20 progress: Audit completed - reported to Audit and Risk 18 February 2020</p> <p>Q4 2019/20 progress: No update on corrective action was available at the time the report was written.</p> |

Progress Report to 30 June 2020 for Audit Risk Subcommittee

| Responsible | Audit Topic | Audit Objective | What could go Wrong? | |
|------------------------|---------------------------|--|---|--|
| 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 | <p>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</p> <p>Q4 2019/20 progress: The assessment has been completed and reported to SLT. The development of data analytics is included in the internal audit plan for 2020/21. There will be an initial focus on areas where the greatest benefit can be gained for the organisation. A project is being set up for this purpose.</p> |

Progress Report to 30 June 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 | 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 Q4 2019/20 progress: Early test results from the proposed solution were not favourable; the software requirements have been reviewed, resulting in a set of priority requirements that will be more feasible to achieve. Solutions are being assessed against these priority requirements during Q1 2020-21. |
| 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/includ 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 could be possible that council is sub-optimally managing its assets and more reactive work is occurring than necessary. This could lead to service, reputational and financial loss | 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 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. Q3 & Q4 2019/20 progress: Benchmarking exercise was not completed during Q3. A "system owner" has been assigned to the main asset management system in use at Council, and scoping of overall improvements is underway. |
| 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 | 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. Q2 2019/20 progress - no significant progress to report. Work is unlikely to progress during Q3 due to other priority work, and staff changes Q3 & Q4 2019/20 progress: A new suite of process, guidance, and templates to support project management has been developed and is available for staff use. Process and templates include post-project benefits review. An internal staff training programme has been developed to cover an overview ("the 101") of project management and benefits review. Some further work is needed to ensure benefits review processes are followed for significant projects, with the expectation that this is in place by December 2020 |

Bad Debt Writeoff - Year Ending 30 June 2020

1. Purpose of Report

- 1.1 To inform the Audit and Risk Subcommittee on the level of bad debts written off, and to seek approval to write off one debt over \$10,000 for the year ending 30 June 2020.

2. Recommendation

That the Audit and Risk Subcommittee

- 1. Receives the report Bad Debt Writeoff - Year Ending 30 June 2020 (R14820).***

Recommendation to Governance and Finance

That the Governance and Finance Committee

- 1. Approves the balance of \$20,462.37 excluding GST owing by Concrete & Metals Ltd be written off as at 30 June 2020.***

3. Discussion

- 3.1 There is one bad debt over \$10,000 to be written off for the year ending 30 June 2020. Concrete and Metals Ltd (Director Carolyn Margaret Wiffen) was liquidated with the Final Liquidators Report dated 28 January 2020. Council as an unsecured creditor was owed \$25,529.85 however proceeds from the liquidation of \$5,067.48 excluding GST were received. The remaining debt of \$20,462.37 is to be written off.
- 3.2 The debt with Concrete and Metals was incurred through York Valley Landfill charges, therefore the cost is borne jointly by TDC & NCC.
- 3.3 Through the liquidation process, Concrete & Metals Ltd was sold as a going concern. There appears to be no connection between Concrete & Metals Ltd and the new company Concrete & Metals Tasman Bay Ltd which has different directors and shareholders.

Item 14: Bad Debt Writeoff - Year Ending 30 June 2020

- 3.4 The debt has been reported to the Audit and Risk Subcommittee in the Quarterly Update on Debts since June 2019, as at risk and requiring write off.
- 3.5 A number of accounts under \$10,000 per debtor have been written off by the Group Manager Corporate Services under officer delegation. These totalled \$7,901 excluding GST with the write-offs being \$3,885 for 14 separate debts for dog impounding fees, \$2,112 for marina fees, \$1,266 for two debts for liquidated companies and \$638 for a regulatory debt.
- 3.6 The decision is an administrative one and although the debts are written off from an accounting point of view, a record is still kept and if an opportunity to recover the debt arises, action will be taken. Most of this balance is with Credit Recoveries Limited Council's debt recovery agency, who will continue recovery activities. Every possible effort has been made to locate and obtain payment from these debtors.
- 3.7 A summary of this year's write off compared to last year's is as follows:

| | Write-off 2020 \$ | Write-off 2019 \$ |
|----------------------|------------------------------------|------------------------------------|
| Over \$2,500 | 20,462 | 4,829 |
| Under \$2,500 | 7,901 | 4,902 |
| Cost for year | \$28,363 | \$9,731 |

4. Options

- 4.1 The recommendation is to receive the report and write off one bad debt over \$10,000 for accounting purposes.

Author: Victoria Harper, Accounting Services Manager

Attachments

Nil

| |
|---|
| <p>Important considerations for decision making</p> |
| <p>1. Fit with Purpose of Local Government</p> <p>This report deals with process matters in relation to cost effective service delivery.</p> |
| <p>2. Consistency with Community Outcomes and Council Policy</p> <p>This report supports the community outcome that Council provides leadership, which includes the responsibility for protecting finances and assets.</p> |
| <p>3. Risk</p> <p>There is limited risk from writing off these bad debts as most of the bad debts will continue to be followed up by the credit agency.</p> |
| <p>4. Financial impact</p> <p>Writing off the debts has a one off impact on revenue of \$28,362.</p> |
| <p>5. Degree of significance and level of engagement</p> <p>This matter is of low significance because the amounts being written off are immaterial.</p> |
| <p>6. Inclusion of Māori in the decision making process</p> <p>No engagement with Māori has been undertaken in preparing this report.</p> |
| <p>7. Delegations</p> <p>The Audit and Risk Subcommittee has the following delegations to consider bad debts.</p> <p><i>Areas of Responsibility:</i></p> <ul style="list-style-type: none"> <i>Audit processes and management of financial risk</i> <p><i>Powers to Decide:</i></p> <ul style="list-style-type: none"> <i>None</i> <p><i>Powers to Recommend to Governance and Finance Committee</i></p> <ul style="list-style-type: none"> <i>To write off outstanding accounts receivable or remit fees and charges of amounts over the Chief Executive's delegated authority</i> |