

AUDIT AND RISK SUBCOMMITTEE AGENDA

THURSDAY 8 MARCH 2018

1:00 pm, Harbour Room
70 Stafford Street, Dunedin

Membership

| | |
|-----------------------|--|
| Mr David Benham | <i>(Chairperson)</i> |
| Cr Stephen Woodhead | <i>(ORC Chairperson)</i> |
| Cr Gretchen Robertson | <i>(ORC Deputy Chairperson)</i> |
| Cr Doug Brown | <i>(Chair Finance and Corporate Committee)</i> |
| Cr Trevor Kempton | |
| Cr Michael Laws | |

Disclaimer

Please note that there is an embargo on agenda items until 1:00 pm on Tuesday 6 March 2018. Reports and recommendations contained in this agenda are not to be considered as Council policy until adopted.

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1. APOLOGIES

2. LEAVE OF ABSENCE

3. ATTENDANCE

4. CONFIRMATION OF AGENDA

Note: Any additions must be approved by resolution with an explanation as to why they cannot be delayed until a future meeting.

5. CONFLICT OF INTEREST

Members are reminded of the need to stand aside from decision-making when a conflict arises between their role as an elected representative and any private or other external interest they might have.

6. PUBLIC FORUM

7. PRESENTATIONS

8. CONFIRMATION OF MINUTES

Recommendation

That the minutes of the (public portion of the) meeting held on 21 September 2017 be received and confirmed as a true and accurate record.

Attachments

1. Minutes of public meeting of Audit and Risk Subcommittee - 21 September 2017
[8.1.1]

9. ACTIONS

Status report on the resolutions of the Audit and Risk Subcommittee.

Action list – 21 September 2017

| Item | Meeting | Action | Status |
|-----------------------------------|---------|--|---|
| Healthy & Safety Report | 21/9/17 | Co-ordinate annual field observations with respect to Health and Safety by the A&R subcommittee. (CEO - Mr Bodeker) | TO BE COMPLETED |
| Investment Report to 30 June 2017 | 21/9/17 | The Investment Report to 30 June 2017 is provided to the 27 September Council meeting. Future public investment reports are provided six monthly. | CLOSED Report provided to 27 September 2017 Council meeting COMPLETED Will be provided through |

| | | | |
|--|--|-------------------------|---|
| | | (Mr Donnelly/Mr Lanham) | to the Finance & Corporate Committee meeting – 21 March 2018. |
|--|--|-------------------------|---|

Attachments

Nil

10. MATTERS FOR COUNCIL DECISION

10.1. Health & Safety Report

Prepared for: Audit and Risk Sub-Committee
Activity: Governance Report
Prepared by: Sally Giddens, Director People & Safety
Date: 31 January 2018

1. Précis

This report summarises health and safety activities and incident statistics for the period since the September 2017 report.

2. Health and Safety Committee

Health and Safety Committee meetings were held on 19 September and 14 November 2017.

The H&S Committee Terms of Reference review were signed off by ELT. New H&S representatives were appointed, inducted and role tasks and expectations developed.

The first meeting of new H&S representatives was held on 14 November 2017. The Committee consists of:

1. Worker representatives - eight H&S representatives in total:
 - Two Reps for: Central Otago Biosecurity/EMO and Alexandra Office - Richard Lord and Scott Liddell;
 - One representative for: Hydro;
 - One representative for: Engineering (Taieri Operations);
 - One representative for: Engineering and Hazards & Science;
 - One representative for: RMA Compliance, Investigations and Enforcement and Balclutha Depot;
 - One representative for: Corporate Services, Policy Planning and Resource Management, and Stakeholder Engagement; and
 - One representative for: Emergency Management Otago.
2. Committee Standing Members – seven persons in total:
 - Meeting Facilitator & Support
 - Chief Executive
 - Senior Support Services Officer
 - Director People & Safety
 - Managers Group representative
 - H&S Advisor
 - Invited Team Leader/Manager representative - rotational invitation through that group

3. Health and Safety Activity

Without duplicating details from the CE Council tabled reports, key points from this period are:

Emergency Policy and Procedures Review: This review has now been completed and currently being rolled out to staff. Once the Dunedin process is completed the ORC depot documents will be completed and rolled out with those staff.

CDEMO (Civil Defence Emergency Management Otago): The H&S Adviser position provides an H&S Advisor function in an EOC activation. The creation of an H&S Operational document has been flagged for completion by the H&S Advisor which will cover two situations - ORC Flood Emergency Management, plus the link and cross-over in the event of a EOC activation.

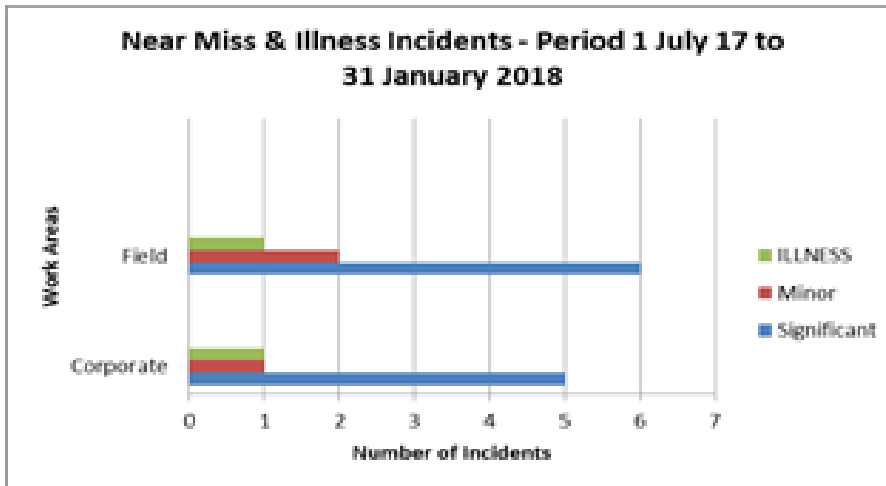
Wellness Programme: The Otago Polytechnic intern completed her research project and recommendations, and this is to be considered by ELT as to application.

4. Health and Safety Reporting

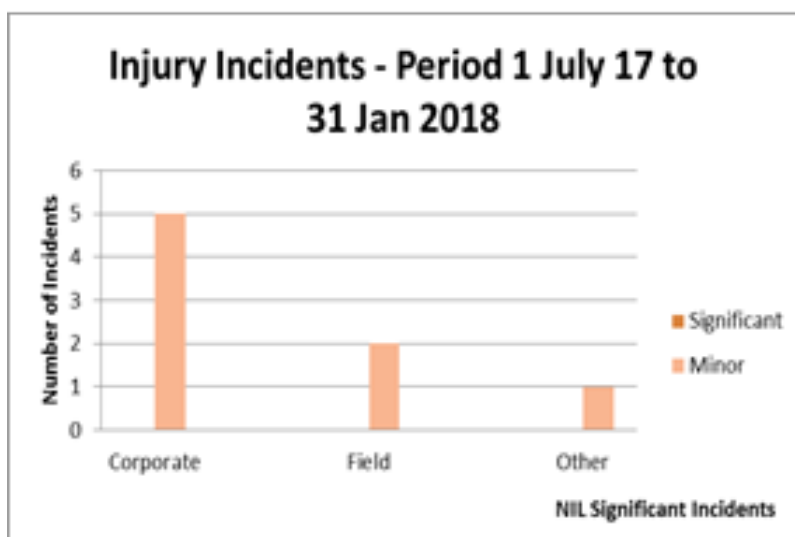
- No 'Notifiable Incidents' for this period
- Continuing low incident rates and in the minor category
- An increase in Near Miss reporting - of continuing concern is the increase in road/driving related near miss incidents of which six could have had serious consequences, if impact had occurred. This reporting supports the assessment that road driving is the organisation's highest risk, and our staff are practicing defensive driving skills.

Since the previous report there have been:

- Five injury incidents – one knock (bruising) injury, three hand injuries (sprain, bruising and abrasion), and a foot injury (sprain).
- One illness incident – a heightened hay-fever reaction
- Seven near miss incidents:
 - *Four vehicle-based incidents:* all related to other driver's illegal actions and our staff having to take evasive manoeuvres
 - *Three other incidents:* desk tipped backwards; clearing trap and suction grabbed tool out of hand; and one slip.



Health and safety reporting is provided monthly to ELT. The current financial year all incident statistics, as below.



| | | |
|---|--|--|
| <i>Incident Type</i> | INJURY A: Notifiable Event: – as per legislative criteria, required to report to WorkSafe NZ. B: Significant Incident – medical intervention required (Dr. / A&E / XRay) C: Minor incident – first aid | NEAR MISS D: SIGNIFICANT - damage to property or significant injury outcome if incident occurred E: MINOR consequences if injury occurred |
| <i>Work Areas</i> | CORPORATE = PP&RM, SHE, CS FIELD = EHS & EMO OTHER = Non-Staff (Contractors, Public) | |
| <i>Note: Statistics can change between other H&S reports due to date of receiving incidents reports</i> | | |

Contractor – Report incidents:

- 4 December 2017 - Burned fingers right hand on hot water zip – Council Chambers

5. Health and Safety – Overview Key Work Focus

Operational day to day health and safety requirements and advice now forms approximately 75% of working week. Given operational focus has priority; this has compromised time available to complete identified H&S projects.

The request from the existing H&S Advisor to move to partial retirement by adjusting to a 0.5 FTE non-operational role and completing H&S projects has been approved by the CE. The H&S Advisor position has been advertised and it is estimated the changes will occur in May 2018. The Project role will be reviewed in August 2018.

Health and Safety key projects: Site Wise pre-assessed contractors, complete SOP's for all work activities, develop in-house audit programme, driving training review, wellness programme development, reception/customer services review, new and allocated vehicle specifications and procedures, PPE clothing review, develop Asbestos Information Guidelines for ORC and developing Safety Manual for CDEMO operations.

6. Recommendation

That the report be noted.

Endorsed by: Nick Donnelly
Director Corporate Services

Attachments

Nil

10.2. Audit Management Letter - Staff Response

Prepared for: Audit and Risk Sub-Committee
Activity: Governance Report
Prepared by: Stuart Lanham, Finance Manager
Date: 2 March 2018

1. Précis

The auditor's management letter following the 2016/17 audit included various recommendations.

This report provides an update on action taken in respect of the auditor's recommendations.

2. Background

A responsibility of the Audit and Risk Subcommittee is to "Review the external auditor's management letter, including ensuring that management's responses are adequate".

The external auditors (Deloitte) presented their report to the meeting of the Audit and Risk subcommittee on 21 September 2017.

This report identifies the key recommendations from the Deloitte report and provides follow-up comment on actions related to the recommendations.

2.1 Fixed Assets

Audit Recommendation:

Comment was made that Council was continuing to pursue the issue of the adequacy of the asset management system reporting tools and how best to incorporate non-capitalised assets in the asset management system. (*Deloitte report p15*).

Council Comment/Action:

This project is continuing.

To date it has been included as an activity under the IT team, however, the majority of the IT work around the asset management system (Conquest) is complete, and the next phase is business implementation.

Going forward, a separate asset management role is being considered to ensure appropriate focus is given to this task.

2.2 System Access

Audit Recommendation:

An update to an earlier year observation was made concerning the Finance Manager and Senior Accountant continuing to have access rights to the Payroll systems and recommended that user access rights in relation to critical finance functions be restricted in line with job description requirements. (*Deloitte report p16*).

Council Comment/Action:

Access rights have now been transferred outside the Finance team.

The issue is now closed.

2.3 Annual Leave Management

Audit Recommendation:

The recommendation was that Council actively monitor and manage the accumulation of annual leave, and work towards reducing the outstanding leave balance. (*Deloitte report p17*).

Council Comment/Action:

The management comment in the letter was that the HR Manager reviews and monitors annual leave levels.

This role is now undertaken by managers.

Managers are responsible for reviewing outstanding leave schedules and managing leave balances accordingly, encouraging staff to utilise leave where balances become excessive.

The audit management letter identified that at 30 June 2017, the number of staff members with accumulated outstanding annual leave in excess of 150 hours, was 46.

The current number of staff with leave in excess of 150 hours is 41.

3. Omitted Disclosures

The audit management letter includes a summary of unadjusted differences, and within the summary, identified five omitted disclosures, assessed by management as being not material.

Accounting standards specify the disclosure requirements in financial statements and accompanying notes. However the standards also provide for the omission of information where such disclosure is assessed by the reporting entity as being not material to a reader's overall understanding of the financial information presented.

The five disclosure omissions referred to in the management letter, and the reasons for omission are as follows:

3.1 Joint ventures

The omission referred to is the disclosure of the proportionate share of income and expenses included within the financial statements in relation to a Port Otago Limited joint venture arrangement.

The disclosure of the omitted information in the Council consolidated information was assessed as being immaterial to the readers of the Council annual report – and was omitted on those grounds.

3.2 Operating leases as lessor

The omission referred to, is an aged schedule of committed receivables from operating leases that was not included in the notes to the financial statements.

The Council does not hold a significant number of operating leases that would give rise to a significant amount of committed receivables.

Accordingly, on the basis of materiality, a schedule was not included in the notes to the financial statements.

3.3 Financial instruments – contractual maturity analysis expanded into time bands

The contractual maturity analysis in the notes to the financial statements is in two time bands of “less than 1 year” and “1 year or greater”.

The omission is that the second time band is not expanded into “1-5 years” and “greater than 5 years”.

In management’s assessment, the nature of the Council’s key item in the schedule, being the shares in Port Otago Limited at \$439 million, is such that the expansion referred to above would not provide additional material information to the readers of the financial statements.

3.4 Financial instruments Council – interest rate sensitivity analysis

The sensitivity amount that would be reported was assessed at \$60,000.

The amount was assessed as being immaterial, and disclosure was omitted on that basis.

3.5 Financial instruments – derivative financial instrument disclosures

The only derivative financial instruments held within the Otago Regional Council group are within the Port Otago Limited Group.

In the consolidated disclosures of the Council annual report, in respect of Port Otago related disclosures, the Council generally only includes the disclosures made by Port Otago Limited in the company’s annual report.

Council management assessed that the Port Otago Group derivative financial instrument disclosures, omitted from the Port Otago Limited annual report, would not be material to the readers of the Council annual report, and omitted such disclosures on that basis.

4. Recommendation

That the report be received.

Endorsed by: Nick Donnelly
Director Corporate Services

Attachments

Nil

10.3. Long Term Plan (LTP) Update

Prepared for: Audit and Risk Sub-Committee
Activity: Community - Long Term Planning and Annual Plan Report
Prepared by: Nick Donnelly, Director Corporate Services
Date: 1 March 2018

1. Précis

Development of the 2018-28 Long Term Plan (LTP) is well advanced. This paper informs the Audit and Risk Subcommittee of the process that has been undertaken to date, and tasks yet to be completed. A revised timeline for sign off the Consultation Document (CD) is proposed for approval.

2. Background

Under the Local Government Act (LGA), all local authorities are required to produce a 10-year long term plan every three years. The next LTP will cover the period 2018 through to 2028, it must be adopted by 30 June 2018, and will commence on 1 July 2018.

3. Content of the Long-Term Plan

Part 1 of Schedule 10 of the LTP sets out the information required to be included in an LTP. In summary, the LTP must contain the following information:

- **Community outcomes** – describe the community outcomes for the region.
- **Groups of activities** – identify activities within groups of activities, provide rationale for delivery of those activities, and any significant negative effects an activity may have on the community.
- **Capital expenditure** – identify expenditure budgeted to meet additional demand, improve the level of service, and replace existing assets.
- **Statement of service performance** – for each group of activities, identify levels of service, measures and performance targets, and any intended level of change to levels of service provided for in the year before the LTP commences.
- **Funding impact statements** – for each group of activities, and for Council as a whole, showing expenditure and sources of funding.
- **Development of Maori capacity to contribute to decision making processes** – set out steps to foster this development.
- **Strategies and policies** – as follows:
 - Financial strategy.
 - Infrastructure strategy – covering a 30 year period.
 - Revenue and financing policy.
 - Significance and engagement policy – a summary of this policy.
- **Financial statements** – forecast for the 10 year period, and previous year comparisons.
- **Statement regarding balancing of the budget** – if a deficit is proposed for Council's operating budget for any year of the plan, a statement for reasons and implications.
- **Rating base information** – projected number of rating units.
- **Reserve funds** – purpose of funds, and movements over the 10 year period.
- **Significant forecasting assumptions** – including life cycle of significant assets sources of funds for future replacement of those assets, and the level of uncertainty around the assumptions.

4. Consultation

Section 93A of the LGA requires Council to use the special consultative procedure to adopt the LTP. It also requires the preparation of a consultation document, and the draft LTP must not be used as an alternative.

The consultation document must provide a fair representation of matters proposed in the LTP, describing issues and options for each issue.

5. Long Term Plan Process

Council's strategic plan provides the direction for Council activities over the next 10 years and is the key driver for the preparation of the LTP.

The Executive Leadership Team (ELT) has met to give consideration to the LTP, and its development, and key process points identified included the following:

- Council involvement throughout the process is critical.
- For managers to plan their work programmes, clear direction that comes out of the strategic direction needs to be given from the executive.
- Staff will engage with the territorial authorities about their significant assumptions, such as population growth, and how they may affect ORC's activities, and any other matters for consideration over the 10 year period of the LTP.
- Examine ORC activities, their purpose and their scope, and the connectivity between projects.

5.1 Community Outcomes

The review of Council's community outcomes has been completed, giving consideration to the outcomes presented in the Regional Policy Statement, and the work undertaken previously. We considered that the previous outcomes could be presented in a more community focused manner and they have been revised after a workshop with Council.

5.2 Activities and Projects

Developing the work programme for the next 10 years has involved the following steps:

- Meeting with managers to provide direction by ELT.
- Each activity has been assigned a director sponsor and a project owner (director or manager).
- A series of project meetings were held for each activity e.g., water quality implementation, where all managers involved in the delivery of the project met, along with the director sponsor, to consider purpose, scope, what needs to be delivered, how, and when.
- Proposals were checked for alignment with the strategic plan.
- Assumptions have been documented.
- Identification of resources needed (hours, skill sets etc.) to deliver the work programme, along with other estimated expenses have been prepared.
- The Revenue Policy has been applied to determine how expenditure will be funded.
- Council workshops have been held to discuss proposals, confirm direction and to review the financial estimates.

5.3 Strategies and Policies

Reviewing and updating Council's strategies and policies is a piece of work, separate from the activity/project planning exercise, and was undertaken at an early stage in the

LTP process. Recommendations were presented to councillors at workshops to discuss proposals and confirm direction.

5.4 Fees and Charges

A review of compliance fees has been undertaken, to ensure the adequacy and appropriateness of our charges. In addition, a full review of Council's schedule of fees and charges will be undertaken to ensure charges comply with the revenue policy.

6. Timetable and Status

The timetable below shows the steps involved in completing the LTP. Following the 22 February workshop with Council on the consultation document an additional workshop has been added on 8 March to review a revised draft of the CD. This together with the timing of this Audit and Risk meeting means the document and the audit process is not sufficiently advanced to allow sign off by this meeting of the Subcommittee. It is now proposed that this would occur at an out of cycle Audit and Risk Subcommittee meeting to be held on April 5 and final adoption of the CD would now occur at the 11 April Council meeting. The CD would be published at this point and the submission period open immediately for a one month period to 11 May. This date is two days later than originally planned for submissions to close. Hearings then occur from 23 May and recommendations from that process and adoption of the LTP remain as originally planned. The proposed changes are shown in the table below in red.

| Task | Involvement | Date | Status |
|---|--|---------------------------------|----------|
| 1. Directors to meet with managers to guide preparation of activities and projects | ELT and Managers | 3 July 2017 | Complete |
| 2. Council review of strategic plan | Council | 11-12 July 2017 | Complete |
| 3. Council workshop on the strategic plan - brainstorm high level strategic priority activities | Council | 2 August 2017 | Complete |
| 4. Engagement with territorial authorities on significant assumptions etc. | CE, DCS, DSE, Manager Projects | July to September 2017 | Complete |
| 5. Activity / project meetings and estimates preparation | Director sponsors and Managers | August to early October 2017 | Complete |
| 6. Council workshop on Activity framework – clarify key issues and significant assumptions | Council | 13 September 2017 | Complete |
| 7. Review community outcomes wording | DSE, Manager Projects | August to September 2017 | Complete |
| 8. Council workshop on financial strategy and community outcomes | Council | 27 September 2017 | Complete |
| 9. Review of Revenue Policy | Manager Projects | August to September 2017 | Complete |
| 10. Consider Revenue Policy | CEO, DCS | October 2017 | Complete |
| 11. ELT review of activities and projects | ELT | 16 October 2017 | Complete |
| 12. Council workshop on Revenue Policy | Council | 18 October 2017 | Complete |
| 13. Council workshop on activities and projects (no financial estimates) | Council | 1 November 2017 | Complete |
| 14. ELT review of estimates | ELT | 15 November 2017 | Complete |
| 15. Council workshop on activities and first draft estimates | Council | 29 November 2017 | Complete |
| 16. Review of fees and charges | Manager Projects and Management Accountant | November 2017 | Complete |
| 17. Preparation of the Infrastructure Strategy | Manager Engineering | November 2017 | Complete |
| 18. Initial audit planning (desktop at their offices) | Deloitte | Week beginning 11 December 2017 | Complete |
| 19. Council workshop on Infrastructure | Council | 13 December 2017 | Complete |

| | | | | |
|-----|---|--|---------------------------------|------------------------|
| | Strategy, and Fees & Charges | | | |
| 20. | Review of Financial Strategy | DCS, Executive Officer | January 2018 | Complete |
| 21. | Council workshop on Financial Strategy and second draft estimates | Council | 31 January 2018 | Complete |
| 22. | Develop a communications and engagement plan | DSE, Communications and Engagement Advisor | February 2018 | Complete |
| 23. | Prepare draft LTP and consultation document | Executive Officer, Communications and Engagement Advisor | December 2017 to February 2018 | Complete |
| 24. | Council workshop on draft LTP (third draft estimates), consultation document and communications and engagement plan | Council | 22 February 2018 | Complete |
| 25. | Audit of LTP on-site | Deloitte | Week beginning 19 February 2018 | In progress |
| 26. | OAG hot review | Deloitte Executive Officer | March 2018 | TBC by Deloitte |
| | Council workshop on CD | | 8 March 2018 | |
| 27. | Auditors report to Audit and Risk Committee | Deloitte, A&R Committee | 8 March 2018 | Move to 5 April |
| 28. | Endorsement of the LTP Consultation Document | F&C Committee | 21 March 2018 | Draft CD only |
| | Final edits to CD | | 22 Mar – 4 April | |
| | Auditors report to A&R (teleconference if required) | A&R Subcommittee | 5 April 2018 | |
| | Final CD completed for publication | | 6 Apr – 10 Apr | |
| | Endorsement of CD and publication | COUNCIL | 11 April 2018 | |
| 29. | Submissions close | | 9 May 2018 | Move to 11 May |
| 30. | LTP hearings and deliberations | Hearings Committee | 23 May to 29 May 2018 | |
| 31. | Recommendations from Hearing Committee to Finance and Corporate Committee | F&C Committee | 13 June 2018 | |
| | A&R sign off of LTP | A&R Subcommittee | 20 June 2018 | |
| 32. | Adoption of the LTP 2018-28 | Council | 27 June 2018 | |

7. Recommendation

That this report is received, the LTP process and status is noted, and the revised timeline for the sign off and adoption of the Consultation Document is endorsed.

Endorsed by: Nick Donnelly
Director Corporate Services

Attachments

Nil

11. MATTERS FOR NOTING

11.1. Legislative Compliance

Prepared for: Audit and Risk Sub-Committee
Activity: Governance Report
Prepared by: Peter Kelliher, Legal Counsel
Date: 27 February 2018

1. Précis

The Otago Regional Council (“Council”) is a creature of Statute and derives its functions, duties and responsibilities from a range of Acts, Regulations, Bylaws and other Government directives.

Council must ensure it is compliant with these instruments in all respects. In order to do so, it must periodically review its performance against these instruments to ensure ongoing compliance.

2. Building Act 2004

From 31 March 2009, only registered Building Consent Authorities (“BCA”s) have been permitted to perform building consenting and certifying functions in terms of the Building Act 2004.

The Council is registered as a BCA and is responsible for building control for dams and their associated structures in Otago, West Coast and Southland regions.

In 2018, an internal audit was undertaken by Mango Limited on Building Consent Authority processes under the Building Act. The audit recommended a number of minor actions which either have been or are being addressed.

3. Resource Management Act 2004

In 2018, Telarc audited Council’s resource consent processes under the Resource Management Act 1991 against ISO2008 and ISO2015.

The audit identified Council as being fully compliant with legislative requirements in this area. Accordingly, Council’s ISO accreditation was renewed with no conditions.

4. Hydrometric, Water Quality Information and Flood Warning Network

In 2018, Telarc audited Council’s hydrometric, water quality data collection and processing process and the flood warning network against ISO2008.

Council’s ISO accreditation was renewed. The audit identified minor matters which have since been addressed.

It is anticipated Council will achieve ISO2015 accreditation later this year.

5. Maritime Transport Act 1994

In 2016, staff reported to the Audit and Risk Committee¹ of potential liabilities if navigation safety is left unregulated or inadequately regulated. An external review

¹ Refer Report 2015/1255, from March 2016 Audit and Risk subcommittee meeting.

identified a number of risks from the then current arrangements (as at May 2016). These risks included:

- Resourcing;
- Risk management;
- Over-involvement; and
- Lack of legal mandate.

Council has taken steps to address the level of risk in these areas, namely:

Resourcing

In 2017, Council engaged a full-time harbourmaster for the Otago region. Two external consultants continue to provide harbourmaster support as additional harbourmasters on an “as and when required” basis.

Risk Management

Council, through its harbourmasters have maritime expertise to consider the level of port related risks, the adequacy of controls and to direct further action if required.

Over Involvement

Council no longer undertakes functions outside its statutory responsibilities.

Lack of legal mandate

In 2018, Council will be consulting with the community on a Navigation Safety Bylaw for the region (excluding areas where responsibility for navigational safety has been transferred).

Port Otago Limited

In 2017, Council and Port Otago Limited entered into a Memorandum of Understanding (“MoU”) to define and agree upon the responsibilities of each party for the Otago Harbour.

The objectives expressed in the MoU are:

- Provide for safe practices in port operation and a safe environment on Otago Harbour;
- Identify all risks and establish safeguards to ensure that all significant risks are kept as low as reasonably practicable; and
- Continuously improve safety management skills of relevant personnel, including preparation for emergencies related both to safety and environmental protection.

The Council is currently developing a Safety Management System for the Otago harbour.

Transfer of Responsibilities

In 2006, Council and Central Otago District Council entered into a Deed of Transfer, transferring Council's responsibilities, duties and powers for navigation matters for Lake Dunstan. The Deed of Transfer is unclear in terms of the boundary of the area subject to the transfer. Council is in the process of rectifying this ambiguity.

5. Health and Safety

Council employs a full time Health and Safety Officer. The primary focus of this role is to review existing process and resources, ensure that work is in accord with current accepted "good practice" standards and that it is undertaken in a manner that is consistent with the Health and Safety at Work Act 2015 and relevant regulations.

Initiatives which are or have been undertaken include:

- The development of work safety procedures;
- Completed an external health and safety audit on pump station operations;
- Completed a structural assessment of water level recording structures;
- Developing Standard Operating Procedures ("SOP") for all operational activity and defining the level of risk and controls. Approximately 180 SOP's are required;
- Developing a health and safety audit system;
- Developing a health and safety management system.

6. Legislative Compliance Register

Council is preparing a register of key legislation, regulations and bylaws which are relevant to the Council ("the Instruments"). The purpose of the register is to establish a system whereby particular legislative responsibilities are assigned to staff within their area(s) of responsibility.

Measurable criteria for the Instruments is being created that will allow staff to report, at regular intervals, compliance with the Instruments.

Whilst the register is still in the process of development, a copy of the draft register is attached as Appendix A.

We will continue to update the Committee on progress as the register develops.

7. Recommendation

That this report be noted.

Endorsed by: Nick Donnelly
Director Corporate Services

Attachments

1. Appendix A - Register of Key Legislation, Regulations and Bylaws **[11.1.1]**

11.2. Risk Report - October 2017

Prepared for: Audit and Risk Sub-Committee
Activity: Governance Report
Prepared by: Nick Donnelly, Director Corporate Services
Date: 1 March 2018

1. Précis

The Terms of Reference for the Audit and Risk Subcommittee include responsibility in relation to risk including:

- Ensuring that the risks facing ORC are identified and the potential impacts are assessed.
- Ensuring that the identified risks are managed, and necessary controls are built into business processes.

A Risk Management Strategy was adopted by the Audit and Risk Subcommittee in September 2016. Based on that, a risk report has been developed and is required to be updated on a 4-monthly basis. The latest Risk Report, being the update as at October 2017, is attached to this report for consideration by the Audit and Risk Subcommittee.

2. Risk Update

The risk reporting process requires risks to be reviewed and updated on a 4-monthly cycle at the end of February, June, and October. The latest review is at the end of October 2017 and has been undertaken by the Director of Corporate Services. There were no new risks added, however the residual risk rating has been changed for several risks primarily due to the change of government as a result of the 2017 elections.

Key changes to note are:

- The number of highest ranking residual risks has increased from 10 at June 2017 to 11 at October 2017. These are risks that score a rating of 10 or greater on the 5x5 risk matrix.
- The residual risk heat map includes 5 risks rated as high (score of 15+). This is an increase of 2 from the June 2017 report.
- The 2 additional risks are "Political change" (690) and "Change in central government service delivery requirements" (709). The residual risk for both risks has increased as a consequence of the change of government following the 2017 election.
- The residual risk heat map includes 6 risks rated as moderate in the 10-14 range. This is a decrease of 1 from the June 2017 report, however as the 2 risks mentioned above have moved from this category there has been 1 additional risk move into this rating.
- The new risk moving into the 10-14 score is "Undefined or unclear strategic vision" 691 which has increased as the strategic plan review was not fully completed, and this needs to be reviewed further early in the next LTP cycle.

The resulting draft risk report includes three sections:

- a. Heat map and risk level overview – this is shown for both inherent and residual risk.
- b. Summary of the highest ranking residual risks – this gives detail on the risks that have the highest residual risk ratings.
- c. Summary of all risks by risk category – reputational, financial, operational and knowledge/systems risk.

The next risk report update is due at the end of February and this will be reported to the June meeting of the Audit and Risk Subcommittee. It is intended that this update will be undertaken by Executive collectively, with a view to assigning risks at executive level as an interim step before assigning wider to staff.

3. Recommendation

That this report and the attached Risk Report – October 2017 be received.

Endorsed by: Nick Donnelly
Director Corporate Services

Attachments

1. Risk Report - October 2017 [11.2.1]

11.3. Audit and Risk Work Programme

Prepared for: Audit and Risk Sub-Committee
Activity: Governance Report
Prepared by: Nick Donnelly, Director Corporate Services
Date: 1 March 2018

1. Précis

The Audit and Risk Subcommittee is governed by its Terms of Reference which outlines the purpose and responsibilities of the Subcommittee. The Subcommittee holds meetings three times per year in September, March, and June. This paper aims to summarise the work programme to be covered at each meeting to ensure the responsibilities outlined in the Terms of Reference are fulfilled.

2. Summary of Responsibilities

The responsibilities of the Subcommittee as outlined in the Terms of Reference are covered under the headings of:

- Audit and Reporting
- Financial Risk Management
- Investment
- Strategic Council Performance Management
- Insurance and Disaster Recovery
- Project Management
- Health and Safety
- Legal Requirements
- Other (the Subcommittee may review other matters they consider relevant)

The Subcommittee is accountable to the Finance and Corporate Committee. The Audit and Risk Subcommittee shall conduct an annual review of its work and report to the Finance and Corporate Committee at the end of each financial year.

3. Work Programme

The proposed work programme for the Audit and Risk Subcommittee is:

| Terms of Reference | Responsibility | Comments | Sep | Mar | Jun |
|----------------------------|---|---|-----|-----|-----|
| Audit and Reporting | a) Review the external auditor's management letter including ensuring that management's responses are adequate. | Management letter is provided as part of Audit sign-off in September – staff responses and follow-up to be reported in March. | | | |
| | b) Consider any matters referred to it by an internal audit function. | Don't have internal function but may undertake reviews as requested. | | | |
| | c) Consider any changes in accounting policies, standards or reporting requirements requiring Council approval. | Review prior to year end. | | | |
| | d) Satisfy itself about the existence and quality of cost-effective internal control systems, and the | Review prior to year end. | | | |

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|---|--|--|--|--|--|
| | proper application of procedures. | | | | |
| | e) Review the draft financial statements and groups of activities prior to being furnished to Council for adoption as part of the annual report. | | | | |
| | f) Consider other matters referred to the Subcommittee by the Council. | As requested. | | | |
| Financial Risk Management | a) Maintain overview of contingent liabilities. | Review prior to year end. | | | |
| | b) Consider matters relating to the strategy for the establishment of rates. | Review as part of budget process – financial strategy is reviewed as part of the LTP. | | | |
| | c) Maintain an overview of financial reserves. | Review as part of year end process. | | | |
| Investment | a) Review the performance of the investment portfolio, annually. | Quarterly performance reports provided to each meeting with June annual performance reviewed in September. | | | |
| | b) Receive and review reports on the performance of Council's commercial activities. | As requested. | | | |
| Strategic Council Performance Management | a) Review the results of measurements undertaken during the year of progress towards the achievement of Annual Plan targets (such measures are subject to audit under the Local Government Act). | Statement of service performance is included with the financial statements in the Annual Report. | | | |
| | b) By request of Council, review the cost effectiveness of major programmes in delivering ORC's contribution to Annual Plan targets. | As requested. | | | |
| | c) Set criteria and review budgets, early in the budget cycle, to understand the reasons behind budget decisions to ensure that proposals going forward into the budget have been systematically and rigorously analysed, and to make recommendations. | | | | |
| | d) Review the integrity of | As requested. | | | |

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|--|--|--|--|--|--|
| | data collection, processing and application. | | | | |
| Insurance and Disaster Recovery | a) Review insurance and disaster recovery matters. | Report on insurance renewal prior to year end. | | | |
| Project Management | a) Review project management procedures. | As requested. | | | |
| Health and Safety | a) Review the Council's adherence to its Health & Safety Policy. | Standing agenda item at all meetings. | | | |
| Legal | a) Receive annually a report of the legislation the Council is required to operate under and/or enact. | Legislative compliance summary. | | | |
| | b) Review the Council's adherence to the legislation that affects Council. | Report as legislation changes occur. | | | |
| | | | | | |
| Key: | Meeting this item will be covered in | Item by request at any meeting. | | | |

4. Recommendation

That this report is received, and the work programme for the Audit and Risk Subcommittee is endorsed.

Endorsed by: Nick Donnelly
Director Corporate Services

Attachments
 Nil

11.4. Treasury Report

Prepared for: Audit and Risk Sub-Committee
Activity: Governance Report
Prepared by: Stuart Latham, Finance Manager
Date: 1 March 2018

1. Précis

Short term investments held by the Council are in the form of term deposits held with banking institutions, and managed on the Council's behalf by a separate investment arm of the BNZ under a multi-bank arrangement.

Council also has a Managed Fund portfolio, externally managed by the Bank of New Zealand.

This report provides information on the management and performance of the Council's short term deposits and the managed fund, for the six months ended 31 December 2017.

2. Short Term Investments

2.1 General Comments

The day-to-day working capital cash requirement of the Council, including forecasting cash movements in the short term based on forecast revenues and expenditure, is managed by finance staff.

Council's cash-flow in terms of receipts and payments fluctuates significantly during the year, particularly with significant revenue streams such as rates and dividends coming in at particular times, and large payments such as GST output tax collected on rates income, becoming payable at one time.

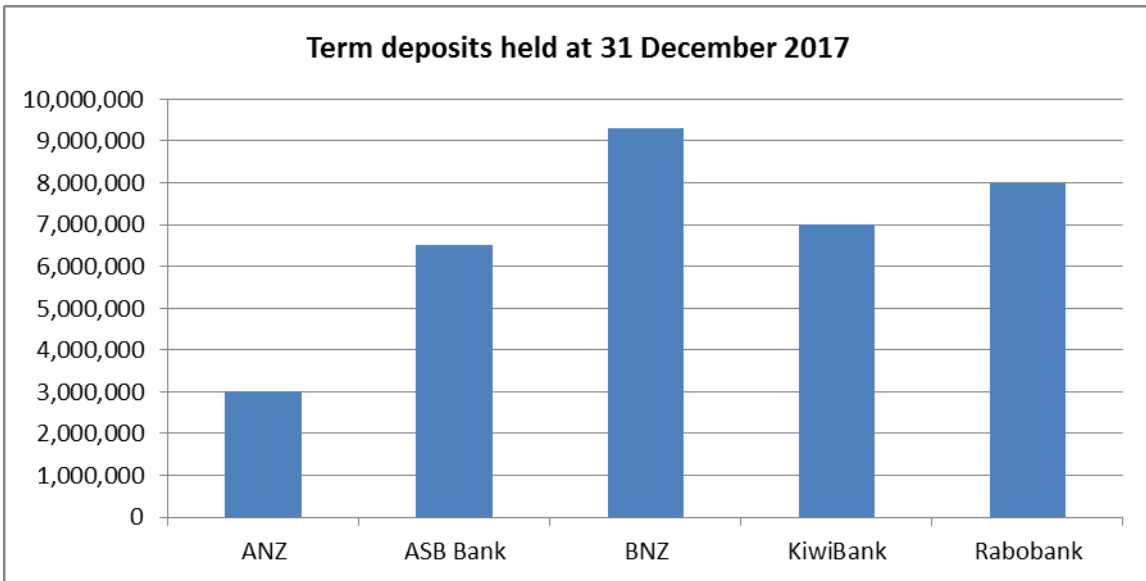
Funds surplus to immediate cash requirements are deposited into the term deposit portfolio. The BNZ seeks competitive quotes from participating banks for new deposits and places new funds accordingly, based on the quotes received and other factors to ensure the portfolio is maintained within agreed parameters.

BNZ provides monthly reports on the composition and performance of the term deposit portfolio.

2.2 Portfolio Composition

The amount held on term deposit at 31 December 2017 was \$33,800,000 comprising 29 individual deposits – ranging from \$500,000 to \$3,000,000 each.

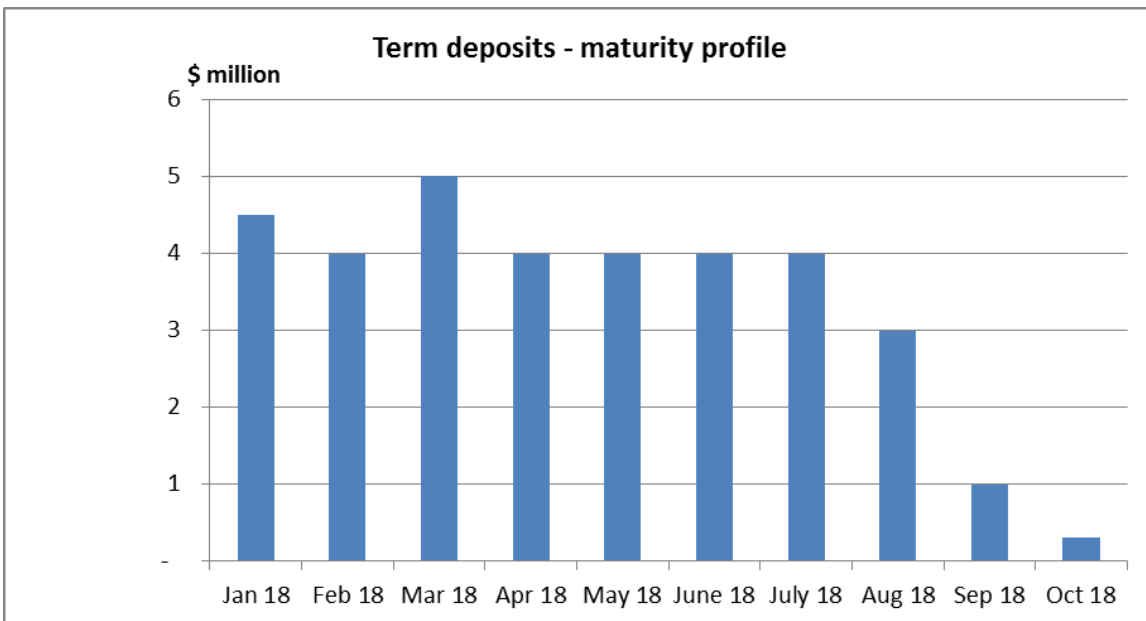
The following chart shows the total amount held with each institution at 31 December 2017.



2.3 Term Deposits – Maturity Profile

The maturity profile chart below shows the spread of maturity dates of the deposits.

The arrangement with the BNZ ensures that sufficient amounts mature on a monthly basis to provide funds to meet ongoing operational requirements.

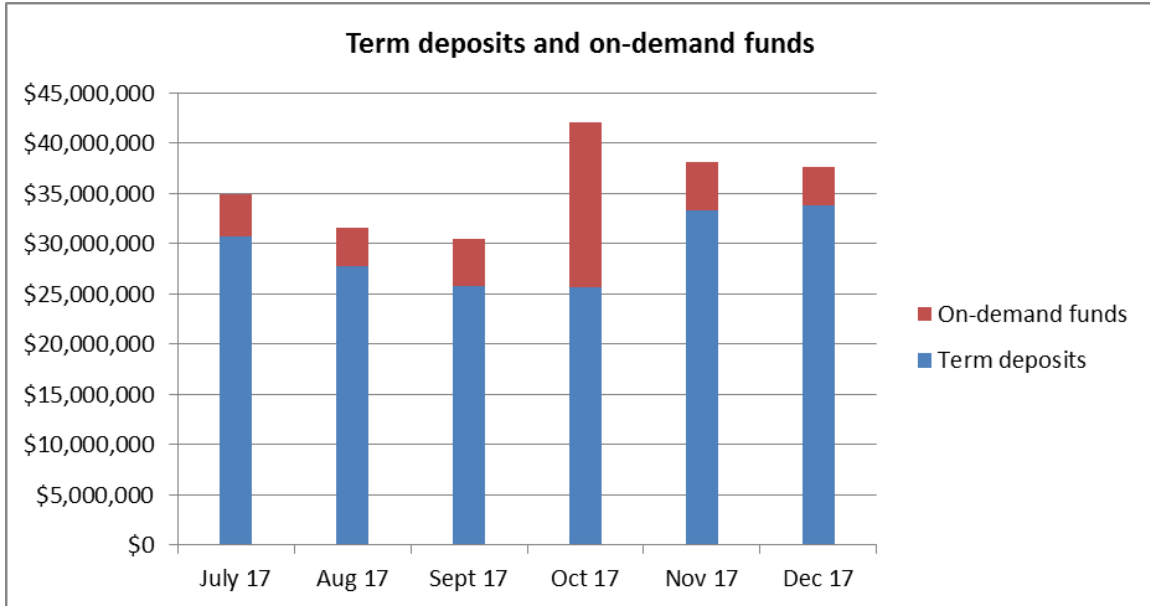


2.4 Term Deposits and On-Call Funds

A sufficient amount of funds is held on-demand to meet operational day-to-day requirements of the Council. The timing of term deposit transactions and significant cash transactions necessarily results in fluctuations in both the term deposit element of total funds held and the amount held on-demand.

The chart below shows the amount held at the end of each month during the six months to 31 December 2017, identifying the term deposit amount and the amount held on-demand with the BNZ.

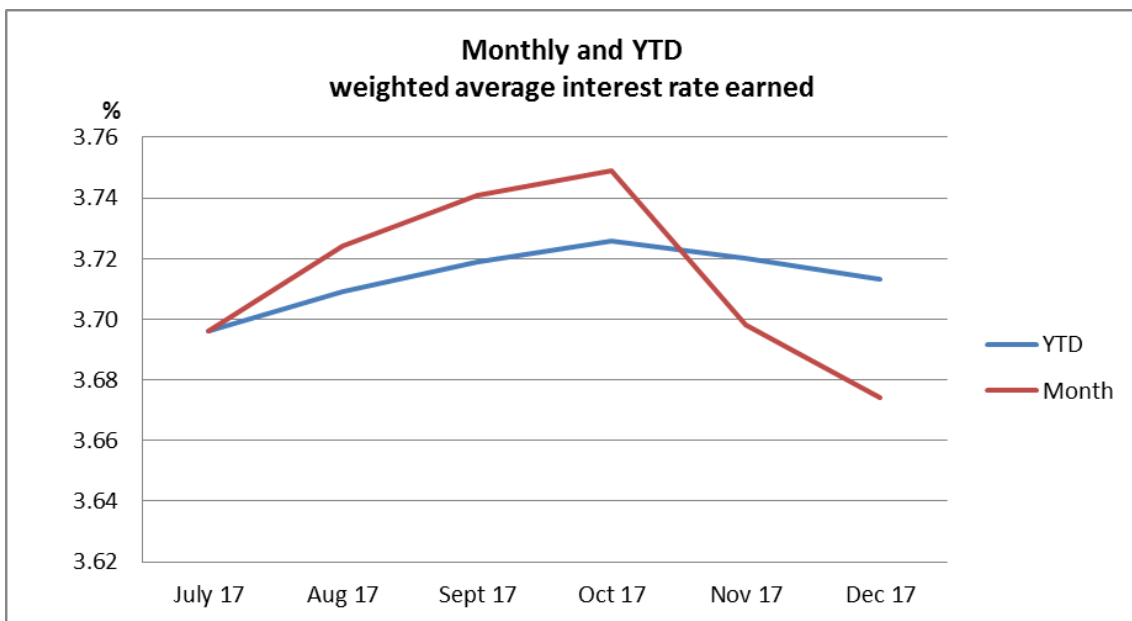
The significant amount of on-demand funds held at 31 October 2017 was due to a large amount of rate receipts being received leading up to the due date of 31 October and being placed on term deposit in early November.



2.5 Interest Earned and Interest Rates

Interest earned on bank balances and term deposits during the six months to 31 December 2017 amounted to \$578,913.

The following graph shows the monthly and year-to-date weighted average interest rates earned on term deposits during the year.



The graph shows that the monthly rates increased from 3.69% in July 2017 to 3.75% in October 2017 and then dropped back to 3.69% in November and then 3.67% in December 2017.

The monthly fluctuations are reflected in the year-to-date line which shows the rate peaking in October 2017.

The Official Cash Rate set by the Reserve Bank began the year at 1.75% and remained at that level throughout the six-month period to 31 December 2017.

3. **Managed Fund Portfolio**

The Council's managed fund comprises a portfolio of financial instruments managed externally by the Bank of New Zealand. The BNZ provides quarterly reports on the performance and composition of the fund.

The following information is summarised from the BNZ portfolio reviews for the six-month period ended 31 December 2017.

3.1 **Portfolio Performance**

The BNZ portfolio report refers to returns achieved net of portfolio management fees charged to the fund.

The returns for the six-month period to 31 December 2017 amounted to \$910,072 (4.58%) before tax, and \$880,348 (4.43%) after tax.

It is noted that in regular financial reporting to Council during the year, the net after tax gain is reported within the revenue sections of the report, with the portfolio management fee being included within expenditure.

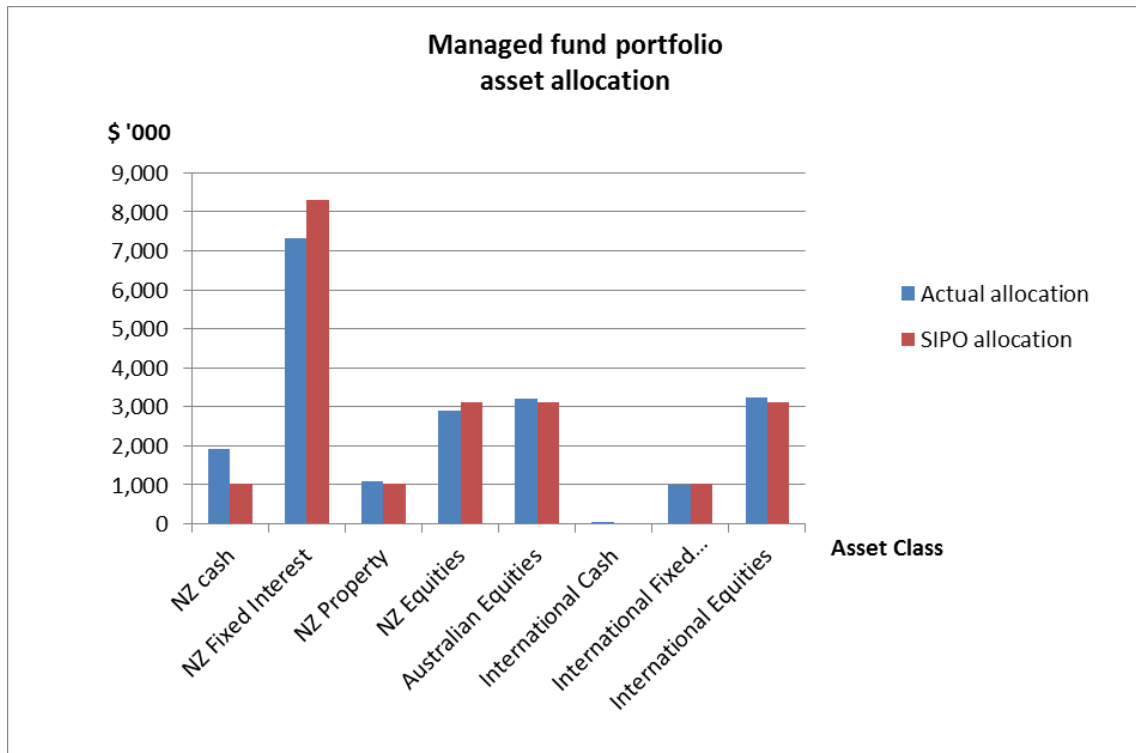
3.2 **Portfolio Summary**

The following table, extracted from the BNZ report, shows the valuation of the fund by asset class as at 31 December 2017, and the percentage of each asset class held. The table compares the percentage of each asset class held with the asset allocation percentage specified in the Statement of Investment Policies and Objectives (SIPO).

The variance columns show the actual variances from the SIPO allocation – in terms of the percentage and the effect on the valuation.

| Managed Fund - Portfolio Summary | | | | | | |
|--|--------------------------|---------------|------------------------|---------------|--------------------------------|----------|
| For the six months ended 31 December 2017 | | | | | | |
| Asset class | Actual Allocation | | SIPO Allocation | | Variance over / (under) | |
| | Amount \$ | % | Amount \$ | % | Amount \$ | % |
| NZ cash | 1,918,802 | 9.25 | 1,036,888 | 5.00 | 881,914 | 4.25 |
| International Cash | 36,212 | 0.18 | - | 0.00 | 36,212 | 0.18 |
| NZ Fixed Interest | 7,328,622 | 35.34 | 8,295,107 | 40.00 | (966,485) | (4.66) |
| International Fixed Interest | 1,010,764 | 4.87 | 1,036,889 | 5.00 | (26,125) | (0.13) |
| NZ Property | 1,092,096 | 5.27 | 1,036,888 | 5.00 | 55,208 | 0.27 |
| NZ Equities | 2,903,522 | 14.00 | 3,110,666 | 15.00 | (207,144) | (1.00) |
| Australian Equities | 3,198,321 | 15.42 | 3,110,666 | 15.00 | 87,655 | 0.42 |
| International Equities | 3,249,431 | 15.67 | 3,110,666 | 15.00 | 138,765 | 0.67 |
| | 20,737,770 | 100.00 | 20,737,770 | 100.00 | | |

The following chart graphically represents the actual asset allocation within the managed fund compared with the allocation set out in the SIPO.



4. Recommendation

That the report be received.

Endorsed by: Nick Donnelly
Director Corporate Services

Attachments

Nil

12. NOTICES OF MOTION

13. RESOLUTION TO EXCLUDE THE PUBLIC

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

Item 13.1 – Managed Fund Report (December 2017)

Item 13.2 - Bancorp Managed Fund Performance Review

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under [section 48\(1\)](#) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

| General subject of each matter to be considered | Reason for passing this resolution in relation to each matter | Ground(s) under section 48(1) for the passing of this resolution |
|--|---|---|
| <i>13.1 Managed Fund Report (December 2017)</i> | Section 7 (2) (h) Enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities; | Section 48(1)(a); Section 7 (2) (h) |
| <i>13.2 Bancorp Managed Fund Performance Review</i> | Section 7 (2)(c)(ii) Protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information - (ii) would be likely otherwise to damage the public interest. Section 7 (2) (h) Enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities; | Section 48(1)(a); Section 7 (2) (c) (ii); Section 7 (2) (h) |

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

Item 13.1 - Managed Fund Report (December 2017)

Section 7(2)(h)

Item 13.2 - Bancorp Managed Fund Performance Review

Section 7(2)(c)(ii) and 7(2)(h)

{public-excluded-reason}

14. CLOSURE