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## Audit & Risk Committee

### OPEN MINUTES

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Minutes of a meeting of the Audit & Risk Committee held in Committee Room 1, Municipal Building, Garden Place, Hamilton on Tuesday 14 March 2017 at 9.30am.

#### PRESENT

<b>Chairperson:</b>	External appointee - Paul Connell
<b>Membership:</b>	Mayor Andrew King Cr Garry Mallett Cr Dave Macpherson Cr Paula Southgate Cr Rob Pascoe
<b>In Attendance:</b>	Cr Siggie Henry Chief Executive – Richard Briggs General Manager Corporate – David Bryant General Manager Community - Lance Vervoort General Manager H3 and Events – Sean Murray Executive Director Special Projects – Blair Bowcott Financial Controller – Tracey Musty Risk and Insurance Manager – Andre Chatfield Business Manager – Eeva-Liisa Wright Health and Safety Manager - Tracey Stevenson Health and Safety Advisor - Karin Barclay  AON New Zealand Senior Executive Director - Sam Ketley AON New Zealand Insurance Broker - Matthew Wilson PwC Partner - Stuart Henderson PwC Partner – Andrew Holmes PwC Associate Director – Alex Wondergem PwC Director Risk Assurance – Emma Jones Audit New Zealand Director – Leon Pieterse Audit New Zealand Manager – Jared Williams
<b>Governance Advisors:</b>	Governance Manager - Lee-Ann Jordan Committee Advisor – Ian Loiterton

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## 1. Apologies

The Chair noted an apology from Tony Steele and welcomed everyone to the meeting.

## 2. Confirmation of Agenda

**Resolved:** (Crs Mallett/Macpherson)

The Committee to confirm the agenda, noting the following:

- The Chief Executive (CE) would cover emerging risks as part of *Item 6: Risk Management Audit*; and
- The order of the agenda would be changed as appropriate to accommodate external visitors.

## 3. Declarations of Interest

No members of the Council declared a Conflict of Interest.

## 4. Public Forum

No members of the public requested to speak at the Public Forum.

*Item 11: Annual Report 2017 Planning Update was considered next to accommodate external visitors from Audit New Zealand.*

## 11. Annual Report 2017 Planning Update

The Financial Controller spoke to report, noting a two page supplementary document had been circulated to Elected Members and made publicly available prior to the meeting.

The Financial Controller stated:

- the report detailed the timetable for the audit and Audit New Zealand's schedule of site visits to complete interim and final audits;
- following a workshop to consider the draft Annual Report, the report would be presented to the Audit and Risk Committee on 29 August 2017, and subsequently to Council for approval on 21 September 2017; and
- draft financial results had already been reported to the Finance Committee.

The Chair stated that the focus of the Audit and Risk Committee was to ensure the Annual Report complied with financial accounting standards, and to make recommendations to Council for approval.

The Audit New Zealand Director spoke to Attachment 1: *Audit Planning for the year ending 30 June 2017*. He noted that any identified risks would be discussed with Council management, and that the main focus of the audit would be:

- fair value assessments and revaluation of property, plant and equipment;
- capitalisation of work-in-progress and vested assets; and
- impact of growth on service delivery and infrastructure.

The Audit New Zealand Director, Chair, and CE responded to questions from Elected Members concerning:

- the scope, logistical arrangements, and timetable for the Audit Plan and the identified areas of risk.
- the role of Audit New Zealand (Audit NZ) (which was to ensure transparency and accuracy of Council's reporting).
- Auditing treatment and disclosure of any material risks arising from Council's Housing Infrastructure Fund (HIF) application.
- accounting treatment of depreciation, the relationship of depreciation to the replacement cost of assets, and treatment in the Council's Annual Report.
- accounting treatment of the life of assets and the revaluation processes for assets.
- Rates, noting advice was not provided by Audit NZ regarding Council's rate policy, rates income and expenditure on Council's balance sheets is checked.
- Audit NZ responsibilities as auditor and their costs for performing this function.

Actions

- *Governance Manager to remind Elected Members that they are welcome to attend meetings of the Audit and Risk Committee, in particular the meeting scheduled for 29 August 2017 at which the Annual Plan will be considered.*
- *Audit New Zealand staff to support the presentation of the Annual Plan by attending the meeting of Council on 21 September 2017.*

**Resolved:** (Mr Connell/Cr Macpherson)  
That the Audit and Risk Committee receive the report.

*Item 12: 2016 Final Audit New Zealand Management Report was considered next to accommodate external visitors from Audit New Zealand.*

## **12. 2016 Final Audit New Zealand Management Report**

The Audit New Zealand Director and Financial Controller presented the report and responded to questions from Committee Members concerning:

- The implementation of Audit New Zealand's recommendations and Audit New Zealand sign-off of Council's Organisational Improvement Plan.
- The Electronic Work-order System project which was in the final stages of testing and would be delivered within budget.
- Overpayment of a redundancy payment and controls that had been since implemented to ensure this would not occur again.
- Accounting treatment of the sale of pensioner housing.

**Resolved:** (Crs Mallett/Macpherson)

That the Audit and Risk Committee receives the Final Audit New Zealand Management Report for the year ended June 2016.

***The meeting adjourned (10.48am – 10.58am).***

*Item 7: Insurance Report 2016/17 was considered next to accommodate external visitors from AON New Zealand.*

## 7. Insurance Report 2016/17

The Risk and Insurance Manager spoke to the report and introduced Senior Executive Director - Sam Ketley and Insurance Broker - Matthew Wilson from AON New Zealand. They provided an overview of Council's insurance arrangements and responded to questions from Committee Members concerning:

- Asset value, insured value and Council and central governments respective responsibilities under legislation
- The insurance risk profile for local government and for the Waikato region
- The visit to London by a Local Authority Shared Services representative and Aon
- The reasons for the resulting savings for councils in Infrastructure and Material Damage Insurance
- The role of asset management in improved insurance provisions
- Business interruption insurance
- Health and Safety insurance - which would not cover the costs of fines and penalties, but would include legal defense costs. A recommendation to increase Council's Health and Safety insurance cover had been adopted.
- Fire services levy and suggestions that levies may be increased by around 40%.

**Resolved:** (Crs Pascoe/Mallett)

That the Audit and Risk Committee receive the report.

*Item 9: Management of Swaps and Debt was considered next to accommodate external visitors from PwC.*

## 9. Management of swaps and debt

The Financial Controller stated the report was prepared at the request of Council at a meeting on 30 June 2016. She introduced PwC Partner - Stuart Henderson and PwC Associate Director – Alex Wondergem.

The Financial Controller, PwC Partner and PwC Associate Director outlined Council's approach to the management of swaps and debts and responded to questions from Elected Members concerning:

- Factors which impacted swaps such as Hamilton City Council's credit rating, interest rate liability, and the value of Council's debt.
- Hamilton City Council use of swaps which was subject to ongoing review, as Council's debt profile was constantly changing due to such factors as delays in key projects.
- Reporting and benchmarking.
- Future outlook for swaps, noting that swaps strategies would be assessed against market trends and risks at time of renewals.
- 10 Year Plan, noting a review of treasury policy was required as part of Council's 10-year Plan process.

**Resolved:** (Mayor King/ Cr Southgate)

That the Audit and Risk Committee receives the report.

*Item 10: Fitch Credit Rating was considered next to accommodate external visitors from PwC.*

## 10. Fitch Credit Rating

The Financial Controller spoke to the report and stated that the Fitch credit rating review considered such factors as Council's financial management and management of growth.

The Financial Controller and PwC Partner - Stuart Henderson responded to questions from Committee Members concerning:

- Council's credit rating and what this meant for Council's approach to debt management.
- Use of swaps to manage interest.
- Key rating drivers, the potential implications of debt to revenue ratios over the current LGFA limit, and the potential risks for a credit downgrade under different scenarios.
- How credit ratings were derived by Fitch.
- The costs and implications of alternative avenues of borrowing, e.g. bonds.
- Growth councils and the implications for the local government sector if debt to revenue ratios exceed 250%.

**Resolved:** (Crs Southgate/Pascoe)

That the Audit and Risk Committee receives the report.

### ***The Meeting adjourned (12.58pm – 1.47pm)***

*Item 6: Risk Fitch Credit Rating was considered next to accommodate external visitors from PwC and Audit New Zealand.*

## 6. Risk Management Report

The Chair stated that the report would be followed by a discussion of emerging risks, led by the C.E.

The Risk and Insurance Manager spoke to the report and noted the levels of risk within Council's risk management framework: Material Risk; Business Unit Level Risk; and Project Risk. The main focus for the Risk Unit was Council's controls and mitigation strategies. Any issues were reported to Council's Senior Leadership Team (SLT) to manage. Material Risks were reported to Audit and Risk.

The Risk and Insurance Manager responded to questions from Committee Members concerning:

- Risks and mitigations of a Cyber Attack.
- The arguments for and against the reputation of Hamilton being a material risk.
- The process of determining the material risk and assigning risk rankings.
- The definitions of inherent and residual risk ratings.
- The upcoming workshop with Elected Members to review the material risks.

The CE talked to three emerging risks that would require further analysis. These were:

1. Pressure on Council's financial strategy and the need for it to be reviewed as part of the 10-year Plan process. PwC had been engaged to test Council's assumptions, provide greater analysis, and to undertake financial modelling of different scenarios that were available to Council.
2. The risk of not funding growth, noting a range of compliance areas that related to planning for growth, including the Housing Infrastructure Fund (HIF) and National Policy Statement.
3. Hamilton Properties Limited - a revised timeline had been approved by Council at its 9 March 2017 meeting. There were potential risks associated with how the Endowment Fund could be used and managed and legal advice was being sought.

The Chair, CE, and Audit New Zealand Director responded to a number of questions from Elected Members relating to the perceived opportunity for an independent forensic audit of Council's finances. It was noted this would not add value or information over and above that already provided by Audit New Zealand and internal audits. However there may be some value in obtaining independent input into Council's future financial strategy and associated measures of performance, which was the piece of work commissioned from PwC.

#### Actions

- *Staff to revisit the risk framework prior to risk workshops later in the year.*
- *Information on the LGA 'We care' campaign, including the underlying research to that initiative, to be provided to Cr Southgate.*
- *Future reports to include a footnote at the bottom of each page for each \* symbol.*
- *Staff to provide information to Elected Members to enable comparison of growth scenarios; for example, urban infill, developments that are almost ready to go to market, and big picture developments.*

**Resolved:** (Crs Southgate/Pascoe)

That Audit and Risk Committee receives the report.

*Cr Macpherson left the meeting during Item 6: Risk Management Report and was not present for voting on the matter.*

## **5. Organisational Improvement Report**

The Chair introduced the report, noting its purpose was monitor the implementation of PwC audit recommendations. The Financial Controller responded to questions on behalf of the Risk Manager who was unable to attend the meeting concerning the *Organisational Improvement Programme Register - Database (Open Items)*:

- The status of items, noting all actions were listed on the report until formal sign-off was approved by PwC.
- Item 106 which despite being listed as being 'on hold' had been completed.
- Item 334 relating to Hamilton Properties Ltd and some domain properties.
- Item 199 relating to the Project Management Framework and project governance.
- Items 315 and 338 which were completed and waiting PwC sign-off.
- Item 329 relating to disaster recovery plans.

The GM Community responded to questions from Committee Members concerning the *Zoo Action Plan – Priority*:

- Item 2C, the delay to the installation of safety porches for all vehicle access gates into the chimpanzee enclosure (to take account of the birth of a baby chimpanzee).
- Items 72 and 72A, the recommendation to deny tiger access to both inside and outside enclosures at the same time which had not been implemented due to animal welfare issues. Instead, an engineered solution was in place, whereby an interlocking gate system ensured staff were isolated from tigers. This action was also supported by improved recruitment and training of staff.

#### Action

*Staff to update the Organisational Improvement Programme Register : Database to note items as being 'completed – awaiting PwC sign-off'.*

**Resolved:** (Crs Southgate/Pascoe)

That the Audit and Risk Committee receives the report.

## 8. Health and Safety Report

The Health and Safety Manager spoke to the report, noting that the report summarised Council's health and safety performance of which SLT maintained regular oversight. This was intended to be a quarterly report to the Audit and Risk Committee, supported by a detailed annual report. She outlined the legislative responsibilities of Elected Members in their governance role, in relation to health and safety matters. The Health and Safety Manager responded to questions from Committee Members concerning:

- Contractors and subcontractors and compliance with legislative requirements, including prequalification of contractors and site inductions.
- New Health and Safety Legislation and updates to the Health and Safety system to improve Council's compliance; the new system was expected to be ready for implementation in approximately one month's time.
- ACC as Council will not continue to receive subsidies upon termination of ACC's *Workplace Safety Management Practices* programme.
- High risk work areas, noting the Health and Safety Unit was working with relevant business units to address issues identified through an external audit process.

### Action

*Staff to increase Elected Member awareness of their Health and Safety responsibilities under legislation as 'officers' of Council.*

**Resolved:** (Crs Mallett/Pascoe)

That the Audit and Risk Committee receive the report.

## 13. Audit and Risk Committee Self Review

The Chair introduced the report and declared a conflict of interest as the Chair of IANZ.

The CE responded to questions from Committee Members concerning the IANZ Building Consents Accreditation process, which had gone well. One recommendation was made regarding the issue of attracting qualified staff.

**Resolved:** (Cr Pascoe/Mayor King)

That the Audit and Risk Committee receive the report.

## 14. Resolution to Exclude the Public

**Resolved:** (Chair Connell /Cr Pascoe)

### **Section 48, Local Government Official Information and Meetings Act 1987**

The following motion is submitted for consideration:

That the public be excluded from the following parts of the proceedings of this meeting, namely consideration of the public excluded agenda.

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 follows.

General subject of each matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
C1. PwC - Internal Audit Status Report	) Good reason to withhold ) information exists under ) Section 7 Local Government ) Official Information and ) Meetings Act 1987 )	Section 48(1)(a)

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 which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public, as follows:

Item C1. to enable Council to carry out commercial activities without disadvantage Section 7 (2) (h)

***The Meeting went into a Public Excluded session at 3.55pm.***

***The Meeting was declared closed at 4.23pm.***