



NOTICE OF A RISK AND ASSURANCE COMMITTEE MEETING

**Opotiki District Council Chambers, 108 St John Street, Opotiki
Monday, 12 December 2022
Commencing at 10.00am**

ORDER PAPER

APOLOGIES

DECLARATION OF ANY INTERESTS IN RELATION TO OPEN MEETING AGENDA ITEMS

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PUBLIC EXCLUDED BUSINESS

ITEM 09 IN-COMMITTEE MINUTES – RISK AND ASSURANCE COMMITTEE MEETING 1 AUGUST 2022	
ITEM 10 RESOLUTION TO RESTATE RESOLUTIONS AND READMIT THE PUBLIC	

Independent Chairperson: Philip Jones

Members: Councillor Tom Brooks
Councillor Steve Nelson
Councillor Dean Petersen

Ex-Officio: Mayor David Moore

Committee Secretary: Gae Finlay

Quorum: 3

LOCAL AUTHORITIES (MEMBERS' INTERESTS) ACT 1968

Councillors are reminded that if you have a pecuniary or non-pecuniary interest in any item on the agenda, then you must declare this interest and refrain from discussing or voting on this item, and are advised to withdraw from the Council chamber.

Miles McConway
INTERIM CHIEF EXECUTIVE OFFICER

RISK AND ASSURANCE COMMITTEE TERMS OF REFERENCE

1. The Risk and Assurance Committee is a Committee of the Ōpōtiki District Council.
2. **Objective**

The objective of the Committee is to assist the Council in carrying out its duties in regard to financial reporting and legal compliance.
3. **Membership**

Independent Chairperson: Philip Jones

Members: Councillor Brooks, Councillor Nelson, Councillor Petersen

Ex-Officio: Mayor Moore
4. **Meetings**
 - 4.1 A quorum is three members.
 - 4.2 The Committee shall meet as needed but in any event, at least annually.
 - 4.3 Notice of meetings shall be in accordance with the requirements set out in the Local Government Act 2002.
5. **Terms of Reference**

The Risk and Assurance Committee will:

 1. *Review Council's annual financial statements with Council management and the Auditors prior to their approval by Council.*
 2. *Oversee statutory compliance in terms of financial disclosure.*
 3. *Monitor corporate risk assessment and internal risk mitigation measures and oversee:*
 - *Council's risk management framework*
 - *internal control environment*
 - *legislative and regulatory compliance*
 - *internal audit and assurance*
 - *oversee risk identification on significant projects*
 - *compliance to Treasury Risk Management Policies.*
 4. *Review the effectiveness of Council's external accountability reporting (including non-financial performance).*
 5. *Conduct the process for the Chief Executive's performance, for report to Council.*
 6. *Draw to the attention of Council any matters that are appropriate.*

7. *Investigate and report on any matters referred to the Committee by Council. The circumstances the Council may refer matters to the Risk and Assurance Committee include:*
- a. *Any significant issues arising from the financial management of councils affairs.*
 - b. *Any complaints against elected members or alleged breaches of the Council's Code of Conduct.*
 - c. *Any significant issues arising from Audit New Zealand processes.*
 - d. *Due Diligence on strategic asset acquisition or disposal.*
 - e. *Setting up of Council Controlled Organisations.*
 - f. *Development of a Council risk assessment and mitigation strategies.*

6. **Authority**

- 6.1 The Committee is authorised to investigate any activity referred to it by Council resolution. It is authorised to seek any reasonable information it requires from Council staff.
- 6.2 The Committee is authorised by the Council to obtain outside legal or other independent professional advice and to arrange for the attendance at meetings of outside parties with relevant experience and expertise if it considers this necessary.



MINUTES OF AN ŌPŌTIKI DISTRICT COUNCIL RISK AND ASSURANCE COMMITTEE MEETING HELD ON MONDAY, 1 AUGUST 2022, IN THE ŌPŌTIKI DISTRICT COUNCIL CHAMBERS, 108 ST JOHN STREET, ŌPŌTIKI AT 10.00AM

PRESENT:

Philip Jones (Chairperson)
Councillor Steve Nelson
Councillor Debi Hocart
Mayor Lyn Riesterer

IN ATTENDANCE:

Miles McConway (Interim Chief Executive Officer)
Stace Lewer (Group Manager Engineering and Services)
Peter Bridgwater (Group Manager Finance and Corporate Services)
Anna Hayward (Group Manager Community Services and Development)
Billy Kingi (Financial Controllor)
Gae Finlay (Executive Assistant and Governance Support Officer)

Councillor Moore

The Chairperson welcomed everyone to the meeting.

APOLOGIES

Nil.

DECLARATION OF ANY INTERESTS IN RELATION TO OPEN MEETING AGENDA ITEMS

Nil.

- 1. CONFIRMATION OF MINUTES – RISK AND ASSURANCE COMMITTEE MEETING 14 JUNE 2022** **p5**

RESOLVED

- (1) That the minutes of the Risk and Assurance Committee meeting held on 14 June 2022 be confirmed as a true and correct record.**

Nelson/HWTM

Carried

2. RISK AND ASSURANCE ACTION SHEET

Tabled Item

The Group Manager Finance and Corporate Services advised that a column has been added in to show when the next update of an item is expected. He noted that a number of actions are waiting on the next visit from Audit.

In response to a query from the Chairperson as to where things are at, the Group Manager Finance and Corporate Services stated that currently fair value assessments are being processed as movements into the 2021 Annual Report. He further stated that external fair value assessments on land and buildings is to be received, with comments to provide to Audit. Audit have reassured Council that the 2022 Annual Report will be completed by September.

RESOLVED

- (1) That the Risk and Assurance Action Sheet be received.**

Hocart/HWTM

Carried

3. QUARTERLY REPORT TO 30 JUNE 2022

p10

RESOLVED

- (1) That the report titled "Quarterly Report to 30 June 2022" be received.**

HWTM/Hocart

Carried

4. KOHA REPORT

p19

RESOLVED

- (1) That the report titled "Koha Report" be received.**

Jones/Hocart

Carried

5. ŌPŌTIKI TOWNSHIP WASTEWATER SYSTEM AND COMPLIANCE

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The Chairperson said he would like to see an indicative time line and the risk associated with the project.

RESOLVED

- (1) That the report titled "Ōpōtiki Township Wastewater System and Compliance" be received.**

Nelson/Hocart

Carried

The Group Manager Community Services and Development left the meeting at 10.34am and returned at 10.36am.

6. RESOLUTION TO EXCLUDE THE PUBLIC

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SECTION 48 LOCAL GOVERNMENT OFFICIAL INFORMATION & MEETINGS ACT 1987

THAT the public be excluded from the following parts of the proceedings of this meeting, namely:

- 7. Confirmation of In-Committee Minutes – Risk and Assurance Committee Meeting 14 June 2022.**
- 8. Health, Safety, Wellbeing and Human Resources Report.**
- 9. IANZ – Building Consent Authority Accreditation Initial Assessment Report.**

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 No	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
7.	Confirmation of In-Committee Minutes – Risk and Assurance Committee Meeting 14 June 2022	That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists.	Section 48(1)(a)
8.	Health, Safety, Wellbeing and Human Resources Report	That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists.	Section 48(1)(a)
9.	IANZ – Building Consent authority Accreditation Initial Assessment Report	That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists.	Section 48(1)(a)

This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by section 6 or section 7 of that Act or section 6 or section 7 or section 9 of the Official Information Act 1982,

as the case may require, which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public are as follows:

7.	Protect the privacy of natural persons Protect information (commercial sensitivity) Protection from improper pressure or harassment Carry out negotiations	Section 7(2)(a) Section 7(2)(b)(ii) Section 7(2)(f)(ii) Section 7(2)(i)
8.	Protect the privacy of natural persons Protection from improper pressure or harassment	Section 7(2)(a) Section 7(2)(f)(ii)
9.	Protect information Prevent disclosure or use of official information	Section 7(2)(b) Section 7(2)(j)

Nelson/Hocart

Carried

RESOLVED

- (1) That the resolutions made while the public was excluded be confirmed in open meeting.**
- (2) That the public be readmitted to the meeting.**

HWTM/Hocart

Carried

RESOLVED

- (1) That the in-committee minutes of the Risk and Assurance Committee meeting held on 14 June be confirmed as a true and correct record.**

Jones/Nelson

Carried

RESOLVED

- (1) That the report titled "Health, Safety, Wellbeing and Human Resources Report" be received.**
- (2) That the Interim Chief Executive Officer investigate how best to manage staff burnout and report back to the Risk and Assurance Committee.**

HWTM/Jones

Carried

RESOLVED

That the Building Consent Authority Accreditation Initial Assessment Report from IANZ be received.

Jones/Hocart

Carried

THERE BEING NO FURTHER BUSINESS THE MEETING CLOSED AT 11.25AM.

CONFIRMED:

**PHILIP JONES
CHAIRPERSON**

**MILES McCONWAY
INTERIM CHIEF EXECUTIVE OFFICER**

Date: 6 OCTOBER 2022

ACTION FROM RISK AND ASSURANCE COMMITTEE MEETING – 1 AUGUST 2022

HEALTH, SAFETY, WELLBEING AND HUMAN RESOURCES REPORT

That the Interim Chief Executive Officer investigate how best to manage staff burnout and report back to the Risk and Assurance Committee.

The response to this action is attached.

The burnout phenomenon was highly impacted by Covid and the requirements of living with Covid in our homes, community, and workplace. The removal of many of the pressures associated with Covid, including the requirement to isolate, has resulted in a return to a more normal work pattern for most people and for many has reduced those potential causes that could lead to burnout.

We recognise that the pressures of Covid are not the only driver and that other chronic situational stressors on the job could still cause burnout. We took the approach to educate our staff on what to look for and ways to combat the potential causes of burnout. During Mental Health Awareness week (end of September / early October) we invited all staff to a presentation on Burnout which included a local guest speaker to talk about their personal experience, where they got help and tools, they are using to try to ensure they don't experience burnout again. The guest speaker was the husband of a staff member which gave it a personal feel that went down well with staff that attended. This was a well-attended session, the biggest of the week. Staff who attended this session also shared their experiences, unprompted, with the group which also highlighted that burnout could affect anyone and that there is no shame in seeking help. Subsequent feedback in person and via a survey to staff was extremely positive and staff who felt they needed help were comfortable to reach out to HR and their manager for assistance. A repeat of a similar session is on the cards for next year.

In terms of managing the potential for burnout moving forward:

- Working from home ("WFH") is available to all staff whose role can be done from home. WFH can allow staff the space to get big pieces of work done and help provide work / life balance helping to minimise stress.
- WFH can also mask issues if someone is remote 100% of the time. However, with the removal of the Covid restrictions most staff have reverted to at least a few days if not every day in the office which enables managers to engage in person and not just on the phone or via Teams to get a true sense of how each of their staff are doing.
- We have made sure that contact information for Employee Assistance Programme (EAP) is even more available to staff with posters up in all our buildings.
- We are also ensuring to manage staff with excessive leave balances and supporting them to take time off for their wellbeing. Sick leave is also being monitored.

Risk and Assurance Action Sheet

Issue	Recommendation	Source	Total Assurance	To be completed by	Done	Assigned To	Status	Next update expected	Comments	
71	Contract Management Policy and Guidance	Recommend Council develop a contract management policy and guidance, to include procedures and templates for consistency	Audit NZ Management Report	Portfolio/ Programme/ Project Office	30/06/23	<input type="checkbox"/>	Stace Lewer	In Progress	30/06/23	Contract management processes are currently being built, upon completion a Policy will be assembled. Processes are at this stage included in at the wider activity management level so that they can properly consider information systems, resources and responsibilities and a strategic approach to procurement. Asset management and procurement strategies are being drafted in parallel. Councils Contract Management was graded as effective in the latest NZTA investment audit report. A Program Management Framework, Contract Management Plan and Project Management Framework have been developed and are being implemented.
72	Project Management	Recommend a documented approach and methodology, planned approach to undertake post implementation reviews, have independent quality assurance reviews.	Audit NZ Management Report	Portfolio/ Programme/ Project Office	30/06/23	<input type="checkbox"/>	Stace Lewer	In Progress	01/04/23	Included in line with above. Several drafts have been assembled but these need significant refinement to ensure they are streamlined and fit for purpose in the Opotiki Council setting. New Programme Manager has commenced and is developing a framework. Project team will be developed to review the framework before presenting to management for adoption. Project managers are testing the framework on current projects.
73	Asset Management	Monthly reconciliations to be performed between the fixed asset register and the general ledger. These should be independently reviewed.	Audit NZ Management Report	Internal Audit		<input type="checkbox"/>	Stace Lewer	Complete		Closed per 2021 Audit management report
74	Asset Management	Develop and implement an asset capitalisation policy that states the minimum amount of assets that will be capitalised as well as guidance for the type of expenditure to be capitalised.	Audit NZ Management Report	Internal Audit		<input type="checkbox"/>	Peter Bridgwater	In Progress		Refer to item 110.
75	RRC's	Recommendation that Council improves the controls regarding revenue at the RRC's.	Audit NZ Management Report	Risk Management	01/04/23	<input type="checkbox"/>	Stace Lewer	In Progress	01/04/23	Refer agenda report May 2019. A full review has been completed an options recommended. Update. After additional occurrences at the RRC another report has been brought to A&R (9 Sept) and recommendations presented. The recommendation to go cashless at the RRCs has been implemented.
76	ANZ	Review and report on what would be required to change banks	Council	Business Continuity Management	30/06/22	<input type="checkbox"/>	Peter Bridgwater	In Progress	unknown	To be investigated in the new year as resources allow
80	Contract Management	Implement appropriate processes and procedures for contract management	Audit NZ Management Report	Probity Assurance	30/06/23	<input type="checkbox"/>	Stace Lewer		30/06/23	Refer item 21. Reviews to date indicate Council's project manager is following all appropriate standards and legislative guidance.
81	Contact Centre Module	Review processes to ensure that the time recorded in the Contact Centre Module is based on time taken for matter to be resolved	Audit NZ Management Report	Quality Assurance/ Quality Standards & Compliance	30/06/23	<input type="checkbox"/>	Stace Lewer	In Progress	01/04/23	This process has been reviewed and will require a fundamental change to maintenance contracts and data collection methods. This has been an Asset Management goal for a number of years but requires various pre-requisite steps be undertaken first. The issue arises where requests for service cannot or practically should not be resolved immediately. An example of this would be footpath repairs which are scheduled within the footpath repair contract which is carried out over the course of several months. The result is effectively a back log of unresolved service requests which would all require manual review and resolution as much as a year later. The interim solution has been for assessing engineer's requests as resolved when they have confirmed that work has been programmed for completion. Exceptions to this are those requests that relate to critical services monitored by Council KPI's. All of these requests are recorded as resolved upon completion. This action will take some time to implement but is being worked toward and will be included in the IT systems and operation processes within the asset management policy. Update: With the completion of the E&S department structure review, technical positions have been given this responsibility, we need only fill these roles. The new CRM will also assist with monitoring these.
85	Financial Strategy in LTP	Recommends Council review financial strategy and consider impacts of proposed debt levels beyond the 10 year period	Audit NZ Management Report	External Audit	30/06/21	<input type="checkbox"/>	Peter Bridgwater	In Progress	01/08/23	Council have workshoped the financial strategy and adopted a draft for inclusion into the LTP. This time round we have included a measure around affordability. The 30 year infrastructure strategy will also lead us to examine the debt levels on the 10 to 30 year timeframe. This will be done as part of finalising the financial strategy. We have looked at affordability at year 10. We will subsequently look at debt in the outer years as well.
86	Demand forecasting	Recommends Council refines its process for demand forecasting.	Audit NZ Management Report	External Audit	30/06/21	<input type="checkbox"/>	Peter Bridgwater	In Progress	01/08/23	Key assumptions to the LTP contain a lot of information around growth and demand. We have procured an infometrics report on the impact of Covid, and have a Martin Jenkins report forecasting growth assumptions for the LTP. This will also be built into our 30 Year Infrastructure Strategy. A key piece of work in year 1 of the LTP will look to cement commitment to develop and demand for infrastructure in Hukiaia and Woodlands. The Risk report prepared on this identified a number of ways to mitigate risk around incorrect demand forecasting.
90	Procurement Procedures	Recommends Council revise its procurement policy and/or contracts so that they are consistent on submission deadlines.	NZTA Investment Audit Report	Probity Assurance		<input type="checkbox"/>	Peter Bridgwater	In Progress	01/08/23	This will be done as part of updating procurement strategy and the procurement policy
92	Procurement Procedures	Suggests expanding policy to include conflict of interest declarations to include staff involved in ongoing management as well as procurement.	NZTA Investment Audit Report	Probity Assurance		<input type="checkbox"/>	Peter Bridgwater	In Progress	01/08/23	This will be considered as part of updating procurement strategy and the procurement policy
93	Procurement Procedures	Suggests outdated references in procurement strategy be updated.	NZTA Investment Audit Report	Probity Assurance		<input type="checkbox"/>	Peter Bridgwater	In Progress	01/08/23	This will be done as part of updating procurement strategy and the procurement policy
98	Capital Works Delays	Audit recommend that Council formally consider the risk posed by continued under delivery of capital works. Mitigations and actions should be developed and implemented to reduce those risks where feasible	Audit NZ Management Report	Portfolio/ Programme/ Project Office		<input type="checkbox"/>	Stace Lewer	In Progress		A Programme Manager has been appointed to manage the portfolio and a Programme Management Framework is being developed to ensure consistent and effective processes are in place to monitor the delivery of capital works, this includes management reporting, for example. Further to this a new capital works scoping procedure is being developed to minimise delivery risks. The process aims to clearly articulate each capital project, the scope, deliverables, approvals, projects risks etc. A standard format has been developed with each scope requiring signoff. Also if projects are of a complex nature the project will be split into two separate phases, design and construction being delivered in separate years. Consideration of the impact of additional grants also needs to be considered. Additional resources are needed to improve delivery success and reduce under delivery of projects.
100	Useful Lives of Assets	Audit recommend that Council perform a review of the non-revalued asset classes to ensure appropriate useful lives are being allocated	Audit NZ Management Report	Quality Assurance/ Quality Standards & Compliance	30/06/23	<input type="checkbox"/>	Stace Lewer	In Progress	30/06/23	Documented process to be developed. Data from industry and other councils is utilised when reviewing useful lives.
101	Sensitive Expenditure	Audit recommend that Council ensures that sensitive expenditure policies are compiled with, including one up approval for all such expenditure	Audit NZ Management Report	Internal Audit		<input type="checkbox"/>	Peter Bridgwater	Not Started	01/04/23	We have investigated the instances raised and followed up with those personnel to ensure that these aren't repeated. Review of the sensitive expenditure policy is planned alongside the procurement policy review.
102	Asset Disposal	Audit recommend a documented approval process for asset disposal	Audit NZ Management Report	Portfolio/ Programme/ Project Office		<input type="checkbox"/>	Peter Bridgwater	Complete		Closed per 2021 Audit management report
103	Annual Plan Compliance	Audit recommend a review of the Annual Plan for compliance with regulations	Audit NZ Management Report	Legislative Compliance		<input type="checkbox"/>	Peter Bridgwater	Not Started	01/06/23	To be done as part of the 2023/24 Annual Plan process. We will again invite audit NZ in to partner with us in the development of the Annual Plan. Do so will help the subsequent Annual Report process.
106	Financial Delegations	All changes to financial delegations in Ozone should be appropriately approved and documented	Audit NZ Management Report	Risk Management	30/06/21	<input type="checkbox"/>	Peter Bridgwater	Complete		Closed per 2021 Audit management report
107	General Ledger Reconciliations	All reconciliations should be dated and signed by two parties	Audit NZ Management Report	Internal Audit	30/06/21	<input type="checkbox"/>	Peter Bridgwater	In Progress	01/04/23	Improvements to this area have been implemented. Competing priorities for staff have meant these are not always done in a timely manner. Will be reviewed with the 2022 Annual Report audit, expected completion around March/April 2023
108	Refuse Recovery Centre	Improve controls around revenue at the RRC's, ensuring all revenue is captured, staff also need to provide detailed explanations for variances	Audit NZ Management Report	Internal Audit	30/06/21	<input type="checkbox"/>	Anthony Kirikiri	In Progress	September/December 2022 - Interim audit	A change from an older manual till to an android based till system across all 3 RRC's has allowed for an improved catchment & consistency of transactions by only allowing pre determined amounts/prices programmed into the till. Past variances were caused by user error, inconsistent estimation of customer loads and old falling till hardware. The larger variances could be as simple as not inputting a decimal point during a transaction on the older till systems. EFTPOS and the removal of cash has improved these processes
109	Property Plant & Equipment reconciliations	Perform monthly reconciliations between the fixed asset register and the general ledger. These should be independently reviewed	Audit NZ Management Report	Internal Audit	30/06/21	<input type="checkbox"/>	Anthony Kirikiri	Complete	September/December 2022 - Interim audit	Closed per 2021 Audit management report.
110	Capitalisation policy	Implement an asset capitalisation policy on the minimum value of assets that will be capitalised, with guidance for the type of expenditure to capitalise	Audit NZ Management Report	Portfolio/ Programme/ Project Office	30/06/21	<input type="checkbox"/>	Peter Bridgwater	In Progress	01/06/23	In progress and will be developed between Finance and Asset branches. Policy documents have been obtained from other local authorities and will be used to develop the new policy. Resources are being planned for this work to be complete in the 2023 calendar year
111	Suspense Accounts	Document the review of suspense account reconciliations and follow up items that exist for a period of greater than a month	Audit NZ Management Report	Internal Audit	30/06/21	<input type="checkbox"/>	Peter Bridgwater	Complete	September/December 2022 - Interim audit	Closed per 2021 Audit management report

REPORT

Date : 28 September 2023
 To : Risk and Assurance Committee Meeting, 11 December 2022
 From : Billy Kingi, Financial Controller
 Subject : **QUARTERLY REPORT TO 30 SEPTEMBER 2022**
 File ID : A319956

EXECUTIVE SUMMARY

The Quarterly Report for the quarter ended 30 September 2022 provides the Risk and Assurance Committee of Council with an understanding of progress against the 2022-23 Annual Plan.

PURPOSE

The purpose of this report is to present the Quarterly Financial Report to 30 September 2022 to the Risk and Assurance Committee Council.



BACKGROUND

This report is for the three months ending 30 September 2022 and is designed to provide the Council with an understanding of the progress against the annual plan.

The report provides a concise but comprehensive overview of the Council's financial position as at 30 September 2022. The report is structured as follows:

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Financial Overview

1. Financial Overview

This report summarises the key financial highlights for the quarter ended 30 September 2022. Please note that variances stated without brackets are favourable, whereas variances stated with brackets are unfavourable.

1.1 Income Statement

OPOTIKI DISTRICT COUNCIL STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the Period Ended 30 September 2022

	Actual 1st Qtr 2021-22 YTD 000's	Actual 1st Qtr 2022-23 YTD 000's	Budget 1st Qtr 2022-23 YTD 000's	Variance to Budget 2022-23 YTD 000's	Budget Full Year 2022-23 000's
Income Statement (summary)					
Operating income	4,372	7,469	5,422	2,048	21,936
Operating expenditure	4,215	4,972	4,900	(71)	18,904
Net Surplus/(deficit)	157	2,498	521	1,976	3,032
Income Statement (detailed)					
Income					
Rates	2,558	3,147	3,241	(94)	12,965
Subsidies & Grants	1,210	3,702	1,652	2,050	6,788
Fees and Charges	504	416	403	13	1,672
Interest revenue	8	17	9	8	47
Other revenue	92	187	116	71	464
	4,372	7,469	5,422	2,048	21,936
Expenditure					
Other Expenses	2,189	2,087	2,276	189	8,931
Depreciation & Amortisation*	891	1,024	948	(76)	3,793
Personnel Costs	1,062	1,794	1,541	(253)	5,641
Finance Costs	73	67	135	68	539
	4,215	4,972	4,900	(71)	18,904
Net Surplus/(Deficit)	157	2,498	521	1,976	3,032

1.2. Significant Variances

Revenue

Subsidies and Grants are favourable due mostly to unspent PGF funding carried into this financial year. Roothing subsidy is down \$219,000 as activity is set to ramp-up towards the drier summer season. Approximately \$17,000 has been received to date for the Mana in Mahi Cadetship programme, and \$215,000 for Mayors Taskforce for Jobs (MTFJ).

Expenditure

Depreciation and amortization is currently an estimate, as the 2021-22 asset year-end processing and

revaluations are still to be finalised and completed. There is the potential that actual depreciation and amortization will come in higher than budgeted.

Personnel costs are overspent (\$253,000), however (\$66,000) of this is externally funded relating to MTFJ and Cadetship programme. Other costs here relate to training and recruitment (\$64,000 including that of CE) to date. The residual wages/salaries overspend of (\$123,000) is due to a combination of extra resourcing required at the RRC, the recent multiple storm weather related events and an assumed level of staff vacancy being less than budgeted.

While other expenditure in general is in line with budget, there are some variances across each activity. Variances of note are explained below.

1.3. Explanation of Key Variances by Activity

Leadership

The first tranche of MTFJ funding has been received for the year. Any unspent funding from the previous year will also be used this year. Approximately \$68,000 has been spent to date.

Land Transport

Operational costs are favourable to date \$387,000 due mostly to priority given on repairs being undertaken as a result of storm damage related weather events.

Community Facilities

PFG funding of \$2.4m has been carried over into this year. Some externally funded Cycleway funding is yet to be received.

Regulation and Safety

In resource management, fees and charges are down slightly (\$15,000) while expenditure is overspent in contracting and consultant costs (\$40,000).

Solid Waste Management

Over expenditure occurs in Resource Recovery Centre operations (\$60,000) due to an increase in costs of waste to landfill (levy) and in transportation. This is partially offset by favourable fees and charges \$18,000.

Support Services

Over expenditure occurs in personnel costs (\$194,000) which includes training and recruitment (including that of CE). Any new rate remissions on multiple owned Maori land are now processed during the year. As the amendments to the Local Government (Rating) Act 2002 became effective 1 July

2021, the resulting one-off adjustment (capturing of remissions) is evident when comparing year-on-year rates revenue.

1.4 Cash and Cash Investment Balance

	2021-22 Actual Full Year 000s	2022-23 1st Qtr Actual YTD 000s	2022-23* Budget Full Year 000s	2022-23 Var to Budget 000s
Cash and Short Term Investments	6,152	4,159	5,508	(1,349)
Term Investments	0	0	0	0
Total	6,152	4,159	5,508	(1,349)

The first quarter cash position reflects the use of available funds towards projects yet to be completed. Available cash is used as much as possible before further loan drawdowns are made.

We anticipate a drawdown of loan financing within the next month. Any excess cash is held on term deposits until needed.

1.5 Balance Interest and Debt Level

	2021-22 Actual Full Year 000s	2022-23 1st Qtr Actual YTD 000s	2022-23* Budget Full Year 000s	2022-23 Var to Budget 000s
Finance Costs	285	67	539	472
Term Loans	7,000	7,000	22,101	15,101

Borrowing is tracking less than budget, indicative of the delay and/or timing of some debt-funded capital projects. Further debt funding will be secured as further capital progress is made.

Capital expenditure

2. Capital Expenditure

	2022-23 AP Total Budget 000s	Revised Budget (incl C'FWDs)	2022-23 1st Qtr Actual YTD 000s	2022-23 Var to Budget 000s
Community Development	-	-	-	-
Economic Development	62	60	-	60
Community Facilities	9,573	17,918	1,367	16,551
Land Transport	2,437	3,593	480	3,113
Solid Waste Management	77	225	3	223
Regulation & Safety	-	-	2	(2)
Support Service	320	496	51	445
Stormwater	1,374	3,064	664	2,399
Water Supplies	1,160	1,594	55	1,539
Wastewater	2,218	2,699	961	1,738
TOTALS	17,220	29,648	3,583	26,065

Total capital expenditure to for the first quarter to September is \$3,583,000. The majority of this relates to Redevelopment of Lots 9 and 10, progress in cycleway extensions, roading (including Major Emergency reinstatement), stormwater and wastewater upgrades.

The following significant projects contribute to the above remaining capital budgets:

- CBD redevelopment projects (5,849,000) including redevelopments on lots 9 & 10 (expected completion March 2023), 101A Church St building upgrade, and Whitikau Reserve carpark toilets and playground installation.
- Waiotahi Cycleway Extensions (\$2,659,000): ongoing, subject to funding and unlikely to be fully realised.
- Cycleway Entranceway; waharoa installation is imminent.
- Rose Garden Cottage fit-out and re-roof; nearing completion (\$85,000); \$18.5k YTD.
- Marine Precinct and Wharf redevelopment (\$5,106,000); \$34k YTD. Still at initial stages of project.
- WWTP inlet works upgrade (\$735,000): this project is ongoing from 2021-22 due to Covid-19 and related supply chain delays.
- Coastal Reserves Tourism Infrastructure (\$1,000,000): subject to grant funding yet to be secured.
- WWTP Secondary Treatment upgrade (\$450,000);
- WTP Te Kaha Treatment Plant Relocation (\$867,000);
- Harbour Access Road upgrade (\$678,000): the upgrade to Snell Road is year two of a \$1.180m three year project. Professional design services will be procured this year to refine the cost of the road upgrade for construction. It is anticipated most of the budget will be rolled into year three of this LTP to coincide with the completion of the harbour project.

Treasury Report

3. Treasury Report

3.1. Debt Position

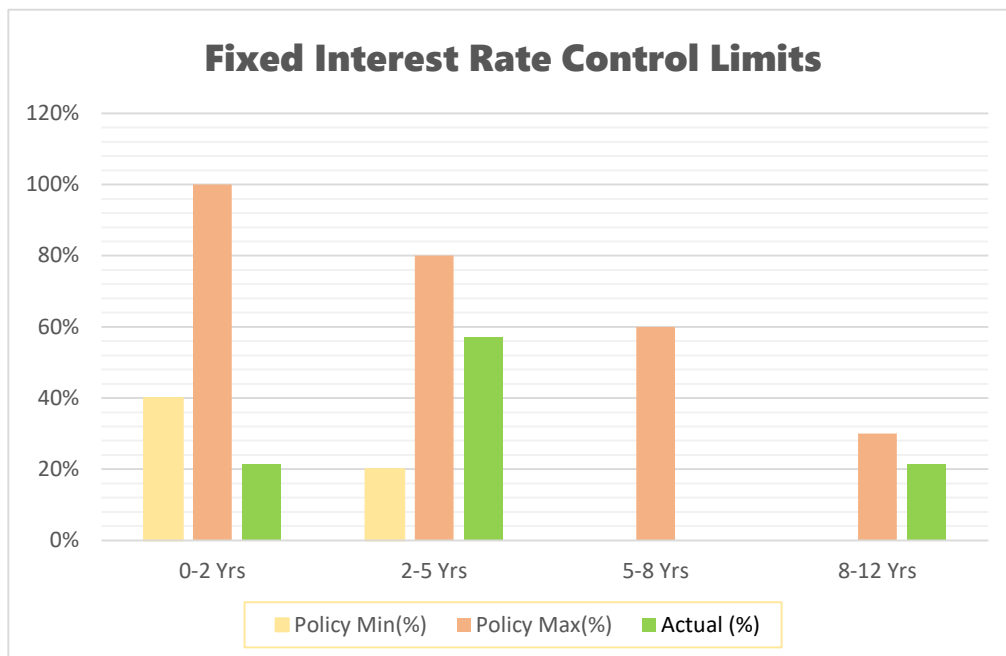
	Actual 2021-22 000s	YTD Actual 2022-23 000s	Budget 2022-23 000s
Secured loans less than 12 months (current liabilities)	1,500	1,500	0
Secured loans more than 12 months (non- current liabilities)	5,500	5,500	22,101
TOTALS	7,000	7,000	22,101

Council's debt position has remained at \$7m since the last tranche repayment in April due to there being no need for financing. However we anticipate refinancing during the second quarter of 2022-23.

3.2. Funding maturity

The chart below illustrates the funding maturity profile of the four council loans. Maturity dates are between 0.5 years and 10.5 years. All are at a fixed rate between 2.19% and 5.5%.

The graph below illustrates Council's debt maturities against its Treasury Risk Management policy. These limits would apply once council reached \$7,500,000 in total debt.



Compliance with Liability Management Policy

The specific requirements of the Liability Management Policy are detailed below.

Item	Borrowing Limit	Actual Performance
Net External Debt / Total Revenue*	<150%	23%
Net Interest on external debt as a percentage of total revenue	<10%	0.66%
Net Interest on external debt as a percentage of annual rates income*	<20%	2.12%
Net Debt / Council Equity	<10%	2.76%
External term debt + committed bank facilities + unencumbered cash/cash equivalents to existing external debt.	>115%	165%

* Note the above measures have been annualised where relevant.

Council is within policy for all the measures.

Rates Arrears

4. Report on Rates Arrears

Total rates outstanding as at the first quarter is \$2.753m compared with \$2.866m as at the first quarter of 2021-22. We are progressing our work plan to standardise debt management procedures, and continue to review the status of Maori land as per 2021 amendments made to the Local Government (Rating) Act 2002.

RISKS

There are no major risks associated with the decisions or matters.

RECOMMENDATION:

1. That the report titled "Quarterly Report to 30 September 2022" be received.

Billy Kingi

FINANCIAL CONTROLLER

Report to the Council on the audit of

Ōpōtiki District Council

For the year ended 30 June 2021

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Key messages

We have completed the audit for the year ended 30 June 2021. This report sets out our findings from the audit and draws attention to areas where the District Council is doing well and where we have made recommendations for improvement.

Audit report

We intend issuing a non-standard audit report. Without modifying our opinion, we will include an emphasis of matter paragraph to draw attention to the disclosures in the financial statements relating to the impact of the Three Waters reform on the District Council.

Matters identified during the audit

Valuation of property, plant and equipment

The District Council revalued its Water System Treatment Plants and Facilities, Sewerage System Treatment Plants and Facilities as well as Stormwater drainage and land, buildings and site improvements, asset classes on 1 July 2020. As the cumulative movement between the carrying value and the fair value of these asset classes were material, a prior period error at 30 June 2020 was recognised. For our detailed findings, refer to section 3.1.

Management prepared fair value assessments to consider the unrecognised valuation movements in Water System Treatment Plants and Facilities, Sewerage System Treatment Plants and as well as and Stormwater drainage, Roding and Footpaths and land and buildings asset classes on 30 June 2021. Our review of management's assessment indicated that the cumulative value of these asset classes had changed significantly since they were last valued. As a result, the valuation movement for the roads and footpaths was accounted for in the District Council's annual report at 30 June 2021. For our detailed findings, refer to section 3.2.

Three waters reform

The District Council received \$1.6 million, as the first tranche of funding, from the Crown towards the three waters reform. Our review of the District Council's accounting treatment and related disclosures confirmed that the recognition and measurement of this funding is in compliance with the appropriate accounting standards.

Prior year recommendations

Council have closed six prior year recommendations during the period. For further detail on these recommendations refer to Appendix 1.

Thank you

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

A handwritten signature in blue ink, appearing to read 'Leon Pieterse', is positioned above the typed name.

Leon Pieterse
Appointed Auditor
7 November 2022

1 Recommendations



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

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

1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
<p>Outdated policy updates</p> <p>All policies are regularly reviewed, updated, and adopted when guidance, accounting standards or legislations is issued, or every three years.</p>	3.2.2	Necessary
<p>Daily cash receipting</p> <p>An independent review of Cash Receipts Lodgement Forms is completed daily.</p>	3.2.3	Necessary
<p>Timing of revaluations</p> <p>Asset valuations be performed close to or at the end of each financial year.</p>	4.1.1	Necessary

Recommendation	Reference	Priority
<p>Improvement to Infrastructure Asset Data</p> <p>The District Council should implement processes to address the asset data recommendations of their external valuer.</p>	4.1.2	Necessary
<p>Performance reporting</p> <p>Enhances disclosure of non-financial performance against targets and prior year by using The Auditor-General's Auditing Standard, AG-4 The audit of performance reports as a tool for self-review.</p>	5.1	Necessary
<p>Sensitive Expenditure Monitoring</p> <p>Implements a monitoring process for Sensitive Expenditure to ensure that all Sensitive Expenditure is being identified and documented clearly by type and nature in line with the OAG's best practice guidelines.</p>	5.2	Necessary
<p>Sensitive Expenditure Policies</p> <p>Undertakes a review of its sensitive expenditure policy to aligning the policy with the Office of the Auditor General's.</p>	Appendix 2	Necessary

1.2 Status of previous recommendations

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

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open at beginning of period	2	16	-	18
Implemented or closed during the period	-	6	-	6
Total open previous recommendation	2	10	-	12

2 Our audit report

2.1 We intend issuing a modified audit report



We intend on issuing a non-standard audit report. This means we are satisfied that the financial statements and statement of service performance present fairly the District Council's activity for the year and its financial position at the end of the year.

Without modifying our audit opinion, we will include an emphasis of matter paragraph to draw attention to the disclosures in the financial statements and statement of service performance that describe the overall impact of the three waters reform programme on the District Council. After year-end, the Government announced it will introduce legislation to establish four publicly owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities from 1 July 2024.

In forming our audit opinion, we considered the following matters. Refer to sections 3, 4 and Appendix 2 for further detail on these matters.

2.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions.

All financial, disclosure and performance reporting misstatements identified, other than those which were clearly trivial, were discussed with management and corrected in the financial statements.

2.3 Corrected misstatements

We also identified misstatements that were corrected by management. These corrected misstatements had the net effect of decreasing revenue by \$1.153m and increase the associated liability by the same amount compared to the draft financial statements. We identified twenty-one disclosure deficiencies and eight performance reporting misstatements which were corrected.

2.4 Quality and timeliness of information provided for audit



Management needs to provide information for the annual audit of the District Council. This includes the draft annual report with supporting working papers. We provided a listing of information we required to management in March 2022. This included the dates we required the information to be provided to us.

This year the audit was completed later than required by the Local Government Act 2002. This was due to an auditor shortage in New Zealand and the consequential effects of Covid-19, including lockdowns.

The District Council produced a partially complete draft annual report on the first day of the audit and uploaded the supporting documentation against a number of our information requests within Smartsheet prior to us arriving on site.

We will continue to discuss with management to determine how to improve the efficiency of the audit process around the annual report.

We do acknowledge and appreciate the District Council's honesty in meeting deliverables. This allowed timings to be changed and adapted appropriately.

3 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 preparing the financial statements and 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.

3.1 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 those charged with governance, 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 have 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 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 and maintained. The elements of the control environment provide an appropriate foundation for other components of internal control.

3.2 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 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.

In performing this assessment, we have identified areas where we believe internal control can be enhanced. These areas are detailed below.

3.2.1 Lack of expenditure controls impacting audit approach

For some years, the audit has taken a substantive testing approach to auditing expenditure and payroll at the District Council. Our preference is to take a controls-based approach, which would be the most efficient and cost-effective approach for the audit. However, a controls-based approach has not been possible due to some issues in the control environment at the District Council.

We specifically noted in prior years:

- there was a large number of transactions (more than 50%) that did not use the purchase order system and many of the purchase orders used were issued after an invoice was received;
- there was a high tolerance for variances between the purchase order and the invoice, meaning payments could be made that were significantly higher than the amount approved by the purchase order; and
- Datacom perform the payroll masterfile changes based on admin access change requests. There is no evidence of review and approval of changes, nor a detailed report in which can be obtained with audit trail tracking, therefore there is a risk of self-approval.

As a result of these control deficiencies, we were unable to take a controls-based approach to auditing expenditure and payroll.

3.2.2 Outdated policy updates

The following policies are due for review:

- Fraud policy - due for review in May 2020.
- Sensitive Expenditure Policy - last reviewed in December 2017. (Refer also to section Appendix 2).
- Risk Management Framework and Legal Compliance Policy Due in 2018 – Discussed at Risk and assurance in October 2021.

We recommend Council ensure all polices are regularly reviewed, updated, and adopted. Good Practice being when guidance, accounting standards or legislations is issued, or every three years.

Management Comment

Policy review has been deferred due to disruptions in Council operations as a result of changes in staffing and other priority work streams. Council is currently limited in resources able to undertake this work due to significant requirements of current reforms and existing planning processes. We are looking to initiate updates to policy in the second half of FY 2022/23 if appropriate resources are available. In the interim the policies referred to are fit for purpose.

3.2.3 Daily cash receipting

Previously the council performed a review over the daily cash ups which involved recounting the cash, agreeing this to the lodged totals (agreeing the Eftpos amounts to settlement) and then signing the Cash Receipts Lodgement form as evidence of review. In obtaining understanding of the system and controls in the period we have identified this review control has been removed from the process.

Given cash receipting is inherently a high risk for misappropriation, the independent review was an important control over cash receipts.

We recommend the District Council reinstate the independent review of Cash Receipts Lodgement Forms.

Management Comment

Due to the significant period of time Council offices were closed to the public during the financial year and not receiving cash these review controls lapsed. These reviews are being reinstated.

4 Matters raised in the Audit Plan



In our Audit Plan dated 29 July 2021, we identified the following matters as the main audit risks and issues:

4.1 Revaluations

The District Council periodically revalue land and buildings and infrastructure assets. PBE IPSAS 17 *Property, Plant and Equipment* requires that valuations are carried out with sufficient regularity to ensure the carrying amount does not differ materially from its fair value.

The valuations for Water System Treatment Plants and Facilities, Sewerage System Treatment Plants and Facilities and Stormwater drainage and land, buildings and site improvements, asset classes were valued by an external valuer, AON.

The revaluations were performed as at 1 July 2020, for recognition in the 2020/21 financial year.

Our review found that the valuation adopted by the District Council was supportable and valuation movements were consistent with our expectations. We are satisfied that the valuation movements and related disclosures are correctly recorded in the financial statements and are in accordance with the accounting standards.

However, we noted the following areas for improvement or consideration.

4.1.1 Timing of revaluations

The District Council continue to revalue its assets at the end of the financial year using valuation reports prepared at the start of the financial year. That is, for 30 June 2021, the District Council's assets have been revalued using valuation reports dated 1 July 2020. There are several reasons for this practice; principally because it provides the District Council more time to prepare for and process the valuations, and to ensure its asset registers are complete.

This practice is discouraged due to an increased risk of prior period errors. It is highly likely that a material prior period error can occur if the fair value of an asset (based on the revaluation performed) at the beginning of a financial year (that is, 1 July 2020, for the 30 June 2021 year) is materially different to the carrying value reported in the annual report in the previous financial year (that is, 30 June 2020, the day before).

We recommend management and the District Council reconsider the timing of the District Council's valuations. To reduce the risk of a prior period error or a qualification, the District Council's valuation should be performed close to or at the end of each financial year not at the beginning.

Management Comment

The initial decision to move the revaluation to 1 July 2020 was an attempt to improve efficiencies in the annual report process given the resource constraints faced in these areas of the organisation. The material movements in valuations meant these efficiencies could not be realised and gave rise to prior period errors.

Revaluation dates for future revaluations have been moved back to 30 June of the revaluation year and staff will be raising the need to increase resourcing in the finance area to support these and other increased activities and pressures coming onto this department.

4.1.2 Improvement to Asset Data

District Council performed a revaluation over their three water assets at 1 July 2020. Through review of the valuer's valuation report we identified recommendation for council data to be improved for better reliance and accuracy when assets are revalued. The following will be beneficial for council to implement:

- To componentise any unspecified new CAPEX in the next valuation.
- To engage in an active review of On-cost (Overhead) percentage and verify this level for use in next valuation cycle.
- To maintain record of additions and deletions which can be used to assess changes in value and quantity.
- To maintain and develop asset registers with appropriate componentisation to better capture capital expenditure.
- To continue to collect asset condition data for pipe assets, focusing on representative coverage of all pipe materials.

During our work on Investment Property Valuations, we noted that there were several instances where property additions and disposals were incorrectly included or excluded from the valuation report.

Implementation of the above will confirm completeness and existence of assets quantities and inform accurate costs and asset condition for consideration when determining the asset's value.

We recommend the District Council implement processes to address the recommendations of the valuer.

Management Comment

The improvement recommendations have been noted and we have taken the following steps to make improvements:

Improving our standard operating procedures for capitalisation

Prepared Asset Recognition templates for project managers to utilise in project delivery for capturing new and disposed assets for handover to the Asset Management Team. This will help improve the componentisation to better capture capital expenditure. We are working towards making sure capitalisations for year 1 July 2021 to 30 June 2022 follows this process. Once this has been achieved, we hope to make progress in clearing any unspecified CAPEX.

We have undertaken CCTV of stormwater assets to better understand the condition of stormwater assets.

We are about to start a revaluation process for three waters and transport assets for effective date for the valuation is the 30 June 2022. As part of the revaluation process and associated reporting we will prepare an action plan and track progress against recommendations.

Over 2021 and 2022 we have employed additional staff in the asset management team to help manage and execute these activities.

4.2 Fair value assessment of property, plant, and equipment

PBE IPSAS 16 Investment Property requires investment properties to be revalued on an annual basis. There are some aspects to the valuation of investment properties that require particular use of judgement in determining their fair value.

Management prepared fair value assessments to consider the unrecognised valuation movements to 30 June 2021. The District Council's fair value assessment indicated that asset values had not materially changed.

We completed our own assessment that indicated a material accumulation of movements in assets since they were last valued. Management engaged AON to provide additional independent information. AON also concluded that there had been a significant movement in roads and footpaths value overall. As a result, the District Council adjusted the value of roads and footpaths to ensure the accumulated fair value movement was not materially different from the carrying value.

The District Council's fair value assessments have historically been based on indices alone, and do not consider any other factors that would indicate a significant movement between the carrying amount and the fair value. This has been sufficient in recent years when local and national cost inflation was low. However, with construction costs rising at a much higher rate than seen in previous years, there is an increasing risk that fair value movements on revalued assets will exceed materiality at balance date.

Therefore, it is important that fair value assessments are robust and based on good information specific to the District Council.

We recommend management considers factors beyond national cost indices when completing fair value assessments. For example, information from recent construction contracts and construction estimates should be used to understand whether there could be a significant change in the base unit rates used in the previous valuation.

We recommend management carry out fair value assessments early and regularly, to ensure sufficient time for full revaluations to be carried out if material valuation movements are identified.

We also recommend that the District Council uses an external consultant to perform the fair value assessments to ensure the assessment is based on current information and is robust.

Management Comment

While the uncertain inflationary environment exists we will look to utilise contract rates from works completed in the FY to inform the fair value assessments. We will also look to acquire contract rates from neighbouring councils to help inform this. Where we do not have sufficient information we will look to engage external consultants.

4.3 The risk of management override of internal controls

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it results in an inherent risk of material misstatement due to fraud, which audit standards require us to consider in every audit.

To address the risk of management override, we carried out substantive procedures, including reviews of journal entries, accounting estimates, and significant transactions that are outside the normal course of business.

We did not identify any matters of concern to bring to your attention.

4.4 Impact of three waters reform

The Minister of Local Government announced that the Government is making the three waters reform mandatory.

Subsequent to 30 June 2021, the Government announced it will introduce legislation to establish four publicly owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities from 1 July 2024.

The impact of these reforms, once legislated, will mean that the District Council will no longer deliver three waters services. The District Council is proposed to fall within "Entity B", which includes 22 Councils in the central North Island.

At the date this report was approved for issue, the reforms were still at early stages. As a result, we included an emphasis of matter within our opinion referring to the District Council's self-disclosure of this matter in the Annual Report.

We reviewed the accounting treatment of the funding received to date and are satisfied that after audit adjustments were made the accounting treatment is in line with PBE IPSAS 23 Revenue from Non-Exchange Transactions. We are satisfied that the three waters stimulus funding has been accounted for and disclosures, including subsequent events where necessary, have been made by the District Council in their Annual Report.

4.5 Impact of Covid-19 pandemic

As part of our audit response to Covid-19, we have:

- gained an updated understanding of the impact of Covid-19 on the District Council's operations, financial statements, and performance story;
- established if management has identified and recorded any additional Covid-19 related revenue, receivables, and costs, including as a result of shovel ready or recovery funding, and whether these are recognised in line with PBE accounting standards; and
- assessed the completeness and reasonableness of disclosures contained within the Annual Report relating to the impact of Covid-19.

We are satisfied our review of the Covid-19 impact on the district has been adequately disclosed.

5 Issues identified during the final audit



In this section we detail our key findings during the audit, in order of significance. We also detail our findings in relation to other areas of focus.

5.1 Performance reporting

The District Council reports on their key performance measures within the annual report. The selected measures are intended to provide a general indication to the public of whether the District Council's services are on track.

Our review of the performance report highlighted a large number of instances where the commentary was not clearly presented in the first draft and as a result did not tell a meaningful story. Our findings for each measure were communicated update in the performance report to better "tell the performance story".

We recommend the District Council further enhances its "performance story". For example, by including the following:

- The reason for change from target/prior year.
- The impacts and outcomes of the results.
- Disclosing the District Council's progress towards achieving the target in instances where it has not been achieved.
- Removing the use of acronyms.
- Inclusion of baseline information, where possible.

This includes being presented in such a way that makes the information clear and obvious to the reader and not subject to interpretation.

The Auditor-General's Auditing Standard, AG-4 *The audit of performance reports* provides good context on the recommendations we make above. We suggest using the Standard as a tool for self-review to ensure that the performance framework is appropriate. Link to the standard: [AG-4 The audit of performance reports \(oag.parliament.nz\)](https://www.oag.parliament.nz/standards/AG-4)

Management Comment

Noted. We strive to ensure reporting is accurate and easy to understand.

With the changeover of some positions within council, methods for assessing some measures were reviewed. Improvements to how some measures were assessed was proposed and subsequently implemented, following discussion with audit. Some of these were of a technical nature. In addition to this a corporate planning and reporting position is being proposed for consideration in the upcoming 23/24 budget discussions with Council.

5.2 Sensitive Expenditure monitoring

During our testing of sensitive expenditure testing, we noted difficulties in obtaining breakdowns of sensitive expenditure by type or by nature. This made it difficult to determine the extent of sensitive expenditure at District Council.

In keeping with OAG Best Practice guidelines, an entity should be able to present sensitive expenditure for a certain period by Type; Council/KMP expenditure or by nature; credit cards, expense claims, invoices.

This will create greater transparency around Sensitive Expenditure and also allow District Council to fully understand its Sensitive Expenditure environment.

We recommend that District Council implements a monitoring process for Sensitive Expenditure to ensure that all Sensitive Expenditure is being identified and documented clearly by type and nature in line with the OAG's best practice guidelines.

Please also refer to further recommendations regarding the sensitive expenditure policy in Appendix 2.

Management Comment

Review of Councils sensitive expenditure policy is planned. Part of this review will ensure appropriate expenditure review is in place and that adequate information is being captured to fully understand Councils sensitive expenditure. This review is planned for the second half of the current Financial Year.

6 Public sector audit



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

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

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

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

Refer to the status of previous recommendations in Appendix 1.

For our findings over sensitive expenditure, refer to 4.3 and Appendix 2.

7 Useful publications



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

Description	Where to find it
Performance reporting	
Public organisations are responsible for reporting their performance to Parliament and the public in a way that meaningfully reflects their organisation’s aspirations and achievements. The Auditor-General published a discussion paper that explores five areas for improvement in performance reporting.	On the Office of the Auditor-General’s website under publications. Link: The problems, progress, and potential of performance reporting
The Office of the Auditor-General, the Treasury and Audit New Zealand have jointly prepared good practice guidance on reporting about performance. The guidance provides good practice examples from public organisations in central government. Those working in other sectors may also find this useful.	On Audit New Zealand’s website under good practice. Link: Good practice in reporting about performance — Audit New Zealand (auditnz.parliament.nz)
Local government risk management practices	
The Covid-19 pandemic is a stark reminder for all organisations about the need for appropriate risk management practices. In our audit work, we often see instances where councils do not have effective risk management. This report discusses the current state of local government risk management practices and what councils should be doing to improve their risk management.	On the Office of the Auditor-General’s website under publications. Link: Observations on local government risk management practices
Public accountability	
Public accountability is about public organisations demonstrating to Parliament and the public their competence, reliability, and honesty in their use of public money and other public resources. This discussion paper explores how well New Zealand’s public accountability system is working in practice.	On the Office of the Auditor-General’s website under publications. Link: Building a stronger public accountability system for New Zealanders

Description	Where to find it
Managing conflicts of interest involving council employees	
<p>This article discusses findings across four councils on how conflicts of interest of council employees, including the chief executive and staff, are managed.</p>	<p>On the Office of the Auditor-General's website under publications.</p> <p>Link: Getting it right: Managing conflicts of interest involving council employees</p>
Covid-19 implications for financial reporting and audit in the public sector	
<p>Audit New Zealand Executive Director Steve Walker and Head of Accounting Robert Cox joined an online panel hosted by Victoria University of Wellington and the External Reporting Board. They discuss the effects of Covid-19 and the economic recovery on financial reporting and audit in the public sector.</p>	<p>On our website under good practice.</p> <p>Link: Covid-19 page</p> <p>Link: Webinar</p>
Model financial statements	
<p>Our model financial statements reflect best practice we have seen. They are a resource to assist in improving financial reporting. This includes:</p> <ul style="list-style-type: none"> • significant accounting policies are alongside the notes to which they relate; • simplifying accounting policy language; • enhancing estimates and judgement disclosures; and • including colour, contents pages and subheadings to assist the reader in navigating the financial statements. 	<p>Link: Model Financial Statements</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 collection of resources 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 toolbox to help you collate documentation that the auditor will ask for.</p>	<p>On our website under good practice.</p> <p>Link: Client Substantiation File</p>
Good practice	
<p>The OAG’s website contains a range of good practice guidance. This includes resources on:</p> <ul style="list-style-type: none"> • audit committees; • conflicts of interest; • discouraging fraud; • 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>

Appendix 1: Status of previous recommendations

Open recommendations Recommendation	First raised	Status
Urgent		
Contract management		
Implement appropriate processes and procedures for contract management.	2017	<p>In progress</p> <p>District Councils Contract Management was graded as effective in the latest NZTA investment audit report. Other areas of contract management are currently being built upon. Processes are being considered at the management level within each activity. Areas of consideration are information systems, resources and responsibilities and a strategic approach to procurement.</p>
Project management		
Implement a robust and reliable project management system to manage major capital expenditure projects.	2017	<p>In progress</p> <p>The District Council has developed a draft approach to manage projects. The District Council utilise software for project management and carry out quality assurance checks for each project milestone.</p> <p>Management comment</p> <p><i>We have developed a programme management and project management framework to manage projects. This is a structured and scalable approach which ensures a consistent and structured approach to project management. Management reporting has also been developed and implemented.</i></p>

Necessary		
Capital works programme delays		
Formally consider the risks posed by the continuing under-delivery of the capital works programme. Mitigations and action plans should be developed and implemented to reduce those risks where feasible.	2020	<p>In progress</p> <p>The District Council have implemented some policy changes to address the risks of under-delivery of capital work. With the release of the harbour project further capacity is expected. They will continue to monitor the progress on deferrals.</p> <p>Management Comment</p> <p><i>Improvements to how projects are scoped has been implemented to reduce the risk of non-delivery. Additional resources were secured in 2021 to manage the large delivery programme. The District Council has developed a programme management and project management framework and programme forecasting.</i></p>
Control over roading information		
Processes to be implemented to ensure the District Council has better access to, or oversight of, the roading information held in the RAMM system.	2020	<p>In progress</p> <p>An in-house appointment of a transport engineer has been made to focus on data accuracy and oversight.</p>
Appropriate useful lives data		
Perform a review of the non-revalued asset classes to ensure appropriate useful lives are being allocated.	2020	<p>Outstanding</p> <p>A review of useful lives is done on an annual basis. However, the fixed assets register still includes assets that have been fully depreciated.</p> <p>Management Comment</p> <p><i>Some assets within an asset class may have useful lives over that expected for the asset type. In these instances, an engineering judgement will be applied to determine the remaining life of these outliers.</i></p>

Sensitive expenditure		
Ensure sensitive expenditure policies are complied with, including the use of “one up” approvals for all such expenditure.	2020	<p>Outstanding</p> <p>We noted during our Sensitive Expenditure testing, two instances of self-approval.</p>
Conflicts of interest register		
Councillors and Community Board Members disclose all interests and return the interest declarations to the District Council.	2020	<p>Outstanding</p> <p>We have identified 5 instances where interests have not been declared in the interest register.</p>
General ledger reconciliations		
All reconciliations are dated and signed by both the preparer and independent reviewer.	2020	<p>Outstanding</p> <p>Identified instances of untimely preparation and review of reconciliations in the following:</p> <ul style="list-style-type: none"> • Payroll • Debtors • Creditors • Cash and bank • Fixed asset register <p>Management comment</p> <p><i>Competing priorities for staff continues to result in some reconciliations being deferred.</i></p>
Refuse recovery centre		
Improve controls regarding revenue at the refuse recovery centres, ensuring that all revenue that should be recorded is captured. Staff should also provide detailed explanations for all variances identified.	2018	<p>Outstanding</p> <p>No progress made on charge accounts. Management are looking into other improvements to mitigate issues with charge accounts.</p> <p>Management comment</p> <p><i>In relation to the revenue, we have since gone cashless which removed reconciliation discrepancies. Charge accounts discrepancy can still occur if signed charge receipt is lost in transit. Management will continue to investigate alternative methods that will ideally coincide with weighbridge installation.</i></p>

Purchase orders		
We recommended system enforced tolerance limits for purchase orders, receipts and invoiced amounts are reviewed and limits reduced to ensure compliance with generally accepted leading practice.	2018	Outstanding No changes made to the tolerance limits.
Capitalisation policy for property, plant, and equipment		
Implement an asset capitalisation policy on the minimum value of assets that will be capitalised as well as guidance for the type of expenditure to capitalise to ensure the District Council is capitalising genuine assets.	2017	Outstanding The District Council are in the process of drafting policies and procedures, no formal policy has been adopted.
Compliance with the Local Government (Financial Reporting and Prudence) Regulations 2014		
Ensure disclosures for future Annual Plans are consistent with the Regulations.	2019	Outstanding 2021/22 year is year 1 of LTP, therefore remains outstanding for 2022/23 annual plan review.

Implemented or closed recommendations

Recommendation	First raised	Status
Journal processing Establish a two-stage process for posting journals, with some staff only being able to prepare and input journals, and other staff only being able to approve and post journals. If this is not possible, the post event review should be undertaken by someone with no access to the journal system.	2020	Closed No instances of self-approved journals identified.
Suspense accounts Prepare and evidence review of suspense account reconciliations, in particular following up outstanding items that exist for a period greater than one month.	2016	Closed Suspense items have been investigated and are trivial in value.

Recommendation	First raised	Status
<p>Financial delegations</p> <p>All changes to financial delegations in the Ozone system are appropriately approved and documented.</p>	2020	<p>Closed</p> <p>Delegation's register was reviewed in April 2021.</p>
<p>Property, plant, and equipment reconciliations</p> <p>Perform monthly reconciliations between fixed asset register and general ledger. These reconciliations should be independently reviewed.</p>	2017	<p>Closed – risk accepted</p> <p>Management have agreed with risk and assurance committee that these reconciliations will be performed on an annual basis.</p>
<p>Ōpōtiki Harbour Development</p> <p>The District Council needs to review any agreement between the Crown and the District Council regarding any funding received up to balance date and provide us with an assessment against the Accounting Standards of the proposed accounting treatment.</p>	2020	<p>Closed</p> <p>No further changes to the Harbour Development. This asset and the construction of the harbour remains with MBIE and the special purpose vehicle that has been established to own the asset on completion.</p>
<p>Approval for disposal of property, plant and equipment</p> <p>Supporting documentation is retained as evidence to confirm that asset disposals had been appropriately approved.</p>		<p>Closed</p> <p>All disposals tested were supported by appropriately approved documentation.</p>

Appendix 2: Sensitive Expenditure Policy

We reviewed the District Council's latest version of the sensitive expenditure policy against the Office of the Auditor-General's (the OAG's) best practice guidelines.

The following points should be considered on review:

- Policies specify the process for amending the policies and procedures.
- Claims relating to sensitive expenditure need to be separate claims for each person whenever possible, or where a claim relates to more than one person, it should be made by the most senior person and list the other individuals to whom the expenditure relates.
- Claims for sensitive expenditure that required a business case and budget before the expenditure was authorised, an explanation should be provided for any incurred expenditure that is more than the agreed budget.
- Credit card policies should state that internet purchases using credit cards, need to reflect good security practice, such as purchasing only from reputable companies known to the public organisation.
- The entity should have travel policies and procedures that require initial consideration of technology-enabled solutions as opposed to travel in person.
- Policies and procedures outlining the use of taxi charge cards.
- Policies and procedures to cover rideshare options to distinguish legitimate work expenses from personal expenses.
- Policies and procedures outlining the use of corporate vehicles (provided outside remuneration arrangements).
- Policies on entertainment related expenditure include guidance on acceptable level of expenditure, if any, on seasonal occasions such as a Christmas event.
- There is an explicit policy that staff cannot use purchasing privileges on behalf of any third party. The entity's resources, including staff time, should not be used to procure goods or services for employees' personal benefit.
- Policies clearly identify the accepted level of personal use of ICT resources.
- Policy specifically states that receiving cash gifts is unacceptable in any circumstances.

We recommend the District Council undertakes a review of its sensitive expenditure policy with a view to aligning the policy with the Office of the Auditor General's: [Controlling sensitive expenditure: Guide for public organisations — Office of the Auditor-General New Zealand \(oag.parliament.nz\)](https://www.oag.parliament.nz/publications/guide-for-public-organisations)

Appendix 3: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the District Council of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the District Council.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General’s Auditing Standards. The audit cannot and should not be relied upon to detect all instances of misstatement, fraud, irregularity, or inefficiency that are immaterial to your financial statements. The District Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the District 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: International Code of Ethics for Assurance Practitioners, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>Other than the audits of the annual report of the District Council, and the assurance engagement over the Debenture Trust Deed, we have no relationship with, or interests in, the District Council or its subsidiaries.</p>
Fees	<p>The audit fee for the year is \$112,512, as detailed in our Audit Proposal Letter.</p> <p>No other fees have been charged in this period.</p>
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the District Council that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the District Council during or since the end of the financial year.</p>

AUDIT NEW ZEALAND

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REPORT

Date : 29 November 2022

To : Risk and Assurance Committee Meeting, 12 December 2022

From : Group Manager Engineering and Services, Stace Lewer

Subject : **THREE WATERS REFORM RISKS**

File ID : A320322

EXECUTIVE SUMMARY

The Three Waters reform presents several risks to Council and the community and as the reform progresses the risk profile develops. To better understand these risks, their impact on Council, and possible controls, Council has commenced the development of a Three Waters Reform Risk Register. Similar risk registers have been, or are being, developed at other councils. The report summarises some of the emerging risk and controls that will be included in the Risk Register.

PURPOSE

The purpose of this report is to update the Risk and Assurance committee on the Central Government's Three Waters Reform, and to present risks, and controls, that are being considered to minimise the impact of the reform on Opotiki District Council (ODC).

The content of the report helps provide assurance to the committee in relation to Risk Management and Business Continuity Management.



BACKGROUND

Central Government is currently reviewing how drinking water, wastewater and stormwater (Three Waters) services are regulated, managed and delivered in New Zealand. This is known as the Three Waters Reform.

The reform, as it currently stands, seeks to shift three waters assets and operations from 67 councils to four regional entities. Ōpōtiki district falls into Entity B together with 22 Councils comprising of approximately 800,000 people.

Council, Iwi and the community have concerns with the proposed reform and have expressed their objection to the proposal on numerous occasions. Details of some of the activities undertaken were summarised in the report to Council 19 April 2022.

Council recently completed a submission to the Finance and Expenditure Committee, with our Iwi partners, opposing the Water Services Entities Bill. The select committee has completed its review of submissions and has recommended several modifications to the bill however the overall intent remains the same.

TRANSITION ACTIVITIES

The Government has commenced transition activities and developed a National Transition Unit (NTU) to execute its decisions on Three Waters reform. From 1 July 2024, four new water services entities will deliver drinking water, wastewater and stormwater services to people across New Zealand.

Since November 2021 and continuing to 1 July 2024, the transition from the current system to the new system will take place. One of the aims of the NTU is to ensure the transition is efficient, effective and minimises disruption to communities and consumers. Councils will continue to be responsible for the delivery of water services until 30 June 2024. Transition activities include, but are not limited to, requests for information from Councils and development of transition reference groups to focus on specific areas associated with the transition.

Examples of Transition Reference Groups include:

- People and Workforce;
- Finance and Corporate Services;
- Commercial and Legal; and
- Asset Management and Operations.

These groups, which predominantly consist of staff from Councils across the country, aim to help inform the NTU of issues, solutions, and other inputs related to transition. Despite Council's objection to the reform, it is considered important to participate in reference groups in good faith, when resources permit, to help influence better outcomes for staff and the community, should the reform continue. Participation does not represent support for the reform in its current state.

RISK IDENTIFICATION AND CONTROLS

There are numerous risks to the organisation and community because of the Three Waters reform. These risks are evolving due to the uncertainty and continuing flux of the reform and associated transition activities. To better understand these risks, their impact on Council, and possible controls, Council has commenced the development of a Three Waters Reform Risk Register. Similar risk registers have been, or are being developed, by other councils, such as Tauranga. A risk register has also been developed in collaboration with the Entity B Local Transition Team consisting of 22 member councils. Our risk register will follow the corporate risk framework and will be developed and reviewed over time as the reform continues. Due to the changing nature of the reform, risks will need to be regularly monitored and new controls or adjustment to existing controls may need to be made.

Below is a summary of some of the emerging risks which will be included within the risk register.

1. Ability to Retain Staff During Transition

The reform is creating uncertainty for staff who undertake Three Waters activities within Council. Council is required to continue to deliver these services through to the 1 July 2024 and staff retention is critical to ensure these services can be delivered. Confidence about job security throughout the transition, to the new water services entities, needs to be carefully managed to retain staff.

Control

The Water Services Bill 1 provides provisions for staff who predominantly undertake Three Waters activities, this is in the form of a job guarantee, where no less favourable condition will be provided to staff transitioning from Council to the new water entity. This is positive in reducing uncertainty within the workforce. Some staff however may not meet the "Job Guarantee" criteria, such as senior managers, and although other pathways have been identified these pathways are not as certain as the job guarantee pathway. Ongoing meaningful communication with staff is important and the NTU have developed a staff transition guideline and online portal known as "The Staff Room" to keep impacted staff informed. Initial feedback from staff has been positive, however ongoing engagement is required. The Chief Executive and Group Manager Engineering and Services have (and will continue to do so) meet with staff to provide necessary assurances and support.

2. Uncertainty of Council Structure Post Reform

There are currently 15 positions that deliver direct Three Waters functions within Council, 12 of these positions also undertake other activities such as delivering roading or waste services. The legislation, when enacted, will support the transition of staff, who meet certain criteria such as predominantly undertake three waters functions, e.g. over 50% of their role, to the new entity. In this scenario there is a risk that all 15 positions will move to the new entity leaving minimal capacity within the Council to deliver residual services such as roading and waste management. There is also a risk that Council would lose significant local knowledge of these services to the entity.

Control

A post reform staff structure needs to be developed and costed to ensure there is capacity retained within Council to deliver residual services. This will include a review of stranded overheads, and the impact on support services such as Human Resources, Finance, IT etc. The ability to fund the post reform structure is very important and needs to be considered. Staff have commenced this review and will update this risk once further information is collected.

3. Stranded Overheads

Three Waters activities within Council contribute towards funding corporate overheads, such as Human Resources, Finance and IT. With the reform removing Three Waters from the business there will be an impact on the ability to fund some of these corporate overheads. Some of these activities will still need to be maintained at the same level, for example the Financial Controller, will still need to deliver the equivalent level of financial services for all remaining activities within Council. The difficulty will be how the proportion that is currently funded by Three Waters will be funded post reform.

Control

Staff have commenced the assessment of stranded overheads and will be reviewing options where there are stranded overheads. These options may include identifying alternative funding options, reducing costs, shared service arrangements with other Councils or reducing services. The Central Government has allocated \$500M of "No Worse Off" funding as part of the reform funding package for assisting councils deal with stranded overheads. However, this is designed to only cover stranded overheads for one or two years post reform (depending on stranded overhead levels). Further information on the fund, when it will be made available and how to apply has been requested from the Department of Internal Affairs (DIA).

4. Lack of Resources

There are limited resources within ŌDC and the reform has increased the workload of staff. The NTU are requesting specific information from councils, in the form of information requests, to aid in understanding current state of Three Waters across the country. Some data requests are extensive and require significant time from Council staff to collate. Other impacts on staff time include, but not limited to, numerous transition activities, introduction of Water Service Entities Bill(s), management of funding opportunities (such as Better Off funding), keeping elected members and the community updated etc. These are in addition to the business as usual (BAU) activities Council delivers to the community.

There is a risk that staff burnout can occur, and that we may not be able to respond or participate in some transition activities such as requests for information. There is also a risk that BAU activities could be negatively impacted if staff are undertaking transition activities.

Controls

Transition funding has been provided by DIA to assist councils with transition activities. This includes the ability to engage consultants or seek temporary staff placements to help with transition activities, reducing the burden on existing staff. Some activities however cannot be easily filled by a consultant as they rely on local skills and knowledge of our systems.

To minimise the impact on BAU, participation in transition activities does not get prioritised over BAU activities. However, if Council did not participate in transition activities, there is a risk that our local issues will not be considered or addressed through the transition process. These types of issues include, but are not limited to, the presence of a local entity office, transfer of staff to the new entities, security of work for our local contractors.

Council has utilised transition funding to engage consultants to undertake some requests for information reducing the workload on staff. Collaborating with neighbouring Councils and utilising resources from the Local Transition Team has also been useful to minimise the workload.

5. Contractors and Service Providers Getting Missed During Transition

Numerous local contractors provide services to Council and community in relation to Three Waters and there is a risk that the reform raises uncertainty with these providers and that they are not utilised post reform or are not kept informed of the process during transition activities resulting in loss of local work and economic benefit.

Control

Council holds existing contracts with local contractors who provide Three Water services. These contractors have been listed as key service providers in a request for information submission to the NTU. The Central Government has indicated, through the reform and associated modelling, that there is a need for increased investment in Three Waters and that local contractors will be needed to deliver services locally post reform. There is a risk however that over time a larger centralised contractor, or entity, provides these services in lieu of local contractors. This risk will continue to be monitored and updates will be provided to contractors through the Eastern Bay of Plenty Civil Construction Sector Group meetings, Council staff or through the NTU.

6. Rates Affordability for Communities

One of the benefits of the reform claimed by the Central Government is the ability to minimise the impact of increases in water rates/charges through cross subsidy. Current costs (assuming someone is connected to all three services (water, wastewater and stormwater) are approximately \$1,360 (inclusive of GST). This figure has been calculated from the request for information Council provided Department of Internal Affairs (DIA) in 2021.

The DIA modelled residential bill, as at 2051, suggests that the average household cost per annum would be \$8,690(+) without reform and \$1,220 with reform, assuming these are inclusive of GST. We do not agree with the methodology, assumptions and top-down approach undertaken in the governments modelling. The "*with reform*" figure also assumes cross subsidisation which has not been confirmed by the government. Therefore rates could increase and become unaffordable to local ratepayers.

Control

The Water Service Entities Bill 2, which is soon to be released for consultation, will outline how charges will be applied, such as cross subsidisation. This risk will be reviewed when Bill 2 is released for consultation.

7. Integrated Strategic Growth Planning and Water Infrastructure Planning

Growth and development of communities is dependent upon the provision of key services such as Three Waters. With the separation of strategic growth planning (Council) and water infrastructure planning (entity) there is a risk that these strategies may not align and there will be an inability to remain agile and respond to market and development interests. Growth could become stymied. This is particularly important for Ōpōtiki in relation to the growing demand for housing and the need for Three Waters infrastructure to support this growth.

Control

Council has undertaken significant work progressing the concept design for servicing the proposed Hukutaia development area. Three Waters projects associated to the growth area are included in the current LTP and these projects, with updated costing, have been provided to the NTU for inclusion in the Entity B Asset Management Plan forward works programme. The governance structure of the new entities is complex and there is a risk that there will be limited opportunity to remain agile and make changes to forward works programmes quickly.

8. National Elections 2023

The national elections in 2023 may result in the change of Government and direction relating to Three Waters. National have indicated that they will "*replace and repeal*" any legislation that Labour adopt. This does not provide a lot of certainty as to what "*replace*" means.

Control

Council has been a member of C4LD (Communities for Local Democracy). It continues to be and as such will be jointly advocating with other member Councils including Auckland and Christchurch for a better way to address the concerns relating to Three Waters that brought about this reform programme.

Due to the significance of the reform and the range of risks that are emerging as the reform continues to evolve is it important that Council develops, and continues to monitor, the risks associated. An update will be provided at the next Risk and Assurance Committee meeting, including a copy of the populated Risk Register.

RECOMMENDATION:

- 1. That the report titled "Three Waters Reform Risks" be received.**

Stace Lewer

GROUP MANAGER ENGINEERING AND SERVICES



REPORT

Date : 5 December 2022

To : Risk and Assurance Committee Meeting, 12 December 2022 Group

From : Manager Planning and Regulatory, Gerard McCormack

Subject : **BUILDING CONTROL AUTHORITY ACCREDITATION UPDATE**

File ID : A322706

EXECUTIVE SUMMARY

This report seeks to provide an update on the Building Control Department maintaining accreditation following audits in June 2022 by the International Accreditation New Zealand (IANZ).

PURPOSE

To provide the Risk and Assurance Committee with an update in relation to the Council retaining its status as an accredited building control authority.

The content of the report helps provide assurance to the committee in relation to Business Continuity Management, Internal Audit, External Audit, Quality Assurance/Quality Standards & Compliance, Other Independent Audit/Review, Legislative Compliance.



BACKGROUND

IANZ undertook a bi-annual audit in June/July 2022 to determine compliance with the requirements of the Building (Accreditation of Building Consent Authorities) Regulations 2006 (the regulations). The audit found 24 General Non-Compliances and no serious Non-Compliances against the regulations and MBIE Building Control Authority Accreditation Scheme guidance documents (as relevant). All the GNCs were to be cleared by the 7 October 2022. However, four GNCs were unable to be cleared which resulted in an initial notice of possible revocation of accreditation being issued to the Chief Executive.

Since receiving the notice two of the outstanding four GNC's have been cleared. A plan of action has been provided to IANZ which outlines how we propose to clear the two outstanding GNCs, undertake a review ensure the implementation of our BCA quality assurance system is operating effectively and that a capability and capacity review of the BCA will also be conducted. IANZ have made it clear that the staff of the BCA are very capable and these reviews are not to cover individual performances.

We have been given until 14 February 2023 to clear the outstanding GNCs and to provide IANZ with the findings of the reviews. A follow-up targeted audit will be carried out by IANZ in June 2023. The expectation is that the GNCs will be cleared in February and our BCA accreditation reconfirmed accordingly.

The below is an extract from the IANZ report audit which provides an overview of their assessment of the BCA.

RISK ASSESSMENT

The BCA's risk, both to the Territorial Authority, as a BCA and also as an organisation accredited by IANZ was assessed. The BCA was considered to pose a **Medium Risk**. The main reasons for considering this risk category were:

- Although there were no serious non-compliances, there was a total number of 24 general non-compliances raised during this assessment. Some of these were repeated from the last assessment in 2020.
- There was no serious concerns about the BCA's technical output, although the Compliance Schedule issued for the new building was not fit for purpose for the building.
- Repeated non-compliances included not having current competency assessments for BCOs performing building control functions, statutory clocks for the RFI process were not adequately managed for building consent applications, and code compliance certificates, as well as not having conducted adequate strategic annual reviews.
- The majority of the non-compliances raised were related to the implementation of the BCA's procedures, processes and the use of the BCA's systems, therefore the BCA was not able to easily resolve them during the assessment.

DISCUSSION AND OPTIONS SECTIONS

A significant amount of staff time has been spent addressing the non-compliances identified by IANZ, as well as dealing with a spike in building consent applications received in September-November. This has put pressure on the BCA and our ability to process applications in a timely manner. We are communicating with applicants and working closely with those who submit a large number of applications to ensure timeframes are met.

Following the capability and capacity review of the BCA, it is expected that a number of recommendations will be made that are likely to require funding. For example, potentially an upgrade to the software system currently being used and increase in staffing levels to cope with the extra demands being placed on the BCA.

An update report will be provided in February on the remaining GNCs being signed off as well as the recommendations of the capability and capacity review for consideration.

SIGNIFICANCE AND ENGAGEMENT ASSESSMENT

Assessment of significance


On every issue requiring a decision, Council is required to determine how significant a decision is to the community, and what the corresponding level of engagement should be.

Council uses the Significance Flowchart in the Significance and Engagement Policy to determine the level of significance.

The level of significance related to the decision in this report is considered to be low. Because the decision is determined to have low significance in accordance with the policy, the corresponding level of engagement required is Inform.

Assessment of engagement

As the level of significance has been determined to be low, the level of engagement required is Inform according to the Engagement Framework of the Significance and Engagement Policy:

	Inform	To provide balanced and objective information to assist understanding about something that is going to happen.
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The tools that council will use for the 'Inform' level of engagement include a report in the public agenda of the Council meeting and may include a combination of public notices in the newspaper and/or on Council's social media.

CONSIDERATIONS

Financial/budget considerations

None.

RECOMMENDATION:

- 1. That the report titled "Building Control Authority Accreditation Update" be received.

Gerard McCormack

GROUP MANAGER PLANNING AND REGULATORY

REPORT

Date : 2 December 2022

To : Risk and Assurance Committee Meeting, 12 December 2022

From : Interim Chief Executive Officer, Miles McConway

Subject : **RESOLUTION TO EXCLUDE THE PUBLIC**

SECTION 48 LOCAL GOVERNMENT OFFICIAL INFORMATION & MEETINGS ACT 1987

THAT the public be excluded from the following parts of the proceedings of this meeting, namely:

9. In-Committee Minutes – Risk and Assurance Committee Meeting 1 August 2022.

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 No	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
9.	In-Committee Minutes – Risk and Assurance Committee Meeting 1 August 2022	That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists.	Section 48(1)(a)

This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by section 6 or section 7 of that Act or section 6 or section 7 or section 9 of the Official Information Act 1982, as the case may require, which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public are as follows:

9.	Protect the privacy of natural persons Protect information (commercial sensitivity) Protection from improper pressure or harassment Carry out negotiations Prevent disclosure or use of official information	Section 7(2)(a) Section 7(2)(b)(ii) Section 7(2)(f)(ii) Section 7(2)(i) Section 7(2)(j)
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