

Mā tō tātou takiwā
For our District

Audit and Risk Committee

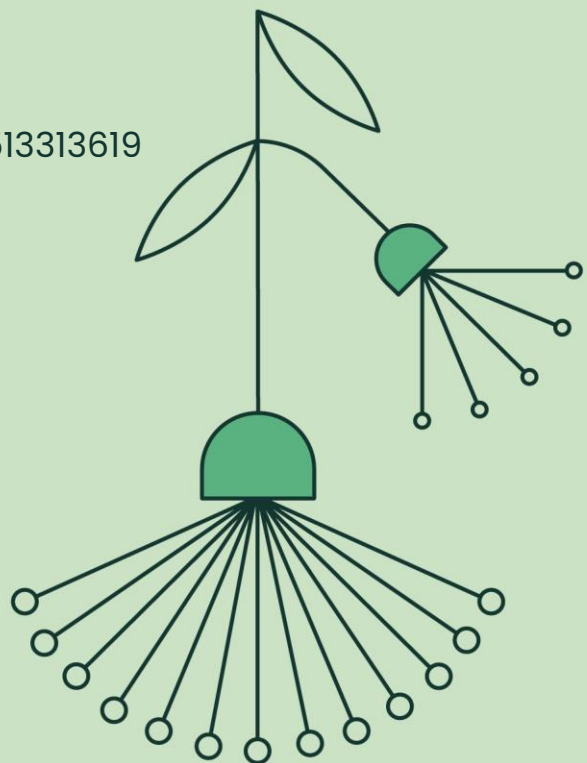
Komiti Taiwhenua

AR22-1

Tuesday, 15 March 2022, 9.30am

Via Zoom

<https://westernbay-govt-nz.zoom.us/j/88513313619>



Audit and Risk Committee

Membership:

Chairperson	Cr James Denyer
Deputy Chairperson	Cr Murray Grainger
Members	Cr Grant Dally Cr Mark Dean Cr Monique Gray Cr Anne Henry Cr Kevin Marsh Cr Margaret Murray-Benge Deputy Mayor John Scrimgeour Cr Allan Sole Cr Don Thwaites Mayor Garry Webber Mark Maloney – Independent Member
Quorum	6
Frequency	Quarterly

Role:

To provide assurance and assistance to the Western Bay of Plenty District Council on management of Council's risk, financial control and compliance framework, and its external accountability responsibilities.

Scope:

- Recommend to Council an appropriate risk management strategy and monitor the effectiveness of that strategy.
- Monitor the Council's external and internal audit process and the resolution of any issues that are raised.
- Review key formal external accountability documents such as the Annual Report in order to provide advice and recommendation in respect to the integrity and appropriateness of the documents and the disclosures made.
- Provide a forum for communication between management, internal and external auditors and the governance level of Council.
- Ensure the independence and effectiveness of Council's internal audit processes
- Oversee the development of the council's Annual Report.
- Oversee the development of financial policies.
- Monitor existing corporate policies and recommend new corporate policies to prohibit unethical, questionable or illegal activities.
- Support measures to improve management performance and internal controls.

Responsibilities:

External Audit and External Accountability

- Engage with Council's external auditors regarding the external audit work programme and agree the terms and arrangements of the external audit in relation to the Annual Report.
- To recommend the adoption of the Annual Report and the approval of the Summary Annual Report to Council.
- Review of the effectiveness of the annual audit.
- Monitor management response to audit reports and the extent to which external audit recommendations concerning internal accounting controls and other matters are implemented.

Internal Audit

- In conjunction with the Chief Executive and the Group Manager Finance and Technology Services, agree the scope of any annual internal audit work programme and assess whether resources available to Internal Audit are adequate to implement the programme.
- Monitor the delivery of any internal audit work programme.
- Assess whether any significant recommendations of any internal audit work programme have been properly implemented by management. Any reservations the Internal Auditor may have about control risk, accounting and disclosure practices should be discussed by the Committee.

Risk Management

- Review the risk management framework, and associated procedures to ensure they are current, comprehensive and appropriate for effective identification and management of Council's financial and business risks, including fraud.
- Review the effect of Council's risk management framework on its control environment and insurance arrangements.
- Review whether a sound and effective approach has been followed in establishing Council's business continuity planning arrangements.
- Review Council's fraud policy to determine that Council has appropriate processes and systems in place to capture and effectively investigate fraud-related information.

Other Matters

- Review the effectiveness of the control environment established by management including computerised information systems controls and security. This also includes a reviewing/monitoring role for relevant policies, processes and procedures.
- Review the effectiveness of the system for monitoring Council's financial compliance with relevant laws, regulations and associated government policies

- Engage with internal and external auditors on any specific one-off audit assignments.
- Consider financial matters referred to the committee by the Chief Executive, Council or other Council committees.

Power to Act:

The Committee is delegated the authority to:

- Receive and consider external and internal audit reports.
- Receive and consider staff reports on audit, internal control and risk management related matters.
- Make recommendations to the Council on financial, internal control and risk management policy and procedure matters as appropriate.
- To approve the Auditors' engagement and arrangements letters in relationship to the Annual Report.

Notice is hereby given that a Audit and Risk Committee Meeting will
be held via Zoom on:
Tuesday, 15 March 2022 at 9.30am

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1 PRESENT**2 IN ATTENDANCE****3 APOLOGIES****4 CONSIDERATION OF LATE ITEMS****5 DECLARATIONS OF INTEREST**

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

6 PUBLIC EXCLUDED ITEMS**7 PUBLIC FORUM**

A period of up to 30 minutes is set aside for a public forum. Members of the public may attend to address the Board for up to five minutes on items that fall within the delegations of the Board provided the matters are not subject to legal proceedings, or to a process providing for the hearing of submissions. Speakers may be questioned through the Chairperson by members, but questions must be confined to obtaining information or clarification on matters raised by the speaker. The Chairperson has discretion in regard to time extensions.

Such presentations do not form part of the formal business of the meeting, a brief record will be kept of matters raised during any public forum section of the meeting with matters for action to be referred through the customer contact centre request system, while those requiring further investigation will be referred to the Chief Executive.

8 PRESENTATIONS

8.1 BANCORP TREASURY UPDATE AND PRESENTATION

File Number: A4483649

Author: David Jensen, Finance Manager

Authoriser: James Graham, Acting Group Manager Finance and Technology Services

EXECUTIVE SUMMARY

Bancorp Treasury will present an overview of market trends and forecasts, along with their implications for Council. Specifically, their presentation will focus on:

- Trends and forecasts for domestic inflation;
- Forecasts for market interest rates; and
- How Council has positioned itself within its treasury strategy to mitigate interest rate risks.

RECOMMENDATION

1. That the Finance Manager's report dated 15 March 2022 titled 'Bancorp Treasury Update and Presentation' be received.
2. That the presentation from Bancorp Treasury dated 15 March 2022 be received.

8.2 AON INSURANCE UPDATE PRESENTATION – CURRENT MARKET AND EMERGING RISKS**File Number: A4494387****Author: Tashina Abraham, Senior Assurance and Risk Specialist****Authoriser: James Graham, Acting Group Manager Finance and Technology Services****EXECUTIVE SUMMARY**

AON Insurance will be in attendance to give a presentation on:

- The Current Market; and
- Emerging Risks.

RECOMMENDATION

1. That the Senior Assurance and Risk Specialist's report dated 15 March 2022 titled 'AON Insurance Update Presentation – Current Market and Emerging Risks' be received.
2. That the presentation from AON Insurance dated 15 March 2022 be received.

9 REPORTS

9.1 SUMMARY OF AUDIT AND RISK AGENDA TOPICS – MARCH 2022

File Number: A4474387

Author: Tashina Abraham, Senior Assurance and Risk Specialist

Authoriser: James Graham, Acting Group Manager Finance and Technology Services

EXECUTIVE SUMMARY

The purpose of this report is to provide the Audit and Risk Committee with an overview of the content of the reports relating to risk, treasury, external and internal audit, and other organisational matters covered in the meeting agenda.

RECOMMENDATION

That the Senior Assurance and Risk Specialist's report dated 15 March 2022 titled 'Summary of Audit and Risk Agenda Topics – March 2022' be received.

BACKGROUND

1. The Audit and Risk Committee oversees the risk management of Council and provides objective advice on Council's Assurance Work Programme, and internal and external reporting.

BANCORP TREASURY UPDATE

2. Representatives from Bancorp Treasury will present an overview of market trends and forecasts, along with their implications for Council.

AON INSURANCE

3. Representatives Matthew Wilson and Deanne MacDonald from Aon Insurance will provide an update on the current market conditions, outcomes from the insurance renewal process completed in November 2021 and emerging risks if any.

Matthew Wilson | National Client Relationship Manager, Local Government Risk Practice, Aon

Matthew has over 30 years of insurance experience and has been with Aon New Zealand for 16 years. During this time Matthew has looked after large multinational accounts and more recently taken the role of National Client Relationship Manager for Aon's Local Government Risk Practice Group. Matthew is based in Hamilton and leads a team of 10 corporate specialists.

Deanna Macdonald | Operations Manager – Local Government Risk Practice, Aon

Deanna is an experienced corporate Operations Manager and has been with Aon for 5 years. She is responsible for operational service delivery and is part of the strategic direction and leadership team for the Local Government Risk Practice Group within Aon.

WBOPDC FINAL AUDIT 2020–2021

4. The final audit for the 2020–2021 financial year has been completed and the report from Audit New Zealand is attached (**Attachment 1**). The report which will be presented by Audit New Zealand representatives sets out the findings from the audit together with management comments to the findings.

TREASURY UPDATE

5. A report on the treasury related risks in the current economic climate and its impact on Council's operating environment is provided separately.

RISK PROFILE UPDATE

6. The Audit and Risk committee has previously reviewed a selection of risks which include a combination of strategic and operational risks. These risks have historically been defined by staff and presented to Councillors for review and verification. These may or may not reflect the risks that Councillors are concerned or focused on in their Governance role, in achieving the key strategic deliverables in the Long-Term Plan. As a result, a separate workshop will be undertaken by KPMG to enable Councillors to identify and work through the key risks that they wish to monitor and understand fully.

AUDIT MONITORING REPORT (EXTERNAL/INTERNAL)

7. The Audit Monitoring Report provides a status update on management's response to outstanding audit recommendations raised by Audit New Zealand, as part of the external audit process and KPMG's internal audit review of Council's asset management planning processes and key financial controls.

HEALTH AND SAFETY REPORT

8. A separate report has been submitted by the Group Manager for People and Customer Services on health and safety matters.

LITIGATION REPORT

9. A separate report has been submitted by the Group Manager for Policy, Planning and Regulatory Services on litigation matters.

RISK WORKSHOP – KPMG

10. The Risk workshop will be facilitated by KPMG at the conclusion of the Audit and Risk Committee to enable Councillors identify and work through the key risk categories that they wish to monitor and understand fully.

David Sutton | Partner – KPMG

David will facilitate the workshop at the Audit & Risk Committee via Zoom. David leads KPMG's Risk Management and Internal Audit practice for New Zealand. He works across several sectors, including local government, having assisted a large number of District Councils to uplift their risk practices. He is a lead facilitator and content developer for the Institute of Directors' Risk Essentials and Audit & Risk Management Committee courses.

ATTACHMENTS

1. **Western Bay of Plenty District Council's Final Audit Report Year Ended 2021**  

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Report to the Council on the audit of

Western Bay of Plenty District Council

For the year ended 30 June 2021

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Key messages

We have completed the audit for the year ended 30 June 2021. This report sets out our findings from the audit and draws attention to areas where the District Council is doing well and where we have made recommendations for improvement.

Audit opinion

We issued an unmodified audit report dated 19 October 2021.

Matters identified during the audit

We have identified several areas of improvement in the District Council's processes underpinning the accuracy and completeness of property, plant, and equipment disclosed in the annual report. Further information is provided in section 4 of this report.

Another area of audit focus was the valuation of operational, restricted, and infrastructure assets. We reviewed the valuations to confirm that they were soundly based and had been correctly accounted for. We are satisfied that the valuations are correctly recorded in the District Council's financial statements. We noted several valuation reports did not contain the expected level of information. We have made recommendations for improvements in this area in section 4 of this report.

The District Council received \$3.4 million from the Crown for the first tranche funding for the three waters reform. We reviewed the accounting treatment of the funding to ensure compliance with the appropriate accounting standards. We are satisfied the funding has been correctly recorded in the District Council's financial statements and complies with the appropriate accounting standards.

We also followed up on the status of issues outstanding from previous audits. These matters are discussed further in Appendix 1.

Thank you

We would like to thank the Council, management, and staff for the assistance received during the audit.



Clarence Susan
Appointed Auditor
8 December 2021

1 Recommendations



Our recommendations for improvement and their priority are based on our assessment of how far short current practice is from a standard that is appropriate for the size, nature, and complexity of your business. We use the following priority ratings for our recommended improvements.

Priority	Explanation
Urgent	Needs to be addressed <i>urgently</i> These recommendations relate to a significant deficiency that exposes the District Council to significant risk or for any other reason need to be addressed without delay.
Necessary	Address at the earliest reasonable opportunity, <i>generally within six months</i> These recommendations relate to deficiencies that need to be addressed to meet expected standards of best practice. These include any control weakness that could undermine the system of internal control.
Beneficial	Address, <i>generally within six to 12 months</i> These recommendations relate to areas where the District Council is falling short of best practice. In our view it is beneficial for management to address these, provided the benefits outweigh the costs.

1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
A formal revaluation report is prepared for all revaluations.	4.1.1	Necessary
The useful lives for all assets that remain in use after exceeding their useful lives be reviewed annually.	4.1.2	Necessary
Asset capitalisations for transportation assets be recorded and adequately evidenced.	4.1.3	Necessary
Review the capitalisation process, particularly over capital works, to ensure asset managers are prompted to communicate the completion of work in progress in a timely manner.	4.1.4	Necessary

Recommendation	Reference	Priority
Review the depreciation rates applied in the Fixed Asset Register to ensure alignment with the deprecation policy. Review the schedule of depreciation rates to ensure these are in line with the class of asset to which the asset is classified and align with other local government sector entities.	4.1.5	Necessary
Review all infrastructure asset disposals, ensuring the correct treatment of accumulated depreciation.	4.1.6	Necessary
Review processes relating to the disposal of revalued assets to ensure the accounting treatment for the transfers in and out of equity are appropriate.	4.1.7	Necessary
Review projects resulting in vested assets be performed regularly to ensure the 224 certificate is obtained timely. Ensure the relevant accounting treatment is applied in recognising vested assets in the fixed asset register.	4.1.8	Necessary
Implement a robust review process of the underlying data supporting the reported results for the “dry weather sewerage overflow” measure to ensure accurate reporting of events meeting the DIA definition.	4.2	Necessary
Current interest registers are updated to reflect all interests with councillors and senior management. Management performs their own search of the Companies Office Register and the Charities Register to ensure all interests are identified.	4.3	Necessary

1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous recommendations. Appendix 2 sets out the status of previous recommendations in detail.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open	-	17	2	19
Implemented or closed	-	5	-	5
Total	-	22	2	24

2 Our audit report

2.1 We issued an unmodified audit report



We issued an unmodified audit report on 19 October 2021. This means we were satisfied that the financial statements and statement of service performance present fairly the District Council's activity for the year and its financial position at the end of the year.

In forming our audit opinion, we considered the following matters. Refer to sections 3 and 4 for further detail on these matters.

2.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial. There were no significant misstatements identified during the audit that required correcting.

2.3 Corrected misstatements

We also identified misstatements that were corrected by management. These corrected misstatements had the net effect of decreasing revenue by \$40.4 million and to increase associated assets by the same amount compared to the draft financial statements.

2.4 Quality and timeliness of information provided for audit



Management provided information for audit relating to the annual report of the District Council. This included the draft annual report with supporting working papers. We provided a listing of information we required to management. This included the dates we required the information to be provided to us.

The District Council provided us a reasonably complete first draft of the annual report, including the financial statements, however there were several journal and disclosure misstatements raised, indicating a need for the District Council to perform a quality assurance review over the annual report before sending it to us.

We also experienced delays in the turnaround of our information requests, mainly those relating to property, plant, and equipment, resulting in us having to extend the time of our audit staff on the engagement to complete the audit within the agreed timeframes.

Management comment

Council acknowledges the difficulties encountered through the audit process, including an unexpected Covid-19 lockdown.

3 Matters raised in the Audit Plan



In our Audit Plan dated 6 May 2021, we identified the following matters as the main audit risks and issues:

Audit risk/issue	Outcome														
Revaluation of assets – revaluation year															
<p>The District Council periodically revalues its asset classes. PBE IPSAS 17, <i>Property, Plant, and Equipment</i>, requires that valuations are conducted with sufficient regularity to ensure that the carrying value does not differ materially from fair value.</p> <p>We understand that the District Council will revalue the following assets:</p> <ul style="list-style-type: none"> • Land. • Buildings. • Roothing. • Water supply. • Wastewater. • Storm water. • Coastal and marine structures. <p>The asset classes being revalued are a significant portion of the Council's assets and there is a risk that errors in the process or calculation could result in a material misstatement.</p> <p>Due to the nature and value of the revaluations any bias or errors in the inputs used or calculations performed could result in a material misstatement in the value of asset classes being revalued.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • reviewing the information and instructions provided to the valuer; • assessing relevant controls that management has put in place for the valuation; • evaluating the qualifications, competence and expertise of the external valuer used; • reviewing the method of valuing the assets and assessing if the applicable method used is in line with public sector accounting standards (PBE IPSAS 17, <i>Property, Plant and Equipment</i>), including the reasonableness of the assumptions and judgements made by the valuer and other inputs to the valuation; and • assessing whether the resulting change in values are correctly incorporated into the financial statements and the assumptions and judgements relating to the valuation are adequately disclosed. <p>We found the revaluation movements are as follows:</p> <table> <tr> <td>Land</td><td>\$25.1m</td></tr> <tr> <td>Buildings</td><td>\$2.0m</td></tr> <tr> <td>Coastal Marine</td><td>\$7.0m</td></tr> <tr> <td>Water</td><td>\$12.3m</td></tr> <tr> <td>Stormwater</td><td>\$2.1m</td></tr> <tr> <td>Wastewater</td><td>\$16.1m</td></tr> <tr> <td>Roothing</td><td>(\$3.6m)</td></tr> </table>	Land	\$25.1m	Buildings	\$2.0m	Coastal Marine	\$7.0m	Water	\$12.3m	Stormwater	\$2.1m	Wastewater	\$16.1m	Roothing	(\$3.6m)
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Water	\$12.3m														
Stormwater	\$2.1m														
Wastewater	\$16.1m														
Roothing	(\$3.6m)														

Audit risk/issue	Outcome
	Parks and Reserves <u>\$0.8m</u> Total \$61.8m (rounded) For matters identified during the performance of our audit, refer to 3.1 below.
The risk of management override of internal controls	
<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls.</p> <p>Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to treat this as a risk on every audit.</p>	<p>To address this risk, we performed the following audit procedures:</p> <ul style="list-style-type: none"> • tested the appropriateness of selected journal entries; • reviewed accounting estimates for indications of bias; and • evaluated any unusual or one-off transactions, including those with related parties. <p>We did not identify any matters of concern.</p>
Major capital projects	
<p>The District Council continues to have a significant ongoing capital programme. A number of capital projects are either underway or about to commence of which the major ones are:</p> <ul style="list-style-type: none"> • Water: Eastern Alternative Supply. • Wastewater: Te Puke Treatment Plant Upgrades. • Transport: Raniguru Business Park Interchange. • Storm water: Omokoroa growth projects. <p>Accounting for capital projects, whether completed during the year or in progress at balance date, requires assumptions and judgements to be made that can have a significant impact on the financial statements. Management and the Council are responsible for managing the financial statement risks associated with capital projects. This includes ensuring:</p> <ul style="list-style-type: none"> • project costs are reviewed to ensure these are appropriately classified as capital or operational in nature; 	<p>We reviewed the accounting for costs incurred on capital projects, including:</p> <ul style="list-style-type: none"> • the correct classification of costs as either capital or operational in nature; • appropriate capitalisation point for completed assets, including transfers from work in progress; • the reasonableness of depreciation rates and useful lives applied to asset components; and • the disclosures included within the financial statements, including those relating to capital commitments. <p>We did not identify any matters of concern.</p>

Audit risk/issue	Outcome
<ul style="list-style-type: none"> work in progress (WIP) balances for projects already completed or available for use are transferred to the appropriate class of asset in a timely manner and depreciated accordingly from the date of capitalisation; WIP balances on projects that span an extended period of time are assessed regularly for impairment over the period of the project. Costs no longer meeting criteria for recognition as an asset should be expensed in a timely manner; asset components are identified at an appropriate level, and appropriate useful lives are assigned to these components on completion; the value and remaining useful life of existing assets remains appropriate given replacement projects underway; and capital commitments related to contracts entered into before balance date are disclosed in the notes to the financial statements. 	
Fair value assessment for assets - non-revaluation year	
<p>The District Council periodically revalues certain asset classes, including land, buildings, and infrastructure. PBE IPSAS 17, <i>Property, Plant and Equipment</i>, requires that valuations are conducted with sufficient regularity to ensure that the carrying value does not differ materially from fair value.</p> <p>We note no asset classes not being revalued in the current year. For those asset classes with an effective revaluation date of 1 July 2020, fair value assessments will need to be completed for classes of assets to confirm that there is no material difference between their carrying amount and their fair value.</p>	<p>We reviewed the District Council's significant variance threshold and assessment of fair value against carrying value for each asset class not scheduled to be revalued at year end.</p> <p>We are satisfied that there is no material difference between the carrying amount and the fair value for these classes of assets.</p> <p>We did not identify any matters of concern.</p>

Audit risk/issue	Outcome
<p>If a material movement between the carrying amount and the fair value of these classes of assets is identified they must be revalued for the District Council to comply with PBE IPSAS 17 <i>Property, Plant and Equipment</i>.</p>	
Rates	
<p>Rates are Council's primary funding source. Compliance with the Local Government (Rating) Act 2002 (LGRA) in rates setting and collection is critical to ensure that rates are validly set and not at risk of challenge. The District Council should ensure it has appropriate processes in place, including seeking legal advice where appropriate, to ensure compliance of its rates and rating processes with legislation.</p>	<p>We reviewed the District Council's compliance with aspects of the LGRA.</p> <p>This included a review of the rates setting process ensuring consistency and completeness of the resolution and the Funding Impact Statement (FIS).</p> <p>We also review the matters and factors for a sample of targeted rates set ensuring these were consistent with the LGRA.</p> <p>We did not identify any matters of concern.</p>
Impact of three waters reform	
<p>The three waters reform programme is one of the most significant policy programmes affecting local authorities. This is a three-year programme of work in three tranches.</p> <p>During 2020/21, the District Council signed a non-binding Memorandum of Understanding (MOU) with Crown. By signing this MOU, the District Council agreed to participate in the exploration of future service delivery options for the three waters services and to collaborate with agencies involved in the reform.</p> <p>On signing of the MOU, the District Council subsequently received a share of \$761 million Crown stimulus funding, which was the first tranche of funding that was provided under the reform programme. It is important that the District Council is appropriately accounting for this funding and is meeting the obligations of the funding agreement.</p>	<p>We are satisfied that the three waters stimulus funding has been accounted for correctly.</p> <p>We are also satisfied that sufficient three waters reform disclosures, including subsequent events where necessary, have been made by the District Council in their Annual Report.</p> <p>We did not identify any matters of concern.</p>

Audit risk/issue	Outcome
<p>Much of the policy is still to be developed, with significant announcements about the form of future water services entities expected in year one of the 2021-31 long-term plan period (2021/22).</p> <p>The District Council will then need to decide whether to opt out of the proposed new service delivery model. There is still considerable information to come as to what these reforms may mean for the District Council before this decision will be made.</p> <p>We would expect the District Council has taken steps to:</p> <ul style="list-style-type: none"> consider the implications of any government announcements about three waters reform up to the date of authorisation of the financial statements. This includes the impact on financial statements and disclosures, including subsequent events disclosures; and ensure any crown stimulus funding resulting from the three waters reform programme received by the District Council has been appropriately accounted for in accordance with PBE accounting standards and the terms of the agreement. 	
Impact of Covid-19 pandemic	
<p>The long-term impact of Covid-19 in New Zealand, and how it might affect public entities, is unknown. However, it is likely that the uncertainties in the economic environment will increase the risk of material misstatement in financial statements. These effects might include uncertainties relating to revenue and asset valuations.</p>	<p>We have:</p> <ul style="list-style-type: none"> gained an understanding of the impact of Covid-19 on the District Council's operations, financial statements, and performance story; established that management has adequately identified and recorded the impacts of Covid-19 in the annual report, in line with PBE accounting standards; and

Audit risk/issue	Outcome
<ul style="list-style-type: none"> Some local authorities have received funding from central government (such as “Shovel Ready” funding, or infrastructure recovery funding). If the District Council has received such funding, it is important that the District Council is appropriately accounting for this funding, taking account of any obligations of the funding agreements. We would expect the District Council has taken steps to: reconsider the risks that the District Council faces; reconfirm that reporting and internal control systems are in place and functioning effectively; and ensure any “shovel ready” or “infrastructure recovery” funding received by the District Council has been appropriately accounted for in accordance with PBE accounting standards. 	<ul style="list-style-type: none"> assessed that the disclosures relating to the impact of Covid-19 are reasonable and appropriately disclosed within the Annual Report. <p>We did not identify any additional Covid-19 related audit risks or matters of concern.</p>

4 Other findings and areas of focus



In this section we have detailed our key findings from the audit, in order of significance. We have also detailed our findings in relation to other areas of focus.

4.1 Property, plant, and equipment

During our review of revaluations and testing over additions, disposals, work in progress additions, and capitalisations and vested assets, we noted the following:

4.1.1 Revaluation reports

Many of the revaluations performed were prepared internally by the District Council's staff and peer reviewed by an external valuation firm.

We identified that several of the internal valuation reports, and one external report, did not contain the following information. (this is not an exhaustive list):

- quality information about the asset data used in the valuation;
- assumptions and judgements used in establishing values;
- degree of optimisation or impairment identified;
- unit rate information sources or comparative information sources;
- valuation formulae; and
- commentary of the results and key drivers of any significant changes

Recommendation

We recommend a formal revaluation report, including all appropriate information, is prepared for all revaluations.

Management comment

The completion of the formal revaluation report is on our valuations improvement list and will be completed for the next revaluation, due 2023.

4.1.2 Assets in use with no book value

The District Council has several Coastal Marine assets held at nil book value, despite the assets remaining in public use.

The total replacement cost for these assets is estimated to be \$4,340k and estimated that extending useful lives by 3 years is not considered material to the audit.

Recommendation

We recommend a review be completed of the remaining useful lives of all assets that remain in use at the end of their recorded useful lives.

Management comment

Council will ensure consistency with policy for minimum remaining useful life assets and its application to different asset classes and their components.

4.1.3 Approval of asset capitalisations

During our testing of the capitalisation of assets for the transportation asset class we identified no formal approval process or evidence of review. This includes the files uploaded to Objective. Having a formal approval process will ensure only valid asset capitalisations are recorded.

Recommendation

We recommend asset capitalisations for transportation assets are recorded, and evidence of review retained.

Management comment

Council will ensure asset capitalisations are documented and evidence of review carried out is maintained.

4.1.4 Timing of asset capitalisations

It is important for the District Council to ensure assets are capitalised when the asset is available for use. This ensures the depreciation of assets commences from the correct date.

During our testing of asset additions and review of work in progress we have identified the capitalisation date of assets does not align to the date the asset was available for use.

Recommendation

We recommend the District Council reviews its capitalisation process, to ensure asset managers are prompted to communicate the completion of work in progress in a timely manner.

Management comment

Council will review its capitalisation process and ensure timely movement of completed capital work in progress to the Asset Register.

4.1.5 Depreciation accounting policy

During the performance of our assurance work over depreciation, we noted that the depreciation rates (per the policy) did not agree to the fixed asset register. This will ensure the correct depreciation is raised on assets as this is driven by the rates in the fixed asset register.

We also noted that these depreciation rates are not always aligned to other local authorities, where their policy provides for a wider range in useful lives.

Recommendation

We recommend the District Council ensures the rates applied in its Fixed Asset Register align with the documented depreciation policy.

We also recommend the District Council performs a review of its schedule of depreciation rates to ensure these are in line with the class of asset to which the asset is classified.

Management comment

Council will complete a review of depreciation rate consistency and completeness check as part of the 2021/22 Annual Report process.

4.1.6 Disposal of assets

We have identified that the calculation for the gain or loss on disposal of assets by the Council did not include the reversal of accumulated depreciation for the asset disposed of (i.e. on the cost or revalued amount as opposed to the net carrying amount). This related to infrastructure assets only.

This can lead to the understatement or overstatement of the gain or loss on disposal through the Statement of Comprehensive Revenue and Expenses.

Recommendation

We recommend the District Council reviews all infrastructure asset disposals ensuring correct treatment of the accumulated depreciation.

Management comment

Council will ensure the accumulated depreciation is reviewed during the processing of asset disposals.

4.1.7 Disposal of revalued assets

We note that on disposal of infrastructure assets, the District Council does not account for the release of the assets' previously recognised revaluation reserves to retained earnings.

Recommendation

We recommend that the District Council reviews its processes relating to the disposal of revalued assets to ensure the accounting treatment for the transfers in and out of equity are appropriate.

Management comment

Council will ensure that equity transfers are reviewed during the disposal of revalued assets.

4.1.8 Vested assets

PBE IPSAS 17 paragraph 27 requires entities to initially recognise property, plant, and equipment acquired in a non-exchange transaction at its fair value at the date of acquisition. In the event of a vested asset, the date of acquisition is the date at which the section 224 certificate has been signed and the project has been completed.

We have identified that the date on which vested assets are capitalised in the fixed asset register does agree with the section 224 notification. Often the processing of these assets is later.

The delay can impact revenue timing, depreciation, and the recorded carrying values of the District Council's property, plant, and equipment.

Recommendation

We recommend the District Council reviews its projects resulting in vested assets regularly to ensure the section 224 certificates are obtained on a timely basis.

We also recommend the District Council applies the relevant accounting treatment in recognising vested assets in its fixed asset register.

Management comment

Council will review the projects that result in a 224 certificate and ensure it is obtained timely. Council has consistently applied the relevant accounting treatment in recognising assets in its fixed asset register and will continue to do so as soon as the 224 certificate is obtained.

4.2 “Dry weather overflows” performance measure

During our testing of the dry weather overflows performance measure, we identified several incorrectly classified events in the underlying data supporting the result of this measure. Sixteen service requests did not meet the definition of a “dry weather sewerage overflow” event in terms of the DIA guidance.

Further to this, we noted 15 service requests that did meet the DIA's definition of a “dry weather sewerage overflow” event, however, they were excluded from the population on which the reported result was calculated.

Recommendation

We recommend the District Council implements a robust review process of the underlying data supporting the reported results for this measure to ensure accurate reporting of events meeting the DIA definition.

Management comment

The process used to monitor the dry weather overflows was consistent with previous years and was found to comply with mandatory requirements. The service requests for dry weather overflows are classified on receipt of the service request based on the information supplied by the customer. However, the final classification is based on the maintenance database which captures the actual contractor's classification on visiting the site. This is regarded as the most accurate and is aligned with the service request to maintain the audit trail.

As an improvement initiative, we request that the Audit exit process enables the audit team to meet with the key staff to work through the issues intended to be included in the Report to the Council. This will enable any issues to be addressed, discussed and/or clarified in a timely manner.

The new Three Waters Contract commenced 1 July 2021. This has resulted in a change of process and we are currently working with Tauranga City Council and the contractor to confirm the process and validate results.

4.3 Incomplete interest declarations

During our Companies Office Register and Charities Register searches of the councillors and senior management's interests we have found several undeclared interests.

This raises the risk of a councillor being in breach of the contracting rule as the District Council is unable to effectively monitor related party transactions.

Recommendation

We recommend that the current interest registers are updated to reflect all interests with councillors and senior management.

We also recommend that the District Council regularly performs its own search of the Companies Office Register and Charities Register to ensure all interests are identified.

Management comment

We acknowledge that some interests have not been declared and we are currently in the process of updating the current register for Elected Members and Senior Leadership managers.

5 Public sector audit



The District Council is accountable to its local community and to the public for its use of public resources. Everyone who pays taxes or rates has a right to know that the money is being spent wisely and in the way the District Council said it would be spent.

As such, public sector audits have a broader scope than private sector audits. As part of our audit, we have considered if the District Council has fairly reflected the results of its activities in its financial statements and non-financial information.

We also consider if there is any indication of issues relevant to the audit with:

- compliance with its statutory obligations that are relevant to the annual report;
- the District Council carrying out its activities effectively and efficiently;
- the District Council incurring waste as a result of any act or failure to act by a public entity;
- any sign or appearance of a lack of probity as a result of any act or omission, either by the District Council or by one or more of its members, office holders, or employees; and
- any sign or appearance of a lack of financial prudence as a result of any act or omission by a public entity or by one or more of its members, office holders, or employees.

We did not note any areas of concern from our work completed over the above matters.

6 Key changes to the Government Procurement Rules



The Government Procurement Rules (Rules) have had two new rules added. As well as these changes, the Government has introduced a “Progressive Procurement Policy” in which agencies must increase the diversity of their suppliers. One of the key features of the policy is that mandated agencies (those who are required to comply with the rules) are required to adopt a target that “5 percent of the total number of procurement contracts are awarded to Māori businesses”. Further details of these changes are noted below:

Procurement response measure

From 1 June 2021 the Procurement response measure rule came into effect. This new rule (12A) allows the Ministry of Business, Innovation and Employment (MBIE) as Procurement Functional Leader (PFL) to respond to a policy priority, emergency, or crisis by declaring appropriate procurement response measures (a procurement measure), to help achieve specific outcomes and drive positive change across the government procurement system.

By declaring a procurement measure, the PFL can mandate and deliver targeted interventions at a national, sectoral, or regional level. Procurement measures may be applicable to some or all mandated agencies and their procurement activities. They are put in place for a set period to support defined objectives.

Further details can be found at [Procurement response measure guidance](#).

Quality employment outcomes

A new rule 18A will come into effect on 1 October 2021. This rule requires mandated agencies to consider quality employment opportunities for New Zealanders. This is in addition to previous changes in 2019 on [Broader Outcomes](#) in the Rules. MBIE have advised guidance and training will be available before the new Rule comes into effect.

Te Kupenga Hao Pāuaua – Progressive Procurement

On 3 December 2020 the government [announced](#) a further change to procurement policy for mandated agencies. Te Puni Kōkiri and MBIE have worked in partnership to develop the progressive procurement approach aimed at increasing the diversity of government suppliers, starting with Māori businesses. The Ministers for Māori Development and Economic and Regional Development [announced](#) a target to encourage public agencies to “cast the net wider” when awarding contracts. The progressive procurement policy is called Te Kupenga Hao Pāuaua. Translated it means cast the fishing net wide and be enterprising.

The main features of the “Progressive Procurement Policy” are:

- The definition of a Māori business as a Māori authority (as classified by the Inland Revenue Department) or a business with minimum 50% Māori ownership.
- A target that 5% of the total number of buyer (mandated government agencies) procurement contracts are awarded to Māori businesses.
- Intermediary organisations to act as a broker, matching and connecting buyers and suppliers to realise procurement opportunities. Further, brokers can assist with verifying supplier businesses as meeting the definition of Māori business.
- Supporting sustainable, long term behavioural change of government agencies and businesses’ procurement practices.

Details on this initiative can be found at the Te Puni Kōkiri website for [Progressive Procurement](#) including [information for buyers](#).

We suggest the Council encourages management to understand the changes, and prepare for their implementation by considering the changes that are required to Western Bay of Plenty District Council’s procurement policies, procedures, and practices.

Five questions you could ask right now

- 1 Is our procurement policy up to date and consistent with these new rules and policy objectives?
- 2 Are we clear how we implement broader outcomes in our procurement practices – with updated tools, templates, and guidance?
- 3 Do we have complete information on our current suppliers, and can we identify the Māori businesses amongst them?
- 4 What have we done to reach out to our suppliers to identify whether they are Māori businesses?
- 5 What have we done to understand and remove barriers for Māori businesses to compete for our work?

Two next steps

- 1 Do we know enough about all our suppliers to understand and differentiate between them, so that we can be sure we are “casting the net wide”?
- 2 Have we developed procurement approaches that identify and reach out to Māori businesses, to make it easy for them to compete for contracts?

Future audits

By 2022 we expect agencies will have implemented the required changes. In future audits we will be reviewing whether mandated entities have:

- a framework in place regarding broader outcomes and progressive procurement – policies, procedures, tools, and templates;
- are applying the policies in practice consistently and well; and
- ensuring that senior managers and governors have the information they need to monitor and review the organisation’s adherence to the broader outcomes and progressive procurement requirements.

7 Useful publications



Based on our knowledge of the District Council, we have included links to some publications that the Council and management may find useful.

Description	Where to find it
Sensitive expenditure	
The Auditor-General has updated his good practice guide on sensitive expenditure. The guide provides practical guidance on specific types of sensitive expenditure, outlines the principles for making decisions about sensitive expenditure, and emphasises the importance of senior leaders “setting the tone from the top”. It also describes how organisations can take a good-practice approach to policies and procedures for managing sensitive expenditure.	On the OAG’s website under publications. Link: Sensitive expenditure
Client updates	
<p>As part of our response to the Covid-19 situation, we developed online client updates to replace the in-person sessions that were cancelled.</p> <p>This year’s material is accessible via video presentations on our website. You can explore the material at a pace that takes account of your busy schedule.</p> <p>The themes respond to challenges that our clients now face, such as planning for unexpected events or dealing with additional reporting requirements related to Covid-19 and climate change.</p>	<p>On our website under publications and resources.</p> <p>Link: Client updates</p>
Tax matters	
As the leading provider of audit services to the public sector, we have an extensive knowledge of sector tax issues. These documents provide guidance and information on selected tax matters.	<p>On our website under good practice</p> <p>Link: Tax Matters</p> <p>Link: Reduction in deferred tax on buildings</p>

Description	Where to find it
Conflicts of interest	
<p>The Auditor-General has recently updated his guidance on conflicts of interest. A conflict of interest is when your duties or responsibilities to a public organisation could be affected by some other interest or duty that you have.</p> <p>The update includes a printable A3 poster, an animated video on predetermination and bias, gifts and hospitality, and personal dealings with a tenderer. There is also an interactive quiz.</p> <p>These can all be used as training resources for your own employees.</p>	<p>On the Office of the Auditor-General's website under 2019 publications.</p> <p>Link: Conflicts of interest</p>
Severance payments	
<p>Because severance payments are discretionary and sometimes large, they are likely to come under scrutiny. The Auditor-General has released updated good practice guidance on severance payments. The guide is intended to help public sector employers when considering making a severance payment to a departing employee. It encourages public organisations to take a principled and practical approach to these situations. The update to the 2012 good practice guidance reflects recent case law and changes in accounting standards.</p>	<p>On the OAG's website under 2019 publications.</p> <p>Link: Severance payments</p>
Procurement	
<p>The OAG is continuing its multi-year work programme on procurement.</p> <p>The OAG has published an article encouraging reflection on a series of questions about procurement practices and how processes and procedures can be strengthened.</p> <p>Whilst this is focused on local government, many of the questions are relevant to all types of public sector entities.</p>	<p>On the OAG's website under publications.</p> <p>Link: Procurement article</p>

Appendix 1: Status of previous recommendations

Open recommendations

Recommendation	First raised	Status
Necessary		
Asset management planning		
Review and, where appropriate, implement the recommendations in KPMG's report on asset management.	2018/19	In progress Council is working through the issues raised in the report, which had not all been resolved at the time of our interim audit.
General Ledger Reconciliations		
Ensure all reconciliations are prepared and reviewed in a timely manner to ensure that any problems or inaccuracies can be detected early, and rectified.	2017/18	In progress We continue to note instances where reconciliations have not been prepared or reviewed in a timely manner. We recommend that council staff remove the "today" formula in the reconciliations and enters the date manually to sight the date prepared. We recommend that the reviewer signs-off and dates them to ensure that there is timely review of the reconciliations.
Ozone Asset module not updated		
Review the options available when a significant system fault occurs and ensure systems can be reinstated as soon as possible. This would include processes to ensure all information and transactions that occurred in the intervening period are captured in a timely manner.	2018/19	Outstanding The quarterly reconciliation is still not occurring, nor is the module (AMS) being updated monthly.
Improvements to the procurement process		
An independent one-up review of key procurement and contract management documentation to be undertaken throughout the process to ensure all documentation is in-line with the Procurement Manual requirements.	2018/19	Outstanding No review is being undertaken.

Recommendation	First raised	Status
The Procurement Manual and Variation Order form to be updated to provide clear criteria or thresholds for when a variation requires to go to open tender.		
Self-Approved Journals		
Monthly review of all self-authorised journals is reinstated and evidenced as occurring.	2018/19	In progress To mitigate the risk of inappropriate journals being posted, the Senior Financial Planner runs a monthly report of all journals entered into the system. We recommend a sign off on the self-approved journals to confirm they are of an appropriate nature with commentary when a journal is deemed to be inappropriate.
Sensitive Expenditure Policies improvements		
Policies covering sensitive expenditure that are overdue for review to be updated and that the elements of good practice which are currently not documented in the policies to be considered for inclusion.	2018/19	Outstanding The applicable policies have not been updated.
Asset improvement programme		
Create a formal asset improvement programme in response to the valuer's recommendations, and puts an action plan in place to address the issues in a timely manner.	2017/18	Outstanding As part of our review of the valuations performed for the current financial year, we have noted that the valuers have made recommendations for improvements before the next valuation is undertaken. We have noted this in the Opus and AECOM valuations.
Notifying IT of all leavers		
Ensure that timely requests are placed with IT to remove staff access to systems upon termination of their employment.	2017/18	Outstanding IT is still not always being advised of staff leaving or changing roles, raising the risk that staff can continue to access confidential council information.

Recommendation	First raised	Status
High number of superusers in Ozone and network, including Datacom staff		
Superuser access to Ozone to be limited to as few users as possible to reduce the chance of unapproved changes to systems and data.	2016/17	<p>In progress</p> <p>Ozone superuser access has been reduced and Datacom access locked out except as required.</p> <p>Network administrator access has reduced but the generic administrator account is still being used, and further reductions in access are planned.</p>
Improvements to IT Change Management procedures		
All changes made to production environments should follow an approved change process. Procedures for small, medium, large and emergency changes should be established.	2017/18	<p>In progress</p> <p>Changes are being logged but there is no approval step being followed in the change process.</p> <p>We did not sight any changes logged for work that is being performed by third party IT support providers. In progress.</p>
Rate's resolution		
We recommended the District Council ensures the rates resolution is fully compliant with the Local Government (Rating) Act.	2019/20	<p>In progress</p> <p>The issues relating to the reference to the 2019/20 financial year has been resolved through a resolution of the Council meeting held on 24 September 2020.</p> <p>We have confirmed this in our minutes review.</p> <p>We consider this part of the issue closed.</p> <p>The issue relating to water rates in Council's Rates Resolution is still outstanding for the 2020/21 rates resolution - Given Council's current meter reading process it is not possible to provide certainty of when meters will be read across our District, Council is not able to include further information with our Rates Resolution. We consider this part of the issue outstanding.</p> <p>We will follow this issue up in our assessment of the 2021/22 rates.</p>

Recommendation	First raised	Status
		Council have noted in our PY report to the Board that they will incorporate the rates to be adopted in the Rate Setting Report for 2021/22.
Over claimed funding from New Zealand Transport Agency (NZTA) as special conditions of network contract not satisfied		
We recommended the Council ensures all emergency work claims to NZTA comply with contract conditions.	2019/20	In progress NZTA audit was completed from 21 to 24 June 2021, comments will be made available late 2021 as of 24/09/2021 no comments were received from NZTA.
Project management		
We recommended the District Council considers the recommendations from KPMG on Project Management and implements improvements considered appropriate and financially viable.	2019/20	Outstanding The applicable improvements have not been implemented as yet.
There is no central database of contractors working for Council		
We recommended that a central register be developed, of contractors and consultants working for the Council, and formalised processes put in place for establishing and removing access to the Council's IT systems.	2019/20	Outstanding There has been no progress in establishing a central register of contractors working at the council Refer also to our recommendation to improve the processes for managing users leaving the council.
IT event logging and monitoring improvements		
We recommended that a review of IT event logging and monitoring be carried out to ensure that tickets are created for events that have an impact on Councils IT systems. Resolution actions should be recorded, or where the issue cannot be resolved, a problem ticket should be created for further action.	2019/20	Outstanding No action against these actions has been made by the Council during the year.
Review of network and applications user accounts		
We recommended cyclical reviews of network and application users to ensure access remains appropriate.	2019/20	Outstanding

Recommendation	First raised	Status
		No action against these actions has been made by the Council during the year.
Reconciliation of Assetfinda		
We recommended the Council ensures all reconciliations are prepared in a timely manner to ensure that any problems or inaccuracies can be detected early, and rectified. We also recommend that all GL reconciliations are up to date before year-end.	2019/20	In progress Although reconciliations between Assetfinda and the GL are occurring more frequently. We continue to recommend these are reconciled in a timelier manner.
Beneficial		
Contract management system		
Consider improving the functionality of council's contract management system.	2017/18	Outstanding Based on our discussions with the procurement team, no further progress has been made with regards to the Contract Management functionality.
Accounting standard changes - IPSAS 34-38 – interests in other entities		
We recommend management reviews the disclosures against IPSAS 34-38 interests in other entities and updates the notes in the financial statements as necessary.	2019/20	Outstanding No change in these disclosures have been made.

Implemented or closed recommendations

Recommendation	First raised	Status
Impairment assessment		
We recommend management performs a formal impairment assessment over property, plant, and equipment at balance date each year.	2019/20	Management has appropriately assessed PPE impairment indicators in the current year. We consider this matter closed.
Audit Committee		
Review the composition, functions, and effectiveness of its current audit committee structure against the Auditor General's good practice guide.	2017/18	We note that the Audit & Risk Committee have elected an appropriate independent chair. We consider this matter closed.

Recommendation	First raised	Status
Incorrect dates in accounts payable (AP) module		
Care be taken on uploading data files and reviews to be made after the upload, to correct date errors on upload.	2017/18	During the performance of our work for the current year, we have not found any of these issues with GL input dates. We consider this matter closed.
No evidence of review for masterfile change report		
All masterfile reports should be reviewed appropriately.	2018/19	No instances of non-approval of masterfile change reports during the year. We consider this matter closed.
Passwords not set to expire		
The finalisation of improvements to IT password settings needs to occur and, unless stronger passwords are implemented, passwords should be set to expire for all users.	2016/17	In February 2021 we noted that password controls have been strengthened and multi-factor authentication is in place for remote access. We consider this matter closed.
Incorrect capitalisation date for vested assets		
Establish a formal process to ensure all assets which have been vested to council are correctly capitalised on the date that the s224 was issued. We recommend systems are reviewed for the transfer of asset information from Assetfinda to Ozone. Ozone should reflect exactly what is in Assetfinda, including depreciation rates for each individual asset.	2018/19	Re-raised in current year, refer to 4.1.8 in this report. We consider this particular matter closed as it has been re-raised elsewhere in this report.

Appendix 2: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect all instances of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the District Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: <i>International Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to the audit, we have carried out engagements in the areas of the Long Term Plan audit (incl. the audit of the Consultation Document), the debenture trust deed assurance engagement, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the District Council.</p>
Fees	<p>The audit fee for the year is \$149,211, as detailed in our Audit Proposal Letter.</p> <p>Other fees charged in the period are \$118,900 for the audit of the Long-Term Plan (incl. the audit of the Consultation Document) and \$8,000 for the review of the Debenture Trust Deed reporting certificate.</p>
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the District Council that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the District Council during or since the end of the financial year.</p>



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9.2 TREASURY UPDATE REPORT

File Number: A4483664

Author: David Jensen, Finance Manager

Authoriser: James Graham, Acting Group Manager Finance and Technology Services

EXECUTIVE SUMMARY

This report provides an overview of the risks associated with Council's treasury function and the procedures in place to mitigate those risks.

RECOMMENDATION

That the Finance Manager's report dated 15 March 2022 titled 'Treasury Update Report' be received.

BACKGROUND

1. Council has a Treasury Policy which sets the strategic direction for Council's treasury function and the mitigation procedures in place to minimise Council's exposure to treasury related risk. This report provides an update on the treasury related risks presented on 15 March 2022 and assesses Council's exposure as required by Council's Treasury Policy.

INTEREST RATE RISK

2. 'Interest Rate Risk' is the risk that either investment returns will fall materially short of forecast, or, that financing costs will exceed projections due to adverse movements in interest rates.
3. The Reserve Bank raised the Official Cash Rate (OCR) to 0.75% in its Monetary Policy Statement on 24 November 2021. Headline inflation data showed that household inflation is currently 5.9%, with the Bank expecting the Consumer Price Index to measure above 5% in the near term before returning towards the 2% policy target over the next two years. The Reserve Bank has built a series of rate increases into its forecast, with the OCR currently predicted to reach 3% in mid-2023.
4. Council's interest rate hedging remains within policy, and we have a large degree of price certainty relating to our borrowing costs for the next 12 months due to our mixture of fixed and floating rate debt. Market pricing for interest rate swaps does not currently show a price advantage in extending Council's hedging position, however staff maintain a watching brief in this area. Council continues to work with Bancorp Treasury to manage hedging positions to strike a balance between price certainty and flexibility, and Council's interest rate risk remains low.

LIQUIDITY AND FUNDING RISK

5. 'Liquidity Risk' is the risk that Council may not have enough liquid cash or committed facilities on hand to fund operations. This is because Council's cash flow is dependent on the maturity of cash investments and loans.
6. Planned capital expenditure for 2021/2022 is likely to be under budget due to supply constraints and the ability of the market to deliver, which means that planned borrowing scheduled for this financial year has not yet had to occur. Capital expenditure forecasts continue to be refined to understand the level of borrowing that may be required.
7. Council has a debt maturity of \$10 million in May 2022 which is currently forecast to be repaid from cash on hand. Council maintains the ability to borrow from the Local Government Funding Agency and should additional capital be required this will be accessed at the point in time at which it is needed to deliver on capital and operational budgets.
8. Council began the financial year in a strong cash position and continues to hold positive balances. Viewing this in conjunction with Council's ability to access capital from the Local Government Funding Agency, Council's liquidity and funding risk remains low.

COUNTERPARTY CREDIT RISK

9. 'Foreign Exchange Risk' is the risk that volatile movements in foreign currency may adversely affect the cost to Council of entering into arrangements with offshore parties.
10. Council has not entered into any significant foreign exchange contracts and this risk remains low.

COUNTERPARTY CREDIT RISK

11. 'Counterparty Credit Risk' is the risk of losses occurring as a result of a counterparty default.
12. Council continues to require credit ratings of 'A' or higher when placing funds on deposit. This requirement may need to be revised, depending on the current review of bank credit ratings by their respective rating agencies.

While there is a possibility that banks may receive a lower rating, they are not yet considered at risk of default. Council continues to view its counterparty risk as low.

9.3 QUARTERLY REVIEW OF RISK PROFILE

File Number: A4470178

Author: Tashina Abraham, Senior Assurance and Risk Specialist

Authoriser: James Graham, Acting Group Manager Finance and Technology Services

EXECUTIVE SUMMARY

1. Mark Maloney has resigned from the Audit and Risk Committee effective at the end of the March 2022 meeting. Mark has taken up an opportunity with central Government. We are currently recruiting to appoint a new independent member to the Audit and Risk committee.
2. A Risk Management Policy and Framework has been developed. This will be outlined and discussed at the Councillor workshop.
3. Western Bay of Plenty District Council's Strategic Risk Profile of eleven risks was reviewed and workshopped with the Senior Leadership Team. These risks were discussed to reflect the changing external environment. A separate workshop with KPMG has been organised for Councillors to ensure operational risks are aligned to the overall risk factors Councillors are concerned with in the delivery of the strategic outcomes agreed in the Long-Term Plan.

RECOMMENDATIONS

1. That the Senior Assurance and Risk Specialist's report dated 15 March 2022 titled 'Quarterly Review of Council's Risk Profile' be received.
2. That the report relates to an issue that is of low significance in terms of Council's Significance and Engagement Policy.

RISK REPORTING

4. Delivery of work programmes to time and budget is a significant risk to the organisation. Supply chain shortages lead to an inflation impact on materials and the availability of staffing in the labour markets and forced isolation periods for COVID-19 infections is of primary concern to the delivery of capital programmes and council services.
5. Three Waters Transition – The mandatory Three Waters Reform would see Council transferring control of water supply, wastewater and stormwater assets and service delivery to a new Water Service Entity (WSE). The method of transfer of assets and debt is not yet completely clear and Department of Internal Affairs is behind schedule in implementing their roadmap for this change. Council is actively

engaged and front running the dialogue with the Government and transition agencies.

6. Emerging risks around the Resource Management Act reforms and its effect on Financial Contributions (two-and three-story homes) to allow for more dense housing.

Contribution to residential housing development cost – land, labour and materials are the major cost components that go into a residential building. However, a multitude of other cost factors are associated with housing development. New intensification rules will allow buildings of up to three storeys on most sites in cities without any need for resource consent from August 2022.

If implemented this may result in revenue assumption risks relating to Financial Contributions:

- Development may occur in different ways than we forecasted in our models and the types of houses constructed may not need resource consents in the future, removing our ability to charge financial contributions on those properties.
- Potential that changes in either the realisation of growth or price escalations in construction over time result in an under collection in financial contribution revenue.
- Lag between expenditure incurred by Council and contributions received from those undertaking developments is different from that assumed in the funding model and that the costs of capital projects are greater than expected. This would result in an increased debt servicing cost.

7. Climate Change Response – The principal risk is failing to adequately respond to climate change, with increased risk of asset failure, financial costs, reputational damage, litigation and failing in legislative responsibilities. Risks associated with responding to this are secondary.

Council's risk mitigation towards this includes adaptation actions (initiatives to reduce emissions) and mitigation actions (changing how core services are delivered to the community to counteract the impacts of a warming climate).

A Climate Change Specialist will be employed in 2022/2023 to help deliver on Council's obligation towards climate action.

SIGNIFICANCE AND ENGAGEMENT

8. The Local Government Act 2002 requires a formal assessment of the significance of matters and decision in this report against Council's Significance and Engagement Policy. In making this formal assessment there is no intention to assess the importance of this item to individuals, groups, or agencies within the community and it is acknowledged that all reports have a high degree of importance to those affected by Council decisions.

9. In terms of the Significance and Engagement Policy this decision is of low significance as residents and ratepayers are not affected by the review even though the risk may occur later. Ratepayers and residents would only be affected if a significant risk occurred.

ENGAGEMENT, CONSULTATION AND COMMUNICATION

Interested/Affected Parties	Planned Communication	
Western Bay of Plenty District Council SLT and Finance Team	Appropriate staff to be notified accordingly.	Planned
Tangata Whenua	Regular communication would be undertaken by Council in the event of a major risk eventuating. Civil Defence would deal with any emergency communications.	
General Public	Regular communication would be undertaken by Council in the event of a major risk eventuating. Civil Defence would deal with any emergency communications.	

STATUTORY COMPLIANCE

10. The recommendation in this report complies with Council's current Risk Management Policy and Risk Management Framework.

FUNDING/BUDGET IMPLICATIONS

Budget Funding Information	Relevant Detail
Not currently applicable	If changes to the risk priorities result in risk mitigation actions, there may be budget implications.

9.4 UPDATE ON OUTSTANDING AUDIT ITEMS (INTERNAL/EXTERNAL) MARCH 2022**File Number: A4486038****Author: Tashina Abraham, Senior Assurance and Risk Specialist****Authoriser: James Graham, Acting Group Manager Finance and Technology Services****EXECUTIVE SUMMARY**

The purpose of this report is to provide status updates on management's response to recommendations raised in management reports as part of the following processes:

- (a) The audit of the Long-Term Plan and Annual Report carried out by Council's external auditor Audit New Zealand; and
- (b) Internal audit reviews carried out by Council's internal auditor KPMG as part of the internal audit work programme.

The status updates on open external and internal audit recommendations have been amalgamated into one report **(Attachment 1)**. Closed audit items are available separately on Stellar.

RECOMMENDATION

That the Senior Assurance and Risk Specialist's report dated 15 March 2022 titled 'Update on Outstanding Audit Items (Internal/External) March 2022' be received.

BACKGROUND**Audit New Zealand**

1. The Local Government Act 2002 requires Local Authorities to have their Annual Reports and Long-Term Plans audited by the Office of the Auditor-General. The Office of the Auditor-General has appointed Audit New Zealand as Council's audit service provider.
2. The process for auditing the Annual Report and Long-Term Plan involves Audit New Zealand issuing an opinion that the information published in these documents fairly presents the Council's financial position and complies with legislation.
3. At the conclusion of each audit, Audit New Zealand provide a management report highlighting any issues they find, the degree of severity of the issue and a recommendation. Issues raised by Audit New Zealand are classed as 'Urgent, Necessary or Beneficial'.

KPMG

4. During the 2016/2017 financial year KPMG was appointed as Council's internal auditor under a Bay of Plenty Local Authority Shared Services (BOPLASS) arrangement and worked with staff to establish a three-year internal audit plan. The audit plan was presented at the February 2020 Audit and Risk Committee. The audit plan outlined the intended areas of focus for 2017, 2018 and 2019, with confirmation sought from senior management on an annual basis.
5. The annual internal audit plan review for 2018 identified asset management and key financial controls as areas of internal audit focus. Status updates to the key findings are included in the attached 'Audit Monitoring' table (**Attachment 1**).

ATTACHMENTS

1. **Audit Monitoring Table (Internal/External) - March 2022**  

Audit Monitoring Table – Outstanding Management Report Items from External Audit of Annual Report

2020-2021 ANNUAL REPORT			
Audit Finding & Recommendation	Priority	Management Response	Management Update
<p>"Dry weather overflows" performance measure</p> <p>During our testing of the dry weather overflows performance measure, we identified several incorrectly classified events in the underlying data supporting the result of this measure. Sixteen service requests did not meet the definition of a "dry weather sewerage overflow" event in terms of the DIA guidance. Further to this, we noted 15 service requests that did meet the DIA's definition of a "dry weather sewerage overflow" event, however, they were excluded from the population on which the reported result was calculated.</p> <p>We recommend the District Council implements a robust review process of the underlying data supporting the reported results for this measure to ensure accurate reporting of events meeting the DIA definition.</p>	Necessary	<p>Dec 2021</p> <p>The process used to monitor the dry weather overflows was consistent with previous years and was found to comply with mandatory requirements. The service requests for dry weather overflows are classified on receipt of the service request based on the information supplied by the customer. However, the final classification is based on the maintenance database which captures the actual contractor's classification on visiting the site. This is regarded as the most accurate and is aligned with the service request to maintain the audit trail. As an improvement initiative, we request that the Audit exit process enables the audit team to meet with the key staff to work through the issues intended to be included in the Report to the Council. This will enable any issues to be addressed, discussed and/or clarified in a timely manner. The new Three Waters Contract commenced 1 July 2021. This has resulted in a change of process and we are currently working with Tauranga City Council and the contractor to confirm the process and validate results.</p>	<p>March 2022 Update</p> <p>Continuing to work with Tauranga City Council and the new contractor to identify process and create reports to show results.</p>
2020-2021 INTERIM REPORT			
Audit Finding & Recommendation	Priority	Management response	Status update
<p>Payroll Masterfile changes</p> <p>The Council produces an integration report which details the changes made to its payroll systems, HR.net, and IMS. We note that the report shows only payroll masterfile changes that have been made in HR.net and not those made directly to IMS. Although this report is reviewed, it does not currently reflect a complete list of changes made to the payroll masterfile. We note that the review is performed by a user with full access rights to these systems. The current lack of segregation of duties raises the risk of unapproved changes being made to the system.</p> <p>We recommend a complete payroll masterfile changes report, reflecting changes made in both HR.net and IMS, be produced for each pay run and independently reviewed, with supporting documentation available to validate all the changes made to the payroll system.</p>	Necessary	<p>Sep 2021</p> <p>We will review current processes and identify opportunities to address this matter over the 2021/22 financial year</p>	<p>March 2022 Update</p> <p>Processes under review as the procurement of a new HR system has been delayed.</p>

Audit Monitoring Table – Outstanding Management Report Items from External Audit of Annual Report

Audit Finding & Recommendation	Priority	Management response	Status update
<p><u>Crash Reporting</u></p> <p>Through our work performed over the non-financial performance measures, we have noted that the Council does not account for crashes at intersections with state highways in the following reported measure:</p> <p><i>"The change from the previous financial year in the number of fatalities and serious injury crashes on the local road network, expressed as a number."</i></p> <p>Guidance from the Department of Internal Affairs requires that a crash involving fatalities and/or serious injuries at an intersection of a local road and a state highway be included in the reporting for this performance measure.</p> <p>We recommend the Council reports crashes in accordance with guidance from the Department of Internal Affairs.</p>	<p>Necessary</p>	<p>Sep 2021</p> <p>The request to include crashes which occur at local road and state highway intersections will result in duplication of stats. These intersections are managed and funded by Waka Kotahi. While audit have provided a 'snip' of the advice from the Department of Internal Affairs (DIA), this seems to be in conflict with DIA advice received by Westlink on 8 September 2021, which has been forwarded to you. We are currently waiting resolution of this conflict. We would appreciate future recommendations relating to changes in methodology for calculating performance metrics being discussed with the relevant managers so the matters can be addressed in a timely manner.</p>	<p>March 2022 Update</p> <p>Westlink and Audit NZ met to clarify and demonstrate how crash reporting is completed. This provided Audit NZ with assurance that Council's reported results were aligned to the Department of Internal Affairs requirements.</p> <p>As part of the 2022 audit, Council is planning to have a similar meeting to ensure understanding of the process and agreement of the results.</p>

Audit Monitoring Table – Outstanding Management Report Items from External Audit of Annual Report

2019-2020 ANNUAL REPORT			
Audit Finding & Recommendation	Priority	Management response	Status update
Rates Resolution			
<p>Ensure the rates resolution is fully compliant with the Local Government (Rating) Act.</p> <p>In the local authority context, failure to comply with rating law and the associated consultation requirements can create risks for the revenue coming from rates. Therefore, we are required to obtain reasonable assurance that local authorities are complying with legal requirements that could put significant rates revenue at risk. As part of our audit work, we reviewed the rates setting process for the 2020/21 financial year and noted the following issues:</p> <ul style="list-style-type: none"> the 2020/21 rates resolution mentions the incorrect financial year in certain places, specifically "for the financial year commencing on 1 July 2019 and ending on 30 June 2020"; the rates resolution also states "the Western Bay of Plenty District Council sets that the water consumption rates (set under section 19 of the Local Government (Rating) Act) for the financial year commencing 1 July 2020 and ending on 30 June 2021 will be invoiced twice during the year and the due dates for payment will be 30 days from the date of each invoice being issued." Section 24 of the Local Government (Rating) Act 2002 states "A local authority must state, in the resolution setting a rate (a) the financial year to which the rate applies; and (b) the date on which the rate must be paid or, if the rate is payable by instalments, the dates by which the specified amounts must be paid." We consider that this requirement has not been fully met, as specific due dates for water rates are not disclosed in the resolution; and the actual rates for the 2020/21 year are not disclosed in the rates resolution but are disclosed in the Rates Setting Report included in the Council meeting agenda pack (June 2020). We would expect the rates adopted by Council to be disclosed in the rates resolution itself. <p>We noted management had engaged Simpson Grierson to review the rates resolution and these matters had been identified in their review. We understand that the Council was addressing the rating year issue and the inclusion of the rating information as part of its 24 September 2020 meeting. The issue with the water rates invoicing remains outstanding. We recommend the District Council ensures the rates resolution is fully compliant with the Local Government (Rating) Act.</p>	Necessary	<p>May 2021</p> <p>The issues relating to the reference to the 2020/21 financial year has been resolved through a resolution of the Council meeting held on 24 September 2020.</p> <p>The issue relating to water rates in Council's Rates Resolution has previously been raised in the 2016/17 Audit Management Letter and closed in the 2018/19 Audit Management Letter after an assessment of our 2018/19 Rates Resolution was performed. The matter was revisited during the 2019/20 audit and assessed by Audit New Zealand's technical team who did not deem the issues to be of significance to impact the 2019/20 audit opinion. Given Council's current meter reading process it is not possible to provide certainty of when meters will be read across our District, Council is not able to include further information with our Rates Resolution.</p> <p>Council will incorporate the rates to be adopted in the Rate Setting Report for 2021/22.</p>	<p>March 2022 Update</p> <p>The changes in Council processes achieved through the implementation of the joint 3-Waters Contract have given greater certainty over water rate dates. These will be incorporated into the 2022/23 Rate Setting Report. Will be re-tested by audit during the 2021-22 Annual Report.</p> <p>November 2021 Update</p> <p>The outstanding issue regarding water rate dates in Council's rate resolution is being reviewed in conjunction with the implementation of the joint 3-Waters Contract with Downer who were successfully awarded the contract.</p> <p>This implementation includes a change to water meter reading processes intended to resolve the outstanding issue.</p>
Project Management			
<p>Management contracted KPMG to undertake a review of the District Council's Project Management processes during the audit period. The review identified a number of areas for improvement and made recommendations accordingly. We recommend the District Council considers the recommendations from KPMG on Project Management and implements improvements considered appropriate and financially viable.</p>	Necessary	<p>October 2020</p> <p>Council's response to the KPMG report on project management is ongoing and a workplan for implementation of the recommendations is underway.</p>	<p>March 2022 Update</p> <p>Project Lifecycle diagram and recommendations have been approved for implementation. Recruitment of a project management specialist to lead and champion the work is underway. In the meantime, existing staff are working on developing/reviewing templates and tools, using live projects across the organisation.</p> <p>November 2021 Update</p> <p>A Project Lifecycle diagram (Project Management Framework) has been completed and a recommendatory report prepared. The report identifies tasks required to implement the framework across the organization.</p>

Audit Monitoring Table – Outstanding Management Report Items from External Audit of Annual Report

Audit Finding & Recommendation	Priority	Management response	Status update
GL Reconciliations			
<p>The Council ensures all reconciliations are prepared and reviewed in a timely manner to ensure that any problems or inaccuracies can be detected early, and rectified.</p> <p>During our interim audit, we reviewed a sample of bank, creditor, debtor, payroll and suspense account reconciliations and found the following:</p> <ul style="list-style-type: none"> • In all of the above we noted instances of untimely review. • Regarding debtors reconciliations, there was one instance where there was no sign-off by the person preparing the reconciliation. • Regarding suspense accounts, there was two instances where there was no evidence of the reconciliation having been reviewed. <p>2019-2020 Audit Management Interim Report – October 2020</p> <p>General Ledger</p> <p>We still note instances where reconciliations have not been prepared or reviewed in a timely manner. We identified instances where creditor, payroll clearing accounts, debtor and suspense accounts reconciliations were completed two months after month end.</p> <p>No evidence of review for Masterfile change report</p> <p>We noted the July 2019 report did not evidence the review from the Finance Manager or Senior Financial Planner. However, other reports we sighted had been appropriately reviewed.</p>	Necessary	<p>October 2020</p> <p>General Ledger</p> <p>There are two reconciliation processes that are awaiting fixes from our IT provider, Datacom. Other delays related to handover issues with a departing staff member and Council expects these have been addressed going forward.</p> <p>Masterfile change report</p> <p>While the reports had been prepared and reviewed, the date was missing from the signature. This has been corrected going forward.</p> <p>June 2019</p> <p>Monthly finance processes have been strengthened following a number of staff changes. All reconciliations are prepared and reviewed within 20 days of month-end.</p>	<p>March 2022 Update</p> <p>All reconciliations are now allocated across the finance department to be completed within the week in which month end is closed off. The newly filled position has taken on responsibility for reconciliations that were not previously allocated to a specific staff member. This person is also the cover for reconciliations if other staff are away during the month end process. These are now reviewed in a timely manner.</p> <p>November 2021 Update</p> <p>Staff have made large inroads closing off most recommendations. A newly filled position within the finance team is envisaged to take responsibility for reconciliations moving forward.</p>
Contract Management System			
<p>The Council considers improving the functionality of its contract management system. There has been no progress made to date and no progress is expected until the 2019/20 period.</p> <p>2019-2020 Audit Management Interim Report – October 2020</p> <p>Based on our discussions with the procurement team, no further progress has been made with regards to the Contract Management functionality.</p>	Beneficial	<p>October 2020</p> <p>It is expected that Council will seek improvements to the procurement system once a pathway to a new ERP system is established by senior management.</p> <p>June 2019</p> <p>This will be reviewed as part of the 2019/20 work programme.</p>	<p>March 2022 Update</p> <p>This matter is on hold and will be considered as part of Council's new ERP project signaled in the LTP.</p> <p>November 2021 Update</p> <p>This matter is on hold and will be considered as part of Council's new ERP project signaled in the LTP.</p> <p>August 2021 Update</p> <p>This matter is on hold and will be considered as part of Council's new ERP project signaled in the LTP.</p>

Audit Monitoring Table – Outstanding Management Report Items from External Audit of Annual Report

Audit Finding & Recommendation	Priority	Management response	Status update
<p>Incorrect Dates in Accounts Payable (AP) Module</p> <p>Care be taken on uploading data files and reviews to be made subsequent to the upload to correct date errors on upload.</p> <p>The Council anticipates the implementation of the new automated AP system (Escher) will occur towards the end of the 2018/19 financial year or at the beginning of the next financial year. This will reduce the risk of manual errors entering dates and will improve the accuracy and integrity of the AP process.</p> <p>2019-2020 Audit Management Interim Report – October 2020</p> <p>We again noted date errors in the information provided to us.</p>	Necessary	<p>October 2020</p> <p>The error described related to the issue raised last year and was in fact the reversal leg of the same journal made in the preparation of the 2018/19 accounts. Staff have been reminded about the care required in journal uploads.</p> <p>June 2019</p> <p>The Council's staff have been reminded of the importance of taking due care in the uploading of files to the ERP system.</p>	<p>CLOSED – Pending audit confirmation</p> <p>This recommendation has been addressed and is considered closed pending audit confirmation.</p>
2018-2020 LTP AUDIT (MANAGEMENT REPORT ITEMS)			
<p>Update of the Asset Management Plans</p> <p>During the LTP audit, we noted that the Asset Management Plans (AMPs) will not be updated with resulting changes from the consultation process until after the LTP is adopted. Given the AMPs are intended to drive the strategies and model, it is important that the AMPs reflect the information within the LTP. We recommend that Council updates the Asset Management Plans with changes resulting from the consultation process to ensure there is alignment between the LTP and the underlying information.</p>	Recommended	<p>March 2022 Update</p> <p>The Water, Stormwater, Wastewater and Transportation Asset Management Plans have been updated with the outcomes from the LTP. The Reserves and Facilities Asset Management Plan is being rewritten and updated as part of the Annual Plan process. The Strategic Property AMP will be completed by April.</p> <p>November 2021 Update</p> <p>The Water, Stormwater and Wastewater Asset Management Plans have now been updated with the outcomes from the LTP. The Reserves and Facilities Asset Management Plan is being rewritten and updated as part of the Annual Plan process. The remaining Asset Management Plans will be updated by late November through to end of December.</p>	

Audit Monitoring Table – Outstanding Management Report Items from External Audit of Annual Report

BAU Monitoring Items

2020-2021 ANNUAL REPORT			
Audit Finding & Recommendation	Priority	Management response	Status update
Valuation and Accounting for Assets			
Revaluation Reports Many of the revaluations performed were prepared internally by the District Council's staff and peer reviewed by an external valuation firm. We identified that several of the internal valuation reports, and one external report, did not contain the following information. (this is not an exhaustive list): <ul style="list-style-type: none"> • quality information about the asset data used in the valuation; • assumptions and judgements used in establishing values; • degree of optimisation or impairment identified; • unit rate information sources or comparative information sources; • valuation formulae; and • commentary of the results and key drivers of any significant changes We recommend a formal revaluation report, including all appropriate information, is prepared for all revaluations	Necessary	Dec 2021 The completion of the formal revaluation report is on our valuations improvement list and will be completed for the next revaluation, due 2023.	March 2022 Update The completion of the formal revaluation report is on our valuations improvement list and will be completed for the next revaluation, due 2023. Will be re-tested by audit in the 2023-24 Annual Report.
Assets in use with no book value The District Council has several Coastal Marine assets held at nil book value, despite the assets remaining in public use. The total replacement cost for these assets is estimated to be \$4,340k and estimated that extending useful lives by 3 years is not considered material to the audit. We recommend a review be completed of the remaining useful lives of all assets that remain in use at the end of their recorded useful lives.	Necessary	Dec 2021 Council will ensure consistency with policy for minimum remaining useful life assets and its application to different asset classes and their components.	March 2022 Update Council will ensure consistency with policy for minimum remaining useful life assets and its application to different asset classes and their components. This is on our valuations improvement list and will be completed a part of the next revaluation, due 2023. Will be re-tested by audit in the 2023-24 Annual Report.
Approval of asset capitalisations During our testing of the capitalisation of assets for the transportation asset class we identified no formal approval process or evidence of review. This includes the files uploaded to Objective. Having a formal approval process will ensure only valid asset capitalisations are recorded. We recommend asset capitalisations for transportation assets are recorded, and evidence of review retained.	Necessary	Dec 2021 Council will ensure asset capitalisations are documented and evidence of review carried out is maintained.	March 2022 Update Council will ensure asset capitalisations are documented and evidence of review carried out is maintained. Closed pending audit confirmation.
Timing of asset capitalisations It is important for the District Council to ensure assets are capitalised when the asset is available for use. This ensures the depreciation of assets commences from the correct date. During our testing of asset additions and review of work in progress we have identified the capitalisation date of assets does not align to the date the asset was available for use. We recommend the District Council reviews its capitalisation process, to ensure asset managers are prompted to communicate the completion of work in progress in a timely manner.	Necessary	Dec 2021 Council will review its capitalisation process and ensure timely movement of completed capital work in progress to the Asset Register.	March 2022 Update Council will continue to review its capitalisation process and ensure timely movement of completed capital work in progress to the Asset Register. Closed pending audit confirmation.

Audit Monitoring Table – Outstanding Management Report Items from External Audit of Annual Report

Audit Finding & Recommendation	Priority	Management response	Status update
<p>Depreciation accounting policy</p> <p>During the performance of our assurance work over depreciation, we noted that the depreciation rates (per the policy) did not agree to the fixed asset register. This will ensure the correct depreciation is raised on assets as this is driven by the rates in the fixed asset register. We also noted that these depreciation rates are not always aligned to other local authorities, where their policy provides for a wider range in useful lives.</p> <p>We recommend the District Council ensures the rates applied in its Fixed Asset Register align with the documented deprecation policy. We also recommend the District Council performs a review of its schedule of depreciation rates to ensure these are in line with the class of asset to which the asset is classified.</p>	Necessary	<p>Dec 2021</p> <p>Council will complete a review of depreciation rate consistency and completeness check as part of the 2021/22 Annual Report process.</p>	<p>March 2022 Update</p> <p>Council has completed a depreciation rate consistency and completeness check which will be reviewed by Audit as part of the 2021/22 Annual Report process. Closed pending audit confirmation.</p>
<p>Disposal of assets</p> <p>We have identified that the calculation for the gain or loss on disposal of assets by the Council did not include the reversal of accumulated depreciation for the asset disposed of (i.e. on the cost or revalued amount as opposed to the net carrying amount). This related to infrastructure assets only. This can lead to the understatement or overstatement of the gain or loss on disposal through the Statement of Comprehensive Revenue and Expenses.</p> <p>We recommend the District Council reviews all infrastructure asset disposals ensuring correct treatment of the accumulated depreciation.</p>	Necessary	<p>Dec 2021</p> <p>Council will ensure the accumulated depreciation is reviewed during the processing of asset disposals.</p>	<p>March 2022 Update</p> <p>Council will ensure the accumulated depreciation is reviewed during the processing of asset disposals in preparation for the 2021/22 Annual Report.</p>
<p>Disposal of revalued assets</p> <p>We note that on disposal of infrastructure assets, the District Council does not account for the release of the assets' previously recognised revaluation reserves to retained earnings.</p> <p>We recommend that the District Council reviews its processes relating to the disposal of revalued assets to ensure the accounting treatment for the transfers in and out of equity are appropriate.</p>	Necessary	<p>Dec 2021</p> <p>Council will ensure that equity transfers are reviewed during the disposal of revalued assets.</p>	<p>March 2022 Update</p> <p>Council will ensure that equity transfers are reviewed during the disposal of revalued assets in preparation for the 2021/22 Annual Report.</p>
<p>Vested assets</p> <p>PBE IPSAS 17 paragraph 27 requires entities to initially recognise property, plant, and equipment acquired in a non-exchange transaction at its fair value at the date of acquisition. In the event of a vested asset, the date of acquisition is the date at which the section 224 certificate has been signed and the project has been completed. We have identified that the date on which vested assets are capitalised in the fixed asset register does agree with the section 224 notification. Often the processing of these assets is later. The delay can impact revenue timing, depreciation, and the recorded carrying values of the District Council's property, plant, and equipment.</p> <p>We recommend the District Council reviews its projects resulting in vested assets regularly to ensure the section 224 certificates are obtained on a timely basis. We also recommend the District Council applies the relevant accounting treatment in recognising vested assets in its fixed asset register.</p>	Necessary	<p>Dec 2021</p> <p>Council will review the projects that result in a 224 certificate and ensure it is obtained timely. Council has consistently applied the relevant accounting treatment in recognising assets in its fixed asset register and will continue to do so as soon as the 224 certificate is obtained.</p>	<p>March 2022 Update</p> <p>Council will continue to review the projects that result in a 224 certificate.</p>

Audit Monitoring Table – Outstanding Management Report Items from External Audit of Annual Report

Audit Finding & Recommendation	Priority	Management response	Status update
Incomplete Interest Declarations			
<p>During our Companies Office Register and Charities Register searches of the councillors and senior management's interests we have found several undeclared interests. This raises the risk of a councillor being in breach of the contracting rule as the District Council is unable to effectively monitor related party transactions.</p> <p>We recommend that the current interest registers are updated to reflect all interests with councillors and senior management. We also recommend that the District Council regularly performs its own search of the Companies Office Register and Charities Register to ensure all interests are identified.</p>	Necessary	<p>Dec 2021</p> <p>We acknowledge that some interests have not been declared and we are currently in the process of updating the current register for Elected Members and Senior Leadership managers.</p>	<p>March 2022 Update</p> <p>All declarations have been updated. This can be closed pending audit confirmation.</p>
2020-2021 INTERIM REPORT			
Audit Finding & Recommendation	Priority	Management response	Status update
Asset disposal forms			
<p>We understand that an "authority to dispose" form is prepared and signed-off as evidence of approval for assets that are disposed of by the Council. During our walkthrough of this process staff confirmed this form was signed before disposal, however, in one instance a signed authority to dispose form could not be located. We also noted that this form is not used to notify the accountant and support the disposal. We have been advised that most assets for disposals will be identified through the GL, which could be through a cash receipt being processed, or, for example, if the accountant has been informed of a sale and purchase agreement for land and buildings.</p> <p>We recommend an authority to dispose form is prepared and signed as evidence of approval for each asset disposal and that these forms are kept on file. We also recommend that approval forms are used to support the disposal of assets in the fixed asset register to ensure the fixed asset register is complete and accurate, and does not include assets that have been disposed of.</p>	Necessary	<p>Sep 2021</p> <p>Asset Managers will be reminded of their responsibilities to ensure that the appropriate form, depending on the disposal method, is completed. Any forms, once approved, will be forwarded to the accountant for action.</p>	<p>March 2022 Update</p> <p>Asset Managers will be reminded of their responsibilities to ensure that the appropriate form, depending on the disposal method, is completed. Any forms, once approved, will be forwarded to the accountant for action.</p>
Timeliness of work in progress review			
<p>During our review of the system documentation we noted the project manager reviews the overall capitalisation and ensures all costs being capitalised meet the definition of an asset. There is a risk to timeliness due to the review over costs being performed at the date of capitalisation. This means if any operating costs are found in the project code, a journal is created to remove them and expense the line. Where a project takes longer than the financial year to complete, there is a risk that expenses are not expensed in the correct period.</p> <p>We recommend the timely review and management of project costs by project managers to ensure operational expenditure and capital expenditure are recognised in the correct accounting periods.</p>	Necessary	<p>Project Managers have received training regarding good asset recognition and disposal practices. We have agreed that they will review their spending quarterly to allow for timely asset capitalisation as well as ensuring any spending is recognised in the correct accounting periods. This is an ongoing improvement and is balanced with their overall responsibilities as a project manager.</p>	<p>March 2022 Update</p> <p>Project Managers have received training regarding good asset recognition and disposal practices. We have agreed that they will review their spending quarterly to allow for timely asset capitalisation as well as ensuring any spending is recognised in the correct accounting periods. This is an ongoing improvement and is balanced with their overall responsibilities as a project manager.</p>

Audit Monitoring Table – Outstanding Management Report Items from External Audit of Annual Report

2019-2020 ANNUAL REPORT			
Audit Finding & Recommendation	Priority	Management response	Status update
<p>Ensure all aspects of any legislative changes are actioned.</p> <p>Legislative changes regarding the "four well beings" Last year the Government passed the Local Government (Community Well-being) Amendment Act 2019 (2019 No 17) (the Amendment) which made a number of changes to the Local Government Act 2002 (the Act). The overall purpose of the Act remains "to provide for democratic and effective local government that recognises the diversity of New Zealand communities". The Amendment re-instated one of the key contributors to achieving that purpose. The purpose is to provide "for local authorities to play a broad role in promoting the social, economic, environmental, and cultural well-being of their communities, taking a sustainable development approach". Part 3, clause 23 (d) of the Act now requires that "an annual report must, in relation to each group of activities of the local authority, describe any identified effects that any activity within the group of activities has had on the social, economic, environmental, or cultural well-being of the community". The initial draft annual report did not contain the necessary disclosure under the Amendment. We brought this to management's attention and the disclosure was added into the final document. We noted that other aspects of the Amendment had been actioned such as updating the templates for decision making documents and for agenda items to include consideration of the well beings. We recommend the District Council ensures all aspects of any legislative changes are actioned.</p>	Necessary	<p>May 2021 Council continues to monitor legislative changes and will ensure that legislative changes are enacted as required.</p>	<p>November 2021 update Council continues to hold a watching brief on any legislative changes and will ensure that legislative changes are enacted as required. The nature of this recommendation means that the issue will never be fully closed, however staff will continue to keep this issue in mind.</p>

2017-2018 ANNUAL REPORT			
Audit Finding & Recommendation	Priority	Management response	Status Update
<p>Asset Improvement Programme</p> <p>The Council creates a formal asset improvement programme in response to the valuer's recommendations and puts an action plan in place to address the issues in a timely manner.</p> <p>We followed up on this recommendation during our final audit visit and noted from our review of the valuation report for transport that Opus has disclosed some improvements which we have identified as largely consistent with recommendations made in the 2017 valuation report, with the exception of points 3, 4 and 5 which are new.</p> <p>2019-2020 Audit Management Report Final We noted from our review of the valuation report for transport that Opus has disclosed some improvements which we have identified as largely consistent with recommendations made in the 2017 valuation report.</p>	Necessary	<p>October 2020 The Council has a number of workstreams underway to improve processes relating to asset information, including the recommendations made in the Opus Report.</p>	<p>March 2022 Update The draft 2021 Roding valuation is currently being reviewed.</p> <p>November 2021 Update The draft 2021 Roding valuation is currently being reviewed.</p> <p>August 2021 Update We are still waiting on further information from WSP New Zealand on the asset valuation improvements. We expect these to be included in their latest revaluation report for 2021.</p> <p>We have discussed the recommendations from the 3 waters revaluation and will program these over the next year.</p> <p>No recommendations were made for our other revaluations.</p>

Audit Monitoring Table – Outstanding Management Report Items from External Audit of Annual Report

Audit Finding & Recommendation	Priority	Management Response	Status update
Property, Plant and Equipment – Cost Transfers			
During our testing of asset additions, we noted two instances where the Council had processed a journal transferring operational costs to capital expenditure for which the Council was unable to provide documentation in support of the transaction. We recommend that the Council ensures supporting documentation is retained in all instances where a journal is processed to reclassify costs from operational costs to capital expenditure.	Necessary	<p>June 2019 Council has established a new journal convention for internal transfers which requires a higher level of documentation. This will be in place for the 2019/20 financial year.</p>	CLOSED - Pending audit confirmation. This recommendation has been addressed and is considered closed pending audit confirmation.
Incorrect Dates in Accounts Payable (AP) Module			
<p>Care be taken on uploading data files and reviews to be made subsequent to the upload to correct date errors on upload.</p> <p>The Council anticipates the implementation of the new automated AP system (Esker) will occur towards the end of the 2018/19 financial year or at the beginning of the next financial year. This will reduce the risk of manual errors entering dates and will improve the accuracy and integrity of the AP process.</p> <p>2019-2020 Audit Management Interim Report – October 2020</p> <p>We again noted date errors in the information provided to us.</p>	Necessary	<p>October 2020 The error described related to the issue raised last year and was in fact the reversal leg of the same journal made in the preparation of the 2018/19 accounts. Staff have been reminded about the care required in journal uploads.</p> <p>June 2019 The Council's staff have been reminded of the importance of taking due care in the uploading of files to the ERP system.</p>	CLOSED – Pending audit confirmation This recommendation has been addressed and is considered closed pending audit confirmation.
Central Database of Contractors			
Our testing of the process for adding and removing users to the network and applications did not identify any centralized process for recording contractors who are working at the Council and need access to IT systems. The processes for advising IT when contractors cease and access should be removed do not appear to be consistent. This raises the risk that contractors who no longer work for the Council may still have access – including from outside Council's premises. We recommend that a central register be developed of contractors and consultants working for the Council and formalized processes put in place for establishing and removing access to the Council's IT systems.	Necessary	<p>October 2020 IT now manage a central database of contractors who are managed through a separate classification within our IT systems which enables Council to manage contractor access to IT system.</p>	CLOSED - Pending audit confirmation. This recommendation has been addressed and is considered closed pending audit confirmation.

Audit Monitoring Table – Outstanding Management Report Items - Internal Audit

ASSET MANAGEMENT PLANNING INTERNAL AUDIT 2019 (KPMG)			
Audit Finding	Audit Recommendations	Priority	Status update
Asset data management processes, systems and analytics: Asset portfolios lacking clarity of data requirements and transition risk during new asset database implementation	<ul style="list-style-type: none"> In parallel with the SAMP development, document the group level asset management processes and the AssetFinda interface requirements for asset data, analytics and information. Reference these processes within the SAMP. 	High	<p>March 2022 Update Documentation of processes is ongoing.</p> <p>November 2021 Update Documentation of processes is ongoing.</p>
	<ul style="list-style-type: none"> Establish a simple but robust data model for property portfolio assets, wastewater treatment plants and other asset classes that are not well documented. Undertake a review of data gaps and collect and maintain asset registers for all asset classes in accordance with data model requirements. Embed processes of data management in the organisation. 		<p>March 2022 Update The three waters collaboration project is continuing. Loading of existing buildings and components will continue with the Property team where able. We continue to develop our treatment plant data with support from our collaborative partners Tauranga City Council and Watercare. Council has engaged an engineer to develop more accurate asset diagrams for our wastewater and water treatment plants. This will be linked to our new Asset Management System going forward.</p> <p>November 2021 Update Loading of existing buildings and components is continuing. We continue to develop our treatment plant data with support from our collaborative partners Tauranga City Council and Watercare. Council has engaged an engineer to develop more accurate asset diagrams for our wastewater and water treatment plants. This will be linked to our new Asset Management System going forward.</p>
	<ul style="list-style-type: none"> Actively promote the benefits of AssetFinda to staff with an asset management remit. Communication of the benefits of a high standard of asset data can improve motivation to maintain data. Consider the use of dashboards which are tailored to user type's e.g storm water engineers, pensioner housing property managers, making asset and portfolio reporting easier and improving supporting information for business cases. 		<p>March 2022 Update QA reports and dashboards are being developed within the Watercare and AssetFinda systems.</p> <p>November 2021 Update We will be further developing our reporting in line with the model being used by Watercare</p>
	<ul style="list-style-type: none"> Develop a roadmap to close out the AssetFinda system implementation process and establish a clear brief of organizational information requirements to inform asset portfolio data models. Establish a clear project delivery structure for the works with senior management sponsorship and formal reporting and assign adequate resources to achieve a successful close out. 		<p>March 2022 Update The first phase of the reserves contract integration project is undergoing business testing and is due to be completed this quarter.</p> <p>November 2021 Update There have been some delays with the implementation of work management for reserves maintenance contract, but this has restarted, and we are due to implement the first phase this quarter.</p>

Audit Monitoring Table – Outstanding Management Report Items - Internal Audit

ASSET MANAGEMENT PLANNING INTERNAL AUDIT 2019 (KPMG)			
Audit Finding	Audit Recommendations	Priority	Status update
Variable application of asset management within asset portfolios: Decision making, business cases, benefits realization, quantified risk management, and condition assessments	<ul style="list-style-type: none"> Undertake a review and improvement initiative for the corporate property Asset Management Plan to achieve an adequate level of asset management maturity. Provide support to the business unit to establish and embed robust asset management processes. 	Medium	<p>March 2022 Update Support for asset management processes is ongoing.</p> <p>November 2021 Update Support for asset management processes is ongoing.</p>
	<ul style="list-style-type: none"> Consider greater application of value illustration in investment planning and proposals and seek greater transparency around decision making. Make better use of appropriately scaled business case and benefits realization methodologies to existing and new investment requirements. 		<p>March 2022 Update No further update.</p> <p>November 2021 update No further update.</p> <p>August 2021 Update - No further update.</p> <p>May 2021 Update - The project proposal template has been reviewed and activities have used this template to prepare their projects as part of the 2021/31 Long Term Plan process.</p>
	<ul style="list-style-type: none"> Apply risk management principles to asset failure risk to determine the vulnerable, sensitive or critical assets. Communicate significant risk issues to senior management and implement appropriate risk mitigation tactics. 		<p>March 2022 Update Tonkin and Taylor are going to lead the work on Infrastructure Risk Assessments for Council from mid March 2022. The purpose is to assess the risks to our assets from climate change and identify assets that are at highest risk. This information can then be included in Asset Management Plans and the Infrastructure Strategy, so Council can allocate funding to making those assets more resilient over time.</p> <p>November 2021 Update Currently being reviewed with the Assurance and Risk Specialist.</p> <p>August 2021 Update No further update.</p> <p>May 2021 Update This will require further consideration by the asset management working group and is likely to be developed over the medium term and completed by the end of this year.</p>

Audit Monitoring Table – Outstanding Management Report Items - Internal Audit

ASSET MANAGEMENT PLANNING INTERNAL AUDIT 2019 (KPMG)			
Audit Finding	Audit Recommendations	Priority	Status update
	<ul style="list-style-type: none"> Undertake asset management system effectiveness reviews on an annual basis and report deficiencies against agreed asset management system maturity levels to senior executives. 		<p>March 2022 Update This will be a future area of focus for the asset management working group.</p> <p>November 2021 Update This will be a future area of focus for the asset management working group and is scheduled for 2022.</p> <p>August 2021 Update No further update.</p> <p>May 2021 Update With the Asset Management Plan peer review process completed this will be a future area of focus for the asset management working group.</p>

9.5 HEALTH AND SAFETY REPORT

File Number: A4471600

Author: Lauren Schild, Executive Assistant, People and Customer Services

Authoriser: Jan Pedersen, Group Manager People And Customer Services

EXECUTIVE SUMMARY

Health and Safety Report

This report provides a summary of:

- The health and safety performance across the organisation;
- Significant health and safety risks and safety events for the reporting period; and
- The progress against the health and safety strategy and work programme.

RECOMMENDATION

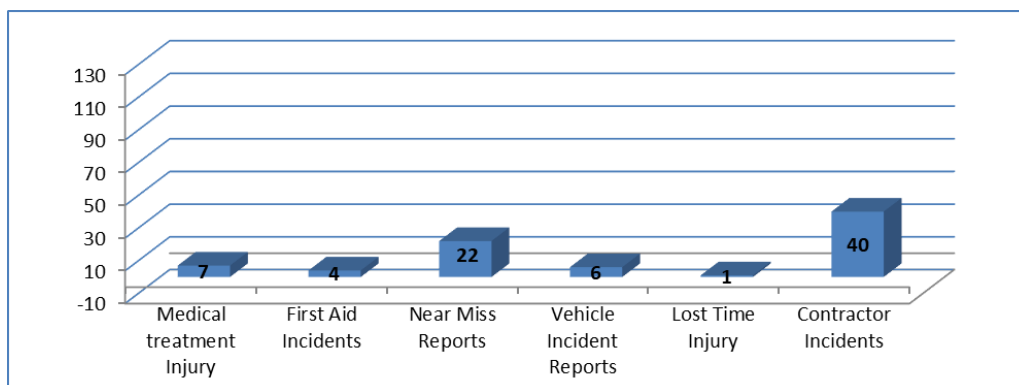
That the Executive Assistant, People and Customer Service's report dated 15 March 2022 titled 'Health and Safety Report' be received.

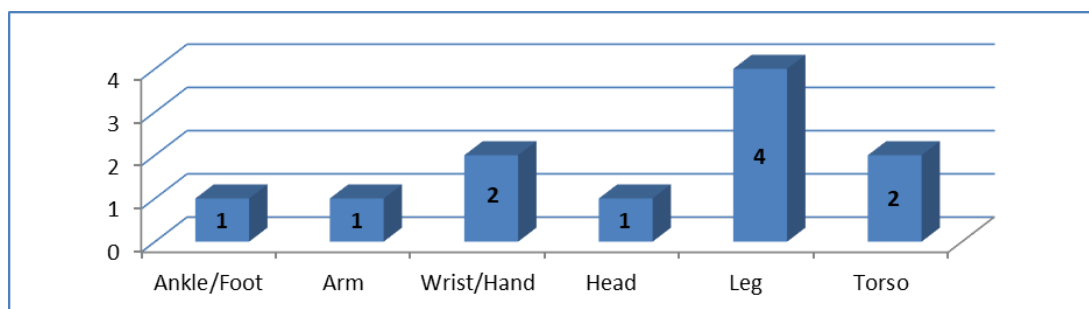
BACKGROUND

1. Health and Safety Performance

The graph and data below provide an overview of Council's Health and Safety performance.

Summary of Safety Events – 1 October 2021 – 28 February 2022



Type of Injuries Sustained, Year to Date – 1 January 2022 – 28 February 2022**Aggressive Customers**

Council staff were involved in five separate aggressive customer interactions throughout the reporting period. Four of these events related to non-compliance of COVID-19 mandate requirements at the Te Puke Library and Service Centre, which resulted in trespass notices being issued for two of the events.

Mitigation safety controls include on site security services at Te Puke Library and Service Centre, improved CCTV and continuous review of COVID-19 related safety protocols. Pastoral care was provided to the affected staff. One safety incident relates to an animal control interaction at the Katikati Dog Pound, in which a dog owner verbally threatened a staff member.

Council recently introduced lone worker devices to pound officers and libraries and service centres which includes a GPS tracking, duress alarm, fall detection and 2-way verbal communication connected to a monitoring agent. These safety devices have been implemented to ensure staff have an effective means of communication, and a timely response when faced with threatening or aggressive behaviours.

2. Accident/Incident Frequency Rates

The metrics reported are:

- Lost Time Injury Frequency Rate (LTIFR). This is the average number of lost time injuries per 200,000 hours worked
- Total Recordable Injury Frequency Rate (TRIFR). This is the average number of recorded injuries per 200,000 hours worked
- Lost Time Injuries (LTI's).

Metrics	Council's year to date records	Local Government Industry Benchmark
Average LTIFR (year to date)	0	2.5
Average TRIFR (year to date)	2	7

Average Lost Time Injuries (LTI). Recorded (year to date) of LTI's.	1	3
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3. Summary of Safety Events – Year to Date – 28 February 2022

Safety Events	Year to Date Results FY 2022 (Q,2)	Year to Date Results FY 2021	Year to Date Results FY 2020	Year to Date Results FY 2019
Medical Treatment Injury	7	3	5	1
First Aid Incidents	4	34	8	23
Near Miss Reports	22	67	64	84
Vehicle Reports	6	7	11	38
Lost Time Injury	1	2	3	4
Contractor Incidents	40	106	150	123
Total Safety Event Reports Year to Date	80	219	241	273

4. Health and Safety Hazard Risk Management

The following high-risk hazards and risk were focussed on:

- Lone worker devices were implemented for all high-risk activities in order to support isolated staff and staff who encounter aggressive customers.
- A review of Council's traffic management protocols was completed within the reporting period and relevant staff were trained on traffic management.
- Council's safety team are focussing on managing contractor safety which included reviewing health and safety documentation and completing site inspections. This included the Kerbside Collection Programme, Te Puna Quarry Park, infrastructure and roading projects across the district.

5. COVID-19 Management Planning and Policy

Council continues to monitor and respond to updates from Central Government's communication and guidelines for COVID-19 and will communicate key safety messages from central government to all staff and elected members.

Remote working is encouraged to minimise staff contact and to ensure Council maintains business continuity throughout the pandemic.

Council has implemented a COVID-19 vaccination policy for staff and contractors and vaccine pass requirements for customers.

6. Health and Safety Strategic Work Programme

- Policy and guideline reviews;
- Re-classification and ranking of top risks;
- Safety site inspections and audits;
- Contractor management, including an online induction programme;
- Incident and accident safety management; and
- Engagement and training with safety and wellbeing.

Throughout the reporting period staff attended the following training:

- Traffic management;
- Pandemic planning and Rapid Antigen testing; and
- First Aid.

Policies and procedures recently reviewed included:

- Officers due diligence;
- Covid -19 Protection Policy;
- Hazard management, including key safety risks; and
- Traffic Management Policy and associated standard operating procedures.

Council has a pro-active wellbeing group, which includes a holistic approach to health, and wellbeing. A number of activities were carried out for the reporting period, including mental health workshops, resilience training and physical exercise groups.

7. Health and Safety Committee

Council has an active Health and Safety Committee, which includes representation from across the organisation and senior management. The Health and Safety Committee meet on a monthly basis and review safety events, policies and new legislation.

10 INFORMATION FOR RECEIPT**11 RESOLUTION TO EXCLUDE THE PUBLIC****RESOLUTION TO EXCLUDE THE PUBLIC****RECOMMENDATION**

That the public be excluded from the following parts of the proceedings of this meeting.

The general subject matter 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 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 for the passing of this resolution
11.1 – Litigation Update	s7(2)(b)(ii) – the withholding of the information is necessary 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	s48(1)(a)(i) – the public conduct of 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 under section 6 or section 7