

Audit & Risk Subcommittee 3 June 2020

Meeting is held in the Council Chamber, Level 2, Philip Laing House
144 Rattray Street, Dunedin



Members:

Cr Hilary Calvert, Chair
Mr Andrew Douglas (Independent Member)
Cr Kevin Malcolm
Cr Andrew Noone
Cr Kate Wilson

Senior Officer: Sarah Gardner, Chief Executive

Meeting Support: Liz Spector, Committee Secretary

03 June 2020 10:00 AM

Agenda Topic	Page
1. APOLOGIES No apologies have been received.	
2. ATTENDANCE Staff present will be identified.	
3. 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.	
4. 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.	
5. PUBLIC FORUM No requests to address the Audit and Risk Subcommittee have been received.	
6. CONFIRMATION OF MINUTES The Subcommittee will consider minutes of the previous meeting as a true and accurate record, with or without changes.	3
6.1 Minutes of the 26 February 2020 Audit and Risk Subcommittee Meeting	3
7. ACTIONS (Status of Subcommittee Resolutions) There are no outstanding actions of the Audit & Risk Subcommittee.	
8. MATTERS FOR DECISION	9

8.1	DELOITTE ORC AUDIT PLAN	9
	To present Council's external auditors, Deloitte, Audit Planning Report for the audit of the Annual Report and Financial Statements for the year ending 30 June 2020.	
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8.2	ANNUAL REPORT TIMETABLE AND MATTERS UNDER CONSIDERATION	32
	The purpose of this report is to outline the adoption timetable and changes in accounting standards for Council's Annual Report and Financial Statements for the year ending 30 June 2020.	
9.	MATTERS FOR NOTING	35
	9.1 HEALTH AND SAFETY REPORT - JUNE 2020	35
	This report summarises progress towards the Safety & Wellbeing Team's key strategic priorities and safety performance indicators for the period January 2020 – March 2020 (Quarter 3, FY 19/20). The report also summarises key areas of focus for the Safety & Wellbeing team for the 2020/21 financial year.	
	9.1.1 Attachment 1: Safety and Wellbeing Dashboard Q3	39
10.	RESOLUTION TO EXCLUDE THE PUBLIC	40
	That the public be excluded from the following items:	
	- 4.1 Managed Fund Report March 2020 (LGOIMA 48(1)(a): Sec 7(2)(c)(i) and 7(2)(h))	
	- 4.2 Risk Report (LGOIMA 48(1)(a): Sec 7(2)(c)(i), 7(2)(c)(ii), and 7(2)(e))	
	- 4.3 Insurance Renewal 2020-21 (LGOIMA 48(1)(a): Sec 7(2)(h) and 7(2)(i))	
	10.1 Public Excluded Reason and Grounds	40
11.	CLOSURE	



Minutes of a meeting of the Audit and Risk Subcommittee held in
the Council Chamber at Level 2 Philip Laing House
144 Rattray Street, Dunedin on
Wednesday 26 February 2020, commencing at 9:00 am

Membership

Cr Hilary Calvert
Cr Andrew Noone
Cr Kevin Malcolm
Cr Kate Wilson
Independent member to be appointed.

Welcome

Co-Chair Finance Cr Noone welcomed Councillors, members of the public and staff to the meeting at 9 a.m.

For our future

70 Stafford St, Private Bag 1954, Dunedin 9054 | ph (03) 474 0827 or 0800 474 082 | www.orc.govt.nz

1. APOLOGIES

There were no apologies.

2. ATTENDANCE

Sarah Gardner (Chief Executive)
Nick Donnelly (General Manager Corporate Services and CFO)
Gavin Palmer (General Manager Operations)
Liz Spector (Committee Secretary)

Also present were: Cr Alexa Forbes, Nicole Ross (Manager People and Safety), Rebecca Webster (Safety and Wellbeing Partner), and Ryan Tippet (Media Communications Lead).

3. CONFIRMATION OF AGENDA

The agenda was confirmed as published.

4. CONFLICT OF INTEREST

No conflicts of interest were advised.

5. PUBLIC FORUM

No public forum was held.

6. ACTIONS (STATUS OF COMMITTEE RESOLUTIONS)

There are no outstanding resolutions of the Audit and Risk Subcommittee.

7. MATTERS FOR COUNCIL DECISION

7.1. CS1930 Appointment of Chair and Independent Member

Cr Noone nominated Cr Calvert Chair of the Subcommittee. Cr Malcolm seconded her nomination and the motion was put to a vote.

Resolution

That the Audit and Risk Subcommittee Appoints Cr Calvert Chair of the Audit and Risk Subcommittee.

Moved: Cr Noone
Seconded: Cr Kevin Malcolm
CARRIED

Cr Calvert took the Chair and asked for a discussion about the appointment of an independent board member to the Subcommittee. After discussion of the Subcommittee, Cr Calvert moved:

Resolution

- 1) **Confirms** the skills and experience required in an independent member of the Subcommittee, being:
 - Audit and Financial Reporting
 - Risk Management

- Health and Safety
- Investment Management
- Legal Compliance
- Governance

2) Approves the process for the selection of an independent member of the Subcommittee, being:

- Advertise the vacancy on the NZ Institute of Directors website
- Advertise the vacancy in the Otago Daily Times
- Advertise the vacancy through the Institute of Accountants
- Advertise the vacancy in the Law Society
- Advertise the vacancy with Appoint Better Boards
- The Chief Executive will assist the subcommittee upon request.
- The Subcommittee members will review the applications, create a shortlist and make a recommendation to Council on a suitable independent member.

Moved: Cr Calvert

Seconded: Cr Noone

CARRIED

7.2. A&R1875 Audit and Risk Work Programme

Nick Donnelly, General Manager Corporate Services and CFO was present to answer questions about the proposed Audit and Risk Work Programme. After a discussion, Cr Noone moved a motion.

Resolution

That the Audit and Risk Subcommittee:

- 1) Receives this report.**
- 2) Endorses the proposed work programme for the Subcommittee for the 2020 calendar year.**

Moved: Cr Noone

Seconded: Cr Wilson

CARRIED

8. MATTERS FOR NOTING

8.1. P&S1818 Health and Safety Report - February 2020

Nicole Ross (Manager People and Safety) and Rebecca Webster (Safety and Wellbeing Partner) were present to answer questions about the report. Cr Calvert asked how staff were ensuring possible risks related to unauthorised access to the ORC offices in the Philip Laing House were being managed. CE Gardner noted that security cameras had been installed at reception to minimise certain risks. Cr Malcolm asked if health and safety statistics were being compared against similar organisations. Ms Webster indicated this was being done and improved reporting to Council would include data comparisons.

After further discussions, Cr Noone moved receipt of the report.

Resolution

That the Audit and Risk Subcommittee:

- 1) **Receives** this report.

Moved: Cr Noone
Seconded: Cr Wilson
CARRIED

8.2. CS1928 Legislative Compliance

Nick Donnelly (GM Corporate Services) was present to answer questions about the legislative report. There was a general discussion about the report, including possible items for inclusion in future reports. Mr Donnelly said he would speak to ORC legal counsel Peter Kelliher about where contractor compliance issues including employment issues could be included in future reports. Cr Calvert moved receipt of the report.

Resolution

That the Audit and Risk Subcommittee:

- 1) **Receives** this report.

Moved: Cr Calvert
Seconded: Cr Wilson
CARRIED

8.3. CS1924 Audit Management Letter Response

Nick Donnelly (GM Corporate Services) reviewed the audit management letter and processes with the Subcommittee members. He noted the auditors had attended the previous Audit and Risk meeting in September to report their findings on the 2019 Annual Report and Financial Statements audit. Mr Donnelly said four areas requiring action were noted by the auditors at that time and said this report was provided for the Subcommittee as a response to the audit findings. After a discussion of the report, Cr Wilson moved its receipt.

Resolution

That the Audit and Risk Subcommittee:

- 1) **Receives** this report.

Moved: Cr Wilson
Seconded: Cr Noone
CARRIED

9. RESOLUTION TO EXCLUDE THE PUBLIC

Resolution

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

- 2.1 Managed Fund Report – December 2019
- 2.2 Risk Report

Moved: Cr Wilson
 Seconded: Cr Kevin Malcolm
 CARRIED

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
<p><i>2.1 Managed Fund Report December 2019</i></p>	<p>Section 48(1)(a): Subject to subsection (3), a local authority may by resolution exclude the public from the whole or any part of the proceedings of any meeting only on 1 or more of the following grounds: (a) that the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.</p>	<p>Section 7(2)(c)(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)(h) - To enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities.</p>
<p><i>2.2 Risk Report</i></p>	<p>Section 48(1)(a): Subject to subsection (3), a local authority may by resolution exclude the public from the whole or any part of the proceedings of any meeting only on 1 or more of the following grounds: (a) that the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.</p>	<p>Section 7(2)(c)(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)(ii) - 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 otherwise to damage the public interest; 7(2)(e) - To avoid prejudice to measures that prevent or mitigate material loss to members of the public.</p>

Resolution

That the meeting resume in public session at 10:03 am.

Moved: Cr Noone
Seconded: Cr Wilson
CARRIED

10. CLOSURE

There was no further business and Cr Calvert declared the meeting closed at 10:03 a.m.

Chairperson

Date

DRAFT

Prepared for:	Audit and Risk Subcommittee
Report No.	CS1941
Activity:	Governance Report
Author:	Sarah Munro, Manager Finance – Reporting
Endorsed by:	Nick Donnelly, General Manager Corporate Services
Date:	27 May 2020

PURPOSE

- [1] To present Council’s external auditors, Deloitte, Audit Planning Report for the audit of the Annual Report and Financial Statements for the year ending 30 June 2020.

EXECUTIVE SUMMARY

- [2] Under the Local Government Act, Council’s Annual Report and Financial Statements are required to be audited by the Office of the Auditor General (OAG). The OAG has contracted this to Deloitte who undertake the audit on their behalf.
- [3] Deloitte have prepared their Audit Planning Report which is attached for the information of the Audit and Risk Subcommittee.
- [4] Deloitte’s Audit Partner, Heidi Rautjoki, will be in attendance to discuss the report with the Subcommittee.

RECOMMENDATION

That the Audit and Risk Subcommittee:

- 1) **Receives** this report and the attached Deloitte Audit Planning Report.

BACKGROUND

- [5] Deloitte’s Audit Planning Report provides an overview of their audit approach, outlines the areas of audit focus, provides an update on communication / reporting and outlines the Deloitte team that will undertake the audit.
- [6] The key areas of focus are similar to the previous year and include:
- Rates
 - Management override of controls
 - Valuation of Port Otago Limited shares
 - Statement of service performance
 - Group audit and consolidation
 - OAG audit brief
 - Consideration and disclosure of impacts arising from Covid-19
- [7] The completed Annual Report and Financial Statements are due to be adopted by Council at the 30 September 2020 meeting. The Audit and Risk Subcommittee will, prior

to that, on 23 September 2020, review the draft Annual Report and Financial Statements and receive the 2020 Audit Management Letter.

ATTACHMENTS

1. Deloitte Audit Plan [8.1.1 - 21 pages]

Deloitte.



Otago Regional Council

Planning report to the Audit and Risk
Committee on the 30 June 2020 audit

May 2020

AGENDA Audit and Risk Subcommittee 2020.06.03

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- Appendix 1: Purpose of report and responsibility statement
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- Appendix 3: Independence and professional fees



3. Other reporting matters

Developments in financial reporting





Planning report

AGENDA Audit and Risk Subcommittee 2020.06.03

A. Partner introduction

Thank you for the opportunity to present our audit plan for the financial statement audit of Otago Regional Council (the 'Council') for the year ending 30 June 2020.

This report is designed to outline our respective responsibilities in relation to the audit, to present our audit plan and to facilitate a two-way discussion on the plan presented. Our report includes:

- Our audit plan, including key areas of audit focus and our planned procedures; and
- Key accounting, regulatory and corporate governance updates, relevant to you.

We have an evolving audit plan that is established with input from management. The audit plan is tailored to the Council's environment and revised throughout the year to adjust for business developments, additional relevant matters arising, changes in circumstances and findings from activities performed.

When reporting in uncertain times it is particularly important to provide users of the financial statements with appropriate insight into the risks and uncertainties facing the Council, and the judgements that have been made in preparing the financial information. As Covid-19 continues to spread it will be appropriate to consider the impact of the outbreak on

accounting conclusions and disclosures related to such things as accounting estimates, liquidity risk management, and events after the end of the reporting date.

Significant judgements or sources of estimation uncertainty will be an area of focus, particularly in relation to fair value of investment properties and fair value of the investment in Port Otago Limited.

We appreciate the opportunity to serve the Council. We hope the accompanying information will be useful to you, and we look forward to answering your questions about our plan.



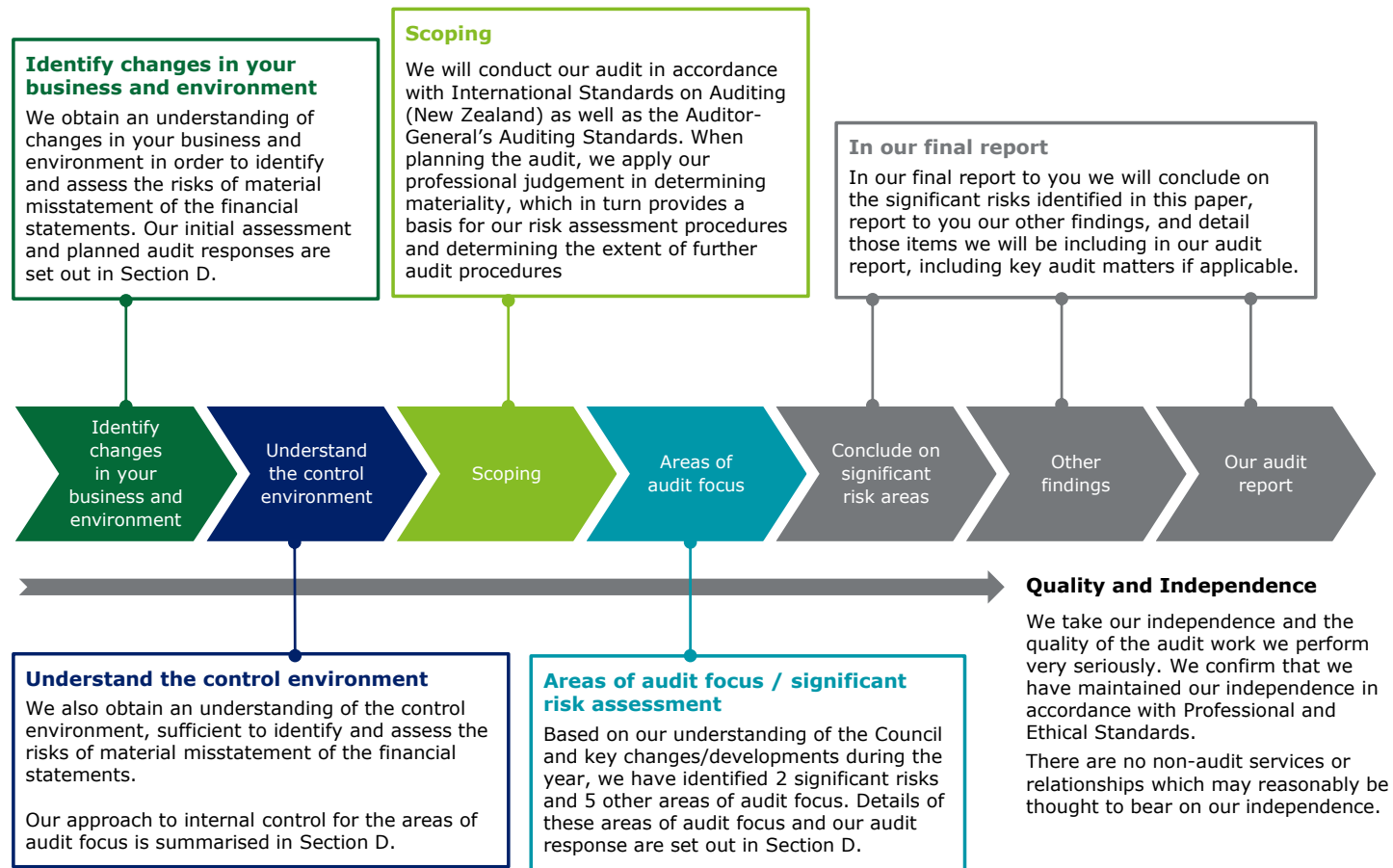
Deloitte Limited

Heidi Rautjoki
Appointed Auditor on behalf of the Auditor General
15 May 2020



4

B. Our audit explained – a tailored approach



C. Identifying the areas of audit focus

Identification of audit risks

Our audit approach is underpinned by the identification of relevant audit risks and tailoring appropriate audit responses to address those risks. We consider a number of factors when deciding on the significant areas of audit focus, such as:

- the risk assessment process undertaken during the planning phase of our engagement;
- our understanding of the business risks faced by Council;
- discussions with management during the course of our audit;
- the significant risks and uncertainties previously reported in the financial statements, including any critical accounting estimates or judgements;
- our assessment of materiality; and
- any changes in the business and the environment it operates in since the last annual report and financial statements.

The next page summarises the significant risks and other areas that we will focus on during our audit.

We continually update our risk assessment as we perform our audit procedures, so our areas of audit focus may change. We will report to you on any significant changes to our assessment as part of our final report to the Audit and Risk Committee.

Determining materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

The extent of our procedures is not based on materiality alone but also on local considerations of subsidiaries and divisions of the group, the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.



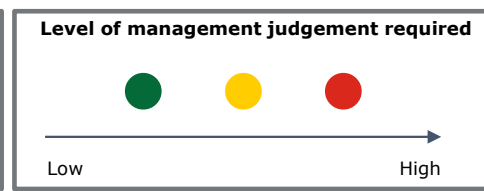
D. Areas of audit focus – dashboard

Area of audit focus	Significant risk	Fraud risk	Planned controls testing approach	Level of management judgement required
Rates	✓	✓	D+I	●
Management override of controls	✓	✓	D+I	●
Valuation of Port Otago Limited shares	✗	✗	D+I	●
Statement of service performance	✗	✗	N/A	●
Group audit and consolidation	✗	✗	N/A	●
OAG audit brief	✗	✗	N/A	●
Consideration and disclosure of impacts arising from Covid-19	✗	✗	N/A	●

Planned approach to controls

D+I: Testing of the design and implementation of key controls

OE: Testing of the operating effectiveness of key controls



D. Areas of audit focus

Area of audit focus	Our approach
<p>Rates</p> <p>Over the past decade, there have been a number of issues within the Local Government sector with regards to rates not being set in accordance with the Local Government (Rating) Act 2002 (LGRA). Compliance with the detail of the LGRA is vital: if the rate is not within the range of options and restrictions provided for in that Act, it may not be valid.</p> <p>Management and Council need to continue to ensure that the requirements of the LGRA are adhered to and that there is consistency between the rates resolution, the Funding Impact Statement for that year, and the Revenue and Financing Policy in the respective Long Term Plan (LTP) or Annual Plan (AP).</p> <p>This is considered to be a presumed risk of fraud relating to the accurate recording of the rates.</p>	<p>We plan to :</p> <ul style="list-style-type: none"> • Complete a 'rates questionnaire' compiled by the OAG, (similar to that completed in the prior year), to assess whether rates have been set correctly at the Council; and • Review the meeting minutes recording the adoption of the rates resolution, considering whether the rates are in accordance with the Revenue and Financing Policy as well as reviewing any other information available with regard to rates. • Reconcile the rates strike to the general ledger as well as reviewing any other information available with regard to rates.
<p>Management override of controls</p> <p>We are required to design and perform audit procedures to respond to the risk of management's override of controls.</p>	<p>We plan to:</p> <ul style="list-style-type: none"> • Understand and evaluate the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements. • Test the appropriateness of a sample of journal entries and adjustments and make enquiries about inappropriate or unusual activities relating to the processing of journal entries and other adjustments. • Review accounting estimates for biases that could result in material misstatement due to fraud, including assessing whether the judgements and decisions made, even if individually reasonable, indicate a possible bias on the part of management. • Perform a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements. • Obtain an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the entity and its environment.



D. Areas of audit focus (cont.)

Area of audit focus	Our approach
<p>Valuation of Port Otago Limited Shares</p> <p>As in previous years, Council continues to carry its investment in POL at fair value based on an independent valuation.</p> <p>The carrying value of these shares forms a material part of the total assets of Council. From an audit perspective, we need to be satisfied with the independent valuation of the POL shareholding.</p>	<p>We plan to perform procedures to ensure we are satisfied with the independent valuation of the POL shareholding.</p> <p>This will include reviewing and challenging the valuation assumptions and communicating with the independent valuer and involving an internal corporate finance specialist to assess the appropriateness of the valuation model and key valuation inputs.</p>
<p>Statement of Service Performance</p> <p>The Council's annual report is required to include an audited Statement of Service Performance (SSP) which reports against the performance framework included in the LTP.</p> <p>The SSP is an important part of Council's annual performance reporting and it is important it adequately "tells the performance story" for each group of activities.</p> <p>Our audit opinion considers whether the service performance information:</p> <ul style="list-style-type: none"> • Is based on appropriately identified elements (outcomes, impacts, outputs), performance measures, targets/results; and • Fairly reflects actual service performance for the year (i.e. not just reports against forecast). <p>In the prior year we highlighted concerns with respect to the SSP not achieving the required standard, particularly with respect to providing explanations for significant variances in actual results for intended levels of service. We plan to engage with management early to ensure the SSP clearly articulates Council's achievements in the current year or explains significant shortfalls.</p>	<p>We plan to:</p> <ul style="list-style-type: none"> • Review Council's SSP against legislative requirements and good practice. This will include checking consistency with the performance framework included in the 2018-28 LTP and 2019/2020 annual plan. • Audit a sample of the reported performance measures, with a focus on the more significant groups of activities. • Review the narrative commentary and explanatory information provided in the annual report to ensure that this provides sufficient information to the readers i.e. "tells the performance story".



D. Areas of audit focus

Area of audit focus	Our approach
<p>Group Audit and Consolidation</p> <p>Council's only trading subsidiary, Port Otago Limited (POL) Group is audited by Audit New Zealand. Audit New Zealand's audit work will be used to support the Otago Regional Council Group audit opinion for the year ending 30 June 2020.</p> <p>We note that the POL Group prepares its financial statements in accordance with NZ IFRS a different suite of financial reporting standards to those used by Council, being PBE (PS).</p> <p>An important aspect of the POL Group financial statements is the revaluation of its investment properties. As auditors of the Otago Regional Council Group we need to be satisfied with these independent valuations.</p> <p>Other areas of focus we will communicate to the POL auditors are:</p> <ul style="list-style-type: none"> Revenue recognition – POL implemented NZ IFRS 15: Revenue from Contracts with Customers for the first time in 2019 and the difference between this standard and the PBE revenue standards may cause differences in the timing of revenue recognition at POL and what is required for the purposes of the Council consolidation. Borrowings – POL has covenants over its bank debt which, if breached, would trigger disclosure requirements in the Council group financial statements. Leases – POL will adopt NZ IFRS 16: Leases for the first time in 2020. This standard requires them to recognise leases, with some exemptions for low-value or short term leases, on balance sheet in the financial statements and lease related expenses recognised in relation to the amortisation of the right of use assets and interest on lease liabilities. The entries to account for leases under NZ IFRS 16 will need to be reversed for the purposes of the Council consolidation. 	<p>We plan to:</p> <ul style="list-style-type: none"> Issue Group Audit Reporting Instructions to Audit New Zealand to enable us to meet our responsibilities under New Zealand Auditing Standards, OAG auditing standards. Obtain copies of the investment property valuations from POL's auditors, along with selected working papers supporting their assessment of key assumptions and explanations of significant movements. Ensure that we are satisfied with the accounting treatment of revenue and leases for the purposes of the consolidated financial statements. Ensure that the disclosure in relation to bank debt is appropriate and any breaches of covenants are appropriately reported. Review the consolidation process and ensure that all appropriate adjustments have been made. Confirm that where the subsidiary accounting policies, measurements or disclosures are not consistent with group policies, appropriate adjustments are made.



D. Areas of audit focus (cont.)

Area of audit focus	Our approach
<p>OAG Audit Brief</p> <p>The OAG Audit Brief has been updated and outlines some of the following areas of focus:</p> <ul style="list-style-type: none"> • Related party transactions, conflicts of interest, ethics and integrity • Legislative compliance <p>Amendment to the LGA 2002</p> <p>The reinstatement of the “four well-beings” has seen the purpose of local government once again being “to promote the social, economic, environmental and cultural well-being of communities”. Considering Council’s compliance with this will form part of our legislative compliance assessment.</p> <ul style="list-style-type: none"> • Improving information about critical assets <p>Ahead of the 2021-2031 Long Term Plan it is vital that Council understands the condition and performance of its critical assets so it can reasonably assess likely future costs, how it plans to meet future service levels to meet community expectations, standards set by central government and responds to the potential effects of natural hazard events and climate change.</p> <ul style="list-style-type: none"> • Procurement <p>Procurement is an area of focus for the work programme of the Auditor-General and while no specific projects have been identified relating to local government at this stage for 2019/20, it is expected that major capital projects and significant procurement activity are areas where audit effort is focused.</p>	<p>We plan to meet with management to update our understanding of the plans and processes in place to address the focus areas of the OAG.</p>



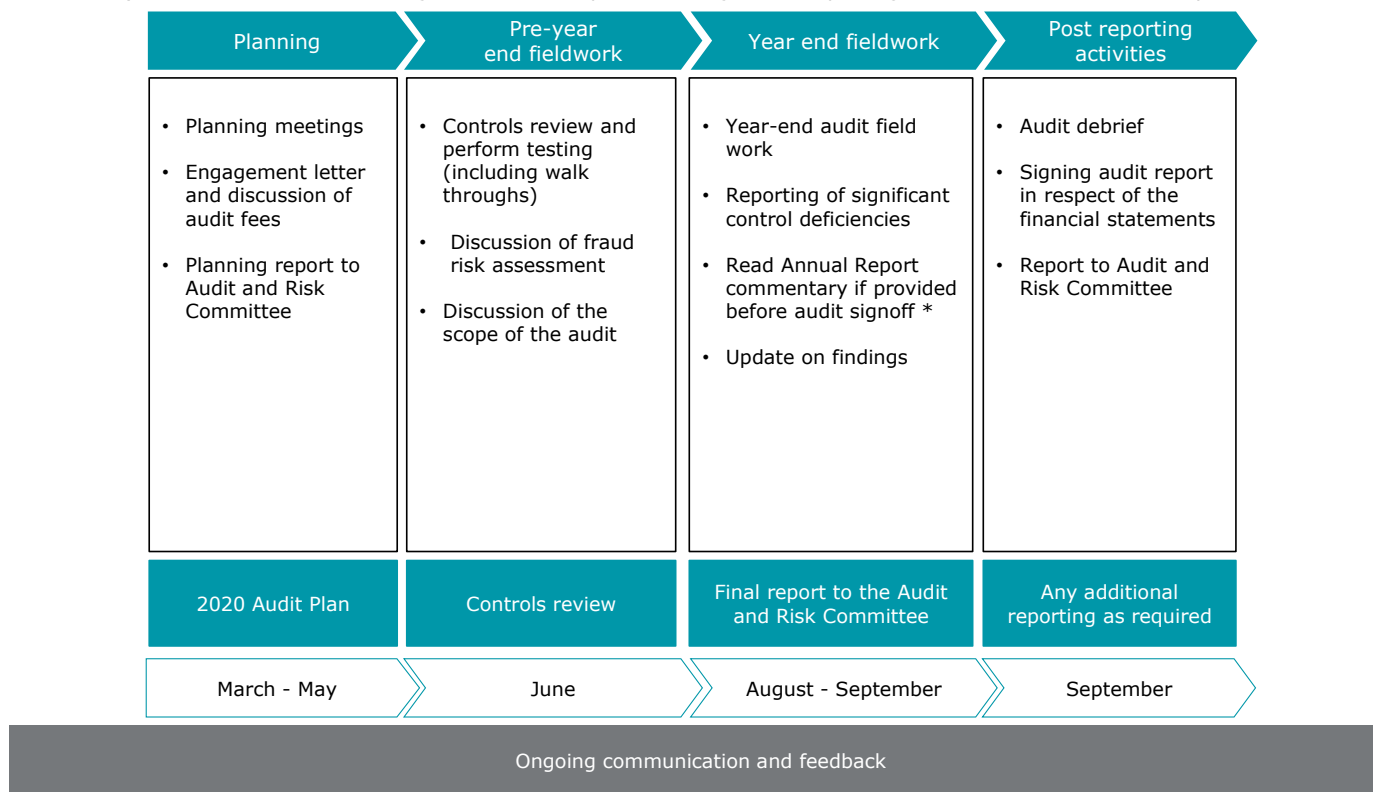
D. Areas of audit focus (cont.)

Area of audit focus	Our approach
<p>Consideration and disclosure of the impacts arising from Covid-19</p> <p>When reporting in uncertain times it is particularly important to provide users of the financial statements with appropriate insight into the risks and uncertainties facing Council.</p> <p>Looking ahead the impact of Covid-19 on the local and global economy and financial markets is expected to continue to evolve.</p> <p>Council will need to continue to evaluate the related accounting issues and disclosure considerations as facts and circumstances change.</p>	<p>We plan to review Council’s assessment of accounting considerations and disclosures impacted by Covid-19, with particular focus on areas where Council has been most affected or where there is uncertainty associated with judgements, assumptions or estimates.</p>



E. Continuous communication and reporting

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you.



* We are required to read the other information to consider if there are any material inconsistencies which we are obliged to report on. We will need sufficient time to perform the review.



F. Our team

Our audit will be led by Heidi Rautjoki as Group Audit Partner.

She will oversee the co-ordination of the audit and has primary responsibility for working with your management team.

Scott Hawkins will be the primary point of contact for the finance team and will oversee the day to day execution of our group audit.

We plan to incorporate valuation specialists to support us with the audit of specific account balances.

We will also incorporate IT specialists within our engagement team to better understand and assess the IT processes and the control environment.



Group Audit Partner
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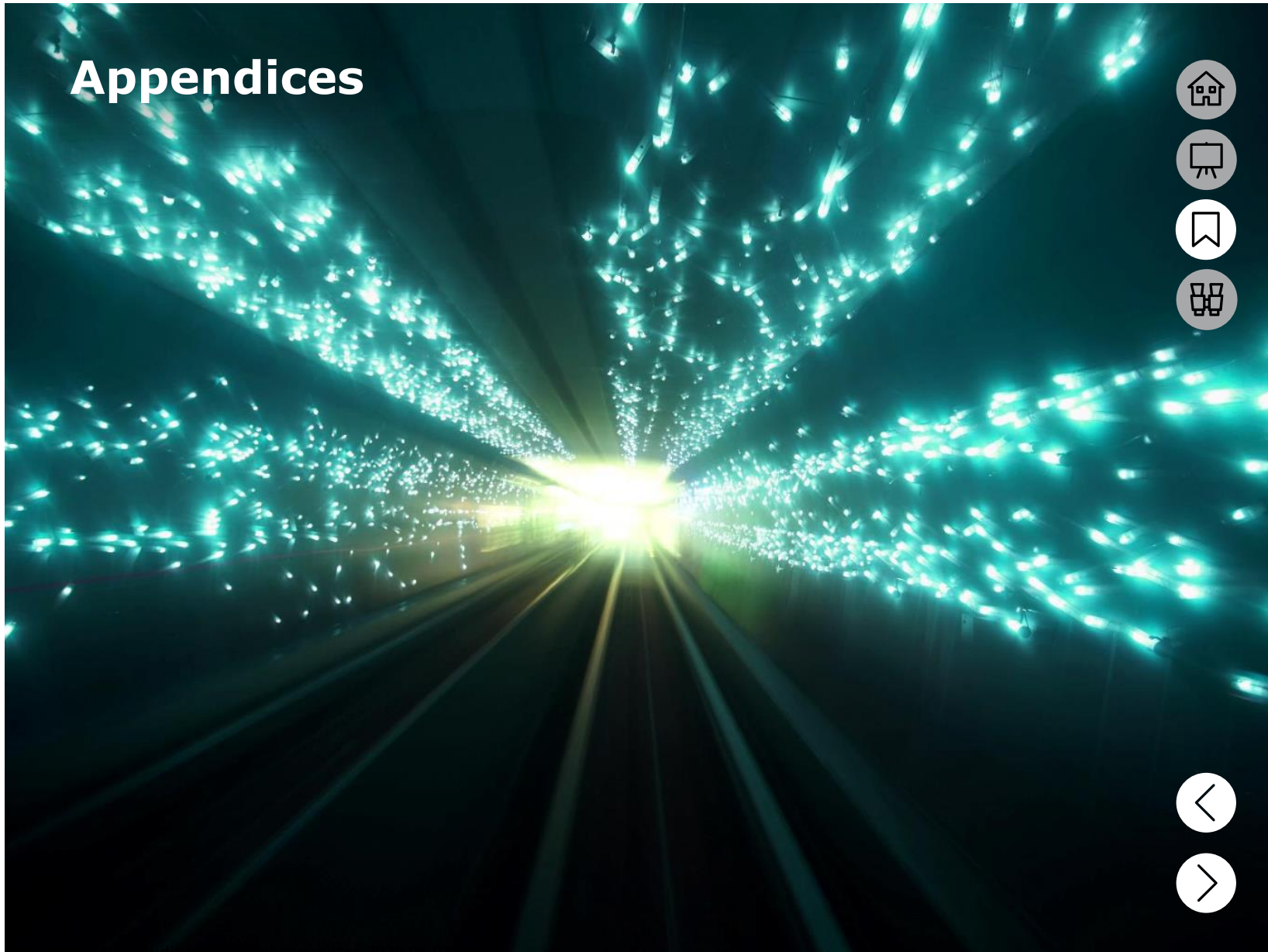
Group Audit Manager
Scott Hawkins
schawkins@deloitte.co.nz
+64-3-474-8641

Other specialists

Name: Catherine Law
IT Specialist Partner

Name: Scott McClay
Valuation Specialist Partner





Appendix 1: Purpose of report and responsibility statement

Purpose of report

This report has been prepared for Council's Audit and Risk Committee and is part of our ongoing discussions as auditor in accordance with our engagement letter and master terms of business and as required by New Zealand auditing standards.

This plan is intended for the Audit and Risk Committee (and other Councillors) and should not be distributed further. We do not accept any responsibility for reliance that a third party might place on this report should they obtain a copy without our consent.

This report includes only those matters that have come to our attention as a result of performing our audit procedures to date and which we believe are appropriate to communicate to the Audit and Risk Committee. The ultimate responsibility for the preparation of the financial statements rests with the Council.

Responsibilities

We are responsible for conducting an audit of the Council for the year ended 30 June 2020 in accordance with New Zealand auditing standards issued by the NZ Auditing and Assurance Standards Board as well as Auditing Standards issued by the Auditor-General. Our audit is performed pursuant to the requirements of the Local Governments Act 2002, with the objective of forming and expressing an opinion on the financial statements, and other information required by Schedule 10 of the Local Government Act 2002, that have been prepared by management with the oversight of the Councillors. The audit is also completed under the terms of our contract with the OAG. In accordance with the Local Government annual audit brief, issued by the OAG, we are also required to focus on additional areas which are outlined in the Areas of Focus section of this report.

The audit of the financial statements does not relieve management or the Councillors of their responsibilities.

Our audit is not designed to provide assurance as to the overall effectiveness of the Council's controls but we will provide you with any recommendations on controls that we may identify during the course of our audit work.



Appendix 2: Fraud responsibilities and representations



Your responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including designing, implementing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



Our responsibilities:

- We are required to obtain representations from those charged with governance regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As required, we will consider any significant related party transactions outside the entity's normal course of business.



Fraud characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will make inquiries of management and others within the entity as appropriate, regarding their knowledge of any actual, suspected or alleged fraud affecting the Council. In addition we are required to discuss the following with the Audit and Risk Committee:

- Whether the Audit and Risk Committee has knowledge of any fraud, suspected fraud or allegations of fraud;
- The role that the Audit and Risk Committee exercises in oversight of the Council's assessment of the risks of fraud and the design and implementation of internal control to prevent and detect fraud;
- The Audit and Risk Committee's assessment of the risk that the financial statement may be materially misstated as a result of fraud.

We will be seeking representations in this area from the Council in due course.



Appendix 3: Independence and fees

We summarise below our proposed audit fees as discussed with the Council including details of any scope changes.

	2020 (\$)	2019 (\$)
Total audit fees	124,100	121,800
GST	18,615	18,270
Total including GST	142,715	140,070



Other reporting matters



AGENDA Audit and Risk Subcommittee 2020.06.03

Developments in financial reporting – overview

The following table provides a high level summary of the major new accounting standards, interpretations and amendments that are relevant to the Council. A full list of the standards on issue but not yet effective is released quarterly and is available here: https://www2.deloitte.com/nz/en/pages/audit/articles/accounting-alert.html?icid=top_accounting-alert

Major new standard, interpretation or amendment	Effective date (periods beginning on or after)
PBE IFRS 9 Financial Instruments	1 January 2021
PBE FRS 48 Service Performance Reporting	1 January 2021

Early implementation efforts recommended

Early effort to consider the implementation of these standards is recommended in order to provide stakeholders with timely and decision-useful information. Implementation steps are outlined opposite.

Steps for implementation

Determine extent of impact & develop implementation plan

Monitor progress and take action where milestones are not met

Identify required changes to systems, processes, and internal controls

Determine the impact on covenants & regulatory capital requirements, tax, dividends & employee incentive schemes





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AGENDA Audit and Risk Subcommittee 2020.06.03

8.2. GOV1920 Annual Report timetable and matters under consideration

Prepared for:	Audit and Risk Subcommittee
Report No.	GOV1920
Activity:	Governance Report
Author:	Sarah Munro, Manager Finance - Reporting
Endorsed by:	Nick Donnelly, General Manager Corporate Services
Date:	22 May 2020

PURPOSE

- [1] The purpose of this report is to outline the adoption timetable and changes in accounting standards for Council's Annual Report and Financial Statements for the year ending 30 June 2020.

EXECUTIVE SUMMARY

- [2] This report details the Annual Report timetable. A draft report will be presented to Audit and Risk subcommittee on 23 September 2020 for review with a subsequent presentation of the final Annual Report for adoption at the 30 September 2020 Council meeting.
- [3] This report also outlines key changes to financial statement standards that are applicable to Council. It is anticipated that there will be no significant impact to the Council financial statements as a result of these financial standard changes.

RECOMMENDATION

That the Audit and Risk Subcommittee:

- 1) **Receives** this report.

BACKGROUND

- [4] 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 2020.
- [5] The Annual Report includes financial statements for the year ended 30 June 2020. Council financial statements consist of the Council and Council Group. 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.
- [6] Council financial statements are audited by Deloitte on behalf of the Office of the Auditor General.

TIMETABLE

- [7] The financial statements will be reported to the Audit and Risk Committee on 23 September 2020 for review and then to Council on 30 September 2020 for adoption.

CHANGES TO FINANCIAL STATEMENT ACCOUNTING STANDARDS**Council**

- [8] Council financial statements are prepared using Public Benefit Entity International Accounting Standards (PBE IPSAS). The table below shows the PBE IPSAS standard changes that have occurred since the adoption of the prior year financial statements. It is expected that none of the PBE IPSAS standard changes will have a material impact on the financial statements.

Standard	Change	Impact on Council
PBE IPSAS 34 Separate Financial Statements	The requirements of PBE IPSAS 34 are substantially unchanged from the previous requirements of PBE IPSAS 6 which this standard replaced.	No impact
PBE IPSAS 35 Consolidation Financial Statements	The objective of PBE IPSAS 35 was to have a single basis for consolidation for all entities. This was done by updating the definition of control in the standard.	The updated definition of control has been assessed with no impact on the Council Group financial statements.
PBE IPSAS 36 Investments in Associates and Joint Ventures	The new Standard requires both associates and joint ventures to be accounted for using the equity method.	No impact
PBE IPSAS 37 Joint Arrangements	This new Standard classifies joint arrangements as either joint operations or joint ventures.	No impact
PBE IPSAS 38 Disclosure of Interest in Other Entities	This Standard specifies minimum disclosures that an entity must provide for an interest in controlled entities, joint arrangements, associates or unconsolidated structured entities.	No impact
PBE IPSAS 39 Employee Benefits	This Standard updated the requirements of the previous standard PBE IPSAS 25 surrounding defined benefit plans to be in-line with NZ IFRS.	No impact

Group

- [9] Port Otago Limited (POL) are a profit entity and are required to prepare financial statements using New Zealand Equivalent to International Accounting Standard (NZ IFRS), a different accounting basis to the Council finance statements which are prepared using PBE IPSAS.
- [10] During the Council consolidation, POL financial information is recalculated from NZ IFRS to PBE IPSAS accounting standards. During the current year there has only been one change in NZ IFRS standards which would require additional adjustments not performed in prior years.

NZ IFRS Standard	Change in standard	Required on consolidation
NZ IFRS 16 Leases	This standard requires all leases to be recorded on the balance sheet and lease expenses recorded as the amortisation of the right to use assets and interest on lease liabilities.	On consolidation the recording of leases will need to be reversed. Leases are not allowed to be recorded on the balance sheet of Council under PBE IPSAS.

ATTACHMENTS

Nil

9.1. P&S1855 Health & Safety Report - June 2020

Prepared for:	Audit and Risk Subcommittee
Report No.	P&S1855
Activity:	Governance Report
Author:	Rebecca Webster, Safety and Wellbeing Partner
Endorsed by:	Sally Giddens, General Manager People, Culture and Communications
Date:	22 May 2020

PURPOSE

- [1] This report summarises progress towards the Safety & Wellbeing Team's key strategic priorities and safety performance indicators for the period January 2020 – March 2020 (Quarter 3, FY 19/20). The report also summarises key areas of focus for the Safety & Wellbeing team for the 2020/21 financial year.

RECOMMENDATION

That the Audit and Risk Subcommittee:

- 1) **Receives** this report.

LEGISLATIVE COMPLIANCE AND RISK MANAGEMENT

- [2] Continuous improvement of ORC's safety system is a key priority for the Safety & Wellbeing Team to ensure legislative compliance and best practice in managing risk. A summary of key activities for Q3 are as follows:

Health and Safety Committee (HSC)

- [3] The HSC has been meeting every 6 weeks since its re-instatement in December 2019. The function of the HSC is to enable worker engagement and participation on health and safety matters at ORC and contribute towards ongoing improvements of the health and safety system. The HSC is progressing well so far, and its effectiveness will be reviewed as the year progresses to ensure that the HSC is functioning as expected.

Policy & Procedure Development

- [4] An internal audit of current safety policies and safe work procedures has commenced and as a result, new safety policies/procedures are in development with updates to existing policies. Recent topics resulting in policy/procedure development include contractor management systems, fatigue management and lone worker policies. This work will continue for the remainder of the 2020/21 financial year and beyond. The consultation process for safety policy and procedure reviews has been improved to ensure that workers can contribute and provide feedback via the HSC.

Risk Management

- [5] A key goal for the Safety & Wellbeing Team is to partner with ORC leaders to ensure a focus on risk identification, elimination and mitigation, ensuring safety management forms part of each leadership role.
- [6] Rebecca Webster (Safety and Wellbeing Partner) and Gina Watts (Safety & Wellbeing Coordinator) have been working with teams particularly those who are field based, to assist in identifying and addressing key hazards and risks. This includes updating risk assessments and Safe Operating Procedures (SOPs).
- [7] An organisational Hazard and Risk Register has been agreed upon by the HSC members and provided to ELT for endorsement. This register will be available for review once endorsed and will be continually updated as our safety system develops.
- [8] Ongoing improvement and review of ORC's risk management system is in progress and this will be supported by procurement of a fit for purpose health & safety management system (discussed later in this report).

SYSTEMS AND PROCESS IMPROVEMENT

- [9] A fit for purpose, online safety management system is being sought. This system will provide real time data and comprehensive reporting on safety performance. It will allow workers to access the system on a mobile device, including the ability to report a hazard or incident from the field. The new system will provide several benefits including improved reporting, efficient contractor management and coordination of safety training.
- [10] Action plans developed by the indoor/security working group is currently progressing well with most items addressed. Outstanding actions from these groups are now being tracked via the relevant Health and Safety Representatives (HSRs) and the HSC.

TRAINING AND DEVELOPMENT

- [11] Safety training records have been audited during Q3 with actions taken to ensure all mandatory training has taken place (e.g. 4WD safety, working at heights). Training in de-escalation and managing conflict has been planned to address the risks of physical and psychological harm due to aggression from customers and members of the public, a risk raised through the indoor/security working group.
- [12] Upskilling and development of the Health and Safety Representatives (HSR) group is occurring and will continue, to ensure HSRs are performing their roles effectively.
- [13] Focus areas for the future are to implement a training needs analysis for high risk and field-based positions; training for staff on incident and near miss reporting and training for managers on health and safety responsibilities.

STAFF WELLBEING

- [14] Staff wellbeing is an integral part of the health and safety system at ORC. In partnership with the wider People and Culture team, development of a fit for purpose organisational Wellbeing Framework is currently in progress.
- [15] Initiatives to support employee resilience and wellbeing such as self-help strategies are underway with promotion and awareness of mental health supports such as the Employee Assistance Program (EAP).
- [16] Wellbeing activities will continue throughout for the remainder of the 2020/21 financial year and beyond, with outcomes evaluated to ensure they are meeting the needs of ORC employees.

SAFETY AND WELLBEING PERFORMANCE REPORTING

- [17] In Quarter 3 there were 4 incidents and 7 near misses reported. The majority of incident and near miss reports involved vehicles (7 total). Of these, 5 were due to the behaviour of other road users. Two vehicle incidents related to ORC staff. Two incidents occurred during field activities with remaining 2 near misses caused by environmental factors (interaction with an aggressive customer) and a slip/trip hazard.
- [18] In addition to incident and near miss reporting, the Safety & Wellbeing Team have implemented reporting on pro-active lead indicators such as participation in safety training and completion of safety activities such as risk assessments and SOP's. Further reporting on lead indicators will occur as the safety system continues to improve. A new "Safety & Wellbeing Dashboard" has been created to track progress of these performance indicators and key initiatives (see attached).
- [19] Key Definitions for Incident/Near Miss Reporting:

Equipment	All reported near miss or incidents relating to any equipment used in the workplace.
Vehicles	All reported near miss or incidents relating to vehicles or their use.
Field Activities	All reported near miss or incidents relating to activities undertaken in the field.
Chairs/Desks	All reported near miss or incidents relating to chairs, desks or workstation ergonomics.
Slips, Trips and Strains	All reported near miss or incidents relating to slipping, tripping or strain injuries in the workplace (field or office).
Environmental	All reported near miss or incidents relating to the work environment, for example appropriate temperatures, or the psychological environment.

COVID-19 INTERNAL RESPONSE

- [20] In addition to business as usual Health and Safety activity, the Safety and Wellbeing team have worked with Council's Continuity Management Team (CMT) on the internal response to COVID-19. ORC has operated in line with Central Government advice and requirements for management of risks relating to COVID-19, having taken a cautious and humanistic approach through Alert Levels Three and Four. To date, no incidents have been reported in relation to COVID-19 exposure or breaches of the Government or organisational requirements. 99.1% of staff could complete their roles from home during Alert Level Four, with 100% of staff able to return to duties in Alert Level Three.

For staff returning to the workplace in Alert Level Two, all must be accompanied by an approved Safety Management Plan to ensure any risks arising from working outside of the home are eliminated where possible, and managed where residual risk remains.

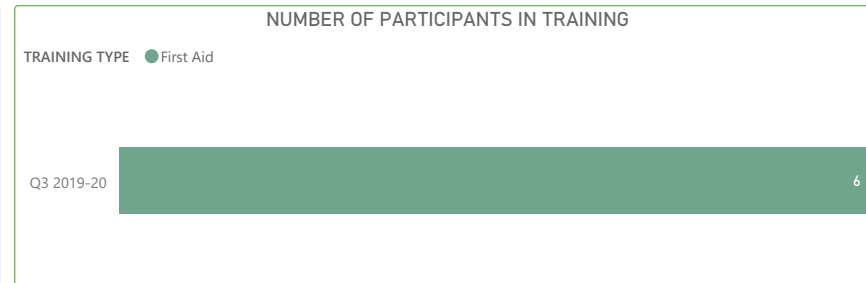
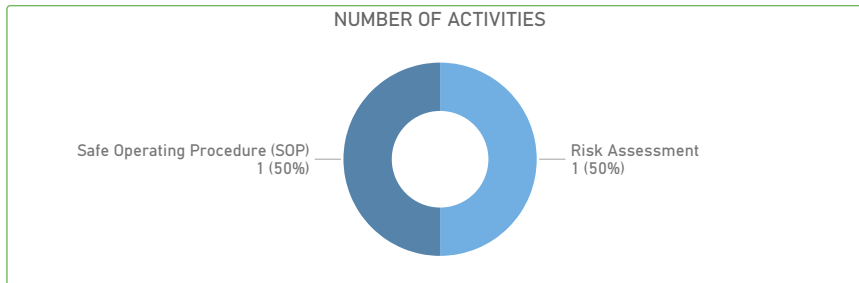
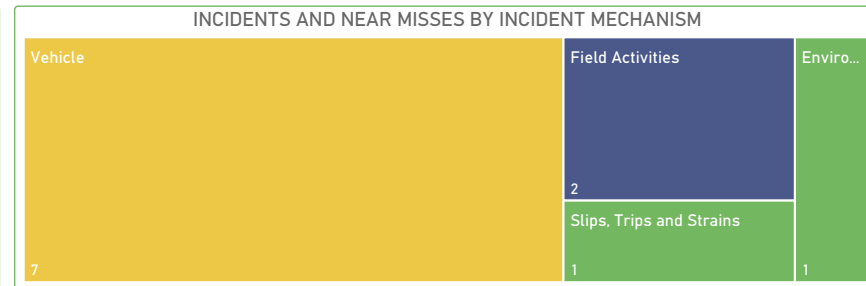
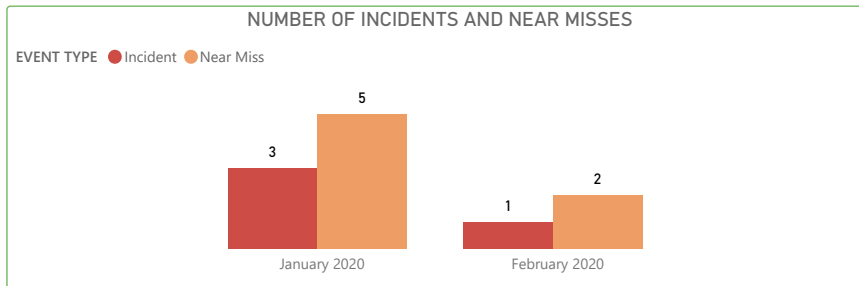
ATTACHMENTS

1. Safety and Wellbeing Dashboard Q3 2020 [9.1.1 - 1 page]

ORC SAFETY AND WELLBEING DASHBOARD

SHOWING DATA FOR THE QUARTER OF:

Q3 2019-20



Strategic Initiatives

- Exploring options for a new online safety management system
- Partnering with ORC leaders and work areas on safety activities
- Review of organisation needs for safety training and development
- Update and development of policies and procedures
- Update and development of SOPS, Risk Assessments

Wellbeing Initiatives

- Development of wellbeing initiatives and activities
- Flu Shots
- Promotion and Awareness of EAP Services for mental health

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>4.1 Managed Fund Report March 2020</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)	Section 48(1)(a); Subject to subsection (3), a local authority may by resolution exclude the public from the whole or any part of the proceedings of any meeting only on 1 or more of the following grounds: (a) that the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.
<i>4.2 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 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 otherwise to damage the public interest – Section 7(2)(c)(ii); and, To avoid prejudice to measures that prevent or mitigate material loss to members of the public – Section 7(2)(e)	Section 48(1)(a); Subject to subsection (3), a local authority may by resolution exclude the public from the whole or any part of the proceedings of any meeting only on 1 or more of the following grounds: (a) that the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.
<i>4.3 Insurance Renewal</i>	To enable any local authority holding the information to carry out, without	Section 48(1)(a); Subject to subsection (3), a

	<p>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)</p>	<p>local authority may by resolution exclude the public from the whole or any part of the proceedings of any meeting only on 1 or more of the following grounds: (a) that the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.</p>
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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.