



# AUDIT AND RISK SUBCOMMITTEE AGENDA

## Thursday 20 June 2019

1:00 pm Council Chamber  
Level 2 Philip Laing House, 144 Rattray 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 48 hours prior to the meeting. Reports and recommendations contained in this agenda are not to be considered as Council policy until adopted.

*For our future*

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## 1. APOLOGIES

No apologies have been notified.

## 2. LEAVE OF ABSENCE

No leaves of absence have been requested.

## 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

No requests to address the Committee members have been received.

## 7. PRESENTATIONS

No presentations have been scheduled.

## 8. CONFIRMATION OF MINUTES

### Recommendation

*That the minutes of the (public portion of the) meeting held on 14 March 2019 be received and confirmed as a true and accurate record.*

### Attachments

1. Audit and Risk Mtg Minutes 20190314 [8.1.1 - 6 pages]

## 9. ACTIONS (STATUS OF COMMITTEE RESOLUTIONS)

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

Report	Meeting Date	Resolution	Status
10.2 Risk Report – Oct 2018	14/03/2019	That staff provide at the next Audit and Risk Subcommittee meeting the following: a. An updated risk report; b. A summary of top operational risks currently facing the Council; c. An outline showing the process of cascading risks through the Council to those responsible for mitigating those risks; and, d. A list of specific areas of risk for the subcommittee to review in greater depth.	To be provided at the 20 June 2019 Audit & Risk Subcommittee Mtg.

10.2 Risk Report – Oct 2018	14/03/2019	That a section be added to the standard Council/Committee report template to include a section on risk.	<b>COMPLETE</b>

## 10. MATTERS FOR NOTING

### 10.1. A&R1868 Treasury Report - March 2019

<b>Prepared for:</b>	Audit and Risk Sub-Committee
<b>Activity:</b>	Treasury Report
<b>Author:</b>	Stuart Lanham, Finance Manager
<b>Authoriser:</b>	Nick Donnelly, Director Corporate Services
<b>Date:</b>	12 June 2019

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#### PURPOSE

- [1] This report provides information on the management and performance of the Council's short-term deposits and the managed fund, for the nine months ended 31 March 2019.

#### EXECUTIVE SUMMARY

- [2] 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.
- [3] Council also has a Managed Fund portfolio managed externally. Transition of management of the fund to JBWere was significantly progressed during the quarter ended 31 March 2019.

#### STAFF RECOMMENDATION

*That the Audit and Risk Subcommittee:*

- a) **Receives** this report.

#### SHORT TERM INVESTMENTS

##### **General Comments**

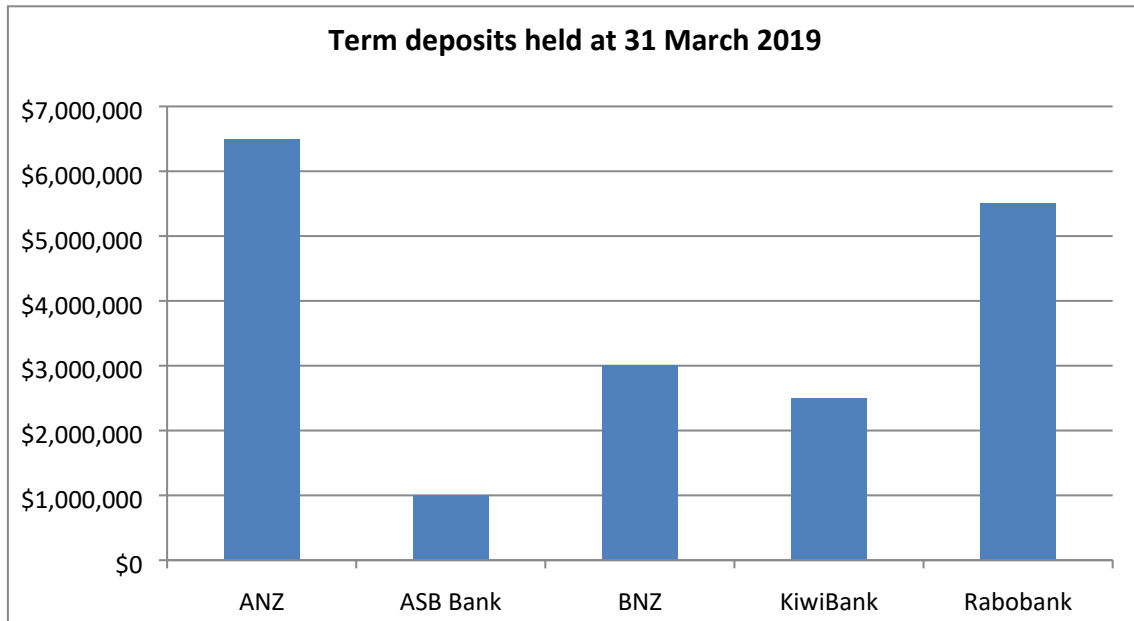
- [4] The day-to-day working capital cash requirement of the Council, including forecasting cash movements in the short term based on forecast revenues and expenditure, is managed by finance staff.
- [5] Council's cash-flow in terms of receipts and payments fluctuates significantly during the year, particularly 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.
- [6] 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.

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

**Term Deposits - Portfolio Composition**

[8] The amount held on term deposit at 31 March 2019 was \$18,500,000 comprising 9 individual deposits – ranging from \$1,000,000 to \$4,000,000 each.

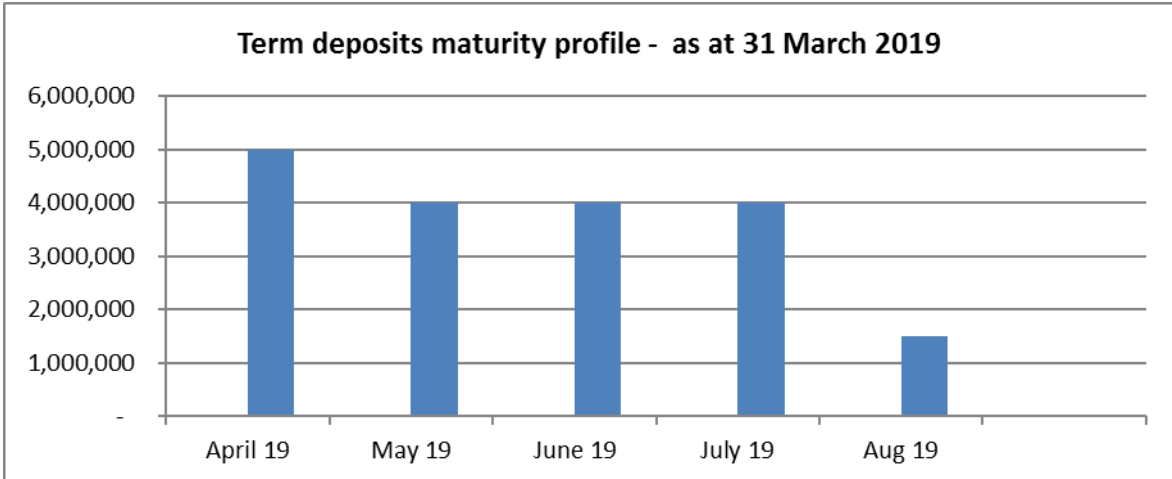
The following chart shows the total amount held with each institution at 31 March 2019.



**Term Deposits – Maturity Profile**

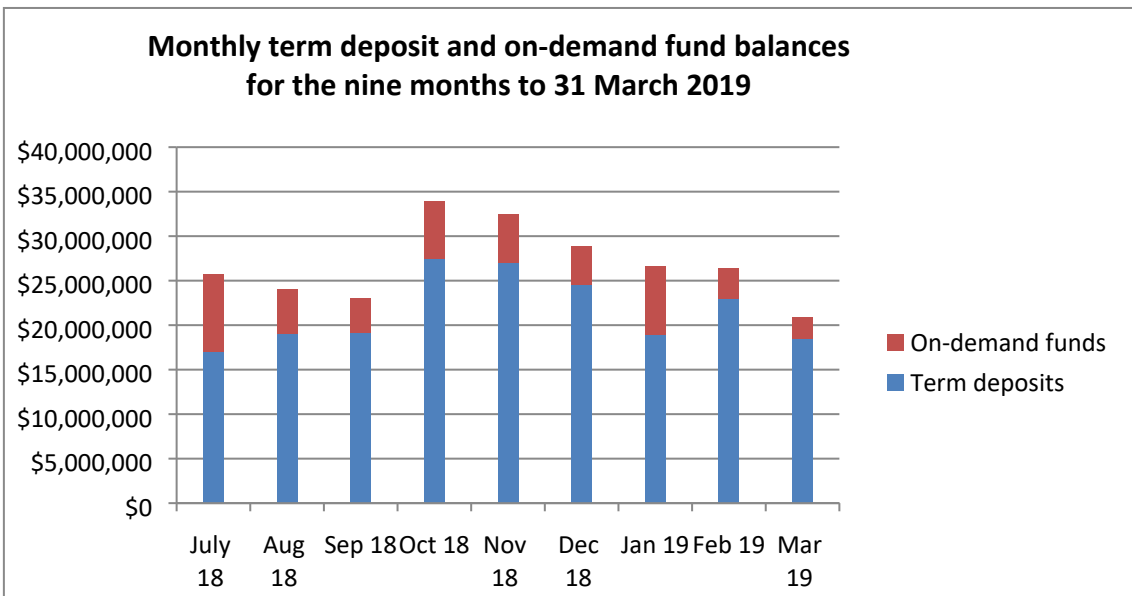
[9] The maturity profile chart below shows the maturity dates of term deposits by the month of maturity.

[10] The arrangement with the BNZ ensures that amounts maturing on a monthly basis, together with other cash movements, provide sufficient funds to meet ongoing operational requirements of the Council.



**Term Deposits and On-Call Funds**

- [11] A sufficient amount of funds is held on-demand to meet the 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.
- [12] The chart below shows the amount held at the end of each month during the nine months to 31 March 2019, identifying the term deposit amount and the amount held on-demand with the BNZ.

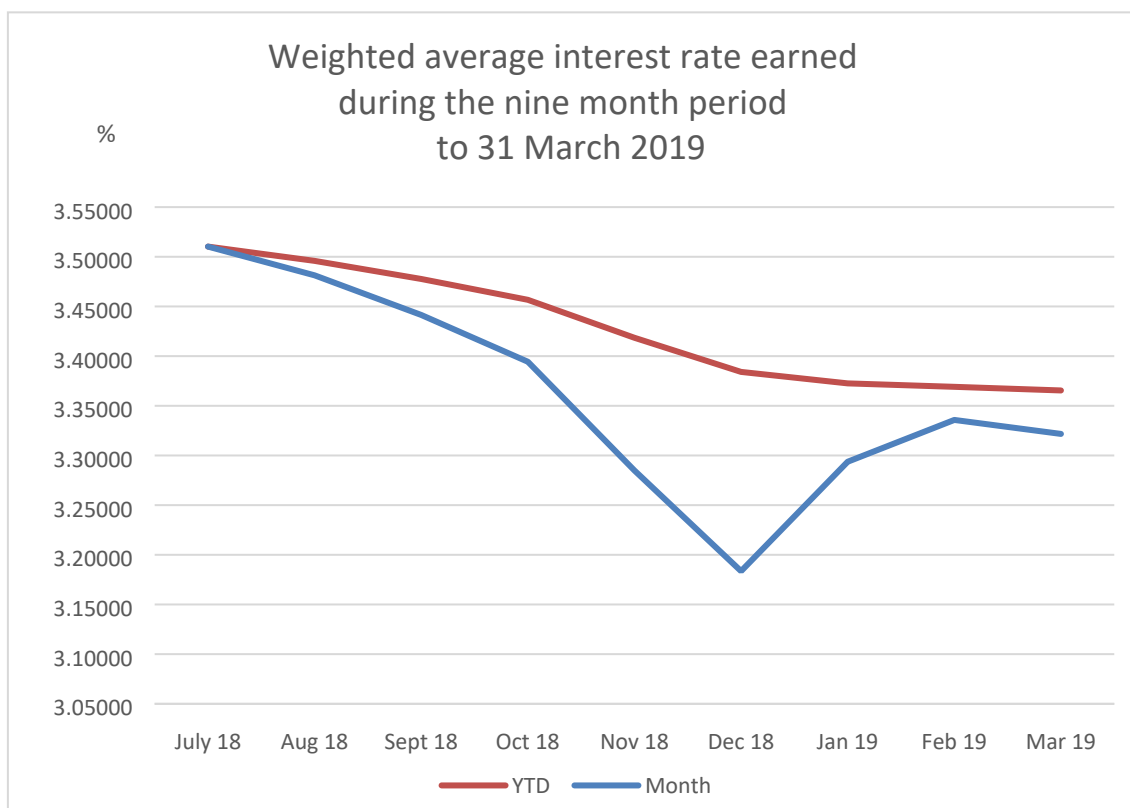


- [13] During the nine-month period, total funds held peaked at \$34,000,000 at 31 October 2018 due to a large amount of rate monies received leading up to the due date of 31 October.

**INTEREST EARNED AND INTEREST RATES**

- [14] Interest earned on bank balances and term deposits during the nine months to 31 March 2019 amounted to \$533,000.

- [15] The following graph shows the monthly and year-to-date weighted average interest rates earned on term deposits during the nine-month period.



- [16] The graph shows that the monthly rates steadily decreased from 3.51% in July 2018 to 3.18% in December 2018 prior to increasing over that level in the following months.
- [17] The monthly fluctuations are reflected in the year-to-date line which also reflects a declining average over the six-month period, from 3.51% in July to 3.38% for the six-months to 31 December 2018 followed by the increase in the monthly rates after that point.
- [18] The Official Cash Rate set by the Reserve Bank began the year at 1.75% and remained at that level throughout the nine-month period to 31 March 2019. The OCR rate has remained unchanged since it was reduced to 1.75% from 2.00% on 10 November 2016. [Note: The OCR was reduced 0.25% to 1.50% on 8 May 2019 which is after the end of this reporting period]

#### **MANAGED FUND PORTFOLIO**

- [19] The Council's managed fund comprises a portfolio of financial instruments managed externally. The transition of the fund from the BNZ to JBWere commenced during the quarter ended 31 March 2019 with the majority of the fund transferred by 31 March 2019.

#### ***Portfolio Performance – nine months to 31 March 2019***

- [20] The portfolio reports show an increase in value of the fund of \$366,283 for the nine-month period to 31 March 2019, reflecting a recovery of the net decrease of \$400,045 recorded in the six-month period to 31 December 2018.



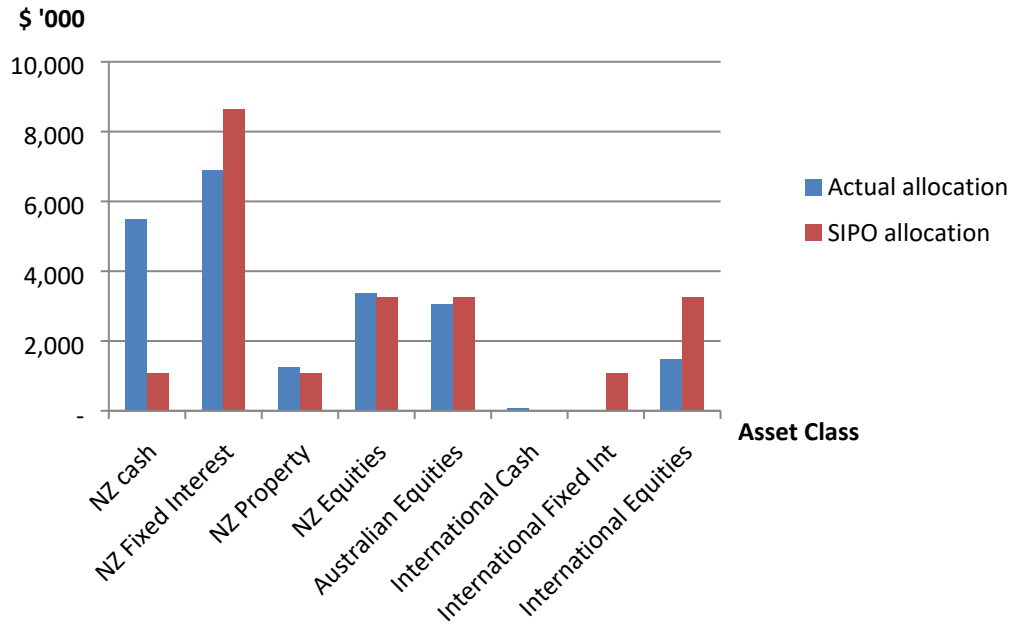
**Portfolio Summary as at 31 March 2019**

- [21] The following table was compiled from the BNZ and JBWere reports and shows the valuation of the fund by asset class as at 31 March 2019 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).
- [22] The variance columns show the actual variances from the SIPO allocation – in terms of the percentage and the effect on the valuation. These variances are the result of the fund transfer being in progress at the reporting date. Some of the funds are yet to transfer and a portion of the fund is yet to reinvested in line with the SIPO strategic asset allocations.

<b>Managed Fund Portfolio Summary</b>						
<b>As at 31 March 2019</b>						
<b>Asset class</b>	<b>Actual Allocation</b>		<b>SIPO Allocation</b>		<b>Variance over / (under)</b>	
	<b>Amount \$</b>	<b>%</b>	<b>Amount \$</b>	<b>%</b>	<b>Amount \$</b>	<b>%</b>
NZ cash	5,490,528	25.39	1,081,175	5.00	4,409,353	20.39
NZ Fixed Interest	6,902,749	31.92	8,649,415	40.00	(1,746,666)	(8.08)
NZ Property	1,237,707	5.73	1,081,177	5.00	156,530	0.73
NZ Equities	3,377,971	15.62	3,243,531	15.00	134,440	0.62
Australian Equities	3,061,087	14.16	3,243,531	15.00	(182,444)	(0.84)
International Cash	65,683	0.30		0.00	65,683	0.30
International Fixed Interest	-		1,081,177	5.00	(1,081,177)	(5.00)
International Equities	1,487,812	6.88	3,243,531	15.00	(1,755,719)	(8.12)
	<b>21,623,537</b>	<b>100.00</b>	<b>21,623,537</b>	<b>100.00</b>		

- [23] The following chart graphically represents the actual asset allocation within the managed fund compared with the SIPO allocation.

**Managed fund portfolio  
asset allocation 31 March 2019**



**Attachments**  
Nil

## 10.2. A&R1869 Annual Report Timetable and Matters under Consideration

<b>Prepared for:</b>	Audit and Risk Sub-Committee
<b>Report No.</b>	GOV1842
<b>Activity:</b>	Governance Report
<b>Author:</b>	Stuart Lanham, Finance Manager
<b>Endorsed by:</b>	Nick Donnelly, General Manager Corporate Services
<b>Date:</b>	13 June 2019

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### PURPOSE

- [1] Council is currently undertaking planning towards the preparation and audit of the Annual Report for the year ended 30 June 2019. The planning process includes the identification and consideration of matters and issues that may have a significant effect on the preparation, timing and completion of the Annual Report.
- [2] The purpose of this report is to inform the Audit and Risk Subcommittee of the proposed timetable and to advise of specific matters under consideration.

### EXECUTIVE SUMMARY

- [3] This report identifies key issues and procedures required for completion of the Annual Report for the year ended 30 June 2019.
- [4] The Annual Report timetable identifies that a draft Annual Report will be presented to the Audit and Risk Subcommittee on 19 September 2019 with subsequent presentation of the final Annual Report for adoption at the Council meeting on 25 September 2019.
- [5] A draft Fixed Assets and Capitalisation Policy is appended for the Subcommittee's consideration and endorsement.
- [6] Detail of Council's annual leave liability is also reported upon following a request to provide further detail on this at the March Subcommittee meeting.

### RECOMMENDATION

*That the Audit and Risk Subcommittee:*

- a) **Receives** this report.
- b) **Endorses** the Fixed Assets and Capitalisation Policy.

## **BACKGROUND**

- [7] The Local Government Act 2002 requires local authorities to prepare and adopt, by resolution, an Annual Report, comparing the actual activities and the actual performance of the local authority with the intended activities and level of performance as set out in the Long-Term Plan and the Annual Plan. The statutory requirement is that the Annual Report must be adopted within 4 months of the end of the financial year, this year being 31 October 2019.
- [8] The Act also requires that the Auditor-General's report on the Annual Report be contained within the Annual Report.
- [9] Council has developed a timetable for preparation of the Annual Report, with the intention of presenting a draft Annual Report to the Audit and Risk Subcommittee at the meeting to be held on 19 September 2019. The Annual Report would then be presented for adoption at the Council meeting set down for 25 September 2019.
- [10] It is intended that a provisional Financial Report to 30 June will be submitted to the Council on 14 August 2019. The report will be provisional only at that stage, as various year end information is expected to be outstanding, and certain year end processes will be incomplete.

## **SPECIFIC MATTERS ARE NOTED BELOW**

### **Audit Arrangements**

- [11] Deloitte has been appointed to conduct the Council's audit on behalf of the Auditor-General.
- [12] The auditor will conduct an interim audit in mid-July to review and assess Council internal controls and gather information to complete the planning phase of the audit.
- [13] The final phase of the audit will take place during August and September.
- [14] Deloitte will attend the meeting of the Audit and Risk Subcommittee in September and will present the audit opinion to the Council meeting on 25 September 2019 where the Annual Report will be adopted.

### **Format of Annual Report**

- [15] The format of the financial statements and accompanying notes in the June 2018 Annual Report is unlikely be amended to any significant extent, other than to achieve continuous improvements where desirable.
- [16] It is noted that the format of some elements of the financial statements and accompanying notes is prescribed in detail in the Local Government Act Regulations, and full compliance with the prescribed format is mandatory. There is no discretion for councils to customise the format, for example, to exclude prescribed line items in the Funding Impact Statements even if they have no relevance to this Council.

### **Consolidation of Port Otago Limited**

- [17] Council is the sole shareholder of Port Otago Limited and accordingly the Council and Port Otago Limited are regarded as a group for financial reporting purposes.
- [18] Council is required to report on the results and position of the Group, and on the Council separately as parent of the Group.
- [19] To prepare consolidated information in the Council's Annual Report, the Council obtains financial information from Port Otago and the company's audited Annual Report.
- [20] Deloitte as Council auditor must also obtain the information they require regarding Port Otago group operations, and may obtain the necessary information from the auditor of Port Otago, and from the company itself. While this aspect of the year end process is largely outside the control of the Council, it does remain an essential element in the Council's timeline to achieve the planned Annual Report adoption date.

### **Consolidation Issues and Divergence of Accounting Standards**

- [21] Under the framework of accounting standards applicable in New Zealand, the Council is classified as a "Public Benefit Not-for-Profit" entity whereas Port Otago Limited is a "For-Profit" entity.
- [22] The two classifications are subject to different suites of accounting standards.
- [23] Differences in accounting and reporting requirements are identified and dealt with on consolidation of the two entities in the Annual Report.
- [24] Any further divergence between the two sets of standards applicable to the June 2019 Annual Report would require consideration as to appropriate treatment. At this stage, Council's auditor has advised that there appear to be no significant changes that will impact on the preparation of the 2019 Annual Report.

### **Valuation of the Council Shareholding in Port Otago Limited**

- [25] The shares in Port Otago Limited are carried at fair value in the Council's financial statements.
- [26] Council obtains an annual valuation of the shareholding as at 30 June from an independent firm of chartered accountants and business advisors. A valuation as at 30 June 2019 will be obtained for inclusion in the Annual Report.
- [27] The resulting revaluation gain (or loss) is reflected as other comprehensive revenue in the Statement of Comprehensive Revenue and Expense.
- [28] The Long-Term Plan provides for a gain of \$7 million in the June 2019 year. The actual valuation in any year always has the potential to differ significantly from the budget provision, given the diverse nature of the investment in the port operating business and the property portfolio, and the factors applied to determine a valuation of the shares.

### **Investment Property**

- [29] The Council's investment property is valued annually at fair value. An independent valuation will be obtained from a qualified external valuer as at 30 June 2019, and the valuation gain (or loss) will be reflected in the surplus in the Statement of Comprehensive Revenue and Expense.

### **Capital Works and Work in Progress**

- [30] As work continues on capital infrastructure projects, including the Leith Flood Protection Scheme, it is important to critically examine the composition of expenditure to ensure the appropriate identification of the capital expenditure element of work performed during the year.
- [31] While this process is ongoing during the year, it is particularly important at year end to ensure that any completed works are capitalised, and that there is an accurate assessment of works qualifying for carry forward as work in progress 30 June 2019.
- [32] The assessments required to complete this work will be made in conjunction with the Council's engineering staff who oversee the relevant projects.

### **Significant Projects**

- [33] Major projects that are underway or have been completed during the year such as the Leith Flood Protection Scheme, Bus Hub, Stock Truck Effluent Disposal Sites and the Regional Integrated Ticketing System involve significant financial transactions and have the potential to impact significantly on the financial statements during the year and more particularly at year end.
- [34] Early focus will be directed to ensure that all information is made available from our internal stakeholders on a timely basis to ensure that end of year positions and procedures are able to be determined and completed to allow for the year end reporting timetable to be adhered to.

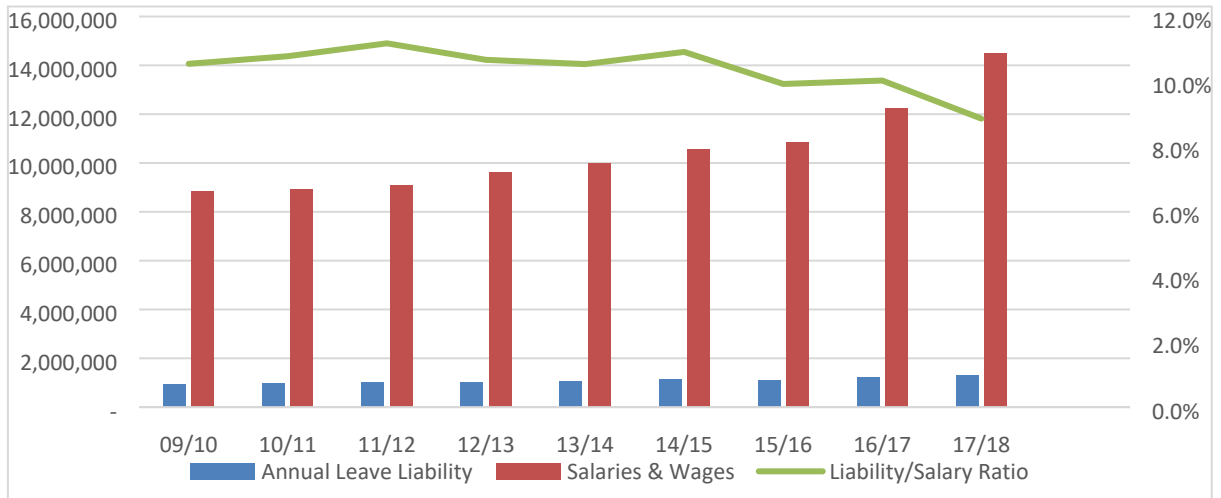
### **Fixed Asset and Capitalisation Policy**

- [35] Deloitte noted during the 2018 audit that Council did not have a written Fixed Assets and Capitalisation Policy. The report to the previous Audit and Risk Committee noted that formulation of a written policy was underway and would be presented to the Committee prior to year-end.
- [36] A draft Fixed Asset and Capitalisation Policy has now been completed and is attached to this report for the Subcommittee's consideration and approval.

### **Annual Leave Liability**

- [37] At the March 2019 Audit and Risk Subcommittee meeting, further detail was requested regarding the annual leave liability balance.
- [38] The table and graph below show the amount of the annual leave liability over the last nine years to June 2018, along with the salaries and wages amount for each year as a reference point.
- [39] The data shows that the annual leave liability has risen in dollar terms over the previous two years, but the annual payroll cost has also risen over that period and the amount as a percentage of salaries and wages has decreased.

	1990001	1990001	1990001	1990001	1990001	1990001	1990001	1990001	1990001
	2010001	2011001	2012001	2013001	2014001	2015001	2016001	2017001	2018001
	2010012	2011012	2012012	2013012	2014012	2015012	2016012	2017012	2018012
	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18
Annual Leave Liability	932,467	963,550	1,014,294	1,025,053	1,053,818	1,152,101	1,075,263	1,226,246	1,283,153
Salaries & Wages	8,840,671	8,938,027	9,075,201	9,607,112	10,000,172	10,557,846	10,830,575	12,222,213	14,476,623
Liability/Salary Ratio	10.5%	10.8%	11.2%	10.7%	10.5%	10.9%	9.9%	10.0%	8.9%



## ATTACHMENTS

1. Fixed Asset and Capitalisation Policy [10.2.1 - 6 pages]

## 11. RESOLUTION TO EXCLUDE THE PUBLIC

The following resolution is made in reliance on sections 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 7 of that Act.

*On the grounds that matters will be prejudiced by the presence of members of the public during discussions on the following items, it is resolved:*

1. *That the following items are considered with the public excluded:*

Meeting Item	Grounds for excluding the public
<i>Audit Plan</i>	To 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—would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied – Section 7(2)(c)(i)
<i>Managed Fund Report</i>	To protect information where the making available of the information—would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information – Section 7(2)(b)(ii); and, To enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities – Section 7(2)(h)
<i>Investment Manager Transfer</i>	To protect information where the making available of the information—would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information – Section 7(2)(b)(ii); and, To enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities – Section 7(2)(h)
<i>Insurance Renewal</i>	To enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities – Section 7(2)(h); and, To enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) – Section 7(2)(i)
<i>Risk Report</i>	To 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—would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied – Section 7(2)(c)(i); and,



	To enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities – Section 7(2)(h)
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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.

## **12. NOTICES OF MOTION**

No Notices of Motion were submitted.

## **13. CLOSURE**