



RANGITIKEI

DISTRICT COUNCIL

Making this place home.

Audit/Risk Committee Meeting

Order Paper

**Thursday, 28 February 2019
9.00am**

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

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Chair

Mr Craig O'Connell

Membership

Councillors Nigel Belsham (deputy), 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

Agenda – Thursday 28 February 2019 – 9:00 a.m.

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The quorum for the Audit and 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

The Minutes of the Audit/Risk Committee meeting held on 29 November 2018 are attached.

File ref: 3-CT-17-2

Recommendation:

That the Minutes of the Audit/Risk Committee meeting held on 29 November 2018 be taken as read and verified as an accurate and correct record of the meeting.

7 Chair's report

A report will be provided at the meeting.

Recommendation:

That the Chair's report to the Audit/Risk Committee meeting held on 28 February 2019 be received.

8 Council decisions on recommendations from the Committee

There were no recommendations.

9 Questions put at previous meeting for advice or action

There were no questions raised at the meeting to be addressed.

10 Work Programme matrix – progress update

An update is attached.

File ref: 3-CT-17-5

Recommendation:

That the Work programme matrix – progress update as at 28 February 2019 be received.

11 Internal Audit programme – progress

Consideration of Cotton Kelly's 'Internal Audit programme – audit focus risk analysis' against the Audit Management report for the year ending 30 June 2018 and the previous Internal Audit plan.

A report will be tabled at the meeting.

File: 5-EX-2-6

Recommendation

That the report 'Internal Audit programme – progress' to the Audit/Risk Committee's meeting of 28 February 2019 be received.

12 Strategic Risks – Further consideration

At its meeting on 29 November 2018, the Committee agreed to revisit the strategic risks for Council at its February 2019 meeting,

One of the areas of improvement for the Council identified in last year's report from the Independent Assessment Board was for councillors to be actively engaged in, and have a detailed understanding of, strategic risk issues. These are 'risks that affect or are created by an organisation's business strategy and strategic objectives'¹ Strategic risks are different from operational risk, financial risks, technology risks or compliance risks; they result from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. This amounts to a refinement of the present risk management framework.

Suggested strategic risks for consideration by the Committee are:

- Reputation – driven by the speed and reach of social media;
- Human capital – organisation depth and values
- Financial stability

¹ Deloitte, 'Exploring strategic risk', 2013, page 4.

- Cyber-security
- Legal and political environment
- Climate change
- Sustainability of the District

Following discussion of these suggestions, a more formal statement would be developed for the Committee's June 2019 meeting on Council's strategic risks. Once agreed to, this would be provided to Council.

13 Update on the Government's review of the 3 waters infrastructure

Since the release on 28 November 2018 of two Cabinet papers by the Minister of Internal Affairs, the Department of Internal Affairs has commissioned GHD Limited (GHD) and Boffa Miskell Limited (BML) to undertake work in the first half of 2019, culminating with reports on three topics:

National stocktake of current regulation of wastewater treatment plants

This report will provide a national-level stocktake and assessment of the relevant plan rules, and resource consents that are in place for domestic wastewater treatment plants. The stocktake report will cover all types of consent conditions and plan rules in place across wastewater plants, including conditions and rules relating to discharges to water, air emissions, land application, maintenance requirements, and monitoring and reporting requirements. The regulation of trade waste, network overflows, and on-site wastewater treatment systems (such as septic tanks) are outside of the scope of this report.

Cost estimate of national minimum standards for discharges from coastal wastewater treatment plants.

This report will provide a cost estimate for upgrading domestic wastewater treatment plants that discharge to the coast *if* national minimum standards for the concentration of contaminants present in discharges were imposed. Trade waste, wastewater plants that discharge to freshwater, and land-based discharge schemes fall outside of the scope of the report. To provide a nationally consistent basis to evaluate the costs of any upgrade requirements, the GHD/Boffa team has been asked to use the minimum discharge standards that apply in Canada as a basis to develop minimum discharge standards that could be appropriate in the New Zealand context. The purpose of the report is not to consider whether there should or should not be a minimum standard – rather it is to understand the potential costs *if* there was a minimum standard regime. These standards are specified in the Canadian Wastewater Systems Effluent Regulations SOR 2012/139 - <https://lawslois.justice.gc.ca/eng/regulations/SOR-2012-139/FullText.html>.

Cost estimate to reduce wastewater overflows

This report will undertake a stocktake of the regulation of wastewater overflows (both wet weather and dry) by regional councils to build a national picture of how wastewater overflows are regulated. The GHD/Boffa Team has been asked to provide a cost estimate for upgrading wastewater treatment networks to reduce wet weather overflows against a national standard. For the purpose of the report Internal Affairs has asked the team to use 2 per year 9the target that Auckland Council has identified it is working towards by 2040 in the Auckland Plan). This target has been chosen to provide

a consistent basis to evaluate potential costs. The report is not considering whether there should be a national target.

The GHD/BML team will, where possible, use information that is publicly available. However, a key learning from earlier reports is the importance of ensuring that the information is accurate and takes into account the operating context. In some cases, this will require that the team follow up on the initial information request to seek further information or clarification.

To ensure that they have sufficient oversight and are capturing all the issues, Internal Affairs staff are also working with Local Government New Zealand to establish two reference groups to provide input from both a regional council and territorial authority perspectives on how we collect and collate the information, and how we present that information in the final report.

Internal Affairs expects that most of the information for the reports will be collected during February, with collation and initial analysis during March and April. The GHD/BML team will make contact with councils directly during this period, and well as working with the two LGNZ reference groups.

The appeal against the findings in the 2017/18 draft compliance report for drinking water (foreshadowed at the Committee's last meeting) was submitted on 18 January 2019.

14 Late items

15 Future items for the agenda

16 Next meeting

27 June 2019, 9.00 am

17 Meeting closed

Attachment 1



Rangitikei District Council

Audit and Risk Committee Meeting

Minutes – Thursday 29 November 2018 – 9:00 a.m.

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1 Welcome

The meeting opened at 9.06am. The Chair welcomed everyone to the meeting.

2 Council Prayer

Mr O'Connell read the Council Prayer.

3 Apologies

That the apology for the late arrival of Cr Gordon be received.

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.

There were no declared conflicts of interest.

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, the following was dealt with as a late item (as part of item 14) at this meeting.

Hamish Waugh – Drinking Water Standards presentation.

6 Confirmation of minutes

Resolved minute number	18/ARK/018	File Ref	3-CT-17-2
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That the Minutes of the Audit/Risk Committee meeting held on 30 August 2018 be taken as read and verified as an accurate and correct record of the meeting.

His Worship the Mayor / Cr Belsham. Carried

7 Chair's report

The Chair did not have a report.

8 Work Programme matrix – progress update

Mr Hodder took the report as read.

Resolved minute number **18/ARK/019** **File Ref** **3-CT-17-5**

That the Work programme matrix – progress update as at 20 November 2018 be received.

Cr McManaway / Cr Belsham. Carried

It was agreed that any outcomes from item13 would be added to the matrix.

9 Riskpool – call on members, July 2019

Mr Hodder took the report as read.

Resolved minute number **18/ARK/020** **File Ref** **5-FM-6-1**

That the memorandum 'Riskpool – call on members, July 2019' be received.

Cr Belsham / Cr McManaway. Carried

Cr Gordon arrived at 9.13am

10 Internal Audit programme – audit focus risk analysis

Ms Dean spoke to the report.

Resolved minute number **18/ARK/022** **File Ref** **5-EX-2-6**

That the report 'Internal Audit programme – audit focus risk analysis' be received.

His Worship the Mayor / Cr McManaway. Carried

Undertaking Subject

The Chief Executive and Group Manager Finance & Business Support to review the analysis against the Audit Management report for the year ending 30 June 2018 and the previous Internal Audit plan.

11 Actions to reduce risk – half year update, November 2018

Mr Hodder spoke to the report.

Mr Hodder highlighted that the relationship with Iwi/Māori is improving with the appointment of a strategic adviser, which was done in consultation with Te Roopu Ahi Kaa. Mr McNeil noted the significant input into the wastewater discussions with Iwi.

Resolved minute number **18/ARK/023** **File Ref** **5-PY1-3**

That the updated schedule of 'Actions to reduce risk, November 2018', be received.

Cr Gordon / Cr Belsham. Carried

12 Final Audit management report 2017/18

Ms Elkington spoke to the tabled document.

Points discussed were:

- Appreciated positive relationship between Council staff and the Audit team.
- The reporting template is different from previous years.
- Most points from previous years were being actioned; understandable delays with the sudden death of the previous Group Manager, Finance & Business Support.
- Keen to see improvement in processes, particularly identifying what tasks can be brought forward – e.g. revaluation.
- The Internal Audit work will continue to complement what Audit NZ does.

Resolved minute number **18/ARK/024** **File Ref**

That the update for the 'Final Audit management report 2017/18' to the Audit/Risk Committee meeting held on 29 November 2018, be received. There will be some amendments made to the 'Final Audit management report 2017/18'

Cr Gordon / Mr O'Connell. Carried

13 Strategic risks for the Council

The Committee considered the commentary in the agenda. His Worship the Mayor noted uncertainty around the three waters and that it was critical for Council to be aware of the Government's conversations with (and about) local government. There were also uncertainties about key industries in the District and external threats to agriculture and forestry (cf. PSA and varroa mite).

Undertaking **Subject**

It was agreed to revisit the strategic risk for council at the February meeting.

14 Update on the Government's review of the 3 waters infrastructure

The Committee discussed the commentary in the agenda. It was unclear to which Ministers rather than officials were driving the change agenda. However, the first initiative, improving the regulatory structure was not contentious. The current investigation by the Productivity Commission was an acknowledgement of the funding gaps for drinking water and wastewater.

Mr Waugh noted that Rangitikei District Council had withdrawn from being a member of Water New Zealand because of its advocacy on aggregation of suppliers as being the answer. This was a stance being taken by other local authorities.

Mr Waugh's presentation outlined the findings in the 2017/18 draft compliance report for drinking water, explaining the distinction between drinking-water source and reticulation. At no time during the year was there unsafe drinking-water in the Rangitikei. However, the drinking water assessor was taking a very technical view on turbidity, which previously had been recognised as demonstrating adequate back-washing. In addition, the assessor considered there had been insufficient testing of Mangaweka's supply.

The assessment will be appealed, highlighting compliance v. non-compliance, with a decision made within two months. The Committee noted that Havelock North's supply had been considered as meeting the drinking-water standards.

15 Next meeting

28 February 2019, 9.00 am.

16 Future items

Strategic risks

Three waters

17 Meeting closed

10.26am

Confirmed/Chair: _____

Date:

Attachment 2

Topic	What	Why	Who/How	Priority	Committee decision/action	Progress to 18 February 2019
Annual Audit review	Interim management report (2017/18)	Ensure Council operating procedures and policies are appropriate and managed	Council management and Audit Director	Very high	Review Audit comment and Council response; recommendation to Council	Complete. The planned interim audit (second part) for 2017/18 in the first week of July was deferred (and shortened) because of the death of George McIrvine. Agreed no interim management report to be provided. Main audit commenced on 10 September. Adoption occurred on 11 October. <i>Management report provided to Committee at its November 2018 meeting.</i>
	Interim management report (2018/19)					Not yet started
Other reviews of Council operations		Ensure recommendations are well-founded and there is a robust plan of action	Chief Executive	Medium	As required. Consideration of interest-free loan to Edale was flagged once relevant information is received, but was not needed because of its purchase by the Masonic Villages Trust.	In progress. The NZTA Investment Audit conducted in October 2017 found Council's performance 'effective' except in safety performance. This was given profile in the Asset Management Plan and the 2018-28 Long Term Plan. The Audit management report on the Consultation Document for the 2018-28 Long Term Plan was considered at the Committee's June meeting; the Audit management report on the final adopted Long Term Plan was included in the Committee's August 2018 meeting agenda.
Natural disaster events	Annual insurance reviews	Ensure accurate, appropriate and cost-effective cover for all built assets	GM Finance & Business Support	Medium	Review periodic updates from GM (Finance and Business Support) Committee has already reviewed decision to cease membership of LAPP.	In progress. Considered as part of additional cover being secured through MW LASS.
	Business continuity	Ensure Council can maintain business operations	GM Finance & Business Support	High	Review periodic updates from GM (Finance and Business Support)	Not yet considered. However, off-site storage of all servers has now been made secure.
	Disaster recovery	Ensure robust processes aligned with MCDEM requirements	Chief Executive	Very high	Review six-monthly updates on development of internal capability and external liaison, periodic MCDEM reviews, and recommend any changes or enhancements	In progress. Quarterly update on CDEM Improvement plans provided to Council's meetings in January, April, July 2018 and October. <i>New improvement plan being developed to align with MCDEM strategic priorities.</i>
	Areas of unstable ground	Ensure awareness where land and buildings may be at risk		Low	to be determined	

Community facilities	Bulls community centre	Ensure robust project management for construction and fit-out	Chief Executive	High	Review and comment on project plan and exception reporting to each meeting	In progress. High-level project plan reviewed at Council workshop, 31 May 2018. Formal consideration of tenders at Council on 30 August 2018. Final decision (to award contract) made on 15 November 2018. Project team meets weekly/fortnightly.
	Marton civic centre	a) Ensure cost-effective option for new Civic Centre design	Chief Executive	High	Review and comment on project plan and exception reporting to each meeting	In progress. High-level project plan reviewed at Council workshop, 31 May 2018. At its meeting on 13 December 2018, Council approved engaging WSP Opus to develop concept designs and finalising the project plan (to incorporate a community engagement phase) and completing the business case by September 2019 for a decision on the proposed civic centre.
		b) Ensure robust project management for construction and fit-out	Chief Executive	High	Review project plan and exception reporting to each meeting	Not yet started.
	Taihape community facilities (on Memorial Park) and community centre (town hall site)	a) Ensure Memorial Park facility has external funding and community support		High	Review and comment on project plan and exception reporting to each meeting. Workshop consideration, 15 November 2018; report to be prepared for Council's meeting on 29 November.	In progress. High-level project plan reviewed at Council workshop, 31 May 2018. Discussions with Park users and key stakeholders led to a further report being required by Council for Assets/Infrastructure Committee's July 2018 meeting and a public meeting being held in Taihape on 3 August. This led the Committee to agree to investigate costs for the grandstand to be fully functional (as well as strengthened) and to seek clarification from Clubs Taihape on its intentions. Further consideration at Council workshop with decision report approved at Council's meeting on 29 November 2018, to build a new amenities block on the site beside the No. 3 field. Discussion with Clubs Taihape (which intends to build a complementary facility nearby). Additional budget of \$600,000 to be included in draft 2019/20 Annual Plan
		b) Ensure cost-effective and community support for new Civic Centre design		High	Review project plan and exception reporting to each meeting	Not yet started.
Risk management framework	Alignment with national/sector approach	Ensure framework reflects sector good practice	GM Community & Regulatory Services		Understand and give effect to Local Government Risk Agency expectations in the framework and follow-up actions	LGRA yet to be established.
	Biennial reviews	Ensure framework reflects changing risk environment	GM Community & Regulatory Services	Very high	Review proposed changes to framework and recommend to Council	Review due December 2019

	Half-year management actions to reduce risk	Ensure identified risks are being reduced	GM Community & Regulatory Services	High	Review adequacy of management action and recommend any changes to actions at August and February meetings	In progress. Proposed actions to address risk from December revision of the framework provided to Committee's February 2018 meeting. Report on actions taken provided to Committee's June and November 2018 meetings.
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Topic	What	Why	Who/How		Committee decision/action	
Ongoing analysis of capital expenditure	Capacity	Ensure that the projected capital work programme is realistic (i.e. affordable and achievable)	GM Finance & Business Support	Very high	Review proposed capital programme at October or December meetings. Recommend changes to Council if warranted.	In progress. At its September 2017 the Committee considered a report on Council's involvement with the Local Government Funding Agency and recommended to Council that it participate in the Agency's scheme as a borrower. Council approved this recommendation. The capital programme for 2019/20 forecasted in the Long Term Plan has been reviewed as part of the preparation for the 2019/20 Annual Plan.
	Consenting requirements and timelines	Ensure that consenting requirements are reflected in capital programme		High	Examine briefing on consenting requirements at October meetings	Complete. Works programmes included in the draft Long Term Plan have been timed as to consenting requirements including seeking interim consents for Marton and Ratana wastewater upgrades and allowing for full consideration of options and (at Ratana) fulfilment of funding commitments. Horizons has made explicit its expectations about the timing of applications to renew consents.
	Carry-overs	Ensure that carry-overs are minimised and validated against external factors.	GM Finance & Business Support and GM Infrastructure	Medium		In progress. Council approved carry-forwards from 2017/18 to 2018/19 (incorporated in the final Long Term Plan) totalling \$19,229,729. In addition, \$177,780 was approved additional to the Long Term Plan budgets. Carry-forwards from 2018/19 to 2019/20 to be considered by Council's meeting on 28 February 2019.
Water supply	Drinking-water standards compliance	Ensure Council's potable water supplies address changes from Havelock North enquiry and government's timetable for implementing them	GM Infrastructure	Very high	Understand government policy setting; review project plan for giving effect to this and exception reporting to each meeting, and recommend Committee's view to Council.	In progress. Government's decisions on the Havelock North enquiry's recommendations not yet announced. Structural reform proposals from central government yet to be finalised, although Cabinet paper on scope/process released on 19 November. LGNZ has conducted a survey of territorial authority views and issued a position statement. At its meeting on 31 January 2019, Council approved development of Marton water strategy - this is not driven by compliance but issues with odour, colour and taste.

	Accurate billing for usage	Ensure that all water usage is paid for and that historical rights are correctly applied	GM Finance & Business Support	Medium	Review project plan and exception reporting to each meeting	Not yet considered.
Alignment with Council strategic framework and key priorities	Progress with key priorities (reported monthly to relevant Council committees)	Ensure that the identified key priorities are implemented or modified to give effect to the strategic direction	Chief Executive	High	Review draft consultation document for 2018-28 LTP at December 2017 meeting and determine whether risks and uncertainties have been adequately addressed.	Complete. Discussion at Committee's February 2018 meeting
Information management	Progress in implementing robust, integrated and accessible electronic corporate records systems	Ensure Council meets Public Records Act and LGOIMA requirements	GM Finance & Business Support	Medium	Review periodic updates on work programme and compliance with LGOIMA. There is currently no compliance reporting undertaken by Archives New Zealand	Not yet considered. However, Council will engage with the National Library's survey (opening 25 February 2019) to understand the extent to which the potential loss of local authority 'high value' digital content is considered a risk that could be mitigated by having access to national-level digital preservation services.
Infrastructure Shared Services (with Manawatu District Council)	Performance under revised agreement	Ensure Rangitikei is getting value for money and minimises risk of non-compliance in levels of service or funding of infrastructure	Chief Executive	Medium	Consider half-yearly assessments from Chief Executive and determine whether a recommendation to Council is warranted in terms of perceived risks	In progress. First quarterly update to Council's meeting on 29 March 2018. Principal Adviser Infrastructure started on 3 September 2018.
Appetite for risk around consents	Policy and procedure for exercise of discretion and enforcement of Code requirements	Ensure Council and local building sector are clear on balance between compliance and discretion	Chief Executive	Medium	Consider periodic updates from Chief Executive and determine whether a recommendation to Council is warranted in terms of perceived risks	Complete. Further consideration of issue on Committee's February 2018 meeting agenda. Approach considered and endorsed at Council's 1 March 2018 meeting. Subsequent notification of approach to local builders/building service providers. Enforcement strategy (and prosecution policy) adopted by Council on 26 April 2018; a report back on its effect due with Council's 29 November 2018 meeting.
Infrastructure inspection regimes	Condition reporting reflects age, maintenance and incidents	Ensure that asset condition reporting is comprehensive, is reviewed against inspections, and is reflected in capital/renewal programmes	GM Infrastructure	High	Review draft infrastructure strategy at October 2017 meeting and make recommendation to Council on adequacy of risk assessment	In progress. Draft strategy (combined infrastructure and financial) as provided to Audit included in Committee's February 2018 meeting agenda. However, there is uncertainty about the basis for the condition assessment reporting which needs to be resolved.