



Rangitikei District Council

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Rangitikei
UNSPOILT...

Audit/Risk Committee Meeting

Order Paper

**Tuesday, 1 September 2015,
1.15 pm**

**Council Chamber, Rangitikei District Council
46 High Street, Marton**

Website: www.rangitikei.govt.nz

Email: info@rangitikei.govt.nz

Chair

Mr Craig O'Connell

Deputy Chair

Membership

His Worship the Mayor, Andy Watson and Councillors Nigel Belsham, Dean McManaway,
and Lynne Sheridan

Please Note: Items in this agenda may be subject to amendments or withdrawal at the meeting. It is recommended therefore that items not be reported upon until after adoption by the Council. Reporters who do not attend the meeting are requested to seek confirmation of the agenda material or proceedings of the meeting from the Chief Executive prior to any media reports being filed.



Rangitikei District Council

Audit/Risk Committee Meeting

Order Paper – Tuesday 1 September 2015 – 1:15 p.m.

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At its meeting of 28 October 2010 Council resolved that 'The quorum at any meeting of a standing committee or sub-committee of the Council (including Te Roopu Ahi Kaa, the Community Committees, the Reserve Management Committees and the Rural Water Supply Management Sub-committees) is that required for a meeting of the local authority in SO 2.4.3 and 3.4.3.' These Standing Orders were confirmed for the 2013-16 triennium by Council on 31 October 2013.

The quorum for the Audit/Risk Committee is 3.

1 Council Prayer

2 Welcome and introduction from the Mayor

(In the Chair)

The Council's auditors will be in attendance at the meeting.

3 Apologies/Leave of Absence

4 Independent Chair's declaration and installation

I, Craig O'Connell, declare that I will faithfully and impartially, and according to the best of my skill and judgement, execute and perform, in the best interests of the Rangitikei District, the powers, authorities, and duties vested or imposed upon me as the Chair of the Audit/Risk Committee of the Rangitikei District Council by virtue of the Local Government Act 2002, the Local Government Official Information and Meetings Act 1987, or any other Act.

Mr O'Connell takes the Chair.

5 Confirmation of order of business

That, taking into account the explanation provided why the item is not on the meeting agenda and why the discussion of the item cannot be delayed until a subsequent meeting,be dealt with as a late item at this meeting.

6 Review of the Committee's terms of reference

File: 3-OR-3-4

The terms of reference as approved by Council at its meeting on 31 July 2014 are attached.

Recommendation

That the Audit/Risk Committee recommends to Council that the Committee's approved terms of reference are EITHER sufficient OR would benefit from the following amendment(s).....

7 Managing the Council's risk

File: 5-PO-1

A report is attached

Recommendations

1. That the report 'Managing the Council's risks' be received.
2. That a revised risk management policy be provided to the next meeting of the Audit/Risk Committee taking into account the following points:.....
3. That a revised risk management framework be provided to the next meeting of the Audit/Risk Committee, taking into account
 - a. the Committee's perspective on tables 1 and 2 in the risk management policy,
 - b. the forecasting assumptions included in the 2015/25 Long term Plan
 - c. closer definition of likelihood, consequence and effectiveness of current controls and systems, and
 - d. the following points:.....

8 Audit for 2014/15

File: 5-EX-2-4; 5-FR-1

The interim management report from the Council's auditors is attached. The proposed management responses will be tabled at the meeting.

Also attached is an extract from the draft 2014/15 Annual Report:

- Whole of Council – Funding Impact Statement
- Statement of Comprehensive Revenue and Expense
- Statement of Changes in Net Assets/Equity
- Statement of Financial Position
- Statement of Cashflows
- Part of Note 14: *Roading impairment*

Also attached is the draft arrangements letter from Audit New Zealand for the 2014/15 audit.

Recommendations

1. That the Interim management audit report for 2014/15 and draft management responses be received.
2. That the Audit/Risk Committee

EITHER endorses the proposed responses to the interim management report from the Council's auditors for 2014/15

OR requests further consideration be given to the following matters before finalising the Council's response to the interim management report from the Council's auditors for 2014/15

3. That the draft arrangements letter for the 2014/15 audit be received.

9 Audit management report on the 2015/25 Long Term Plan

File: 5-EX-2-4

The audit management report from the Council's auditors is attached. The proposed responses are included.

Recommendations

1. That the audit management report on the 2015/25 Long Term Plan be received.
2. That the Audit/Risk Committee

EITHER endorses the proposed responses to the audit management report on the 2015/25 Long Term Plan, and requests an update to the Committee's first meeting in 2016 on progress with committed actions.

OR requests further consideration be given to the following matters before finalising the Council's response to the audit management report on the 2015/25 Long Term Plan, requests a copy of the final response to the Committee's next meeting, and requests an update to the Committee's first meeting in 2016 on progress with committed actions.

10 Legal compliance monitoring project

File ref: 5-PY-1

An overview is attached, together with the recent studies on enforcement and alcohol regulation.

Recommendation

That the Legal Compliance Project Report be received.

11 Agenda planning

Having regard to the terms of reference, the Committee is asked to identify up to five topics it wishes to consider during the next twelve months.

Recommendation

That in addition to monitoring the Council's approach to risk and considering reports from the Council's auditors, the key topics for the Assets/Risk Committee until the end of 2016 are

and the Committee requests that the Chief Executive arrange preparation of briefing papers for these topics, one for each meeting.

12 Late items

13 Future items for the agenda

14 Next meeting

to be determined

15 Meeting closed

Draft

Attachment 1

	Audit/Risk
Chair	Craig O'Connell (Independent Member)
Purpose	To ensure probity in the management of Council's operations and its assets and a close regard for minimising risk
Outcomes <i>The Council and the community are confident that.....</i>	<ul style="list-style-type: none"> the Council's financial operations and the delivery of Council services – <ul style="list-style-type: none"> (i) comply with all relevant legislation, regulations and standards; and (ii) comply with Council's own policy. the relationship with Council's auditors and other external agencies undertaking monitoring of Council's performance is meaningful and open the risks to Council's effective management and its reputation are well understood and addressed.
Terms of reference	<ol style="list-style-type: none"> Review of the draft Annual Report prior to adoption Review of management reports provided by Council's auditors Review of audits conducted by New Zealand Transport Agency Review of assessment reports on Council's role as a Building Consent Authority Review of reporting to external agencies required by statutory instrument¹ Review of variations from Council's policies on investment, liability management and procurement Review of project management reporting Review of joint venture proposals Quarterly monitoring of financial performance Quarterly monitoring of service performance Monitoring of hazard management Monitoring of any undertakings made in response to the exercise of any Ministerial assistance or intervention² Oversight of the Council's treasury function Oversight of the periodic valuation of Council's assets Oversight of Council's insurance arrangements Oversight of internal audit projects (through MW LASS) Oversight of shared services with other councils Oversight of corporate policies which identify unethical, questionable or illegal activities Oversight of risk management framework and actions to reduce risk

Adopted by Council resolution, 31 July 2014

¹ For example, reporting to the Ministry for the Environment under the National Monitoring System or to Archives New Zealand under the Public Records Act.

² Part 10, Local Government Act 2002.

Attachment 2

REPORT

SUBJECT: **Managing the Council's risks**

TO: Audit/Risk Committee

FROM: Michael Hodder, Community Services Group Manager

DATE: 26 August 2015

FILE: 3-PO-1

1 Background

1.1 In the workshop which Philip Jones facilitated for Council on 8 June 2015, the principles of risk management and the potential role for the Committee in monitoring risk was a major focus. He suggested three key points for understanding the scope of risk management:

- Risk management involves consideration of all the activities and parts of an organisation – i.e. processes, structures and culture;
- Risk is concerned with what has been done or being done and the lost opportunities of what has not been done;
- An effective risk management strategy is recognising and supporting accountability to its stakeholders – in particular its community for the stewardship of the community's resources.

1.2 A risk-aware culture needs to be fostered so that all Elected Members and staff ask difficult questions and there are avenues for feedback from Elected Members, staff and members of the community.

1.3 The role of the Audit/Risk Committee is four-fold:

- i. to recommend Council's approach to risk, which will be defined through its risk management policy and framework to identify, assess and address significant risks which Council has a reasonable chance of mitigating;
- ii. to be informed of the measures that Council management is taking in relation to significant risks;
- iii. to ensure that the Council has appropriate processes for identifying, assessing and responding to risks (in accordance with its approach to risk) and that those processes are operating effectively; and

- iv. to ensure that the Council's activities are effectively controlled so that management's risk responses and policies are carried out as planned towards the achievement of Council's objectives.

- 1.4 The key partner in monitoring Council's approach to risk are Council's external auditors (Audit New Zealand) and, by implication, the Office of the Auditor-General. In addition, Council has access (through MW LASS) to a shared internal audit capability, which provides an additional, useful perspective on the effectiveness of Council's risk management systems and a potential resource to review particular policies and processes.

2 Current situation

- 2.1 The Council first adopted a risk management policy and framework in July 2009, based on an analysis of generic risks facing all local authorities in New Zealand. These cover governance, business risks, legal compliance (and liabilities), built assets, human resources, information systems, and financial risk management. The policy contained a provisional analysis of tolerance levels for consequence and likelihood, which combined enable a hierarchy of risks to be defined in a matrix.

		Likelihood				
		Almost certain	Likely	Possible	Unlikely	Rare
Consequences or Impact	Catastrophic	Extreme	Extreme	Extreme	High	High
	Major	Extreme	Extreme	High	High	Moderate
	Moderate	Extreme	Extreme	High	Moderate	Low
	Minor	Extreme	High	Moderate	Low	Low
	Insignificant	High	High	Moderate	Low	Low

The analysis of each of the generic risks sought to identify those areas of risk which Council considered unacceptable, and which could be reduced by specific actions taken by staff. The development of such actions has been led by the Chief Executive, through the Management Team.

- 2.2 The policy is attached as [Appendix 1](#), the framework as [Appendix 2](#), and the risk matrix as [Appendix 3](#).
- 2.3 Since June 2009 the framework has been reviewed twice following consideration of a working group comprising elected members and staff. The last review was in June 2013. The next review would ordinarily have been done for June 2015, but was postponed to allow direction from the Audit/Risk Committee.
- 2.4 In between the biennial reviews, half-yearly reports are provided to the relevant Council committee highlighting actions taken to reduce risk in the identified areas of concern (and the impact on the level of risk that these actions have had). The half-year update to June 2015 is attached as [Appendix 4](#).

3 Reviewing the current approach to risk

3.1 The policy has not been reviewed since adopted in 2009. Putting aside the reference to the Strategic Planning & Policy Committee, does this policy still provide the appropriate guidance on the Council's approach to risk? For example, there is no specific mention of

- changes in government policy and statutory requirements;
- alertness to circumstances or situations which may allow fraud,
- higher interest rates for borrowing;
- avoiding poor cash flow and debtor management; or
- reputational risk (as highlighted recently by Local Government New Zealand's study).

As table 1 is the foundation for the framework and identification of risks, it would be helpful for the Committee to consider whether any modification is needed to reflect the current operational environment for the Council.¹ For example, should 'Amalgamation or structured collaboration' be added into Governance. Table 2 has not fully defined the range of tolerances for the different levels of consequence or impact.

3.2 Taking into account discussion and agreement on the policy (however it is to be amended), an initial perspective from the Committee on the framework would be helpful in preparing a revision for more detailed consideration at the Committee's next meeting.

3.3 One useful perspective on the framework comes from the assumptions developed for the 2015/25 Long Term Plan. The significant forecasting assumptions include an assessment of risk presented by each (and the level of uncertainty in respect of the Long term Plan). These are attached as [Appendix 5a](#). These are typically more specific than the areas of risk identified in the policy (and framework) but – where medium or high uncertainty is noted – alignment with the systems and processes will give a more informed view of the present risk. For example, risk area 2.8 (Resource base does not meet community needs) should take into account the assumptions around resource consents, government funding for local roads and the continued subsidy of rates for low-income residential ratepayers. In addition, there are longer-term assumptions included (as a statutory requirement) for the thirty-year infrastructure. In this case, the analysis is over the confidence about each assumption, but there are implied risks in this – particularly in lost opportunities. This table is attached as [Appendix 5b](#).

¹ There have been additions already: 2.10 Populations projections are incorrect and 2.11 Shared Services falters and/or leads to higher costs for equivalent services.

- 3.4 A second useful perspective comes from considering how other local authorities approach risk management. As an example, the risk management strategy developed by the Lismore City Council is attached as Appendix 6. While this is a policy and methodology statement (and not showing that Council's identification and evaluation of specific risk areas and actions being taken), it is a potentially useful reference for the Committee's review. It has given close attention to both likelihood and consequence and includes control effectiveness ratings which allows more objectivity in the assessment of how present systems and practices reduce risks,

4 Recommendations

- 4.1 That the report 'Managing the Council's risks' be received.
- 4.2 That a revised risk management policy be provided to the next meeting of the Audit/Risk Committee taking into account the following points:.....
- 4.3 That a revised risk management framework be provided to the next meeting of the Audit/Risk Committee, taking into account
- a. the Committee's perspective on tables 1 and 2 in the risk management policy,
 - b. the forecasting assumptions included in the 2015/25 Long term Plan
 - c. closer definition of likelihood, consequence and effectiveness of current controls and systems, and
 - d. the following points:.....

Michael Hodder
Community & Regulatory Services Group Manager

Appendix 1

Risk management framework for the Rangitikei District Council¹

1. Council policy

- 1.1. Rangitikei District Council faces a range of business risks inherent in the functions of being a local authority. The Council's objective is to integrate risk management practices and procedures that are targeted to (and appropriate for) Council's strategic and operational goals and also appropriate for Council's business functions. So, Council is committed to the identification, evaluation, prioritisation and management of these risks, in order to:
 - reduce, mitigate, transfer or eliminate threats,
 - allow for the most effective use of resources,
 - protect Council's corporate image and reputation as a responsible and ethical organisation, and
 - exploit opportunities.
- 1.2. Fundamental to achieving this policy is a risk management culture which emphasises the importance of:
 - acquiring and maintaining relevant information required to make sound decisions;
 - consulting with and communicating with all parts of the Council, including Elected Members;
 - having business continuity plans to minimise disruption to services;
 - ensuring robust monitoring of critical measures of success;
 - reporting and investigating all incidents, hazards and complaints;
 - encouraging Elected Members, Council staff, volunteers, contractors and the community in general to work together to create a safe environment and preserve Council's assets for future generations;
 - accepting that continuous service improvements will inevitably require innovative solutions that bring with them certain risks; and
 - responding to a dynamic risk management environment with evolving issues driven by political, legal, financial, operational, cultural, technological and climatic factors.
- 1.3. Council bases its risk management framework on AS/NZS ISO 31000:2009 which defines risk as 'the effect of uncertainty on objectives', often expressed in terms of the consequences of an event and the associated likelihood of occurrence.

¹ Adopted at Finance Committee, 9 July 2009 (09/FIN/017). Updated to reflect (a) the Joint Australian New Zealand International Standard AS/NZS 31000:2009, which superseded AS/NZS 4360:2004 and (b) the assignment of the oversight role to the Strategic Planning & Policy Committee.

2. Implementation

- 2.1 Managing risk depends on
- (a) understanding of the nature and level of the Council's risks,
 - (b) evaluating the significance of each risk, and
 - (c) treating, monitoring and reviewing risk.
- 2.2 Council identifies its risk in terms of governance, business risks, legal compliance, built assets, human resources, information systems and financial management, as listed in Table 1.
- 2.3 Assessment, evaluation and prioritisation of these risks will be considered by the Strategic Planning & Policy Committee on an annual basis, each July, on the basis of a report covering the following:
- All identified risks will be assessed in terms of consequence and likelihood, in accordance with the tolerance levels listed in Table 2.
 - This assessment will be evaluated in two ways – (firstly) on the assumption that no controls exist in the Council's environment and (secondly) with the controls in place at the time of the assessment.
 - Recommendations on where the level of risk is considered unacceptable, and the priorities for the coming year.
 - The proposed additional operational policies or procedures to be developed during that year.
- 2.4 Progress with that work programme agreed by the Strategic Planning & Policy Committee will be reported to that Committee on a six-monthly basis, together with commentary on changes in the risk management environment.
- 2.5 The assignment of responsibilities for implementing the framework is for the Chief Executive to determine.

Table 1 Risks to Rangitikei District Council

- 1 Governance**
 - 1.1 Conflicts of interest of Council members
 - 1.2 Council members do not fulfil their roles and responsibilities
 - 1.3 Inappropriate behaviour of Council members
 - 1.4 Inadequate governance systems and procedures
 - 1.5 Relevant information not reported to Council
 - 1.6 Pursuing inappropriate business strategies
 - 1.7 Needs of stakeholders are not met
 - 1.8 Appointment of inappropriate Chief Executive
 - 1.9 Relationship between Chief Executive and Council not effective
 - 1.10 Ineffective Council leadership
 - 1.11 Not giving effect to the Treaty of Waitangi
 - 1.12 Actions of Chief Executive do not meet required standard
- 2 Business risks**
 - 2.1 Customer confidence eroded
 - 2.2 Exposure to Council following poor tender process
 - 2.3 Exposure to Council due to poor contract management process
 - 2.4 Actions and/or advice resulting in adverse effects on person or property
 - 2.5 Exposure to Council due to related entity performance
 - 2.6 Inability to recover/continue business following disaster
 - 2.7 Relationships with Maori (including Iwi) deteriorate
 - 2.8 Resource base does not meet community needs
 - 2.9 Business objectives not met
- 3 Legal compliance**
 - 3.1 Exposure to Council following negligent advice
 - 3.2 Not complying with relevant legislation
 - 3.3 Proper consultation not followed
- 4 Built assets**
 - 4.1 Inability to provide services to stakeholders following damage to assets
 - 4.2 Adverse impact from failure to assess risks to assets
 - 4.3 Poor asset design/maintenance resulting in potential safety and/or environmental issues
 - 4.4 Poor management of assets
- 5 Human resources**
 - 5.1 Breach of health and safety requirements
 - 5.2 Unsuitable staff
 - 5.3 Poor employee performance
 - 5.4 Poor communication
 - 5.5 Industrial action occurring
 - 5.6 Loss of corporate or tacit knowledge
- 6 Information systems**
 - 6.1 Poor information management
 - 6.2 Breaches of information security
 - 6.3 Information system does not adequately support organisational needs
- 7 Financial management**
 - 7.1 Misuse of funds
 - 7.2 Qualified audit report
 - 7.3 Financial exposure in the event of a loss or disaster
 - 7.4 Exposure to Council from entities in which Council has a financial interest

Table 2	Tolerance levels for consequence and likelihood					
Consequence						
	Death or injury	Service	Environment	Compliance, corporate governance, information	Financial performance	Community & political
Catastrophic	Numerous deaths. Triage fails	Loss of service (water, sewage) to majority of customers. % and no of days to be determined	Unauthorised discharge resulting in substantial and protracted breach of environmental requirements	Ministerial dismissal of Council. Irrecoverable loss of business-critical information	Substantial increase in rates due to single unplanned loss (greater than \$5 million)	<i>Not attempted - no reasonable experience of what would escalate to become catastrophic</i>
Major	Repeat deaths. Same cause on two or more occasions. Contributing factors and process to be investigated	Loss of service to majority of customers in one network for greater than [x] days - number to be determined	Unauthorised discharge results in serious environmental; breach. Serious and long-term environmental damage.	Ministerial censure. Breach of statutory obligations leading to conviction. Negative coverage of Council governance by national media. Major audit qualification resulting from widespread failure in controls. Loss of business-critical information for more than 48 hours. Widespread access to confidential records.	\$1 to \$5 million unplanned loss	Resignation of Councillors or senior staff. Widespread public protest against Council. Delegations to the Minister.
Moderate	Fatality due to single event. Serious widespread illness.	Loss of service to majority of customers [x] to [y] days (to be determined).	Unauthorised discharge - serious event - clear-up takes weeks.	Negative coverage of Council governance by media. Breach of statutory or regulatory obligations not leading to conviction. Loss of access to business-critical information for more than 24 hours.	\$100,000 to \$1 million unplanned loss.	Failure to implement legislation. Letter of complaint to Minister resulting in 'please explain' from Minister to Council. Negative coverage of Council policy and performance by national media.
Minor	Breach of legislation (OSH) or injury.	Unplanned loss of service to [xx] or more customers for periods between [yy] in days and zz hours (to be determined)	Failure or repeated failure (event cleared up in days)	Audit qualification. Loss of access to business-critical information for less than 24 hours. Critical breach of information security (e.g. confidential records).	Over \$5,000 and less than \$100,000 unplanned loss.	Failure to implement Council policy. Letter from Ombudsman. Letters of complaint to Council/Chief Executive. Negative coverage of Council policy and performance by local media.
Insignificant	Potential minor injury or effects of staff using poor work practices (non-serious harm).	Exceeding response times set out in AMPs [to be determined]	Occasional failure to meet resource consent requirements - review after set interval.	Administrative breach. Non-critical breach or loss of information security.	Up to \$5,000 unplanned loss.	Letters of complaint to managers

Appendix 2

Risks to Rangitikei District Council: framework proposed to Strategic Planning & Policy Committee, 27 June 2013

Changes from 2011 framework noted in red

Consequence and likelihood

RAW RISK

PRESENT RISK

PRESENT SYSTEMS AND
PROCESSES

Accept
risk

Proposed actions

1. Governance

1.1	Conflicts of interest of Council members	C2	B3	Induction process after each triennial election; Register maintained by Executive Officer, EM knowledge of one another's interests; noted in Elected Members Handbook; on agenda for every Council meeting	yes	
1.2	Council members do not fulfil their roles and responsibilities	C1	B1	Peer pressure; Mayor's oversight	yes	
1.3	Inappropriate behaviours of Council members	D4	B1	Code of Conduct; peer pressure	yes	
1.4	Inadequate governance systems and procedures	D3	C2	Internal reviews by Elected Members; Use of Model Standing Orders; Elected Members Handbook; participation in LGNZ training; ability to get clarification from the Chief Executive.	yes	
1.5	Relevant information not reported to Council	E2	D4	Mayor's and Chief Executive's reports to monthly meetings of Council and Strategic Planning & Policy Committee (and informal updates); bi-monthly activity reports; LGNZ sector briefings	yes	

1.6.	Pursuing inappropriate business strategies	D4	C3 Risk would change if Council decided to proceed with a project under the Irrigation Acceleration Fund	Cost benefit analysis; Consideration of community support and external funding; Investment policy - and reporting of any non-compliance through quarterly reports to Strategic Planning & Policy Committee. External advice, e.g. from Horizons, Ministry of Primary Industries.	yes
1.7	Needs of stakeholders are not met	D1	C2	Statutory consultation and decision-making requirements; annual survey of community stakeholders and partnership organisations; Council blog.	yes
1.8	Appointment of inappropriate Chief Executive	D5	B3	External consultant typically used to guide the recruitment process	yes
1.9	Relationship between Chief Executive and Council not effective	D5	B3	Performance management process with guidance from external consultant	yes
1.10	Ineffective Council leadership	D4	C2	Clear vision and targets set through the Long Term Plan and Annual Plan processes and monitored during the year' renewed policy framework; commitment to collective decision-making.	yes

1.11	Not giving effect to legislation concerning the Treaty of Waitangi	D4	B3	Te Roopu Ahi Kaa; Policy on development of Maori capacity to contribute to Council decision-making	yes
1.12	Actions of Chief Executive do not meet required standard	D5	B3	Performance management process with guidance from external consultant	yes

2. Business risks

2.1	Customer service eroded (<i>changes in expectations under/over-estimated</i>)	E2	C3	Monitoring of levels of service and specific requests for service; mystery shopping; annual stakeholder survey ; ad hoc surveys.	yes	
2.2	Exposure to Council following poor tender process	E2	D4	Procurement policy aligned to NZTA guidelines and accepted by Council's auditors; Shared Services through Manawatu District brings higher expertise to tendering processes	no	A review of the procurement policy (in conjunction with that in Manawatu District) is planned during 2013.
2.3	Exposure to Council following poor contract management process	E2	D4	Audits with contractors; monthly meetings; referral back to asset management plans.	no	
2.4	Action, inaction and/or advice resulting in adverse effects on person or property	E2	C3	Timely information flows within the organisation and early access to legal advice where potentially necessary.	no	

2.5	Exposure to Council due to related entity performance	B3	D4	Council's only commitment to a CCO (MW LASS Ltd) is in conjunction with other local authorities within the Horizons region. However, as a member of LAPP, Council has exposure in terms of earthquake contingencies.	yes	
2.6	Inability to recover/continue business following disaster	D6	D4	Experience in the 2004 and 2006 emergencies showed the Council was able to continue business. Vulnerabilities, especially around IT, are being addressed through the CommVault project. However, Council currently lacks a dedicated fibre connexion to its Marton and Taihape offices.	no	

2.7	Relationship with Maori deteriorate	D4	C3	Examples are the Memorandum of Understanding - Tutohinga, Te Roopu Ahi Kaa (with its renewed focus on the strategic plan); Ratana Community Board; specific engagement with Iwi - Ngati Apa in the Community Partnership Project; Ngati Whitikaupeka in the Taihape Memorial Park Reserve Management plan and the current piloting of a Maori Community Development Project with the Otaihape Maori Komiti.	
2.8	Resource base does not meet community needs	E3 Higher raw risk reflects tightening parameters on central government funding to local councils.	D3	Advocacy to central government for continued accessibility to a realistic level of funding outside rates (roading in particular, but also community development initiatives). Maximise use of volunteers	no

2.9	Business objectives not met	D3	D3	Monthly monitoring of the annual capital programme; Progressive reviews during (and at the end of) the year of progress with non-financial objectives in the Long Term Plan/Annual Plan. Commentaries in the bi-monthly activity reports provided to Elected Members (and publicly available).	no	
2.10	<i>Population projections are incorrect</i>	C3	B1	Updated estimated annual population from Statistics New Zealand are monitored.	yes	
2.11	<i>Shared Services falters and/or leads to higher costs for equivalent services</i>	D7	D4	Signed MoU between Rangitikei and Manawatu (three months notice); a dispersed risk through agreements with other councils (e.g. the regional LASS); formal and informal meetings by Elected Members and Chief Executive with counterparts in the other councils.	no	Review in progress

3. Legal compliance

3.1	Exposure to Council following negligent advice	D5	C3	Chief Executive monitoring of all advice provided to Council.	yes	
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3.2	Not complying with relevant legislation	D3	B3	Sector-wide sharing of new requirements; SOLGM legal compliance modules; External compliance reviews - liquor licensing, resource consents, leases. Management updates and reviews	yes
3.3	Proper consultation not followed	D3	C2	Awareness of and use of statutory consultation processes	yes

4. Built assets

4.1	Inability to provide services to stakeholders following damage to assets			Relationship with suppliers [for availability of parts; work to uniformity] and neighbouring councils. Dependent on continuity of IT systems (see 2.6)	
	a. Storms and floods	D4	C3	Experience in the 2004 and 2006 storm and flood emergencies showed the Council was able to continue business. Some redundancies in infrastructure. A component of asset management plans	yes
	b. Earthquakes	D8	D8	Resilience after a destructive earthquake has not been specifically considered or tested. See 2.6 above.	yes

4.2	Adverse impact from failure to assess risks to assets:	D7	D4	Expertise from Shared Services with Manawatu on Assets staff, and improving Asset Management Plans (and monitoring of these); arrangements with neighbouring authorities to cover prolonged staff absence (and also local contractors with Utilities).	yes	
4.3	Poor asset design/maintenance resulting in potential safety and/or environmental issues			Expertise from Shared Services with Manawatu on Assets staff, and improving Asset Management Plans (and monitoring of these)		
	a. Water	D5	D5	Close liaison with Horizons in planning upgrades	yes	
	b. Waste-water	D7	D5	Close liaison with Horizons in planning upgrades	yes	
	c. Buildings	D7	D5	Health and safety audits	yes	

	d. Recreational facilities	D3	D3	Poolsafe accreditation	yes
4.4	Poor management of assets	E2	C3	Periodically updated Asset Management Plans and their interaction with the Long Term Plan and Annual Plan processes	yes

5. Human resources

5.1	Breach of health and safety requirements	D4	C2	Organisation-wide health and safety policy, monitored periodically.	yes
5.2	Staff are unsuitable or unavailable	D4	C2	Shared Services with Manawatu provides a more competitive recruiting arena; formal interviews always associated with referee checks; recognition that there are a large number of 'unique' roles and the need to ensure performance of time-critical functions.	yes

5.3	Poor employee performance	D3	C3	Performance management system (refined in conjunction with developing the 'Rangitikei Road trip') and actions from the Investors in people survey and feedback.	yes	
5.4	Poor communication	D4	C3	Monthly staff meetings; bi-monthly corporate management meetings; team and section meetings; ICT Steering Group Intranet	yes	
5.5	Industrial action occurring	C3	B3	Low union membership; strong team leaders keeping pulse of the organisation.	yes	
5.6	Loss of corporate or tacit knowledge	E3	D4	Upgrades to corporate record-keeping and documentation of policies, procedures applicable to particular roles. Induction an opportunity to explain protocols.	no	Succession planning to be added to systems to reduce this risk.

6. Information systems

6.1	Poor information management	E2	D4	Implementation of SharePoint as corporate information system alongside several other business systems, especially NCS.	no	
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6.2	Breaches of information security	D4	B3	(External) Industry good practice in terms of firewalls; (Internal) restrictions on access to confidential records; automated monitoring of staff access into SharePoint (and deletion of records); review of access rights into NCS; policies in staff handbook	yes
6.3	Information system does not adequately support organisational needs	D3	B3	ICT Steering Group helps identify ways to better align information systems with business needs across the organisation	yes

7. Financial management

7.1	Misuse of funds	C3	B4	Fraud procedure and small size of organisation. Separation of duties. Finance undertakes monthly review of where higher than budgeted expenditure is occurring and mystery shopping at those locations where cash handling may provide opportunities for fraud.	yes
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7.2	Qualified audit report	D3	B4	Use of sector good practice guides; working relationship with auditors to secure early identification of any problems	yes	
7.3	Financial exposure in the event of a loss or disaster	E4	D7	Insurance and likely central government support. However, there is currently uncertainty over affordable cover for below-ground assets following the exhaustion of LAPP with the two Christchurch earthquakes.	no	
7.4	Exposure to Council from entities in which Council has a financial interest	B4	C3	Those mentioned in 2.5.	yes	

Italics denotes risks additional to those identified as generic for all local councils

Appendix 3

Risk matrix

		Likelihood				
		Almost certain	Likely	Possible	Unlikely	Rare
Consequences or Impact	Catastrophic	Extreme	Extreme	Extreme	High	High
	Major	Extreme	Extreme	High	High	Moderate
	Moderate	Extreme	Extreme	High	Moderate	Low
	Minor	Extreme	High	Moderate	Low	Low
	Insignificant	High	High	Moderate	Low	Low

		Likelihood				
		Almost certain	Likely	Possible	Unlikely	Rare
Consequences or Impact	Catastrophic	E8	E7	E5	D8	D6
	Major	E6	E4	D7	D5	C4
	Moderate	E3	E2	D4	C3	B4
	Minor	E1	D3	C2	B3	B2
	Insignificant	D2	D1	C1	B1	A

Appendix 4

Actions from risk management framework (revised June 2013)

		What will be done?	Progress to 30 June 2015
2.2	Exposure to Council following poor tender process June 2013 D4 Dec 2013 D4 June 2014..... D4 Dec 2014..... D4 June 2015.....D4	Provision of training on new procurement policy ¹ provided to relevant staff Independent review of purchasing and procurement processes Preferred suppliers Review of tender documents for contracts with whole of life exceeding \$1 million with Management Team	Training scheduled for July-budget holders in August 2014. Completed December 2014 (by MW LASS Internal Auditor). These were identified and uploaded to Tenderlink. As required. New roading contract developed across three councils.
2.3	Exposure to Council following poor contract management processes June 2013 D4 Dec 2013 D4 June 2014..... D4 Dec 2014..... D4 June 2015.....D4	Reports to Management Team following monthly performance review of Council's major contracts, noting specifically: <ul style="list-style-type: none"> • Extent of variations proposed and accepted • Application of penalties/deductions Extend monthly commentary on variances to major contracts to highlight favourable/unfavourable performance.	Continuing comprehensive scrutiny on monthly statements from Parks & Town Maintenance Contract (ends 31 July 2015). Administration of roading contract in line with NZTA requirements. Not yet implemented in the monthly activity reporting template.
2.4	Action/inaction and/or advice resulting in adverse effects on person or property June 2013 C3 Dec 2013 C3 June 2014..... C3 Dec 2014..... C3 June 2015.....C3	Reports to Management Team on any legal action proposed or legal advice sought Ensure follow-up of overdue requests for service or correspondence	As required. Monthly follow-up to check any such overdue requests.

¹ Adopted by Council on 27 March 2014

		What will be done?	Progress to 31 June 2015
2.6	<p>Inability to recover/continue business following disaster²</p> <p>June 2013 D4 Dec 2013 D4 June 2014.....E2 (up) Dec 2014.....E2 June 2015.....D4 (down)</p>	<p>Develop more detailed provisions in the business continuity plan to clarify where and how Council will continue its business³</p> <p>Cover for underground infrastructure</p> <p>Ensure testing of CommVault and back-up tapes</p>	<p>Yet to be done. However, Council was able to continue its normal business operations after the 20-21 June 2015 rainfall event (for which a local State of Emergency was declared) while ensuring some dedicated staffing for recovery operations.</p> <p>Following the final decision on the Funding Assistance Rate for roading, Council's adopted 2015/25 Long Term Plan increased the roading reserve from \$1.5 million to \$2.5 million.</p> <p>This was secured for 2014/15 through LAPP.</p> <p>A full system restore has not been done; however, the Commvault procedure provides for media refresh of data tapes after no more than 12 months. Tapes retrieved on request have all proved satisfactory.</p>
2.8	<p>Resource base does not meet community needs</p> <p>June 2013 D3 Dec 2013 E2 (up) June 2014.....E2 Dec 2014.....E2 June 2015.... E2</p>	<p>Advocacy to central government –</p> <ol style="list-style-type: none"> 1. Roding 2. Water infrastructure 3. Community development 	<p>Uncertain implications for ratepayers from the altered co-investment for emergency road works.</p> <p>Funding proposed new town centres requires substantial external funding to proceed.</p> <p>Changes in compliance requirements for drinking water, wastewater and stormwater will bring additional costs.</p>

² Included in capability assessment conducted by MCDEM, January 2015.

³ Include consideration of Taihape Wanganui and Feilding as alternative sites, as well as off-site access for staff. Weekly back-up tapes are now stored in Palmerston North.

		What will be done?	Progress to 30 June 2015
2.9	<p>Business objectives not met</p> <p>June 2013 D3 Dec 2013 C2 (down) June 2014 C2 Dec 2014.....C2 June 2015.....C2</p>	<p>Monthly monitoring report to Council of the annual capital programme</p> <p>Progressive reviews on progress with non-financial objectives</p> <p>Highlight progress in bi-monthly activity reports</p>	<p>Implemented as part of new Committee structure. Relevant information extracted and provided to each Community Committee and Community Board.</p> <p>Monthly reporting template developed for use by each group of activities from January 2014</p> <p>These reports have ceased, being replaced by the monthly reports noted above and associated commentary.</p>
2.11	<p>Shared Services falters and/leads to high costs for equivalent services</p> <p>June 2013D4 Dec 2013 C3 June 2014.....D4 (up) Dec 2014.....C3 (down) June 2015.....C3</p>	<p>Further consideration of 'Health check' over shared services with Manawatu for the infrastructure group</p> <p>Review of existing arrangements over emergency management (Horizons) and animal control (Manawatu)</p> <p>Evaluation by Management Team of new proposals, either through the LASS or with one or more other councils</p>	<p>Review has proceeded to agreement by both councils to examine (through joint working parties) the feasibility for forming a CCO for infrastructure services. This satisfies the requirements in section 17A Local Government Act 2002.</p> <p>Quarterly reviews of the new animal control agreement (providing services to Manawatu) Further review of emergency management (incorporating rural fire) postponed until Government decides on the comprehensive review for all fire services (including volunteer rural fire services).</p> <p>No new proposals. Ongoing collaboration with building control authorities in the Horizons region over common documentation processes.</p>

		What will be done?	Progress to 30 June 2015
5.6	<p>Loss of corporate or tacit knowledge</p> <p>June 2013 D4 Dec 2013 C2 (down) June 2014.....C2 Dec 2014.....C2 June 2015.....D4 (up)</p>	<p>Document key processes and ensure linkage with findings of legal compliance project</p> <p>Improve Intranet as a tool to help staff find information and procedures</p> <p>Implement succession planning</p>	<p>In progress.</p> <p>'Who does what' has been implemented for the Intranet. Update of Intranet delayed to allow focus on upgrade of website.</p> <p>Yet to be done. Turnover in the Shared Services Infra-structures is high (compared with Rangitikei).</p>
6.1	<p>Poor information management</p> <p>June 2013 D4 Dec 2013 C3 (down) June 2014.....C3 Dec 2014.....C3 June 2015.....C3</p>	<p>Implement linkages between NCS and RAMM and AssetFinda, and between NCS and SharePoint</p> <p>Develop more robust and accessible budget and financial monitoring regime</p> <p>Implement systematic records disposal scheduling</p> <p>Review adequacy of current systems</p>	<p>Postponed because of other work with NCS Implementation of RAMM Contractor has improved data integrity in the ain database,</p> <p>Implementation of budgeting module incomplete (and could not be used for the Long term Plan). Project accounting is potentially the next phase.</p> <p>Under implementation.</p> <p>In progress.</p> <p>Note: Scanning and uploading of maps and plans from Rangitikei County Council (1882+) and aerial photographs (1942+) completed at Archives Central.</p>

		What will be done?	Progress to 30 June 2015
7.3	Financial exposure in the event of a loss or disaster	Active engagement with sector initiatives to secure adequate, affordable insurance	Discussions maintained, as one of the MW LASS projects.
	June 2013 D7 Dec 2013 D7 June 2014..... D7 Dec 2014..... D7 June 2015..... D7	Monthly monitoring by the Management Team of actions taken under the Liability Management Policy	Exception reporting.

COMMENTARY

1. In eight cases, the level of risk is considered not to have changed in the last six months. In five instances this is a reflection of continuing processes – as in 2.2 (tender process), 2.3 (contract management processes), 2.4 (adverse effects), 2.9 (business objectives), and 7.3 (financial exposure). The latter remains Council's highest exposure to risk. In an earlier update the removal of the contingent liability under the Local Authorities Protection Programme (LAPP) from 1 July 2014 means that there is no longer any exposure from major damage to below-ground infrastructure in *other* councils. However, more councils have withdrawn from LAPP in 2015/16, which may be a threat to its continuing viability.
2. Actions were taken in three cases, but the level of risk has been assessed as unchanged.
 - a. In 2.8 (resource base), the base roading Funding Assistance Rate (FAR) for Rangitikei has increased from 59% to 62% in 2015/16 and to 63% from 2016/17. However, the emergency FAR is normally capped at being an additional 20%, which would require ratepayer funding of at least \$3 million to cover the estimated cost of repairing roads after the June rainfall event. While the ratepayer contribution to the new Bulls multi-purpose community centre has been capped, there is some vulnerability from the substantial reliance on external funds.
 - b. In 2.11 (shared services), the review of the current arrangement for infrastructure concluded that it was worthwhile investigating the feasibility of forming a Council Controlled Organisation. This decision was reached before the Government's preference for greater formality in collaboration between local authorities had been made explicit.
 - c. In 6.1 (information management), there continued to be issues about creating the required records with NCS Chameleon (now MagiQ), for budget information as well as the requests for service system. However, records disposal scheduling

of SharePoint records has continued and about 3,000 maps, plans and aerial photographs were digitised.

3. One area of risk is considered to have decreased.

In 2.6 (business continuity), the Council's ability to maintain normal business following the 20-21 June 2015 rainfall event showed strong internal processes despite the lack of a formal business continuity plan.

- 4 One area of risk is considered to have increased

In 5.4 (corporate knowledge), the high turnover in the Shared Services Infrastructure resulted in considerable loss of knowledge of Council's networks, highlighting the lack of discussion about succession planning for such staff for both councils. On the other hand, these changes have resulted in a more rigorous approach to documentation.

26 August 2015

Appendix 5a

Significant Forecasting Assumptions

Bearing in mind the District overview, the strategic environment and current key issues, Council has developed a set of significant forecasting assumptions which underpin this LTP.

Forecasting assumption	Risk	Level of uncertainty (in respect of the LTP)	Reasons and Financial Effect of Uncertainty
1 Government			
That the current Territorial Authority boundaries are unchanged i.e. that Rangitikei District continues to be a separate administrative entity	A government drive towards amalgamation sets aside the normal processes for communities to determine the boundaries for their local government. The Council will waste time and money worrying about this	Medium	The local services provided by the Council will still need to be provided locally, so the cost of the service provision is unlikely to change significantly
That the regulatory functions assigned to local councils will not be centralised.	The government will centralise (or regionalise) some regulatory functions of local councils. Council invests resources to continue a function, or divests resources to discontinue a function, and the change does not proceed as planned.	Medium	There has been vacillation over these discussions. The impact on Council is that budget projections for such functions may prove to be inaccurate.
Levels of Service – Changes in government legislation and regulation will impact on assets development and operating costs and that Council has anticipated and/or planned for these changes.	That Council will overlook an important piece of regulation or legislation in its planning, or that the impact of new regulations/legislation has not been identified.	Low	Information circulated within the sector makes it unlikely that such an oversight would occur.

Forecasting assumption	Risk	Level of uncertainty (in respect of the LTP)	Reasons and Financial Effect of Uncertainty
Governance – the structure of the elected representation will not change from that adopted for the 2013 elections.	There is a review of representation required in 2018. Review will reduce councillor numbers and/or change ward boundaries and/or remove community boards in Taihape and Ratana and/or introduce community boards in other communities.	Low	Costs are unlikely to change significantly if councillor numbers change because of the mechanism whereby the Remuneration Authority determines salaries for elected members. Community boards generally increase the costs to the community it serves by up to \$25,000. Community Committees are voluntary and unpaid
That implementation of the Drinking Water Standards remains mandatory for the Council's water supply schemes	Council does not achieve compliance with its six urban water supply schemes by the amended prescribed dates. Financial penalties could be imposed, and a revised capital programme (i.e. adjusted priorities) or increased borrowing to enable the prescribed dates to be met	Low	Council has committed to an upgrade programme which will enable compliance to be gained by the prescribed times
That the rules established under the Emissions Trading Scheme will not change.	That the amount of acreage eligible for exemption or inclusion in the ETS changes to include/exclude Council.	Low	Council's forestry holdings are minor and carbon credits have been purchased for blocks declared deforested.
That there will be increasingly rigorous standards for earthquake strengthening of public buildings, particularly in the District's CBDs.	That the additional requirements to meet higher standards for earthquake proofing will require strengthening or demolition of many Council buildings, affect the viability of local businesses, cause a loss of heritage buildings and increase	High	An estimate undertaken in 2014 for Local Government New Zealand was a likely cost in the range of \$20 to \$35 million for Council-owned buildings. Detailed costings have been undertaken for the Taihape Town Hall

Section 3: What is the Long-Term Plan?

Forecasting assumption	Risk	Level of uncertainty (in respect of the LTP)	Reasons and Financial Effect of Uncertainty
	costs to the ratepayer, that central government does not respond positively to requests for a national approach to these costs.		and the Bulls Library: these totalled \$2.725 million. Council can budget for the strengthening of its major assets (or demolishing them and relocating operations to other safer premises or new ones) even though this would present major costs. However, the wider impact of across local businesses may expedite the decline of the main towns in the District.
Resource Consents – Conditions on Council's resource consents renewals will be met and all consents will be renewed.	That conditions on resource consents are changed to the point that the investment required from the community is too high/unaffordable. Council may face substantial fines (and even litigation) for continuing non-compliance. Investigations before a resource consent is granted may push upgrade costs beyond what has been budgeted	Low/ Medium	Council has committed to a capital programme which sets targets for compliance for all discharges. There is a strong co-operative working relationship between staff at Rangitikei and Horizons, essential to secure the most cost-effective technical solution for each site
NZTA will approve the programmes proposed for minor improvements and bridge replacements	The programmes will not be approved. This risk is greater for the proposed bridge replacement programme as these are deemed capital works by NZTA and are prioritised on a regional basis.	Low/ Medium	The projected rates requirement for the local share of either (or both) of these programmes will not be used.
The new criteria for emergency works will leave a funding shortfall despite the enhanced basic Funding Assistance Rate	Council will require greater ratepayer contribution to ensure the necessary emergency	High	Council has increased its flood damage roading reserve as a contingency against the

Forecasting assumption	Risk	Level of uncertainty (in respect of the LTP)	Reasons and Financial Effect of Uncertainty
(or 'FAR') from NZTA (62% in 2015/16 and 63% in subsequent years)	works. Note: the implications of the One Network Road Classification are not yet certain, but do not take effect until 2018/19.		shortfall from NZTA.
The Government subsidy of rates for ratepayers on low income will remain at current levels.	The Government reduces or abolishes this ratepayer subsidy.	Medium	The tight economic climate makes this subsidy vulnerable, particularly if it is viewed as a means by which local councils can set a higher level of rates than would otherwise be the case.
2 Demographics			
Population Change – The population of the District will decline in accordance with the medium projections from the Statistics NZ projections based on 2013 Census. This equates to a decline of 150 people in the five years to 2018 rising to 650 people in the five years 2038-2043	There is a possibility that the decline in population is substantially more than that projected by Statistics NZ. A smaller risk is that the District experiences a population increase over the ten-year period. This could mean over- or under-provision of facilities and services. A greater than expected population decline would increase pressure on remaining ratepayers.	Low	Previous projections from Statistics New Zealand have proved reasonably accurate for the Rangitikei.
Ageing population – The average age of the population of the District will continue to increase and this will impact upon the Level of Service in most activity areas.	The risk is that this age group leaves the District to establish themselves in larger service centres in anticipation of the need for services. Investment in upgrade or replacement of community facilities may prove to be mis-targeted.	Low	The ageing population trend is demonstrated over a substantial period and is reflected at the national level.

Section 3: What is the Long-Term Plan?

Forecasting assumption	Risk	Level of uncertainty (in respect of the LTP)	Reasons and Financial Effect of Uncertainty
That the community's resilience to recover from events such as natural disasters is adequate.	That the community is not able to respond to or recover from a major event. The current level of community resilience may be compromised by the severity and/or frequency of major events and by the declining and ageing nature of the local population. People may leave the District permanently, meaning a reduced ratepayer base.	Low/ Medium	Council has recognised the need to invest in activities that promote community cohesion and resilience, not least to ensure it is able to provide emergency management and rural fire services. The new community well-being Group of Activities attempts to focus on some of the factors affecting community resilience.
Numbers of households – the number of households will not decrease by more than 5%	The number of households decreases by more than 5%.	Low	Previous projections on household numbers in the Rangitikei have proved reasonably accurate.
Skills Shortage: There will be no significant impact on the Council's ability to deliver programmes and projects as a result of a skills shortage.	That there will be a problem in securing critical skills to keep the Council's planned activities on track.	Medium	The impact of rebuilding Christchurch on recruitment and retention of skilled staff and engaging contractors with proven competency is not yet clear. It may cause these costs to rise.
3 Physical and natural environment			
Climate change - An increasing number of storm events will mean greater damage to the roading network, heavier demand on stormwater systems and more call on staff and volunteers to be available for emergency	That severe storm events occur so frequently or so close to one another that Council is unable to fund all the necessary repairs in a reasonable time without breaching its liability management policy. Capital work on water and wastewater plants may be delayed and mean Council is non-compliant.	Low/ Medium	Storm events are occurring more frequently and erratically. Borrowing beyond the parameters in the Council's liability management policy could pose issues with prudent management.

Forecasting assumption	Risk	Level of uncertainty (in respect of the LTP)	Reasons and Financial Effect of Uncertainty
management and rural fire activities			
Fuel prices will rise in line with BERL projections¹ , allowing the present use of roads as the predominant mode of transport within the District for goods and people will continue to be viable.	Petrol and diesel could become increasingly unaffordable marginalising businesses (including farms) remote from the larger centres of population and access to rail. Agricultural production prices would rise. The ratepayer base could fall as a result.	Low	BERL estimates have been carefully researched. However, there has been a historical volatility to petroleum prices on the world market.
Natural Disasters – All natural disasters requiring emergency work will be funded out of normal operating budgets or reserves created for this purpose or (in the case of infrastructure) Council's insurance policies or government subsidies for emergency work on roads.	That there will be a major natural disaster requiring significant additional unbudgeted expenditure and financing. The present level of government subsidy for emergency roading works may be reduced. Council may not be able to obtain (or afford) insurance sufficient cover for its infrastructure assets. Currently Council is part of a mutual insurance scheme with the local assurance protection programme for below ground assets.	Medium	The timing and scope of natural disasters cannot be predicted. However, government subsidies and Council's own reserves provide some assurance that there will be sufficient funds for emergency work.
4 Financial environment			
Inflation – The financial information is based on inflation figures from 2016/17	That inflation (CPI) is greater than predicted or that operational costs do not vary in line with the	Medium	The current economic conditions mean such

¹ See extract from the BERL 2014 update on p.20. This reproduces Table 3 – Adjustors: % per annual change

Section 3: What is the Long-Term Plan?

Forecasting assumption	Risk	Level of uncertainty (in respect of the LTP)	Reasons and Financial Effect of Uncertainty
onwards using the BERL indices for inflation ² .	BERL estimates.		predictions are somewhat unreliable.
Interest – Interest on external borrowing is calculated at 5% for the first year 5% for the second year, 5.5% for the third year, 6% for the fourth and fifth years, and 7% thereafter. Interest on Council's few remaining investments is assumed to average 1% less than the rate for external debt.	That interest rates will change from those used (as researched by Council). Actual costs of external borrowing may be higher than projected. However, because Council borrows in tranches, the impact of higher rates will normally be small in comparison to the total interest being paid in any one year	Medium	The current economic conditions mean such predictions are somewhat unreliable. If interest rates increased (or decreased) by 1% in 2024/25 (the year of highest debt level in this Long Term Plan), total interest payable would increase (or decrease) by \$377,080 which represents 1.5% of the projected rates for 2014/15.
Revaluation of assets – for 2017, 2020 and 2023 for assets other than land and buildings are based on projections from BERL.	That the BERL estimates are greater or less than the actual rates of inflation for those assets.	Medium	BERL's estimates have been carefully researched – but they are made in an uncertain economic climate.
Revaluation of land and building assets –assumes no material change in the value of Council owned land and buildings over the term of this Plan.	That the assumption of no change in value of these assets over the period of the Plan is incorrect – the actual revaluation may be greater or less than this.	Low	The Rangitikei District is suffering declining population and over the last two district-wide revaluations of land and buildings there has been an overall reduction in values. In the Council's last revaluation of its land and buildings, the overall reduction on book values was 2.3%

² Figures used in this printed document have been calculated using the Forecasts of Price Level Change Adjustors produced by BERL

Forecasting assumption	Risk	Level of uncertainty (in respect of the LTP)	Reasons and Financial Effect of Uncertainty
Exit from forestry – that Council will divest its forestry assets except in cases where (re)forestation is required to protect catchment areas	That timber product commodity prices fall dramatically and Council is unable to divest itself of these assets in the short to medium term.	Low	The annual revaluation of forestry assumes that trees will be replanted at the same rate as those logged (so the value remains the same over the ten years). Whilst this is somewhat weather dependent, Council's decision to exit forestry means that it can choose the best conditions under which it will divest these assets.
Community and leisure assets and network utilities: that Council will progressively rationalise its assets in these areas in response to predicted population change and that it will have fewer assets after ten years than at present	That population change does not occur as predicted and so these assets are inadequate to meet the community need. That Council and communities are unable to decide how and which assets are to be rationalised.	Low/ Medium	Population change is increasingly well-documented and evidenced. Council has identified this as priority and so asset and activity management plans have been developed to meet changing needs.
Capital Works Contracts – There will be no variations in terms of price and performance of capital works programmes.	There is significant change in price levels of capital works programmes which may affect the affordability and/or level of service provided.	Low	Council's capital works contracts have tight provisions governing price variations.
That Council will be able to obtain collaboration contracts for roading allowing the Level of Service to be provided at constant prices three years at a time.	That the inflationary costs associated with roading cannot be absorbed into collaborative fixed price contracts and that there is unbudgeted expenditure associated with these inflationary increases.	Medium	The current economic conditions mean such predictions are somewhat unreliable.

Section 3: What is the Long-Term Plan?

Forecasting assumption	Risk	Level of uncertainty (in respect of the LTP)	Reasons and Financial Effect of Uncertainty
That increases in prices for roading will align with the NZTA 2.5% inflation factor on a three yearly.	That the NZTA inflation factor is insufficient to cover the real inflationary costs associated with and that there is unbudgeted expenditure associated with these inflationary increases.	Medium	The current economic conditions mean such predictions are somewhat unreliable.
That District-wide rates will continue throughout the period of this LTP, and that there will continue to be a “public good” component in funding for the network utilities	That the balance between public/private benefit is not correct and either component becomes unaffordable to those required to contribute, that willingness to pay is confused with affordability under either scenario	Low	The public has had three years to absorb the initial variations in rates payable for services. The move to District-wide/public good funding should ensure that future cost peaks are evened out.
5 Council performance			
Levels of Service – Changes in customer expectations regarding level of service will impact on assets development and operating costs, and that Council has anticipated and/or planned for these changes.	That Council has not consulted adequately with communities to understand fully their expectations and so has planned to deliver Levels of Service that are not acceptable to the ratepayer (too high or too low).	Low	There has been significant pre-consultation work to identify customer expectations on levels of service.
Liaison with Māori – that there will be progressive inclusion and engagement of Iwi and Māori.	The urgency and extent of engagement will be viewed differently by the partners: proposals for change may create tension and ill-feeling which will be counter-productive. Joint ventures (Council and Iwi) may fail.	Low/ Medium	The Ngāti Apa claim was settled in 2010 and it is anticipated that WAI 2180 (concerning Iwi around Taihape) will be settled well before 2022. However, there is uncertainty on the extent to which Iwi whose Waitangi claims are settled will seek to collaborate and partner with the Council.

Forecasting assumption	Risk	Level of uncertainty (in respect of the LTP)	Reasons and Financial Effect of Uncertainty
Liaison with the Samoan community (Marton) – that there will be progressive inclusion and engagement of the Samoan community in Marton.	The urgency and extent of engagement will be viewed differently by the partners: proposals for change may create tension and ill-feeling which will be counter-productive.	Medium	The Samoan community is increasingly well-established within Marton and finding its voice to engage effectively with Council and other statutory stakeholders.
Replacement of existing assets does not mean an increase in levels of service, unless otherwise stated	Technological advances in replaced assets or higher national standards lead to increase levels of service	Low	Such changes would typically be highlighted in a report to Council seeking approval for the upgrade or replacement.
Useful lives of assets are described in the Statement of Accounting Policies and have been derived from accurate predictions contained in the Asset Management Plans	That information about the condition of assets that informs their useful life is not completely accurate – for example, historical information about construction dates and pavement subsurface formation details and below-ground water, wastewater and stormwater reticulation systems There will be insufficient (or excessive) provision of depreciation.	Medium	Asset data is nearing completion, and the asset management plans have been greatly improved. The financial impact of this uncertainty is that: major previously unknown faults are identified needing urgent attention; information/data required to plan for future demand is not sufficiently accurate to ensure adequate provision i.e. that provision will exceed/not meet forecast demand; and predicted savings in operating costs are not realised because performance of the assets has been wrongly assessed.

Section 3: What is the Long-Term Plan?

Forecasting assumption	Risk	Level of uncertainty (in respect of the LTP)	Reasons and Financial Effect of Uncertainty
Depreciation rates on planned asset acquisitions – the average lifespan of assets has been used to calculate rates as stated in the note on depreciation in the Statement of Accounting Policies.	Once costs for specific items are known, the depreciation may turn out to have been over-/under-stated.	Low	Because of the long lifespan of infrastructural assets, any changes in actual depreciation compared to forecast should be minimal.
Funding Sources for the future replacement of significant assets disclosed in the Revenue and Financing Policy, Financial Strategy and Infrastructure Strategy are achievable.	Some user charges may not be achievable. Ratepayers may press for a different 'mix'.	Low	There has been considerable work in modelling funding sources in preparing for this LTP.
External funding will continue to be sourced to supplement Council funding for activities in the District that contribute to community outcomes.	That external funding is not available and that Council must either increase its contributions or lower expectations of its activity in achieving the community outcomes.	Medium	Success in securing external funding is not predictable. If external funding is used for what is perceived to be essential services, then there is a real danger that the community will feel let down if these services are withdrawn.
Technology – Council will not integrate untested or experimental technology (including computer hardware, software, plant or devices) where it may significantly impact on the delivery of Council services.	Funding requirements for upgrades or migration to new systems may be greater than budget. Council may be unresponsive to market developments, becomes 'stuck' with outmoded technology and a declining level of technical support, does not use technology which aligns well with the community's expectations and preferences or implements technological change	Low	Council's track record in implementing technology gradually makes these risks unlikely. Major upgrades would always be subject to formal consideration and Council's procurement policy requirements.

Forecasting assumption	Risk	Level of uncertainty (in respect of the LTP)	Reasons and Financial Effect of Uncertainty
	which is unsuccessful.		
That plant pests will not extend their hold on Council owned properties over the course of the LTP	That controlling plant pests will become increasingly difficult and expensive and that a suitable regimen for control may be unaffordable for the community	Low/medium	Council will be a responsible landowner. Adequate provision will be made within its budgets to ensure that the problem of plant pests is controlled on an ongoing basis.
Shared Services Arrangements: Rangitikei District Council will continue to seek shared services arrangements where the needs of the community are best served by such arrangements.	Existing Shared Services arrangement may prove less attractive than when they were entered into. The cost and the needs of the Rangitikei community may not best served by such arrangements	Low	These arrangements are typically flexible and have exit provisions.
5 Economic performance			
That Council is able to influence small scale changes in the local economic environment which will add up to make an impact on the District's economic development	That Council will apply resources to secure economic development but is ineffective in the face of global economic trends	Medium	Council will take a measured, evidence-based and risk averse approach to economic development initiatives.

Extract from BERL Forecasts of Price Level Change Adjustors – 2014 Update

Section 3: What is the Long-Term Plan?

Table 3: Adjustors: % per annum change

Year ending	Road	Property	Water	Energy	Staff	Other	Earth-moving	Pipelines	Private sector wages
	%pa change								
Jun 12	5.2	3.3	6.0	15.4	2.3	2.4	4.7	3.1	2.1
Jun 13	1.1	1.7	-2.8	-1.8	2.1	2.9	2.1	-2.7	1.9
Jun 14	0.7	1.9	-2.1	1.3	1.9	1.8	2.8	-2.5	1.7
Jun 15	0.4	1.9	4.7	4.2	1.6	1.5	1.7	1.8	1.7
Jun 16	1.2	2.2	5.2	3.5	1.8	2.3	1.8	2.1	1.7
Jun 17	1.4	2.4	3.8	3.8	1.9	2.5	2.6	2.5	1.8
Jun 18	2.2	2.5	3.0	3.9	2.0	2.6	2.4	2.6	1.9
Jun 19	2.4	2.6	3.2	4.1	2.1	2.7	2.0	2.8	2.0
Jun 20	2.5	2.8	3.3	4.3	2.2	2.9	2.1	2.9	2.1
Jun 21	2.7	2.9	3.5	4.5	2.3	3.0	2.3	3.1	2.1
Jun 22	2.8	3.0	3.7	4.7	2.4	3.1	2.4	3.2	2.2
Jun 23	3.0	3.2	3.8	4.9	2.5	3.3	2.5	3.4	2.3
Jun 24	3.1	3.3	4.0	5.1	2.6	3.4	2.9	3.5	2.4
Jun 25	3.3	3.4	4.2	5.3	2.7	3.6	3.1	3.6	2.5
20-year avge %pa	3.2	2.9	3.5	4.7	2.4	3.0	3.0	3.0	2.2

Source: BERL

Appendix 5b

Specific assumptions

The specific assumptions made by the Council (and the confidence in each of these and potential effects of uncertainty) for this infrastructure strategy are:

1 Useful lives of assets

Assumption	Confidence	Potential effects of uncertainty
Use of new materials in construction and maintenance of assets will reduce the reliability of data in asset management plans	Uncertain.	The characteristics of such materials are conjectural
The useful life of some significant assets will be longer than the ability or willingness of the community to afford them	Fairly certain. This reflects the projected shrinkage of the District's population.	-

2 Growth or decline in demand for services

Assumption	Confidence	Potential effects of uncertainty
The increasing drive for improved agricultural productivity will maintain (f not increase) demand for high quality rural roads	Certain	
There will be increasing prioritisation on those assets serving the most people and/or the areas of greatest economic significance	Fairly certain.	This could lead to decline in service/handover of assets to community groups/individuals to manage

Assumption	Confidence	Potential effects of uncertainty
Increase in heavy vehicle usage will require proportionately more expenditure on arterial and connector roads	Fairly certain.	This trend may be less pronounced by greater use of rail for long-haul freight and/or more use of local transport services.
Increase in road safety hardware requirements	Certain. This reflects a current government priority which is likely to continue so long as road usage rises.	
Increased in demand for facilities for older people – passive exercise facilities, wider footpaths (including stopping bays) for scooters.	Certain. This reflects demographic projections for the District.	
Reduced demand for recreational facilities used by younger people	Fairly certain. This reflects the demographic projections for the District.	There might be a revival of interest in such pursuits, which would require Council to reconsider its approach.
Increased demand for community-based alternative services for water and wastewater	Fairly certain.	It depends on whether such low-tech solutions are able to demonstrate compliance with national and regional standards

3 Increase or decrease in the level of service

Assumption	Confidence	Potential effects of uncertainty
Smaller communities could lose reticulated water supplies and need to rely on individual storage systems	Fairly certain. Costs are likely to become increasingly prohibitive.	There will be issues of water safety and fire-fighting capacity to be assured.
Wastewater disposal requirements in terms of	Certain. However, the implications of this are	

Assumption	Confidence	Potential effects of uncertainty
environmental impacts will become stricter.	unclear, in terms of reticulated systems and/or implementation of alternative systems.	
There will be an increased level of service for major roads, a decrease for minor roads and no extension to the sealed roading network unless paid for by the affected parties	Fairly certain.	This will depend on the way the One Roding Network Classification is implemented and the funding associated with it
There will be improved smoothness for footpaths (and vehicle access across them)	Fairly certain.	This will depend on the cost of maintaining the roading network being achievable within projected budgets (and the new Funding Assistance Rate)
There will be an increased level of service for those community and leisure assets associated with the key civic service centre in major towns.	Fairly certain.	Finalised designs and funding have yet to be approved. Budget constraints may constrain the assumed increase in level of service.
There will be increasing community ownership/management of community and leisure assets	Certain.	

Appendix 6

Lismore City Council

Risk Management Strategy



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VERSION CONTROL

Date	Version	Key Changes	Author

1. RISK MANAGEMENT FRAMEWORK

1.1 General

Council's risk management framework provides the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organisation. The two key elements of Council's framework are its Risk Management Policy, which establishes a mandate and commitment for managing risk, and the Risk Management Strategy which details the procedures and processes by which risk management will be implemented within the organisation.

Council understands the importance of an effective risk management framework to help protect key stakeholders from adverse events and support the pursuit of opportunity. Therefore, Council will maintain a risk management framework appropriate to the size, culture and complexity of its operations and environment.

1.2 Risk Management Policy

Council has an adopted Risk Management Policy. This policy "sets the tone" for Council's risk management approach and establishes the risk management responsibilities of the Council, General Manager, EXCOM, Executive Directors, Managers and staff.

This Risk Management Strategy supports the Risk Management Policy by further defining the systems and processes necessary to maintain an effective and efficient risk management framework.

1.3 Risk Management Strategy

This Risk Management Strategy specifies the approach, the management components and resources to be applied to the management of risk. It details the procedures, practices, assignment of responsibilities, sequence and timing of activities to help all people within the organisation manage risk.

The risk management process can be applied to a particular activity, service, process and project, and to part or whole of the organisation.

The Risk Management Strategy also aims to ensure a consistent, proactive and holistic approach that encourages a 'whole of business' or 'enterprise-wide' view of risk rather than managing risk in silos.

1.4 Benefits of Managing Risk

The benefits of a risk aware culture, regular risk management thinking and managing organisation-wide risks will include:

- increased likelihood of achieving objectives;
- better decision-making and planning;
- better identification of opportunities and threats;
- pro-active rather than re-active management;
- more effective allocation and use of resources (human, financial, intellectual);
- improved stakeholder confidence and trust;
- improved compliance with key regulatory requirements;
- improved internal control environment;
- better corporate governance; and
- enhanced communication and reporting of risk.

1.5 Risk Management Parameters

It is important that Council understands its risk taking parameters and articulates its policies and procedures accordingly. Risk parameters are generally expressed in terms of risk appetite and risk tolerance.

Risk appetite is the amount of risk that the organisation wants to take and is willing to accept in pursuit of its objectives. It is the organisation's "comfort zone". It is about knowing where to draw the line between acceptable risks and unacceptable risks and identifying the level of additional controls that are required. Understanding risk appetite is particularly relevant when Council has to make choices that are inherently uncertain such as investment strategy, major outsourcing appointment, major projects and long term strategy formulation.

Whilst risk appetite may vary depending on the importance and complexity of each objective that Council is pursuing and the particular strategies in place to achieve those objectives Council's risk appetite can be summarised as follows:

Council has little or no appetite for known and avoidable operational risks that might impact on the safety and wellbeing of staff and the community, security of Council and public assets, Council's reputation and service delivery. Council acknowledges that it will have to take some calculated risks in order to achieve its strategic objectives. However, in taking such risks Council must consider current financial and human capacity and the potential impact on longer term financial, environmental and social sustainability.

Risk tolerance is the amount of risk an organisation is willing to bear in respect of a particular business line, function or risk type. Ideally, the tolerance is quantified, but in any event is expressed so that relevant management responsibilities are absolutely clear. Risk tolerance is effectively the quantification of Council's risk appetite. Risk tolerance which cannot be expressed in financial terms is more difficult

to quantify and needs to be closely assessed as risks are identified and analysed. Council's risk tolerances are detailed in the likelihood and consequence tables appended to this Strategy.

2. RESPONSIBILITIES AND ACCOUNTABILITIES

People, specifically managers who are designated 'risk owners', will play a key role in Council's risk management framework. Key risk management responsibilities are set out below. These responsibilities and accountabilities should be included in staff position descriptions and relevant Committee charters.

The Council is ultimately responsible for adopting and committing to the risk management policy. Responsibilities specific to the risk management framework include:

- reviewing and approving the Risk Management Policy;
- providing feedback to management on important risk management matters/issues raised by management;
- supporting management in communicating the importance and benefits of good risk management to stakeholders;
- fully considering risk management issues contained in Council reports.
- identifying and monitoring emerging risks

The **General Manager** with the assistance of EXCOM is responsible for leading the development of an enterprise risk management culture across the organisation and ensuring that the Risk Management Policy and Strategy are being effectively implemented. Specifically the General Manager is responsible for:

- where appropriate, reporting known potential risks, emerging risks or major incidents to the Council in a timely manner;
- determining whether to accept or further treat residual risks that are assessed as high or above;
- ensuring that risk management activities are aligned to Council's strategy and objectives; and
- ensuring sufficient funds are available to support effective and efficient management of risks.

EXCOM is responsible for:

- establishing and reviewing the framework for identifying, monitoring and managing significant business risks. This includes periodically reviewing Council's Risk Management Policy and Strategy
- oversight and monitoring of the implementation of Council's Risk Management Strategy
- monitoring the implementation of risk treatment plans
- determining whether to accept or further treat residual risks that are assessed as high or above

- identifying and monitoring emerging risks

Executive Directors are responsible for ensuring that the Risk Management Policy and Strategy are being effectively implemented within their areas of responsibility and determining whether to accept or further treat residual risks that are assessed as medium.

Managers at all levels, are the risk owners and are required to create an environment where the management of risk is accepted as the personal responsibility of all staff, volunteers and contractors. Managers are accountable for the implementation and maintenance of sound risk management processes and structures within their area of responsibility in conformity with Council's risk management framework including:

- identifying, recording and periodically evaluating risks;
- identifying, recording and assessing effectiveness of existing controls;
- implementing and maintaining effective internal controls;
- developing treatment plans to treat higher level risks in a timely manner; and
- maintaining up to date risk registers through quarterly reviews and updates.

Managers are also responsible for supporting good management practices that compliment risk management including:

- complying with and monitoring staff compliance with Council's policies, procedures, guidelines and designated authorities;
- maintaining up-to-date information and documentation for key operational processes; and
- incorporating risk treatment plans into sectional operating plans and Council's Operational Plan and budget as required.

The **Corporate Compliance Coordinator** is responsible for coordinating the processes for the management of risk throughout the organisation. This may include the provision of advice and service assistance to all areas on risk management matters. Specific responsibilities include:

- ensuring the risk management framework remains relevant and appropriate for Council;
- making recommendations on all aspects of the risk management framework to Management and risk owners;
- providing advice and support to the Council, EXCOM, managers and all staff on risk management matters;
- providing or co-ordinating the delivery of appropriate and relevant training to staff to promote a positive risk, compliance and control culture;
- periodically reviewing key risk management related documents including risk registers, risk profiles, policies, plans, procedures and authorities; and
- reporting quarterly to EXCOM on any risk issues arising from the quarterly risk register review and the current status of key risks, Risk Treatment Plans, incidents and other relevant issues.

All **staff, contractors and volunteers** are required to act at all times in a manner which does not place at risk the health and safety of themselves or any other person in the workplace. Staff should provide input into various risk management activities. Staff are responsible and accountable for taking practical steps to minimise Council's exposure to risks in so far as is reasonably practicable within their area of activity and responsibility.

All staff must be aware of operational and business risks. Particularly, they should:

- provide input into various risk management activities;
- assist in identifying risks and controls;
- report all emerging risks, issues and incidents to their manager or appropriate officer; and
- follow Council policies and procedures.

3. DOCUMENTATION

Important risk management processes and activities will be documented throughout Council. Documentation is important for the following reasons:

- it gives integrity to the process and is an important part of good corporate governance;
- it provides an audit trail and evidence of a structured approach to risk identification and analysis;
- it provides a record of decisions made which can be used and reviewed in the future; and
- it provides a record of risk profiles for Council to continuously monitor.

3.1 Key documents

Key documents will include:

- Risk Management Policy
- Risk Management Strategy
- Risk Register.
- Risk Treatment Plans

3.2 Maintenance of key documents

Risk documentation including risk registers, written/formal risk assessments, risk/control audits, self-assessments will be maintained in Council's official record keeping system.

These records may be called upon in the management of ongoing treatments, as evidence in incident investigations, in dealing with insurance matters or during other inquiries, and for audit purposes.

Risk management records should be reviewed:

- On handover of responsibilities between managers;
- On assumption of responsibility for a project or program;
- Regularly to match reporting requirements; and
- Whenever operating parameters are subject to major change

4. RISK MANAGEMENT ACTIVITIES, REPORTING AND REVIEW

4.1 Risk Management Framework Review

Documentation including policies, procedures, risk registers and systems relating to the risk management framework will be subject to periodic review. In particular the Corporate Compliance Coordinator is to coordinate a review of the Risk Management Policy every four years (or earlier if there are any material changes in circumstances). The results of the review are to be reported to EXCOM and ultimately the Council. The Corporate Compliance Coordinator must also review the Risk Management Strategy annually and submit the outcome and any recommended changes to EXCOM for adoption.

4.2 Corporate Risk Register Establishment and Review

All managers are required to establish and periodically review risk registers for their areas of the organisation. These risk registers should identify and evaluate key strategic and operational risks that are relevant to the area in question in accordance with the process described in Section 5 of this Strategy. The registers should also identify and evaluate controls in place to manage those risks and identify any required Risk Treatment Plans. Collectively, these registers will form a Corporate Risk Register. The general format of the register is shown in Appendix F.

Each Manager is to conduct a quarterly review of their section's register in conjunction with Council's quarterly performance management process. Managers will be required to sign off that their register has been reviewed and that controls are appropriate. Any changes to the register and/or new or amended risk treatment plans as a result of this review are to be reported to EXCOM by the Corporate Compliance Coordinator. The requirement for a formal quarterly review does not preclude more regular review of risk registers. Regular review of risk registers is encouraged particularly when there are changes in the operating environment and/or new risks are identified.

The risk register review is an integral part of the annual business planning cycle to ensure that:

- risks are identified and assessed in the context of Council's and each Section's current objectives;
- the status of risks and controls is reviewed in conjunction with the review of each section's performance;
- where necessary, risk treatment plans are incorporated into the Operational Plan; and
- where funding is required to implement risk treatment plans that it is incorporated into Council's budget.

4.3 Risk Treatment Plans

Risk owners are responsible for ensuring that actions contained in risk treatment plans (RTPs) are implemented effectively and within agreed timeframes. Action taken is to be recorded in the records system. In addition, Risk Owners are responsible for ensuring that actions contained in RTPs are included in their business plans and where appropriate Council's Operational Plan.

4.4 Risk Status Reports

The Corporate Compliance Coordinator is to coordinate the preparation of a quarterly risk status report to be submitted to EXCOM. The quarterly risk status report will at least contain details of:

- any risk management initiatives undertaken during the previous quarter
- any major incidents that have occurred during the previous quarter
- the major inherent and residual risks facing the organisation and the controls in place to manage those risks
- progress in implementing key risk treatment plans
- any issues that may have arisen as a result of the quarterly risk register review by Managers

4.5 Major Projects, Tenders, Procurement or New Initiatives

Council has implemented a Project Planning framework which includes the requirement for a full risk assessment to be undertaken prior to embarking on any **major** projects, tenders, procurement activities or other new initiatives. The risk assessment should clearly detail the risks involved and the controls in place (or proposed) to manage those risks. The results of the risk assessment must be included in any report to EXCOM or Council recommending a proposed course of action. The relevant Council Manager is responsible for ensuring that such an assessment is undertaken.

The following checklist is to be used to determine whether a project or initiative requires a formal risk assessment. If the project or initiative will involve:

- The acquisition or development of real property; or
- Significant impact on the community and/or the environment; or
- New expenditure or income in excess of \$150,000; or
- Significant impact on Council's ability to achieve key objectives; or
- High potential for fraud, corruption or serious and substantial waste

then a formal risk assessment must be conducted.

4.6 Operational Plan and Annual report

Council's annual Operational Plan must include a section on Risk Management that details proposed risk management activities for the coming year and discusses any key risk management issues. In particular, the Operational Plan should identify key risks that may impact on objectives as well as strategies and controls in place (or proposed) to manage those risks.

Council's annual report must include a section on Risk Management that details risk management activities undertaken during the previous year and any relevant risk management issues.

4.7 Training

All risk owners and other key staff require periodic training in how to implement the risk management process and their responsibilities and obligations under Council's Risk Management Policy and Strategy. General risk management training should be provided to all risk owners and other relevant staff every four years.

In addition, all new staff should be advised of Council's commitment to risk management and their responsibilities and obligations when they commence working for Council. This should generally be done through a short introduction at Council's induction session followed by a more detailed training session within three months of commencing employment. The training may be delivered internally or externally or by a combination of the two. The Corporate Compliance Coordinator is responsible for coordinating the provision of such training.

4.8 Staff Performance Management

In order to re-enforce accountability and evaluate risk management performance, risk management will be a key component of each Manager's annual performance appraisal. Risk management responsibilities and accountabilities should also be included in staff position descriptions.

4.9 Other Risk Assessment Activities

In order to manage specific risks, Council has in place a range of risk assessment processes. For example, in order to manage the safety risks specific to particular works and activities Council has a safety management system which requires a systematic and detailed assessment of safety hazards and risks. These specific risks do not need to be replicated in the corporate risk register nor do they need to be assessed against the corporate risk matrix if there are specific matrices and criteria in place for the particular type of risk in question. However, the process for assessing such risks must be generally consistent with the process described in this Strategy. This relationship is depicted in the following diagram:

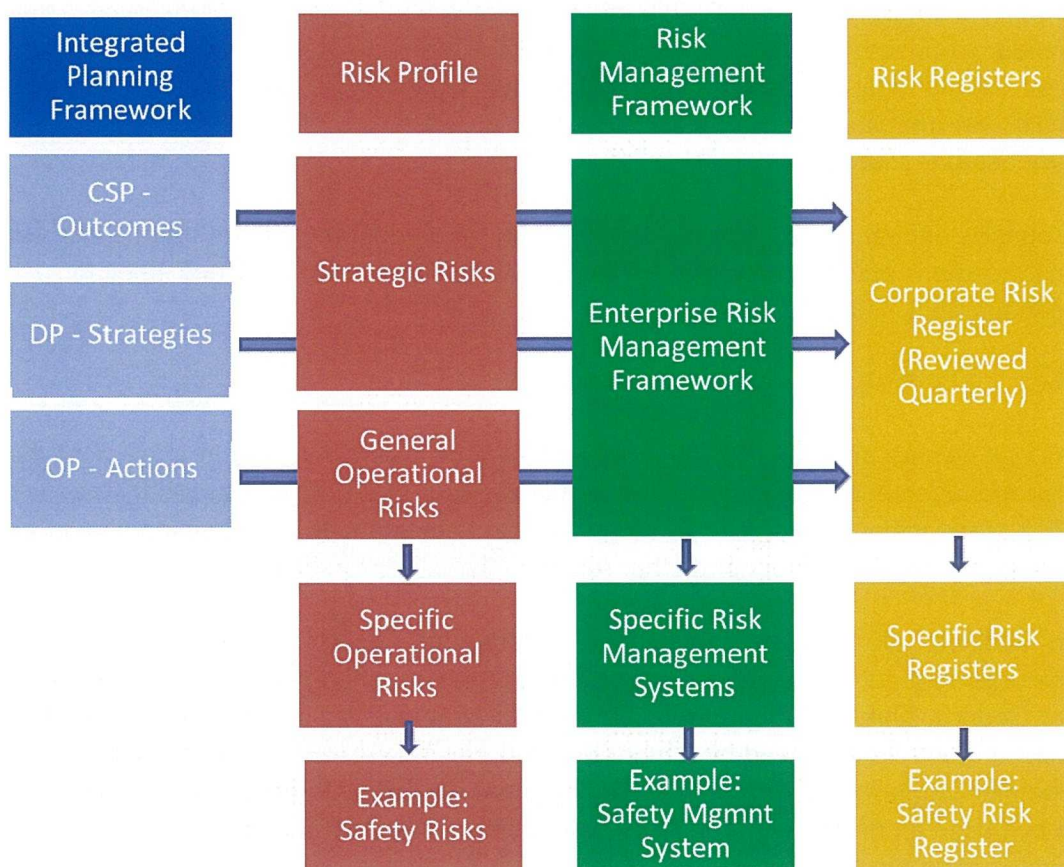


Figure 1: Relationship between risk registers and corporate objectives

4.10 Communication

Ongoing communication of the importance of risk management and the role of staff in managing risk is critical to success of the risk management framework. Accordingly, the Corporate Compliance Coordinator will ensure that relevant risk management information is communicated to staff on a regular basis. This may be done through a range of mediums including the Council intranet, newsletter and e-mail system.

4.11 Summary of Actions, Reviews and Reports

Appendix A summarises the key actions, reviews and reports required by Council's Risk Management Strategy. It details who is responsible for each activity and the required timing.

5. THE RISK MANAGEMENT PROCESS

5.1 Risk Management Process

Council will utilise the Australian and New Zealand Risk Management Standard AS/NZS ISO 31000:2009 to manage risks. This is a structured and proactive approach that can be applied organisation-wide to support management of strategic and/or operational risks.

Under this approach, there are five key stages to the risk management process.

1. Communicate and consult - with internal and external stakeholders
2. Establish context - the boundaries
3. Risk Assessment - identify, analyse and evaluate risks
4. Treat Risks – implement and assess controls to address risk
5. Monitoring and review – risk reviews and audit

Refer to figure 2 below for an illustration of the AS/NZS ISO 31000:2009 risk management approach.



Figure 2: Our risk management approach using AS/NZS ISO 31000 Risk Management Standard

5.1.1 Establish context

Establishing the context of risk management at Council is the foundation of good risk management and vital to successful implementation of the risk management process.

Context is typically established by the risk leadership team and involves setting boundaries around the depth and breadth of risk management efforts to help Council stay focused and align the risk management framework to relevant matters.

Important considerations when determining context include:

- Council's external environment – social factors, demographics, economic, environmental.
- Council's stakeholders – residents, rate payers, customers, regulators, employers, politicians, media, insurers, service providers, staff and volunteers.
- Council's internal environment – goals, objectives, culture, risk appetite/tolerance, organisational structures, systems, processes, resources, key performance indicators and other drivers.
- Council's appetite for risk – this is the amount of risk that Council is willing to accept in pursuit of its objectives. Section 1.5 of this Strategy summarises Council's general appetite for risk.

5.1.2 Risk identification

Risk identification is the process of identifying risks facing Council. This involves thinking through the sources of risks, the potential hazards and opportunities, the possible causes and the potential exposure.

The aim of this step is to generate a comprehensive list of risks based on those events that might create, enhance, prevent, degrade, accelerate or delay the achievement of objectives.

Risk identification occurs within the context of the risk management activity, procedure or process. The following categories of risk should typically be considered:

- Strategic risks;
- Operational risks;
- Financial risks;
- Reputational risks;
- Legal and Regulatory risks;
- Business disruption;
- Human risks; and
- Environmental risks

It is important to undertake a systematic and comprehensive identification of all risks including those not directly under the control of Council because a risk that is not identified at this stage will not be included in further analysis. The key questions when identifying risks are:

- What can happen?
- Where can it happen?

- When can it happen?
- Why can it happen?
- How can it happen?
- What is the impact?
- Who is responsible for managing the risk?

Council may utilise a number of methods to help identify risks that could materially impact the business. These include:

- Brainstorming
- Formal risk workshops and consultation with stakeholders
- Personal experiences
- Expert judgement
- Periodic working committee meetings
- Periodic reviews of the risk register
- Scenario analysis
- Business process reviews and work breakdowns
- Review of actual incidents and issues identified
- SWOT analysis

It is also important to consider the potential causes of a risk as it will help to address the risk - the next stage of the risk management process. Some causes of risk could include:

- commercial/legal relationships
- socio-economic factors
- political/legal influences
- personnel/human behaviour
- financial/market activities
- management activities and controls
- technology/technical issues
- the activity itself/operational issues
- business interruption
- natural events

5.1.3 Risk Analysis

Once risks have been identified, they are then analysed. Risk analysis involves consideration of the causes and sources of risk, their positive and negative consequences, and the likelihood that those consequences can occur. At this point, no consideration is given to existing controls. The following risk criteria should be used as a guide when analysing risks.

The likelihood of occurrence is the probability of an event occurring. When considering the likelihood of a risk, you need to consider both the probability and frequency of occurrence. Council will utilise the likelihood ratings shown in Appendix B.

The consequence assessment is the effect or impact of the risk event. It is measured both financially (in terms of profit/loss or balance sheet impact) and operationally (human & physical). Council will utilise the consequence ratings shown in Appendix C.

Inherent risk is the overall raw risk. It is determined by combining the likelihood and consequence ratings. Ultimately, the level of inherent risk will determine how a risk is treated. The table shown in Appendix D depicts the inherent risk levels that will be used by Council.

5.1.4 Risk Evaluation

Risk evaluation involves comparing the level of risk found during the analysis process against Council's known priorities and requirements.

Any risks accorded too high or too low a significance are adjusted, and documented accordingly. The output of the risk evaluation is a prioritised list of risks for further action.

5.1.5 Risk Treatment

Risk treatment involves selecting one or more options for modifying risks, and implementing those options. It involves identifying and evaluating existing controls and management systems to determine if further action (risk treatment) is required.

Existing controls are identified and then assessed as to their level of effectiveness. Council will utilise the control effectiveness ratings shown in Appendix E.

Residual risk is the level of risk after considering existing controls. It is determined by applying the effectiveness of existing controls to inherent risk. The table in Appendix D - Risk Level Ratings (see above) should also be used to determine the level of residual risk.

Ultimately, the level of residual risk will determine how a risk is treated.

Risk treatment options are not necessarily mutually exclusive or appropriate in all circumstances. The options can include the following:

- a) avoiding the risk by deciding not to start or continue with the activity that gives rise to the risk;
- b) taking or increasing the risk in order to pursue an opportunity;
- c) removing the risk source;
- d) changing the likelihood;
- e) changing the consequences;
- f) sharing the risk with another party or parties (including contracts and risk financing); and
- g) retaining the risk by informed decision.

When a residual risk is assessed as Medium or High and a decision is made that the risk is not acceptable, a Risk Treatment Plan must be developed in order to reduce the risk to an acceptable level within an appropriate time frame.

The information provided in risk treatment plans should include:

- the reasons for selection of treatment options, including expected benefits to be gained;
- those who are accountable for approving the plan and those responsible for implementing the plan;
- proposed actions;
- timing and schedule.

For the various levels of residual risk, the following process must be followed:

High or Extreme: Requires immediate risk treatment as the potential risk exposure could be devastating to the organisation. The existence of a High or Extreme residual risk and any proposed action to further treat such a risk must be reported to the General Manager and/or EXCOM for consideration as soon as possible. EXCOM and/or the General Manager must determine whether the proposed risk treatment, including the time frame for implementation, is acceptable. In some rare cases EXCOM and/or the General Manager may determine to accept a High or Extreme residual risk without further treatment where the cost of treatment exceeds the benefit and the objective being pursued is considered critical. In such cases, the reason for accepting the risk without further treatment must be documented.

Medium: May require action at some point in the near future, as it has the potential to be damaging to the organisation. Medium risks and any proposed action to further treat such risks must be reported to the General Manager, relevant Executive Director and/or EXCOM for consideration as soon as practicable. The General Manager, relevant Executive Director and/or EXCOM must determine whether the proposed risk treatment, including the time frame for implementation, is acceptable. Medium risks may be accepted in some circumstances, most likely when the cost of further treatment exceeds the benefit. In such cases, the reason for accepting the risk without further treatment must be documented.

Low: Low risks are generally acceptable and do not require any formal sign off. Low risks should continue to be monitored and re-evaluated on a regular basis. Low risks can generally be treated with routine procedures.

5.1.6 Monitoring and Review

Few risks remain static. Risks will be continuously monitored and reviewed; and the effectiveness of the controls in place and of the risk treatment plans will be assessed to ensure changing circumstances do not alter risk priorities. Feedback on the implementation and the effectiveness of the Risk Management Policy and Strategy

will be obtained from the risk reporting process, internal audits and other available information.

Council has adopted the Australian Business Excellence Framework (ABEF) as its framework for internal audit and continuous improvement. Risks and controls will be monitored and tested regularly in line with their significance through the ABEF.

Key Risk Indicators (KRIs) may be developed to monitor risks on an ongoing basis. KRI's are operational in nature and should be determined by the risk owner once risks and their causes have been identified.

5.1.7 Communication and Consultation

Effective communication and consultation with key stakeholders regarding risk management processes, issues and initiatives is critical to the success of Council's risk management framework. Staff must ensure that relevant stakeholders are informed, consulted and, if necessary, involved in risk management activities that affect them or for which they may be able to contribute. In particular, stakeholders who may be effected by, or may have knowledge regarding, risks must be consulted regarding the assessment and evaluation of such risks.

5.1.8 External Specialists

Given the size and risk profile of Council, external specialists may be needed from time to time to assist the organisation in evaluating and treating risks.

Appendix A – Summary of Key Risk Management Activities

Action	Description	Responsibility	Timing
Review RM Policy	Review the currency and effectiveness of Council's Risk Management Policy	Council to adopt (review to be coordinated by Corporate Compliance Coordinator)	Every four years
Review RM Strategy	Review the currency and effectiveness of Council's Risk Management Strategy	EXCOM to adopt (coordinated by Corporate Compliance Coordinator)	Every year in November
Review Risk Register	Review risks and controls contained in Council's corporate risk register and identify new or emerging risks	All Managers (risk owners) to complete review and report as part of the Quarterly Performance Management process	Every quarter in conjunction with Quarterly Performance Management Process
Include Risk Treatment Plans in Operational Plan	Ensure that actions required by Risk Treatment Plans (RTP) are incorporated into the Operational Plan	All Managers (risk owners) (Corporate Compliance Coordinator to oversee)	Every year/ quarter in conjunction with Operational Plan development/ review
Implement Risk Treatment Plans	Implement actions contained in risk treatment plans (RTP)	Risk Owners	As identified in the RTP
Risk assessments for major projects/ initiatives	Conduct risk assessments as required for major new or altered activities, processes or events	Relevant Manager/ Risk Owner (Corporate Compliance Coordinator to assist)	Prior to deciding to proceed with new project/ initiative
Risk Status Report	Identify and review, by exception, any risk issues arising from the Quarterly risk register review and the current status of key risks, RTPs, incidents and other relevant issues	EXCOM (co-ordinated by Corporate Compliance Coordinator)	Quarterly

Annual Report	Detail risk management activities undertaken during the previous year and any relevant risk management issues.	Corporate Compliance Coordinator	Annual
Operational Plan	Identify key risks that may impact on objectives as well as strategies and controls in place (or proposed) to manage those risks.	Managers/ Risk Owners (overseen by Corporate Compliance Coordinator)	Annual
Training	Ensure risk owners and other staff are aware of the risk management process and their obligations	Corporate Compliance Coordinator	Refresher for all Managers and Risk Owners every four years. Introduction for all new staff at induction with more detailed session within three months of commencing.
Staff Performance Review	Ensure risk management performance of managers is assessed on a regular basis	Manager Human Resources	Annual
Communication	Ensure staff are aware of relevant risk management issues and have access to risk management tools.	Corporate Compliance Coordinator	Ongoing

Appendix B - Likelihood Ratings

Rating	Likelihood	Description	Quantification
1	Rare	The event may occur but only in exceptional circumstances. No past event history.	Once every 50 years or more. Less than 10% chance of occurring.
2	Unlikely	The event could occur in some circumstances. No past event history.	Once every 20 years. Between 10% and 30% chance of occurring.
3	Possible	The event may occur sometime. Some past warning signs or previous event history.	Once every 5 years. Between 30% and 70% chance of occurring.
4	Likely	The event will probably occur. Some recurring past event history	Once a year. Between 70% and 90% chance of occurring.
5	Almost Certain	The event is expected to occur in normal circumstances. There has been frequent past history.	Several times a year. Greater than 90% chance of occurring.

Appendix C – Consequence Ratings

Impact on Objectives		Area	Impact on Specific Business Areas (To guide assessment)
Extreme	Most objectives can no longer be achieved. Complete revision of long term business model required.	Financial	>\$2m recurrent reduction in operating budget, one off loss of > \$5m, Inability to pay staff and creditors
		Environmental	Very serious irreversible damage to environment and/or multiple sites or ecosystems, prosecution of Council
		Reputation	Sustained negative local or national media coverage, widespread public outcry and loss of trust in Council, damage to reputation that takes many years to repair, investigation resulting in prosecution or sacking of Council
		Service Disruption	Key activities and essential services disrupted for over 14 days
		Human	Major negative impact on staff morale, loss of life, major repeated breaches of WHS legislation, prosecution, successful class action
High	A number of significant business objectives can no longer be achieved.	Financial	\$1m-\$2m recurrent reduction in operating budget, one off loss of \$3m- \$5m, delayed payment to staff and creditors
		Environmental	Significant long term impact on built & natural environment, investigation of Council with adverse findings
		Reputation	Significant adverse media at state level, significant & well publicised outcry from residents, long story life
		Service Disruption	Key activities disrupted for between 7 and 14 days
		Human	Major localised impact on staff morale, breach of legislation, lost time injuries requiring major medical treatment, multiple insurance claims
Medium	Some important business objectives can no longer be achieved.	Financial	\$250k-\$1m recurrent reduction in operating budget, one off loss of \$1m-\$3m
		Environmental	Serious medium term effects on built & natural environment from single incident(eg one off pollution spill)
		Reputation	Concerns from broad section of residents, major local media coverage (short duration),
		Service Disruption	Key activities disrupted for between 3 and 7 days
		Human	Minor breach of safety legislation, short duration lost time injury requiring minor medical treatment, one off insurance claims
Minor	Some reprioritisation of resources to enable business objectives to be achieved.	Financial	\$50k-\$250k recurrent reduction in operating budget, one off loss of \$250k-\$1m
		Environmental	Short term effects on built & natural environment, damage to a single property or parcel of land, breach of policy
		Reputation	Heightened concerns from narrow group of residents, some media concern, opportunistic fraud by single staff member
		Service Disruption	Some Council activities disrupted for up to 3 days
		Human	Some short term impact on staff morale, minor injuries or illness from normal activities treated by first aid
Very Low	Little or no impact on business objectives.	Financial	<\$50k recurrent reduction in operating budget, one off loss of <\$250k
		Environmental	Minor effects on built & natural environment, breach of guidelines, perception of damage
		Reputation	One off insignificant adverse local media or public complaints
		Service Disruption	Usual scheduled interruptions, unscheduled interruptions for less than 4 hours
		Human	Localised raising of concerns by staff, incident and/or 'near miss'

Appendix D – Risk Rating Matrix

	Consequence				
Likelihood	1 Very Low	2 Minor	3 Medium	4 High	5 Extreme
5 Almost Certain	Medium	Medium	High	Extreme	Extreme
4 Likely	Low	Medium	Medium	Extreme	Extreme
3 Possible	Low	Low	Medium	High	Extreme
2 Unlikely	Low	Low	Medium	Medium	High
1 Rare	Low	Low	Low	Medium	Medium

Appendix E – Control Effectiveness Ratings

Rating	Effectiveness	Description	Quantification
0	Not Effective	The control does not address risk	0%
1	Slightly Effective	The control is not reliable as it is not well designed, documented and/or communicated.	1-20% effective
2	Somewhat Effective	Control may be reliable but not very effective as control design can be improved.	21-40% effective
3	Reasonably Effective	Control is reliable but not effective as documentation and/or communication could be improved.	41-60% effective
4	Mostly Effective	The control is mostly reliable and effective. Documentation exists but can be better communicated.	61-80% effective
5	Very Effective	Control is reliable and effective. Fully documented process and well communicated.	81-100% effective

Appendix F - Risk Register Template

Location	Risk No	Risk Description	Likelihood	Consequence	Inherent Risk	Control Description	Control Effectiveness	Control Status	Residual Risk	Residual Risk Acceptable ?	Details of Risk Treatment Strategy Required

Appendix G- Risk Management Glossary

Adapted from AS/NZS ISO 31000

communication and consultation	continual and iterative processes that an organisation conducts to provide, share or obtain information and to engage in dialogue with stakeholders and others regarding the management of risk stakeholder person or organisation that can affect, be affected by, or perceive themselves to be affected by a decision or activity
consequence	outcome of an event affecting objectives
control	measure that is modifying risk
establishing the context	defining the external and internal parameters to be taken into account when managing risk, and setting the scope and risk criteria for the risk management policy
external context	external environment in which the organisation seeks to achieve its objectives
internal context	internal environment in which the organisation seeks to achieve its objectives
level of risk	magnitude of a risk , expressed in terms of the combination of consequences and their likelihood
likelihood	chance of something happening
monitoring	continual checking, supervising, critically observing or determining the status in order to identify change from the performance level required or expected
residual risk	risk remaining after risk treatment
review	activity undertaken to determine the suitability, adequacy and effectiveness of the subject matter to achieve established objectives

risk	effect of uncertainty on objectives
risk analysis	process to comprehend the nature of risk and to determine the level of risk
risk assessment	overall process of risk identification, risk analysis and risk evaluation
risk attitude	organisation's approach to assess and eventually pursue, retain, take or turn away from risk
risk aversion	attitude to turn away from risk
risk criteria	terms of reference against which the significance of a risk is evaluated
risk evaluation	process of comparing the results of risk analysis with risk criteria to determine whether the risk and/or its magnitude is acceptable or tolerable
risk identification	process of finding, recognizing and describing risks
risk management	coordinated activities to direct and control an organisation with regard to risk
risk management framework	set of components that provide the foundations and organisational arrangements for designing, implementing, monitoring , reviewing and continually improving risk management throughout the organisation
Risk Management Strategy	scheme within the risk management framework specifying the approach, the management components and resources to be applied to the management of risk
risk management policy	statement of the overall intentions and direction of an organisation related to risk management
risk management process	systematic application of management policies, procedures and practices to the activities of communicating, consulting, establishing the context, and identifying, analysing, evaluating, treating, monitoring and reviewing risk

risk owner	person or entity with the accountability and authority to manage the risk
risk profile	description of any set of risks
risk source	element which alone or in combination has the intrinsic potential to give rise to risk event
risk treatment	process to modify risk

Attachment 3

Report to the Council on the interim audit of
Rangitikei District Council
for the year ending 30 June 2015

Key messages

Summary

We have completed our interim audit for the year ended 30 June 2015.

Issues identified during the audit

The following table summarises our recommendations and their priority:

Recommendation	Urgent	Necessary	Beneficial	Reference
Bulls Information Centre and Library Cash Receipting We recommend that a number of cash receipting controls be implemented at the Bulls Information Centre and Library.		✓		2.1
Weakness with the new electronic purchase order system Continue to obtain updates from your service provider to ensure weaknesses within the system are fixed in a timely manner.		✓		2.2
Assurance over payment runs Reconcile the approved postings input report to the payment run.		✓		2.3
Two authorisers for online banking Two employees be required to authorise online payments.		✓		2.4
Sensitive Expenditure Policy Update the sensitive expenditure policy to reflect the use of Council credit cards and reward schemes.		✓		2.5
Register of cash received through the mail Reconcile the cheque and cash payments received through the mail to a register maintained by those who open the mail in order to reduce the risk of payments not being recorded.			✓	2.6
Smooth travel exposure data post-input review Perform a formal post-input over the smooth travel exposure data sets which are entered into the RAMM system.		✓		2.7

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

Thank you

We would like to thank the Council, management and staff for their cooperation and assistance during the course of our interim audit.

Debbie Perera
Associate Director
28 August 2015

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1 Assessment of your control environment

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

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

In performing this assessment we have identified areas where we believe the control environment can be improved. These matters are discussed in section two and three of this report.

Internal controls

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

2 Key issues arising

2.1 Bulls Information Centre and Library Cash Receipting

Recommendation

Implement the following cash receipting controls at the Bulls Information Centre and Library:

- The daily banking schedule be signed by the employee who performs the cash up each day in order to isolate responsibility;
- The daily banking schedule be reviewed by an independent employee;
- Bus tickets be cross referenced to receipts/supporting documentation;
- Cash floats be counted and signed off on a daily basis;

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

² Control has operated effectively throughout the period tested.

- EFTPOS machine totals be cleared at the start of each day and the EFTPOS total for the day be reconciled to the daily banking schedule; and
- Print the list of transactions for each day off the NCS and check back to the individual receipts.

Findings

During our cash receipting system review and walkthrough procedures performed at the Bulls Information Centre and Library, the following deficiencies were noted:

- The daily banking schedule is not signed by the relevant employee who performs the cash up each day. As there are over five staff members working on a rotation basis through the Information Centre and Library, it becomes difficult to isolate responsibility;
- There is no independent review performed over the daily banking schedule;
- Transactions relating to bus tickets do not have receipts or supporting documentation attached. As the Council acts as an agent for the bus companies they are accountable for these monies, and are therefore exposing themselves to risk by having no audit trail in place;
- An instance was noted at the Library where the cash float had not been counted for three days. If variances arise this makes it difficult to isolate where these have originated;
- An instance was noted at the Information Centre where the z-totals for the EFTPOS machine had not been cleared and the receipts were included again in the following day's totals. There was no reconciliation or note of this on the daily banking schedule and thus there was no audit trail as to whether there had been an adequate reconciliation of the takings to what was processed through NCS; and
- The Libraries list of transactions processed through NCS is not attached to the daily banking schedule and thus there is no audit trail of staff reconciling the printed receipts to the transactions processed through NCS.

Management comment

2.2 Weakness with the new electronic purchase order system

Recommendation

Continue to obtain updates from your service provider to ensure weaknesses within the system are fixed in a timely manner.

Findings

Testing of the electronic purchase order system has identified that after the purchase order has been correctly raised, approved, and the goods have been received, it is possible to edit the payment to creditor without any additional approval required. This system weakness opens the Council up to the possibility of unauthorised fraudulent payments being made and can undermine the entire electronic purchase order system.

After identifying this problem we informed management who contacted the software supplier and obtained an update to fix this bug within the system.

2.3 Assurance over payment runs

Recommendation

Reconcile the approved postings input report to the payment run.

Findings

From our review of the manual expenditure payment run it was identified that even though a postings input report is reviewed that includes all invoices in a batch, a payment run includes a number of batches with no reconciliation performed between the reviewed batches and what is included in the payment run. This exposes the Council to the risk that a batch included within the payment run does not get appropriately approved which could lead to unauthorised/fraudulent expenditure.

We do note this is an isolated issue with the manual system and that Council is encouraging staff members to use the electronic system which will eliminate the above risk. We have raised the issue as this currently still causes a potential risk to the Council while the manual system is still used.

2.4 Two authorisers for online banking

Recommendation

Two employees are required to authorise online payments.

Findings

Our testing over the approval of online banking for expenditure identified that only one person is required to approve and release a payment. While we do note that the direct credit listing and payment files detail report is reviewed to ensure consistency by two individuals, this is not considered best practice as it can expose the Council to the risk of unauthorised/fraudulent payments being made.

Given the size of the Council you may wish to give approval rights to additional users in case other key staff members are away.

2.5 Sensitive Expenditure Policy

Recommendation

Update the sensitive expenditure policy to reflect the use of Council credit cards and reward schemes.

Findings

Our sensitive expenditure testing focused on employee expense reimbursements and credit card expenditure. During our testing we noted instances of employee reimbursements for Council expenditure that had been personally incurred even though a Council credit card is readily available for use. Best practice suggests that if an employee is issued with a Council credit card all Council expenses are to be incurred on this rather than through personal reimbursement, except in extraordinary circumstances.

Through our employee expense reimbursement testing it was also noted that an employee had used their personal rewards scheme to incur reward points on Council expenditure. Best practice suggests that the Council are to receive the benefit and gain of any rewards received on Council expenditure. We recommend that the policy be updated to reflect this.

Management comment

2.6 Register of cash received through the mail

Recommendation

Reconcile the cheque and cash payments received through the mail to a register maintained by those who open the mail in order to reduce the risk of payments not being recorded.

Findings

During our work performed over the cash receipting systems at the Council it was noted that the Customer Services Team do not reconcile the receipt of cash or cheques through the mail to any sort of mail register maintained by those who open the mail. There is a risk that cheques or cash may become misplaced and therefore not be recorded by the Customer Services Team.

Management comment

2.7 Smooth travel exposure data post-input review

Recommendation

Perform a formal post-input performed over the smooth travel exposure data sets which are entered into the RAMM system.

Findings

From our review over the systems in place to report against the smooth travel exposure performance measure we noted that there is no post-input check performed over the data sets used to determine the results.

Some of the data sets that affect the result of the measure are directly entered into the RAMM system by Council staff and there is no post-input check performed as part of this process.

This poses a risk that the data in the system does not agree to what has been provided by the contractors.

Management comment

3 Summary of recommendations

Summary of action taken against previous years' recommendations:

Number of recommendations from previous years' audits	Current status
1	Matters that have been resolved
8	Progress is being made, but not yet fully resolved
9	No progress has been made

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

Appendices

Appendix 1: Explanation of priority rating system

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

Urgent

Major improvements required

Needs to be addressed *urgently*

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

Necessary

Improvements are necessary

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

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

Beneficial

Some improvement required

Address, *generally within 6 to 12 months*

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

Appendix 2: Status of recommendations

Outstanding matters

Recommendation	Current status	Priority	Management's proposed action
Monitoring of Contractor Performance			
Implement a quality assurance (QA) programme over services contracted out to third parties. This is especially important when the performance of these contractors feed into Council's KPIs, for example responding to roading call outs.	No progress has been made	Necessary	
Request for Service System			
Review the process and remind staff of the need to ensure that the request for service (RFS) system is updated on a timely basis.	Progress is being made, but not yet fully resolved	Necessary	
Journal Approval			
Financial Services Team Leader's journals be approved by the Group Manager Finance and Business Support to ensure that all journals are approved on a one-up basis.	No progress has been made	Necessary	

Recommendation	Current status	Priority	Management's proposed action
Work in Progress			
<p>Perform a detailed review over the general ledger and infrastructure system to ensure that the work in progress balances included in the two systems align.</p> <p>We recommend that Council ensure work in progress is appropriately capitalised in a timely manner.</p>	No progress has been made	Necessary	
Utilities Assets Valuation			
<p>Improve the asset structure and component breakdown within the asset management system, as identified in the peer reviewed report on the valuation.</p>	No progress has been made	Necessary	
Investment Policy			
<p>Perform a thorough review of its Investment Policy to ensure that the policy is appropriate for the level of investment activity currently undertaken by Council.</p>	No progress has been made	Beneficial	

Recommendation	Current status	Priority	Management's proposed action
Virus and patch management			
<p>Formal reporting be established to ensure that patches and virus definitions are up to date.</p> <p>We also recommend that databases behind these systems be updated whenever devices change.</p>	Progress is being made, but not yet fully resolved	Necessary	
Project Management			
Perform a review over Council's project management system to ensure that appropriate project management techniques are implemented, including developing a post implementation review (PIR) to bring forward lessons learnt from completed projects to current projects.	No progress has been made	Necessary	
Marton Pool			
<p>Perform a review of all invoices received from Nicholls Swim Academy to ensure they are paid in accordance with the contract.</p> <p>We also recommend that Council establish a process to ensure the reasonableness of the credit notes received for pool entry fees.</p>	Progress is being made, but not yet fully resolved	Necessary	

Recommendation	Current status	Priority	Management's proposed action
Creditors Masterfile Maintenance Report Review			
Independently review the Creditors Masterfile Maintenance Report back to supporting documentation by a staff member that has no edit-access. We also recommend that adequate supporting documentation for changes made to the masterfile be retained and filed with the Creditors Masterfile Maintenance Report.	Progress is being made, but not yet fully resolved	Necessary	
Purchase Order System			
Tighten the tolerance level in the new purchase order system between the total value of the goods receipted and the original purchase order.	No progress has been made	Necessary	
Process for removing Manawatu District Council staff from Rangitikei District Council IT systems when they leave			
Establish a process whereby MDC HR staff advise the Council's IT staff when a staff member who is part of the works shared services arrangement is leaving. The Council IT staff can then process that termination through their existing procedures.	Progress is being made, but not yet fully resolved	Necessary	

Recommendation	Current status	Priority	Management's proposed action
Credit Card Policy Update			
Update Council's credit card policy be updated to include: <ul style="list-style-type: none"> • Details on who is eligible for a credit card. • A process for cancelling and destroying cards that are no longer required. • Specific reference to good practises to follow when making purchases over the internet e.g. security practises. 	No progress has been made	Necessary	
Bonus Listing			
Investigate whether a report can be generated at year end that will capture all one-off payments and bonuses given to employees during the year.	Progress is being made, but not yet fully resolved	Necessary	
No Regular Testing of Business Continuity and Disaster Recovery Plans			
Review, update, and testing of Business Continuity plans be carried out to ensure they still meet the needs of Council	Progress is being made, but not yet fully resolved	Necessary	

Recommendation	Current status	Priority	Management's proposed action
Breach of Investment Policy			
Ensure Council compliance with the Investment Policy.	No progress has been made	Necessary	
Earthquake-prone Assets			
Undertake assessments of Council earthquake prone assets to establish the extent of exposure in relation to buildings that do not meet the required percentage of code. Based on the findings of these assessments we recommend that Council take appropriate action to ensure public safety and ensure that these assets have been appropriately accounted for.	Progress is being made, but not yet fully resolved	Necessary	

Matters that have been resolved

Recommendation	Outcome
Credit Card Expenditure	
Approve all credit card expenditure on a one-up basis in a timely manner.	Matter cleared. Our testing over credit card expenditure showed that all expenditure had been approved on a one-up basis in a timely manner.



Rangitikei
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Rangitikei District Council

Section 3: Financial Statements and Policy Reports

EXTRACT – pp.67-71 and 101

Whole of Council – Funding Impact Statement

For the year ending 30 June 2015

	2014 Annual plan (\$000)	2014 Annual report (\$000)	2015 Annual Plan (\$000)	2015 Actual (\$000)
Sources of operating funding				
General rates, uniform annual general charge, rates penalties	5,590	5,811	6,065	6,147
Targeted rates	13,960	14,421	14,098	14,513
Subsidies and grants for operating purposes	2,835	4,024	2,835	4,014
Fees and charges	1,822	2,067	1,872	2,141
Interest and dividends from investments	274	416	194	373
Local authorities fuel tax, fines, infringement fees, and other receipts	126	281	132	128
Total operating funding (A)	24,607	27,020	25,196	27,316
Applications of operating funding				
Payment to staff and suppliers	18,344	17,716	18,505	17,959
Finance costs	659	100	615	(1)
Other operating funding applications	0	0	0	0
Total applications of operating funding (B)	19,003	17,816	19,120	17,958
Surplus (deficit) of operating funding (A - B)	5,604	9,204	6,076	9,358
Sources of capital funding				
Subsidies and grants for capital expenditure	5,008	4,056	5,363	3,886
Development and financial contributions	0	0	0	0
Increase (decrease) in debt	7,338	(2,500)	7,317	(16)
Gross proceeds from sale of assets	0	18	0	118
Lump sum contributions	0	0	0	0
Other dedicated capital funding	0	0	0	0
Total sources of capital funding (C)	12,346	1,574	12,680	3,987
Application of capital funding				
Capital expenditure				
- to meet additional demand	0	0	0	0
- to improve the level of service	6,846	1,972	8,763	3,901
- to replace existing assets	11,055	8,509	10,838	9,616
Increase (decrease) in reserves	49	705	(845)	2,412
Increase (decrease) in investments	0	(408)	0	(2,583)
Total applications of capital funding (D)	17,950	10,778	18,756	13,345
Surplus (deficit) of capital funding (C - D)	(5,604)	(9,204)	(6,076)	(9,358)
Funding balance ((A - B) + (C - D))	0	0	0	(0)
Note: Depreciation expense not included above	9,718	9,465	10,145	9,834

Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2015

	Notes	2014 Actual (\$000)	2015 Budget (\$000)	2015 Actual (\$000)
Revenue from non-exchange transactions				
Rates other than targeted rates for water	3	18,243	18,665	18,574
Targeted rates for water		1,133	1,038	1,177
Subsidies and grants		8,044	8,198	7,793
Other revenue	5	2,634	2,396	2,908
Vested and discovered assets		480	0	0
Gains	6	9	0	82
Revenue from exchange transactions				
Finance income	4	416	194	373
Other revenue		287	68	77
Total operating revenue		31,246	30,559	30,984
Expenditure				
Depreciation and amortisation expense	14,15	9,465	10,145	9,834
Personnel costs	7	2,401	2,481	2,650
Finance costs	4	103	615	1
Losses	6	1,100	0	818
Other expenses	8	15,770	16,024	15,724
Total operating expenditure		28,839	29,265	29,027
Operating surplus (deficit) before revaluation losses		2,407	1,294	1,957
Loss on revaluation of property, plant and equipment		21,124	0	0
Impairment to roading and footpaths	14	0	0	
Operating surplus (deficit) before tax		(18,717)	1,294	1,957
Income tax expense	9	0	0	0
Operating surplus (deficit) after tax		(18,717)	1,294	1,957
Other comprehensive revenue and expense				
<i>Items that will be reclassified to surplus(deficit)</i>				
Financial assets at fair value through other comprehensive revenue and expense	6	(11)	0	(70)
<i>Items that will not be reclassified to surplus(deficit)</i>				
Gain on revaluation of property, plant and equipment	6	14,580	0	0
Total other comprehensive revenue and expense		14,569	0	(70)
Total comprehensive revenue and expense		(4,148)	1,294	1,887

Explanations of major variances against budget are provided in Note 31.

The accompanying notes form part of these financial statements

Statement of Changes in Net Assets/Equity

For the year ended 30 June 2015

	Notes	2014 Actual (\$000)	2015 Budget (\$000)	2015 Actual (\$000)
Balance as at 1 July		483,37 1	499,55 9	479,22 3
Total comprehensive revenue and expense previously reported		(4,148)	1,294	1,887
Balance as at 30 June		479,22 3	500,85 3	481,11 0

Explanations of major variances against budget are provided in Note 31.

The accompanying notes form part of these financial statements

Statement of Financial Position

As at 30 June 2015

	Notes	2014 Actual (\$000)	2015 Budget (\$000)	2015 Actual (\$000)
Assets				
Current Assets				
Cash and cash equivalents	10	1,466	4,007	2,967
Receivables from non-exchange transactions	11	2,515	3,210	3,268
Receivables from exchange transactions	11	429	68	381
Prepayments		114	20	11
Other financial assets	12	3,515	0	1,522
Non-current assets held for sale	13	0	0	0
Total current assets		8,039	7,305	8,149
Non-current assets				
Plant, property and equipment	14	472,567	507,460	475,496
Intangible assets	15	160	411	128
Forestry assets	16	186	221	222
Other financial assets				
Corporate bonds	12	3,101	3,635	2,510
Investment in CCOs and other similar entities	12	27	29	29
Total non-current assets		476,040	511,756	478,386
Total assets		484,079	519,061	486,535
Liabilities				
Current Liabilities				
Creditors and other payables	17	3,578	3,736	4,077
Employee entitlements	19	240	203	259
Income in advance		347	353	538
Borrowings	18	16	1,377	16
Total current liabilities		4,181	5,669	4,890
Non-current liabilities				
Employee entitlements	19	13	9	14
Provisions	20	470	494	345
Borrowings	18	192	12,036	176
Total non-current liabilities		675	12,539	535
Total liabilities		4,856	18,208	5,425
Net Assets		479,223	500,853	481,110
Equity				
Accumulated funds	21	442,611	462,592	444,481
Special and restricted reserves	21	4,868	4,962	5,099
Other reserves	21	31,744	33,299	31,529
Total equity		479,223	500,853	481,110

Explanations of major variances against budget are provided in Note 31.

The accompanying notes form part of these financial statements

Statement of Cashflows

For the year ended 30 June 2015

	Notes	2014 Actual (\$000)	2015 Budget (\$000)	2015 Actual (\$000)
Cash flows from operating activities				
Receipts from rates revenue		18,801	18,665	18,963
Receipts from grants and subsidies		7,857	8,198	7,679
Receipts from other revenue		3,345	3,486	2,717
Interest received		393	194	370
Dividends received		0	0	0
Payments to suppliers and employees		(17,338)	(18,505)	(17,687)
Interest paid		(108)	(615)	0
Goods and services tax (net)		(28)	0	(38)
Net cash inflows (outflows) from operating activities	22	12,922	11,423	12,003
Cash flows from investing activities				
Receipts from sale of property, plant and equipment		18	0	118
Receipts from sale of investments		0	0	2,500
Acquisition of investments		(3,000)	0	0
Purchases of property, plant and equipment		(10,817)	(19,601)	(13,104)
Purchases of intangible assets		(31)	0	(14)
Net cash inflows (outflows) from investing activities		(13,830)	(19,601)	(10,500)
Cash flows from financing activities				
Proceeds from borrowings		0	8,415	0
Repayment of borrowings		(2,500)	(1,082)	0
Net cash inflows (outflows) from financing activities		(2,500)	7,333	0
Net increase (decrease) in cash, and cash equivalents		(3,408)	(845)	1,503
Cash and cash equivalents at the beginning of the year		4,874	4,852	1,466
Cash and cash equivalents at the end of the year	10	1,466	4,007	2,968

The accompanying notes form part of these Financial Statements

Note 14: Property, plant and equipment (continued)*Roading network impairment*

On 20 June 2015, a significant flood event occurred in the district. This event caused significant damage to the roading network and its service potential. In line with Public Benefit Entity Accounting Standard 17 Property, plant and equipment (PBE IPSAS 17 and other related standards 21 and 26) Council has chosen to impair its roading assets for the loss of service potential incurred as a result of this event. By using the best information available at the time of preparing this annual report, the impairment amounts to \$??????. This amount appears as a charge in the statement of comprehensive revenue and expense and results in an operating deficit for the year under review. However, this impairment will be reversed in subsequent years as the roading network is restored to its full service potential thereby restoring the Council's full equity.

Revaluation and impairment

While in the normal course of events the Council would revalue its roading assets and this would incorporate any impairment loss, this has not been possible at year end with the degree of materiality, accuracy and certainty required. In addition, the low levels of increases in the BERL indices indicate that any revaluation adjustment upwards is likely to be immaterial so the Council has chosen to take the impairment approach as being the only practical solution to reflect the severity of the damage to its network.

Basis of impairment and uncertainty of estimates

The basis for the impairment loss included in these accounts is on the initial assessment by the Council's roading engineers of the cost to return the assets to its previous level of service. These initial assessments, by their nature, are the best estimates at balance date of the costs involved and include significant estimates on the physical works and materials required. These estimates are based on the best information available and fairly reflect the loss of service potential to the roading network. However, the uncertainty of these estimates means that the actual costs will not be known until all the work is completed.

Financial assistance rate (government subsidy)

Under the former LTSA funding model, these types of events would have been funded by up to 95% of the cost of the reinstatement work. Under the new funding model effective from 1 July 2015 the rates for 2016 and 2017, and beyond, are 82% and 83% respectively. The Council is in negotiation with the LTSA as to the level of support payable but depending on the year the work is able to be carried out, the Council could face an additional cost to ratepayers of between \$?????? and \$?????. The long-term plan for the period 2015 to 2016 indicates that the Council's flood damage reserve for roading will reach \$1.75m by the end of June 2016. This amount is available to fund the shortfall between the costs of reinstatement and subsidy. If the amount required exceeds this, the Council will consider options to fund the balance in a manner which will be equitable to all ratepayers, but, inevitably there will be an impact on rates.

Audit New Zealand

DRAFT ARRANGEMENTS LETTER FOR THE 2014/15 AUDIT

27 August 2015

Andy Watson
Mayor
Rangitikei District Council
Private Bag 1102
Marton 4741

Dear Andy

Audit for the year ended 30 June 2015

I am writing to outline our arrangements for the audit of Rangitikei District Council for the year ended 30 June 2015. This letter has two main sections – an agreement to be signed, and details of the audit.

Agreement to be signed

On the next page is an agreement for you to sign. Your signature confirms that the details of the audit match your understanding of the arrangements for this year's audit.

Please sign and return one copy of the agreement, along with a copy of the details of the audit.

Details of the audit

Here we set out the proposed arrangements for this year's audit. These include:

- business risks/issues and our audit response;
- areas of interest for all District Council;
- first financial statements prepared using the new PBE accounting standards; and
- logistics (such as our audit team, timing, and fees).

Additional information attached

We have attached two appendices for your information:

- Appendix 1: Areas of interest for all Local Authorities; and
- Appendix 2: Additional information about the audit.

Please take the time to read this document thoroughly before returning the signed agreement. If there are additional matters that should be included, or any matters requiring clarification, please contact me.

Yours sincerely

Debbie Perera
Associate Director

Agreement to be signed

I acknowledge that the details of the audit set out here are in keeping with my understanding of the arrangements for the audit.

Signed _____ Date _____
Andy Watson
Mayor

Details of the audit

1 Introduction

This document sets out the arrangements for the audit of Rangitikei District Council (the District Council) for the year ended 30 June 2015. These include:

- business risks/issues and our audit response;
- areas of interest for all Local Authorities;
- first financial statements prepared using the new PBE accounting standards; and
- logistics (such as our audit team, timing, and fees).

2 Your business risks/issues and our audit response

Based on the planning work and discussions that we have completed to date, we have identified what we consider to be the main business risks and issues facing the District Council. Many of these risks and issues are relevant to the audit because they affect our ability to form an opinion on your financial statements. As part of the wider public sector audit, we are also required to be alert to issues of effectiveness and efficiency, waste and a lack of probity or financial prudence (as set out in the Audit Engagement Letter dated 14 August 2015).

The table below sets out the business risks and issues that we have identified in line with these requirements. The left-hand column describes these risks and issues. In the right-hand column, we describe how we plan to respond to these during the audit.

Your business issues	Our audit response
June Floods	
The significant rainfall event of the weekend of 20 – 21 June 2015 caused extensive flood damage to the district. In particular Council's roading assets were badly affected. While most issues were resolved quickly the damage to some roads was severe and in some cases will not be completely fixed for another two years. Council has performed an assessment of potential costs required to reinstate the roads, which is estimated at \$18M.	We will review the Council's cost assessment and work with Council to determine the correct accounting treatment for the damaged roads.
Rates	
Rates are Council's primary funding source. Compliance with the Local Government (Rating) Act 2002 (LGRA) in rates setting and collection is critical to ensure that rates are validly set and not at risk of challenge. The District Council should ensure they have appropriate processes in place, including	For 2015, we will again consider Council's compliance with aspects of the LGRA that materially impact on the financial statements. Principally this means a focus on the rates setting process – the consistency and completeness of the resolution and the Funding Impact Statement (FIS), and

Your business issues	Our audit response
seeking legal advice where appropriate, to ensure compliance of their rates and rating processes with legislation.	<p>reviewing a sample of differentially set and/or targeted rates to assess whether the matters and factors used are consistent with the LGRA. We will also follow up any issues identified from our review of rates in 2014.</p> <p>We stress that our review of compliance with legislation is completed for the purposes of expressing our audit opinion. It is not, and should not be seen, as a comprehensive legal review. This is beyond the scope of the audit, and our expertise as auditors. The Council has responsibility for ensuring that it complies with applicable laws and regulations.</p>

We will also follow up on progress made by the District Council in its response to our previous recommendations.

Please tell us about any additional matters that we should be aware of as your auditor, and any specific significant business risks that we have not covered.

3 Audit Committee

We are pleased to note that Council is in the process of forming an Audit Committee.

An effective Audit Committee can have a positive impact on the identification and management of risk and provide valuable support to an entity and the Governing Body. In March 2008, the Auditor-General published a good practice guide: "Audit committees in the public sector". This guide notes

"Audit committees have a valuable contribution to make in improving the governance, and so the performance and accountability, of public entities. They can play an important role in examining an organisation's policies, processes, systems, and controls. An effective audit committee shows that an organisation is committed to a culture of openness and continuous improvement."

We encourage Council to consider the 2008 guidance as it still remains relevant to the running of an effective audit committee. A copy of the guidance can be found at <http://www.oag.govt.nz/2008/audit-committees>.

The Office of the Auditor-General is in the process of updating their 2008 guidance on Audit Committees. As part of that process a discussion document has been published seeking comment from Audit Committees in the public sector on that works and doesn't work for them.

The link to the discussion document, entitled "Making the most out of your Audit Committee" can be found <http://www.oag.govt.nz/2014/audit-committees> We encourage Council to provide comment.

We look forward to working with the Audit Committee

4 Our areas of interest for all local authorities

As part of our audit planning we have identified two areas of focus across the 2014/15 audits of all local authority clients. These are detailed below.

There are also other areas of audit interest that are part of our audit of the District Council which we monitor as part of our responsibility to consider the broader risks affecting local authorities.

4.1 Matters of particular interest for 2014/15

In May 2014, the Auditor-General published a report *Reflections from our audits: Our future needs – is the public sector ready?*. The report recognises that public services must change and adapt to meet new challenges and help build the future New Zealanders want. The report identified five aspects that the public sector should be preparing for:

- Protecting the solid foundations of public sector finances.
- Looking after natural resources and physical assets.
- Putting ideas and plans into action.
- Acknowledging the importance of people.
- Embracing digital technology.

As part of our audit, we will consider the observations in the report and report any relevant issues to you. We plan to focus on two areas as part of the 2015 audit, investment and asset management. The purpose of investment and asset management is to provide the desired level of service in the most cost effective manner through the management of assets for present and future customers. Our focus is on significant assets and investments that are important to the delivery of services.

4.1.1 Investment management

Public sector entities are accountable for the public money that they invest in financial assets or projects and programmes. Financial assets across the New Zealand public sector are becoming increasingly significant. As part of the audit we will update our understanding of the District Council's financial assets and investment practices.

4.1.2 Asset management

Asset management is a core part of the District Council's business and critical to the prudent and sustainable use of public funds. We have recently reviewed and commented on the District Council's infrastructure strategy and asset management practices during our audit of the District Council's Long Term Plan Consultation Document. We will follow up on progress made addressing issues raised.

We also plan to update our understanding of how Council monitors its actual asset expenditure against the planned expenditure. Key questions that Council should consider include:

- What is the District Council's plan to close knowledge gaps about the condition and performance of significant assets?
- Is there a transparent and prudent approach to decisions to defer maintenance and renewals expenditure?
- Does Council monitor and assess the implications of unplanned asset expenditure and does this process ensure the ongoing sustainability of Council's assets for future generations?

4.2 Other areas of interest

As well as the risks and issues noted above, there are a number of other areas of audit focus common to the local authorities sector. Refer to Appendix 1 for details.

5 First financial statements prepared using the new public benefit entity accounting standards

The District Council is required to prepare the 30 June 2015 financial statements using the new public benefit entity accounting standards.

To ensure a smooth audit of the first financial statements prepared using the new standards, the District Council needs to:

- determine its reporting tier;
- assess and document the differences that may have a recognition, measurement, presentation, or disclosure effect on the District Council and group's financial statements;
- update the statement of accounting policies to comply with the new standards;
- prepare an opening statement of financial position and restate comparatives (including disclosures) to comply with the new standards;
- determine any required system changes to comply with the new standards; and
- consider group reporting implications that could arise from accounting policy differences between the PBE group and its for-profit subsidiaries.

We plan to audit the updated accounting policies, opening statement of financial position, and restated comparatives during the final audit visit. It is important that the above work is completed in advance of our review.

We will be progressively updating our model financial statements and publishing a table of key differences in the new PBE standards. These publications will be available on our website from early in 2015.

We expect the District Council to have adequately prepared for the adoption of the new standards. If the audit takes more time than planned because your entity has not been prepared to apply the new standards, we will look to recover additional fees.

6 Logistics

6.1 Our audit team

The Audit New Zealand staff involved in the audit are:

Debbie Perera	Associate Director
Ian Lothian	Engagement Quality Control Director
Chris Webby	Audit Manager
Freddie Quilongquilon	Audit Supervisor
Robyn Dearlove	Information Systems Auditor
Jason Biggins	Tax Director

6.2 Important dates in the audit process

Our proposed timetable is:

	Date
Interim audit begins	25 May 2015
Draft financial statements available for audit ¹	2 September 2015
Final audit begins	7 September 2015
Final financial statements available ² for audit	24 September 2015
Verbal audit clearance given	25 September 2015
Annual report ³ available for audit	25 September 2015
Audit opinion issued	1 October 2015
Draft final detailed management report issued	16 October 2015

6.3 Our interim audit visit

We carried out the interim audit during May 2015. During this visit, we focused on updating our understanding of the District Council's internal control. This included reviewing the control environment, risk assessment processes and relevant aspects of information systems controls. We will use the results of this assessment to determine how much we can rely on the information produced from your systems during our final audit.

6.4 Our final audit visit

Our final audit is scheduled to start on 7th September 2015 and is expected to last 2 weeks. During this visit we will be auditing the balances, disclosures, and other information included in your financial statements.

6.5 Professional fees

Our audit fee estimate for the year ended 30 June 2015 is \$106,001 plus disbursements (GST exclusive). This is as agreed in the Audit Proposal Letter dated 1 July 2014.

¹ Financial statements (including notes to the financial statements) with actual year-end figures.

² Financial statements incorporating all the amendments agreed to between District Council and Audit New Zealand.

³ Annual report, including any Chair's and Chief Executive's overview or reports.

The fee is an estimate and assumes that the expectations discussed in Appendix 2 will be met. If this does not occur, or the scope of the audit changes, we will discuss this further with you.

We propose to bill as follows:	Amount
May	\$40,000
June	\$20,000
September	\$30,000
October	\$16,001
	<u>\$106,001</u>

Disbursements will be invoiced on an actual and reasonable basis as occurred.

To ensure we can complete the audit within the proposed time frame (see section 5.2) and agreed fee, it is critical that you make appropriate supporting documentation available to us on a timely basis. If this is not the case, it is likely to result in cost overruns, which we will seek to recover from you. To help you prepare for the audit, a schedule of the information that we will need for the audit is included in Appendix 3.

Appendix 1: Areas of interest for all Local Authorities

As well as the risks and issues noted above, there are also a number of other concerns common to the local government sector. The table below outlines our areas of interest for this year's audit. The left column describes each matter and the reasons for our interest. The right column describes how we plan to address each matter during the audit.

Areas of interest	Our audit response
Conflicts of interest	
<p>Conflicts of interest are an area of concern from two perspectives; probity and the potential for a conflict of interest that is not well managed to create significant legal and reputation risks. During 2007, the Office of the Auditor-General (OAG) published two sets of guidance for entities in this area.</p> <p><i>Managing conflicts of interest: guidance for public entities</i>, explains how to understand conflicts of interest in the public sector, and how to identify, disclose, and manage them. It also considers both the legal and ethical dimensions of conflicts of interest.</p> <p>The 2010 publication <i>Guidance for members of local authorities about the Local Authorities (Members' Interests) Act 1968</i> provides more specific guidance for Councillors. This is an updated version of previously published guidance about the legal requirements that apply to Council members in formal decision-making at meetings of their authority.</p> <p>The Local Authorities (Members' Interests) Act 1968 controls the making of contracts between Councillors and the Council and prevents Councillors from participating in Council matters in which they have a pecuniary interest.</p>	<p>While it is primarily the responsibility of the Council to identify and manage conflicts of interest, in the course of our usual audit work we will remain alert for conflicts of interest.</p> <p>If we identify particular risks related to the management of conflicts of interest, we may carry out further work to review the Council's systems and processes.</p>

Areas of interest	Our audit response
Elected members – remuneration and allowance	
<p>The Local Government Act gives the Remuneration Authority responsibility for setting the remuneration of local government elected members. The Authority also has the role of approving a Local Authority's policy on allowances and expenses.</p> <p>Council's annual report must disclose the total remuneration received by or payable to each member of the local authority in the reporting period.⁴ A local authority must disclose remuneration paid or payable to each member from both the local authority and any Council organisation of the local authority.</p>	<p>We will assess the Council's compliance with the requirement to disclose the remuneration of each member of the local authority in the annual report against the relevant Local Government Elected Members Determination and any amendment to that Determination.</p>
Possible LTP amendments	
<p>Every proposed amendment must be audited. An amendment arises where Council proposes:</p> <ul style="list-style-type: none"> • a significant change to services levels [section 97 (1)(a)]; or • to transfer ownership of a strategic asset [section 97(1)(b)]; or • a significant change to the revenue and financing policy [section 103(4)]. 	<p>We will remain alert for possible amendments throughout the year. We will maintain contact with management and discuss potential amendments as they arise.</p>
Project management	
<p>Taking a project-managed approach is an important part of effectively controlling capital works, changes to key IT systems and the process of change more generally – whether that is change to service delivery, or change to the way the entity works.</p>	<p>We will review the Council's approach to project management and consider whether an adequate control framework is in place and operating effectively.</p>

⁴ Schedule 10, clause 18, Local Government Act 2002.

Areas of interest	Our audit response
Funding arrangements and procurement	
<p>The Auditor-General continues to have an interest in the appropriate management of funding arrangements and procurement throughout the public sector.</p> <p>The OAG has published two reports which are available on the OAG website:</p> <ul style="list-style-type: none"> Public sector purchases, grants, and gifts: Managing funding arrangements with external parties; and Procurement guidance for public entities. <p>More recently the Ministry of Business, Innovation and Employment issued the Government Rules of Sourcing including principles of government procurement, which came into force in October 2013. Agencies in the Public Sector are encouraged to apply the Rules as good practice.</p> <p>We recommend that Council's policies and procedures for funding arrangements and procurement be compared to the guidance provided in these reports.</p>	<p>We will follow up on whether the Council has updated its policies and guidance in line with both the OAG publications. We may also review whether procurement practices reflect Council policy and good practice.</p>
Contract management	
<p>Contract management is an important component of procurement. Contract management includes the effective management and monitoring of the delivery of goods or services to the agreed levels. It is essential to ensuring that the Council obtains value for money from the contracts its procurement processes have put in place.</p> <p>Contract renewals provide opportunities for the Council to refresh contract expectations and deliverables to align to the LTP. This can also provide opportunities for efficiencies or other savings.</p>	<p>We will discuss the contract management process the Council has and consider whether there is appropriate management. Where we identify particular risks related to contract management we may carry out additional work to review the Council's policies, procedures or approach to contract management in practice.</p>

Areas of interest	Our audit response
Information technology	
<p>The District Council is dependent on its IT systems. The reliability of the IT systems, technology platforms, and associated controls is critical to maintaining the integrity of the District Council's data and ensuring continuity of services to its customers. The integrity of the IT systems supports the timely reporting of a quality Annual Report.</p>	<p>We will be completing a review of the District Council's IT General Controls (ITGC), which will include:</p> <p>IT security (network and applications); business continuity and IT disaster recovery; change management; and operations, problems and incident management.</p> <p>We will also maintain an awareness of any planned or implemented initiatives and the impact these may have on the District Council's processes and control environment.</p> <p>We will assess any impact such initiatives will have on our audit approach and requirements.</p> <p>To assist the audit team in performing their testing our IS auditors will perform data analysis on selected business processes, such as journals, and will performing testing on automated IT application controls.</p>
Risk management	
<p>Sound risk management processes help to minimise the impact of risks on the organisation.</p> <p>Where the Council has not identified risks, or has not put in place specific processes for managing these risks, the organisation remains exposed to the full impact of the particular risk.</p>	<p>We will ascertain whether the Council has, or is implementing a formal organisation-wide approach to risk management.</p> <p>We will perform a high level review of the broad approach taken and the processes in place.</p>
Property, plant and equipment	
<p>The District Council periodically revalues its land and buildings and infrastructure assets. PBE IPSAS 17, <i>Property, Plant and Equipment</i>, requires that valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.</p> <p>The District Council needs to formally review whether a revaluation is needed this year for the asset classes that it is not proposing to revalue. It is important that you make this assessment at an early stage, to avoid the risk of this becoming a significant issue at a late stage of the audit.</p>	<p>We will review the District Council's assessment of whether there is any significant difference between the carrying amount and fair value of its land and buildings and infrastructure assets.</p>

Areas of interest	Our audit response
Performance measure rules	
<p>In November 2013 the Department of Internal Affairs (DIA) announced the Non-financial Performance Measures Rules 2013 (the Rules). The Rules came into force under s261B of the LGA 2002, and mandated a total of 19 measures across water supply, wastewater, stormwater drainage, flood protection and roading and footpath activities. These measures must be included in the 2015-2025 LTP and be reported on for the first time in the 2016 Annual Report.</p>	<p>We will discuss with Council how it is planning to establish the systems necessary to capture this information.</p>
Financial reporting disclosures	
<p>Schedule 10 of the Local Government Act and the Local Government (Financial Reporting and Prudence) Regulations 2014 detail disclosures to be included in the Annual Report. Council should review these requirements to ensure all disclosures have been included in the annual report.</p>	<p>We will check that all the disclosures required by schedule 10 of the Local Government Act and the Local Government (Financial Reporting and Prudence) Regulations 2014 have been appropriately included in the Council's annual report.</p>

Appendix 2: Additional information about the audit

Our reporting protocols

Management reports

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

Reporting of misstatements

We will include details of all uncorrected misstatements in our management report. Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of the District Council's financial statements.

During the audit, we will provide details of any such misstatements we identify to an appropriate level of management. We will ask for each misstatement to be corrected in the District Council's financial statements. Where management does not wish to correct a misstatement we will seek written representations from representatives of the District Council's governing body that specify the reasons why the corrections will not be made.

Our expectations of you to enable an efficient audit

To enable us to carry out our audit efficiently within the proposed audit fee, we expect that:

- the District Council will provide us with access to all relevant records and provide information in a timely manner;
- your staff will provide an appropriate level of assistance;
- the financial statements will be available at the start of the final audit, include all relevant disclosures, and be fully supported by a detailed workpaper file; and
- the annual report and financial statements (including the statement of service performance) will be subjected to appropriate levels of quality review before submission for audit.

Our audit fee is based on the assumption that we will review no more than two sets of the draft annual report, one printer's proof copy of the annual report, and one copy of the electronic version of the annual report for publication on the District Council's website.

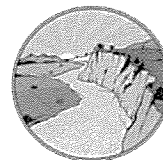
How we consider your compliance with statutory authority

As part of the Auditor-General's mandate, we carry out an audit of compliance with statutory authority. Our audit is limited to obtaining assurance that you have complied with certain laws and regulations that may directly affect the District Council's financial statements or general

accountability. Our audit does not cover all of the District Council's requirements to comply with statutory authority.

Our approach to this aspect of the audit will mainly involve assessing the systems and procedures that are in place to ensure compliance with certain laws and regulations that we consider to be significant. We will also complete our own checklists covering the key requirements of significant legislation. In addition, we will remain alert for any instances of non-compliance that come to our attention. We will evaluate the relevance of any such non-compliance to our audit.

Attachment 4



Rangitikei
UNUSUALLY...

MEMORANDUM

TO: Audit/Risk Committee

FROM: Michael Hodder

DATE: 25 August 2015

SUBJECT: **Audit Management Report on the 2015/25 Long Term Plan**

FILE: 1-LTP15-1-2

1 Background

- 1.1 The Council's Auditor has recently provided the draft report on the 2015/25 Long term Plan (including the Consultative Document). This is attached as Appendix 1.
- 1.2 Such reports provide an opportunity for the Auditor to note minor errors and to suggest improvements to Council's processes. In the latter case, the Auditor looks for management comment. Where specific actions are proposed they will be checked as part of the annual audits.

2 Comment

- 2.1 While an unmodified audit opinion was issued for both the Consultation Document ("What's the Plan Rangitikei...?" and the full Long Term Plan, with the latter there was an 'emphasis of matter' caused by the uncertainties from the potential financial impact of the extreme rainfall during 20/21 June 2015. Until the level of co-investment from the New Zealand Transport Agency is made clear, that uncertainty (and the possible need for any significant change to the programmes or projects outlined in the Long Term Plan) continues. While there has been a reduction in the technical tests for which an amendment is required, a reallocation of funding over several years to roading would impact on other programmes or the level of rates (or both) and addressing this would require an amendment (and the associated consultation and audit processes for that).
- 2.2 There are two areas where the Auditor requests a management comment – the infrastructure strategy and asset management. The suggested comment is noted below.
 - a) *Infrastructure strategy – Gaining more accurate condition information about Council's below-ground infrastructure assets so that there is more accurate information about the timing and cost of replacing such assets.*
- 2.3 This is an ongoing programme. Last year Council completed an extensive infiltration and inflow investigation programme in Taihape and Hunterville: we have yet to complete our analysis of the findings and include the condition ratings into

AssetFinda but it is programmed work. We are also assessing flows at the numerous wastewater treatment plants in comparison with water use and using this information to inform us of likely areas for further investigation. Council continues to use CCTV and, occasionally, when road pavement rehabilitation is proposed over pipe infrastructure, destructive testing (i.e. removing a sample of pipe for expert laboratory analysis).

- 2.4 There is also an element of investigation with all our capital works as we like to confirm pipe material and condition before launching into full scale replacement. This helps us determine the best means of renewal. We have been caught out in the past with pipes that have been replaced by our predecessors but this has not been recorded in the asset database. This final investigation is covered in the costs for the renewal and so is not a separate line item.

b) Asset management – Performing a quality assurance review over data being input into the asset management system by contractors:

- 2.5 Data input into Council's asset management systems by contractors is confined to roading. In the past nine months, there has been a significant upgrade to the way RAMM Contractor and the RAMM database interact. Staff undertake checks on contractor data entry: accuracy is critical for the forward works programme (and the associated payments from the New Zealand Transport Agency).
- 2.6 Contractors do not have access to AssetFinda – this tool is used to manage below ground infrastructure and community facilities. Typically one person from the Infrastructure Shared Services Group enters the data, it is checked by the Asset Engineer.

3 Recommendation

- 3.1 That the Audit Management Report on the 2015/25 Long Term Plan and the memorandum commenting on it be received.

Michael Hodder
Community & Regulatory Services Group Manager

Appendix 1

Report to Council on the audit of

Rangitikei District Council

Long Term Plan and Consultation Document for the period
1 July 2015 to 30 June 2025

Report to the Council

We have completed the audit of the Rangitikei District Council's (the Council) Long Term Plan and Consultation Document for the period 1 July 2015 to 30 June 2025. This report sets out our findings from the audit and draws attention to our detailed findings, and where appropriate makes recommendations for improvement.

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Key messages

We issued an unmodified audit opinion on the Council's Long Term Plan Consultation Document on 30 March 2015 and an unmodified audit opinion with an emphasis of matter on the Council's final Long Term Plan on 25 June 2015.

The emphasis of matter was over the uncertainties due to the potential impact of the recent rainfall event.

Issues identified during the audit

- ***Affordability and maintaining levels of service***

A significant issue facing the Council is the declining population and ensuring rates remain affordable while continuing to deliver the current levels of service. Council is investigating alternate, cost effective options for reticulated water and wastewater solutions for small communities. We remind Council to consider, as alternatives are identified, the significance of future decisions and whether they trigger an amendment to the LTP.

- ***Infrastructure strategy and asset management plans***

While effective asset management systems are in place and there is a clear process for monitoring asset performance, we recommend that Council perform a quality assurance review over the data being input into the system by contractors.

- ***Condition assessment of underground assets***

There are limitations around the condition assessment of underground data. Council has disclosed these limitations in both the consultation document and the LTP; however, Council will need to continue to gather information on the condition of underground assets.

- ***Consultation document***

The final CD clearly set out the options available and the impact that each of these options had on rates, debt and levels of service. We commend Council on the conciseness and readability of the final CD document.

- ***Final LTP***

While there are opportunities to cut down the size of the document we have assessed the final LTP provides a basis to enable effective decision making for the future; and it provides an accountability framework.

- ***Performance framework***

As part of the development of the LTP there are a number of new performance measures, We remind Council of the need to ensure that there are systems in place to monitor its actual performance against the planned performance measures included in

the LTP from 1 July 2015. These systems will assist with annual reporting, and also internal monitoring and reporting to Council.

Thank you

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

Debbie Perera
Associate Director
Draft – 24 August 2015

1 Our audit opinion

1.1 We issued an unmodified audit opinion over the consultation document and the Long Term Plan

We issued an unmodified audit opinion on the Council's LTP CD on 30 March 2015.

This meant we were satisfied the Council's LTP CD meets the statutory purpose and provides an effective basis for public participation in Council's decisions about the proposed content of the 2015-25 LTP.

We issued an unmodified audit opinion with an emphasis of matter on the Council's LTP on 25 June 2015. The emphasis of matter was around the uncertainties due to the potential impact of the recent rainfall event.

Uncertainties due to the potential impact of the recent rainfall event

As a result of the rainfall event that hit the District over the weekend of 20 and 21 June 2015 the Council's roading infrastructure sustained damage. At the time of the adoption of the LTP on 25 June 2015 the Council had been unable to complete a detailed assessment of the remedial work needed. As a result, the Council was unable to determine the extent of the damage and the funding that will be required to repair the damage prior to the adoption of its plan. The Council identified this in the LTP and noted that once the extent of the damage is known the Council will assess if the LTP needs to be amended.

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

1.2 Unadjusted misstatements

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

We discussed any misstatements that we found with management. All misstatements were amended prior to Council adopting both the CD and final LTP.

2 Audit scope and objective

The scope of our audit engagement and our respective responsibilities are contained in our audit proposal and arrangements letter dated 22 January 2015 and are set out in Appendix 1.

3 Control environment

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

We have not identified any significant areas of improvement around the Council's processes and controls over the underlying information.

4 Areas of audit emphasis

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

4.1 Issues identified during the planning stage

4.1.1 Quality Assurance and timeliness

Our experience with the 2012-22 LTP was that the Council struggled to ensure the information given to us was to the appropriate standard and met the agreed timeframes. As part of our planning we were concerned that we may face similar issues, despite there being a change in personnel.

While there were significant delays (beyond Council's control) to the original timetable at the CD stage due to the problems encountered with the newly installed budget management system (Chameleon), the quality of the underlying documentation this time around has been to a good standard.

Leading up to the final LTP audit we agreed the timeline of when the LTP was to be received and confirmed that the LTP would go through a quality assurance process before being given.

We received the LTP within the agreed timetable with only the mandatory performance measure targets missing. It was evident from our review of the document and underlying information that Council had undertaken a quality review of the document. While our review did identify areas which needed to be updated, these were assessed as minor compared to the past.

4.1.2 Affordability and maintaining levels of service

A significant issue facing the Council is the declining population and ensuring rates remain affordable while continuing to deliver the current levels of service. Of particular concern is the provision of reticulated water and wastewater schemes to small communities.

To address this issue the Council proposes to investigate alternate cost effective proposals for water and wastewater solutions for small communities as their resource consents come up for renewal. Mangaweka, whose resource consent expires in 2024 is the first of these small communities to be addressed.

The Council's proposal to decommission the current wastewater reticulation system and replace it with onsite treatment facilities was identified as Council's preferred option within the LTP CD. The cost of doing so was factored into the LTP. The Council is yet to decide how ongoing operating costs of these new systems will be funded.

While the community indicated, through the consultation process, that they weren't in favour of replacing the current reticulated systems for Mangaweka this did not

result in any change to the LTP as Council still plans to explore various options when the resource consents come up for renewal. We understand that once more information is known, Council will go back to the community to consult on the next steps.

We remind Council to consider, as the project progresses, the significance of future decisions and whether it triggers an amendment to the proposed LTP.

We are satisfied the issue around affordability and maintaining levels of service was clearly identified and disclosed within the Council's infrastructure strategy, CD and LTP.

4.1.3 Earthquake prone buildings

The Council's buildings are aging and there are a number of buildings that are well below the current earthquake code. In particular the seismic assessments have identified that the Marton Council building, Marton Library, Bulls Library, Bulls Town Hall and Taihape Town Hall are all under 33% of the earthquake code and require seismic strengthening.

At the time of the LTP audit, Council had not performed any detailed cost assessments (apart from Taihape Town Hall) on these buildings as they do not plan to strengthen them, instead they plan to sell them at land value and relocate the Council services as part of their town centre plans.

We concluded that Council have transparently identified in the Consultation Document that if they do not go ahead with their preferred option of rejuvenation of the town centres of Bulls, Marton and Taihape (which was supported through the consultation process) then they would have to assess the buildings further to determine the costs associated with strengthening them.

4.1.4 Infrastructure strategy

Council's infrastructure strategy has identified the following factors of critical importance:

- Projected decline in population
- Continuing Government funding assistance for roads
- Conditions governing resource consents for water, wastewater and (potentially) stormwater; and
- The affordability of maintaining current urban reticulation and treatment systems

The projected decline in population has a significant impact on the affordability of reticulated water and wastewater treatment systems particularly on small communities. This was captured in both the Consultation Document and the LTP.

The other two factors, continued funding assistance for roads and the conditions around resource consents have been taken into consideration in the completion of the budget figures for the proposed LTP.

We note that there are limitations around the condition assessment of underground data. Council disclosed within the consultation document and the LTP the risk that the current information around condition has limitations and where these exist the information will be reviewed as new information becomes available. The CD and LTP clearly noted that this may result in changes to the costs or timing of planned expenditure.

We concluded that the Council has clearly articulated the risks to the reader around the limitations over condition data of the network and the possible implications on forecasts. We have also confirmed that the infrastructural asset expenditure is in line with the infrastructure and financial strategy and is based on reasonable information.

Council will need to continue to gather information on the condition assessment of the underground assets to get more accurate information about the timing and cost of replacing these assets.

Management Comment

4.1.5 Asset management

The Roding and Three Waters Asset Management Plans (AMP) were reviewed by our sector specialists. Through discussion with infrastructure staff, a high level assessment of Councils planning systems, review of the infrastructure strategy, and a walkthrough of the asset management plans the overall quality and material completeness of the Asset Management Plans was assessed.

We do note that both AMPs reviewed were very detailed and make it evident that there has been improvement in the asset management area since the last LTP.

Recommendation – quality assurance review over contractor data

While effective asset management systems are in place and there is a clear process for monitoring asset performance and condition, it was identified that there is a lack of a quality assurance review over data being input into the system by contractors which means that what is entered into the system may not be complete or accurate.

The way the data is being input runs the risk of two sets of assets being kept on the system when really only one of those assets exist. As the system relies on manual inputting and monitoring, the lack of a third party quality assurance process gives rise to the risk that data was not being input correctly.

Council staff check the physical work of the contractor prior to payment of invoices, however there is no review that the data input into the asset management system is accurate.

We recommend that Council perform a quality assurance review over data being input into the system by contractors.

Management Comment

4.2 Issues identified during the Audit

4.2.1 Financial strategy and balanced budget

The financial management principles and requirements of Council are set out in Part 6, subpart 3 of the Local Government Act 2002:

- Section 101 establishes a general requirement for local authorities to manage financial matters prudently and in a manner that promotes the current and future interests of the community; and
- Section 100 requires the Council to balance the budget (breakeven or surplus) or forecast a deficit where it is financially prudent to do so having regards to the various elements set out in section 100.

The Council have budgeted for operating deficits in 7 out of ten years of the LTP. This is significantly due to the Council receiving roading subsidies of up to 63% through NZTA so the Council does not fund 63% of the depreciation through rates to take into account the subsidy. The deficits arise in the years in which subsidies on actual renewals are less than 63% of depreciation. This will offset in later years when renewals are higher than depreciation.

The key focus for the Council in its Financial Strategy (FS) is that the Council retains its current position and that it does not borrow large sums as a matter of course and funds depreciation on infrastructure in order to ensure infrastructure is maintained and renewed while keeping rates at affordable levels.

Our testing of capital renewals did not identify any concerns that the Council were not managing their infrastructure assets to promote intergenerational equity.

We have concluded that, although the Council does not have a balanced budget for seven years of the LTP, overall across the full 10 year period it has budgeted in a fiscally prudent manner. The Council is working to ensure that its assets and services are maintained at the current levels while ensuring that affordability to the ratepayers and the district is kept in mind.

4.3 Content of the Consultation Document

This was the first time that Council has had to prepare a CD under the current requirements; as a result all Councils were working through the content and layout of their CDs. We are aware that there will be sector reviews and feedback and understand that Council will take into consideration any such reviews and best practice guidance in preparing the next CD in 2018-28.

While we note that the Council's first draft of the CD was quite long and didn't clearly set out the full impact of the options. We believe that the final CD did clearly set out the options available and the impact that each of these options had on rates, debt and levels of service and commend Council on the conciseness and readability of the final CD document.

4.4 Content of the Long Term Plan

We confirmed that the LTP meets the purpose of the LTP as it provides a basis to enable effective decision making for the future; and it provides an accountability framework.

Our review identified that there was repetition within the LTP. For example; each group of activity of the Council outlines the intended level of service and major aspects of the service performance statement. This is then followed on by the next section which lists all the levels of service and performance measures for each group of activity. Then in section 11 the Council again covers the changes to level of service. This was raised with Management at the time of the audit, however we understand that Council is happy with the structure of the LTP as it currently stands.

While there are opportunities to cut down the size of the document we have assessed the LTP as reasonable as it was not being used for consultation, it is a working document of Council and it meets the statutory purpose of an LTP.

5 Other matters arising from our audit

We completed our planned work on the modules detailed in our audit proposal and arrangements letter and identified the following other matter to bring to your attention:

5.1 Performance framework/measures

The Council's approach to development of levels of service has not changed significantly from the previous LTP other than for the mandatory measures.

We have assessed the Council's performance framework as good, with the Council supplementing additional measures to cover off areas that the new mandatory measures did not cover e.g. added measures around rural areas.

Our review over the mandatory measures identified that some of the targets originally set by the Council were not clear. This has now been rectified. We have obtained assurance that the Council has developed these measures in an appropriate manner, taking into account previous results or information that Council had available.

We remind Council that it will need to implement systems and controls to report on all new performance measures, especially the new mandatory performance measures.

Appendix 1: Mandatory 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 2015-25 Long Term Plan Consultation Document (LTP CD) and reporting that opinion to you. This responsibility arises from section 93C(4) of the Local Government Act 2002.</p> <p>The audit of the LTP CD does not relieve management or the Council of their responsibilities.</p> <p>Our audit proposal and audit arrangements letter dated 22 January 2015 contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carry out our audit in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (revised): <i>Assurance Engagements Other Than Audits or Reviews of Historical Financial Information</i>, the International Standard on Assurance Engagements 3400: <i>The Examination of Prospective Financial Information</i>, and the Auditor-General's auditing standards.</p>
Auditor independence	<p>We confirm that, for the audit of the Rangitikei District Council's LTP CD for the period 1 July 2015 to 30 June 2025, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.</p> <p>Other than our work in carrying out all legally required external audits, we have no relationship with or interests in the Council or any of its subsidiaries.</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 Rangitikei 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 Rangitikei District Council during or since the end of the financial year.</p>
Unresolved disagreements	<p>We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the LTP CD. Management has not sought to influence our views on matters relevant to our audit opinion.</p>

Attachment 5

REPORT

SUBJECT: **Legal Compliance Monitoring Project**

TO: Audit/Risk Committee

FROM: Stuart Hylton, Policy Advisor

DATE: 20 August 2015

FILE: 5-PO-1-4

1 Purpose

- 1.1 The purpose of this report is to bring to the Committee's attention Council's Legal Compliance project, its associated work streams and progress to date.

2 Introduction

- 2.1 The Rangitikei District Council adopted a legal compliance monitoring project back in 2007. The project arose as a result of Audit New Zealand's Management Report for the year ending June 2006, noting that Council had formalised its legal compliance system, and had identified a monitoring regime relevant to key legislation underpinning Council's activities.
- 2.2 Since that initial legal compliance monitoring review in 2007, the only other full review completed by Council was in 2010. Ideally the full legal compliance monitoring programme covering the 16 modules could be completed as a rolling review over a two to three year period.
- 2.3 Council's legal compliance monitoring project incorporates SOLGM's Legal Compliance programme comprising 16 modules addressing key legal compliance aspects of local government functions. These modules underwent a review during 2014.
- 2.4 The programme is based on a cooperative approach to developing "good practice" legal compliance processes and procedures across a range of local government activities, utilising the existing knowledge base within local government and sharing the costs.
- 2.5 The objective of the programme is to assist local authorities in identifying and meeting their legal obligations. The programme affords participating councils the surety that best practice sector audits and improvements are being undertaken in areas where council legal risks could be high.

- 2.6 SOLGM's Legal Compliance programme modules are Resource Management; Employment; Health and Safety; Enforcement; Privacy Act; Property sales, leases and acquisitions; Tender procurement; Rates rebates; Billing and Collection, Liquor Licensing; Land Information Memorandums (LIMs); Dog Control; National Dog Database; Bylaw Making; Local Government Official Information and Meetings Act (LGOIMA); Building Act. No module addresses the requirements on local authorities under the Public Records Act, although record-keeping is invariably a significant element in the SOLGM modules.

3 2015 Legal Compliance Review

- 3.1 It is Council's intentions to complete a full review of all the Legal Compliance Modules this year.
- 3.2 The form the legal compliance reviews generally takes involves audit of Council's processes against SOLGM best practice guidance material, questioning of relevant staff, review of sample files and documents, check of readily available documents e.g. forms, brochures, letter templates, website info etc., monitoring of progress against previous audit findings and action list and identification of any continuous improvement opportunities.
- 3.3 Findings are compiled in a draft report together with recommendations. This is discussed with the relevant manager and staff to determine accuracy of findings and to gain input into proposed actions.
- 3.4 Any actions taken as a result of the report are the domain of the responsible manager and their relevant staff, for example, updating forms, developing desk files for processes etc. Key actions that involve policy development, resource allocations and funding will be forwarded to the relevant Council Committee for discussion and determination.
- 3.5 The Audit/Risk Committee will receive ongoing reports on progress against the legal compliance project to ensure the project is progressing to plan, Council's legal risk in this regard is being managed and the appropriate findings are being addressed by Council and Management Team.
- 3.6 Thus far Council has completed reviews of the Liquor Licensing, Enforcement and Resource Management activities with draft reports currently with relevant managers. These are attached for the Committee's information (Appendix 1 and Appendix 2). Next modules for review will be LIMs, Building Control and Dog Control.

4 Recommendation

- 4.1 That the Legal Compliance Project report be received.

Stuart Hylton
Policy Advisor

Appendix 1

Legal Compliance – Enforcement (Rangitikei District Council)

Report Date: August 2015

Introduction

This report details results of an inquiry into Council's processes and procedures concerning Council's enforcement activities and responsibilities.

The inquiry was required for two reasons – as the response to identifying good practice and risk management to our external auditors, and to work through the legal compliance module on Enforcement (part of the SOLGM good practice toolkit) in order to implement continual improvement changes.

Council performs a number of statutory functions, with each activity function having an enforcement component. Enforcement is part of a suite of statutory and non-statutory instruments through which local government and the community seeks to manage the behaviour of citizens and business in order to achieve particular economic, social and environmental outcomes.

It is recognised that the degree of and level of which enforcement is performed will vary from Council to Council as Communities, Elected Representatives and Chief Executives decide which level of service is appropriate for their community. "New Zealand is a country of communities and they vary considerably. The local government framework currently gives councils substantial discretion which enables them to develop the appropriate mix of services to reflect the sorts of communities they govern." – Reid, 2009b, p.49

One important function within any enforcement regime is the provision for legal compliance review to ensure that enforcement is delivering on the intended policy objectives at least cost to society.

Inquiry Process

In undertaking this inquiry into its enforcement procedures, Rangitikei District Council (RDC) has chosen to use as a basis for its inquiry the SOLGM – Legal Compliance Module – Enforcement; part of the SOLGM good practice toolkit.

The inquiry into enforcement procedures has been split into three parts:

1. **General inquiry into RDC's enforcement procedures using the SOLGM module.**
This module is a very generic checklist which is designed to broadly cover a multitude of statutory enforcement provisions of Council.
2. **Specific inquiry into Council's monitoring and enforcement of Fencing of Swimming Pool Act 1987 provisions:**
This was identified during the general inquiry and a previous inquiry in 2010 as an area for improvement. Therefore there is merit to continue monitoring the

enforcement aspects of this activity to view any progress and areas of statutory non-compliance.

3. Specific inquiry into Council's monitoring and enforcement of Resource Consent Conditions:

This was identified during the general inquiry and a previous inquiry in 2010 as having areas needing improvement. Similar to Fencing of Swimming Pools above there is obvious merit in continuing to monitor enforcement compliance for this activity.

Additionally the audit undertook a general enquiry under this heading into council's Resource Consent processes using the SOLGM good practice toolkit.

1.0 General inquiry into Council's enforcement procedures using the SOLGM module

The SOLGM Enforcement module is designed to help Councils to manage the risks around enforcement action. It does not deal in detail with the requirements of specific regulatory regimes, but sets out the principles of effective enforcement action.

Enforcement Systems

Like every Council, Rangitikei District Council relies on a number of portals to receive information which may identify a breach of statute, regulation, bylaw, consent condition or other rule. They typically include customer notifications such as written correspondence, emails to Council, RDC's website feedback, telephone calls, counter visits, Fix it Forms or observations by officers in the field.

All this information is typically entered into Council's NCS 'Request for Service' portal either by a customer services officer or the officer directly. Once logged the request for service is assigned to an appropriate officer for action. When entering the request for service the officer selects the urgency nature of the request which assigns a timeframe by which the service has to be actioned according to Council's predetermined levels of service. The officer entering the request for service determines the customer response methodology based on what level of response the customer has requested.

Once an officer has completed his or her investigation the request for service is signed off with the outcome recorded and appropriate feedback made to the customer.

Statistics from the request for services portal together with activity statistics and enforcement actions are reported monthly to Council's Policy and Planning Committee as well as quarterly to Council meeting. Managers can also run their own 'as and when required' reports through NCS to check for outstanding requests for service, requests for services outside allocated timeframes and trend data.

As part of the enquiry a check was made of the Council's Delegations Register to ensure appropriate delegations are being maintained by Council to allow enforcement work to be carried out.

The Council's Delegations Register is a comprehensive register adopted by Council on the 13th October 2014. The delegations are suitably made pursuant to Schedule 7, Clause 32 of the Local Government Act 2002. The Chief Executive has all the powers or authority's that any employee has been delegated as well as the general power to sub-delegate to any other officer.

In terms of enforcement delegations, the Community and Regulatory Services Group Manager and Environmental Services Team Leader /Regulatory Manager positions have a wide range of delegated powers as you would expect with officers within activity roles holding delegations pertinent to their respective activity and position descriptions. The delegations are to positions of Council rather than named officers which is practical and a check was made of officers warrants to ensure adequate wording was included to convey the necessary powers and delegations, which it did.

In conclusion the Delegations Register was up to date, thorough, practical and well compiled.

In a general sense depending on the type of enforcement anticipated, urgency of decision and level of delegation, officers are discussing compliance issues with their supervisors or managers on a daily basis or at least during weekly meetings.

2.0 Specific inquiry into Council's monitoring and enforcement of Fencing of Swimming Pool Act 1987 provisions:

The Fencing of Swimming Pools Act 1987 (Act) was enacted as central government's reaction to the high number of accidental drowning of children as a result of poorly or inadequately fenced pools and spa pools on private property. The Act is intended to promote the safety of young children by requiring the fencing of certain swimming pools. It places an obligation on Pool Owners to have their pool adequately fenced *to the appropriate standard*. It also places an obligation on Territorial Authorities to take all reasonable steps to ensure that the Act is complied with. Territorial Authorities (TA's) have interpreted the words 'reasonable steps' differently with some taking the view it covers when the pool is built, education and keeping of a register whereas others, including the Department of Internal Affairs, believe it means –

- Educating and informing pool owners of their obligations, and
- Locating existing pools,
- Inspecting pools for compliance,
- Taking enforcement action for non-compliance.

The Act and its enforcement by TA's has caused angst for many communities over the years. Despite this, since the inception of the Act drowning's in NZ has declined significantly.

Under the Act TA's also grapple with charging unpopular swimming pool fencing inspection fees with some Council's subsidising aspects of the cost as a public good through rates.

Other TA's have introduced owner self inspection checklists which they accept signed off as a record of compliance.

The DIA encourage all TA's to actively inspect and enforce provisions under the Act. They have initiated discussion documents with TA's and stakeholders advocating legislative change however to date no preferred legislation has been promulgated.

Previous inquiry into Fencing of Swimming Pools data collection, enforcement and monitoring by the Rangitikei District Council - 2013

The 2013 inquiry found that there were a number of areas under this Act that the Council could undertake in a more compliant and effective manner. They included:

- (a) The Council does not have in place a regular inspection regime in place for Fencing of Swimming Pools. The first time it was done was in February 2012 when letters were sent out but not followed up. Ideally an inspection of existing pools for compliance should be undertaken every 3-4 years.
- (b) There is no record on NCS of pools that are no longer in use or a form to fill in to advise Council of the fact. There should be on NCS a field to record this.
- (c) There is no record of pools with Council exemptions. There should be a field on NCS to record this.
- (d) We need to advertise regularly just before and during the summer months that some inflatable or seasonal pools would need a consent.
- (e) Steve Costelloe being the only enforcement officer in the delegations register which could cause a problem with staff absences and staff turn over at least another two should be nominated.
- (f) The Council brochure on Fencing of Swimming Pools Compliance needs more information e.g: pictures of what type of fences are acceptable and unacceptable.
- (g) The Swimming pool register needs greater rigor as it has only been populated using aerial photographs and some of the pools are now no longer in use.

This inquiry has found that only items (e) and (f) from above have been addressed.

There is still no system of compliance inspections for the Swimming Pools on Council's register. Not only does this increase the opportunity for non-compliant swimming pool fences but increases the chances of children drowning in the District's private pools. This also runs a very real risk of Council being found to have committed statutory negligence contributing to any drowning.

Additionally Council's record management system NCS is still to be updated to include the necessary fields to record fencing of swimming pool status including any exemptions or pools no longer in use.

Management is considering the option of running a public advertising campaign this summer notifying residents of their fencing of swimming pool requirements.

Management are also considering what the appropriate level of service around inspection of swimming pool fencing compliance may look like. Matters to consider are whether there are the appropriate resource to undertake fencing of swimming pool inspections, who pays (rates vs user fees), frequency and type of inspections etc.

There are a number of compliance monitoring functions within RDC's regulatory activity that are often overlooked or TA's find difficult to resource. E.g. fencing of swimming pools, Building Warrant of Fitness, Resource Consent Conditions.

Rangitikei District Council needs to consider how to undertake all these functions to a level that promotes/checks statutory compliance and manages Council's legal and public exposure to risk.

File Audit

- **Website** – The website contains general information for home owners on their responsibility to fence swimming pools and also has a link to the Act as well as Council's pamphlet on Fencing of Swimming Pool Act compliance. It is suggested a link is also inserted to the Department of Internal Affairs Guidelines for Territorial Authorities on the Fencing of Swimming Pools Act 1987. This is an improvement from previous audit findings.
- **Front Counter** – Documentation at Council's front counter now includes the Department of Internal Affairs Guidelines for Territorial Authorities on the Fencing of Swimming Pools Act 1987. This impressive guideline is a useful addition to the documentation members of the public can uplift at the front counter.
- **Pool Register** – Apparently someone within the Building Control team has a 'list of sorts' of historical pools that are implicated by the Fencing of Swimming Pools Act 1987. The list does not appear to be complete, upgraded or actively used.

So, as it currently stands the following areas under the Fencing of Swimming Pools 1987 are lacking:

- (a) The Council does not have in place a regular inspection system for Fencing of Swimming Pools. The first time it was done was in February 2012 when letters were sent out but have not been followed up. Ideally an Inspection of existing pools for compliance should be undertaken every 3-4 years.

- (b) There is no record on NCS of pools that are no longer in use or a form to fill in to advise Council of the fact. There should be on NCS a field to record this.
- (c) There is no record of pools with Council issued exemptions. There should be a field on NCS to record this.
- (d) Council needs to advertise regularly just before and during the summer months that some inflatable or seasonal pools would need a consent.
- (e) The Swimming pool register needs greater rigor as it has only been populated using aerial photographs and some of the pools are now no longer in use.

3.0 Specific inquiry into Council's monitoring and enforcement of Resource Consent Conditions:

Prior to focusing on Resource Consent Conditions, the inquiry went through the full SOLGM Legal Compliance framework for Resource Consent work. This is covered in Table 1.

General – Generally RDC employ one FTE who spends two days a week focusing on Resource Consent/Management functions including customer enquiries and resource consent processing. This qualified Planner is supported by an internal administrator for processing consents and answering basic enquiries and by Wanganui District Council for processing overflows of resource consents on a 'shared service' basis.

Administration and SOP's - Specific milestones within the resource consent processing procedure are captured within the NCS system to enable monitoring against statutory timeframes. RDC completes the annual MfE national RMA monitoring enquiry with the 2014/15 data showing that Council processed 51 Resource Consents, issued 2 Abatement Notices and 1 Infringement Notice. During the last calendar year RDC achieved a 100% compliance rate with processing their resource consents against statutory time limits.

By their own admission public information for resource management matters including Resource Consents is bare minimum. Forms including pre consent packs are included at the main front counters however finding these and District Plan requirements on the Council's website are far from easy.

RDC has a minimal desk file and little in the way of standard operating procedures for processing resource consents. The District Plan contains very few rules and restrictions and as currently written promotes development in the District.

Governance –The ability to grant or decline non-notified consents is delegated to either the Environmental and Regulatory Services Team Leader or Community and Regulatory Services Group Manager. The Environmental and Regulatory Services Team Leader peer reviews all of the Resource Planner reports.

The responsibility to hear resource consent applications that have received objections but don't require a full hearing is delegated to the Chief Executive and Mayor. The delegation to the Mayor could conceivably create actual or perceived conflicts of interest which need to be carefully managed on a case by case basis in such a small district. Ideally this delegation best rests with the CE.

The responsibility to hear contested resource consent applications is with Council who may hear matters themselves or appoint an independent commissioner.

Issues/Risks:

- The previous audit noted the need to ensure that the decisions made on various consents are recorded in writing, and that the various file notes are easily accessible by all staff providing advice on District Plan matters. With a change in personnel managing the Resource Consent process there's a feeling that advice, decisions and enforcement is more consistent with better records kept.
- As during last audit, enquiries found monitoring of compliance with the consent conditions is virtually non-existent and needs to be improved. Past management approach has been to wait for complaints to determine what needs monitoring whereas there's an expectation with law, with consent holders and with the general public that Council will actively monitor consent condition compliance. Currently Council has little idea which consented activities have been legally established within the statutory timeframe (5 years and it lapses) or whether they comply with their consent conditions. The fact that conditions have been imposed that need monitoring when issuing consents has only just started being recorded on NCS. This means any future monitoring endeavours will be very difficult to initiate.

If the Council is not going to check that conditions have been complied with, then it raises the question as to why do we impose those conditions. Conditions contained in consents can be an important mechanism for mitigating adverse environmental effects, and ensuring that local amenity values are maintained. Similarly, periodic monitoring activities and development in the District for compliance with the Plan is important to ensure that the plan is working in the manner that it was intended.

Table 1:

Topic	Compliance Assessment	Recommendation/Finding
Receipt of application and further information requests	Preliminary checking is completed by the admin team when an application is received. The planner identifies if there is further information required upon receipt (section 92). Letter is sent applicant to advise if accepted or rejected.	

Decision to notify	The vast majority of applications are non-notified unless the planner flags some concerns that mean that there are concerns for neighbours (limited notified) or the public generally (publicly notified). Because of the default position, not generally exhaustive notes on non-notification, just brief reasons as part of the planning report. Final decision to notify or otherwise is Johan's.	Need to ensure that where the plan requires notification (or a National Env Std requires notification) that this is not missed in the process of general approach of non-notification. Need to have clear guidance and training (e.g. Quality Planning website) on the process of limited and public notification. This appeared to be in place during the enquiry.
Decision to limited notify or non-notify		
Public notification		
Limited notification		
Acceptance of submissions	Default position is that all submissions are valid, unless questioned by the planner. Any late submissions are sent to applicant to get permission or otherwise to accept.	
Lodgement of application for resource consent direct to the Environmental Protection Authority (EPA)	Have not had any applications lodged with the EPA	
Environmental Protection Authority (EPA) recommendation & Minister for the Environment direction	As above	
Consideration by the Board of Inquiry	No experience – consequential to lodgement of EPA application.	
Consideration by the Environment Court	As above	
Request for direct referral	Have not had any requests.	
Pre-hearing meetings and/or mediation	Generally encourage parties to participate in pre-hearing meetings, as can often get resolution before costs escalate to hearing stage. While can insist in mandatory pre-hearing meetings, we encourage parties to voluntarily participate.	Not often necessary.
Decision to undertake	If the issues are not resolved by way	

hearing	of discussion at the prehearing meeting and/or mediation, then a hearing will be held. The applicant may wish to seek an independent commissioner (or commissioners) is appointed to hear the matter.	
Hearings	Where a hearing is required, the planner completes a hearing report/recommendation and that is provided to the applicant and submitters. When the Commissioner(s) for the hearing are appointed, they are consulted with over any directions that they may wish to set for the hearing (e.g. precirculation of evidence, hearing format, representation etc). Parties are informed of the time, date, location of the hearing and the hearing is conducted in accordance with the provisions of the RMA.	
Issuing of decisions	The Commissioners are responsible for producing the decision report, and can take some time to draft these. It must be within the statutory timeframe. The written decision is then made available to all parties to the hearing.	
Objection to the decision of the Local Authority	Haven't received an objection – so unable to comment	
Appeals against the decision of the Local Authority	No appeals of late.	
Consent compliance and monitoring	Don't have a regular programme of compliance monitoring. See above comments. Johan deals with most RC complaints made to council.	Ensure that the consent conditions are tagged and that a system to record and monitor compliance with these conditions is put in place. Ensure that where conditions are put on a consent that the applicant is informed of the requirement to monitor and that Council will charge accordingly. Resource accordingly.

Approval of survey plans s. 223	Sign off is given if the survey plan conforms with all of the requirements of the consent, incl conditions , easements, esplanade strips etc.	
Subdivision conditions compliance. S. 224	Assets check that the conditions in relation to the physical access and connections to the property have been met.	Ensure that the planner has checked that all other conditions (not covered by assets) have been complied with, and that this is note on file. Ensure Asset checks are robust and consistent.
Issuing of a section 226(1)(e) certificate	These certificates are issued rarely, and are processed on application from the relevant party. Generally applies in limited circumstances e.g. when the lots already legally exist, but have not been issued separate cert of title. Johan responsible for these.	
Commissioning of a section 92(2) report	Sometimes commission additional reports e.g. geotech report for major earthworks projects, and noise/acoustic assessment for frost fans. No one has objected to Council commissioning these expert reports. Usually undertaken in consultation with applicant.	
Timeframes	Timeframes generally met. As we sometimes use external consultants the timeframes are built into the performance criteria.	

Resource Consent Monitoring:

The Resource Management Act 1996, section 35(2)(d) requires every council to monitor resource consents that have effect in its region or district, as the case may be, and take appropriate action (having regard to the methods available to it under this RMA) where this is shown to be necessary.

The effective monitoring of resource consents, compliance and complaints:

- indicates performance in relation to a range of issues
- highlights areas that require further action

- provides feedback that may lead to changes to policies and plans
- contributes to assessing long-term trends over time
- helps councils make informed decisions.

The Ministry for the Environment website has the following guidance notes addressed within its enforcement manual.

- Integration is the key to successful monitoring.
- Dedicate staff resources for monitoring within the consents team or integrate across the council.
- Be pragmatic and use available skills and knowledge of staff to best effect.
- Establish effective feedback loops so consents, compliance and complaints monitoring can provide useful information for other monitoring activities (such as for RMA plan effectiveness and Local Government Act 2002).
- Consider linking RMA consents and compliance monitoring with other council functions that also require monitoring for example, under the Building Act 2004.
- Document systems and procedures (such as who does what, when, how and why) because of staff turnover

Recommendations:

1. That Council develops an appropriate policy on how it intends to enforce the Fencing of Swimming Pools Act 1987 in the District including –
 - How it intends to identify and maintain an active pool register in the District
 - The level of compliance checking
 - Any user fees for the service
 - How the service will be resourced.
2. That Council's NCS system is amended to include fields to record fencing of swimming pools status including exemptions.
3. That Council reviews its public portals for dissemination of resource consent information with a view to implementing necessary improvements.
4. That Council develops standard operating procedures for its Resource Consent processes.

5. That Council reconsiders its delegation to the Chief Executive and Mayor around the responsibility to hear resource consent applications that have received objections but don't require a full hearing.
6. That Council makes a policy on what level of service it intends to implement around Resource Consent monitoring, including –
 - A sustainable monitoring programme of consent conditions,
 - Adequate resourcing including possible integration with other Council monitoring functions,
 - Improvements to our recording systems,
 - Result reporting to Council.

Appendix 2

Legal Compliance – Alcohol Regulation (Rangitikei District Council)

Report Date August 2015

Introduction

This report details results of an inquiry into Council's processes and procedures concerning Rangitikei District Council's Sale and Supply of Alcohol Act 2012 activities and responsibilities.

The inquiry was required for two reasons:

1. As the response to identifying good practice and risk management to our external auditors, and
2. To work through the legal compliance module on Alcohol Regulation (part of the SOLGM good practice toolkit) and give opportunity for continual improvements to be made.

The module has been revised and released in May 2015 following legislative reform of NZ's alcohol laws culminating in the passing of the Sale and Supply of Alcohol Act 2012 ("Act"). All provisions under the new Act came into effect in full on 18th December 2013.

The object of the Act is that:

- a) The sale, supply and consumption of alcohol should be undertaken safely and responsibly; and
- b) The harm caused by excessive or inappropriate consumption of alcohol should be minimised.

The main changes for Council's under the Sale and Supply of Alcohol Act 2012 were:

- The move from national to local decision making;
- The option for Councils to introduce Local Alcohol Policies that have legal standing;
- Expanded licence criteria and grounds for objection;
- New criteria for alcohol control bylaws (liquor bans)
- National default maximum trading hours;
- New cost recovery regime through fees.

Under the Sale and Supply of Alcohol Act 2012 ('Act'), Rangitikei District Council has a number of roles and responsibilities. These are detailed in the table attached to this report.

Generally speaking these roles can be summarised as follows:

District Licensing Committees (DLCs)

Every territorial authority must establish one or more district licensing committees (DLCs) to make decisions on all licences and managers certificates. DLCs are responsible for considering:

- all licence applications and renewals, regardless of whether they are contested or uncontested
- all managers certificate applications and renewals, regardless of whether they are contested or uncontested enforcement applications relating to licence suspensions for non-compliance with public health or fire precaution requirements.

A DLC must be made up of:

- a chairperson who is an elected member of the territorial authority, or a commissioner appointed to the DLC by the territorial authority
- two committee members

A DLC's functions are—

- (a) to consider and determine applications for licences and manager's certificates; and
- (b) to consider and determine applications for renewal of licences and manager's certificates; and
- (c) to consider and determine applications for temporary authority to carry on the sale and supply of alcohol in accordance with section 136; and
- (d) to consider and determine applications for the variation, suspension, or cancellation of special licences; and
- (e) to consider and determine applications for the variation of licences (other than special licences) unless the application is brought under section 280; and
- (f) with the leave of the chairperson for the licensing authority, to refer applications to the licensing authority; and
- (g) to conduct inquiries and to make reports as may be required of it by the licensing authority under section 175; and
- (h) any other functions conferred on licensing committees by or under this Act or any other enactment.

Licensing Inspectors

Inspectors are required to inquire into and report on applications and renewals for all licence types including manager's certificates.

Inspectors have the power to enter and inspect any licensed premises to ascertain compliance with licence conditions and can apply to the Licensing Authority at any time to vary, suspend or cancel a licence. An inspector can initiate prosecutions against licensees and managers. Through these duties, the inspector plays a key role in ensuring that licensees are maintaining compliance with the Act.

Inspectors must act independently when exercising and performing their functions, duties, and powers and each territorial authority must take steps to ensure that its inspector or inspectors are able to act independently. The role of Inspector is distinct and separate from that of Secretary and the DLC.

Territorial authority Chief Executives

Under the Act each territorial authority's chief executive (unless sub-delegated):

- is the secretary of the DLC
- is responsible for appointing licensing inspector(s) and ensuring they can exercise their role independently
- may appoint an alcohol licensing commissioner to a DLC, if requested to do so by the territorial authority.

Under the current RDC structure the following people have been appointed to the following positions:

- a) **Inspector:** Vicki Hodds with Johan Cullis as back up.
- b) **Secretary:** Ross McNeil, Chief Executive
- c) **DLC (decisions):** Chalky Leary (Commissioner) plus appointed list members to assist when required.
- d) **DLC (administrative):** Rochelle Baird

In addition to the provisions set out in the Act, the Council has a 2010 Liquor Control in Public Places Bylaw in force that identifies 'Liquor Bans' for all CBD public areas in the Rangitikei District. The Council has introduced a Local Alcohol Policy 2014 to guide the DLC's decision-making where discretion has been provided for in the Act. The 2010 Liquor Control in Public Places Bylaw is currently under review.

As the case with a number of other smaller Council's, RDC fails to have the resources to justify a FTE dedicated to the various roles under the Act. Despite this there is evidence to suggest that there is a growing level of understanding of the compliance requirements of the Act especially within the licensing inspector role. The compliance monitoring role of the inspector is also being performed to a satisfactory standard which was not the case during the 2010 audit.

Potential conflicts of roles and responsibilities under the Act

Due to the Act being poorly written in parts, there is real potential for blurred lines of roles and responsibilities as well as conflicts of interest, perceived or otherwise, between the key functions of the Secretary, DLC, Inspector and TA. For instance there are times the DLC role is one that will clearly be performed by the Chairman e.g. Determining Licence applications, whilst in other parts of the Act the DLC role would be performed by an administrative person e.g. receiving applications. There are similar overlaps within the role of Secretary under the Act. What is clear is that the inspector must act independently and be seen to be doing so.

Inquiry Process

In undertaking an inquiry into its sale of alcohol licensing procedures, Council has chosen to use as a basis for its inquiry the SOLGM – Legal Compliance Module – Alcohol Regulation; part of the SOLGM good practice toolkit.

The inquiry into Alcohol Regulations procedures has been split into three parts:

1. **General inquiry into Council's liquor licensing procedures using the SOLGM module.** This module covers all the licensing functions and processes under the Act and is a good checklist to audit whether proper procedures and forms are being followed and used.
2. **Specific audit of a sample of sale of alcohol application files provided for the following:**
 - On licence
 - Off licence
 - Club Licence
 - Temporary Authority
 - Managers Certificate x2
 - Special Licence
3. **Specific Enquiry against the 2010 Legal Compliance Report:** With a focus on improvements or otherwise to matters of non-compliance and recommendations. The enquiry also looked into RDC's Local Alcohol Policy, Liquor Control in Public Places Bylaw 2010 and the inspectors monitoring regime of licensed premises.

Analysis

1. **General inquiry into Council's liquor licensing procedures using the SOLGM module.**

Generally speaking RDC are following all the various processes and procedures outlined within the SOLGM best practice module under the Act. Officers were very aware of their responsibilities and the processes required under the Act.

Unfortunately the documentation of these processes on files was found to be lacking in some areas. This will be expanded upon later in this report. An added safety process used at RDC is the process of the Manager over-viewing the inspectors report prior to being finalised. This is a good risk management process that will assist overall legal compliance and consistency provided the inspector feels she can be reporting independently within a managers review process.

The forms being used appear to comply with regulation which is an improvement feature from the 2010 audit.

There is a manual detailing processes for each licence type but it is not comprehensive enough to constitute a desk file or standard operating procedure. There is a risk with one

part time administrator that it would be very difficult for a replacement to cover at short notice without suitable documentation.

The procedure of the inspector interviewing applicants for Managers Certificates and renewal of Managers Certificates including a questionnaire test is viewed as an excellent tool to determine and clearly show an applicant's suitability to hold such a certificate.

The inspector undertakes regular daytime inspections of licenced premises in the District to view compliance with standard conditions of licences. Each premise would receive 1 to 2 inspections a year depending on compliance. Additionally the inspector is part of Controlled Purchase Operations on licenced premises twice a year which monitors licensees' compliance with serving prohibited persons. The inspector also attends monthly meetings with Police where any problem premises or licensing issues are discussed.

This level of monitoring by the inspector is seen as sufficient and an improvement on what was happening around the time of the 2010 audit.

Delegations

Delegations have been updated and appear appropriate for the role of inspector. It would be advisable to further review the delegations register with a view to ensuring the functions carried out under the 'Secretary' and 'DLC' umbrellas, are appropriately delegated to right persons according to the various sections under the Act

2. Specific audit of a selection of application files provided for the following types of licences:

- On licence
- Off licence
- Club Licence
- Temporary Authority
- Managers Certificate x2
- Special Licence

The audit of sample files provided revealed the following areas of non-compliance or irregularity:

On Licence

Application for on-licence for hotel/tavern 037/ON/12/2015- Gretna Hotel

- The application has the applicant as Awarua A and J Ltd, clearly an incorporated society. However the application has the 'natural person' box ticked and the applicant has filled out both the natural persons and company details on the application form. The file contains the companies incorporated details. The licence is correctly issued to the company. The application should have been corrected on receipt.

- The generic application checklist on file is somewhat deficient in form and function and was found to be incompletely filled out. As a checklist it should clearly show the reader whether each critical stage of the process was completed, when it was completed and whether it was within the statutory time limits.
- The checklist was found to be either missing the following fields or incompletely filled out – no reference at top of checklist to the actual licence or premise; no fields to record when licence was received, when certificate was sent to Janette and Katrina, when application was sent to Police/MOH, when MOH report received, when adverts received from applicant, if and when objections were received, when file was sent to DLC, when DLC decision received, when licence was issued. At stages the form is marked both Yes and No indicating ongoing updates (this could be accommodated in the form fields such as simply offering a field of not required instead of “no”; there was a line through the provision of a certificate of incorporation when clearly this was a requirement and supplied by the applicant; the dates the application was sent and received from the inspector were not filled out; dates on form are inconclusive; no date recorded for when notice was placed on premise (s101(a)), dates police report were received were not completed as with the MOH report, no reference or dates of when adverts were received, whether a waiver was applied for, any BWOFF and health licence information received. The checklist could also do with a free form field as well. One would not be able to determine compliance with the Acts timeframes from reading the checklist.
- There is no detail within the checklist or file that the applicant was sent copies of all the reports as required under s. 103(5).
- The application is ticked indicating Building and Planning consents are attached although within the file there is only an application to RDC for the appropriate certificate and not whether the certificate was issued or a copy.
- There is nothing on the application, checklist or file showing the applicants compliance with s. 100(d) of the Act i.e.
 - if it relates to any premises, must be accompanied by a statement by the applicant that—
 - (i) the owner of the building in which the premises are situated provides and maintains an evacuation scheme as required by section 21B of the Fire Service Act 1975; or
 - (ii) because of the building's current use, its owner is not required to provide and maintain such a scheme; or
 - (iii) because of the nature of the building, its owner is exempt from the requirement to provide and maintain such a scheme;
- The waiver (for incorrect hours applied for) referred to in the inspectors report is not mentioned in the DLC decision. Only the DLC has the power to grant a waiver under s. 208 of the Act. The granting or otherwise of a waiver should form part of the DLC's decision.

- The inspectors report on page 5 uses the term “supporting the application” when discussing both the Police’s and MOH reports. The inspector also uses the term at the conclusion of her report. The Police and MOH reports quite rightly use the term ‘do not oppose’ within their respective reports. In keeping with the wording under s. 103(3)(b) of the Act it would be better to correctly copy the wording used within the agency reports and for the inspector to also use the term ‘do not oppose’ that is more neutral than ‘support’.
- The floor plan supplied in the complete file is not that transparent to anyone picking up the file. The two supplied floor plans are not as clear as they could be in showing designated areas and principle entrance. There is no reference to this licensed area within the issued licence which I would have thought would have been best practice to clearly establish what is being licensed or not within the whole floor plan.
- Reports and information on file should always be date stamped to assist audit purposes.
- Compliance with the Acts time frames would be nearly impossible to ascertain using the complete file.
- The DLC’s decision appears to be a standard decision format that the Chairman signs. It was concerning and unwise to have on file an email from the Chairman to the DLC administrator saying “Taihape deserves one pub so could you please issue it to them”.

Club Licence

Club licence for new club 037/CL/7/2015 – Taihape Rugby and Sports Club Inc.

- A far more comprehensive file than the Gretna licence.
- Still needs work on checklists and date stamping received documents.

Temporary Authority

Temporary Authority for on licence – Soul Cafe (037/ON/68/2010)

- Temporary Authority order does not cite the relevant sections of the Act.
- Checklist is deficient (as discussed in earlier file audits).

Managers Certificate

Renewal of Managers Certificate 37/CERT/086/2014

- The notice of renewal certificate is a little ambiguous with regard to terms and conditions and needs to be specific for each application. Would be very confusing to the applicant, Police, inspector etc
- There is no base or existing licence attached to file? One is therefore unable to see which certificate including conditions, are being renewed.
- The Police report and Inspectors report use the terms ‘support’ and ‘approved’ respectively where its advised the term ‘no opposition’ may be better advised.
- The Inspectors questionnaire and interview checklist are excellent examples of good practice.
- Within the application the applicant has not filled in the section relating to criminal convictions

- The file does not include the DLC's decision?
- Once again application checklist is deficient and incompletely filled in.

Managers Certificate – Serena Glasgow 37/CERT/83/2014

- The file contained no information relating to the questionnaire or interview mentioned by the inspector.
- The file does not contain the DLC's decision?
- The file's checklist is again somewhat incomplete and deficient.

Special Licence

Application for new Special Licence – Robert Gordon SP302

- The application shows Robert Gordon as the applicant. This has been crossed off and the name of Andrew King inserted on a wrong line, with different colour pen and style of writing. No date or signature of the correction has been made. As you read the complete file it is obvious Andrew King is the applicant and Robert Gordon is the designated manager for the event. This is confirmed in the Inspectors report.
Despite this the special licence has been issued to Robert Gordon in error!
- Robert Gordon's managers certificate is not contained on the file.
- Not sure if the DLC reference number – SP302 complies with ARLA recommended numbering?
- Licence refers to Subpart 6 of Part 2 (of the Act) in error when it should be Subpart 7. Suggest the licence simply name the relevant clause. i.e. s. 213.
- When stating the hours on the licence, after 1.00am, the licence should correctly reference it with the words 'the following day' to make it unambiguous and correct.
- Suggest the name of the appointed manager to be responsible for the licence, should be named on the licence. This allows any enforcement agency or person attending the event to clearly see who's in charge.
- The floor plan is poorly marked up making it difficult to know which parts of the premise are licensed etc.
- The application form is somewhat ambiguous in relation to what designations the applicant is applying for. It simply states has a floor plan been supplied with designations – Yes/No. This is key information for the applicant, inspector and DLC to consider.
- Again no DLC decision on file?
- The Police report mentions transport conditions which are not contained within the application. This has not been picked up in the Inspectors report, DLC decision or licence? Not sure 'sober driver' condition meets the Police's concern?
- Not sure who set the conditions as none are offered in the Inspectors report and there is no DLC decision, including conditions, as required under the Act.

DLC Hearing

Application for new off licence – Taylors - 037/OFF/7/2015

- From the DLC report there is no indication whether there was a hearing or not or who presided over this decision. I believe there was no official hearing for this

application. The body/person making the decision and the section under which this matter was determined should always be recorded.

- This application/premise has 'history' including issues around compliance with sections under the 2012 Act. These are covered adequately in the inspector's report however the DLC decision gives them scant regard. Best practice would suggest that the decision should discuss in some length the pertinent issues raised within the inspectors report and give considered reasoning, including case law, why a certain decision was reached. This level of rigor would also extend to making a decision that was outside the RDC's Local Alcohol Policy.
- Inspector's checklist was very useful.
- Inspector's report had a number of grammatical/spelling errors.
- See earlier comments about inadequacy of file checklist.

Bylaws and Council Policies

- Liquor Control in Public Places Bylaw 2010 – under current review
- Local Alcohol Policy

Inquiry into liquor licensing practice by the Rangitikei District Council

Key findings

1. Most processes were found to be both compliant and observing good practice. There are potential improvements to be made within the Secretarial and DLC functions that will be commented on further below.
2. The forms which were found to be non-compliant during the 2010 audit have now been rectified. There were however, some decisions and licences which would benefit from further examination around wording and structure.
3. Generally there appears to be an adequate level of resourcing and training for the various officers within their function which was not the case during the last audit. The new Act has assisted with the level of up-skilling required. The administrative role is vulnerable in that it is a part time role performed in Taihape. Ongoing support, training and review of the administrator's functions are necessary to ensure best practice is being maintained.
4. The structure of the various roles under the Act and who performs them is reasonably clear, demonstrated and reflected in the delegations register.
5. The inspector's role is now clearly established and there is evidence to suggest that the incumbent has a growing level of understanding of Act and experience in the role. The audit found the inspector –

- was very aware of her responsibilities under the Act and demonstrated that good practice was being followed in her area,
 - reports were found to be of a high standard,
 - follows a high standard and good level of service when undertaking procedures to assess applicants for manager's certificates,
 - conducts regular programmes of inspections/compliance monitoring for issued licences,
 - has in place a process for peer review of the inspectors report which is a good checking mechanism provided the inspector feels she can still report independent of 'Council' influence. I think this is still the case.
6. Whilst auditing a sample of liquor files there were a number of irregularities found around process, recording and information which were of a concern and need for improvement. They included lack of attention to detail in processing applications, poor documentation of file checklists, incomplete files and small errors are regularly occurring on applications. Consequently audit and compliance monitoring of DLC performance, especially around statutory timeframes, would be very difficult to ascertain and it seems not currently measured.

In one instance a licence was issued to the wrong person and in other instances the level of documentation and record keeping would not stand up in the advent of judicial review or appeal to a higher body. The administrative function is largely performed away from the Marton Office and this seems to be an area where process and peer review is now most needed.

7. The process of DLC decisions being written up for the Chairperson to 'sign off' along with lists of manager certificates and special licences, is not considered best practice on a number of levels. Ideally the role of the decision maker (DLC/Commissioner) should be independent and seen to be independent from that of the inspector and secretary. The ability of the DLC to receive a complete file including all reports and recommendations and make their decision and set conditions based on received reports, is paramount and expected under the Act.

This is not happening at RDC which allows mistakes to go unnoticed. The decision making role of determining applications was transferred from a Judge to a Council appointed DLC's under the 2012 Act to allow for local decision making. This judicial role is an important function that is designed to be undertaken by suitably skilled and knowledgeable persons or Committee's, separate from that of the inspector or secretary. It was never designed to simply be a signing role.

The process by which the inspector's report and recommended conditions are simply 'signed off' fails to ensure a competent level of independent rigor is being made by the decision making body authorised under the Act. A change would also ensure natural justice provisions prevail and just as importantly, are seen to prevail. The higher level of rigor suggested for the DLC decisions would also ensure that all the decisions would stand up to scrutiny and re-examination if appealed in a court of law.

Recommendations

It is recommended that Council generally reviews the findings contained in this audit with a view to making improvements where suggested as part of Council's continuous improvement cycle.

Specifically it's recommended that Council:

- Redesign the application checklist so it clearly captures the important milestones, information and timeframes.
- Ensures the checklist is adequately completed for each application to clearly show the process and progress of an application at any stage on opening the file.
- Puts in place a system to monitor and report against compliance with statutory timeframes for applications under the Act.
- Increases the level of peer review, training and assistance to the administrative function and processes to ensure promotion of enhanced attention to detail and compliance. This is critical - particularly in documenting processes, maintaining records of all information collected and decisions made. This becomes more relevant if any decision is appealed or evidenced through other jurisdictions.
- Reviews the licences it issues across all application types to ensure the wording is compliant with regulations and best practice. This could include liaison with neighbouring DLC's to establish best practice.
- Reviews the complete file to ascertain what documentation needs to be kept against that file so it is 'complete' for inspection or appeal by any outside agency or body.
- Incorporates a greater rigor around what is supplied by the applicant when making applications to assist reporting, decision making and completeness of file. Licences should not be issued unless all the necessary information is obtained and on file.
- 'Suggest' to the inspector that the term 'has no opposition to' is a more appropriate statement in accordance with the Act than 'supports the application' when making recommendation through reports to the DLC.
- Revises its delegations to reflect the separation within roles of the secretary and DLC functions.
- Reconsiders the practice of DLC decision making to include independent and full decisions written by the Chairman.
- The activity would benefit from a desk file outlining standard operating procedures for the various aspects of the process. This would also assist any future changes to role holders either permanently or temporary.

Audit and report completed by Stuart Hylton.