



Rangitikei District Council

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Rangitikei
UNSPOILT...

Audit/Risk Committee Meeting

Order Paper

Monday 13 February 2017, 2 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

Membership

Councillors Nigel Belsham, Angus Gordon and Dean McManaway
His Worship the Mayor, Andy Watson (ex-officio)

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 and Risk Committee Meeting

Order Paper – Monday 13 February 2017 – 2:00 p.m.



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The quorum for the Audit/Risk Committee is 3.

Council's Standing Orders (adopted 3 November 2016) 10.2 provide: The quorum for Council committees and sub-committees is as for Council, i.e. half the number of members if the number of members (including vacancies) is even or a majority if the number of members is odd.

1 Welcome

2 Council prayer

3 Apologies

4 Members' conflict of interest

Members are reminded of their obligation to declare any conflicts of interest they might have in respect of items on this agenda.

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 Confirmation of minutes

Recommendation

That the Minutes of the Audit/Risk Committee meeting held on 5 December 2016 be taken as read and verified as an accurate and correct record of the meeting.

7 Work Priorities for the Current Triennium

At its meeting on 5 December 2016 the Committee compiled the following list of suggested tasks and projects for the 2016-19 triennium:

- Annual Audit review, and periodically other reviews requiring attention
- Natural disaster events: insurance, business continuity, disaster recovery, and understanding areas of unstable ground
- Community facilities being built, in addition to existing capital works
- Risk Management framework, most likely working at a national level through a Local Government Risk Agency
- Ongoing analysis of capital expenditure
- Water billing and future water-related risks
- Risk management framework and register
- Investigation of Fire Emergency NZ funding risk
- Alignment with Council strategic framework and key priorities
- Information management
- Carry-overs and risks around the consenting process

This list was also distributed at all Committee members on 22 December 2016.

8 Actions from the Risk Management Framework to Address Risk

The report July to December 2016 is attached, together with the risk matrix.

It is intended to bring a discussion paper on a revised risk management framework to the Committees June meeting, reflecting work done by the Local Government Risk Agency.

File ref: 5-PO-1-3

Recommendations

That the report 'Actions from the Risk Management Framework to Address Risk' for July to December 2016 be received.

9 Understanding Council's Risk Appetite – Building Consents as a Test Case

The Chief Executive will lead the discussion.

10 Local Government Excellence Programme

A verbal update will be provided at the meeting.

11 Committee review

The Chair had previously distributed an evaluation for Committee members to complete prior to the August 2016 meeting. The intention still is to discuss the results – and the usefulness of the evaluation form – at the meeting.

12 Late items

13 Future items for the agenda

14 Next meeting

Monday 12 June 2017, 2pm

15 Meeting closed

Attachment 1

Rangitikei District Council

Audit/Risk Committee Meeting

Minutes – Monday 5 December 2016 – 2:00 p.m.

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Present

Mr Craig O'Connell (Chair)
Cr Dean McManaway
Cr Nigel Belsham
Cr Angus Gordon

In Attendance:

Mr Ross McNeil, Chief Executive
Ms Debbie Perera, Audit Director, Audit New Zealand
Mr Ernest Bernard, Internal Auditor
Mr Michael Hodder, Community & Regulatory Services Group Manager
Mr George McIrvine, Finance & Business Support Group Manager
Mr Hamish Waugh, General Manager – Infrastructure, Manawatu District Council
Ms Linda Holman, Governance Administrator

Tabled documents:

Item 1: Letter from LAPP
Item 2: Internal Audit table

1 Welcome

The Chair welcomed the Committee members to the meeting.

2 Council prayer

The Chair read the Council prayer.

3 Apologies

His Worship the Mayor, Andy Watson. Cr Nigel Belsham – late (attending a function on behalf of the Mayor).

4 Members' conflict of interest

Members were reminded of their obligation to declare any conflicts of interest they might have in respect of items on this agenda. No conflicts of interest were noted by the Committee.

5 Confirmation of order of business

The Chair noted that there were two late items to be included.

- 1 Insurance
- 2 Risk appetite

6 Confirmation of minutes

Resolved minute number	16/ARK/029	File Ref	3-CT-17-2
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That the Minutes of the Audit/Risk committee meeting held on 25 August 2016 be taken as read and verified as an accurate and correct record of the meeting.

Cr McManaway / Mr O'Connell. Carried

7 Audit management report 2015/16

Ms Perera noted that the Council had received an unmodified audit opinion, noting the scrutiny over the mandatory performance measures, the split between operating and capital expenditure for repairs to the roading network following the June 2015 storm event, and whether the 10% threshold for revaluation had been breached for property, plant and equipment – it had not. The management report identified areas for improvement –

summarised on pages 16-17. Ms Perera clarified that the top priorities were Creditor Systems, Master File, and Capital Work in Progress in particular are of the most concern.

Cr Belsham arrived 2.12 pm

Mr McIrvine noted the risks from a high capital works in progress were the potential deficiency in insurance and insufficient provision for depreciation. Implementing a job costing system would help manage this better.

Resolved minute number	16/ARK/030	File Ref	5-EX-2-4
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That the final Management Report for the full year Audit 2015/16 be received.

Cr Belsham / Cr McManaway. Carried

8 Outcome of NZTA audit

Mr Waugh spoke to the audit report and noted that the New Zealand Transport Agency's goal was to ensure that the Council's reporting aligns with NZTA reporting, that the Rangitikei District Council keeps the NZTA funds separate from other parts of Council, and that any risk arising from the shared services model is being adequately managed.

Mr McNeill noted that the Chief Executives of the Rangitikei District Council and Manawatu District Council are expecting a report before Christmas 2016 on the intended arrangements for infrastructure shared services, which is expected to be signed off before 1 July 2017. Additionally, the strategy for procurement was finalised at the Council meeting on 1 December 2016, which satisfies one element of the NZTA recommendations.

Resolved minute number	16/ARK	File Ref	5-EX-2-4
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That the final report of the NZTA audit conducted October 2016 be received.

Cr Gordon / Cr Belsham. Carried

9 Internal audit programme

Mr McIrvine tabled the document "Possible 2016-17 internal audit reviews" and made a PowerPoint presentation, highlighting the key priorities to be passed on to the Audit/Risk Committee. These were asset revaluation (in progress now), the year-end claim from NZTA, procurement and contract management, works orders/work management, and cash receipting.

The Chair recommended the Committee collate a list of tasks and projects for the coming triennium to be presented to Council for prioritisation. An initial list was discussed at the meeting, and the Chair undertook to circulate this list amongst Committee members for further development, and this will be considered at the next meeting.

Some initial suggestions were:

- Annual Audit review, and periodically other reviews requiring attention
- Natural disaster events: insurance, business continuity, disaster recovery, and understanding areas of unstable ground
- Community facilities being built, in addition to existing capital works
- Risk Management framework, most likely working at a national level through a Local Government Risk Agency
- Ongoing analysis of capital expenditure
- Water billing and future water-related risks
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- Alignment with Council strategic framework and key priorities
- Information management
- Carry-overs and risks around the consenting process

10 Committee review

The Chair noted that, given the small size of the Committee, this would best be done after the next meeting in order to give new member Cr Gordon time to research before providing his input.

Additionally, the Chair noted the upcoming LGNZ Regional Audit/Risk Forum session at the Horowhenua District Council on Wednesday 7 December 2016 which may provide ideas to help shape purpose of this Committee.

Committee members indicated that they are happy to delay the process.

11 Late items

- 1 Insurance – Mr McIrvine tabled a letter from the Local Authority Protection Programme (LAPP) relating to the recent earthquake events in Kaikoura and Hurunui. There were varying estimates of the draw on LAPP from these earthquakes – both councils are members.
- 2 Risk presentation – Mr McIrvine noted that following the Christchurch earthquakes the volume and quality of information is world leading, and that this translates into greater value for the Rangitikei District Council.

12 Future items for the agenda

Understanding Council's risk appetite

Mr McNeil led the discussion, using as an example, where the Council sits on the spectrum of risk around building consents. Council's priorities are around economic development and growth, so the Committee needs to understand how that impacts on local businesses who cannot afford to bring their buildings up to the required earthquake strengthening standards.

Actions from the Risk Management Framework to address risk (July-December 2016)

13 Next meeting

Will be held on Monday 13 February 2017, 2.00 pm

14 Meeting closed

3.32 pm

Confirmed/Chair: _____

Date:

Unconfirmed

Attachment 2

Actions from risk management framework (revised December 2015)

These actions address those situations where Council's Audit/Risk Committee, having considered the present systems and processes, has not accepted the assessed risk. Grey shading shows change from last update (to the Committee's August 2016 meeting).

		What will be done?	Progress to 31 July 2016
1.6	Pursuing inappropriate business strategies	Develop key milestones around funding for the proposed Bulls Multi-purpose facility.	70% threshold for external and local funding targets accepted by Council as pre-requisites for approving site purchase and construction tenders. Confirmed at Council meeting on 29 September 2016 ²
	Dec 2015 D5 2 ¹ June 2016 D5 2 Dec 2016..... D5....2		
		Start planning for Cobblers/Davenport/Abrahams buildings to be purchased in Marton	Agreement with Property Brokers allowed Council not to proceed with purchase if insufficient support through the Annual Plan submission process. Support from submitters meant purchase proceeded with.
		Gain support of neighbouring property owners, Heritage New Zealand and the wider community for the development of the Cobbler/Davenport/Abraham& Williams site	Preliminary discussions with Heritage New Zealand on use of Marton site. Engagement with building owners in Broadway; development of a heritage precinct strategy in tandem with a high-level analysis of options to use the Cobbler etc. site. ³
		Develop framework for business strategy with Audit/Risk Committee	

¹ These relate to the risk matrix which follows – likelihood of occurrence, consequence or impact and effectiveness of control.

² And again on 26 January 2017.

³ These will be included in the Consultation Document for the 2017/18 Annual Plan to ascertain community views.

What will be done?		Progress to 31 July 2016
2.1	<p>Customer service eroded</p> <p>Dec 2015 C3 4 June 2016 C3 4 Dec 2016C3 4</p> <p>Implement summary reporting to Council on requests for service</p> <p>Include general question on customer service in upcoming residents' satisfaction survey</p> <p>Recruit for role of Team Leader Customer Services</p>	<p>First summary report prepared for Council's meeting on 29 February 2016, and continued for subsequent meetings</p> <p>Councillors provided with weekly report on requests for service and actions taken</p> <p>Survey design modified and results reported to Council.</p> <p>Interim appointment of Executive Officer into this role for twelve months</p>

2.3	<p>Exposure to Council following poor contract management processes</p> <p>Dec 2015 D4 3 June 2016 D4 4 ✓ Dec 2016.....D4 4</p> <p>Implement monthly reporting on performance of major contracts</p>	<p>First monthly report on Higgins roading maintenance contract to Assets/Infrastructure Committee, 11 February 2016. Continued for subsequent meetings of the Committee.</p> <p>Bi-monthly inspection of sites cleaned by Council's contractor.</p> <p>No issue with contract management in the NZTA review.</p>
2.6	<p>Inability to recover/continue business following disaster</p> <p>Dec 2015 D4 1 June 2016 D4 1 Dec 2016.....D4 1</p> <p>Explore partnership with Spark</p> <p>Discuss timing for this project with newly appointed Team Leader Information Services</p>	<p>Proposal from Spark under consideration.</p> <p>[No progress to date]</p>

		What will be done?	Progress to 31 July 2016
2.8	<p>Resource base does not meet community needs</p> <p>Dec 2015 E2 3</p> <p>June 2016 E2 3</p> <p>Dec 2016 E2 3</p>	Continue to advocate on Government reform proposals (including looking for opportunities where resource need can be decreased)	One of the issues included in the draft submission on the Resource Legislation Amendment Bill.
2.9	<p>Business objectives not met</p> <p>Dec 2015 D3 3</p> <p>June 2016 D3 4 ✓</p> <p>Dec 2016 E2 4</p>	<p>Continue monthly monitoring report to Assets/Infrastructure and Finance/Performance Committees of the annual capital programme for each group of activities</p> <p>Continue monthly monitoring report to Assets/Infrastructure and Policy/Planning of non-financial performance for each group of activities.</p> <p>Implement focussed reports on implemented plans and strategies</p> <p>Improve project management competency for staff having responsibility for delivering projects</p>	<p>Monitoring reports to Assets/Infrastructure and Policy/Planning Committees on 11 February 2016 and subsequent meetings.</p> <p>Factors influencing achievement of programmed work identified but not yet analysed in detail.⁴</p> <p>Repairs to roads damaged in the June 2015 storm achieved with low disruption to scheduled maintenance programme.</p> <p>Three staff members are now Certified Associates in Project Management, following a course of study and written examination by the Project Management Institute</p> <p>Asset managers at Manawatu District Council are also undertaking this course.</p>

⁴ Carry-forwards of \$10 million (primarily water and wastewater) from 2016/17 to 2017/18 approved in preparing the draft 2017/18 Annual Plan. The Long Term Plan will be an opportunity to review what are realistic projections, given the known complexities of securing resource consents and the uncertainty of knowing the availability of contractors.

		What will be done?	Progress to 31 July 2016
2.11	<p>Shared Services falters and/leads to high costs for equivalent services</p> <p>Dec 2015 D4 3 June 2016 D4 3 Dec 2016 D4 3</p>	<p>Ensure our relationships with other Councils are as good as they can be.</p> <p>Promote investigations for collaboration on a business case basis so that rational decisions are taken and implemented.</p>	<p>Review of Infrastructure Shared Services and feasibility study for forming a CCO ended because of the high costs involved. Alternative approaches to strengthening this shared services under discussion.</p> <p>Animal control agreement (providing services to Manawatu) renewed, July 2016.</p> <p>Rangitikei is one of 22 councils involved in the Go-shift initiative (building consent processes).</p>
2.12	<p>Exposure to Council following non-compliance in consent processes</p> <p>Dec 2015 D4 4 June 2016 D4 4 Dec 2016 D4 4</p>	<p>Ensure regular oversight of sampling process for potable water with treatment plant team</p> <p>Clarify requirements with Drinking Water Assessor on supporting documentation should a transgression arise in the sampling process.</p> <p>The gastro incident at Havelock North in August 2016 has shown the critical collaboration between local authorities and district health boards in addressing transgressions quickly.</p>	<p>Defined processes in place for sampling and communicating with Drinking Water Assessor</p> <p>Non-compliance at Marton wastewater treatment plant a high-profile issue (with the community as well as Horizons).</p> <p>Negotiations with Midwest Disposals resulted in a Heads of Agreement (and a management plan) to control the acceptance and treatment of leachate at the Marton wastewater treatment plant until December 2017, by which time Midwest expects to have on-site facilities at the landfill for managing leachate.</p>

		What will be done?	Progress to 31 July 2016
5.1	<p>Breach of health and safety requirements</p> <p>Dec 2015 D4 3</p> <p>June 2016 D3 4 ✓✓</p> <p>Dec 2016 D3 4</p>	<p>Arrange initial audit of current processes by MW LASS Health and Safety Project Leader, and implement improvement plan to address issues raised</p> <p>Strengthen contractor management</p> <p>Provide three-monthly reports</p>	<p>Initial inspections commenced in February 2016.</p> <p>Comprehensive audit completed and remedial actions as identified in the improvement plan undertaken. Tertiary ACC accreditation achieved, October 2016. Recommendations incorporated in to the 2017 Continuous Improvement Programme</p> <p>Understanding reached with Manawatu as being deemed a contractor under the Health and Safety at Work Act</p> <p>Pre-contractor qualification implemented following seminars held in Marton and Taihape.</p> <p>Regular reports to management team and Council</p>
6.1	<p>Poor information management</p> <p>Dec 2015 D4 2</p> <p>June 2016 D4 3 ✓</p> <p>Dec 2016 D4 3</p>	<p>Ensure best use of SharePoint and take advantage of wider use of SharePoint by other local authorities</p> <p>Evaluate AssetFinda</p>	<p>SharePoint upgrade (including improved search capability across other corporate systems) implemented during January 2016.</p> <p>Since March workflow has been implemented so that alerts are emailed to relevant staff for all logged mail,</p> <p>Basic one-on-one training undertaken with all Council staff (December 2016)</p>

		What will be done?	Progress to 31 July 2016
7.3	<p>Financial exposure in the event of a loss or disaster</p> <p>Dec 2015 D7 3 June 2016 D7 3 Dec 2016 D7 3</p>	<p>Active engagement with regional and sector initiatives (including the LGNZ Risk Agency) to secure adequate, affordable insurance</p> <p>Review LAPP membership on an annual basis</p>	<p>Review of insurance of assets in progress.</p> <p>Membership of LAPP renewed, with notice of withdrawal, in March 2016</p>
8.2	<p>Inaccurate responses to the District's natural hazards</p> <p>Dec 2015 D3 3 June 2016 D3 4 ✓ Dec 2016 D3 4</p>	<p>Use District Plan review to provide a more accurate basis for assessing and responding to natural hazards</p>	<p>Changes in the review include:</p> <ul style="list-style-type: none"> • Remove maps and rules on liquefaction, • Remove references to landslides (other than West Taihape Slip), • Improve specificity of maps of flood hazards in Bulls and Hunterville, • Delete projected impact of stormwater overflows from flood mapping. <p>These changes have been confirmed in the Commissioner's decision on the District Plan review. However, he sees a need to improve the quality of data.</p>

Reviewed by Management team, 1 February 2017

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

See table 2 of the Risk management policy for meaning of impacts in terms of human life, service levels. The environment, compliance and corporate governance, financial performance and community/political

		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

Control effectiveness ratings

Rating	Effectiveness	Description	Quantification
0	Not effective	This 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	Reasonable effective	Control is reliable but not effective as documentation and/or communication could be improved.	41-60% effective
4	Mostly effective	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

Source: Lismore City Council